BRUNELLO CUCINELLI

CONSOLIDATED FINANCIAL STATEMENTS AT 31ST DECEMBER 2017

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LETTER TO THE SHAREHOLDERS

Esteemed Shareholders,

For six years we have been treading an important path together: step by step we have been deepening and giving shape to the values which we have shared since listing and which right from the start have characterized the Company's identity.

The products which are the fruit of the work of our craftsmen, the aesthetics of the boutiques, the two websites that correspond to the "body" and "soul" of the enterprise, are all ambassadors that endeavour to consistently disseminate the culture and the philosophy that we safeguard and nourish in Solomeo throughout the world. We believe that the image of the business has been realized in all of its variations in a harmonic, devoted and respectful manner.

During 2017 we received important recognition at an international level, being awarded the Global Economy Prize by the Kiel Institute for the World Economy. We were deeply moved by the Laudatio because it especially exalts the ethical values towards which we have constantly aspired during the history of our enterprise and states as follows: "**Brunello Cucinelli personally personifies the tradition of the Honourable Merchant**", referring not only to our products but also to the relationships we cultivate with the people surrounding us.

It is fundamental for us to keep alive the **preservation there once was for feeding the soul, maintaining a human privacy** far from the noise of technology so that the life of man may be restored by the right silence, by affection, by rest and by care for ourselves. In November 2017 we had the honour of being invited by Marc Benioff, the founder of Salesforce, to the "Dreamforce" conference in San Francisco to discuss "gracious technology", and before a vast audience of people believing themselves to be "Young Modern-day Leonardos" we made an appeal for the discussions and the new inventions to bring to technology the same grace that characterizes humanity's most fascinating aspects and relations. The question we perceive as being fundamental is "how" to apply these highly important new technologies so that they can combine with the desire for calm and silence, harmony of thought and the soul, the enlivening feeling that arises from contact with art, culture and nature.

In January 2017 we inaugurated the two new websites and online boutique, dedicating them to the figure of "**Humanistic Artisans of the Web**" in order to look towards the future while at the same time keeping in mind the importance of the lessons of the great people of the past: we want to develop care and ethics in our approach to the web. In addition, we have recently initiated the **Contemporary Factory**, a digital project designed to facilitate and enhance the creative, artisanal and personal contribution given to each single phase. In exactly the same way as for the potential of the web **we believe that the best fruits of our new technological world will be able to emerge if they are directed towards sustaining and enhancing the value of human qualities**.

The results achieved in this past year are a source of satisfaction for us: the confirmation of constant, harmonic and solid growth brings comfort to our philosophy and enables us to take our journey further. The collections have been appreciated by our customers, our collaborators and the specialised press while the fine performance of the Spring-Summer collection and the excellent 2018 Fall-Winter sales campaign, recently completed, confirm the value of the endeavours and passion we nurture in Solomeo.

On 13rd February 2018 we celebrated the business's 40th anniversary and right from the start of activities we have always tried to create an unbreakable link between productivity, profit and growth and a system of ideals that places man at the centre: the dignity of work, the **wellbeing of the soul, the safekeeping of traditions and the concern for creativity**. With you our history has grown and been enriched, it has allowed us to speak to the world of high values through the use of simple words and practical elements: we have received words of appreciation and awards that flatter us, that spur us on to keep going and look to the future with confidence and serenity.

Italy, like the world, is experiencing a period of important change, a renewal that could lead us – and I have complete confidence in this – to new possibilities and an important reawakening of the most humane values. As happened in the past when exploration, great discoveries and new technologies created new horizons for mankind, we should now look towards the future without being afraid, with courage and with an inspired and serene attitude.

Solomeo, 7th March 2018

Brunello Cucinelli
Chairman of the Board of Directors
and Chief Executive Office

CORPORATE DETAILS

Registered office of the Parent Company

Brunello Cucinelli S.p.A.
Viale Parco dell'Industria, 5, frazione Solomeo
Corciano - Perugia

Legal Data of the Parent Company

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

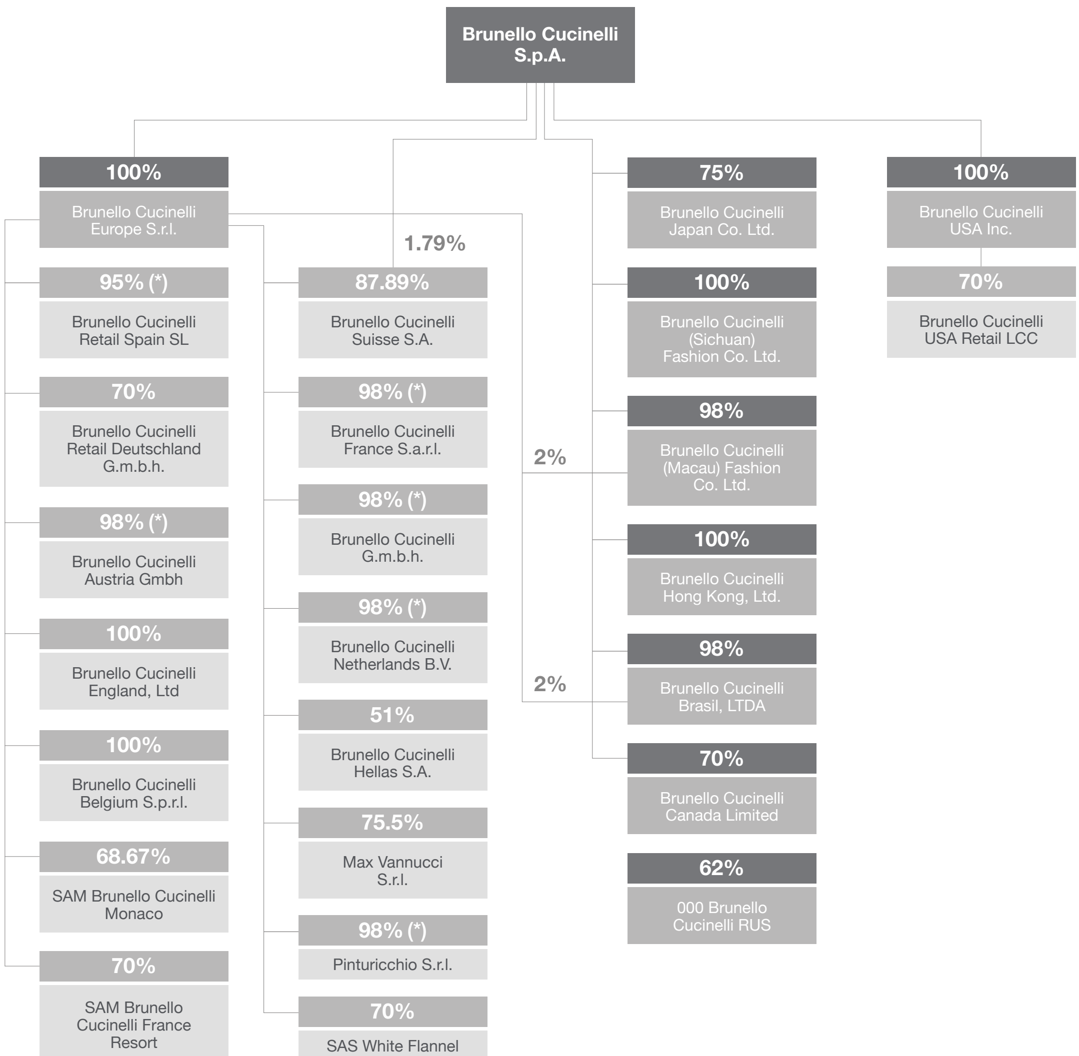
Official website http://investor.brunellocucinelli.com/eng/

CORPORATE GOVERNANCE BODIES

Board of Directors (1)	Brunello Cucinelli	Chairman and CEO
	Moreno Ciarapica	Executive Director
	Riccardo Stefanelli	Executive Director
	Luca Lisandroni	Executive Director
	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.

THE BRUNELLO CUCINELLI GROUP AT 31ST DECEMBER 2017



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

GROUP STRUCTURE AT 31ST DECEMBER 2017

Company name	Registered office
Brunello Cucinelli S.p.A.	Corciano, frazione Solomeo (PG) - Italy
Brunello Cucinelli USA, Inc.	New York - USA
Brunello Cucinelli USA Retail 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 G.m.b.H.	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) - Italy
Brunello Cucinelli Japan Co . Ltd.	Tokyo - Japan
Brunello Cucinelli Retail Deutschland G.m.b.H.	Munich - Germany
Brunello Cucinelli Netherlands B.V.	Amsterdam - Holland
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.	Corciano, frazione Solomeo (PG) - 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 31st December 2017, the Group directly manages 15 sales points within luxury department stores in Japan, as well as 6 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 wholesale monobrand and multibrand 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 31st December 2017 and 31st December 2016:

Distribution channel	31st December 2017	31st December 2016
Retail	94	86
Wholesale MONOMARCA	30	36

The following table provides an analysis of the location of points of sale by geographical area at 31st December 2017:

	Italy	Europe	North America	Greater China	Rest of the World (RoW)	Total
Total Brunello Cucinelli sales points	15	46	25	21	17	124

BOARD OF DIRECTORS' REPORT ON OPERATIONS

TOWARDS A UNIVERSALISM OF MAN

Lecture held by Brunello Cucinelli upon the award of the *Global Economy Prize 2017* for the Business category from the *Kiel Institute for the World Economy*.

Introduction

My esteemed German people, I feel very honoured and considerably moved.
You have given me a kind and noble gift, my father will be proud of it.
You are a people from whom I have learnt and absorbed a lot to nourish my mind and my soul.
My business activity started here, with you.
It was you who timely paid me my first earnings.

My heart preserves the memory of the generosity with which you instilled your wisdom in me.
Thank you, thank you, thank you.

A special thanks to the Kiel Institute for the World Economy for having honoured me with the title of "Honourable Merchant".

LECTIO

The great dream of my life has always been to work for the moral and economic *dignity of the human being***.**

I did want my business to make a profit, but I wanted this profit to be achieved with ***ethics*** *and* ***dignity****, manufacturing products without harming the Creation, or at least damaging it as little as possible.*

I live and work with my family in a small Umbrian hamlet dating back to the 14th century called Solomeo, where my wife was born. Here, carefully listening to the "genius loci" (the spirit of the place) and the wise words of my inspiring masters, I have completed a restoration work that lasted for 30 years, pursuing my dream to be a temporary guardian of this place.

Just as my great teacher Hadrian the Emperor imagined when he stated: "I feel responsible for the beauty in the world".

I spent the first part of my life in the countryside; we were farmers, worked the land with the animals, had no electricity in our house but were a large and joyful family: just figure that I have never seen my parents argue. We worked; we prayed and felt the concept of hope very strongly.

I can still see the shapes and smell the scents of that "land, the mother of all things".

My grandfather would raise his eyes to the sky and often say something fascinating: "May God send us a fair amount of rain, snow, wind". That is when I understood the universal principle guiding my life, a fair balance that must also exist between "profit" and "giving back".

When I turned fifteen, we moved close to the city, to Perugia, and my father took up a job in a factory, where he would however be subject to frequent offence and humiliation. He would often say: "What have I done to God to be humiliated like this"?

I have not yet grasped the reason why someone would humiliate another human being.

Therefore, I drew inspiration from my father's tearful eyes and decided that in my life I would pursue one single purpose: the "moral and economic dignity of the human being".

When I was about seventeen I discovered an amazing, great statement by Kant: «You should act considering mankind – both for yourself and for your neighbour – not as a simple means but as a noble end».

That's when I rediscovered the moral law that my father had always spoken to me about.

On these foundations I have built my entire life.

Between fifteen and twenty-five years of age I attended school, but to be honest I didn't really study anything. Those were the years of the cultural revolution, around 1968, and I attended the faculty of Engineering and took one single exam. At the same time I was hanging out in a typical Italian bar all the time, and this kind of life lasted for 10 years. There were only male patrons in the cafe and we would discuss many different topics: politics, women, economics, philosophy, theology, i.e. the sort of polemos that Heraclitus was so fond of.

Polemos: mother and master of mankind.

In the cafe there is always someone willing to listen to your sorrows.

Undoubtedly that important part of my personal life has been somehow my "university of life".

I wanted to work with cashmere because I figured it could be passed on.

I wanted it to be an Italian handcrafted product epitomizing top-notch quality, craftsmanship, manual skills and, hopefully, creativity.

To make this happen I needed skilled hands that perceived "moral and economic dignity at work"

I wanted people to work in welcoming places also from the aesthetic point of view; a workplace where they could breathe in humanity, respect, tolerance, spirituality and somehow also mysticism; a place where to find serenity, respect, esteem and understanding when coming to work every morning, perhaps carrying with us that aching of the soul, that malaise that accompanies us from birth and today is exacerbated by some sort of widespread IT noise; a place where people worked a fair number of hours. We all start at 8:00 sharp and it is forbidden to work after 5.30 pm, with a long lunch break in-between.
Nobody clocks in or out, but everyone turns up at 8.00 on time. It is forbidden to be online for business reason after 5.30 pm, as well as on Saturdays and Sundays. Emails are sent only when strictly necessary, as we prefer to make phone calls. If I make you work too long, it is as if I had stolen your soul.

The aim of all this is to try and implement on a daily basis the recommendation issued by one of my great teachers, Saint Benedict, who once stated: «Every day, you should take care of your mind with your studies, of your soul with your prayers, and work».

I was born in a village and I have always loved to live in a village, because there is usually no loneliness there, no economic or spiritual poverty.

For centuries Solomeo has produced olive oil, wheat and wine, and today it produces cashmere.

I did not want to disrupt its identity: I wanted to preserve it.

With this in mind, we have restored more than built. The only new buildings in Solomeo are a theatre, a Forum of the Arts and a Neohumanistic Academy.

After completing our restoration work in the village, we have turned to its outskirts in order to embellish them.

It is believed that seventy per cent of people live in the outskirts, so this will be our task for the coming centuries.

I have always thought that it is our duty to plan for the next three years, certainly, but also for the next thirty and three hundred years. This Theatre is a secular temple of the arts designed to last 3 centuries.

I have always argued that we cannot rule mankind with science only, but we must redress the balance between science and soul: just think of Voltaire and Rousseau, Apollo and Dionysus.

I believe that we have just come out of three decades of civilization crisis, but now we are experiencing a great awakening of humanity from the moral, ethical, spiritual, civil, religious point of view…

We are rediscovering the great ideals:

the beautiful politics;

the beautiful family;

religion or spirituality.

I have the impression that half of mankind does not need anything, but the whole of mankind is looking for something.

I feel that mankind has a universal wish to be treated with decency, honesty and respect.

We have embarked upon a promising path, featuring the decline of violence.

Epicurus would be very pleased to witness this decline of consumerism in favour of a proper use of resources, as implemented by our youth.

We should tell young people to not feel obliged to be fearful, to not turn their back on poverty, to rediscover the art of endearing themselves to others, to respect the law like their parents do, to not chase the cult of impatience and to always believe that art is the seed of civilization.

