BRUNELLO CUCINELLI

# INTERIM FINANCIAL REPORT AT 30TH JUNE 2017

(courtesy translation for the convenience of International Readers)

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# CORPORATE DETAILS

**Registered office of the Holding Company**

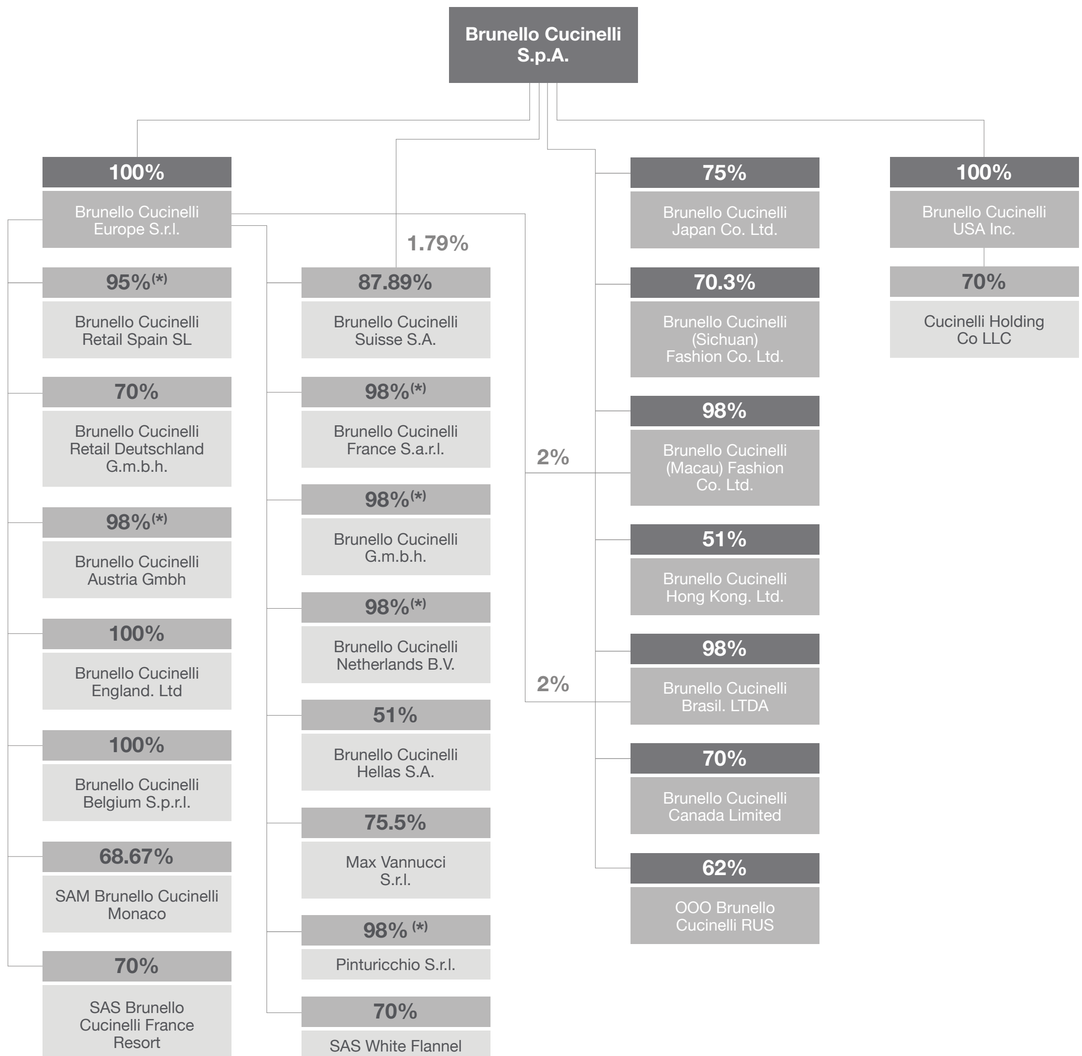
Brunello Cucinelli S.p.A.
Viale Parco dell'Industria, 5, frazione Solomeo
Corciano – Perugia (Italy)

**Legal data of the Holding Company**

Approved share capital €13,600,000
Subscribed and fully paid-up share capital €13,600,000
Perugia Companies Register no. 01886120540.

Official website: http://investor.brunellocucinelli.com/en/

# THE BRUNELLO CUCINELLI GROUP AT 30TH JUNE 2017




(*) The remaining interest is held by BRUNELLO CUCINELLI S.p.A.

# CORPORATE GOVERNANCE BODIES AT 30TH JUNE 2017

| | | |
|---|---|---|
| **Board of Directors** (1) | Brunello Cucinelli | Chairman and CEO |
| | Moreno Ciarapica | Director with powers |
| | Riccardo Stefanelli | Director with powers |
| | Luca Lisandroni | Director with powers |
| | Giovanna Manfredi | Director |
| | Camilla Cucinelli | Director |
| | Carolina Cucinelli | Director |
| | Candice Koo | Independent director |
| | Andrea Pontremoli | Independent director |
| | Matteo Marzotto | Independent director |
| | Massimo Bergami | Independent director |
| **Lead Independent Director** | Andrea Pontremoli | |
| **Control and Risks Committee** | Andrea Pontremoli | Chairman |
| | Matteo Marzotto | |
| | Massimo Bergami | |
| **Remuneration Committee** | Matteo Marzotto | Chairman |
| | Andrea Pontremoli | |
| | Candice Koo | |
| **Board of Statutory Auditors** (1) | Paolo Prandi | Chairman |
| | Alessandra Stabilini | Standing auditor |
| | Gerardo Longobardi | Standing auditor |
| | Guglielmo Castaldo | Substitute auditor |
| | Myriam Amato | Substitute auditor |
| **External Auditors** | EY S.p.A. | |
| **Manager in charge of preparing the corporate accounting documents** | Moreno Ciarapica | |

(1) Appointed at the ordinary shareholders' meeting of 20th April 2017; will remain in office until the shareholders' meeting called to approve the financial statements for the year ending 31st December 2019.

## GROUP STRUCTURE AT 30TH JUNE 2017

| Company name | Registered office |
|---|---|
| Brunello Cucinelli S.p.A. | Corciano, frazione Solomeo (PG) – Italy |
| Brunello Cucinelli USA, Inc. | New York – USA |
| Cucinelli Holding Co, LLC | New York – USA |
| Brunello Cucinelli Europe S.r.l. | Corciano, frazione Solomeo (PG) – Italy |
| Brunello Cucinelli Suisse S.A. | Lugano – Switzerland |
| Brunello Cucinelli Retail Spain SL | Madrid – Spain |
| Brunello Cucinelli GmbH | Munich – Germany |
| Brunello Cucinelli France S.a.r.l. | Paris – France |
| Brunello Cucinelli Belgium S.p.r.l. | Brussels – Belgium |
| Max Vannucci S.r.l. | Corciano (PG) – Italia |
| Brunello Cucinelli Japan Co. Ltd. | Tokyo – Japan |
| Brunello Cucinelli Retail Deutschland GmbH | Munich – Germany |
| Brunello Cucinelli Netherlands B.V. | Amsterdam – The Netherlands |
| Brunello Cucinelli (Sichuan) Fashion Co. Ltd. | Chengdu – China |
| Brunello Cucinelli Hellas S.A. | Athens – Greece |
| Brunello Cucinelli Austria GmbH | Vienna – Austria |
| Brunello Cucinelli England Ltd. | London – United Kingdom |
| Brunello Cucinelli Hong Kong Ltd. | Hong Kong |
| Brunello Cucinelli (Macau) Fashion Co. Ltd. | Macau |
| Pinturicchio S.r.l. | Carrara (MS) – Italy |
| Brunello Cucinelli Brasil LTDA | São Paulo – Brazil |
| SAS White Flannel | Cannes – France |
| SAM Brunello Cucinelli Monaco | Principality of Monaco |
| Brunello Cucinelli Canada Limited | Vancouver – Canada |
| SAS Brunello Cucinelli France Resort | Courchevel – France |
| OOO Brunello Cucinelli RUS | Moscow – Russia |

# DISTRIBUTION NETWORK

The Group offers its products on the market through a number of different distribution channels.

From the standpoint of the end customer the Group is present on the market through:

– the **retail** distribution channel, namely the direct distribution channel, for which the Group uses the services of directly operated stores (DOS). In certain countries, local operators also hold an interest in the Group company running the DOS, thereby contributing their specific market experience. The retail channel also includes the turnover of the sales points managed under the Group's responsibility and with direct employees found inside of Japanese department stores. At 30th June 2017, the Group directly manages 15 sales points within luxury department stores in Japan, as well as 5 sales points in luxury department stores in Canada;
– the **wholesale monobrand** channel, consisting of monobrand stores operated under commercial distribution agreements. The Group uses intermediaries represented by monobrand stores for sales to end users, with the result that in this case these are the Group's customers;
– the **wholesale multibrand** channel, consisting of independent multibrand stores and dedicated spaces within department stores (shop in shop). In this channel, the Group uses intermediaries represented by independent multibrand stores (or department stores) for sales to end users, with the result that in this case these are the Group's customers.

The Group uses a network of agents and distributors for sales to a number of monobrand and multibrand wholesale customers.

For all distribution channels, the Group ensures that the brand image and the Brunello Cucinelli style are transmitted in the areas and stores dedicated to the sale of its products.

A summary is provided below of the Brunello Cucinelli Group's monobrand sales network at 30th June 2017 and at 30th June 2016:

| Distribution channel | 30th June 2017 | 30th June 2016 |
|---|---|---|
| RETAIL | 91 | 86 |
| WHOLESALE MONOBRAND | 32 | 36 |

The following table provides an analysis of the location of points of sale by geographical area at 30th June 2017:

| | Italy | Europe | North America | Greater China | Rest of the World (RoW) | Total |
|---|---|---|---|---|---|---|
| Total Brunello Cucinelli sales points | 16 | 46 | 24 | 20 | 17 | **123** |

# INTERIM REPORT ON OPERATIONS AT 30TH JUNE 2017

# COMPANY INFORMATION

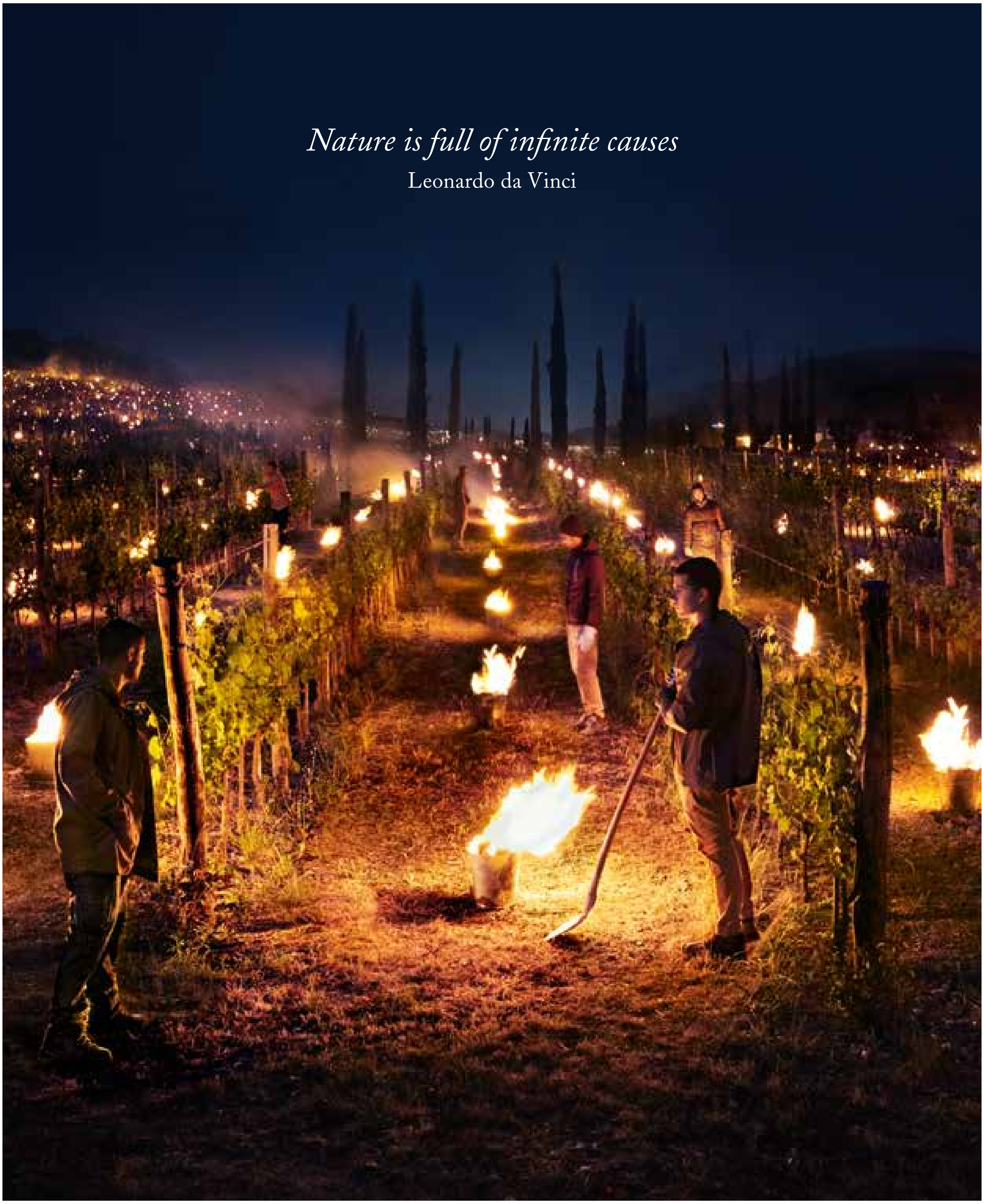
## OUR COMPANY

Brunello Cucinelli S.p.A. is a company registered as a legal entity under the laws of the Republic of Italy and has its registered office at Viale Parco dell'Industria 5, Corciano – Frazione Solomeo (PG), Italy.

The Group's product range focuses on a single brand: Brunello Cucinelli, internationally recognized as one of the finest examples of absolute luxury, combining exclusive "Made in Italy" features with the ability to innovate and identify new trends.

The brand's distinctive elements are quality, craftsmanship, creativity, exclusivity, and beauty, plus a remarkable desire to "listen to" the market and its new trends. The result is a line of casual chic *prêt-à-porter* products that satisfy the tastes of young and less-young customers while retaining value over time. Merging old and new, business goals and human needs are the secret of a company whose innovative capacity is looked upon with interest from all sides as well as being a case study in modern economy illustrated at prestigious universities.


*http://www.brunellocucinelli.com/en/home.html*


*Nature is full of infinite causes*
Leonardo da Vinci

## THE GREAT DIGITAL PROJECT: HUMANIST ARTISANS OF THE WEB

The release of the new **corporate** and **e-commerce** websites marks the start of the project "**Humanist Artisans of the Web**", a union of digital technology, quality craftsmanship, and business philosophy. The launch of our new corporate and e-commerce sites is a fundamental step in this great **digital** project that began in 2015 and has enhanced our online presence and strengthened our online strategy, which is now organised and managed entirely in-house and now features two distinct sites: a **philosophy** site and a **boutique** (**e-commerce**) site, which is the heart and soul, form and substance, of the company.

Designed in order to promote the philosophy that underlies our business, the sites both tell our story and disseminate our ideals. As such, they represent the latest in a series of projects aimed and instilling new life into the founding values of industry in Solomeo, i.e. humanistic capitalism, the moral and financial dignity of labour, quality, craftsmanship, and ties to the community and its territory, all of which are imbued in the pages of our websites. It is within this context that the new sites have arisen under the guidance and inspiration of the **Humanist Artisans of the Web**, figures who evoke the ingenuity of the past used to take on the challenges of today and tomorrow.

In this approach to the internet we see the same values that mark the day-to-day efforts of the "humanistic enterprise". First and foremost, there is a **respect for time**, time that is always dedicated to the most human aspect of digital relations while seeking to **weigh and measure online tools** so that the digital noise we add to this "affliction of the soul" we all experience on a daily basis will not add to the discomfort but rather focus our attention onto that which is important. We believe that, in every way, these **new websites have been designed with the same care and craftsmanship** that distinguishes our collections.

**Our digital storefront reflects the spirit and character of our physical stores**, from the way they tell the tale of our bond with tradition, reinterpreted for today, to product presentation, visual merchandising and pairing suggestions, but above all in the familiar, friendly relationship with our customers, who are provided direct contact with a group of young people in Solomeo who provide help in navigating the store, answer the customers' style questions, organise shipping, package the products with care, write personal messages by hand, and establish a "human" relationship over the internet.

## BRAND IDENTITY AND BRAND PROTECTION

In an ongoing interplay between tradition and innovation, the cornerstones of company's culture and communication are aimed at protecting the allure and luxurious simplicity and Italian lifestyle that the brand has come to represent within the highest end of the luxury-goods market.

From digital to retail, from marketing to communication, all channels that convey identity to the world—whether it be boutiques, the media, or digital channels—evolve and lay out the new paths for the image that has always distinguished Solomeo's Company.

This concept of "**protection**" is something stronger than mere "promotion". In a world in which digital media seems to emphasise and multiply each and every action, making everything more easy to access and even taken for granted, it is extremely important to calibrate each action in order to maintain the brand's marked exclusivity.

Being synonymous with **rarity** and **anticipation, luxury** becomes the metric by which we measure our own marketing strategies and those of all our partners around the world, strategies which are essentially aimed at protecting the brand from standardisation by emphasising its features and its solidity over time.

The essential formula is based on a careful observation of the world, listening to change in order to stay abreast of progress, and pursuing an evolution of fundamental faithfulness to our guiding principles through strategies and reflection.

In this way, year after year, the image of our campaign seeks to tell a story, not just publicise, while conveying a message that is in line with the history and identity of our brand. "**Humanist Artisans of the Web**" thereby marks the way forward for the company and represents our approach to change brought about as technology evolves.

The new media and the new environments that enrich the world are taken on board while maintaining a focus on heritage, on philosophy, and on a culture of enterprise tied to the brand and to the Italian lifestyle. More generally, the link between the new and the old puts the value of time—both the time of history and the time of every day—under a new light.

This message, which is not without a touch of irony, shows the company's will to keep the emphasis on **protecting Italian values**, whether they be social, cultural, artisanal, or domestic. The new media are, first and foremost, an opportunity to enrich culture—to stimulate, inspire and evolve with the help of the philosophy and ethics of humanistic enterprise.

In order to best exalt the non-material values on which our company is founded, the potential of the digital world has been pursued in the same way a tailor reflects on the values of a new fabric when creating a bespoke garment. In the same way, the new Montenapoleone boutique puts the spotlight on the familiar forms of the Italian way of living and is a domestic setting that provides a window—a sort of picture within a picture—onto the world of Solomeo.

The press, our employees and our customers have immediately grasped the continuity with the philosophy of our origins. The image that this approach reflects through the media enables us to include observations related to our collections and information of a financial nature along with topics that are more closely related to our business ethics, which underscores the ideals of courtesy, protection, and harmonious growth we cultivate here in Solomeo.

> *"I wish to stress that this website is our largest global boutique […]*
> *the mirror of Solomeo's culture and life and the image of our product.*
> *Milan is instead the heart of Italianness.".*

This countertrend that has been noted in a number of periodicals, therefore, comes from a related desire to emphasise quality and more human needs, which have always been the focus of our company's values. Our communication is based on the moral values that constitute the core of our brand identity, values which include and introduce the new opportunities offered by commercial spaces, whether they be in the primary hub of Italian fashion or in the global marketplace that is the internet.

> *"More revolutionary than revolutionaries,*
> *Brunello Cucinelli brings his humanistic vision*
> *to every aspect of the business.".*

As new and fascinating physical or digital architectures arise with great speed, our company focuses, first and foremost, on nourishing and caring for the *genius loci* (literally: "spirit of the place") that inhabits them. This approach seeks to nurture more balanced, positive and human results. These new concepts of time and space must be seen as factors in the quality of life in which caring, knowledge and the sharing of ideas are experienced with a renewed simplicity and spontaneity.

## COLLECTIONS

Having been received with great enthusiasm both by our customers and by industry experts, our 2017 and spring-summer 2018 collections further our expression of contemporary elegance and informal chic which have always been the focus of our fashion.

Quality materials and expert craftsmanship come together as one in a spirit of sophisticated leisure. Each and every look is a snapshot that captures a union of worlds and a synergy of colour in all new styles. Every element adds greater harmony and casual sophistication as our new formula of style overcomes contrasts and easily unites relaxation with informal encounters.

The allure of our creations evokes a fruitful dialogue between elements of luxury and informality. Of particular note are our luxurious, natural-fibre textiles—new materials that embody modern preferences. The interplay of modulated hues and chiaroscuro that can be seen throughout our collections is enhanced by sophisticated notes of colour and by expertly handcrafted details. Influences of yesterday and today take on a new identity, mirroring the evolution of the times while looking forward to a future dialogue between cultures.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## OUR RETAIL PHILOSOPHY: THE NEW VIA MONTENAPOLEONE FLAGSHIP STORE

On 28th January 2017, we opened our new Brunello Cucinelli boutique on Via Montenapoleone, Milan. This new flagship store looks out onto one of the most important locations of Italian fashion anywhere in the world, welcoming visitors into Brunello Cucinelli's new home in Milan, a sort of contemporary habitat of simple luxury that brings together culture, tradition, love for the community, and modern concepts of hospitality.

The welcoming furnishings, the alternation of warm wood and textured surfaces, and the selection of natural hues bring our philosophy in Solomeo here to one of the world's most famous fashion districts. It is a place where one can feel at home and rediscover the value of a gentler, calmer time spent pondering the values of tradition, of quality craftsmanship, and of the creativity of spirit in a familiar, comfortable setting.

The store is arranged exactly like a home, with an entrance, a living room, and a dining room. Front and centre, there is the kitchen, the heart of the home and of the family, featuring a great window displaying the horizon in Solomeo, a place that evokes the flavours and fragrances of nature. Enjoy stimulating conversation and feed the soul in our living area, or head to the wardrobe and take some time to create a style that is as leisurely as it is elegant. This new store confirms and furthers Brunello Cucinelli's philosophy of the monobrand boutique as a means of spreading out the history, ideals, and fruits of a humanistic enterprise out to some of the world's most important cities.