I think that us, fathers have made a big mistake with our children: we have said to them: "If you don't want to study you will go to work". We have therefore pictured work as a punishment for them, thus depriving it of its moral and economic dignity.

I believe that the expression "globalization" should be replaced with "universalism" of the world, with a lot of respect for all civilizations and envisaging some sort of "positive integration" of all human beings.

Mankind needs good, respectable people.

History has seen various forms of immense universalism: among them, I think of the Persian Empires, of Alexander the Great and of Rome. These forms lasted centuries and millennia, and have incisively written our past; but regardless of their differences, all of them had a term, because despite being noble, they were imposed by few and subjected on many. In Persia the imposing figure was the divine emperor; Alexander the Great exported the amazing culture of the Greeks worldwide, Rome imposed the idea of a divine and sovereign city. Instead the Universalism that I dream of comes directly from all those men who want it for themselves, and as such it can be progressively modified and adopted, but has the requisites to be permanent. It is new in history for its grandiose *ideals, and because it is transmitted with extraordinarily powerful means that had never been imagined before now: the internet.*

Mankind needs good, respectable people.

We are going back to looking for a healthy balance between a fair growth and a fair profit

It is therefore possible to envisage a new form of "contemporary humanistic capitalism".

Internet is a great gift whose purpose is the human being; it has also changed our way of living.

I now have an appeal for you, since the whole world sees you as the greatest technological innovators of the 21st century.

Get together, discuss, try to tell us which is the best way to use contemporary technology so that our daily life and the daily life of future generations do not lose that humanity that the Creation bestowed upon us.

At this point in my life, having turned 63, I have looked inside my soul – as my highly esteemed Saint Augustine put it. I would like to envisage a golden century in which mind and soul combine together to help us treat that malaise in our soul we have always suffered from and rediscover the great value of hope. And as my "thought mate" Marcus Aurelius the Emperor taught me «You should live according to nature and go with the stream of mankind».

"May the Creation enlighten our path"

"I am grateful to you and the whole of mankind"

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 recognised as one of the nest 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.

BRAND IDENTITY: PRESERVATION OF OUR DISTINCTIVE VALUES AND RESPECT FOR TIME

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. 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 set Brunello Cucinelli apart from the rest. The very concept of time itself has its own place within the humanistic company's unique system of values.

At work in the Umbrian hamlet, the company lives out its philosophy through a rhythm which reflects that of nature and humanity. It applies the same care to showing **respect for time, and for its customers' privacy**. In all of the company's relationships with its stakeholders, it emphasises the same values: graciousness, fairness and exclusivity. The aim is to foster a special, personal relationship based on trust; the company is committed to only sending out relevant, essential messages, so as not to impinge upon the customer's personal life.

The speed at which communication technologies and circulation have developed has not affected the company's approach to communication; rather, it has provided a valuable chance to reflect and focus attention on its core business values – and human values – in order to further a courteous, measured form of communication based on well-thought-out content with lasting relevance.

In our relationships with individual customers, as with our large-scale communication, the concept of "**protection**" always takes precedence over "**promotion**". In a world in which digital media seems to emphasise and multiply each and every action, making everything easier to access and even taken for granted, it is extremely important to calibrate each action in order to maintain the brand's marked **exclusivity**.

Over the course of the seasons, our customers, staff and the press have shown that they understand and appreciate the philosophy and continuity implemented by the humanistic company. The products are presented in a way that fits perfectly into this scenario of noble, human values, as the natural completion of a harmonious process. That process has consistently proven capable of highlighting the benefits of a responsible approach to work and to quality of life.

THE GREAT DIGITAL PROJECT: HUMANIST ARTISANS OF THE WEB

The new **corporate and e-commerce** websites went live in January 2017; in their first year, the projects, image and management of these sites have respected the enduring criteria and core characteristics for which the brand has been known throughout its history. The main objective was to efficiently draw together the digital world, artisanal quality and the brand philosophy through a project developed by an in-house team. The work of this team – which has grown and expanded over the past year, as needed – is inspired by the figure of **Humanist Artisans of the Web**: an ideal which harks back to the teachings of our forefathers, to take on today's and tomorrow's challenges.

There are two separate websites, **Philosophy (corporate) and boutique (e-commerce)**; they represent the company's body and soul, its form and its substance, and have grown synergistically, in tandem. Most of the new content on the Philosophy website has been added to the section called **Thoughts on the Contemporary World**. Here, new videos, text and images have been uploaded to convey the company's ideals, and thoughts about life at the Solomeo-based firm. More specifically, they explore questions of humanistic capitalism, the moral and economic dignity of work, and quality of life in the contemporary world.

The e-commerce website has grown and expanded while honouring the same values that guide the management and aesthetic of the brand's boutiques around the world: the imagery, context and ethics of the Italian lifestyle, expressed through Brunello Cucinelli's unique vision, are the focal point of every section. The photographs, videos and content together form a vital tool for articulating the values that inspire our collections and the way we create clothes.

Each individual product is always presented as one element in a harmonious whole; the way that product is described is an increasingly pivotal aspect of our offering. Custom-designed packaging then puts the finishing touch to this distinctive presentation process. Just as happens in the boutiques, the online Customer Care team has a courteous, attentive approach, and is intent on developing a "human" rapport with our customers: scheduled deliveries, beautifully-wrapped packages and hand-written notes addressed to each customer form the basis for establishing authentic personal relationships.

Only three newsletters were sent out over the year. The content mainly covered cultural themes, primarily relating to the region of Umbria and the Italian lifestyle. The intention is to tell the story, in a pleasant, non-intrusive way, of the company's person-centred, amicable approach to work in the hamlet of Solomeo; the thoughts and inspirations handed down to us from our forefathers and the great works of the past; and lastly, the value of a human pace of life, inspired by the harmonious flow of nature, the days and the seasons. All of this is done with the utmost respect for our customers' privacy.

THOUGHTS ON THE CONTEMPORARY WORLD

2017 “Address to My Worthy Masters of Labour”

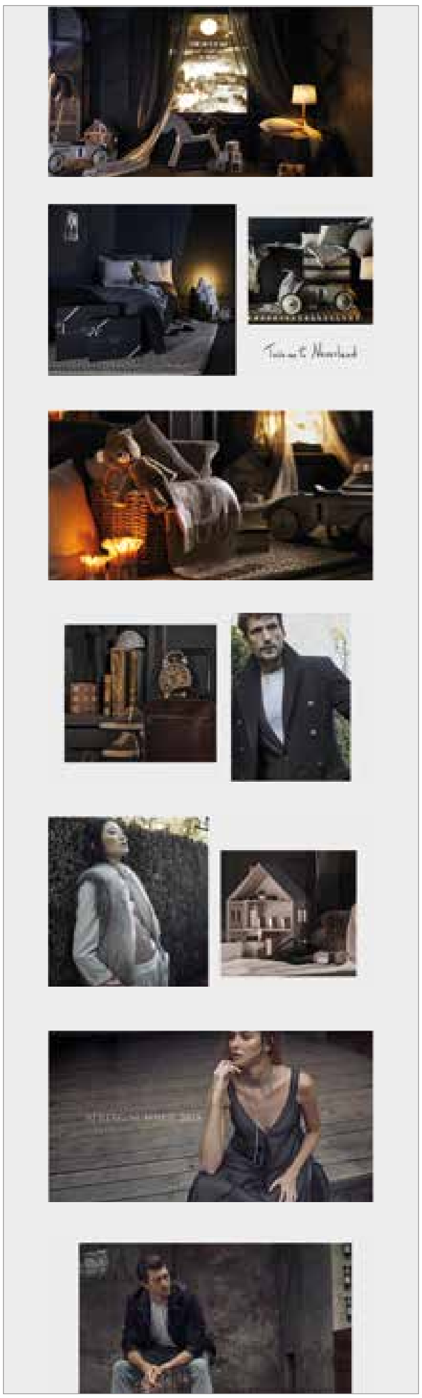
2017, “Toward the Universalism of Man”
Lectio held for the Global Economy Prize
at the Kiel Institute for the World Economy

2017, “A Capitalism of Man for Man”
An Edifying Letter for Young People all Over the World
TEDx Padua

2016, Humanist Artisans of the Web

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

HOME PAGE NOVEMBER 2018



NEWSLETTER SEPTEMBER

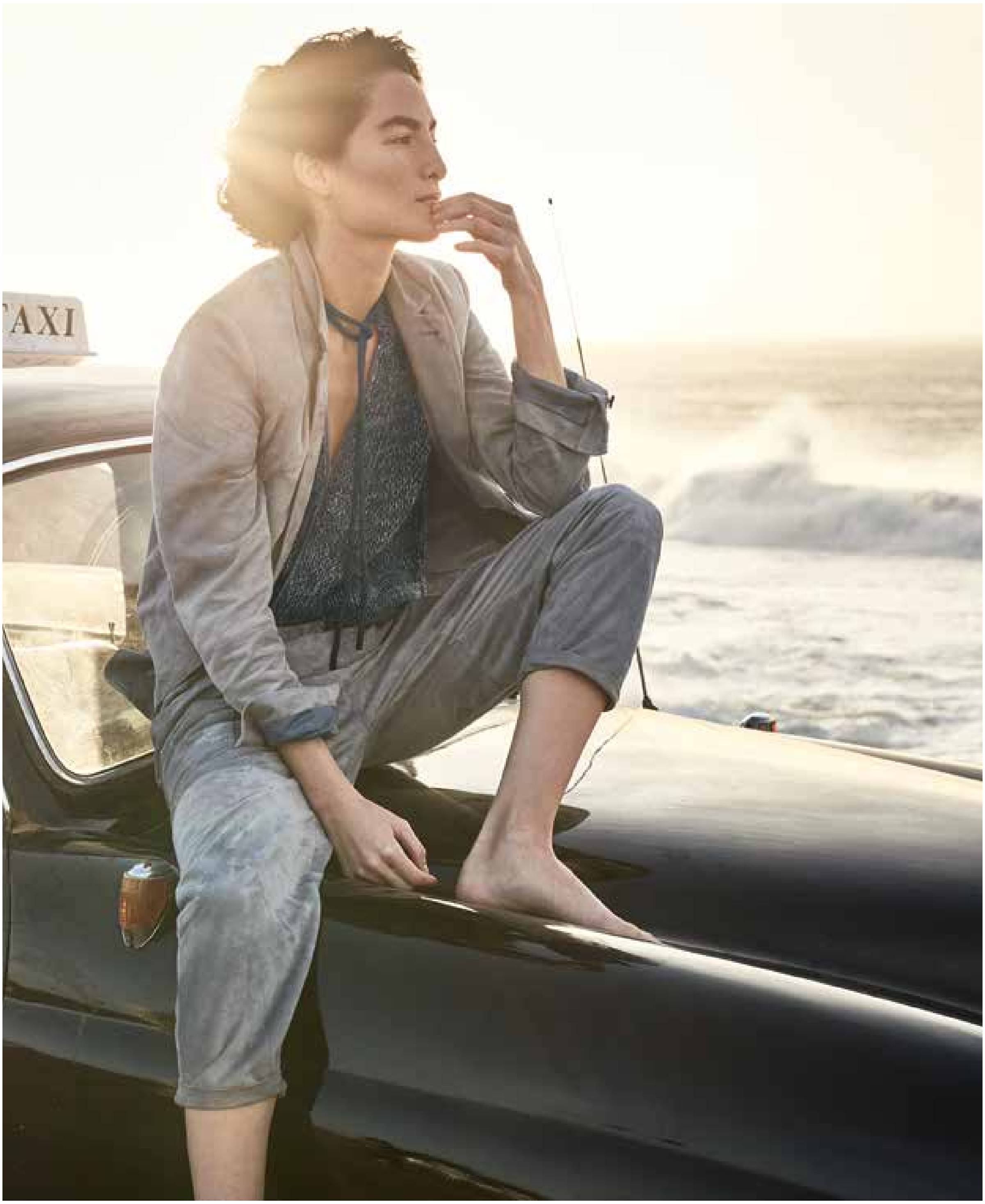
THE COLLECTIONS

The new 2018 collections garnered attention and acclaim from customers and fashion insiders alike: the collections underline and develop the distinctive personality of the contemporary, informal style which has always been the brand's aesthetic.

The collections take their cue from inspirations found roaming freely about the Web, and are enriched by day-to-day interaction with a constantly changing world. Pieces traditionally associated with smart, understated elegance are now embracing a new kind of freedom, to become more eclectic and even witty on occasion. References, surfaces and traditions that are apparently worlds apart are woven together in a cultural blend; the end result is a fun take on daywear with a contemporary twist. Everyday wearability and comfort are the key ingredients of a new way of dressing.

Soft, premium fabrics show off the quality of the finest natural fibres. The key feature is lightness: this allows a flexible balance of layering, combining and contrasting garments in both summer and winter. This means the pieces can be coordinated simply and easily, a feature which blends the characteristics of identity and versatility which are so central to the brand's style. The sumptuous quality of traditional and innovative textiles is enhanced by a sophisticated colour palette and a substantial amount of hand-crafted detailing and finishes.

Brunello Cucinelli knitwear puts a new spin on tradition, to highlight the quality of the yarns, techniques and distinctive details found in the collections. Alongside classic knits, new and redeveloped stitches are used to add character to textures and nuances. The summer collection features a chic selection of coordinating colours that convey the freshness and dynamism infused in each piece. The winter collection, for which the sales campaign is about to come to a close, showcases an impressive variety of light, cosy textiles and yarns, embellished with new details that draw attention to artisanal workmanship.


TAXI


TAXI

VISUAL MERCHANDISING: LINKS WITH TRADITION, THE DIGITAL WORLD AND HUMAN VALUES

Visual merchandising has always been the outcome of a blend of innovation and guardianship; of research using advanced new techniques, and a commitment to promoting our region's heritage and special identity. Our aim is to offer compelling, unique images and settings which are born of the passion and devotion of the Solomeo workshops, making them world ambassadors for the ethics and aesthetics of the Italian lifestyle. As such, each of the boutiques is conceived to be a **familiar, friendly place**, offering customers a relaxed atmosphere where they can let their thoughts unwind and fully appreciate the values underlying this humanistic company.

In an aesthetic and spiritual continuation of the criteria used to run the brand's digital store, the interior design of the physical boutiques embody the company's messages and ideals tangibly, through the creation of exclusive artefacts.
The window display themes are entirely researched, developed and perfected at the Solomeo workshops: set design, objects and images have the power to embody the inspirations and values that govern the hamlet and the company itself.

The new window displays and boutique interiors are based upon certain key themes: they highlight the fundamental, inevitable link between familiar everyday life and the value of dreams – between the dynamism of today's world, and the importance of "human time". Designed to reflect the brand's values, the seasonal renovations of the displays are fantastic opportunities to present refined, visible evidence of the ideas and stimuli that arise from the hamlet of Solomeo's attentive observation of the contemporary world. The **Lifestyle Collections** also contribute to the same goals, from their own perspective: the products and items in them are aimed at achieving a rich synergy between family time at home, and the vibrant, multicultural nature of time spent travelling.

The **visual team** is an energetic manifestation of enthusiasm and attention to detail. It has the task of presenting a product and curating the way it is displayed all over the world, highlighting the brand values and Italian lifestyle while resonating with the local culture and traditions of the various countries in which the boutiques are situated. Clear guidelines are provided to ensure that every display presents its own unique, distinctive identity.

The team works in close collaboration with the design team so that the combinations of outfits, the accompanying items and window sets give emphasis to the collections, thus engaging the customer in an authentic, truthful storytelling experience.

INVESTMENTS

The investments made in 2017 support the company's commitment to remaining **contemporary** in the long term, through **development projects** and the "**great brand protection effort**", the pillars through which we tackle the "*daily work […] that fascinates us and enables us to enthusiastically pursue and seek a good life*".
The aim is to safeguard, as we always have and will continue to do, the **exclusivity** and **protection** of the brand across the **physical and digital channels** alike, in a context of constantly evolving technologies that risk diluting the brand image unless they are carefully monitored and controlled.

The commercial investments made in the course of the year are geared towards maintaining and further enhancing the brand's prestige through its presence in premium locations and cities. This includes the expansion and refurbishment of the network of monobrand boutiques and of the dedicated concessions in the most prestigious Luxury Department Stores, so as to make every one of these spaces "***representative of our culture***".

We believe that day after day, these investments must support our commitment to and pursuit of **modernity** in our products. We seek out the real-life stimuli which help keep the brand's style relevant, and strive to be engaging in our relationships, our communication, and in the behaviour of our retail staff; above all, we try to stay one step ahead of changes, and are aware of every individual's desire to feel special and unique.

One crucial aspect is that of presenting a **"unique" image**, in our products as well as in our visual merchandising and across all of our retail spaces; the investment plan sets out to fulfil our wishes in this sense, both in the here and now, and from a very long-term perspective.

The recently-opened stores, including the boutique which was unveiled at the beginning of the year at 27 Via Montenapoleone in Milan, are therefore an opportunity to communicate our philosophy, our story and our values, as well as being important retail outlets.
That same philosophy informs the investments made in our showrooms. We believe that a space which always looks fresh, new and refurbished even in the details, offers an added value in helping to keep the collection's image "young and contemporary".
This pursuit of exclusivity and contemporary qualities has shaped the investment plan, giving equal care and importance both to the digital world of the internet and online presence, where the management software and retail platforms are constantly updated with the latest technology, and to the logistics facilities at the Solomeo headquarters, which support all related activities.

We attach great significance to protecting and safeguarding the brand's prestige in the online channel. As a result, at the start of the year we began directly managing our Online Boutique, and launched the new corporate website to coincide with this, as we endeavour to offer customers the same "human", "special" experience on the web that they find in our physical stores.
Given the internet's power to potentially "massify" anything and everything, our great effort to protect the brand day after day is focused on the web, taking meticulous care over exactly how our values are communicated, and how our collections are distributed.

The highly-skilled craftsmanship which makes our product offering special is supported by manufacturing systems that are kept constantly up-to-date, providing our human resources with workspaces designed to respect and place value upon their dignity.

We extend that same attention towards all of the specialist artisan workshops which produce our pieces; we are extremely dedicated to ensuring that they respect the moral dignity of their own workers, in comfortable and safe working environments.

These are the values with which we tackle our daily work, and the cornerstones which we believe strengthen cohesion between all the players in the manufacturing process, while supporting the long-term sustainability of the healthy growth of our revenues and profit margin.

INTRODUCTION

This Financial Report at 31st December 2017 was prepared pursuant to Legislative Decree 58/1998, as amended, and to the Issuers' Regulations issued by CONSOB. This Report has been prepared in accordance with the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and adopted by the European Union.

SUMMARY DATA AT 31ST DECEMBER 2017

The following tables provide (i) a summary consolidated income statement for the year ended 31st December 2017, with comparative figures for the year ended 31st December 2016; (ii) a consolidated statement of financial position reclassified by sources and uses at 31st December 2017, with comparative figures at 31st December 2016; and (iii) total capital expenditure and cash flows from operating activities for 2017, with comparative figures for the year ended 31st December 2016.

Summary consolidated income statement

(In thousands of euro)	Year ended 31st December				Change	
	2017	% of revenues	2016	% of revenues	2017 vs. 2016	2017 vs. 2016 %
Net revenues	503,571	99.6%	455,971	99.8%	47,600	+10.4%
Revenue from sales and services	505,684	100.0%	457,029	100.0%	48,655	+10.6%
EBITDA	87,476	17.3%	76,692	16.8%	10,784	+14.1%
Normalised EBITDA (1)	87,476	17.3%	78,215(1)	17.1%	9,261	+11.8%
Operating profit (loss)	64,721	12.8%	56,645	12.4%	8,076	+14.3%
Net profit for the year	52,485	10.4%	37,119	8.1%	15,366	+41.4%
Normalised net profit for the year (2)	42,084 (2)	8.3%	37,119	8.1%	4,965	+13.4%

(1) Normalised EBITDA refers to the figure at 31st December 2016, attributable to the recognition of non-recurring costs, in the amount of €1,523 thousand, shown on the financial statements as an "of which" under payroll costs.

(2) Normalised net profit for the year refers to the figure at 31st December 2017 attributable to the effects of the tax benefit arising from the so-called "Patent Box", reducing direct taxes by €10.4 million.

It is worthy of note that, pursuant to CONSOB resolution no. 15519 of 27th July 2006, significant gains or losses from non-recurring events or transactions are shown separately in the comments provided by management and in the financial disclosures.
To that end, in 2017 Brunello Cucinelli S.p.A. felt the effects of the tax benefit arising from the so-called "Patent Box", with a cumulative impact, referring to 2015, 2016 and 2017, in terms of reducing direct taxes by €10.4 million; consequently, income tax rates for the year were 11.7% compared to 30.5% last year. The "normalised" tax-rate was 29.2% and the consequent "Normalised net profit for the year" came to €42,084 thousand, an increase of +13.4% with respect to the figure for 2016.

Furthermore, it is worth mentioning that non-recurring personnel expenses were recognised in previous financial year, which resulted in the normalisation of the item "EBITDA".

Statement of financial position reclassified by sources and uses

(In thousands of euro)	Year ended		Change	
	31st December 2017	31st December 2016	2017 vs. 2016	2017 vs. 2016 %
Net working capital	126,993	129,268	(2,275)	-1.8%
Non-current assets	152,969	145,911	7,058	+4.8%
Other non-current assets/(liabilities)	(1,068)	1,659	(2,727)	<-100%
Net invested capital	**278,894**	**276,838**	**2,056**	**+0.7%**
Net debt	15,703	50,956	(35,253)	-69.2%
Equity	263,191	225,882	37,309	+16.5%
Sources of funding	**278,894**	**276,838**	**2,056**	**+0.7%**

Other summary data

(In migliaia di Euro)	Year ended		Change	
	31st December 2017	31st December 2016	2017 vs. 2016	2017 vs. 2016 %
Capex	35,682	29,778	5,904	+19.8%
Net cash provided by/(used in) operating activities	85,741	44,539	41,202	+92.5%

ALTERNATIVE PERFORMANCE MEASURES

To enable better assessment of the business performance, the Brunello Cucinelli Group uses certain alternative performance measures 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 measures, as determined in keeping with the Final Guidelines on Alternative Performance Measures issued by ESMA/2015/1415, and adopted by CONSOB with communication no. 92543 of 3th December 2015, refer solely to the performance of the financial year described in this Financial Report and the comparative financial years and not to the Group's expected performance.

The alternative performance measures used in this Financial Report are defined as follows:

- **EBITDA:** This is *Operating Profit* before *Amortisation and Depreciation*.
- **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 the sum of *Non-current assets* and *Current assets*, not including financial assets (*Other current financial assets and Cash and cash equivalents*) minus *Non-current liabilities* and *Current liabilities*, not including Financial liabilities (*Current and non-current bank borrowings, current and non-current financial liabilities*).
- **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 2017

The year 2017, an especially fine one for the business, has left an important mark on our history, enabling us to reach and exceed €500 million in sales and allowing us to continue looking to the future with unchanged confidence and serenity while at the same time fully respecting the economic and moral dignity of all those "thinking souls" who accompany the Company's life in a harmonious synthesis of profit and gift.
We are particularly satisfied with the highly positive atmosphere circulating around the brand, the decisive appreciation with which our collection proposals are received and the lifestyle that we believe we are capable of creating, starting with our values and business identity.

All of this enables us to continue working by following the high ideals that have always represented the pillars of our business: a balance between working life and private life, sustainable growth and a "fair" use of technology.

In 2017 *Revenues from sales and services* amounted to €505,684 thousand, an increase of 10.6% with respect to the previous year.

Net Revenues at 31st December 2017 showed an increase of +10.4%, amounting to €503,571 thousand, compared with €455,971 thousand at 31st December 2016.

EBITDA at 31st December 2017 came to €87,476 thousand, equal to 17.3% of revenue from sales and services, reflecting an increase with respect to *normalised EBITDA* as at 31st December 2016 of €9,261 thousand, representing an increase of 11.8%.
Note that 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 2016 financial year (34.7% at 31st December 2017, compared to 35.0% at 31st December 2016). This is mainly due to the greater impact of revenues generated by the retail distribution channel which, nonetheless, generated greater operating costs (mainly for payroll costs and leasing costs) due to development and expansion of directly managed sales points. More specifically, payroll costs, as a percentage, were 17.6% at 31st December 2017, compared with the normalised figure of 17.5% at 31st December 2016, an increase of €9,226 thousand in absolute terms. Leasing came to 11.7% at 31st December 2017, compared with 12.0% at 31st December 2016, an increase of €4,072 thousand in absolute terms.

Net profit at 31st December 2017 amounted to €52,485 thousand, accounting for 10.4% of Revenues from sales and services. *Normalised net profit* at 31st December 2017 (which eliminate the effect of the tax benefit arising from the so-called "Patent Box" totalling €10.4 million) came to €42,084 thousand, corresponding to 8.3% of Revenue from sales and service, an increase of €4,965 thousand (+13.4%) with respect to the figure from 2016.

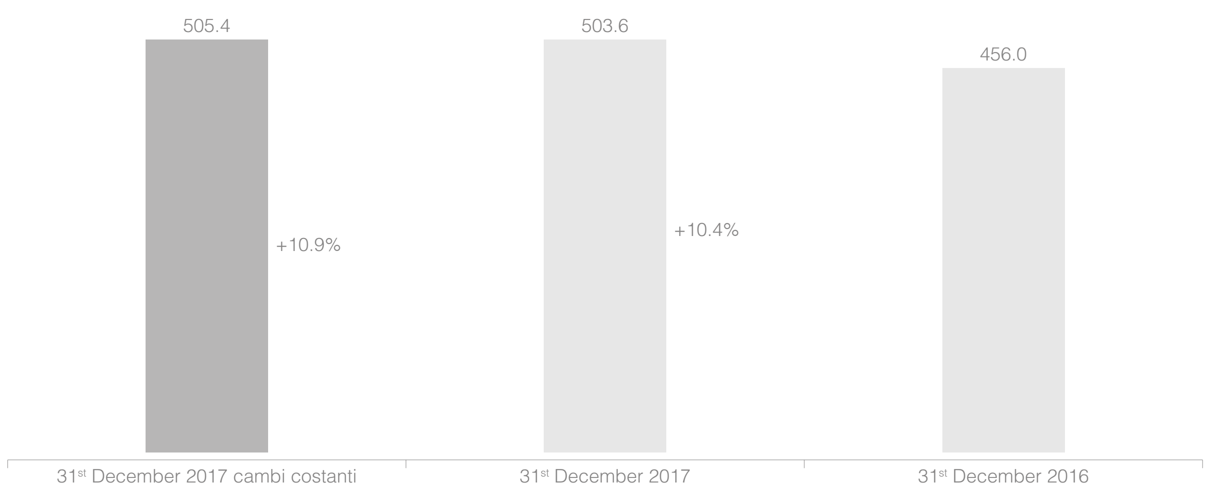
SEASONALITY OF SALES

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 and costs arising mainly from industrial operations that are not perfectly homogeneous.
In addition, the luxury market in which the Group operates is subject, at the sales channel level, to seasonality phenomena that have an impact on its economic results.
A principal seasonality phenomenon is linked to the selling methods of the wholesale monobrand and wholesale multibrand distribution channels, which have a concentration of revenues in the first and third quarter of each year; sales billing is concentrated in January-March for the spring/summer collection and in July-September for the fall/winter collection, although for the latter a significant amount of goods are delivered as early as the second quarter, as is by now the consolidated request arriving from the international clientele.
As for the retail channel, the Group's sales are concentrated primarily in the last quarter of each year, characterized by the sale of products with higher prices.
Consequently, the Group's interim results may not uniformly contribute to the formation of the results and cash flows of each year.

ANALYSIS OF REVENUES

The Group's consolidated turnover for 2017 amounted to €503,571 thousand, an increase of 10.4% with respect to 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 €505,447 thousand, an increase of +10.9%.

Significant growth was achieved in all distribution channels, monobrand and multibrand, and in all geographical areas.
The year just ended has been of extreme interest and especial beauty for the results achieved by the Company and above all for the outstanding levels of allure, lifestyle and credibility the brand has reached, thanks to the daily effort in protecting its exclusivity and selected presence in the physical and digital worlds. A year has passed since the opening of our online boutique and the launch of our new corporate website we are particularly pleased with the results obtained and even more so with the image which we hope we have succeeded in transmitting, with the places where we live and with respect for human being, dignity and the beauty of our land.

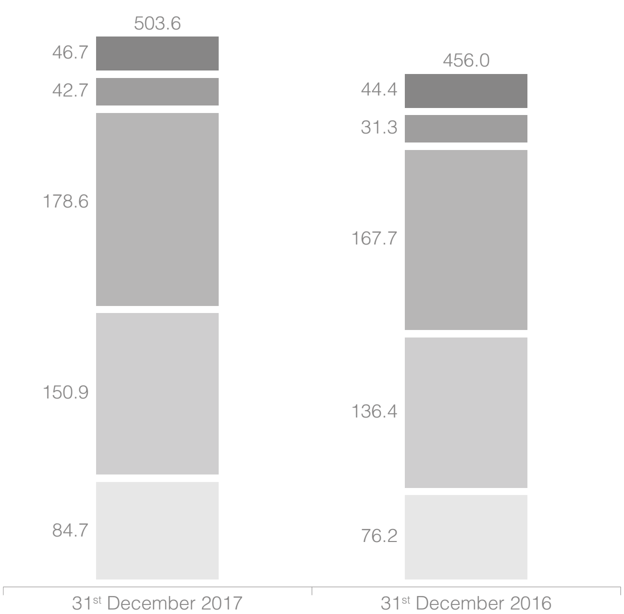


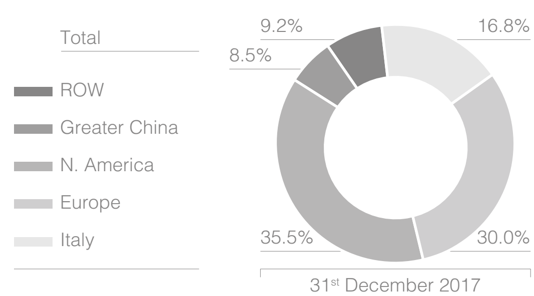
REVENUES BY GEOGRAPHICAL AREA

The international markets represented 83.2% of total net revenues, rising by +10.3%, growth that was accompanied by the very interesting and positive results obtained on the Italian market (16.8% of net revenues), where sales increased by +11.2%. The European market, including Italy, represented 46.8% of the total at the end of 2017.