## VISUAL MERCHANDISING: A PHILOSOPHY THAT UNITES THE PHYSICAL AND THE VIRTUAL

Constant research and innovation, together with a respect for tradition and for the spirit of places. This have always been the focus of our visual merchandising, which seeks to offer something special, something unique, the fruit of our Solomeo labs and of our care and passion for enriching the spaces of each new boutique, inspired by **familiarity and conviviality**.

Our goal is to provide a relaxed, welcoming atmosphere in these settings. Each and every story is designed to be **a sort of refuge where one can enjoy a moment of calm and relaxation**, breathing in that quality time that is of such great importance—that gentle, refined approach that is an important aspect of the courtesy we seek to instil in our business philosophy.

To this end, in our new boutiques we nurture the same philosophy and the same spirit that drives how we manage our online marketplaces in which emphasis is always placed on the qualitative value of time as the fruit of an **Italian story** and as a focus on the rhythms that mark our daily living.

In Solomeo, we have a sort of **idea laboratory** where we work to find display themes, objects and images that can serve as “windows” onto our values and traditions and onto that sentiment that permeates the town of Solomeo.

The **visual team**, which is constantly travelling around the world, is responsible for presenting our products and emphasising their bond with our message and with the **Italian lifestyle** without compromising the uniqueness of the place. The guidelines are clear, but interpretation makes each store unique.

The combinations of looks, of objects, and of staging, which are always implemented in close collaboration with the style team, highlight the collections, engage the customer, and tell a true story.

## INVESTMENTS

Investments totalled €22.2 million in the first half of 2017.

The significant investment project which began in 2013 for a total investment of €150.5 million over the four-year period 2013-2016, equivalent to 10% of cumulative sales, strengthened the company's foundations and laid the groundwork for the sustainability of our brand's positioning within the highest end of the luxury market on both traditional and digital, online channels.

Commercial investments focused on the opening of exclusive boutiques, a selection of important repositioning efforts, increases to a number of sales areas and dedicated spaces within luxury department stores, and the ongoing renovation of the network of monobrand boutiques with the introduction of innovative solutions of visual merchandising and layout to make the boutiques themselves testimonials of the culture of our brand. During the first half of 2017, the acquisition of 62% of the company OOO Brunello Cucinelli RUS was of particular importance and resulted in converting the wholesale monobrand channel into a directly managed retail channel with four boutiques in the city of Moscow beginning on 1st March 2017.

Major investments also went to the showrooms, which we believe need to be refreshed every six months in conjunction with the presentation of our collections in order to ensure they are always in touch with the times.

Capital expenditures in production, logistics, and IT/Digital supported two key projects for the development and sustainability of expected growth.

With our **Great Digital Project**, we created technological and operational platforms for the global development of all our new information systems and software, both at the head office in Solomeo and in all areas in which the brand has a presence. These investments also enabled us to implement the brand's digital presence and create ample logistics facilities and other areas at the Solomeo headquarters in order to manage all related activities.

The long-term project to develop production and logistics infrastructures to support expected growth, including spaces for the digital side of operations, came to a close in 2016 within the scope of the extremely important project related to **doubling the Solomeo facilities**.

The **brand's new websites** made their debut at the end of January 2017. This was a major milestone in the Great Digital Project which strenghtened our strategy of online presence, a strategy which is now organised and managed entirely within the Solomeo head office. The new project is organised into two sites: one dedicated to **philosophy**; the other dedicated to the (great, new **e-commerce**) **boutique**.

Both the corporate and the e-commerce sites have been created to promote the philosophy that underlies our business, combining digital technologies with telling the story of our company and our ideals, while also presenting our collections and our lifestyle.

As such, they represent the latest in a series of projects aimed and instilling new life into the founding values of our company, i.e. humanistic capitalism, the moral and financial dignity of labour, quality, craftsmanship, and ties to the community and its territory, all of which are imbued in the pages of our websites.

It is within this context that the new sites have arisen under the guidance and inspiration of the **Humanist Artisans of the Web**, figures who evoke the ingenuity of the past used to take on the challenges of today and tomorrow.

We believe that this approach will play a fundamental, structural role in "**protecting the brand**" online, as we are convinced that the brand's prestige must necessarily be rooted in the exclusivity of our presence in both the physical world and the digital world in order to create and maintain the brand's allure.

We see the opening of the new **online boutique** as our "**universal store**" in Solomeo as we seek to provide a special, human experience to all those who come into contact with our brand and our culture online.

In turn, the opening of our **Montenapoleone boutique** in Milan, relocating from the previous site on Via della Spiga, represents our greatest and most important **physical boutique**, given that the city of Milan is the heart of Italian craftsmanship, a city in which the experience of buying Italian fashion is one of great allure and exclusivity.

# INTRODUCTION

This Interim Financial Report at 30th June 2017 has been prepared pursuant to Italian Legislative Decree 58/1998, as amended, and to the Issuers' Regulations issued by CONSOB. This Interim Report has been prepared in compliance with the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) and endorsed by the European Union and has been drawn up in accordance with *IAS 34 - Interim Financial Statements*, applying the same accounting principles as those used to prepare the Consolidated Financial Statements at 31st December 2016, with the exception of the adoption of the new or revised standards of the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC), endorsed by the European Union and applied from 1st January 2017.

# SUMMARY DATA AT 30TH JUNE 2017

The following tables provide: (i) a summarised consolidated income statement at 30th June 2017 with comparative figures from the corresponding period of the previous year; (ii) a consolidated balance sheet reclassified by sources and applications at 30th June 2017 with comparative figures at 31st December 2016; and (iii) figures for investment and operating cash flows relative to 30th June 2017, compared with the same figures at 30th June 2016.

### Summarised Consolidated Income Statement

| *(In thousands of euro)* | 1st half, ending on 30th June | | | | Change during the period | |
|---|---|---|---|---|---|---|
| | 2017 | % of sales | 2016 | % of sales | 2017 vs. 2016 | 2017 vs. 2016 % |
| Revenues from sales and services | 244,503 | 100.0% | 220,333 | 100.0% | 24,170 | +11.0% |
| EBITDA | 41,592 | 17.0% | 35,484 | 16.1% | 6,108 | +17.2% |
| Operating profit (loss) | 31,025 | 12.7% | 25,926 | 11.8% | 5,099 | +19.7% |
| Net profit for the period | 19,852 | 8.1% | 16,025 | 7.3% | 3,827 | +23.9% |
| Revenues from sales and services, normalised | 244,503 | 100.0% | 220,333 | 100.0% | 24,170 | +11.0% |
| EBITDA, normalised | 41,592 | 17.0% | 36,777 | 16.7% | 4,815 | +13.1% |
| Operating profit, normalised | 31,025 | 12.7% | 27,219 | 12.4% | 3,806 | +14.0% |
| Net profit for the period, normalised | 19,852 | 8.1% | 17,943 | 8.1% | 1,909 | +10.6% |

The normalised figures refer solely to the period ended 30th June 2016 following the recognition of non-recurring personnel expenses. The first half of 2017 had no non-recurring events; therefore, it was not necessary to present normalised figures.

### Consolidated balance sheet reclassified by sources and applications:

| *(In thousands of euro)* | Year ended | | Change during the period | |
|---|---|---|---|---|
| | 30th June 2017 | 31st December 2016 | 2017 vs. 2016 | 2017 vs. 2016 % |
| Net working capital | 141,551 | 129,268 | 12,283 | +9.5% |
| Non-current assets | 153,956 | 145,911 | 8,045 | +5.5% |
| Other non-current assets/(liabilities) | 1,245 | 1,659 | (414) | -25.0% |
| **Net invested capital** | **296,752** | **276,838** | **19,914** | **+7.2%** |
| Net debt | 59,433 | 50,956 | 8,477 | +16.6% |
| Shareholders' equity | 237,319 | 225,882 | 11,437 | +5.1% |
| **Sources of funding** | **296,752** | **276,838** | **19,914** | **+7.2%** |

### Other summary data:

| *(In thousands of euro)* | Year ended | | Change during the period | |
|---|---|---|---|---|
| | 30th June 2017 | 30th June 2016 | 2017 vs. 2016 | 2017 vs. 2016 % |
| Capital expenditure | 22,151 | 17,859 | 4,292 | +24.0% |
| Net cash provided by/(used in) operating activities | 26,519 | 4,339 | 22,180 | >+100% |

## ALTERNATIVE PERFORMANCE INDICATORS

To enable a better assessment of business performance, the Brunello Cucinelli Group uses certain alternative performance indicators which are not identified as accounting measures in the context of the IFRSs. Therefore, the way in which the Group calculates these figures may not be consistent with that used by other groups, and the figures obtained may also not be comparable with those of other groups. These alternative performance indicators, determined in accordance with what is established in the Guidelines on Alternative Performance Indicators issued by the ESMA/2015/1415 and adopted by CONSOB with Communication no. 92543 of 3rd December 2015, refer only to the performance of the accounting period covered by the present Interim Financial Report and of the periods placed in comparison and not to the Group's expected performance.

The alternative performance indicators used in the present Interim Financial Report are defined below:

- **EBITDA:** this is Earnings before Interest, Taxes, Depreciation, Amortisation and impairment.
- **Net Working Capital:** this is calculated as the sum of Inventories and *Trade receivables* net of *Trade payables* and of the balance (asset or liability) of all the other Balance Sheet items classified as *Current assets or Current liabilities*.
- **Net Invested Capital:** this is represented by the total of *Non-current assets* and *Current assets*, with the exclusion of financial assets (*Other current financial assets and Cash and cash equivalents*) and net of *Non-current liabilities and Current liabilities*, with the exclusion of financial liabilities (*Current and non-current bank debt, Current and non-current financial payables*).
- **Net Debt:** this is calculated as the sum of *Current and non-current bank debt* and *Current and non-current financial payables* including the fair value (positive or negative) of hedging derivatives on loans, net of *Cash and cash equivalents* and *Other current financial assets*, including the fair value (positive or negative) of hedging derivatives on loans.
- **Capex:** capital expenditures relate to gross investments in Intangible assets, Property, Plant and Equipment, and net investments in Financial Assets.

## THE GROUP'S RESULTS FOR THE FIRST HALF OF 2017

During the first six months of financial year 2017, *Revenues from sales and services* came to €244,503 thousand, showing an increase of 11.0% with respect to the figure from the previous interim period.
*Net Revenues* at 30th June 2017 show an increase of +10.7%, amounting to €243,327 thousand, compared with €219,840 thousand at 30th June 2016.
*EBITDA* at 30th June 2017 came to €41,592 thousand, equal to 17.0% of revenues from sales and services, an increase over normalised EBITDA as at 30th June 2016 of €4,815 thousand, equal to an increase of +13.1%.
It should be noted that the first half of 2017 saw a slight reduction, in terms of their impact in percentage terms, in the cost of production for raw materials and outsourced work compared to the first half of the previous financial year (35.1% at 30th June 2017 compared to 35.5% at 30th June 2016). This is mainly due to the dynamic between quarters and the greater impact of revenues generated by the retail distribution channel.

*Net profit* at 30th June 2017 comes to €19,852 thousand, corresponding to 8.1% of revenues from sales and services, up by €1,909 thousand (+10.6%) with respect to the normalised figure from the first half of 2016.
We are *particularly pleased* with these results and feel that **2017** at the start of a "**new world**", one in which **Internet will have an enormous impact on humanity**. We believe that this will change "**buyer/seller relationships**" forever, making it even more important to **care** for and **protect the brand**.
We believe that the next major global challenge is to try to "humanize the web"; we would like to approach the web as "humanist and contemporary artisans, with a global vision", fully aware that the Internet has redesigned the world map of employment, where Italy can excel in offering products featuring exquisite craftsmanship.
**Solomeo** is vital for the direct management of the **online boutique**, as this is where we devote special attention to customer service, packaging and visual merchandising: all very important elements to convey, like in the physical world, the taste of our collections and brand **lifestyle**.
Very interesting is the possibility to act as a "**kind advisors**", also offering advice to online shoppers on a total lifestyle offering, combining the item purchased with articles of clothing that we know they have in their wardrobe, **always maintaining a courteous and respectful stance, without being too intrusive**.
Another crucial aspect in operating in the digital world is delivery time and the value of waiting, which completes the luxury experience, unlike the "*culture of impatience*" which, as reported in some of the most authoritative newspapers in the world, "*has little in common with the concept of luxury*". We believe that each order should be handled very carefully, with the desire to deliver a "special" package, perhaps accompanied by a handwritten note and with unique elements that can further enhance the direct and human relationship with the customer.

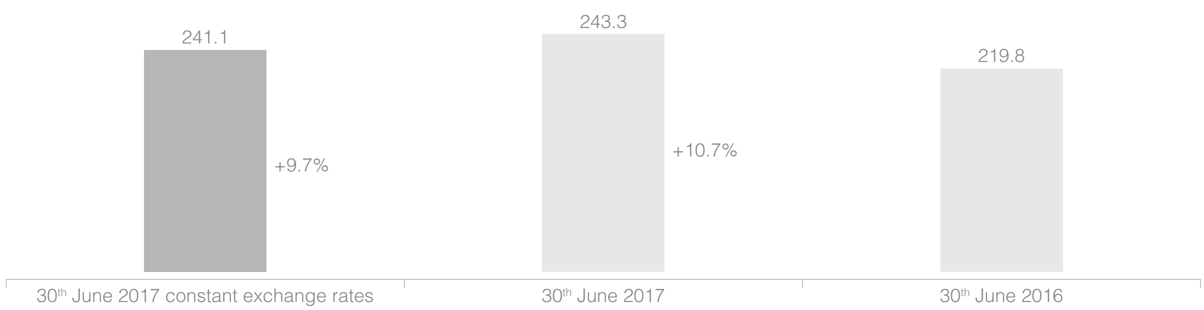
Both in the digital and physical world, we are mindful that "**brand protection**" is essential and is highly topical, to which we are committed in all our daily activities: from our presence on the market to **communication**.
Regarding our presence on social networks and the internet in general, we believe that we should act as we always have, which is to strive to be **gracious in communication** and as coherent as possible with our way of living and working.

# ANALYSIS OF REVENUES

The Group's consolidated turnover for the first half of 2017 amounted to €243,327 thousand, an increase of 10.7% with respect to the same period in 2016. On a like-for-like basis (at constant exchange rates, i.e. the same average rates as those used in 2016), revenues would have been €241,217 thousand, an increase of +9.7%.

It should be noted that the results of individual quarters are affected by the dynamics of the delivery of collections between the end of a quarter and the start of the next, which therefore makes interim reports more representative of underlying business trends. In fact, while not showing sharp seasonal or cyclical variations in total annual sales, the Group's business is affected in the course of the various quarters of the year by revenues deriving from the sales calendar and relative shipping times that are not perfectly homogeneous. For this reason, analysis of the same at an infra-annual level cannot be considered to be entirely representative, and it would be erroneous to consider period benchmark figures as strictly proportional to the full financial year.

The international markets represented 82.8% of total net revenues, rising by +11.7%, growth that was accompanied by the very interesting and positive results obtained on the Italian market (17.2% of net revenues), where sales increased by +6.0%. The European market, including Italy, accounted for 48.1% of the total.

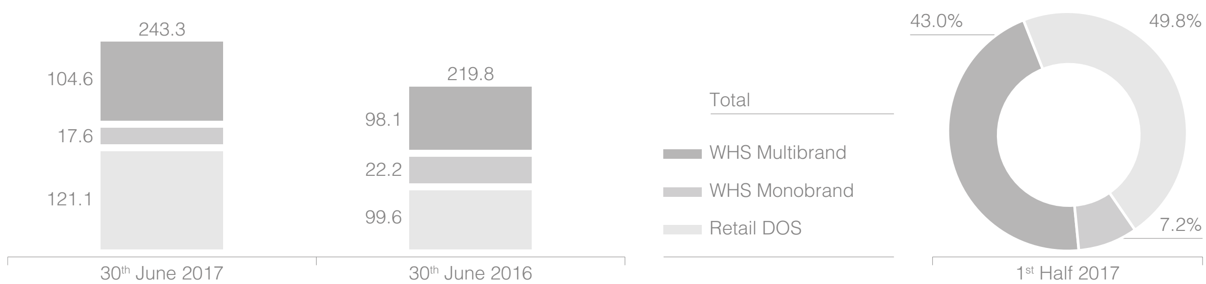



,
The total increase in Net Revenues came to €23,487 thousand at constant exchange rates (+10.7%) and is mainly due to the organic growth of the retail channel, connected to the development of existing sales points and the trend in openings of directly operated stores (DOS) in all geographic areas, as well as growth with respect to the previous period in the wholesale multi- and mono-brand channel (comparing like for like in terms of scope of consolidation).

## REVENUES BY DISTRIBUTION CHANNEL

The following table shows the net revenues generated by the Group in the first half of 2017 and 2016, broken down by distribution channel.

| *(In thousands of euro)* | 1st half, ending on 30th June | | | | Change during the period | |
|---|---|---|---|---|---|---|
| | **2017** | **% of total** | **2016** | **% of total** | **2017 vs. 2016** | **2017 vs. 2016 %** |
| Retail | 121,121 | 49.8% | 99,555 | 45.3% | 21,566 | +21.7% |
| Wholesale Monobrand | 17,600 | 7.2% | 22,221 | 10.1% | (4,621) | -20.8% |
| Wholesale Multibrand | 104,606 | 43.0% | 98,064 | 44.6% | 6,542 | +6.7% |
| **Total** | **243,327** | **100.0%** | **219,840** | **100.0%** | **23,487** | **+10.7%** |




### RETAIL

Net revenues generated by the retail channel came to €121,121 thousand, showing an increase of €21,566 thousand, equal to +21.7% with respect to the same period the previous year. At 30th June 2017, the retail channel represented 49.8% of the Group's total net revenues, up with respect to the 45.3% seen at 30th June 2016.

Like-for-like performance is equal to +4.0% (for the period 1st January to 20th August 2017), which is considered to be highly positive with constant growth in line with previous periods.
At 30th June 2017, the network included 91 direct boutiques with a net of just one new opening in the last 12 months and the conversion from monobrand wholesale to retail for four boutiques in Moscow as of 1st March 2017, which contributed to the growth in this channel. It should also be noted that, as with the previous conversions from monobrand wholesale to the direct channel, during the first year of operations, the positive contribution of recognising sales at retail values is partially affected by a decrease sell-in sales, which will only become sell-out sales during the following period.
This performance also benefitted from the agreement signed on 13th March 2017 for the transition to direct management of 5 shops-in-shops in the Holt Renfrew luxury department stores in Canada, which were previously operated on a wholesale model.

## MONOBRAND WHOLESALE

Net revenues recognised through the monobrand wholesale channel came to €17,600 thousand, down €4,621 thousand, or -20.8%, compared to 30th June 2016.

It should be noted that this trend in the monobrand wholesale channel has been affected by two major actions during the first quarter or 2017 related to the transition from third-party management to direct management of the online boutique and of 4 boutique stores in Moscow. Comparing like for like, the performance of the monobrand wholesale channel is in line with that of the direct channel (growing, like-for-like, by 2.6%) thanks to absolute consistency in image and the presence of **customers with the same buying habits in search of an exclusive offering.**
The monobrand wholesale network included 32 boutiques as at 30th June 2017, which is unchanged over the last 12 months not counting the 4 boutiques converted to the retail channel (36 boutiques as at 30th June 2016).

## MULTIBRAND WHOLESALE

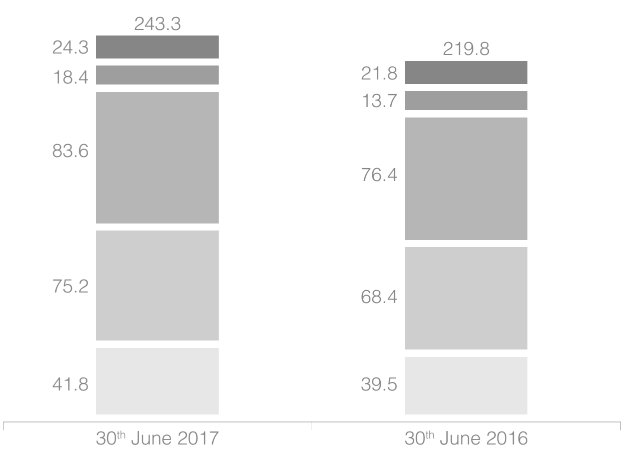
Net revenues coming from the wholesale multibrand channel came to €104,606 thousand (up €6,542 thousand compared to 30th June 2016, or an increase of 6.7% over the same period in 2016). The proportion of revenues represented by this channel fell from 44.6% at 30th June 2016 to 43.0% at 30th June 2017.

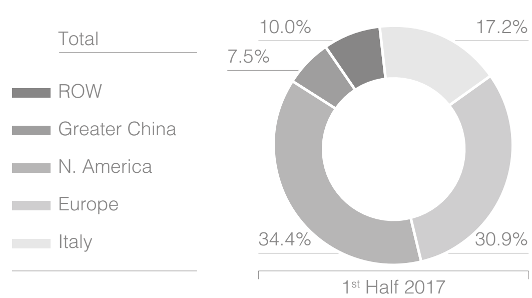
We continue to consider the multibrand channel **extremely important** for the exclusivity attributed to the brand, thanks to the presence in "prestigious" areas, as well as by maintaining a **Ready To Wear** offer that is always contemporary and fresh, never repetitive, which evolves while maintaining "*Brunello Cucinelli taste*", sought by the higher range customer.
The **relationship** that we imagine we have successfully created over the years with the most beautiful luxury multi-brand boutiques and the major Luxury Department Stores is particularly special; this has been combined with the wish to always have the very highest luxury offer.
Lastly, the areas destined to the brand in the multibrand channel in **Asia**, which have **great growth potential** over the medium to long-term, have also contributed to the growth.