The table below breaks down revenues by geographical area as at 31st December 2017.

(In thousands of euro)	Year ended 31st December				Change	
	2017	% share	2016	% share	2017 vs. 2016	2017 vs. 2016 %
Italy	84,697	16.8%	76,198	16.7%	8,499	+11.2%
Europe	150,858	30.0%	136,402	29.9%	14,456	+10.6%
North America	178,656	35.5%	167,657	36.8%	10,999	+6.6%
Greater China	42,696	8.5%	31,348	6.9%	11,348	+36.2%
Rest of the World (RoW)	46,664	9.2%	44,366	9.7%	2,298	+5.2%
Total	**503,571**	**100.0%**	**455,971**	**100.0%**	**47,600**	**+10.4%**





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

Italy

Net revenues from Italy represented 16.8% of total revenues (vs. 16.7% in the previous year), showing an encouraging increase, in absolute value of €8,499 thousand compared to 31st December 2016, corresponding to +11.2% (€84,697 thousand in 2017; €76,198 thousand in 2016).

We are especially pleased with this rise in sales as we consider Italy a highly strategic market, an extremely important showcase for the brand's image, akin to a "thermometer" which allows us to assess the collections' reception, with end customers always attentive to trends, good taste and the wearability of our garments.
The opening of the Montenapoleone boutique in Milan had a very positive effect. We consider the store that was inaugurated in January 2017 to be an expansion of the previous space in Via della Spiga. A year has passed and we are very satisfied with the sales performance and the considerable contribution made to the brand's image as we seek to transmit the dignity and beauty of our land and the atmosphere of the places in which we live.

At 31st December 2017, the monobrand network (direct and wholesale monobrand) included 15 boutiques.

Europe

Net revenues in Europe represented 30.0% of total revenues (29.9% in the previous year), rising +10.6%, from €136,402 thousand to €150,858 thousand, with an increase of €14,456 thousand in absolute terms.

A uniform increase in revenues across all areas and in all channels, supported by top-end tourists and above all local customers, noting the enthusiasm, extreme care and attention with which they experience the purchase of our brand.
The results of sales in both the monobrand and multibrand channels were interesting. Here we can see boutiques with beautiful, well looked after display windows having a "fine atmosphere" that invite you to come in and buy.
As always, we believe that firmly underlying the possibility of remaining competitive in all sales channels are the exclusivity of distribution, the modernity of the product and the freshness of visual merchandising.

At 31st December 2017, the monobrand network (direct and wholesale monobrand) included 46 boutiques.

North America

Net revenues in North America represented 35.5% of total revenues (36.8% in the previous year), with sales reaching €178,656 thousand compared to €167,657 thousand of last year, an increase of €10,999 thousand, or +6.6%.

The sales trend was solid in all distribution channels, both monobrand and multibrand, with the value of the garments to be found in the boutiques always enhanced by the detailed work carried out by our "visual merchandising" teams who follow the retail and wholesale sales spaces with the same care.
The sales performance in the multibrand channel was supported by the "special relationship" we believe we have with the Luxury Department Stores which are always on the hunt for exclusive clothing's with limited distribution, those capable of providing a luxury prêt-à-porter offer, especially daytime wear, that represents elegance, refinement and sophistication.
Of equal importance are the activities relating to the "trunk shows", sales moments when customers have the opportunity of getting to know the collections both as a whole and in detail; an occasion for creating a mutual relationship of complete trust, thereby completing the purchasing experience.

At 31st December 2017, the monobrand network included 25 boutiques.

Greater China

Net revenues in the Greater China area accounted for 8.5% of total revenues (6.9% for the same period of the previous year) and increased by €11,348 thousand (+36.2%). Revenues rose from €31,348 thousand to €42,696 thousand.

We have an extremely strong desire to protect the brand's exclusivity and allure in Greater China. In fact we believe that a limited distribution can ensure its appeal, protecting it and maintaining the exclusivity sought after by our end customers; the brand's presence is therefore restricted to 18 direct boutiques in the whole of Greater China, with only one opening taking place during the year.

The sales made in the multibrand channel in Greater China provided a positive contribution through our presence in exclusive multibrand boutiques: spaces with an extremely beautiful image and the presence of the most important brands in global luxury, capable of attracting a local clientele geared towards the search for top quality items.

We have the feeling that Chinese customers really enjoy shopping in these beautiful multibrand stores, positioned in highly charming locations, since when leaving the store and walking down the passageways they can show off the "large bags" and fascinating purchases they have just made.

We believe, therefore, that our presence in both the multibrand and monobrand channels in China represents a potential for growth that is interesting in the medium to long term but must always be grasped with balance, in the "right" way and with the proper timing.

At 31st December 2017, the network included 21 monobrand boutiques.

Rest of the World

Net revenues in the Rest of the World increased by +5.2% in 2017 as compared to the previous year. Revenues rose from €44,366 thousand to €46,664 thousand.

Solid results in all geographical areas, supported by an increase in the demand from local customers who are attracted by a brand that we believe to be one of the symbols of the Made in Italy sector, rich in craftsmanship, tradition and manual skill and representative of an exclusive lifestyle.

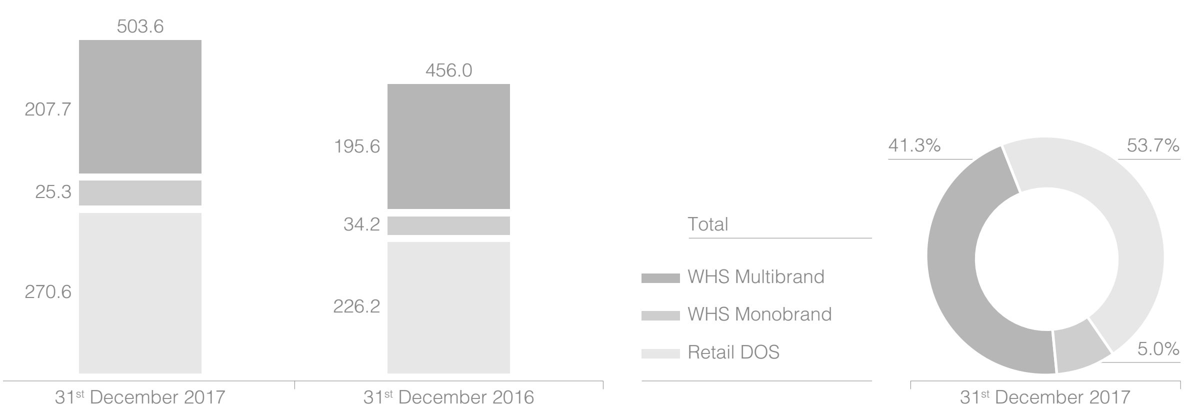
We attribute significant value to the exclusivity of our presence in all the markets in which we operate and we are therefore especially satisfied with the brand's image, with sales spaces that give the impression of being extremely well cared for, visual merchandising that we consider to be of great interest and the presence of staff who we would always like to be courteous and capable of explaining the collection and explaining our values, our philosophy and our way of being.

At 31st December 2017, the monobrand network included 17 boutiques.

REVENUES BY DISTRIBUTION CHANNEL

The table below shows the Group's net revenues for 2017, broken down by distribution channel.

(In thousands of euro)	Year ended 31st December				Change	
	2017	% share	2016	% share	2017 vs. 2016	2017 vs. 2016 %
Retail	270,554	53.7%	226,220	49.6%	44,334	+19.6%
Wholesale Monobrand	25,305	5.0%	34,176	7.5%	(8,871)	-26.0%
Wholesale Multibrand	207,712	41.3%	195,575	42.9%	12,137	+6.2%
Total	**503,571**	**100.0%**	**455,971**	**100.0%**	**47,600**	**+10.4%**



RETAIL

Net revenues generated by the retail channel came to €270,554 thousand, reflecting an increase of €44,334 thousand, equal to +19.6% with respect to the previous year.

At 31st December 2017, the retail channel accounted for 53.7% of the Group's total net revenues, up with respect to the 49.6% seen at 31st December 2016.

The trend in like-for-like sales was very positive, as was the development of the boutique network which included selected openings and the conversion of certain selling spaces from third party management to direct operations. A positive contribution arrived from the passage to direct operations in Holt Renfrew's Luxury Department Stores in Canada, where the spaces were previously run on the basis of the wholesale formula, which took place following the signing of an agreement on 13rd March 2017.

In 2017, like-for-like performance rose +4.4%, with a very satisfying trend taking place during the year and very interesting sell-out figures for the Autumn/Winter 2017 collections. The first months of 2018 confirm the positive LFL performance, which came to 4.0% for the period from 01st January to 25th February 2018, thanks to their appeal and the sell-out figures from the Spring/Summer 2018, with a collection proposal that maintains the fundamental characteristics of prestige, modernity and top-level craftsmanship.

As at 31st December 2017, the network consists of 94 direct boutiques, with 4 openings in 2017 and the conversion of the 4 boutiques in Moscow from the wholesale monobrand channel.

WHOLESALE MONOBRAND

Net revenues recognised through the wholesale monobrand channel amounted to 5.0% of net revenues, which was lower than the 7.5% recorded in 2016. In absolute terms, revenues reached €25,305 thousand, a decrease of €8,871 thousand, or -26.0%, compared to 31st December 2016. Excluding the transition from third-party management to direct management of the online boutique and of 4 boutique stores in Moscow, the figure would be positive, increased by +1.5%.

The brand's presence in the wholesale monobrand channel consists of 30 boutiques in prestigious locations; as in the direct channel the sales spaces are looked after with extreme care, creating the possibility for collections to provide full representation of our taste and meet customer demand, thanks also to local partners who are fully aware of the dynamics of the market in which our sales spaces are to be found.

WHOLESALE MULTIBRAND

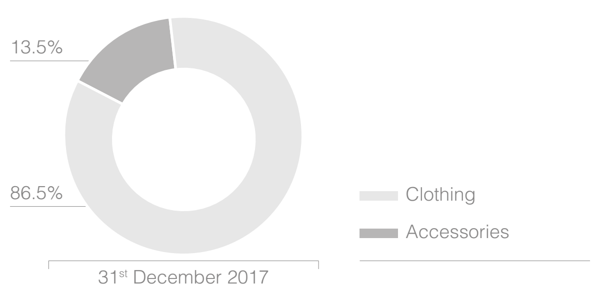
Net revenues recognised through the wholesale multibrand channel came to €207,712 thousand (+€12,137 thousand, compared to 31st December 2016, reflecting a +6.2% increase with respect to 2016).
The proportion of revenues represented by this went from 42.9% at 31st December 2016 to 41.3% at 31st December 2017.

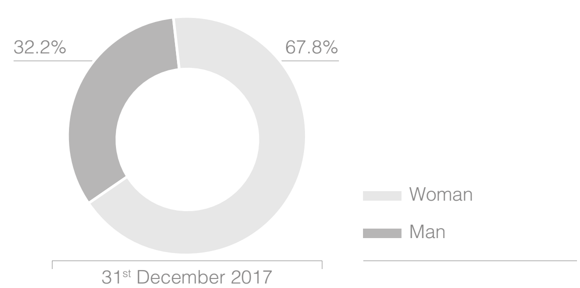
The very positive results for 2017 are accompanied by equally important figures for the orders received for the 2018 spring/summer collections which support the sustainability of growth and contribute to giving visibility to the upwards trend expected to occur in the first half of the new year.
The orders received for the 2018 autumn/winter collection show very positive figures, both for the men's collections, already completed, and for the women's collections, which are close to completion.

The solidity of the results in all the markets in which we operate, including in the geographical areas where the performance of the sector has been affected by macroeconomic and sectorial dynamics, is supported not only by a collection proposal that is exclusive and with limited distribution but also by the special relationship which we believe we are capable of creating with the most prestigious multibrands and the most important Luxury Department Stores.

REVENUES BY PRODUCT LINE AND BY END CUSTOMER

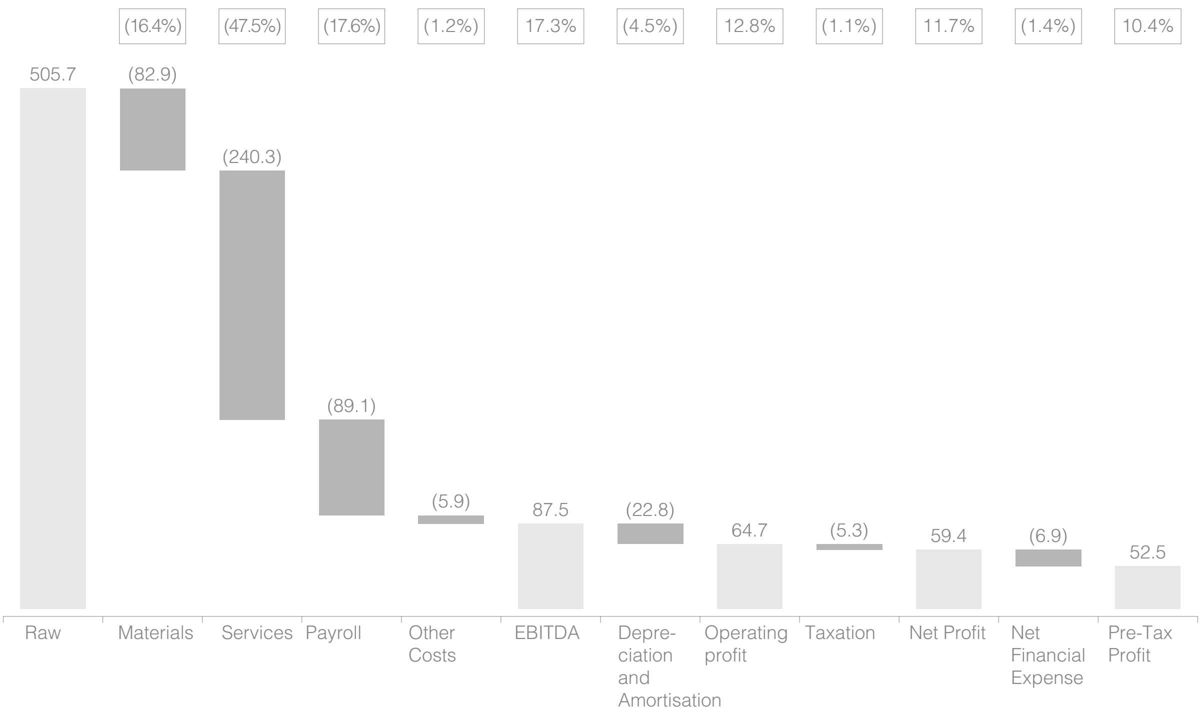
The following is a graphical representation of the Brunello Cucinelli Group's revenues at 31st December 2017, analysed by product line and end customer:





ANALYSIS OF THE INCOME STATEMENT

The following is a graphical representation of the income statement for the year ended 31st December 2017, which presents our performance during 2017:



OPERATING RESULTS

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

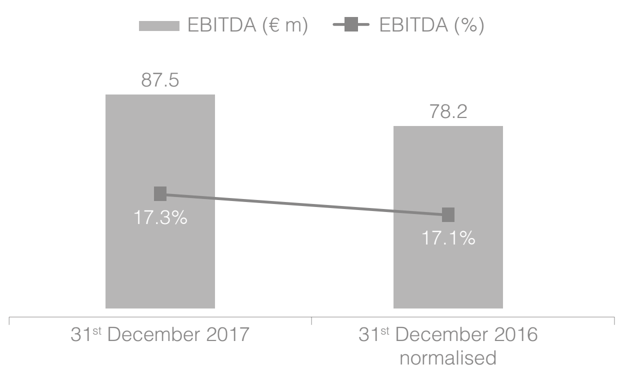
(In thousands of euro)	Year ended 31st December				Change during the period	
	2017	% of revenues	2016	% of revenues	2017 vs. 2016	2017 vs. 2016 %
Operating profit (loss)	**64,721**	**12.8%**	**56,645**	**12.4%**	**8,076**	**+14.3%**
+ Amortisation/Depreciation	22,755	4.5%	20,047	4.4%	2,708	+13.5%
EBITDA	**87,476**	**17.3%**	**76,692**	**16.8%**	**10,784**	**+14.1%**
+ Non-recurring costs (1)	-	0.0%	1,523	0.3%	(1,523)	-100.0%
Normalised EBITDA	**87,476**	**17.3%**	**78,215**	**17.1%**	**9,261**	**+11.8%**

(1) Non-recurring expenses as at 31st December 2016, refer to costs, in the amount of €1,523 thousand, shown on the financial statements as an "of which" under payroll costs.

EBITDA at 31st December 2017 amounted to €87,476 thousand, representing 17.3% of Revenue from sales and services, up 11.8% on the normalised figure for the previous year. At 31st December 2016, EBITDA percentage was 17.1%.

As already mentioned, 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 previous financial year (34.7% at 31st December 2017, compared to 35.0% at 31st December 2016). This is mainly due to business growth, changes in the channel mix- with Retail sales increasing from 49.6% in 2016 to 53.7% in 2017-, supported by the positive *Like-for-Like* performance (+4.4% in the 12 months of 2017) as well as the very interesting sell-out figures.

The following table sets out in graphical form the trends in the Group's EBITDA as at 31st December 2017 and 31st December 2016:

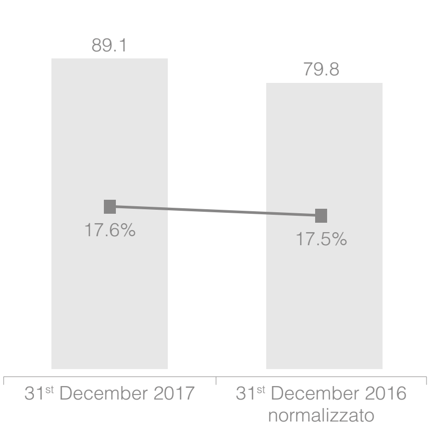


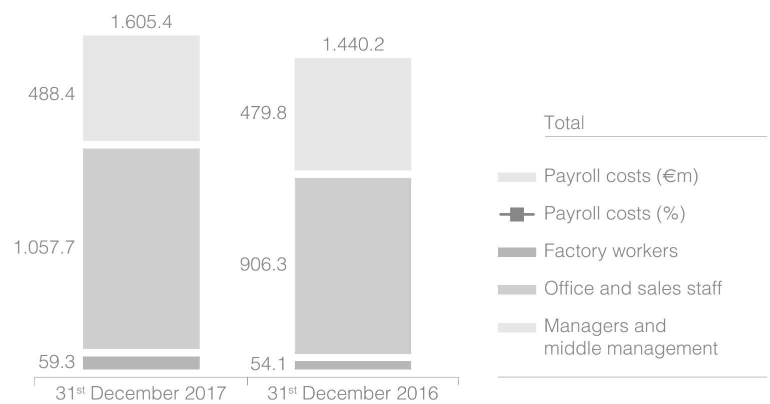
As noted above, EBITDA went from 17.1% in 2016 when normalised to 17.3% in 2017, increasing by €9,261 thousand in absolute terms.
The economic trends which characterised 2017 were above all represented by a higher percentage of net revenues coming from the retail distribution channel as a percentage of the total for the period (53.7% at 31st December 2017 compared to 49.6% as at 31st December 2016). The increased percentage weight of the retail channel is a result of organic growth in existing retail outlets (like-for-like growth +4.4%) and the development of the network of direct shops which, compared to the previous year, grew overall in number by 8 units (including the conversion of 4 boutiques in Moscow), as well as the transition to direct management of 5 shops-in-shops within the Holt Renfrew luxury department stores in Canada and the expansion of existing spaces.

The above activities determined a reduction in terms of percentage impact, of production costs associated with raw materials and outsourced work (34.7% at 31st December 2017 compared to 35.0% at 31st December 2016). Note that the percentage in question is affected, in the various quarters of the year, by the seasonality of revenues and costs.

(In thousands of euro)	Year ended 31st December				Change	
	2017	**% of revenues**	**2016**	**% of revenues**	**2017 vs. 2016**	**2017 vs. 2016 %**
Costs for raw materials and consumables	87,211	17.2%	81,803	17.9%	5,408	+6.6%
Change in inventories	(4,310)	-0.9%	(8,915)	-2.0%	4,605	-51.7%
Outsourced work	92,811	18.4%	87,005	19.0%	5,806	+6.7%
Total	**175,712**	**34.7%**	**159,893**	**35.0%**	**15,819**	**+9.9%**

Payroll costs at 31st December 2017 posted a percentage impact of 17.6%, as compared to 17.5% as at 31st December 2016 on a normalised basis, for an increase in absolute value over the normalised figure of the previous period of €9,226 thousand.
Full Time Equivalents (FTEs) totalled 1,605.4 at 31st December 2017, compared with 1,440.2 at 31st December 2016 (+165.2) which was principally the result of the increase in sales staff generated by the expansion of directly managed sales outlets in Russia and Canada (see the section "Significant events during 2017") 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 revenue from sales and services of which remained essentially stable (11.7% at 31st December 2017, compared to 12.0% at 31st December 2016), posted an increase of €4,072 thousand in absolute terms compared to the previous year. The increase in lease expense in absolute terms is due to the development of the retail network which included 4 openings and 4 conversions from wholesale monobrand, in addition to the expansion of some sales floors.
– The weight in percentage terms of commissions and accessory charges related to commissions payable to the network of agents, fell with respect to the previous year (2.5% in 2017, 2.8% in 2016), also in relation to the evolution in breakdown mix of revenues;
– Advertising and other marketing costs rose by €4,017 thousand, or +16.3%, on the previous year, accounting for 5.7% of Revenue from sales and services, an increase compared to the 5.4% recorded at 31st December 2016. Growth is due largely to the acceleration of digital investments, which help to strengthen and protect, like in the physical world, the brand's image. 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 accounted for 3.5% of revenues in 2017, in line with the figure reported in 2016;
– Credit card charges rose by 22.9% on the previous year, a figure which is strictly connected with the expansion of the retail channel.

The following table provides a summary of these items for 2017 and 2016, together with their percentage as a proportion of revenue from sales and services.

(In thousands of euro)	Year ended 31st December				Change	
	2017	% of revenues	2016	% of revenues	2017 vs 2016	2017 vs. 2016 %
Commissions and accessory charges	12,701	2.5%	12,798	2.8%	(97)	-0.8%
Advertising and other marketing expenses	28,674	5.7%	24,657	5.4%	4,017	+16.3%
Transport and duties	17,470	3.5%	16,034	3.5%	1,436	+9.0%
Lease expense	59,069	11.7%	54,997	12.0%	4,072	+7.4%
Credit card commissions	4,899	1.0%	3,985	0.9%	914	+22.9%

NET FINANCIAL EXPENSE, TAXATION AND NET PROFIT

Net financial expense amounted to €5,307 thousand at 31st December 2017, of which financial expenses were €23,504 thousand and financial income was €18,197 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 (for both foreign exchange forward contracts and hedging with interest rate swaps) changes in financial income and expense:

(In thousands of euro)	Year ended 31st December				Change	
	2017	% of revenues	2016	% of revenues	2017 vs. 2016	2017 vs. 2016 %
Interest on loans	626	0.1%	698	0.1%	(72)	-10.3%
Other expense/(income), net	825	0.2%	732	0.2%	93	+12.7%
Financial (income)/expense	**1,451**	**0.3%**	**1,430**	**0.3%**	**21**	**+1.5%**
Foreign exchange (gains)/losses	(246)	0.0%	947	0.2%	(1,193)	<-100.0%
Unrealized exchange gains/losses	1,433	0.3%	(875)	-0.2%	2,308	>100.0%
Financial (income)/expense arising from adjusting derivatives to fair value	2,669	0.4%	1,743	0.4%	926	+53.1%
Total financial expense, net	**5,307**	**1.1%**	**3,245**	**0.7%**	**2,062**	**+63.5%**

As at 31st December 2017, there was an unrealized exchange loss of €1,433 thousand, as compared to a net unrealized exchange gain of €875 thousand for 2016. This change was largely due to intercompany loans provided in foreign currency by the parent company, Brunello Cucinelli S.p.A., to the companies of the Group, temporary by nature and therefore measured at the year-end exchange rate.

Income taxes for the year amounted to €6,929 thousand, representing 11.7% of pre-tax consolidated profit. As mentioned above, after normalising taxes in consideration of the tax benefit resulting from the so-called "Patent Box" being accounted for in the 2017 income statement, the tax-rate would be 29.2%.

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, normalised net profit for the period came to €42,084 thousand, or 8.3% of Revenue from sales and services, which represents an increase of €4,965 thousand, or +13.4%, with respect to the figures of 2016.

The table below breaks down net profit between the portion attributable to the Parent Company's shareholders and that attributable to non-controlling interests:

(In thousands of euro)	31st December 2017	31st December 2016
Net income attributable to shareholders of the parent company	51,117	36,397
Net income for the period attributable to non-controlling interests	1,368	722
Net profit	**52,485**	**37,119**

ANALYSIS OF KEY BALANCE SHEET AND FINANCIAL ITEMS

Comments are provided below on the main items included in the balance sheet reclassified by sources and uses at 31st December 2017, compared with those relative to 31st December 2016.

NET WORKING CAPITAL

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

(In thousands of euro)	**31st December 2017**	**31st December 2016**
Trade receivables	45,178	47,231
Inventories	152,647	154,814
Trade payables	(65,261)	(63,356)
Other current assets/(liabilities), net	(5,571)	(9,421)
Net working capital	**126,993**	**129,268**

Net working capital for the year ended 31st December 2017 fell to €2,275 thousand with respect to the figure at 31st December 2016. The change was mainly due to the combined effects of the following:

– a decrease of €2,053 thousand in trade receivables, with a percentage impact on net revenues for the last 12 months that decreased to 9.0% compared to the 10.4% of the previous year. 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; Lastly, it is noted that uses of the allowance for bad debts and losses on bad debts recognised in the income statement for the year ended 31st December 2017 represented 0.11% of Net revenues (0.20% in the previous year);

– a decrease of €2,167 thousand in "Inventories", with a percentage impact on net revenues for the past 12 months of 30.31% (compared to 33.95% as at 31st December 2016); the decrease in the percentage impact was driven by the good sell-out and the limited number of new openings of direct boutiques.

  Raw materials rose to €884 thousand, increasing from €28,661 thousand at 31st December 2016 to €29,545 thousand at 31st December 2017, while finished and semi-finished goods decreased by €3,051 thousand, from €126,153 thousand at 31st December 2016 to €123,102 thousand at 31st December 2017.

(In thousands of euro)	**31st December 2017**	**31st December 2016**
Raw materials	29,545	28,661
Finished and Semi-finished goods	123,102	126,153
Inventories	**152,647**	**154,814**

– an increase of €1,905 thousand in trade payables, with a percentage impact on net revenues for the last 12 months that decreased to 13.0% compared to the 13.9% of the previous year.
– "Other liabilities, net", amounting to €5,571 thousand at 31st December 2017, compared to €9,421 thousand for the previous year. The main change is attributable to the fair value measurement of derivative instruments to cover currency risk (at 31st December 2017, there was a net asset balance of €4,830 thousand whereas at 31st December 2016 there was a net negative balance of €2,926 thousand).

NON-CURRENT ASSETS

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

(In thousands of euro)	**31st December**	**31st December**
Intangible assets	2017	2016
Property, plant and equipment	30,995	28,823
Non-current financial assets	115,676	111,348
Non-current assets	**6,298**	**5,740**
	152,969	**145,911**

At 31st December 2017, Non-current assets amounted to €152,969 thousand, compared to €145,911 thousand at 31st December 2016, reflecting an increase of €7,058 thousand, or +4.8%.
For details of the changes in these items for the year, please refer to the information provided in the notes.
Also of note is the significant impact of amortisation and depreciation in absolute terms (an increase of €2,708 thousand), consequent to the investments made, the impact of which on revenue from sales and services was 4.5% compared to 4.4% in 2016.

(1) It should be noted that the Group accounting policy follows the "Cash Flow Hedge" rules, which provide for the fair value to be booked as an asset or liability item on the Balance Sheet (Asset or Liabilities for current financial instruments), with a corresponding balancing reserve in net assets to reflect the effective component of the change in fair value of derivatives, which will be reversed through revenues in the income statement at the point when the transaction being hedged is recognised for accounting purposes.

CAPEX

In 2017, the Group made investments in intangible assets totalling €10,777 thousand and capital expenditures totalling €23,890 thousand. The net balance of non-current financial assets (guarantee deposits) was €1,015 thousand.
The table below shows Group capex broken down by type and category at 31st December 2017 and 31st December 2016:

(In thousands of euro)	**31st December 2017**	**31st December 2016**
Investments in intangible assets	10,777	4,220
Investments in property, plant and equipment	23,890	25,393
Investments in non-current financial assets (*)	1,015	165
Total Investments	**35,682**	**29,778**

(*) Net security deposits (difference between deposits made and deposits received).