## REVENUES BY GEOGRAPHICAL AREA

During the first six months of 2017, the Brunello Cucinelli Group saw significant growth in all of the international markets, as a whole representing 82.8% of net revenues, with an overall increase of +11.7% with respect to the figures from the previous interim period. The Italian market also demonstrated pleasing and significant growth of +6.0%, displaying healthy and sustainable results. The following table provides details of revenues at 30th June 2017, compared with the same period the previous year, broken down by geographical area.

| *(In thousands of euro)* | **1st half, ending on 30th June** | | | | **Change during the period** | |
|---|---|---|---|---|---|---|
| | **2017** | **% of total** | **2016** | **% of total** | **2017 vs. 2016** | **2017 vs. 2016 %** |
| Italy | 41,814 | 17.2% | 39,464 | 18.0% | 2,350 | +6.0% |
| Europe | 75,234 | 30.9% | 68,444 | 31.1% | 6,790 | +9.9% |
| North America | 83,584 | 34.4% | 76,445 | 34.8% | 7,139 | +9.3% |
| Greater China | 18,371 | 7.5% | 13,651 | 6.2% | 4,720 | +34.6% |
| Rest of the World (RoW) | 24,324 | 10.0% | 21,836 | 9.9% | 2,488 | +11.4% |
| **Total** | **243,327** | **100.0%** | **219,840** | **100.0%** | **23,487** | **+10.7%** |



The following is an analysis of the increase in net revenues by geographical area.

**Italy**

Net revenues from Italy represented 17.2% of all revenues (18.0% during the same period the previous year), showing an encouraging increase with respect to 30th June 2016 and confirming the very positive growth trend. The increase is equal to €2,350 thousand in absolute value, corresponding to +6.0% (€41,814 thousand in 2017, €39,464 thousand in 2016).

The Italian market remains extremely important for the brand's image, particularly within the **prêt-à-porter** segment. The success of the offering of **chic and contemporary** apparel bearing our trademark – which we imagine can be identified as one of the most exclusive symbols of made in Italy, a beacon of luxury to be worn especially during the **day** – therefore takes on even greater importance, contributing to our success and reputation across all international markets.
In view of the role the Italian market plays for the company and the offering of apparel, the opening of our largest "**physical**" boutique in Via Montenapoleone, Milan at the beginning of the year has taken on the meaning of high value: the desire to transfer the imagery and atmosphere of "our land", of *Solomeo* and of "*our way of living and working*", has been highly praised and, we imagine, has further contributed to heightening the brand's allure.

At 30th June 2017, the monobrand network (direct and wholesale monobrand) included 16 boutiques.

**Europe**

Net revenues in Europe accounted for 30.9% of total revenues (31.1% for the same period of the previous year) and increased by 9.9%.
Revenues rose from €68,444 thousand to €75,234 thousand, an increase of €6,790 thousand in absolute terms.

Sales are up in all European nations with trends being essentially similar across the various markets and growth posted on both the monobrand and multibrand channels.
The strong results achieved is supported by the presence of local customers, as always a target for the brand and whose demand continues to grow at a steady and sustainable pace, attracted by our offering of very high-quality items, the result of **Italian craftsmanship and manual skills** and above all distributed on an exclusive basis, with an eye to preserving the brand image.
Alongside local demand, **high-end tourism** has also increased, with steady growth that we believe is not affected – if not only marginally - by the macroeconomic trends underlying the growth or slowdown in mid-range tourism. Purchases made by "**young new customers**" are playing an increasingly important role; their demand for items with a refined look adds to and complements that of "**traditional customers**", both sharing the desire to seek out truly special clothes.

At 30th June 2017, the (direct and wholesale) monobrand network included 46 boutiques.

**North America**

Net revenues in North America accounted for 34.4% of total revenues, as compared to 34.8% for the previous half-year period. Revenues rose from €76,445 thousand to €83,584 thousand, an increase of €7,139 thousand or +9.3%.

The growth confirms the positive trend in North America, a market we consider "*domestic*", in which we remain focused on offering collections which try to stay modern and on our presence in **prestigious, selected spaces** in the monobrand and multibrand channels, while maintaining and further enhancing the allure which we feel our brand emanates.
An element which has always contributed to our success in all the sales spaces is **Visual merchandising**, with a dedicated organizational structure which aims to add value to the presentation of the collections in all the exhibition areas, both in the direct and multibrand channels, as well as in the Luxury Department Stores.
This approach represents one of the distinctive elements which characterize our **relationship**, which we consider truly special, with all **Luxury Department Stores**, committed to **seeking out luxurious, never repetitive and hard to find offerings**, which might attract high-end customers and help make their purchasing experience in some way "unique".
Another extremely important aspect is the bond of trust and respect our people – "*pleasantly mannered*" and never inopportune - have always tried to create with customers, playing the role of "**special advisor**" and never the role of a "simple salesperson".
In this way, those in charge of our boutiques and the dedicated spaces at Luxury Department Stores have the chance to "guide" the daily management of sales areas, define shop windows and outfits sympathetic to the local context, while remaining fully consistent with the taste of the collections.
The truth is that these department stores are always on the lookout for "**special, hard-to-find products**".

At 30th June 2017, the (direct and wholesale) monobrand network included 24 boutiques.

**Greater China**

Net revenues in the Greater China area accounted for 7.5% of total revenues (6.2% for the same period of the previous year) and increased by €4,720 thousand (+34.6%). Revenues rose from €13,651 thousand to €18,371 thousand.

Of particular interest is the company's commitment to pursuing **sustainable growth objectives**, seizing the potentials of an evolving market, **maintaining the allure and exclusivity of the brand and of the distribution**, starting from a limited presence throughout Greater China.
This significant potential for growth is supported by the evolution of the **end customer, ever more sophisticated**, with an eye on style and details, seeking "Made in Italy" offerings and a refined lifestyle, with the possibility to mix and match garments that are already in their wardrobe with new season purchases.
We are also seeing a gradual increase in **tourism of our Chinese and Asian customers** who spend time shopping especially in the fashion and luxury capitals of the world; thanks to the variety and range of our collections, shopping abroad is also prompted by the fact that products showcased at shops in Paris or New York at a certain time of the year, may not be in available at boutiques in Shanghai and Beijing.
This same approach in terms of exclusive distribution is pursued in the **multibrand** channel, which is now gradually developing in China, with massive growth potential, thanks to the presence of prestigious multibrand boutiques, which include dedicated spaces for our collections.

These new multibrand stores are playing an increasingly important role for high-end customers, who are fascinated by the opportunity to compare and mix special products from different brands, all sharing the common thread of prestige and uniqueness.

At 30th June 2017, the (direct and wholesale) monobrand network included 20 boutiques.

**Rest of the world**

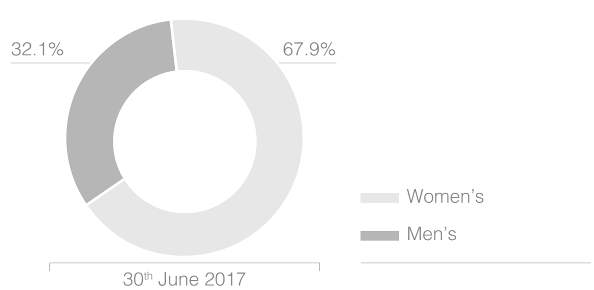
Net revenues in the Rest of the World increased by 11.4% in the first six months of 2017 as compared to the previous period. Revenues rose from €21,836 thousand to €24,324 thousand.

Growth in all core markets, thanks to the **loyal local base of customers** seeking an exclusive prêt- à-porter offer; these are customers who buy goods both in the monobrand boutiques and multibrand spaces of the domestic market, and when travelling for pleasure or on business; adding to the demand of traditional customers, is the increasing flow of **new clients**, attracted particularly to our refined and modern "Ready to Wear" offer.
Our presence in the luxury streets helps to strengthen the brand's position and allure, as do the **selected press articles** published in trade magazines and the **communication** of our brand values, through events which bring to mind the spirit of Italy and of our Umbria.
Thanks to the atmosphere created around our brand, the quality level of our spaces is further enhanced which, in particular, the **luxury department stores** in Japan attribute to the brand, thereby ensuring our presence in the most exclusive and prestigious floor spaces.

At 30th June 2017, the (direct and wholesale) monobrand network included 17 boutiques.

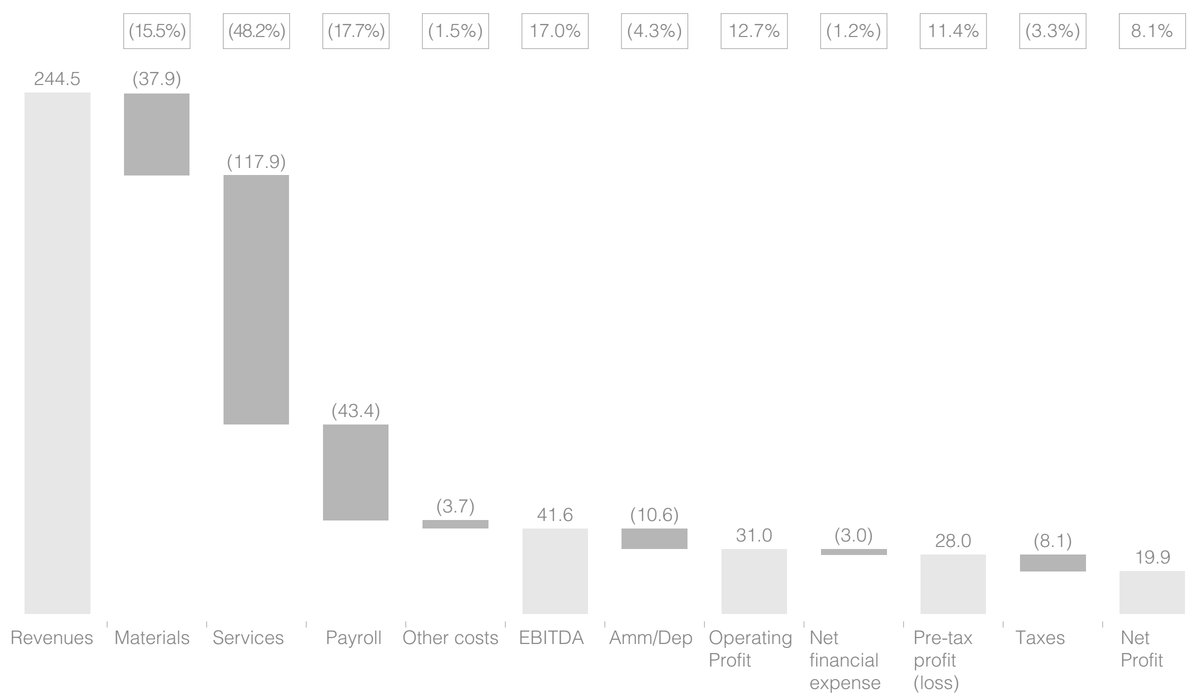
## REVENUES BY PRODUCT AND END CUSTOMER

The following is a graphical representation of the Brunello Cucinelli Group's revenues at 30th June 2017, broken down by product line and end customer:

# ANALYSIS OF THE INCOME STATEMENT

The following is a graphical representation of the income statement as at 30th June 2017, which presents our performance during the first half of the year (as a percentage on Revenues):




## OPERATING RESULTS

The following table provides a summary of operating profit and EBITDA:

| *(In thousands of euro)* | 1st half, ending on 30th June | | | | Change during the period | |
|---|---|---|---|---|---|---|
| | 2017 | % of sales | 2016 | % of sales | 2017 vs. 2016 | 2017 vs. 2016 % |
| **Operating profit (loss)** | **31,025** | **12.7%** | **25,926** | **11.8%** | **5,099** | **+19.7%** |
| + Amortisation/Depreciation | 10,567 | 4.3% | 9,558 | 4.3% | 1,009 | +10.6% |
| **EBITDA** | **41,592** | **17.0%** | **35,484** | **16.1%** | **6,108** | **+17.2%** |
| + Non-recurring expenses(1) | - | 0.0% | 1,293 | 0.6% | (1,293) | -100.0% |
| **EBITDA, normalised** | **41,592** | **17.0%** | **36,777** | **16.7%** | **4,815** | **+13.1%** |

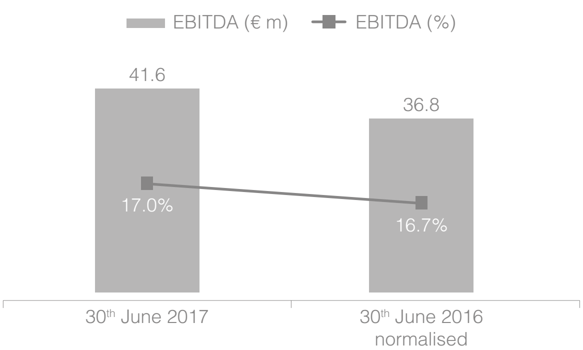
**(1)** Non-recurring expenses as at 30th June 2016 refer to costs, in the amount of €1,293 thousand, shown on the financial statements as an "of which" under payroll costs.

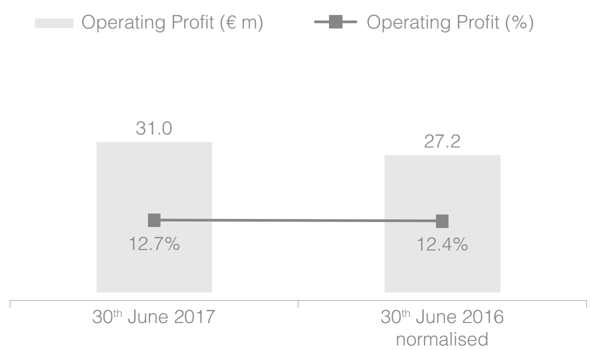
EBITDA at 30th June 2017 amounted to €41,592 thousand, representing 17.0% of revenues from sales and services, an increase of 13.1% over the normalised figure for the previous period. At 30th June 2016, the normalised EBITDA percentage was 16.7%.

It should be noted that the first half of 2017 saw a slight reduction, in terms of their impact in percentage terms, in the cost of production for raw materials and outsourced work compared to the first half of the previous financial year (35.1% at 30th June 2017 compared to 35.5% at 30th June 2016). This is mainly due to the dynamic between quarters and the greater impact of revenues generated by the retail distribution channel.

Operating Profit at 30th June 2017 amounted to €31,025 thousand, representing 12.7% of revenues from sales and services, an increase of 19.7% over the corresponding figure for the previous period (+14.0% on the normalised figure).
Also of note is the significant impact of amortisation and depreciation in absolute terms (an increase of €1,009 thousand), consequent to the investments made, while remaining stable at 4.3% in terms of its portion of revenues from sales and services.

The following table sets out in graphical form the trends in the Group's EBITDA and Operating Profit at 30th June 2017 and 30th June 2016:



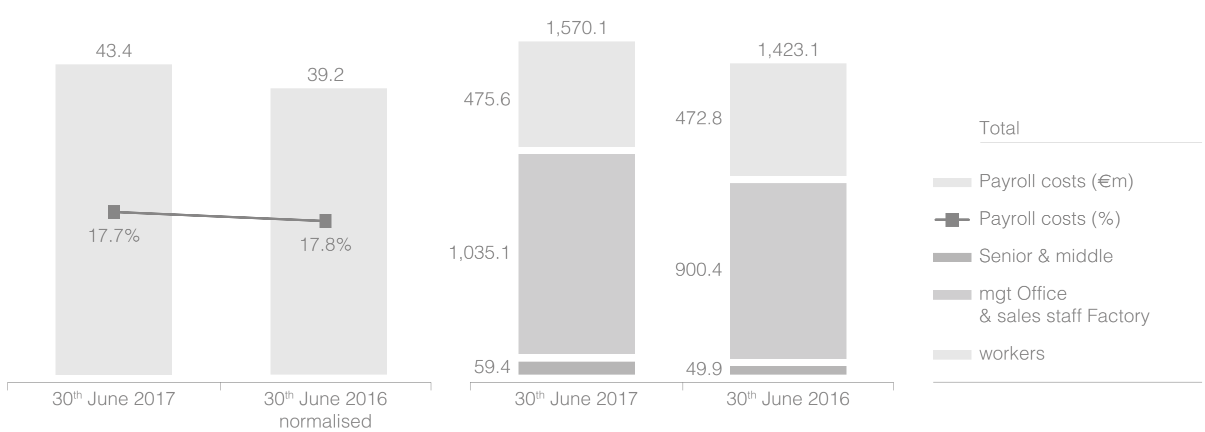




As noted above, EBITDA went from 16.7% in the first half of 2016 when normalised to 17.0% in the first half of 2017, increasing by €4,815 thousand in absolute terms, equal to +13.1%.
The financial trends which characterised the first half of 2017 were above all represented by a higher percentage of net revenues coming from the retail distribution channel as a percentage of the total for the period (49.8% at 30th June 2017, against 45.3% at 30th June 2016). The increased percentage weight of the retail channel is a result of organic growth in existing retail outlets (like-for-like growth of 4.0%) and the development of the network of shops, which grew overall in number by 1 unit over the first half of the previous financial year and saw the conversion of 4 boutiques in Moscow and transition to direct management of 5 shops-in-shops within the Holt Renfrew luxury department stores in Canada.

This performance resulted in a reduction, in terms of percentage impact, of production costs associated with raw materials and outsourced work (35.1% at 30th June 2017, compared to 35.5% at 30th June 2016). It should be noted that, as continuously described in our interim financial reports (see section 3.6, “Seasonal or cyclical aspects of interim transactions”), the percentage in question suffers, during the various quarters of the year, from revenue and expense flows that are not perfectly homogeneous.

| *(In thousands of euro)* | 1st half, ending on 30th June | | | | Change during the period | |
|---|---|---|---|---|---|---|
| | 2017 | % of sales | 2016 | % of sales | 2017 vs. 2016 | 2017 vs. 2016 % |
| Costs for raw materials and consumables | 45,379 | 18.6% | 43,591 | 19.8% | 1,788 | +4.1% |
| Change in inventories | (7,460) | -3.1% | (10,255) | -4.7% | 2,795 | -27.3% |
| Outsourced work | 47,912 | 19.6% | 44,834 | 20.3% | 3,078 | +6.9% |
| **Total** | **85,831** | **35.1%** | **78,170** | **35.5%** | **7,661** | **+9.8%** |

Payroll costs at 30th June 2017 posted a percentage impact of 17.7%, as compared to 17.8% as at 30th June 2016 on a normalised bases, for an increase in absolute value over the normalised figure of the previous period of €4,146 thousand.
Full Time Equivalents (FTEs) totalled 1,570.1 at 30th June 2017, compared with 1,423.1 at 30th June 2016 (+147.0), which was principally the result of the increase in sales staff as a result of the expansion of directly managed sales outlets in Russia and Canada (see the section “Significant events during the first half of 2017” below) and, to a lesser extent, the increase in the central structure to support development projects, including the Digital Project of internationalisation of the e-commerce site and all related operations.



The following is a brief description of the other main components of operating expenses:

– Lease expense, the impact in percentage terms for leasing costs with reference to total revenues from sales and services of which remained essentially stable (11.8% at 30th June 2017, compared to 12.0% at 30th June 2016), posted an increase of €2,287 thousand in absolute terms compared to the first half of the previous year. The increase in lease expense in absolute terms is due to the development of the retail network (net new openings of 1 and 4 conversions from monobrand wholesale in the last 12 months) and to a number of repositionings and increases in sales areas.
– The weight in percentage terms of commissions and accessory costs, related to commissions payable to the network of agents, fell with respect to the first half of the previous year (2.5% in 2017, 2.8% in 2016);
– Advertising and other marketing costs rose by €1,305 thousand in absolute terms (11.6%), with the ratio to revenues from sales and services remaining stable compared to 30th June 2016 at 5.1%. These costs relate to the promotional activities carried out by the Group to disseminate its image and philosophy throughout the world (more specifically these are costs mainly incurred for the production of catalogues, advertising campaigns and fairs and exhibitions organized in Italy and abroad);
– Transport and duties, which amounted to 3.5% of revenues in 2017, in line with the figure of 3.6% in 2016;
– Credit card charges, which rose by 25.3% with respect to the first half of the previous financial year, strictly connected with the growth in the retail channel.

The following table provides a summary of these items for the first halves of 2017 and 2016 together with their percentage as a proportion of revenues.

| *(In thousands of euro)* | **1st half, ending on 30th June** | | | | **Change during the period** | |
|---|---|---|---|---|---|---|
| | **2017** | **% of sales** | **2016** | **% of sales** | **2017 vs. 2016** | **2017 vs. 2016 %** |
| Lease expense | 28,813 | 11.8% | 26,526 | 12.0% | 2,287 | +8.6% |
| Commissions and accessory charges | 6,205 | 2.5% | 6,061 | 2.8% | 144 | +2.4% |
| Advertising and other commercial expenses | 12,528 | 5.1% | 11,223 | 5.1% | 1,305 | +11.6% |
| Transport and duties | 8,595 | 3.5% | 7,956 | 3.6% | 639 | +8.0% |
| Credit card charges | 2,253 | 0.9% | 1,798 | 0.8% | 455 | +25.3% |

## NET FINANCIAL EXPENSE, TAXATION AND NET PROFIT

Net financial expense amounted to €3,036 thousand at 30th June 2017, of which financial expenses were €13,115 thousand and financial income was €10,079 thousand.

While reference should be made to the notes to the financial statements for further details of the items included in financial income and expense, the following table sets out the overall result of financial management, separating out the effect of exchange differences and the fair value measurement of derivative contracts from changes in financial income and expense:

| *(In thousands of euro)* | 1st half, ending on 30th June | | | | Change during the period | |
|---|---|---|---|---|---|---|
| | 2017 | % of sales | 2016 | % of sales | 2017 vs. 2016 | 2017 vs. 2016 % |
| Loan interest | 331 | 0.1% | 383 | 0.2% | (52) | -13.6% |
| Other net (income)/expense | 463 | 0.2% | 464 | 0.2% | (1) | -0.2% |
| **Financial (income)/expense** | **794** | **0.3%** | **847** | **0.4%** | **(53)** | **-6.3%** |
| Realized exchange losses/(gains) | 175 | 0.1% | 636 | 0.2% | (461) | -72.5% |
| Unrealized exchange losses/(gains) | 656 | 0.3% | (675) | -0.4% | 1,331 | <-100.0% |
| Financial (income)/expense arising from adjusting derivatives to fair value | 1,411 | 0.5% | 1,000 | 0.6% | 411 | +41.1% |
| **Total net financial expense** | **3,036** | **1.2%** | **1,808** | **0.8%** | **1,228** | **67.9%** |

As at 30th June 2017, there was an unrealized exchange loss of €656 thousand, as compared to a net unrealized exchange gain of €675 thousand for the first half of 2016. This change may be attributed to intercompany financing disbursed in a foreign currency by the parent company, Brunello Cucinelli S.p.A., to the companies of the Group, which accounts for roughly half of the net loss for the first half of 2017 and for the entire net gain posted for the first half of 2016.