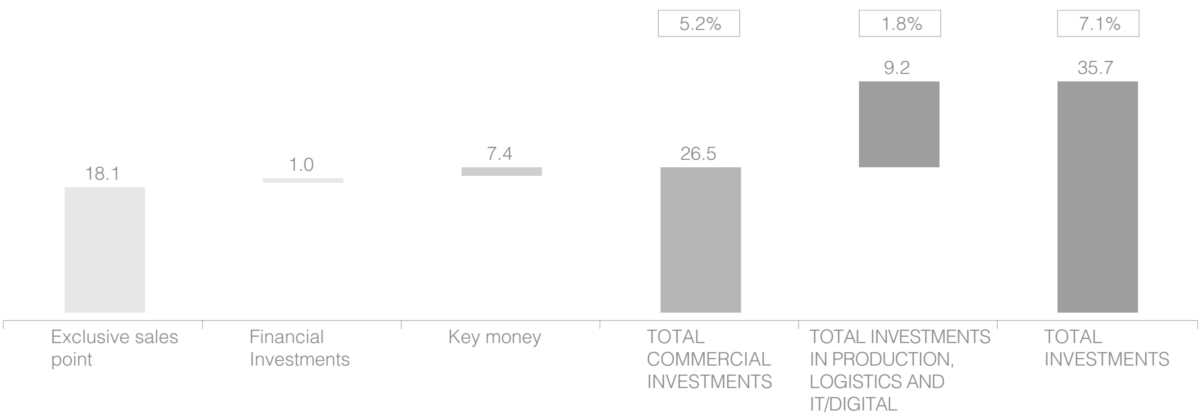
Capex and other financial investments in 2017 amounted to €35,682 thousand, of which approximately €26.5 million were devoted to marketing investments and €9.2 million to manufacturing, logistics and IT/Digital.

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 investments made in 2017 mainly targeted the boutique network, including important openings, upgrading and conversions - including the investment in the subsidiary OOO Brunello Cucinelli RUS, which led to the conversion of the 4 boutiques in Moscow from third-party management to direct management - and initiatives to maintain the exclusivity of our sales floors.

Investments in production, logistics and IT/digital are based on our desire to develop a technology that is always on the cutting edge, supporting technological platforms in managing the physical boutiques and the online boutique as well as information systems, software applications and logistic structures for managing the associated activities.
Among these investments, we would like to draw attention to the important project called "Contemporary Factory" started in 2017. This project expresses the Group's desire to embrace innovation through technology, while at the same time strengthening the "centrality of human beings". Important Universities and Technological research centres (University of Perugia, MIT in Boston, Bocconi in Milan and IIT-Italian Institute of Technology of Genoa) and technology suppliers were involved in the project, with the intention to develop a research and innovation-based strategy in order to help the Italian manufacturing industry move towards new product systems, processes and technologies, in line with the strategic agendas of the European Union. Specifically, the initiative will run for 18 months, after which those involved will propose a new production model in the fashion industry (to be implemented at "Brunello Cucinelli" brand companies), from design to collections up to distribution, in a process "accompanied, and not dominated, by the new systems".

The following is a graphical representation of the capital expenditure and other financial investments incurred by the Group in 2017 by type:



NET DEBT

The table below provides details of Net debt, in accordance with CONSOB communication no. DEM/6064293 of 28th July 2006 and CESR's recommendation of 10th February 2005 "Recommendation for the consistent implementation of the European Commission's regulation on financial reporting.

(In thousands of euro)	**31st December 2017**	**31st December 2016**
A. Cash	(450)	(210)
B. Other liquid assets	(62,503)	(46,218)
C. Held-for-trading financial instruments	-	(1,964)
D. Cash and cash equivalents (A)+(B)+(C)	**(62,953)**	**(48,392)**
E. Current financial receivables	**(28)**	**(16)**
F. Short-term bank loans	3,878	16,165
G. Current portion of non-current debt	33,807	42,287
H. Other current financial payables	3,650	1,172
I. Current financial payables (F) + (G) + (H)	**41,335**	**59,624**
J. Net current debt (I) + (E) + (D)	**(21,646)**	**11,216**
K. Non-current bank loans	37,339	37,567
L. Bonds issued	-	-
M. Other non-current payables	10	2,173
N. Non-current financial payables (K)+(L)+(M)	**37,349**	**39,740**
O. Net debt (J)+(N)	**15,703**	**50,956**

The Brunello Cucinelli Group's net debt at 31st December 2017 lessened considerably, down €35,253 thousand with respect to the corresponding figure at 31st December 2016, falling to €15,703 thousand compared to €50,956 thousand at 31st December 2016.
The reduction in net debt, despite the significant investments mentioned above and paying dividends of €10.9 million arising from the distribution of 2016 profits, was driven by the generation of cash from operating activities, and by the fall in commercial working capital between 31st December 2017 and 2016.

Lastly, it is noted that:

– 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 hedging interest rate risk;
– Line item "M. Other non-current payables" relates to non-current liabilities for derivative instruments hedging interest rate risk.

EQUITY

The table below provides details of Equity at 31st December 2017 and 31st December 2016:

(In thousands of euro)	31st December 2017	31st December 2016
Share capital	13,600	13,600
Reserves	194,284	168,946
Net income attributable to shareholders of the parent company	51,117	36,397
Equity attributable to owners of the parent	**259,001**	**218,943**
Total equity attributable to non-controlling interests	4,190	6,939
Equity	**263,191**	**225,882**

Share capital at 31st December 2017 amounted to €13,600 thousand, fully paid-in, divided in 68,000,000 ordinary shares.

The Brunello Cucinelli S.p.A. shareholder structure as at 31st December 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
Trust Brunello Cucinelli (Fedone S.r.l.)	38,760,000	57.0%
FMR LLC	6,800,000	10.0%
Oppenheimer Funds Inc	3,409,520	5.01%
Other shareholders	19,030,480	27.99%
Total	**68,000,000**	**100.00%**

Reference should be made to the specific schedule and note 13 for a full description of changes in shareholders' equity.

Lastly, it is noted that, as discussed in the section "Significant events during 2018", on 9th January 2018 Fedone S.r.l. completed the sale of 4,080,000 shares of Brunello Cucinelli S.p.A., corresponding to 6.00% of the Company's share capital, through an accelerated book build offering to institutional investors. The transaction was settled (delivery of shares and payment of the consideration) on 12nd January 2018. As a result of the transaction, Fedone S.r.l. now holds 34,680,000 shares of the Company, equal to 51.00% of the Company's share capital.

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

The following is a reconciliation between the equity and net profit of the Parent and consolidated equity and net profit as of and for the year ended 31st December 2017.

(In thousands of euro)	31st December 2017	
	Equity	Net profit
Financial statements of the parent	**268,410**	**47,643**
Difference between equity of consolidated equity interests and carrying amounts of equity interests	8,188	4,990
Elimination of intercompany transactions	(29,013)	(1,678)
Elimination of dividends	-	(709)
Net investments in foreign operations	-	1,845
Tax effect of consolidation adjustments	11,416	(974)
Total attributable to the owners of the Parent	**259,001**	**51,117**
Equity and net profit attributable to non-controlling interests	4,190	1,368
Total consolidated financial statements	**263,191**	**52,485**

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 2017 and 2016. Note that the figures for 2017 were "normalised" to highlight the effect of the tax benefits of the so-called "Patent Box", while the 2016 figures reflect the numbers shown in the financial statements.

	31st December 2017	31st December 2016
ROE - Net profit for the year/average equity for the year	17.58%	17.56%
ROI - Operating profit / Average invested net assets for the year	23.74%	21.37%
ROS - Operating profit / Revenues from sales and services	12.80%	12.39%

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.

	31st December 2017	31st December 2016
Ratio - Equity/ Total assets	56.17%	52.54%
Ratio - Total current assets / Total current liabilities	196.59%	178.70%

TURNOVER RATIOS

	31st December 2017	31st December 2016
Receivable turnover *Revenues from sales and services / Average trade receivables*	10.9 times	9.8 times
Average trade receivable collection period *(Average trade receivables / Revenues from sales and services) *360*	32.9	36.6
Payable turnover (Costs for raw, ancillary and consumable materials + Service costs)/ Average trade payables	5.0 times	4.4 times
Average days payable outstanding *(Average trade payables / (Costs for raw materials and consumables, minus change in inventories + Costs for services) *360*	70.7	78.9
Average age of inventories *((Average inventories - average advances)/ Revenues from sales and services)*360*	109.4	117.7

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 7th March 2018, may be consulted in the **Governance section** of the Company's website*www.brunellocucinelli.it.*

INFORMATION ON THE CONSOLIDATED NON-FINANCIAL STATEMENT

In accordance with the provisions of article 5, paragraph 3, letter b, of Legislative Decree 254/2016, the Brunello Cucinelli Group has prepared the consolidated non-financial statement which is a separate report. The 2017 consolidated non-financial statement, prepared in accordance with GRI Standards, is available on the company's website **www.brunellocucinelli.it.**

PERFORMANCE OF THE COMPANY SHARE LISTED ON THE BORSA ITALIANA ELECTRONIC STOCK EXCHANGE (MTA)

On 31st December 2017, the final trading day for the year, the closing price of the Brunello Cucinelli share was €27.01 (+248.5% compared to the €7.75 per share set for the IPO, +32.8% compared to the price of €20.34 at the end of 2016). The market capitalisation on 31st December 2017 was €1,836,680 thousand.

The following table provides details of the company's share price and performance between 1st January 2017 and 31st December 2017:

	Euro	Date
IPO price	7.75	–
Minimum price (1)	19.29	01-Mar-17
Maximum price (1)	28.90	01-Nov-17
Closing price	27.01	31-Dec-17
Capitalisation	1,836,680,000	31-Dec-17
Number of outstanding shares	29,240,000	31-Dec-17
Free Float	789,772,400	31-Dec-17

(1): Minimum and maximum prices recorded during daily trading which therefore do not coincide with the official reference prices for the day

SIGNIFICANT EVENTS DURING 2017

Launch of direct e-commerce activities
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.

Acquisition of a controlling interest in "OOO Perugia"
On 2nd March 2017, the Company finalised the acquisition, from Ms. 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 "OOO Perugia", 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 is held by Victoria Vasilievna Saava.
For details on the transaction, see the section "Business combinations" of the notes to the financial statements.

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, alternate auditor, taken from slate no. 1; and Myriam Amato, alternate auditor, taken from slate no. 2.

Acquisition of a minority interest in Brunello Cucinelli (Sichuan) Fashion Co. Ltd.
In 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.

Patent Box
On 30th August 2017, the parent Brunello Cucinelli S.p.A. signed the agreement with the Tax Authority defining methods and criteria in order to calculate the economic contribution to the production of intangible property income for the purposes of the so-called Patent Box regime, pursuant to art. 1, paragraphs 37-44, of Italian Law no. 190 of 23rd December 2014, with reference to fiscal years 2015-2019.
The agreement allowed us to recognize, in the 2017 financial year, the tax benefit for 2015 (€2.9 million), 2016 (€3.5 million) and 2017 (€4.0 million), calculated by the Company on the basis of the methods and criteria defined in the agreement.
Just as a reminder, the Patent Box is a tax relief regime for companies generating income through the direct and indirect use of intellectual property rights, patents, trademarks, designs and other intangible assets; with reference to 2015 the benefit is determined by excluding from the taxable income 30% of the income attributable to the use of intangible assets, for 2016 the rate is 40%, while for the three-year period 2017-2019 it is equal to 50%.

Acquisition of a minority interest in Brunello Cucinelli Hong Kong Limited
In September 2017, the Company acquired 49% stake in Brunello Cucinelli Hong Kong Ltd. from The Swank Shop Limited, bringing the stake held to 100.00%. The purchase price was set at a value corresponding to the equity value of the subsidiary.

RELATED PARTY TRANSACTIONS

Reference should be made to the notes to these consolidated financial statements for a detailed description of related-party transactions conducted in 2017.
Pursuant to CONSOB Resolution no. 17221 of 12nd March 2010, it is hereby stated that in the year ended 31 31st December 2017, the Group did not carry out any significant transactions with related parties or any which have materially affected the Group's financial position or results.

INFORMATION ON SIGNIFICANT NON-EU COMPANIES

The Parent Company, Brunello Cucinelli S.p.A., directly or indirectly controls 5 companies (Brunello Cucinelli USA, Inc., Brunello Cucinelli USA Retail LLC, Brunello Cucinelli Suisse SA, Brunello Cucinelli (Sichuan) Fashion Co , Ltd and Brunello Cucinelli Japan Co., Ltd) established and organised under laws of countries that are not European Union member states ("Significant non-EU Companies" as defined by CONSOB Resolution no 16191/2007 as amended).

For these companies please note that:

- each company drafts a statement of account for the purposes of preparing the consolidated financial statements; the balance sheet and income statement of such companies are made available to the shareholders of Brunello Cucinelli S.p.A within the time period and by the means provided for by applicable rules;
- Brunello Cucinelli S.p.A has received the articles of association as well as the composition and powers of the corporate bodies;
- the Significant non-EU Companies: i) provide the Parent's external auditors with all of the information needed to audit the Parent's annual and interim financial statements; ii) have an administrative and accounting system suitable for ensuring that the Parent's management, board of statutory auditors and external auditors obtain the data concerning their results, financial position and cash flows required for the preparation of the consolidated financial statements.

For the purposes of fulfilling its legal obligations, the board of statutory auditors of Brunello Cucinelli S.p.A. has verified the ability of the administrative and accounting system to regularly provide the management and external auditors of Brunello Cucinelli S.p.A. with the operating, financial and cash flow data required for preparing the consolidated financial statements and the effectiveness of the information flow by means of meetings with the external auditors and the manager in charge of preparing the corporate accounting documents.

PRINCIPAL RISKS AND UNCERTAINTIES

MARKET RISKS

Risks related to strong competition on the Brunello Cucinelli Group's market
The luxury market and, especially, the *absolute* luxury sector in which the Brunello Cucinelli Group operates, is highly competitive. It cannot be excluded that new brands or brands currently sold in segments of the luxury market other than the one in which the Brunello Cucinelli Group is positioned will in the future be positioned in the absolute luxury sector, thereby becoming the Company's direct competitors.

Risks related to sale of the Brunello Cucinelli Group's products on an international basis
The Group sells its products all over the world, specifically in Europe, North America, Japan, Greater China. The Group's presence on several international markets exposes it to risks related, among other things, to the geopolitical and macroeconomic conditions of the countries in which it operates and to possible changes in same. Sales could be influenced by a variety of events, such as market instability, natural disasters or socio-political upheaval (for example: terrorist attack, coup d'état, armed conflict). The occurrence of these events, difficult to predict, could negatively influence the demand for luxury goods in a certain country or cause a reduction in the flow of tourists, thereby causing negative effects on the Group's business and growth prospects.

Risks related to changes in the national and international legal framework in which the Brunello Cucinelli Group operates
The Group is subject to laws applicable to the products it produces and/or markets in the various jurisdictions in which it operates. Laws protecting consumer, industrial and intellectual property rights and safeguarding competition and the health and safety of workers and the environment are especially important.
The enactment of new laws or changes to current laws could force the Brunello Cucinelli Group to adopt stricter standards, which could require costs to adapt production facilities or product characteristics, or could limit the Group's performance, with consequent negative effect on its growth prospects. Specifically, in relation to commercial distribution in countries other than Italy, the Group's products may be subject to the application of customs duties and/or to protectionist laws regarding the importation of products in such countries.

OPERATING RISKS

Risks related to the continuity of craftsmanship and artisanal skills
One of the distinctive characteristics of Brunello Cucinelli products is the high level of craftsmanship involved in the production process, made possible thanks to constant training conducted in the Company and to the extensive know-how it has acquired. Although the Group promotes the development of artisan production techniques at a regional level, it cannot be ruled out that the number of people specializing in this type of production may decrease in the future.

Risks related to the supply of raw materials (in particular cashmere) and to increases in their prices
The principal raw materials used by the Brunello Cucinelli Group are yarns (especially cashmere yarns), textiles, and hides. The supply of cashmere is subject to various factors beyond the Group's control, some of which are unforeseeable. For example, climatic conditions in regions (above all, Mongolia) that supply raw cashmere, changes in the way goats are raised in such regions and goat diseases or epidemics may affect the supply of cashmere and, therefore, its price.
If there were a decrease in the supply of cashmere (or other raw materials) or an increase in demand and a consequent increase in its price, the Brunello Cucinelli Group could have difficulty in obtaining supplies in the medium term and would be forced to incur an increase in costs for purchases of this raw material.

Risks related to the sale of the Group's products through the retail channel
The risks related to management of existing directly operated stores (DOS) are linked mainly to possible difficulties in renewing leases, higher rents, revocation or non-renewal of commercial licenses (where required) and lower sales.
As for the opening of new DOS, the increases in fixed costs connected with the new openings may not be accompanied by a sufficient increase in revenues. In the Company's competitive scenario, the possibility of expanding the DOS network depends on the ability to obtain affordable spaces in locations that the Group deems strategic. There is strong competition among retail operators to obtain commercial spaces in the most prestigious locations of the world's largest cities. Therefore, when looking for new spaces, the Group might have to compete with other retail operators (including in the same sector) with economic and financial resources similar to or greater than its own.

Risks related to relations with façonisti
The Brunello Cucinelli Group's products are created by independent contractors known as façonisti. Relations between the Company and the majority of the façonisti with which the Group has worked for many years are not governed by long-term agreements but instead by orders assigned to them, as is standard practice in the sector. Any sudden termination of relations with a significant number of façonisti, or a situation in which multiple façonisti fail to respect production schedules (to the extent agreed) on multiple occasions, could negatively affect the Group's business. In addition, it cannot be excluded that some of the façonisti may in the future default on their obligations or terminate relations with the Company without notice.

Risks related to the defence of industrial and intellectual property rights

The protection of the Brunello Cucinelli brand and of other intellectual property rights is fundamental to the its positioning on the luxury market, especially in the absolute luxury sector where the Group operates. The brand's value could be compromised if its protection, or protection of the design of the Group's products, were impracticable or particularly difficult.

Although the Company invests heavily to protect its brand and intellectual property rights, as well as the design of some of its most successful products worldwide, it cannot be excluded that its actions may be unable to prevent imitations of the brand and of the Group's products. In addition, if the Group wishes to expand its business to countries in which the Brunello Cucinelli brand is not yet registered, any prior use and/or registration of the brand (or of brands mistakable for it) by third parties could limit (or block) the Group's business in such countries. Lastly, the laws of numerous foreign countries do not protect intellectual property rights with the same strictness as Italian law or the law of other European Union nations.

Risks connected with the perception of new trends

The sector in which the Brunello Cucinelli operates is characterized by changes in trends, tastes and lifestyles and customer purchasing habits which may also be of a sudden nature.

The Company is therefore subject to the risk that it may not always be able to perceive the demands of fashion or to translate them adequately when styling, designing and developing the end product. This situation could accordingly jeopardize the success of collections.

For a description of the complete Risk Management System, reference should be made to the specific description in the Annual Report on Corporate Governance and Ownership Structure.

RESEARCH AND DEVELOPMENT ACTIVITIES

The Company constantly invests in research and development to create new products that satisfy the demands of its customers as well as to reinforce the know-how it has developed over the years. As always, research and testing on materials and in the production of prototypes is of great importance.

In 2017, the Company incurred €8,175 thousand in costs for personnel devoted to research and development, fully expensed during the year.

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 Group is exposed to various types of financial risk 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

Interest rate fluctuations affect the level of net financial expenses and the market value of financial assets and liabilities. The Group is exposed to the risk of incurring higher financial expenses due to unfavourable changes in interest rates. Changes in interest rates affect the cost of funds and the returns on the different investments, thus the level of the Group's financial income and expenses, and their fair value.

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.

Currency risk

The Group operates at the international level and, as such, it is exposed to the risks deriving from exchange rate fluctuations, which affect its results and equity.

In addition, given that the Company prepares its accounts in euros, fluctuations in the exchange rates used to translate the foreign-denominated financial statements of subsidiaries might affect to a significant extent consolidated results, net debt and equity, as they are expressed in euros in the Group's accounts, and the ratios.

The Company is exposed to changes in the exchange rate of currencies 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 should there be unfavourable fluctuations in the exchange rate, thereby preventing the desired margin from being achieved.

To limit its exposure to exchange rate risk deriving from its business activities, the Company enters into derivative contracts (forward sale currency contracts) that predetermine the conversion rate or a range of conversion rates at future dates.

The forward contracts are stipulated when seasonal price lists in foreign currency are prepared, 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 foreign currency by applying the forward exchange rate.

Liquidity risk

Liquidity risk is the risk arising from a lack of the funds required to meet the Group's commitments and financial requirements in the short term. The main factors determining the Group's degree of liquidity are on the one hand the funds generated or absorbed by operating and investing activities and, on the other, the expiry and renewal dates of its debt or the liquidity of its financial investments and market conditions.
The Company manages liquidity risk by strictly controlling the elements comprising working capital and, in particular, trade receivables and trade payables.
The Company 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 Company's exposure to credit risk relates to sales in the wholesale multibrand channel and the wholesale monobrand channel; in the retail channel, the risk is limited to sales managed by the landlord which owns the walls of the mall and directly manages sales within the boutiques; the remainder of the turnover comes from the pure retail channel with payments in cash or by credit or debit card.
The Company generally prefers to do business with customers with which it has solid, long-term relations. When customers request extended payment terms, it is the Company's policy to conduct a credit check by means of information obtainable from specialized agencies and by studying and analysing data on 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.

Tax risk

At 31st December 2017, the Group consisted of 26 companies located in 19 different countries. The Parent Company, Brunello Cucinelli S.p.A., adopts the national tax consolidation scheme, thus determining a single taxable basis, just with Brunello Cucinelli Europe S.r.l. The other Group companies, Italian and foreign, are subject to the tax laws of the jurisdictions in which they are located for their tax reporting and obligations. The tax risk management system put in place by management, in terms of review of adequacy and appropriateness of tax compliance, cannot rule out completely the risk of tax audits.

A detailed analysis and illustration of financial risk management, as well as for other information required under IFRS 7, may be found in the Notes.

SUBSEQUENT EVENTS

Sale of company shares by Fedone S.r.l.
On 9th January 2018, Fedone S.r.l., majority shareholder of the Company, sold 4,080,000 shares of the Company, corresponding to 6.00% of the Company's share capital, through an accelerated book build offering to institutional investors. Mediobanca – Banca di Credito Finanziario S.p.A. acted as Sole Bookrunner for the placement. As disclosed on the same date, Fedone confirmed its commitment to remain the controlling shareholder of the Company in the very long term, with an absolute majority of voting shares.
As a result of the transaction, Fedone S.r.l. now holds 34,680,000 shares of the Company, equal to 51.00% of the Company's share capital.

BUSINESS OUTLOOK

2017 ended with very positive results, but above all we would like to highlight the very favourable moment for the brand: **sustainable growth, craftsmanship, manual skill, creativity and exclusivity** continue to be the fundamental pillars of our industry.

The **sell-outs** for the **2018 spring/summer** collection are providing us with **especially positive** results; following the comments arriving from buyers, who had already called the offer "modern and of good taste" during the "sales campaign", end customers – the authentic "judges" – have also shown their appreciation for the collection.

The **Fall Winter 2018 sales campaign** is ending with **very important** results and with appreciation from both customers and highly specialized journalists. All this makes us imagine a year still very beautiful and allows us to work in all serenity, essential condition to be **very creative**.

It is with pleasure that we welcome the significant interest being shown by some of the world's leading universities and think-tanks to become acquainted with the "humanistic" way in which Brunello Cucinelli and the business he has created think and to examine this in further detail; we believe that this interest and the sharing of the values that underlie the "humanistic company" are held in common by our end customer, **making growth prospects solid and sustainable also for 2018**.

Representative of the way in which we have always done business and will continue to do so was the decision taken by the prestigious Kiel Institute for the World Economy to award the **Global Economy Prize** to Brunello Cucinelli "*for perfectly embodying the tradition of the Honourable Merchant*". Equally representative was the invitation given to him to discuss "gracious technology" at the Dreamforce Conference held in San Francisco in November 2017 in front of a vast audience of people who believe themselves to be "humanity's great innovators and geniuses".

In **2018** and the following years we will continue to run our business with the same values, pursuing **healthy objectives for growth, revenues and profits** and attempting to be the "guardians of the Created" and to attend to a small part of the world.

The attention we always give to **foreign exchange risk** hedging will additionally enable us to maintain the healthy margin levels, which represent our objective, also in the presence of the volatility in exchange rates that we are seeing.

We continue our commitment to maintaining **high levels of capital expenditure** to protect the prestige of our brand and its exclusiveness in both the physical and digital channels.

We are perfectly aware that our positioning at the top end of the luxury sector calls for a precise willingness to maintain increasingly modern selling spaces and showrooms, locations in the most important luxury streets, visual merchandising at the highest level and also an exclusive presence in the digital world, keeping our offer based on excellent quality and craftsmanship, supported by increasing up-to-date production equipment and the use of highly specialized artisanal laboratories that grow with the business.

As we did in 2017, in **2018** we will continue with our virtuous process of **cash generation**, capable of **absorbing the significant capital investments** we expect to make and the additional **increase in dividends** and in pay-out, with the wish to share our profits with all of our shareholders, who have always believed in this Humanistic Business project.

Consistent with these targets we expect to have a close-to-zero net financial position at the end of 2018, with a further improving next year.

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

FINANCIAL STATEMENTS AS AT 31ST DECEMBER 2017

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31ST DECEMBER 2017

(In thousands of euro)	NOTE	31st December 2017	of which with related parties	31st December 2016	of which with related parties
Non-current assets					
Goodwill	1	7,045		–	
Intangible assets	2	23,950		28,823	
Property, plant and equipment	3	115,676	15,384	111,348	16,100
Other non-current financial assets	4	6,298	32	5,740	32
Deferred tax assets	24	15,693		15,709	
Total non-current assets		**168,662**		**161,620**	
Current assets					
Inventories	5	152,647		154,814	
Trade receivables	6	45,178	45	47,231	24
Tax receivables	7	2,777		1,986	
Other receivables and other current assets	8	12,923		14,693	
Other current financial assets	9	28		1,980	
Cash and Cash equivalents	10	62,953		46,428	
Current assets - derivative financial instruments	11	4,856		932	
Total current assets		**281,362**		**268,064**	
Non-current assets held for sale	12	–		210	
Total assets		**450,024**		**429,894**	

(In thousands of euro)	NOTE	31st December 2017	of which with related parties	31st December 2016	of which with related parties
Equity					
Equity attributable to shareholders of parent company					
Share capital	13	13,600		13,600	
Share premium reserve	13	57,915		57,915	
Other reserves	13	136,369		111,031	
Profit attributable to shareholders of parent company	13	51,117		36,397	
Total equity attributable to shareholders of parent company		**259,001**		**218,943**	
Non-controlling interests					
Capital and reserves attributable to non-controlling interests	13	2,822		6,217	
Net profit (loss) attributable to non-controlling interests	13	1,368		722	
Total equity attributable to non-controlling interests		**4,190**		**6,939**	
Total equity		**263,191**		**225,882**	
Non-current liabilities					
Liabilities for employee benefits	14	3,184		3,065	
Provisions for risks and charges	15	891		659	
Non-current bank debt	16	37,339		37,567	
Non-current financial payables	17	–		1,921	
Other non-current liabilities	18	10,571		8,017	
Deferred tax liabilities	24	2,115		2,519	
Non-current liabilities - derivative financial instruments	11	10		252	
Total non-current liabilities		**54,110**		**54,000**	
Current liabilities					
Trade payables	19	65,261	412	63,356	291
Current bank debt	20	37,685		58,452	
Current financial payables	21	3,297		772	
Tax payables	22	1,434		1,104	
Current liabilities - derivative financial instruments	11	379		4,258	
Other current liabilities	23	24,667	36	22,070	45
Total current liabilities		**132,723**		**150,012**	
Total liabilities		**186,833**		**204,012**	
Total equity and liabilities		**450,024**		**429,894**	

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31ST DECEMBER 2017

(In thousands of euro)		Year ended 31st December			
	NOTE	2017	of which with related parties	2016	of which with related parties
Net revenues	25	503,571	11	455,971	14
Other operating income	25	2,113	36	1,058	40
Revenue from sales and services		**505,684**		**457,029**	
Costs for raw materials and consumables	26	(82,901)	(15)	(72,888)	(13)
Costs for services	27	(240,328)	(2,903)	(219,884)	(2,969)
Payroll costs	28	(89,061)	(535)	(81,358)	(446)
of which non-recurring costs		*–*		*(1,523)*	
Other operating costs	29	(5,053)		(5,302)	
Own work capitalized	30	1,873		1,325	
Amortization	31	(22,755)		(20,047)	
Value adjustments to assets and other provisions	32	(2,738)		(2,230)	
Total operating costs		**(440,963)**		**(400,384)**	
Operating profit (loss)		**64,721**		**56,645**	
Financial expense	33	(23,504)		(18,044)	
Financial income	34	18,197		14,799	
Pre-tax profit (loss)		**59,414**		**53,400**	
Income taxes	24	(6,929)		(16,281)	
Net profit (loss) for the year		**52,485**		**37,119**	
Profit attributable to shareholders of parent company	13	51,117		36,397	
Profit attributable to non-controlling interests	13	1,368		722	
Basic earnings per share	35	0.75172		0.53525	
Diluted earnings per share	35	0.75172		0.53525	

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31ST DECEMBER 2017

(In thousands of euro)		Year ended 31st December	
	NOTE	2017	2016
Net profit (loss) for the year (A)		**52,485**	**37,119**
Other items of comprehensive income:			
Other items of comprehensive income that will later be reclassified on the income statement:		**(2,223)**	**1,575**
Cash flow hedges	13	4,236	1,300
Tax effect	13	(1,017)	(401)
Effect of changes in cash flow hedge reserve	**13**	**3,219**	**899**
Translation differences on foreign financial statements		(4,040)	676
Profit (Loss) on exchange differences from net investments in foreign operations		(1,845)	–
Tax effect		443	–
Other items of comprehensive income that will not later be reclassified on the income statement:	**13**	**(58)**	**(52)**
Remeasurement of defined benefit plans (IAS 19)		(78)	(68)
Tax effect		20	16
Total other comprehensive income net of tax effect (B)		**(2,281)**	**1,523**
Total comprehensive income net of tax (A) + (B)		**50,204**	**38,642**
Attributable to:			
Shareholders of parent company		49,213	38,067
Non-controlling interests		991	575