Income taxes for the period amounted to €8,137 thousand and represented 29.1% of pre-tax consolidated profit. It should be noted that the Group earns the majority of its taxable profit in Italy and has elected the "taxation for transparency" option (taxation in Italy using the tax rates applicable in Italy) for taxable profits earned in the "privileged tax system countries" in which it operates.

In the light of the above, net profit for the period came to €19,852 thousand, or 8.1% of revenues from sales and services, which represents an increase of €3,827 thousand, or +23.9%, with respect to the figures from the first half of 2016.

The following table provides an analysis of net recognised profit between the portion attributable to the owners of the parent and the portion attributable to non-controlling interests with respect to the past half:

| *(In thousands of euro)* | 30th June 2017 | 30th June 2016 |
|---|---|---|
| Profit attributable to shareholders of parent company | 19,580 | 16,217 |
| Profit attributable to non-controlling interests | 272 | (192) |
| **Net profit for the year** | **19,852** | **16,025** |

# ANALYSIS OF KEY BALANCE SHEET AND FINANCIAL ITEMS

Provided below are comments on the main items included in the balance sheet reclassified by sources and applications at 30th June 2017, compared with those relative to 31st December 2016 and 30th June 2016.

## NET WORKING CAPITAL

The table below provides a breakdown of net working capital of the Brunello Cucinelli Group at 30th June 2017, 31st December 2016 and 30th June 2016:

| *(In thousands of euro)* | **at 30th June 2017** | **at 31st December 2016** | **at 30th June 2016** |
|---|---|---|---|
| Trade receivables | 54,396 | 47,231 | 63,060 |
| Inventories | 158,556 | 154,814 | 154,701 |
| Trade payables | (61,932) | (63,356) | (62,525) |
| Other current assets/(liabilities), net | (9,469) | (9,421) | (19,402) |
| **Net Working Capital** | **141,551** | **129,268** | **135,834** |

To make it easier to understand the main changes in net working capital, in consideration of the previously cited "seasonal cycles", below we provide comments that compare the figures at 30th June 2017 with those at 30th June 2016.

Net working capital at 30th June 2017 showed an increase of €5,717 thousand with respect to the figure at 30th June 2016.
This change may be attributed to the following factors:

- an increase of €3,855 thousand in inventories, with a percentage impact on net revenues for the last 12 months of 33.07%. It should be noted that the reduction in the ratio to net revenues is essentially in line with the figure for 31st December 2016 (at 33.95%) as a result of highly positive sell-out numbers.

It should be noted that raw materials increased by €801 thousand, going from €27,526 thousand at 30th June 2016 to €28,327 thousand at 30th June 2017, while finished and semi-finished goods increased by €3,054 thousand, going from €127,175 at 30th June 2016 to €130,229 thousand at 30th June 2017, principally as a result of the growth of the directly managed monobrand network of stores.

| *(In thousands of euro)* | at 30th June 2017 | at 31st December 2016 | at 30th June 2016 |
|---|---|---|---|
| Raw materials | 28,327 | 28,661 | 27,526 |
| Finished and Semi-finished goods | 130,229 | 126,153 | 127,175 |
| **Inventories** | **158,556** | **154,814** | **154,701** |

- a decrease of €8,664 thousand in trade receivables, with a percentage impact on net revenues for the last 12 months of 11.35%, decreasing from 30th June 2016 when the percentage was 14.54%. This reduction in trade receivables is related to the healthy, positive management of collections and to transitions from third-party management to direct management for our online boutique, four boutiques in Moscow, and 5 shops-in-shops in Holt Renfrew luxury department stores in Canada, which were previously run under a wholesale model;
- essential stability in trade payables, which decreased by €593 thousand, going from €62,525 thousand at 30th June 2016 to €61,932 thousand at 30th June 2017;
- a decrease in other current liabilities, which netted €19,402 thousand at 30th June 2016 and €9,469 thousand at 30th June 2017, falling €9,933 thousand.

The main change is attributable to the fair value measurement of derivative instruments to cover currency risk(1) (at 30th June 2017, there was a net asset balance of €5,350 thousand whereas at 30th June 2016 there was a net negative balance of €688 thousand).

## NON-CURRENT ASSETS

Non-current assets at 30th June 2017, 31st December 2016 and 30th June 2016 are broken down below:

| *(In thousands of euro)* | at 30th June 2017 | at 31st December 2016 | at 30th June 2016 |
|---|---|---|---|
| Intangible assets | 33,585 | 28,823 | 30,510 |
| Property, plant and equipment | 113,229 | 111,348 | 109,633 |
| Non-current financial assets | 7,142 | 5,740 | 5,476 |
| **Non-current assets** | **153,956** | **145,911** | **145,619** |

Non-current assets at 30th June 2017 totalled €153,956 thousand, compared to €145,911 thousand at 31st December 2016, a net increase of €8,045 thousand, or 5.5%.
For details on the changes during the period, please refer to the information provided in the notes.

(1) It should be noted that the Group accounting policy follows the Cash Flow Hedge rules, which provide for the fair value to be recognized as an asset or liability (asset or liabilities for current financial instruments), with a corresponding balancing reserve in Shareholders' Equity to reflect the effective component of the change in fair value of derivatives, which will be reversed through profit or loss at the point when the transaction being hedged is recognized for accounting purposes.

## INVESTMENTS

During the half-year period ended 30th June 2017, the Group made investments in intangible assets totalling €8,449 thousand and capital expenditures totalling €12,186 thousand. The net balance of non-current financial assets (new guarantee deposits net of repayments received) was €1,516 thousand.

The table below shows Group investments broken down by category at 30th June 2017, 31st December 2016 and 30th June 2016:

| *(In thousands of euro)* | **at 30th June 2017** | **at 31st December 2016** | **at 30th June 2016** |
|---|---|---|---|
| Investments in intangible assets | 8,449 | 4,220 | 2,110 |
| Capex in property, plant and equipment | 12,186 | 25,393 | 15,868 |
| Investments in non-current financial assets (*) | 1,516 | 165 | (119) |
| **Total Investments** | **22,151** | **29,778** | **17,859** |

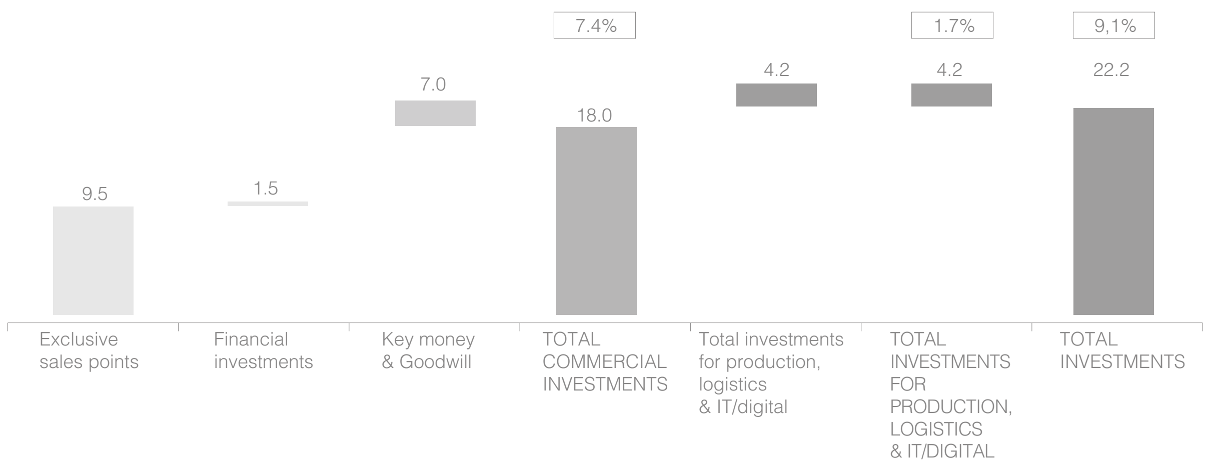
(*) Net guarantee deposits (balance of net payments made and repayments received)

Investments made during the first six months of 2017 came to €22,151 thousand, of which roughly €18.0 million was dedicated to commercial investments and €4.2 million to investments in production, logistics and IT/digital.

Having completed the Grand Project for 2013-2016 with €150.5 million invested (for a ratio to cumulative sales of 10%), the new investment plan for 2017-2019 centres around protecting the exclusivity and prestige of our brand in both the physical and online channels.
The commercial investments include €7,330 thousand related to the subsidiary OOO Brunello Cucinelli RUS, which led to the conversion of 4 boutiques in Moscow from third-party management to directly managed stores, with the remainder being related to investments for the renovation of existing boutiques, for a selection of openings and repositionings, and for the increase in sales surface area in luxury department stores.

Investments for production, logistics and IT/digital concerned, above all, the digital platforms related to the Grand Digital Project, which is of the utmost importance to the organisation as we seek to make our online presence as exclusive and sought after as we are in the physical channel.

The following is a graphical representation of the investments made by the Group in the first half of 2017, broken down by type (as a percentage on Revenues):




## NET DEBT

The following table provides details of Net debt, as required by CONSOB communication no. DEM/6064293 of 28th July 2006 and by the CESR recommendation of 10th February 2005 concerning the implementation of the European Commission regulation on financial reporting.

| *(In thousands of euro)* | **at 30th June 2017** | **at 31st December 2016** | **at 30th June 2016** |
|---|---|---|---|
| A. Cash and Cheques | (511) | (885) | (363) |
| B. Other liquid assets | (49,494) | (45,543) | (41,859) |
| C. Held-for-trading financial instruments | (1,959) | (1,964) | - |
| **D. Cash and cash equivalents (A)+(B)+(C)** | **(51,964)** | **(48,392)** | **(42,222)** |
| **E. Current financial receivables** | **(31)** | **(16)** | **(58)** |
| E. Current bank debt | 30,193 | 16,165 | 32,154 |
| G. Current portion of non-current debt | 23,296 | 42,287 | 40,756 |
| H. Other current financial payables | 1,086 | 1,172 | 1,680 |
| **I. Current debt (F)+(G)+(H)** | **54,575** | **59,624** | **74,590** |
| **J. Net current debt (I)+(E)+(D)** | **2,580** | **11,216** | **32,310** |
| K. Non-current bank debt | 55,063 | 37,567 | 45,125 |
| L. Bonds issued | - | - | - |
| M. Other non-current payables | 1,790 | 2,173 | 2,279 |
| **N. Non-current debt (K)+(L)+(M)** | **56,853** | **39,740** | **47,404** |
| **O. Net debt (J)+(N)** | **59,433** | **50,956** | **79,714** |

At 30th June 2017, the Brunello Cucinelli Group's debt decreased by €20,281 thousand with respect to the same figure at 30th June 2016 and by €8,477 thousand with respect to the same figure at 31st December 2016.

To that end, it should be noted that, during the first half of 2017, the Group new took out new medium/long-term loans totalling €35.0 million and paid off other loans totalling €9.5 million. New debt was taken on with the goal of taking the balance of medium/long-term debt to around €50 million (in linen with the balance on 31st December 2015), which is deemed to be appropriate for a balanced allocation between short-term and medium/long-term financing.

The balance of net debt at 30th June 2017 was influenced by the following factors:
– the developments in operational management, which were characterised by continued growth in sales volumes and the increase in the number of sales outlets, as well as the trends affecting net working capital and the consequent generation of cash from operating activities;
– the seasonal nature of net debt, which is always higher at the end of the second and third quarters of the financial year (30th June and 30th September), falling again in the fourth quarter (31st December).
– the investment programme implemented during the period (€22.2 million in the first half of 2017).

Finally, it should be noted that:
– line item "C. Held-for -trading financial instruments" refers to Italian government securities held by the parent company and recognized under financial receivables;
– line item "H. Other current financial payables" refers mainly to the measurement of the put option for the purchase of a minority interest in Brunello Cucinelli Japan Ltd. and to current liabilities for derivative instruments to hedge against interest-rate risk;
– line item "M. Other non-current payables" refer to the financial liability related to the financing obtained, for our own portion, by the minority shareholder in the subsidiary Brunello Cucinelli Hong Kong Ltd. and to the non-current liability balance for derivative instruments to hedge against interest-rate risk.

## SHAREHOLDERS' EQUITY

The table below provides details of shareholders' equity at 30th June 2017, 31st December 2016 and 30th June 2016:

| *(In thousands of euro)* | **at 30th June 2017** | **at 31st December 2016** | **at 30th June 2016** |
|---|---|---|---|
| Share capital | 13,600 | 13,600 | 13,600 |
| Reserves | 196,231 | 168,946 | 168,653 |
| Profit attributable to shareholders of parent company | 19,580 | 36,397 | 16,217 |
| **Equity attributable to shareholders of parent company** | **229,411** | **218,943** | **198,470** |
| Equity attributable to non-controlling interests | 7,908 | 6,939 | 5,775 |
| **Shareholders' Equity** | **237,319** | **225,882** | **204,245** |

Share capital at 30th June 2017 consisted of 68,000,000 fully paid ordinary shares amounting to €13,600 thousand. The Brunello Cucinelli S.p.A. shareholder structure as at 30th June 2017, as compiled from the communications sent to the Company and to CONSOB, and from other communications to the market, is set out below:

| Shareholder | Number of shares | % of ordinary capital |
|---|---|---|
| Fedone S.r.l. | 38,760,000 | 57.000% |
| FMR Llc | 6,717,040 | 9.878% |
| OppenheimerFunds Inc | 3,409,520 | 5.014% |
| Other shareholders | 19,113,440 | 28.108% |
| **Total** | **68,000,000** | **100.00%** |

A full description of the changes in Equity is provided in the specific schedule and in note 12 of the Notes.

## RECONCILIATION BETWEEN EQUITY AND NET PROFIT OF THE PARENT AND CONSOLIDATED EQUITY AND NET PROFIT

The following is a reconciliation of equity and net profit of the parent and consolidated equity and net profit at 30th June 2017:

| *(In thousands of euro)* | 30th June 2017 | |
|---|---|---|
| | Shareholders' Equity | Net profit |
| **Financial statements of the parent** | **244,388** | **21,988** |
| Difference between the equity of consolidated shareholdings and the carrying amount of these shareholdings | 5,010 | 1,290 |
| Elimination of intercompany transactions | (32,812) | (5,477) |
| Elimination of dividends | - | (75) |
| Tax effect of consolidation adjustments | 12,825 | 1,854 |
| **Total attributable to the owners of the parent** | **229,411** | **19,580** |
| Equity and net profit attributable to non-controlling interests | 7,908 | 272 |
| **Total consolidated financial statements** | **237,319** | **19,852** |

# OPERATING AND FINANCIAL RATIOS

The main operating and financial ratios for the Brunello Cucinelli Group for the periods under review are discussed below.

## PROFITABILITY RATIOS

The table below shows the trends for the main profitability ratios relative to 30th June 2017 and 2016.

| | 30th June 2017 | 30th June 2016 |
|---|---|---|
| ROE – *Net profit for the year / Average equity in the year* | 8.57% | 8.91% |
| ROI – *Operating profit / Average net invested capital in the year* | 10.82% | 10.13% |
| ROS – *Operating profit / Revenues* | 12.69% | 12.35% |

## FINANCIAL STABILITY RATIOS

Financial stability analysis is designed to assess the Brunello Cucinelli Group's ability to maintain a constant balance in the medium to long period between outgoing cash flows, arising from the repayment of sources, and incoming cash flows, arising from the monetary recovery of applications, so as to not undermine the company's financial stability.
It should be noted that these ratios have been calculated using normalised figures.

| | 30th June 2017 | 30th June 2016 |
|---|---|---|
| Ratio – *Equity / Total assets* | 51.91% | 46.96% |
| Ratio – *Total current assets / Total current liabilities* | 194.79% | 160.57% |

TURNOVER RATIOS

| | 30th June 2017 | 30th June 2016 |
|---|---|---|
| Receivables turnover<br>*Revenues from sales and services / Average trade receivables* | 4.8 times | 4.0 times |
| Average collection period for trade receivables<br>*(Average trade receivables / Revenues from sales and services ) * 180* | 37.4 | 44.4 |
| Payables turnover<br>*(Costs for raw materials and consumables + Costs for services) / Average trade payables* | 2.5 times | 2.2 times |
| Average payment period for trade payables<br>*(Average trade payables / (Costs for raw materials and consumables net of changes in inventory + Costs for services)) * 180* | 69.1 | 77.8 |
| Average days of inventory<br>*(Inventories – Advances) / Revenues from sales and services* | 115.3 | 122.0 |

## INFORMATION ON CORPORATE GOVERNANCE

Pursuant to article 123-bis of the Consolidated Finance Law (TUF), the Company is required to prepare an annual report on corporate governance and ownership structures containing a general description of the governance system adopted by the Brunello Cucinelli Group and its ownership structure, including the main governance practices applied and the characteristics of its risk management and internal control system in relation to its financial reporting process.
This report, approved by the Board of Directors at its meeting of 9th March 2017, may be consulted in the Governance section of the Company's website at http://investor.brunellocucinelli.com/en/.

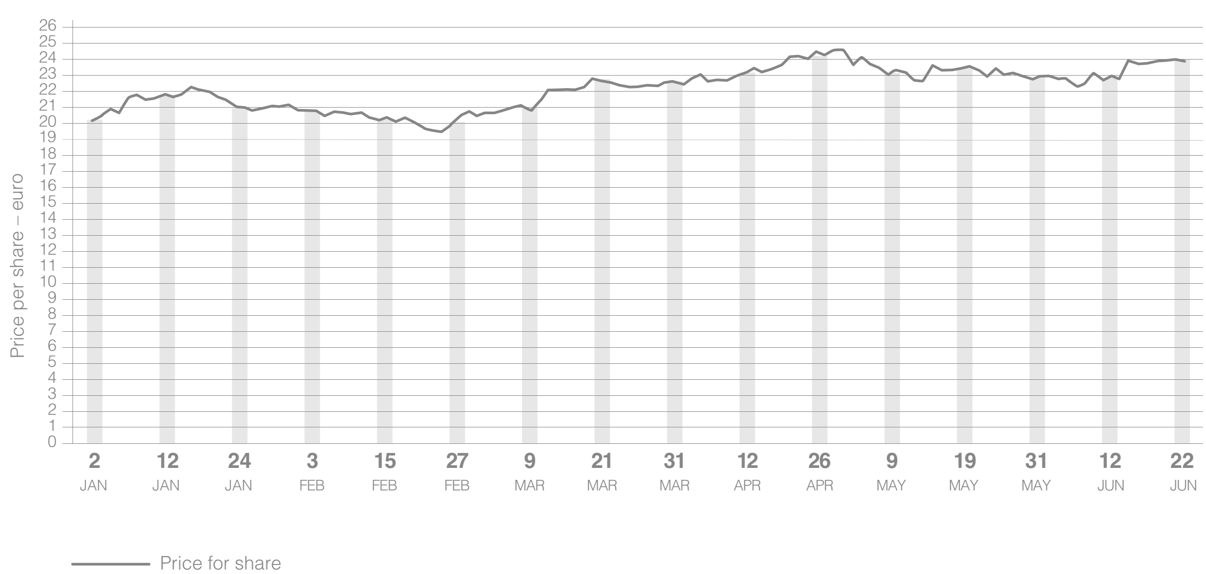
## PERFORMANCE OF THE COMPANY'S SHARE LISTED ON THE BORSA ITALIANA S.P.A. ELECTRONIC STOCK EXCHANGE (MTA)

At 30th June 2017, the final trading day of the period, the official closing price of the Brunello Cucinelli share was €23.02 (+197.0% compared to the €7.75 per share set for the IPO, +13.2% compared to the price of €20.34 at the end of financial year 2016). The market capitalisation on 30th June 2017 was €1,565,360 thousand.

The following table provides details of the Company's share price and performance between 1st January 2017 and 30th June 2017:

| | Euro | Date |
|---|---|---|
| IPO price | 7.75 | - |
| Low(1) | 19.29 | 1-Mar-17 |
| High(1) | 24.87 | 5-May-17 |
| Official price | 23.02 | 30-Jun-17 |
| Capitalization | 1,565,360,000 | 30-Jun-17 |
| Number of outstanding shares | 29,240,000 | 30-Jun-17 |
| Free float | 673,104,800 | 30-Jun-17 |

(1) High and low recorded during daily trading which, therefore, do not coincide with the official reference prices for the day.



# SIGNIFICANT EVENTS DURING THE FIRST HALF OF 2017

**Acquisition of a controlling interest in Perugia OOO**

On 2nd March 2017, the Company finalised the acquisition, from Victoria Vasilievna Saava, of the Cashmere & Silk group—with which the Brunello Cucinelli Group has had business relations for twenty years with great results, including in terms of image—of a 62% interest in Perugia OOO, a Russian limited liability company subsequently renamed OOO Brunello Cucinelli RUS which has long managed 4 boutiques in Moscow, 3 of which in the city's most prestigious shopping malls. With this acquisition, the monobrand stores have been converted from the wholesale monobrand channel to the retail monobrand channel.
The purchase price for the shareholding was €8,820 thousand.
The remaining interest remains held by Victoria Vasilievna Saava.
For details on the transaction, see the section "Business combinations" of the notes to the financial statements.

**Start of e-commerce direct management**

At the end of January 2017, the Company definitively launched direct management of its online boutique, which was previously managed by YNAP, in an effort to make our digital presence even more exclusive and "artisanal", while seeking to convey to the online world the culture that permeates our daily lives at the organisation.
Our relationship with the YNAP group, which we consider to be both serious and greatly interesting, will continue in a spirit of great mutual respect, and we will continue to promote our brand on the NET-A-PORTER and MR PORTER platforms, which we believe are among the world's most exclusive multibrand digital marketplaces.

**Meeting of Shareholders of Brunello Cucinelli S.p.A.**

On 20th April 2017, the Ordinary Meeting of Shareholders of the parent company, Brunello Cucinelli S.p.A., was held. The shareholders approved the financial report for the year ended 31st December 2016 and authorised the distribution of earnings in the amount of €10,880,000 in the form of a dividend of €0.16 per share and allocating the remaining €26,739,817 to retained earnings.