CONSOLIDATED CASH FLOW STATEMENT AT 31ST DECEMBER 2017

(In thousands of euro)		Year ended 31st December	
	NOTE	2017	2016
Cash flows from (for) operating activities			
Net profit for the year	13	52,485	37,119
Adjustments to reconcile net income for the period to the cash flows generated by (used in)			
Depreciation, amortisation and write-downs	31	22,755	20,047
Allocation to provisions for employee benefits	14	124	69
Allocation to provisions for risks and charges / inventory obsolescence / bad debts		2,780	2,363
Change in other non-current liabilities		3,629	271
Losses (gains) on disposal of fixed assets		163	124
Termination indemnities payments	14	(79)	(105)
Payments from provisions for risks and charges	15	(330)	–
Net change in deferred tax assets and liabilities		(1,058)	(255)
Change in fair value of financial instruments		(3,809)	1,251
Changes in operating assets and liabilities:			
Trade receivables		882	(1,410)
Inventories		(2,998)	(8,903)
Trade payables		9,040	(6,916)
Other current assets and liabilities		2,157	884
Net cash provided by/(used in) operating activities (A)		**85,741**	**44,539**
Cash flows from (for) investing activities			
Investments in property, plant and equipment	3	(23,743)	(25,393)
Investments in intangible assets	2	(3,728)	(4,220)
Investments in financial assets		(752)	(165)
Disinvestments in financial assets held for trading	9-16	1,964	(1,964)
Acquisition of OOO Brunello Cucinelli RUS, net of cash acquired		(8,334)	–
Disposal of property, plant and equipment and key money		393	360
Available-for-sale assets		–	765
Net cash provided by/(used in) investing activities (B)		**(34,200)**	**(30,617)**
Cash flows from financing activities			
Medium/long-term loans received	16	39,013	–
Repayment of medium/long-term loans	16	(20,773)	(15,524)
Drawdowns/(Repayments) of short-term loans	16	(25,512)	1,860
Net change in short-term loans	16	(9,597)	7,203
Net change in long-term loans	16	(2,326)	68
Capital increase, capital payments by shareholders and other changes in equity		(2,936)	(731)
Dividends paid		(11,048)	(8,889)
Net cash provided by/(used in) financing activities (C)		**(33,179)**	**(16,013)**
Total cash flows (D=A+B+C)	16	**18,362**	**(2,091)**
Effect of exchange rates on cash and cash equivalents (E)	16	**(1,837)**	**444**
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	**62,953**	**46,428**
Additional information:			
Interest paid		2,003	2,174
Income tax paid		8,106	17,511

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AS AT 31ST DECEMBER 2017

(In thousands of euro)	Share capital	Legal reserve	Share premium reserve	Additional paid-in capital	Translation reserve	Other Reserves	Net profit for the year	Total equity attributable to shareholders of parent company	Total equity attributable to non-controlling interests	Total equity
Balance at 1st January 2017	**13,600**	**2,720**	**57,915**	**–**	**3,329**	**104,982**	**36,397**	**218,943**	**6,939**	**225,882**
Profit for the period							51,117	51,117	1,368	52,485
Other profits (losses)					(5,068)	3,164		(1,904)	(377)	(2,281)
Total comprehensive income	**–**	**–**	**–**	**–**	**(5,068)**	**3,164**	**51,117**	**49,213**	**991**	**50,204**
Allocation of profit for the period						36,397	(36,397)	–	–	–
Dividends paid						(10,880)		(10,880)	(168)	(11,048)
Change in consolidation scope and common control transactions						1,650		1,650	(3,498)	(1,848)
Other changes						75		75	(74)	1
Balance at 31st December 2017	**13,600**	**2,720**	**57,915**	**–**	**(1,739)**	**135,388**	**51,117**	**259,001**	**4,190**	**263,191**

(In thousands of euro)	Share capital	Legal reserve	Share premium reserve	Additional paid-in capital	Translation reserve	Other Reserves	Net profit for the year	Total equity attributable to shareholders of parent company	Total equity attributable to non-controlling interests	Total equity
Balance at 1st January 2016	**13,600**	**2,720**	**57,915**	**–**	**2,515**	**80,145**	**33,338**	**190,233**	**6,545**	**196,778**
Net profit for the year							36,397	36,397	722	37,119
Other profits (losses)					814	856		1,670	(147)	1,523
Total comprehensive income	**–**	**–**	**–**	**–**	**814**	**856**	**36,397**	**38,067**	**575**	**38,642**
Allocation of net profit						33,338	(33,338)	–	–	–
Dividends paid						(8,840)		(8,840)	(49)	(8,889)
Change in consolidation scope and common control transactions						(462)		(462)	(499)	(961)
Capital action in Brunello Cucinelli Suisse S.A.						(137)		(137)	367	230
Other changes						82		82	–	82
Balance at 31st December 2016	**13,600**	**2,720**	**57,915**	**–**	**3,329**	**104,982**	**36,397**	**218,943**	**6,939**	**225,882**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED 31ST DECEMBER 2017

1. BASIS OF PREPARATION

1.1 CONTENT AND FORMAT OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), adopted by the European Union and in effect at the date of the financial statements. The notes to the consolidated financial statements have been supplemented by the additional information required by CONSOB and the instructions issued by CONSOB in implementation of article 9 of Legislative Decree no. 38/2005 (Resolutions 15519 and 15520) of 27th July 2006 and communication DEM/6064293 of 28th July 2006, pursuant to article 78 of the Issuers' Regulations, the EC document of November 2003 and, where applicable, the Italian civil code.

The consolidated financial statements at 31st December 2017, approved by the Board of Directors on 7th March 2018, include the consolidated statement of financial position, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated cash flow statement and the consolidated statement of changes in equity.

The items in the consolidated statement of financial position are presented in an increasing 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 post-employment benefits (TFR);
– current liabilities include payables falling due within twelve months, including the current portion of long-term loans, provisions and post-employment benefits (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.

The consolidated financial statements have been prepared based on a historical cost basis, except in the case of derivatives, other financial assets, and available-for-sale assets which are recognised at fair value.

As regards CONSOB Resolution no. 15519 of 27th July 2006 and Communication DEM6064293 of 28th July 2006, the financial statements provide information on significant related party transactions for more complete disclosure.

2. SCOPE OF CONSOLIDATION

The consolidated financial statements reflect the financial condition, 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) as of and for the year ended 31st December 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 31st December 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 summarized information on subsidiaries at 31st December 2017, consisting of 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.	Ardsley (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%
Brunello Cucinelli USA Retail LLC	Ardsley (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	186,000,600	100.00%	
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	100.00%	
Brunello Cucinelli (Macau) Fashion Co. Ltd	Macau	MOP	22,847,312	98.00%	2.00%
Pinturicchio Srl	Corciano (PG) - Italy	Euro	100,000	2.00%	98.00%
Brunello Cucinelli Brasil LTDA	São Paulo - Brazil	Real	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	100,000		70.00%
OOO Brunello Cucinelli RUS	Moscow - Russia	Ruble	15,000,000	62.00%	

In 2017 there was only one change in the scope of consolidation resulting from to the acquisition of 62.0% of the share capital of the limited liability company under Russian law “OOO Brunello Cucinelli RUS”; see the section “Business combinations” in these notes for details on the transaction.

In addition to the above, it should be noted that in 2017 the parent company Brunello Cucinelli S.p.A. purchased the minority stake of Brunello Cucinelli Hong Kong Limited and Brunello Cucinelli (Sichuan) Fashion Co., Ltd. These companies had already been consolidated line by line in previous financial years, and consequently these transactions did not change the scope of consolidation, nor did they generate any economic effects.

3. ACCOUNTING STANDARDS

INTRODUCTION

The consolidated financial statements have been prepared based on a historical cost basis, except in the case of derivatives and available-for-sale financial assets which are recognised at fair value.

The consolidated financial statements are presented in Euro, and all values are rounded to the nearest thousand unless otherwise stated.

DISCRETIONARY ASSESSMENTS AND SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of the Brunello Cucinelli Group's consolidated financial statements requires the Company's directors to make subjective 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, future pay rises (only for post-employment benefits), 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 estimated realizable value.

Useful lives of tangible and intangible fixed assets and impairment testing
The depreciation and amortisation of property, plant and equipment and intangible assets with a finite useful life and the forward-looking data used for impairment testing require subjective 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 “Derivatives” 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.

BUSINESS COMBINATIONS AND GOODWILL

Business combinations are recorded under the purchase method. This requires a fair value calculation of the identifiable assets (including intangible assets not previously recognised) and the identifiable liabilities (including contingent liabilities) of the acquired company.

The goodwill acquired in a business combination is initially measured at cost represented by the excess of the consideration transferred plus the amount of any non-controlling interest over the fair value of the identifiable assets acquired and the liabilities assumed by the Group.

For purposes of the fairness analysis, the goodwill acquired in a business combination is allocated on the acquisition date to the Group’s individual cash generating units or groups of cash generating units that are expected to benefit from the synergies of the combination, regardless of whether other Group assets or liabilities are assigned to such units or groups of units. Each unit or group of units to which goodwill is allocated:

a) represents the lowest level in the Group at which the goodwill is monitored for purposes of internal management;
b) is not larger than the segments identified on the basis of the format used for presentation of the Group’s disclosure of operating segments pursuant to IFRS 8 Operating Segments.

When goodwill is part of a cash generating unit (a cash generating unit group) and some of such unit's internal assets are sold, the goodwill associated with the sold assets is included in the carrying amount of the asset to calculate the gain or loss deriving from the sale. The goodwill sold under these circumstances is measured on the basis of the values of the sold asset and of the portion of the asset remaining.

When the sale regards a subsidiary, the difference between the selling price and the net assets plus accumulated exchange differences and goodwill is recognised through profit or loss.

COMMON CONTROL TRANSACTIONS

Business combinations involving entities under common control are not accounted for in accordance with IFRS 3 Business Combinations, which specifically excludes them. In consideration of the purely organisational aims of such transactions, and in application of the Group's applicable accounting policy, these are recorded on the basis of the existing carrying amounts of the companies involved, without measuring the effects of the business combinations.

INTANGIBLE ASSETS

Intangible assets are recognised in assets at purchase cost when it is probable that the use of the asset will generate future economic benefits and when the cost of the asset can be reliably determined.

Intangible assets acquired by means of business combinations are recognised at fair value at the acquisition date if such value can be reliably determined. Internally produced intangible assets are not capitalised and are recognised in the income statement in the year in which the relevant costs were incurred.

Intangible assets with finite useful lives are amortised on a straight-line basis over those lives and are tested for impairment whenever there are indications of a possible impairment loss, following the rules described below.

Remaining useful lives are reviewed at the end of each year or more frequently if necessary. Changes in expected useful life or the ways in which the Group obtains future economic benefits linked to the intangible asset are recognised by changing the amortisation period and/or method and are treated as changes in accounting estimate. The amortisation of intangible assets with finite lives is recognised in the income statement in the cost category consistent with the function of the intangible asset.

Gains or losses on the sale of an intangible asset are measured as the difference between the net proceeds from the sale and the carrying amount of the asset and are recognised in the income statement at the time of sale.

The estimated useful lives of intangible assets with finite lives are as follows:

	Years
Trademarks	18
Key money	Based on scheduled lease term
Software	2-3
Licenses	5
Other intangible assets	3-12

Key money

This intangible asset consists of amounts paid by the Group to assume leases for commercial property in prestigious locations. The amounts also include the initial direct costs incurred for the negotiation and stipulation of lease agreements. Such costs are capitalised by virtue of expected incremental revenues deriving from the possibility of operating in prestigious locations.

Key money is amortised over the scheduled lease term (for retail channel stores) or over the scheduled term of the affiliation agreement (for wholesale monobrand channel stores).

Concessions, licenses and trademarks

These intangible assets consist of the costs incurred for the registration of Group trademarks.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment acquired separately is recognised at historical cost, inclusive of accessory costs directly attributable and necessary for commissioning of the asset for its intended use. This cost includes expenses for spare parts for machinery and equipment, recognised when incurred, if conforming to measurement criteria.

With reference to buildings, cost is represented by fair value calculated at the date of transition to IFRS (1st January 2008), as permitted by IFRS 1, and is shown net of depreciation and any impairment.

Property, plant and equipment acquired by means of business combinations is recognised at fair value calculated at the acquisition date.

Maintenance and repair costs, other than costs that increase the value and/or extend the remaining useful life of assets, are expensed as incurred; otherwise they are capitalised.

Property, plant and equipment is shown net of accumulated depreciation and of any impairment, calculated by the methods described below. Depreciation is charged on a straight-line basis over the estimated useful life of the asset, which is reviewed annually; changes are made as necessary with prospective application.

The estimated useful lives of the main categories of property, plant and equipment are as follows:

	Years
Buildings	33
(of which leasehold improvements)	Based on lease term
Plant and machinery	8
Industrial and commercial equipment	4
Other assets	4-8

If components of property, plant and equipment have different useful lives they are recognised separately. Land, with or without buildings, is recognised separately and is not depreciated because it has an indefinite useful life.

The carrying amount of property, plant and equipment is tested for impairment by following the rules described below if events or changes in the situation indicate that this amount cannot be recovered.

At the time of sale or when no future economic benefits are expected from its use, the asset is derecognised and any gain or loss (calculated as the difference between disposal value and the carrying amount) is recognised in profit or loss in the year of derecognition.

Historical collection

For each collection the Company keeps one example of every article considered important and sellable. The design department uses these products as a source of inspiration when creating new collections.

These assets are classified as property, plant and equipment, recognised at historical cost of production, and are not depreciated because they have an indefinite useful life.

The value increases of such assets are recognised in profit or loss as own work capitalised.

Impairment

At year-end, the Group considers whether there are any indicators of impairment of intangible assets and of property, plant and equipment. If such indicators are found, an impairment test is conducted.

If the carrying amount of an asset exceeds its recoverable amount, the asset is written down to its recoverable amount. The recoverable amount is the higher of the fair value less costs to sell of an asset or cash generating unit and its value in use and is calculated for each asset except when such asset generates cash flows that are not largely independent of those generated by other assets or groups of assets, in which case the Group estimates the recoverable amount of the cash generating unit to which the asset pertains.

In calculating value in use, the Group discounts the current value of estimated future flows by using a pre-tax discount rate that reflects market estimates of the time value of money and the specific risks of the asset.

For purposes of estimating value in use, future cash flows are taken from the business plans approved by the Board of Directors, which constitute the Group's best forecast of economic conditions in the plan period. Plan projections normally cover three years; the long-term growth rate used to estimate the terminal value of the asset or unit is normally lower than the average long-term growth rate for the industry, country, or reference market. Future cash flows are estimated by making reference to current conditions: therefore, the estimates do not consider benefits deriving from future reorganisations to which the Company is not yet committed or future investments to improve or optimize the asset or the unit.

If the carrying amount of an asset or cash generating unit exceeds its recoverable amount, the asset has suffered an impairment and is consequently written down to the recoverable amount.

Impairments to operating assets are reported in the income statement in the cost categories consistent with the function of the impaired asset. At year end, the Group also considers whether there are any indicators of reductions in losses recognised following previous impairment tests and, if so, it makes a new estimate of the recoverable amount. An impairment loss may only be reversed if