The shareholders also:

– appointed the new Board of Directors, comprising 11 members, for the period 2017-2019, which will remain in office until approval of the financial report for the year ending 31st December 2019. Based on the two slates presented, the following directors were appointed: Brunello Cucinelli (Chairman of the Board of Directors), Moreno Ciarapica, Giovanna Manfredi, Riccardo Stefanelli, Luca Lisandroni, Camilla Cucinelli, Carolina Cucinelli, Candice Koo (independent), Andrea Pontremoli (independent), Matteo Marzotto (independent), taken from slate no. 1 presented by the majority shareholder Fedone S.r.l.; and Massimo Bergami (independent), taken from slate no. 2 presented by a group of asset management companies and other institutional investors;
– appointed the new Board of Statutory Auditors for the period 2017-2019, which will remain in office until approval of the financial report for the year ending 31st December 2019. Based on the two slates presented, the following auditors were appointed: Paolo Prandi, Chairman of the Board of Statutory Auditors, taken from slate no. 2 presented by a group of asset management companies and other institutional investors; Alessandra Stabilini and Gerardo Longobardi, standing auditors taken from slate no. 1 presented by the majority shareholder Fedone S.r.l.; Guglielmo Castaldo, substitute auditor, taken from slate no. 1; and Myriam Amato, substitute auditor, taken from slate no. 2.

**Patent Box**

During the first half of 2017, work began on the ruling by the Italian inland revenue office aimed at defining/examining, in cross-examination, certain aspects needed in order to define the methods and criteria for contributing to the generation of earnings on intangibles.

This was done following the filing of the request for preventive agreement related to financial years 2015-2019, filed by the Company on 29th December 2015, for access to the incentivised tax regime related to earnings attributable to certain intangible assets (the "patent box") pursuant to Article 1, paragraphs 37-44, of Italian law no. 190 of 23rd December 2014.

## RELATED PARTY TRANSACTIONS

Reference should be made to the notes to this condensed consolidated interim financial report for a detailed description of related-party transactions conducted in the first half of 2017.

## FINANCIAL RISK MANAGEMENT

Management of financial risk is outlined in detail in the section "Other information" within the notes, to which the reader is referred.

## SIGNIFICANT EVENTS AFTER 30TH JUNE 2017

On 20th July 2017, Brunello Cucinelli S.p.A. completed the acquisition of a minority interest in the Chinese subsidiary Brunello Cucinelli (Sichuan) Fashion Co. Ltd., bringing the total share held to 100.0%. The purchase price was set at a value corresponding to the equity value of the subsidiary.

## BUSINESS OUTLOOK

We are particularly pleased with our company's performance in the first half of the year, with both revenues and earnings posting great growth. Sales for the winter collections are going very well. As such, we expect that 2017 will deliver double digit growth in terms of both sales and margins.

New orders for Summer 2018 have been very encouraging and are now winding down. The reception for the collections has been particularly positive, and the allure of the brand appears strong. We will be watching these aspects with great care and remain very optimistic for 2018.

**Cav. Lav. Brunello Cucinelli**
Chairman of the Board of Directors
and Chief Executive Officer

# ACCOUNTING SCHEDULES AT 30TH JUNE 2017

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 30TH JUNE 2017

| *(In thousands of euro)* | NOTE | 30th June 2017 | of which with related parties | 31st December 2016 | of which with related parties | 30th June 2016 | of which with related parties |
|---|---|---|---|---|---|---|---|
| **Non-current assets** | | | | | | | |
| Goodwill | 1 | 7,045 | | - | | - | |
| Intangible assets | 2 | 26,540 | | 28,823 | | 30,510 | |
| Property, plant and equipment | 3 | 113,229 | 15,903 | 111,348 | 16,100 | 109,633 | 15,463 |
| Other non-current financial assets | 4 | 7,142 | 32 | 5,740 | 32 | 5,476 | 32 |
| Deferred tax assets | 24 | 17,653 | | 15,709 | | 16,614 | |
| **Total non-current assets** | | **171,609** | | **161,620** | | **162,233** | |
| **Current assets** | | | | | | | |
| Inventories | 5 | 158,556 | | 154,814 | | 154,701 | |
| Trade receivables | 6 | 54,396 | 4 | 47,231 | 24 | 63,060 | 10 |
| Tax receivables | 7 | 1,176 | | 1,986 | | 1,241 | |
| Other receivables and other current assets | 8 | 13,691 | | 14,693 | | 11,745 | |
| Other current financial assets | 9 | 1,990 | | 1,980 | | 58 | |
| Cash and cash equivalents | 10 | 50,005 | | 46,428 | | 42,222 | |
| Current assets - derivative financial instruments | 11 | 5,767 | | 932 | | 1,424 | |
| **Total current assets** | | **285,581** | | **268,064** | | **274,451** | |
| Non-current assets held for sale | 12 | - | | 210 | | - | |
| **Total assets** | | **457,190** | | **429,894** | | **436,684** | |

| *(In thousands of euro)* | NOTE | 30th June 2017 | of which with related parties | 31st December 2016 | of which with related parties | 30th June 2016 | of which with related parties |
|---|---|---|---|---|---|---|---|
| **Equity** | | | | | | | |
| **Equity attributable to shareholders of parent company** | | | | | | | |
| Share capital | 13 | 13,600 | | 13,600 | | 13,600 | |
| Share premium reserve | 13 | 57,915 | | 57,915 | | 57,915 | |
| Other reserves | 13 | 138,316 | | 111,031 | | 110,738 | |
| Profit attributable to shareholders of parent company | | 19,580 | | 36,397 | | 16,217 | |
| **Total equity attributable to shareholders of parent company** | | **229,411** | | **218,943** | | **198,470** | |
| **Equity attributable to non-controlling interests** | | | | | | | |
| Capital and reserves attributable to non-controlling interests | 13 | 7,636 | | 6,217 | | 5,967 | |
| Net profit (loss) attributable to non-controlling interests | 13 | 272 | | 722 | | (192) | |
| **Total equity attributable to non-controlling interests** | | **7,908** | | **6,939** | | **5,775** | |
| **Total equity** | | **237,319** | | **225,882** | | **204,245** | |
| **Non-current liabilities** | | | | | | | |
| Liabilities for employee benefits | 14 | 3,080 | | 3,065 | | 3,209 | |
| Provisions for risks and charges | 15 | 804 | | 659 | | 607 | |
| Non-current bank debt | 16 | 55,063 | | 37,567 | | 45,125 | |
| Non-current financial payables | 17 | 1,718 | | 1,921 | | 1,792 | |
| Other non-current liabilities | 18 | 9,445 | | 8,017 | | 7,780 | |
| Deferred tax liabilities | 24 | 3,079 | | 2,519 | | 2,512 | |
| Non-current liabilities - derivative financial instruments | 11 | 72 | | 252 | | 487 | |
| **Total non-current liabilities** | | **73,261** | | **54,000** | | **61,512** | |
| **Current liabilities** | | | | | | | |
| Trade payables | 19 | 61,932 | 216 | 63,356 | 291 | 62,525 | 901 |
| Current bank debt | 20 | 53,489 | | 58,452 | | 72,910 | |
| Current financial payables | 21 | 698 | | 772 | | 1,213 | |
| Tax payables | 22 | 4,388 | | 1,104 | | 9,992 | |
| Current liabilities - derivative financial instruments | 11 | 417 | | 4,258 | | 2,112 | |
| Other current liabilities | 23 | 25,686 | 48 | 22,070 | 45 | 22,175 | 49 |
| **Total current liabilities** | | **146,610** | | **150,012** | | **170,927** | |
| **Total liabilities** | | **219,871** | | **204,012** | | **232,439** | |
| **Total equity and liabilities** | | **457,190** | | **429,894** | | **436,684** | |

# CONSOLIDATED INCOME STATEMENT AT 30TH JUNE 2017

| *(In thousands of euro)* | | 1st half, ending on 30th June | | | |
|---|---|---|---|---|---|
| | NOTE | 2017 | of which with related parties | 2016 | of which with related parties |
| Net revenues | 25 | 243,327 | 7 | 219,840 | 12 |
| Other operating income | 25 | 1,176 | 15 | 493 | 20 |
| **Revenue from sales and services** | | **244,503** | | **220,333** | |
| Costs for raw materials and consumables | 26 | (37,919) | (4) | (33,336) | (8) |
| Costs for services | 27 | (117,880) | (1,408) | (108,383) | (1,557) |
| Payroll costs | 28 | (43,392) | (251) | (40,539) | (274) |
| *of which non-recurring costs* | | - | | *(1,293)* | |
| Other operating costs | 29 | (2,557) | | (2,262) | |
| Own work capitalized | 30 | 697 | | 482 | |
| Depreciation | 31 | (10,567) | | (9,558) | |
| Value adjustments to assets and other provisions | 32 | (1,860) | | (811) | |
| **Total operating costs** | | **(213,478)** | | **(194,407)** | |
| **Operating profit (loss)** | | **31,025** | | **25,926** | |
| Financial expense | 33 | (13,115) | | (11,307) | |
| Financial income | 34 | 10,079 | | 9,499 | |
| **Pre-tax profit (loss)** | | **27,989** | | **24,118** | |
| Income taxes | 24 | (8,137) | | (8,093) | |
| **Profit for the period** | | **19,852** | | **16,025** | |
| Net profit (loss) attributable to parent's shareholders | 13 | 19,580 | | 16,217 | |
| Net profit (loss) attributable to non-controlling interests | 13 | 272 | | (192) | |
| Basic earnings per share | 35 | 0.28794 | | 0.23849 | |
| Diluted earnings per share | 35 | 0.28794 | | 0.23849 | |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME AT 30TH JUNE 2017

| *(In thousands of euro)* | | 1st half, ending on 30th June | |
|---|---|---|---|
| | NOTE | 2017 | 2016 |
| **Net profit (loss) for the year (A)** | | **19,852** | **16,025** |
| *Other items of comprehensive income:* | | | |
| **Other items of comprehensive income that will later be reclassified on the income statement:** | | **1,419** | **1,204** |
| *Cash flow hedges* | 13 | 6,354 | 1,654 |
| Tax effect | 13 | (1,525) | (466) |
| **Effect of changes in cash flow hedge reserve** | **13** | **4,829** | **1,188** |
| Translation differences on foreign financial statements | | (2,523) | 16 |
| Profit (Loss) on exchange differences from net investments in foreign operations | | (1,166) | - |
| Tax effect | | 279 | - |
| **Other items of comprehensive income that will not later be reclassified on the income statement:** | **13** | **(18)** | **(119)** |
| Remeasurement of defined benefit plans (IAS 19) | | (18) | (159) |
| Tax effect | | - | 40 |
| **Total other comprehensive income net of tax effect (B)** | | **1,401** | **1,085** |
| **Total comprehensive income net of tax (A) + (B)** | | **21,253** | **17,110** |
| *Attributable to:* | | | |
| Shareholders of parent company | | 21,347 | 17,502 |
| Non-controlling interests | | (94) | (392) |

# CONSOLIDATED CASH FLOW STATEMENT AT 30TH JUNE 2017

| *(In thousands of euro)* | | 1st half, ending on 30th June | |
|---|---|---|---|
| | NOTE | 2017 | 2016 |
| **Cash flows from operating activities** | | | |
| Net profit for the year | 13 | 19,852 | 16,025 |
| *Adjustments to reconcile net profit to cash flows from operating activities:* | | | |
| Depreciation | 31 | 10,567 | 9,558 |
| Allocation to provisions for employee benefits | | 32 | 33 |
| Allocation to provisions for risks and charges / inventory obsolescence / bad debts | | 1,858 | 883 |
| Changes in other non-current liabilities | | 2,100 | 431 |
| Losses (gains) on disposal of fixed assets | | 138 | 76 |
| Payments from provision for employee benefits | | (44) | (16) |
| Payments from provisions for risks and charges | | (295) | - |
| Net change in deferred tax assets and liabilities | | (2,970) | (1,229) |
| Change in fair value of financial instruments | | (2,502) | (804) |
| *Changes in operating assets and liabilities:* | | | |
| Trade receivables | 6 | (5,970) | (17,775) |
| Inventories | 5 | (7,218) | (10,258) |
| Trade payables | 19 | 3,394 | (6,268) |
| Other current assets and liabilities | | 7,577 | 13,683 |
| **Net cash from (for) operating activities (A)** | | **26,519** | **4,339** |
| **Cash flows from investing activities** | | | |
| Investments in property, plant and equipment | 3 | (12,106) | (15,868) |
| Investments in intangible assets | 2 | (1,404) | (2,110) |
| Investments in financial assets | 4 | (1,253) | 119 |
| *Disposal of property, plant and equipment and key money* | | 348 | 245 |
| Acquisition of Brunello Cucinelli RUS, net of cash acquired | | (8,334) | - |
| Available-for-sale assets. | 12 | - | 765 |
| **CASH FLOWS FROM (FOR) INVESTING ACTIVITIES (B)** | | **(22,749)** | **(16,849)** |
| **Cash flows from (for) financing activities** | | | |
| Long-term loans received | | 35,000 | - |
| Repayment of long-term loans | | (9,504) | (7,828) |
| Drawdowns/(Repayments) of short-term loans | | (26,591) | 402 |
| Net change in short-term loans | | 13,945 | 23,599 |
| Net change in long-term loans | | (632) | 30 |
| Dividends paid | | (10,905) | (8,889) |
| Change in shareholders' equity | | - | (784) |
| **NET CASH FROM (FOR) FINANCING ACTIVITIES (C)** | | **1,313** | **6,530** |
| **TOTAL CASH FLOWS (D=A+B+C)** | | **5,083** | **(5,980)** |
| **EFFECT OF EXCHANGE RATES ON CASH AND CASH EQUIVALENTS (E)** | | **(1,506)** | **127** |
| **CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR (F)** | 10 | **46,428** | **48,075** |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (G=D+E+F)** | 10 | **50,005** | **42,222** |
| Additional information: | | | |
| Interest paid | | 1,069 | 966 |
| Income tax paid | | 6,756 | 473 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AT 30TH JUNE 2017

| *(In thousands of euro)* | NOTE | Share capital | Legal reserve | Share premium reserve | Additional paid-in capital | Reserves translation | Other reserves | Profit for the period | Total equity attributable to shareholders of parent company | Total equity attributable to non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at 1st January 2017** | 13 | **13,600** | **2,720** | **57,915** | **-** | **3,329** | **104,982** | **36,397** | **218,943** | **6,939** | **225,882** |
| Profit for the period | | | | | | | | 19,580 | 19,580 | 272 | 19,852 |
| Other profits (losses) | | | | | | (3,042) | 4,809 | | 1,767 | (366) | 1,401 |
| **Total comprehensive income** | | **-** | **-** | **-** | **-** | **(3,042)** | **4,809** | **19,580** | **21,347** | **(94)** | **21,253** |
| Allocation of profit for the period | 13 | | | | | | 36,397 | (36,397) | - | - | - |
| Dividends paid | 13 | | | | | | (10,880) | | (10,880) | (25) | (10,905) |
| Changes in consolidation scope: acquisition 62% OOO Brunello Cucinelli RUS | | | | | | | | | | 1,088 | 1,088 |
| Other changes | | | | | | | 1 | | 1 | - | 1 |
| **Balance at 30th June 2017** | 13 | **13,600** | **2,720** | **57,915** | **-** | **287** | **135,309** | **19,580** | **229,411** | **7,908** | **237,319** |

| *(In thousands of euro)* | Share capital | Legal reserve | Share premium reserve | Additional paid-in capital | Reserves translation | Other reserves | Profit for the period | Total equity attributable to shareholders of parent company | Total equity attributable to non-controlling interests | Total equity Total liabilities |
|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at 1st January 2016** | **13,600** | **2,720** | **57,915** | **-** | **2,515** | **80,145** | **33,338** | **190,233** | **6,545** | **196,778** |
| Profit for the period | | | | | | | 16,217 | 16,217 | (192) | 16,025 |
| Other profits (losses) | | | | | 205 | 1,080 | | 1,285 | (200) | 1,085 |
| **Total comprehensive income** | **-** | **-** | **-** | **-** | **205** | **1,080** | **16,217** | **17,502** | **(392)** | **17,110** |
| Allocation of profit for the period | | | | | | 33,338 | (33,338) | - | - | - |
| Dividends paid | | | | | | (8,840) | | (8,840) | (49) | (8,889) |
| Change in consolidation scope and common control transactions | | | | | | (455) | | (455) | (329) | (784) |
| Other changes | | | | | | 30 | | 30 | - | 30 |
| **Balance at 30th June 2016** | **13,600** | **2,720** | **57,915** | **-** | **2,720** | **105,298** | **16,217** | **198,470** | **5,775** | **204,245** |

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT

# 1. BASIS OF PREPARATION

## 1.1 CONTENT AND FORMAT OF CONSOLIDATED FINANCIAL STATEMENTS

The condensed consolidated interim financial report was prepared pursuant to article 154-ter of Legislative Decree no. 58 of 24th February 1998 (TUF), as amended, and was submitted for approval by the Directors on 29th August 2017.

The condensed consolidated interim financial report at 30th June 2017 includes the consolidated statement of financial position, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated cash flow statement, the consolidated statement of changes in equity, and these notes.

The consolidated schedules provide the equity figures from the financial statements at 31st December 2016 and the consolidated economic figures at 30th June 2016, for comparative purposes. The currency used is the euro and all values are rounded to thousands of euro unless otherwise stated.

The items in the consolidated statement of financial position are presented in order of liquidity, where:

– non-current assets reflect items that are typically realized after twelve months and include intangible assets, property, plant and equipment and financial assets;
– current assets include items that are typically realized within twelve months;
– non-current liabilities consist of items falling due after twelve months, including borrowings, provisions and the employees’ termination indemnity (TFR);
– current liabilities include payables falling due within twelve months, including the short-term portion of long-term loans, provisions and the employees’ termination indemnity (TFR).

The format for the consolidated income statement classifies costs by the nature of the expense. The consolidated cash flow statement was prepared using the indirect method and is presented in accordance with IAS 7, classifying cash flows by operating activities, investing activities and financing activities.

As regards CONSOB Resolution no. 15519 of 27th July 2006 and Communication DEM6064293 of 27th July 2006, the financial statements provide information on significant related party transactions for more complete disclosure and the income items arising from non-recurring events or transactions, when significant, are shown separately in the comments provided by management and in the financial disclosures.

## 1.2 STATEMENT OF COMPLIANCE WITH IFRSS

The condensed consolidated interim financial report for the period ended 30th June 2017 was prepared in accordance with the international accounting standard relative to interim financial reports (IAS 34 - Interim Financial Reporting). The condensed consolidated interim financial report does not include all the information required for the annual financial statements; accordingly, it should be read together with the Group’s annual consolidated financial statements for the year ended 31 December 2016, published on the official website www.brunellocucinelli.it in Investor Relations > Financial Reports.

## 2. SCOPE OF CONSOLIDATION

The condensed consolidated interim financial report reflects the financial position, operating performance and cash flows of the parent company Brunello Cucinelli S.p.A. and its Italian and foreign subsidiaries (together identified as the Brunello Cucinelli Group) at 30th June 2017.

The consolidated financial statements have been prepared on the basis of the statements of account of the Company and those of its subsidiaries, adjusted to comply with IFRS.

Control is obtained when the Group is exposed, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. More specifically, the Group has control over an entity if and only if it has all of the following:

- power over the investee (meaning it has existing rights that give it the current ability to direct the relevant activities i.e. the activities that significantly affect the investee's returns);
- exposure, or rights, to variable returns from its involvement with the investee;
- the ability to use its power over the investee to affect the amount of its returns.

If the Group holds less than the majority of the voting rights (or similar rights) it considers all the facts and circumstances relevant for establishing whether it controls an investee, including:

- contractual agreements with other holders of voting rights;
- rights resulting from contractual agreements;
- the Group's voting rights and potential voting rights.

The Group reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. The Group consolidates a subsidiary from the date it gains control until the date it ceases to control that subsidiary. The assets, liabilities, income and expenses of the subsidiary acquired or disposed of during the year are included in the Group's comprehensive income from the date on which it gains control until the date it no longer exerts control over that subsidiary.

All intercompany balances and transactions, including any unrealized profits or losses deriving from transactions with companies of the Brunello Cucinelli Group, are eliminated.

Acquisitions of subsidiaries are recognized under the purchase method, which involves allocation of the cost of the business combination to the fair value of the assets, liabilities, and contingent liabilities acquired at the acquisition date and the inclusion of the result of the acquired company from the acquisition date to the end of the year.

Profits and equity attributable to non-controlling interests represent the part of profit or loss and equity relating to the net assets not held by the parent company's shareholders and are shown in the consolidated income statement, the consolidated statement of comprehensive income and the consolidated statement of financial position separately from profits and equity attributable to the shareholders of the parent company.

At 30th June 2017, the Brunello Cucinelli Group did not hold any investments in associates (associated companies in which the Group holds at least 20% of the voting rights or exercises significant influence, but not control or joint control, over financial and operating policies) or joint ventures (defined as a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control within the meaning of IAS 11). The following table provides summary information on the subsidiaries at 30th June 2017. It contains the company's name, registered office and percentage of share capital held directly and indirectly by the Brunello Cucinelli Group.

| Company name | Registered office | Currency | Share capital currency | Percentage of control | |
|---|---|---|---|---|---|
| | | | | Direct | Indirect |
| Brunello Cucinelli USA, Inc. | Brewster (NY) - USA | US dollar | 1,500 | 100.00% | |
| Brunello Cucinelli Europe S.r.l. | Corciano (PG) - Italy | Euro | 100,000 | 100.00% | |
| Brunello Cucinelli Belgium S.p.r.l. | Brussels - Belgium | Euro | 20,000 | | 100.00% |
| Brunello Cucinelli France S.a.r.l. | Paris - France | Euro | 200,000 | 2.00% | 98.00% |
| Brunello Cucinelli GmbH | Munich - Germany | Euro | 200,000 | 2.00% | 98.00% |
| Cucinelli Holding Co. LLC | Brewster (NY) - USA | US dollar | 1,182,967 | | 70.00% |
| Brunello Cucinelli Retail Spain S.L. | Madrid - Spain | Euro | 200,000 | 5.00% | 95.00% |
| Brunello Cucinelli Suisse S.A. | Lugano - Switzerland | Swiss franc | 223,000 | 1.79% | 87.89% |
| Max Vannucci S.r.l. | Perugia - Italy | Euro | 118,000 | | 75.50% |
| Brunello Cucinelli Japan Co. Ltd. | Tokyo - Japan | Japanese yen | 330,000,000 | 75.00% | |
| Brunello Cucinelli Retail Deutschland GmbH | Munich - Germany | Euro | 200,000 | | 70.00% |
| Brunello Cucinelli Netherlands B.V. | Amsterdam - Holland | Euro | 200,000 | 2.00% | 98.00% |
| Brunello Cucinelli (Sichuan) Fashion Co. Ltd. | Chengdu - China | RMB | 165,000,000 | 70.30% | |
| Brunello Cucinelli Hellas S.A. | Athens - Greece | Euro | 24,000 | | 51.00% |
| Brunello Cucinelli Austria GmbH | Vienna - Austria | Euro | 35,000 | 2.00% | 98.00% |
| Brunello Cucinelli England Ltd. | London - United Kingdom | British pound | 700 | | 100.00% |
| Brunello Cucinelli Hong Kong Ltd. | Hong Kong | Hong Kong dollar | 2,000,000 | 51.00% | |
| Brunello Cucinelli (Macau) Fashion Co. Ltd. | Macau | MOP | 23,567,002 | 98.00% | 2.00% |
| Pinturicchio S.r.l | Carrara (MS) – Italy | Euro | 100,000 | 2.00% | 98.00% |
| Brunello Cucinelli Brasil LTDA | San Paolo - Brazil | BRL | 8,700,000 | 98.00% | 2.00% |
| SAS White Flannel | Cannes - France | Euro | 50,000 | | 70.00% |
| SAM Brunello Cucinelli Monaco | Principality of Monaco | Euro | 150,000 | | 68.67% |
| Brunello Cucinelli Canada Limited | Vancouver - Canada | Canadian dollar | 100 | 70.00% | |
| SAS Brunello Cucinelli France Resort | Courchevel - France | Euro | 50,000 | | 70.00% |
| OOO Brunello Cucinelli RUS | Moscow - Russia | Russian ruble | 15,000,000 | 62.00% | |

During the first half of 2017, the scope of consolidation changed as a result of the business combination transaction that involved the company "OOO Perugia", which subsequently changed its name to "OOO Brunello Cucinelli RUS". For details on the transaction, please refer to the section "Business Combinations" of these notes.

# 3. ACCOUNTING STANDARDS

## 3.1 INTRODUCTION

The condensed consolidated interim financial report at 30th June 2017 was prepared in compliance with IAS 34 Interim Financial Reporting and was approved by the Board of Directors on 29 August 2017.

## 3.2 BASIS OF PREPARATION

The condensed consolidated interim financial report at 30th June 2017, prepared pursuant to article 154-ter of Legislative Decree no. 58, as amended, as well as the Issuers' Regulations published by CONSOB, was prepared in accordance with the International Financial Reporting Standards (IAS/IFRS), adopted by the European Union and, in particular, in accordance with the applicable standards for interim financial reporting (IAS34).

The condensed consolidated interim financial report does not provide all the information required for the consolidated annual financial statements. Hence, it is necessary to read the condensed consolidated interim financial report together with the consolidated financial statements at 31st December 2016, which are also available on the website.

The accounting standards used in preparing the condensed consolidated interim financial report are the same as those used to prepare the consolidated financial statements at 31st December 2016, with the exception of the adoption of the new standards, amendments and interpretations which took effect as of 1st January 2017. The Group has not adopted any other standards, interpretations or amendments issued, but which are not yet effective. The nature and effects of these changes are outlined below. None of the new standards and amendments applied for the first time in 2017 had a material impact on the Group's consolidated financial statements, nor on the Group's condensed consolidated interim financial report. The nature and impact of each new standard/amendment is listed below.

## 3.2 NEW ACCOUNTING STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE GROUP

It should be noted that no new or revised standards of the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC) were adopted in the preparation of this condensed consolidated interim financial report since no new standards, amendments and interpretations applicable from 1st January 2017 have been approved by the European Union.

## 3.4 ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS THAT HAVE BEEN ISSUED BUT WHICH ARE NOT YET IN FORCE

The paragraphs below illustrate the standards and interpretations that have been issued but which were not effective on the date of preparation of the Group's Consolidated Interim Report, and which the Group believes may lead to an impact on the financial position, results and reporting. The Group intends to adopt these standards when they become effective.

*IFRS 9 Financial Instruments* – IFRS 9 unites three aspects regarding the accounting of financial instruments: classification and measurement, impairment and hedge accounting. IFRS 9 is applicable for the years beginning on or after 1st January 2018; early application is permitted. With the exception of hedge accounting, retrospective application of the standard is required but it is not mandatory to provide comparative disclosures. With regard to hedge accounting, the standard applies prospectively as a general principle, with a few limited exceptions.
The Group will adopt the new standard from its effective date.

*Hedge accounting* - The Group believes that all its current hedging relationships which are currently designated as effective will continue to qualify for hedge accounting in accordance with IFRS 9. Given that IFRS 9 does not amend the general principle whereby a company can book effective hedging relationships, the Group does not anticipate significant impacts from the application of this standard. The Group will evaluate in greater detail in the future whether it should change the way it accounts for the time value of options, forward points and the difference between the interest rates on two different currencies.

*IFRS 15 "Revenue from Contracts with Customers"* – As regards the implementation of the provisions of IFRS 15 "Revenue from Contracts with Customers", work (started in 2016) continued during the first half of 2017 to identify the potential impacts. In particular, on the one hand, we continued mapping the cases likely to be impacted by the principle; on the other hand, for the cases identified, analyses were carried out to identify the effects associated with the application of the new provisions.
Analyses will continue during the second half of the year in order to assess the possible impacts arising from the application of IFRS 15, as well as to identify how the effects should be recognized when the new standards are first adopted, also taking into account the options provided.

*IFRS 16 Leases* - On 13rd January 2016, the IASB published the new accounting standard on Leases which replaces the requirements introduced over 30 years ago, which were no longer considered fit for purpose; this is an important revision to the way in which companies represent leases in their financial statements. The new IFRS 16 will become effective on 1st January 2019 but early application is permitted for companies which also apply IFRS 15 - Revenue from Contracts with Customers. In short, the standard provides for a single accounting model for both finance and operating leases whereby assets are booked at a value equal to the lease payments due over the term of the contract.

## 3.5 DISCRETIONARY ASSESSMENTS AND VALUATIONS AND SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of the consolidated interim financial report requires the Parent Company's directors to make discretionary measurements, estimates and assumptions that affect the amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities at the reporting date. The actual results could differ from these estimates. The main processes used in making such discretionary estimates and measurements relate to the recognition and measurement of the following items.

**Deferred tax assets**

Deferred tax assets are recognized for deductible temporary differences between the carrying amounts of assets and liabilities in the financial statements and their corresponding tax bases and unused tax losses to the extent that it is probable that sufficient taxable profit will be available against which these losses can be utilized. A discretionary assessment is required by the directors to determine the amount of deferred tax assets that can be recognized, which is based on an estimate of the likely timing and amount of future taxable profits.

**Post-employment benefits (the employees' termination indemnity or "TFR") and the agents' supplementary termination indemnity provision**

Post-employment benefits and the agents' supplementary termination indemnity provision for the Group's Italian companies are measured using actuarial valuations. These valuations require assumptions to be made about discount rates, staff turnover and mortality rates. Because of the long-term nature of these plans, these estimates are subject to a significant degree of uncertainty.

**Allowance for doubtful debts**

The allowance for doubtful debts represents management's best estimate, on the basis of information available at the date of preparation of the financial statements, of the amount required to adjust receivables to their expected realizable value.

**Useful lives of tangible and intangible fixed assets and impairment testing**

The depreciation and amortization of property, plant and equipment and intangible assets with a finite useful life and the forward-looking data used for impairment testing require discretionary estimates to be made by the directors. Such estimates are reviewed at every year end to ensure that the carrying amounts reflect the best estimates of the costs to be incurred by the Group, and in case of significant discrepancies the amounts are revised and updated. Reference should be made to the paragraph "Impairment" below for a discussion of impairment testing.

**Derivatives**

The measurement of derivative instruments recognized as assets and liabilities requires the use of estimates and assumptions. The way in which fair value is determined and the risk inherent in derivative contracts to hedge currency risk and interest rate risk is managed are illustrated in the specific paragraph on "Derivative instruments" of these notes. The estimates and assumptions considered are reviewed constantly and the effects of any changes are recognized immediately.

Estimates and assumptions are made by directors with the support of the company functions and, where appropriate, of independent professionals, and are reviewed from time to time.

## 3.6 TRANSLATION OF FINANCIAL STATEMENTS IN A CURRENCY OTHER THAN THE EURO AND OF ITEMS IN FOREIGN CURRENCY

The condensed consolidated interim financial report is presented in euro, the functional and presentation currency adopted by the Company. Each Group entity establishes its own functional currency, which it uses to measure the items included in the individual financial statements. Transactions in foreign currency are initially recognized at the exchange rate (referring to the functional currency) at the transaction date. Monetary assets and liabilities denominated in foreign currency are translated to the functional currency at the exchange rate ruling at the balance sheet date.

All exchange differences are recognized in profit or loss.

Non-monetary items, measured at historic cost in foreign currency, are translated at the exchange rates at the date of the initial recognition of the transaction.

The financial statements of foreign companies being consolidated are translated into euro using the current exchange rate method by which balance sheet items are translated using the exchange rate at the balance sheet date and income statement items are translated using the average exchange rate for the year.

Exchange differences arising from translation are recognized directly in equity and presented in a separate reserve.

On the sale of a foreign company, the cumulative exchange differences in equity are recognized in profit or loss.

The following table shows the exchange rates used for calculating the amounts in euro that are expressed in foreign currency in the financial statements of subsidiaries (currency amount per euro):

| | Average exchange rates | | Closing exchange rates | | |
|---|---|---|---|---|---|
| | 30th June 2017 | 30th June 2016 | 30th June 2017 | 31st December 2016 | 30th June 2016 |
| US dollar | 1.083022 | 1.115937 | 1.1412 | 1.0541 | 1.1102 |
| Swiss franc | 1.076638 | 1.096048 | 1.093 | 1.0739 | 1.0867 |
| Japanese yen | 121.780393 | 124.413622 | 127.75 | 123.4 | 114.05 |
| RMB | 7.444833 | 7.296455 | 7.7385 | 7.3202 | 7.3755 |
| British pound | 0.86059 | 0.778769 | 0.87933 | 0.85618 | 0.8265 |
| Hong Kong dollar | 8.419925 | 8.668402 | 8.9068 | 8.1751 | 8.6135 |
| Real | 3.443113 | 4.129549 | 3.76 | 3.4305 | 3.5898 |
| Canadian dollar | 1.445293 | 1.48442 | 1.4785 | 1.4188 | 1.4384 |
| RUB | 62.78037 | - | 67.5449 | - | - |

## 3.7 SEASONAL OR CYCLICAL ASPECTS OF INTERIM TRANSACTIONS

The Brunello Cucinelli Group carries out business which during the course of the year, although not subject to significant seasonal or cyclical trends in terms of total annual sales, suffers from a lack of perfect homogeneity during the various months of the year in terms of the flow of revenues and costs deriving from industrial activities. In addition, the market in which the Group operates is affected by the typical seasonal nature of retail sales.
For these reasons, analysis of interim results and economic, equity and financial benchmarks cannot be considered to be entirely representative, and it would be erroneous to consider benchmark figures for the half as strictly proportional to the full financial year. See also the Report on Operations for a further description of the seasonality phenomenon.

## 3.8 OPERATING SEGMENTS

For the purposes of IFRS 8 “Operating segments”, the Group’s business is conducted in a single operating segment.

# 4. BUSINESS COMBINATIONS

**Acquisition of a controlling interest in "OOO Perugia"**

On 2nd March 2017, the Company purchased from Mrs. Victoria Vasilievna Saava – head of the Cashmere & Silk group, with which the Brunello Cucinelli Group has had business relationships for twenty years – a 62% equity interest in "Perugia" OOO, a limited liability company organised under the laws of Russia that operates a boutique in a city street and three boutiques in Moscow's most prestigious malls. Following the acquisition, the monobrand stores are transferred from the wholesale monobrand channel to the retail monobrand channel.

The purchase price was €8,820 thousand. The remaining shares continues to be held by Ms. Victoria Vasilievna Saava.

The fair value of the assets and liabilities of Perugia OOO, on the date of acquisition were:

| *(In thousands of euro)* | **Fair value recognised at the acquisition date** |
|---|---|
| Property, plant and equipment | 22 |
| Other non-current financial assets | 263 |
| **TOTAL NON-CURRENT ASSETS** | **285** |
| Inventories | 2,454 |
| Trade receivables | 1,383 |
| Other receivables and current assets | 205 |
| Cash and Cash equivalents | 486 |
| **TOTAL CURRENT ASSETS** | **4,528** |
| **TOTAL ASSETS** | **4,813** |
| Non-current financial payables | 584 |
| **TOTAL NON-CURRENT LIABILITIES** | **584** |
| Trade payables | 1,189 |
| Tax payables | 77 |
| Other current liabilities | 98 |
| **TOTAL NON-CURRENT LIABILITIES** | **1,364** |
| **TOTAL LIABILITIES** | **1,948** |
| **FAIR VALUE OF TOTAL NET IDENTIFIABLE ASSETS** | **2,865** |
| MINORITY INTEREST (38% fair value of total net identifiable assets) | **(1,088)** |
| **GOODWILL ARISING ON ACQUISITION** | **7,045** |
| **Acquisition price:** | |
| Consideration paid | 8,820 |
| Debt | - |
| **Analysis of cash flows from the acquisition:** | |
| Net cash acquired with the business (included in cash flows from investing activities) | 486 |
| Consideration paid | (8,820) |
| **NET CASH FLOW FROM THE ACQUISITION** | **(8,334)** |

The goodwill arising from the acquisition, in the amount of €7,045 thousand, represents the excess of purchase consideration over fair value of the Group's share of net identifiable assets of the acquired company on the acquisition date.
This value is tested for impairment at least once a year and recognised at cost net of impairment losses.
The goodwill is not deductible for tax purposes and mainly reflects the synergies stemming from this acquisition and the resulting expected profits.

# 5. COMMENTS ON THE MAIN ITEMS OF THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

## Note 1. Goodwill

The composition of goodwill at 30th June 2017 with comparative figures at 31st December 2016 is as follows:

| *(In thousands of euro)* | 30th June 2017 | 31st December 2016 | Change |
|---|---|---|---|
| Goodwill | 7,045 | - | 7,045 |
| **Total goodwill** | **7,045** | **-** | **7,045** |

Goodwill at 30th June 2017, amounted to €7,045 thousand and is mainly due to the business combination that took place during this half of the year for the acquisition of 62% of the company OOO Perugia, which subsequently changed its name to OOO Brunello Cucinelli RUS.
Please see the above paragraph "Business combinations" for details on this transaction.

Changes in the net book value of the item Goodwill during the half ended at 30th June 2017, are shown below:

| *(In thousands of euro)* | Goodwill | Total goodwill |
|---|---|---|
| **Balance at 1st January 2017** | **-** | **-** |
| Purchases | - | - |
| Net decreases | - | - |
| Translation differences | - | - |
| Value adjustments | - | - |
| Reclassifications | - | - |
| Change in the scope of consolidation | 7,045 | 7,045 |
| Amortization | - | - |
| **Balance at 30th June 2017** | **7,045** | **7,045** |

**Note 2. Intangible assets**

The composition of intangible assets at 30th June 2017 with comparative figures at 31st December 2016 is as follows:

| *(In thousands of euro)* | 30th June 2017 | 31st December 2016 | Change |
|---|---|---|---|
| Concessions, licenses, trademarks and similar rights | 5,660 | 5,525 | 135 |
| Key money | 20,756 | 23,137 | (2,381) |
| Other intangible assets | 124 | 161 | (37) |
| Assets under construction and advances | - | - | - |
| **Total intangible assets** | **26,540** | **28,823** | **(2,283)** |

Details of historical cost, accumulated amortization and the net book value of intangible assets at 30th June 2017 with comparative figures at 31st December 2016 are as follows:

| *(In thousands of euro)* | 30th June 2017 | | | 31st December 2016 | | |
|---|---|---|---|---|---|---|
| | Historical cost | Aksum. depn. | Net book value | Cost | Accum. depn. | Net book value |
| Concessions, licenses, trademarks and similar rights | 13,717 | (8,057) | 5,660 | 12,441 | (6,916) | 5,525 |
| Key money | 40,065 | (19,309) | 20,756 | 40,314 | (17,177) | 23,137 |
| Other intangible assets | 757 | (633) | 124 | 758 | (597) | 161 |
| Assets under construction and advances | - | - | - | - | - | - |
| **Total intangible assets** | **54,539** | **(27,999)** | **26,540** | **53,513** | **(24,690)** | **28,823** |

Intangible assets, in the amount €26,540 thousand at 30th June 2017, consisted mainly of the key money paid to obtain the availability under lease arrangements of commercial properties situated in prestigious locations either by taking over existing contracts or by obtaining the withdrawal of the lessees in order to enter new agreements with the lessors.

The following table shows the changes in the net book value of the item Intangible assets during the half ended at 30th June 2017:

| *(In thousands of euro)* | Concessions, licenses, trademarks and similar rights | Key money | Other intangible assets | Assets under construction and advances | Total intangible assets |
|---|---|---|---|---|---|
| **Balance at 1st January 2017** | **5,525** | **23,137** | **161** | **-** | **28,823** |
| Purchases | 1,404 | - | - | - | 1,404 |
| Net decreases | - | - | - | - | - |
| Translation differences | (73) | (68) | - | - | (141) |
| Value adjustments | - | (593) | - | - | (593) |
| Reclassifications | - | - | - | - | - |
| Change in scope of cons. | - | - | - | - | - |
| Amortization | (1,196) | (1,720) | (37) | - | (2,953) |
| **Balance at 30th June 2017** | **5,660** | **20,756** | **124** | **-** | **26,540** |

Investments during the first half came to €1,404 relating to the item "concessions, licenses, trademarks and similar rights" for the project to update Information Technology and IT/Digital systems.

The "Value adjustments", in the amount of €593 thousand, made during the first half of 2017, refer to the write-down to reflect the recoverable amount of Intangible Assets as at 30th June 2017.

There was no indication during the accounting period that any intangible assets were further impaired.

## Note 3. Property, plant and equipment

The composition of property, plant and equipment at 30th June 2017 with comparative figures at 31st December 2016 is as follows:

| *(In thousands of euro)* | 30th June 2017 | 31st December 2016 | Change |
|---|---|---|---|
| Land | 4,055 | 4,055 | - |
| Buildings | 43,451 | 43,511 | (60) |
| Leasehold improvements | 47,147 | 43,272 | 3,875 |
| Plant and machinery | 3,547 | 3,693 | (146) |
| Industrial and commercial equipment | 2,063 | 2,090 | (27) |
| Historical collection | 2,810 | 2,534 | 276 |
| Other assets | 9,368 | 9,021 | 347 |
| Assets under construction and advances | 788 | 3,172 | (2,384) |
| **Total property, plant and equipment** | **113,229** | **111,348** | **1,881** |

Details of historical cost, accumulated depreciation and the net book value of property, plant and equipment at 30th June 2017 with comparative figures at 31st December 2016 are as follows:

| *(In thousands of euro)* | 30th June 2017 | | | 31st December 2016 | | |
|---|---|---|---|---|---|---|
| | Historical cost | Accum. depn. | Net book value | Cost | Accum. depn. | Net book value |
| Land | 4,055 | - | 4,055 | 4,055 | - | 4,055 |
| Buildings | 50,334 | (6,883) | 43,451 | 49,653 | (6,142) | 43,511 |
| Leasehold improvements | 80,360 | (33,213) | 47,147 | 73,312 | (30,040) | 43,272 |
| Plant and machinery | 10,807 | (7,260) | 3,547 | 10,746 | (7,053) | 3,693 |
| Industrial and commercial equipment | 5,602 | (3,539) | 2,063 | 5,112 | (3,022) | 2,090 |
| Historical collection | 2,810 | - | 2,810 | 2,534 | - | 2,534 |
| Other assets | 19,536 | (10,168) | 9,368 | 18,335 | (9,314) | 9,021 |
| Assets under construction and advances | 788 | - | 788 | 3,172 | - | 3,172 |
| **Total property, plant and equipment** | **174,292** | **(61,063)** | **113,229** | **166,919** | **(55,571)** | **111,348** |

Changes in the net book value of property, plant and equipment for the period ending at 30th June 2017 were as follows:

| *(In thousands of euro)* | **Land** | **Buildings** | **Leasehold improvements** | **Plant and machinery** | **Industrial and commercial equipment** | **Historical collection** | **Other assets** | **Assets under construction and advances** | **Total property, plant and equipment** |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at 1st January 2017** | **4,055** | **43,511** | **43,272** | **3,693** | **2,090** | **2,534** | **9,021** | **3,172** | **111,348** |
| Purchases | - | 681 | 7,829 | 462 | 645 | 276 | 1,850 | 421 | **12,164** |
| Net decreases | - | - | (29) | (107) | (16) | - | (134) | - | **(286)** |
| Translation differences | - | - | (1,605) | (23) | (20) | - | (243) | (54) | **(1,945)** |
| Change in the scope of consolidation | - | - | 19 | - | - | - | - | 3 | **22** |
| Value adjustments | - | - | (428) | - | - | - | - | (43) | **(471)** |
| Reclassifications | - | - | 2,484 | 9 | - | - | 218 | (2,711) | **-** |
| Depreciation | - | (741) | (4,395) | (487) | (636) | - | (1,344) | - | **(7,603)** |
| **Balance at 30th June 2017** | **4,055** | **43,451** | **47,147** | **3,547** | **2,063** | **2,810** | **9,368** | **788** | **113,229** |

In the first half of 2017, the Brunello Cucinelli Group made investments in property, plant and equipment for €12,186 thousand, consisting mainly of the following:

– investments for the opening of new directly operated stores and wholesale monobrand stores and for improvements made to these in the amount of €9,426 thousand, of which €7,810 thousand recognised under the item “leasehold improvements”, €936 thousand under the item “other assets”, €368 thousand under the item “industrial and commercial equipment”, €66 thousand under the item “plant and machinery”, €246 thousand under the item “assets under construction and advances”;
– investments for €2,760 thousand, mainly related to the project to upgrade the Information Technology systems and for the purchase of furniture and fittings, new machinery and vehicles;

During the period, there were no indication of impairment for property, plant and equipment.

## Note 4. Other non-current financial assets

The composition of other non-current financial assets at 30th June 2017 with comparative figures at 31st December 2016 is as follows:

| *(In thousands of euro)* | 30th June 2017 | 31st December 2016 | Change |
|---|---|---|---|
| Guarantee deposits | 7,142 | 5,740 | 1,402 |
| **Total other non-current financial assets** | **7,142** | **5,740** | **1,402** |

Other non-current financial assets consist of guarantee deposits which mainly relate to amounts paid by the Brunello Cucinelli Group on signing lease agreements for monobrand stores.
The change during the half include an amount of €1,574 thousand for the increase from new payments made by the Group, an amount of €263 thousand for the increase generated by the change in scope of consolidations relating to OOO Brunello Cucinelli RUS, an amount of €321 for the decrease from repayments obtained during the period, an amount of €341 thousand due to the negative change in the balance due to exchange rate effects on deposits held in foreign currency, and an amount of €227 thousand due to the increase generated by the discounting of balances as of the reporting date for this Interim Report.

## Note 5. Inventories

The composition of inventories at 30th June 2017 with comparative figures at 31st December 2016 is as follows:

| *(In thousands of euro)* | 30th June 2017 | 31st December 2016 | Change |
|---|---|---|---|
| Raw materials and consumables | 28,327 | 28,661 | (334) |
| Work in progress and semi-finished goods | 5,893 | 6,849 | (956) |
| Finished goods and merchandise | 124,336 | 119,304 | 5,032 |
| **Total inventories** | **158,556** | **154,814** | **3,742** |

The increase in inventories, as reflected mainly by finished products, was in essence due to the aforementioned transactions concerning the Russian and Canadian market.
Note that the impact in percentage terms of the item under review to the net revenues of the past 12 months, representing 33.07%, is in line with the figure at 31st December 2016 (33.95%).

The Group does not recognise an inventory obsolescence provision as its stock management policies provide for an efficient process of selling residual items for every season.

Detailed comments on changes in working capital may be found in the report on operations.

### Note 6. Trade receivables

Trade receivables amounted to €54,396 thousand at 30th June 2017, compared with €47,231 thousand at 31st December 2016. Detailed comments on changes in working capital may be found in the report on operations.

Trade receivables represent short-term amounts due for the provision of goods and services.
The amount by which receivables in the financial statements have been written down is a reasonable estimate of the impairment arising from the specific risk of bad debts associated with these receivables.

Changes in the allowance for doubtful debts made during the period of the interim report at 30th June 2017 compared with 31st December 2016 are as follows:

| *(In thousands of euro)* | **30th June 2017** | **31st December 2016** |
|---|---|---|
| **Amount at 1st January** | **1,551** | **1,970** |
| Allocations | 400 | 366 |
| Utilizations | (78) | (785) |
| **Amount at end of period** | **1,873** | **1,551** |

The allocations to and utilizations for the period relative to the allowance for doubtful debts are included under the item "Value adjustments to assets and other provisions" in the income statement.

### Note 7. Tax receivables

Tax receivables at 30th June 2017 with comparative figures at 31st December 2016 are as follows:

| *(In thousands of euro)* | **30th June 2017** | **31st December 2016** | **Change** |
|---|---|---|---|
| IRES corporate income tax receivables | 84 | 1,278 | (1,194) |
| Other tax receivables | 1,092 | 708 | 384 |
| **Total tax receivables** | **1,176** | **1,986** | **(810)** |

Tax receivables amounted to €1,176 thousand at 30th June 2017. Other tax receivables includes €446 thousand for the receivable booked on 31st December 2013 as a result of the filing of an application for the refund of IRES corporate income tax and IRPEF personal income tax, and the related surcharges, paid as a result of the failure to deduct IRAP regional production tax relating to the costs incurred for employees and similar personnel as permitted by the provision of the Tax Revenue Office of 17th December 2012, in application of Art. 2 of Decree Law no. 201 of 2011 (the so-called Monti decree). It also includes €646 thousand in tax credit for several foreign subsidiaries.

**Note 8. Other receivables and current assets**

Other receivables and current assets at 30th June 2017 with comparative figures at 31st December 2016 are as follows:

| *(In thousands of euro)* | 30th June 2017 | 31st December 2016 | Change |
|---|---|---|---|
| VAT receivables | 1,131 | 3,523 | (2,392) |
| Other receivables | 7,216 | 6,387 | 829 |
| Prepayments and accrued income | 4,593 | 3,634 | 959 |
| Advances to suppliers | 539 | 834 | (295) |
| Due from agents | 212 | 315 | (103) |
| **Total other receivables and current assets** | **13,691** | **14,693** | **(1,002)** |

VAT receivables amounted to €1,131 thousand at 30th June 2017 compared to €3,523 thousand at 31 December 2016, and €1,759 thousand at 30th June 2016. The amount mainly relates to the VAT credit recognised by the Group's subsidiaries.

Other receivables amounted to €7,216 thousand at 30th June 2017, compared to €6,387 thousand at 31 December 2016, and €5,903 thousand at 30 June 2016. The items mainly consist of balances settled by credit cards before the end of the period for which payment has not yet been credited to the relevant bank accounts.

Prepayments and accrued income mostly arise from payments made in advance for rents and insurance premiums, as well as payments made in advance for catalogues for the fall/winter collection, which will be delivered in the following half year.

Advances to suppliers principally regard *façonisti*, the outsourced producers of the Brunello Cucinelli Group's products.

## Note 9. Other current financial assets

Other current financial assets amounted to €1.990 thousand at 30th June 2017.

| *(In thousands of euro)* | 30th June 2017 | 31st December 2016 | Change |
|---|---|---|---|
| Financial receivables | 31 | 16 | 15 |
| Short-term financial instruments | 1,959 | 1964 | (5) |
| **Total other current financial assets** | **1,990** | **1,980** | **10** |

The amount includes €1,959 thousand for financial instruments held in portfolio and the remainder (€31 thousand) for accrued income on outstanding loans at period end. Financial instruments are held for trading and consist of long-term Italian government bonds.

## Note 10. Cash and Cash equivalents

Cash and cash equivalents at 30th June 2017 together with comparative figures at 31st December 2016 were as follows:

| *(In thousands of euro)* | 30th June 2017 | 31st December 2016 | Change |
|---|---|---|---|
| Bank and post office deposits | 49,494 | 45,543 | 3,951 |
| Cash and cheques | 511 | 885 | (374) |
| **Total cash and cash equivalents** | **50,005** | **46,428** | **3,577** |

The above values can be readily converted into cash and are subject to an insignificant risk of change in value. The Brunello Cucinelli Group believes that the credit risk related to cash and cash equivalents is limited because this item refers mainly to deposits in various major domestic and foreign banks.
Reference should be made to the cash flow statement for details of the sources and applications that generated changes in cash and cash equivalents as of 30th June 2017, with respect to the previous interim period.

**Note 11. Derivatives**

The Brunello Cucinelli Group enters into certain derivative contracts to hedge the interest rate risk on its bank debt and the foreign exchange risk on sales made in currencies other than the euro.

The Company takes these contracts out solely for hedging purposes, as the Group's financial management policy does not permit trading in financial instruments for speculative purposes. Derivative financial instruments meeting the requirements of international accounting standards are accounted for using hedge accounting. Changes in the fair value of derivative financial instruments not qualifying for hedge accounting under international accounting standards are recognized in profit or loss in the relevant reporting period.

The interest rate and currency derivatives used by the Company are over the counter (OTC) instruments, i.e. they are traded bilaterally with market counterparties, and the determination of the relative current value is based on valuation techniques that use observable input parameters (such as rate curves, foreign exchange rates, etc.) as a reference market (level 2 of the fair value hierarchy included in IFRS 7).

The following is noted for outstanding financial instruments at 30th June 2017:
– all financial instruments at fair value form part of Level 2 (the same situation existed in 2016);
– there were no transfers from Level 1 to Level 2 or vice versa in 2017;
– there were no transfers from Level 3 to other levels or vice versa in 2017.

Derivatives are measured by taking as a reference the interest rates and yield curves observable at commonly quoted intervals.

Details of the composition of "current assets - derivative financial instruments" and "current liabilities - derivative financial instruments" at 30th June 2017 are shown below, with comparative figures at 31st December 2016.

| *(In thousands of euro)* | **30th June 2017** | **31st December 2016** | **Change** |
|---|---|---|---|
| Current assets for derivative instruments hedging currency risk | 5,767 | 932 | 4,835 |
| Current assets for derivative instruments hedging interest rate risk: | | | |
| - Current assets for derivative instruments hedging interest rate risk accounted for using hedge accounting | - | - | - |
| - Current assets for derivative instruments hedging interest rate risk not accounted for using hedge accounting | - | - | - |
| **Total current assets - derivative financial instruments** | **5,767** | **932** | **4,835** |
| Current liabilities for derivative instruments hedging currency risk | (29) | (3,858) | 3,829 |
| Current liabilities for derivative instruments hedging interest rate risk: | | | |
| - Current liabilities for derivative instruments hedging interest rate risk accounted for using hedge accounting | (388) | (400) | 12 |
| - Current liabilities for derivative instruments hedging interest rate risk not accounted for using hedge accounting | - | - | - |
| **Total current liabilities - derivative financial instruments** | **(417)** | **(4,258)** | **3,841** |
| Non-current liabilities for derivative instruments hedging currency risk | - | - | - |
| Non-current liabilities for derivative instruments hedging interest rate risk: | | | |
| - Non-current liabilities for derivative instruments hedging interest rate risk accounted for using hedge accounting | (72) | (252) | 180 |
| - Non-current liabilities for derivative instruments hedging interest rate risk not accounted for using hedge accounting | - | - | - |
| **Total non-current liabilities - derivative financial instruments** | **(72)** | **(252)** | **180** |

The contractual features and the relative fair value of derivative financial instruments hedging interest rate risk at 30th June 2017 and 31st December 2016 are as follows:

**Derivative instruments hedging interest rate risk accounted for using hedge accounting**

| *(In thousands of euro)* | 30th June 2017 | | 31st December 2016 | |
|---|---|---|---|---|
| | current portion | non-current portion | current portion | non-current portion |
| Derivative receivables/payables | (388) | (72) | (400) | (252) |
| **IRS Total Fair Value** | **(388)** | **(72)** | **(400)** | **(252)** |

The contractual features and the relative fair value of derivative financial instruments hedging currency risk at 30th June 2017 and 31st December 2016 are as follows:

| *(In thousands of euro)* | Negative fair value | | Positive fair value | |
|---|---|---|---|---|
| | 30th June 2017 | 31st December 2016 | 30th June 2017 | 31st December 2016 |
| Derivative receivables/payables | (29) | (3,858) | 5,767 | 932 |
| **Total Fair Value of foreign exchange forward contracts** | **(29)** | **(3,858)** | **5,767** | **932** |

As required by IFRS 13, a calculation was made of the credit value adjustment and debit value adjustment for the outstanding derivative financial instruments but the result obtained was not material in terms of recognizing the effects in the financial statements.

**Note 12. Non-current assets held for sale**

Non-current assets held for sale were eliminated during the first half of the year. These were recognised at 31st December 2016 after the relocations of several boutiques. The book value on 31st December 2016 was €210 thousand. The depreciation/amortisation expense during the first half of 2017, came to a total of €11 thousand euro, relating to the residual life of assets before their disposal.

**Note 13. Capital and reserves**

Share capital at 30th June 2017 consisted of 68,000,000 fully paid ordinary shares amounting to €13,600 thousand.

Equity at 30th June 2017 came to €237,319 thousand, an increase of €11,437 thousand over 31st December 2016. Changes in equity during the half arose from the total results for the period and the distribution of a dividend of €10,880 thousand approved by the general meeting of the shareholders of the parent Brunello Cucinelli S.p.A. on 20th April 2017.
A dividend of €8,840 thousand was approved in the same period the previous year.

Details of changes in equity at 30th June 2017 and 30th June 2016 can be found in the consolidated statement of changes in equity.

Other shareholders' equity reserves at 30th June 2017 with comparative figures at 31st December 2016 are as follows:

| *(In thousands of euro)* | 30th June 2017 | 31st December 2016 | Change |
|---|---|---|---|
| Legal reserve | 2,720 | 2,720 | - |
| Extraordinary reserve | 140,589 | 113,849 | 26,740 |
| Revaluation reserve | 3,060 | 3,060 | - |
| Cash flow hedge reserve | 3,249 | (1,580) | 4,829 |
| IFRS first-time application reserve | (770) | (770) | - |
| Reserve for actuarial gains/losses | (361) | (341) | (20) |
| Translation reserve | 287 | 3,329 | (3,042) |
| Consolidated retained earnings | (10,458) | (9,236) | (1,222) |
| **Other reserves** | **138,316** | **111,031** | **27,285** |

The item "Translation reserve" reflects the exchange difference resulting from the translation of foreign financial statements expressed in currency other than euro, as well as the exchange difference generated by an intercompany loan (which on 30th June translated to a total of €14,020 thousand), the regulation for which is not planned or is it likely that it will happen in the foreseeable future and, as such, initially classified and accounted for in an item of equity, in compliance with the provisions of IAS 21, par. 15 "net investment in a foreign operation".

## Note 14. Liabilities for employee benefits

This item consists exclusively of the termination indemnity due to employees of the Group's Italian companies as provided by article 2120 of the Italian civil code (the Trattamento di Fine Rapporto or TFR). This liability is discounted to present value by the means described in IAS 19, revised as of 1 January 2013.

The following table shows the changes in liabilities for employee benefits for the period ended 30th June 2017 with comparative figures for 31st December 2016:

| *(In thousands of euro)* | 30th June 2017 | 31st December 2016 |
|---|---|---|
| **Present value of the obligation at the beginning of the period** | **3,065** | **3,033** |
| Revaluation as per article 2120 of the Italian civil code. | 58 | 96 |
| Benefits paid | (44) | (105) |
| Change in consolidation scope | - | - |
| Financial (income) expense | (26) | (27) |
| Actuarial (gains) losses | 27 | (68) |
| **Present value of the obligation at the end of the period** | **3,080** | **3,065** |

The main assumptions used in the calculation of the present value of the Italian employees' termination liability were as follows:

### Financial and assumptions

| | 30th June 2017 | 31st December 2016 |
|---|---|---|
| Annual discount rate | 1.89% | 1.68% |
| Inflation rate | 1.50% | 1.25% |
| Expected staff turnover rate | 8.80% | 8.80% |
| Advances rate | 1.00% | 1.00% |

### Demographic assumptions

| | 30th June 2017 | 31st December 2016 |
|---|---|---|
| Mortality | TABLE RG48 | |
| Retirement age | 65 years | |

### Turnover rate and advances on the employees' termination indemnity

| | 30th June 2017 | 31st December 2016 |
|---|---|---|
| Advances rate % | 1.00% | 1.00% |
| Turnover rate % | 8.80% | 8.80% |

### Workforce

The following table shows the average number of employees by category, expressed in terms of full time equivalent:

| | 30th June 2017 | 31st December 2016 |
|---|---|---|
| Managers and middle managers | 59.4 | 54.1 |
| Office and sales staff | 1,035.1 | 906.3 |
| Factory workers | 475.6 | 479.80 |
| **Total workforce** | **1,570.1** | **1,440.2** |

### Note 15. Provisions for risks and charges

Provisions for risks and charges relate mainly to the agents' supplementary termination indemnity provision, calculated in accordance with Italian legislation (article 1751-bis of the Italian civil code) and discounted to present value as required by IAS 37.

The following table sets out the changes in provisions for risks and charges at 30th June 2017 with comparative figures as of 31st December 2016:

| *(In thousands of euro)* | 30th June 2017 | 31st December 2016 |
|---|---|---|
| **Agents' supplementary termination indemnity provision - 1st January** | **524** | **518** |
| Allocations | 408 | 89 |
| Utilizations | (295) | - |
| Recognized actuarial (gain) / loss | (12) | (83) |
| **Agents' supplementary termination indemnity provision - value at period end** | **625** | **524** |
| Other provisions for risks and charges | 179 | 135 |
| **Total provisions for risks and charges** | **804** | **659** |

The main assumptions used in the actuarial calculation of the agents' supplementary termination indemnity were as follows:

| | 30th June 2017 | 31st December 2016 |
|---|---|---|
| Turnover rate - voluntary | 6.00% | 6.00% |
| Turnover rate - employer initiated | 3.00% | 3.00% |
| Discount rate | 1.79% | 1.55% |

## Note 16. Non-current bank debt

Non-current bank debt includes medium/long-term loans.

The following table provides details of the Brunello Cucinelli Group's outstanding loans at 30th June 2017, showing the portion due within 12 months, within 5 years and after 5 years:

| Description *(In thousands of euro)* | Balance at 30th June 2017 | Amount due next year | Amount due within 5 years | Amount due after 5 years |
|---|---|---|---|---|
| Total medium/long-term loans | 78,359 | 23,296 | 55,063 | - |
| **Total non-current bank debt** | **55,063** | | | |

Note that some loans are subject to financial covenants to be calculated, on an annual basis, on the consolidated financial statements of Brunello Cucinelli S.p.A.

## Net debt

The table below provides details of Brunello Cucinelli Group's net debt at 30th June 2017 compared with the situation at 31 December 2016 and restated as required by CONSOB communication no. DEM/6064293 of 28th July 2006:

| *(In thousands of euro)* | at 30th June 2017 | at 31st December 2016 |
|---|---|---|
| A. Cash and cheques | (511) | (885) |
| B. Other liquid assets | (49,494) | (45,543) |
| C. Held-for-trading financial instruments | (1,959) | (1,964) |
| **D. Cash and cash equivalents (A)+(B)** | **(51,964)** | **(48,392)** |
| **E. Current financial receivables** | **(31)** | **(16)** |
| F. Current bank debt | 30,193 | 16,165 |
| G. Current portion of non-current bank debt | 23,296 | 42,287 |
| H. Other current financial payables | 1,086 | 1,172 |
| **I. Net current debt (F)+(G)+(H)** | **54,575** | **59,624** |
| **J. Net current debt (I)+(E)+(D)** | **2,580** | **11,216** |
| K. Non-current bank debt | 55,063 | 37,567 |
| L. Bonds issued | - | - |
| M. Other non-current payables | 1,790 | 2,173 |
| **N. Net non-current debt (K)+(L)+(M)** | **56,853** | **39,740** |
| **O. Net debt (J)+(N)** | **59,433** | **50,956** |

For detailed comments, please see the Report on Operations.

### Note 17. Non-current financial payables

Non-current financial payables, in the amount of €1,718 thousand at 30th June 2017 refer to the loan entered into by the subsidiary Brunello Cucinelli Hong Kong Ltd. in respect of its minority shareholder.

### Note 18. Other non-current liabilities

Other non-current liabilities at 30th June 2017 came to €9,445 thousand compared with €8,017 thousand at 31st December 2016. This refers to amounts due after 12 months arising from the normalisation of the rental payments for certain monobrand stores and showrooms in accordance with IAS 17.

| *(In thousands of euro)* | **30th June 2017** | **31st December 2016** | **Change** |
|---|---|---|---|
| Deferred rent as per IAS 17 | 9,445 | 8,017 | 1,428 |
| **Total other non-current liabilities** | **9,445** | **8,017** | **1,428** |

### Note 19. Trade payables

The composition of trade payables at 30th June 2017 with comparative figures at 31st December 2016 is as follows:

| *(In thousands of euro)* | **30th June 2017** | **31st December 2016** | **Change** |
|---|---|---|---|
| Trade payables to third party suppliers | 61,932 | 63,356 | (1,424) |
| **Total trade payables** | **61,932** | **63,356** | **(1,424)** |

Trade payables represent amounts due for the supply of goods and services. Detailed comments on changes in working capital may be found in the report on operations.

## Note 20. Current bank debt

The composition of current bank debt at 30th June 2017 with comparative figures at 31st December 2016 is as follows:

| *(In thousands of euro)* | 30th June 2017 | 31st December 2016 | Change |
|---|---|---|---|
| Bank advances | 30,193 | 16,165 | 14,028 |
| Current portion of long-term loans | 23,296 | 42,287 | (18,991) |
| **Total current bank debt** | **53,489** | **58,452** | **(4,963)** |

Bank advances refer to cash advanced on bills and invoices, to finance operating activities.

The current portion of long-term loans refers to the portion of bank loans falling due within 12 months.

## Note 21. Current financial payables

Current financial payables, in the amount of €698 thousand at 30th June 2017, refer to the measurement of the put option held by the minority shareholder of Brunello Cucinelli Japan Co. Ltd. and to the accrued liabilities on outstanding loans.

| *(In thousands of euro)* | 30th June 2017 | 31st December 2016 | Change |
|---|---|---|---|
| Current financial payables | 664 | 690 | (26) |
| Accrued loan interest | 34 | 82 | (48) |
| **Total current financial payables** | **698** | **772** | **(74)** |

## Note 22. Tax payables

Tax payables at 30th June 2017, amounted to €4,388 thousand, compared to €1,104 thousand at 31st December 2016 and €9,992 thousand at 30th June 2016.
This item consists mainly of the parent company's liabilities for IRES and IRAP tax and the liability for current taxes taken to the consolidation by subsidiaries.

| *(In thousands of euro)* | 30th June 2017 | 31st December 2016 | Change |
|---|---|---|---|
| Current IRES corporate income tax payables | 2,551 | 98 | 2,453 |
| Current IRAP regional production tax payables | 543 | 15 | 528 |
| Other tax payables | 1,294 | 991 | 303 |
| **Total tax payables** | **4,388** | **1,104** | **3,284** |

### Note 23. Other current liabilities

The composition of other current liabilities at 30th June 2017 with comparative figures at 31st December 2016 is as follows:

| *(In thousands of euro)* | **30th June 2017** | **31st December 2016** | **Change** |
|---|---|---|---|
| Due to agents | 2,241 | 2,511 | (270) |
| Due to employees | 6,969 | 4,953 | 2,016 |
| Social security payables | 2,396 | 3,361 | (965) |
| Taxes withheld by the Italian companies (IRPEF and other withholdings) | 1,652 | 2,569 | (917) |
| VAT payables to tax authorities | 1,646 | 1,615 | 31 |
| Payables for current non-income taxes | 603 | 882 | (279) |
| Due to others | 9,251 | 4,996 | 4,255 |
| Accrued expenses and deferred income | 928 | 1,183 | (255) |
| **Total other current liabilities** | **25,686** | **22,070** | **3,616** |

Amounts due to agents relate to accrued commissions payable by the Brunello Cucinelli Group to its agents but not yet paid at the balance sheet date.

Amounts due to employees and social security payables consist of balances payable for June wages and salaries, paid during the first few days of July, and the accrual for vacation leave vested but not yet taken.

Taxes withheld by the Italian companies refer to IRPEF and other taxes withheld and paid in July.

VAT payables mainly relate to the balance of the parent Brunello Cucinelli S.p.A.

Amounts due to others regard advances that the Company receives before shipping goods to certain retail and wholesale customers, mostly situated abroad.

## Note 24. Taxation

DEFERRED TAX ASSETS AND LIABILITIES

The composition of deferred tax assets and liabilities at 30th June 2017 with comparative figures at 31st December 2016 is as follows:

| *(In thousands of euro)* | 30th June 2017 | 31st December 2016 | Change |
|---|---|---|---|
| Deferred tax assets | 17,653 | 15,709 | 1,944 |
| Deferred tax liabilities | (3,079) | (2,519) | (560) |

The balance of deferred tax assets is mainly due to the tax effect of the elimination of intragroup margins in inventories and the recognition of deferred taxation on the tax losses of subsidiaries. Deferred tax assets are recognized to the extent that it is probable that sufficient taxable profit will be available against which temporary deductible differences and carried forward tax assets and liabilities can be utilized.

INCOME TAXES

The composition of the income tax charge in the consolidated income statement is as follows:

| *(In thousands of euro)* | 30th June 2017 | 30th June 2016 | Change |
|---|---|---|---|
| Current taxation | 10,918 | 9,289 | 1,629 |
| Net deferred taxes cost/ (revenue) | (2,680) | (1,228) | (1,452) |
| Prior year taxes | (101) | 32 | (133) |
| **Total income taxes in the consolidated income statement** | **8,137** | **8,093** | **44** |
| Income taxes in the consolidated income statement | 1,246 | 426 | 820 |
| **Total income taxes** | **9,383** | **8,519** | **864** |

Taxes are calculated using the best estimate of the annual tax rate expected on the period end date.
In compliance with IAS 34, paragraph 16 A(c), the Group has indicated the most significant balances within the Group's income tax, considering that this information is useful to understand the full balance, as indicated within the condensed consolidated interim financial report.

# 6. COMMENTS ON THE MAIN ITEMS OF THE CONSOLIDATED INCOME STATEMENT

## Note 25. Revenues from sales and services

The composition of revenues from sales and services at 30th June 2017 with comparative figures at 30th June 2016 is as follows:

| *(In thousands of euro)* | 30th June 2017 | 30th June 2016 | Change |
|---|---|---|---|
| Net revenues | 243,327 | 219,840 | 23,487 |
| Other operating income | 1,176 | 493 | 683 |
| **Total revenues from sales and services** | **244,503** | **220,333** | **24,170** |

Net revenues are earned from the sale of clothing and accessories of the Brunello Cucinelli Group. For detailed comments, please see the Report on Operations.

Revenues may be analysed by geographical area as follows:

| *(In thousands of euro)* | 1st half, ending on 30th June | | | | Change during the period | |
|---|---|---|---|---|---|---|
| | 2017 | % | 2016 | Change during the period % | 2017 vs. 2016 | 2017 vs. 2016 |
| Italy | 41,814 | 17.2% | 39,464 | 18.0% | 2,350 | 6.0% |
| Europe (1) | 75,234 | 30.9% | 68,444 | 31.1% | 6,790 | 9.9% |
| North America (2) | 83,584 | 34.4% | 76,445 | 34.8% | 7,139 | 9.3% |
| Greater China(3) | 18,371 | 7.5% | 13,651 | 6.2% | 4,720 | 34.6% |
| Rest of the World (RoW) (4) | 24,324 | 10.0% | 21,836 | 9.9% | 2,488 | 11.4% |
| **Total** | **243,327** | **100.0%** | **219,840** | **100.0%** | **23,487** | **10.7%** |

(1) "Europe" refers to the member states of the European Union (excluding Italy), to other countries that geographically belong to Europe and to post-Soviet states.
(2) "North America" refers to the United States of America and Canada.
(3) "Greater China" refers to the People's Republic of China, Hong Kong, Macau and Taiwan.
(4) "Rest of the World" refers to all the other countries where the Group makes sales, other than the above.

Revenues may be analysed by distribution channel as follows:

| *(In thousands of euro)* | 1st half, ending on 30th June | | | | Change during the period | |
|---|---|---|---|---|---|---|
| | 2017 | Change during the period % | 2016 | Change during the period % | 2017 vs. 2016 | 2017 vs. 2016 |
| Retail | 121,121 | 49.8% | 99,555 | 45.3% | 21,566 | 21.7% |
| Wholesale Monobrand | 17,600 | 7.2% | 22,221 | 10.1% | (4,621) | -20.8% |
| Wholesale Multibrand | 104,606 | 43.0% | 98,064 | 44.6% | 6,542 | 6.7% |
| **Total** | **243,327** | **100.0%** | **219,840** | **100.0%** | **23,487** | **10.7%** |

Reference should be made to the report on operations for comments on revenue performance.

### Note 26. Costs for raw materials and consumables

The composition of costs for raw materials and consumables for interim period ending at 30th June 2017 with comparative figures at 30th June 2016 is as follows:

| *(In thousands of euro)* | **30th June 2017** | **30th June 2016** | **Change** |
|---|---|---|---|
| Costs for raw materials and consumables | 45,379 | 43,591 | 1,788 |
| Change in inventories | (7,460) | (10,255) | 2,795 |
| **Total costs for raw materials and consumables** | **37,919** | **33,336** | **4,583** |

Reference should be made to the report on operations for comments on trends.

### Note 27. Costs for services

The composition of costs for services for the interim period ending at 30th June 2017 with comparative figures at 30th June 2016 is as follows:

| *(In thousands of euro)* | **30th June 2017** | **30th June 2016** | **Change** |
|---|---|---|---|
| Outsourced work | 47,912 | 44,834 | 3,078 |
| Commissions and accessory charges | 6,205 | 6,061 | 144 |
| Advertising and other commercial expenses | 12,528 | 11,223 | 1,305 |
| Transport and duties | 8,595 | 7,956 | 639 |
| Lease expense | 28,813 | 26,526 | 2,287 |
| Credit card charges | 2,253 | 1,798 | 455 |
| Other general expenses | 2,655 | 1,983 | 672 |
| Misc. consulting | 2,926 | 2,926 | - |
| Directors' and statutory auditors' fees | 1,155 | 1,077 | 78 |
| Maintenance services | 2,245 | 1,824 | 421 |
| Insurance | 723 | 552 | 171 |
| Energy, telephone, gas, water, postal costs | 1,870 | 1,623 | 247 |
| **Total costs for services** | **117,880** | **108,383** | **9,497** |

The main “Costs for services” are discussed in the report on operations. The other costs, which recorded an overall increase of some €1.6 million compared with 30th June 2016, were mainly due to the conversions of the direct channels in Russia and Canada, as well as the internalisation of the e-commerce website, along with all of the associated managing operations.

## Note 28. Payroll costs

The composition of payroll costs for the interim period ending at 30th June 2017 with comparative figures at 30th June 2016 is as follows:

| *(In thousands of euro)* | 30th June 2017 | 30th June 2016 | Change |
|---|---|---|---|
| Wages and salaries | 34,135 | 32,090 | 2,045 |
| Social charges | 7,219 | 6,809 | 410 |
| Employees' termination indemnity | 1,164 | 1,110 | 54 |
| Other payroll costs | 874 | 530 | 344 |
| **Total payroll costs** | **43,392** | **40,539** | **2,853** |
| ***of which non-recurring costs*** | ***-*** | ***1,293*** | ***(1,293)*** |

Reference should be made to the report on operations for comments on trends.

## Note 29. Other operating costs

The composition of other operating costs for the period ending at 30th June 2017 with comparative figures at 30th June 2016 is as follows:

| *(In thousands of euro)* | 30th June 2017 | 30th June 2016 | Change |
|---|---|---|---|
| Taxes and duties | 1,089 | 908 | 181 |
| Membership subscriptions | 133 | 140 | (7) |
| Ordinary capital losses | 180 | 96 | 84 |
| Losses on bad debts | - | 9 | (9) |
| Miscellaneous operating costs | 1,155 | 1,109 | 46 |
| **Total other operating costs** | **2,557** | **2,262** | **295** |

**Note 30. Own work capitalized**

Own work capitalized, in the amount of €697 thousand, mainly relates to production costs incurred to develop the historical collection and internal costs incurred for the development of IT software and for the internal fit out of the Group's boutiques. The balance amounted to €482 thousand at 30th June 2016.

**Note 31. Depreciation**

The composition of depreciation for the interim period ending at 30th June 2017 with comparative figures at 30th June 2016 is as follows:

| *(In thousands of euro)* | **30th June 2017** | **30th June 2016** | **Change** |
|---|---|---|---|
| Amortization of intangible assets | 2,957 | 2,773 | 184 |
| Depreciation of property, plant and equipment | 7,610 | 6,785 | 825 |
| **Total depreciation and amortization** | **10,567** | **9,558** | **1,009** |

The increase in depreciation and amortisation is in line with the investments made by the Group. Reference should be made to the report on operations for comments on trends.

**Note 32. Value adjustments to assets and other provisions**

Value adjustments to assets and other provisions (€1,860 thousand in the first half of 2017 and €811 thousand in the first half of 2016) relate to accruals to the allowance for doubtful debts, the agents' supplementary termination indemnity provision and write-downs of the residual net book value of tangible and intangible assets.

## Note 33. Financial expense

The composition of financial expense for the interim period ending at 30th June 2017 with comparative figures at 30th June 2016 is as follows:

| *(In thousands of euro)* | 30th June 2017 | 30th June 2016 | Change |
|---|---|---|---|
| Mortgage loan interest | 331 | 383 | (52) |
| Interest payable on advances | 320 | 251 | 69 |
| Bank interest | 82 | 175 | (93) |
| Realized exchange losses | 7,201 | 7,560 | (359) |
| Unrealized exchange losses | 3,563 | 1,743 | 1,820 |
| Financial expense on derivative financial instruments | 1,427 | 1,017 | 410 |
| Miscellaneous financial expense | 191 | 178 | 13 |
| **Total financial expense** | **13,115** | **11,307** | **1,808** |

Reference should be made to the report on operations for comments on trends.

## Note 34. Financial income

The composition of financial income for the interim period ending at 30th June 2017 with comparative figures at 30th June 2016 is as follows:

| *(In thousands of euro)* | 30th June 2017 | 30th June 2016 | Change |
|---|---|---|---|
| Bank interest | 35 | 58 | (23) |
| Interest income on financial assets | 5 | - | 5 |
| Realized exchange gains | 7,026 | 6,924 | 102 |
| Unrealized exchange gains | 2,907 | 2,418 | 489 |
| Financial income on derivative financial instruments | 16 | 17 | (1) |
| Miscellaneous income | 90 | 82 | 8 |
| **Total financial income** | **10,079** | **9,499** | **580** |

Reference should be made to the report on operations for comments on trends.

**Note 35. Basic and diluted earnings per share**

Basic earnings per share is calculated by dividing net profit for the period attributable to the ordinary shareholders of the Brunello Cucinelli Group by the weighted average number of outstanding ordinary shares during the period.

There is no difference between basic earnings per share and diluted earnings per share as there are no convertible bonds or other financial instruments with dilutive effects.

The following table shows the net profit and information on shares used to calculate basic and diluted earnings per share:

| | 30th June 2017 | 30th June 2016 |
|---|---|---|
| Net profit attributable to owners of the parent (thousands of euro) | 19,580 | 16,217 |
| Number of ordinary shares at the end of the period | 68,000,000 | 68,000,000 |
| Weighted average number of ordinary shares used to calculate basic earnings per share | 68,000,000 | 68,000,000 |
| Weighted average number of ordinary shares used to calculate diluted earnings per share | 68,000,000 | 68,000,000 |
| Basic earnings per share (euro) | 0.28794 | 0.23849 |
| Diluted earnings per share (euro) | 0.28794 | 0.23849 |

**Note 36. Commitments and risks**

Commitments and risks consist of the assets owned by the Brunello Cucinelli Group held at third party premises. The composition of commitments and risks at 30th June 2017 with comparative figures at 30th June 2016 is as follows:

| *(In thousands of euro)* | 30th June 2017 | 30th June 2016 | Change |
|---|---|---|---|
| Assets with third parties | 19 | 20 | (1) |
| **Total commitments and risks** | **19** | **20** | **(1)** |

Assets with third parties mainly relate to operating machines and electronic equipment lent at no charge to workshops and outside companies that use them to produce and supply the Group with clothing articles and services.

# OTHER INFORMATION

## RELATED PARTY TRANSACTIONS

The following tables provide details of transactions and balances with related parties. The companies indicated have been identified as related parties because they are directly or indirectly connected with the Brunello Cucinelli Group's shareholders of reference.

Details of the Brunello Cucinelli Group's transactions and balances with related parties at 30th June 2017 are as follows:

| *(In thousands of euro)* | Net revenues | Other operating income | Costs for raw materials | Costs for services | Payroll costs | Property, plant and equipment. | Other non-current financial assets | Other debts | Trade receivables | Trade payables |
|---|---|---|---|---|---|---|---|---|---|---|
| MO.AR.R. S.n.c. | - | - | 4 | 75 | - | 8,688 | - | - | - | 86 |
| Cucinelli Giovannino | - | - | - | 3 | - | 5,672 | - | - | - | 8 |
| AS.VI.P.I.M. GruppoCucinelli | 4 | - | - | 409 | - | - | - | - | - | - |
| ASD Castel Rigone | - | - | - | - | - | 1 | - | - | - | - |
| Fedone S.r.l. | - | 2 | - | 33 | - | - | - | - | - | 20 |
| Fondazione Brunello Cucinelli | 1 | 4 | - | 6 | - | - | - | - | 3 | 2 |
| Parco Agrario Solomeo | - | 3 | - | 8 | - | - | - | - | 1 | - |
| Solomeo S.r l. | - | 2 | - | 475 | - | 1,542 | 32 | - | - | 5 |
| Verna S.r.l. (former Socrate S.r.l.) | - | 1 | - | 163 | - | - | - | - | - | 9 |
| Brunello Cucinelli Family | 2 | 3 | - | - | 251 | - | - | 48 | - | - |
| Prime Service Italia S.r.l. | - | - | - | 239 | - | - | - | - | - | 86 |
| **Total related parties** | **7** | **15** | **4** | **1,411** | **251** | **15,903** | **32** | **48** | **4** | **216** |
| **Total consolidated financial statements** | **243,327** | **1,176** | **37,919** | **117,880** | **43,392** | **113,229** | **7,142** | **25,686** | **54,396** | **61,932** |
| *Proportion (%)* | *0.00%* | *1.28%* | *0.01%* | *1.20%* | *0.58%* | *14.05%* | *0.45%* | *0.19%* | *0.01%* | *0.35%* |

More specifically:

- MO.AR.R. S.n.c: commercial relationships with the company MO.AR.AR S.n.c., in which Mr. Enzo Cucinelli, brother of Cav. Lav. Brunello Cucinelli, holds 50% of the share capital, relate to: (i) purchases of decorating materials used for fitting out exhibitions and fairs and (ii) investments for the furnishing of the new stores and offices;
- Cucinelli Giovannino: Mr. Giovannino Cucinelli is Cav. Lav. Brunello Cucinelli's brother. Costs for services includes expenses for the installation, maintenance and routine repair of plumbing and air conditioning systems; expenditure incurred for the installation and extraordinary maintenance of the above-mentioned systems are capitalized in property, plant and equipment;
- AS.VI.P.I.M. Gruppo Cucinelli: the association conducts surveillance of all of the structures located in Solomeo and used by the Group for its business. Cav. Lav. Brunello Cucinelli and the Group are both members;
- Solomeo S.r.l.: company in which Cav. Lav. Brunello Cucinelli is the Chairman and CEO; the relationships mainly refer to the rental of property used by the company for conducting operations in the area near the company's headquarters;
- Verna S.r.l. (former Socrate S.r.l.): the company, whose shareholders are Cav. Lav. Brunello Cucinelli and Fedone S.r.l., provides services for the cleaning of the premises and factories of the Company's administrative and production facility in Solomeo;
- Prime Service Italia S.r.l.: controlled by Cav. Lav. Brunello Cucinelli, provides transport services on behalf of Group companies;
- Brunello Cucinelli family: payroll costs consist of the remuneration due to the family of Brunello Cucinelli.
- Fedone S.r.l., Fondazione Brunello Cucinelli, Parco Agrario Solomeo and A.S.D. Castel Rigone Associazione Sportiva Dilettantistica: these are small amounts mainly for covering the reimbursement of services rendered;
- Brunello Cucinelli family: payroll costs consist of the remuneration due to the family of Brunello Cucinelli.

## SIGNIFICANT EVENTS AFTER 30TH JUNE 2017

Reference should be made to the report on operations for significant events occurring after the reporting date of this condensed consolidated interim financial report.

## COMPENSATION OF THE BOARD OF DIRECTORS AND THE BOARD OF STATUTORY AUDITORS

The accrued compensation paid for any reason and in any form to members of the Board of Directors by Brunello Cucinelli S.p.A. and by direct and indirect subsidiaries at 30th June 2017 amounted to €469 thousand.

The accrued compensation relating to the Board of Statutory Auditors of Brunello Cucinelli S.p.A. at 30th June 2017 amounted to €102 thousand.

## FINANCIAL RISK MANAGEMENT

Financial risks are managed on the basis of guidelines set by the Board of Directors. The aim is to ensure a liability structure that remains balanced with the composition of assets to maintain adequate levels of solvency.

The Brunello Cucinelli Group is exposed to various types of financial risks linked to its core business. More specifically, the Group is simultaneously exposed to market risk (interest rate risk and currency risk), liquidity risk and credit risk.

**Interest rate risk**
It is the Company's policy to cover exposure regarding the portion of medium- and long-term debt with respect to market risk due to interest rate changes. To manage such risk, the Company uses derivative instruments such as interest rate swaps (in some cases with caps).

**Currency Risk**
The Brunello Cucinelli Group is exposed to the risks deriving from exchange rate for currencies (primarily the US dollar) in which sales are made to affiliates and third-party customers. This risk exists in the eventuality that the amount of revenues in euro may decrease in the event of unfavourable fluctuations in the exchange rate, thereby preventing the desired margin from being achieved.
To limit its exposure to the exchange rate risk deriving from its business activities, the Brunello Cucinelli Group enters into derivative contracts (forward exchange contracts) that predetermine the conversion rate or a range of exchange rates at future dates.
The forward contracts are stipulated when seasonal price lists in foreign currency are defined, based on estimated sales and considering the expected collection date of the sales invoices at the expiry date of the derivative. Specifically, the Company sets its selling prices in euro and calculates the corresponding prices in US dollars by applying the forward exchange rate.

**Liquidity risk**

The Brunello Cucinelli Group manages liquidity risk by strictly controlling the items making up working capital and, in particular, receivables from customers and payables to suppliers.

The Group strives to obtain good cash generation in order to settle trade payables without jeopardizing its short-term cash requirements and to avoid criticalities and strains of available cash.

**Credit risk**

Credit risk is the Company's exposure to potential losses arising from the failure by counterparties to meet their obligations.

The Brunello Cucinelli Group's exposure to commercial credit risk refers only to sales made to the wholesale multibrand channel and to the wholesale monobrand channel, whereas the remaining turnover refers to sales by the retail channel where payment is made in cash or by credit or debit card.

The Brunello Cucinelli Group generally prefers to do business with customers with whom it has established a consolidated relationship over time. It is the Group's policy to carry out checks on the relative credit class for customers requesting extended payment terms, using information obtainable from specialized agencies and observing and analysing figures for the performance of established customers. In addition, balances are constantly monitored during the year in order to ensure timely action and reduce the risk of loss.

## BALANCES OR TRANSACTIONS DERIVING FROM ATYPICAL OR UNUSUAL OPERATIONS

Pursuant to CONSOB communication no. DEM/6064293 of 28th July 2006, it is hereby stated that the Group has not carried out any atypical or unusual operations as defined in that Communication.

**Cav. Lav. Brunello Cucinelli**
Chairman of the Board of Directors
and Chief Executive Officer

# CERTIFICATION OF THE CONDENSED INTERIM FINANCIAL REPORT PURSUANT TO ARTICLE 81-TER OF CONSOB REGULATION NO. 11971 OF 14TH MAY 1999, AS AMENDED

1. The undersigned Cav. Lav. Brunello Cucinelli, as Chairman and CEO, and Moreno Ciarapica, as the manager in charge of preparing the corporate accounting documents of Brunello Cucinelli S.p.A., hereby certify, taking into account the provisions of article 154-bis, paragraphs 3 and 4 of Legislative Decree no. 58 of 24th February 1998:
   - their adequacy with respect to the company and
   - effective application of the administrative and accounting procedures for the preparation of the condensed consolidated interim financial report, during the course of the first half of 2017.
2. No significant aspects arose from applying the administrative and accounting procedures for the preparation of the condensed consolidated interim financial report at 30th June 2017.
3. We also certify that:

   3.1 the condensed consolidated interim financial report:

   a) was prepared in accordance with the international accounting standards adopted by the European Union pursuant to European Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19th July 2002;
   b) agrees with the balances on the books of account and the accounting records;
   c) is suitable for providing a true and fair view of the assets and liabilities, results and cash flows of the issuer and the set of companies included in the consolidation.

   3.2 The interim report on operations includes reliable analysis of the significant events which occurred during the first six months of the financial year and their impact on the condensed consolidated interim balance sheet, together with a description of the main risks and uncertainties for the remaining six months of the financial year. The interim report on operations also includes reliable analysis of information about significant transactions with related parties.

29th August 2017

**Cav. Lav. Brunello Cucinelli**
Chairman of the Board of Directors
Managing Director

**Moreno Ciarapica**
Manager in charge of preparing
the corporate accounting documents

# REPORT OF THE EXTERNAL AUDITORS ON THE LIMITED AUDIT OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT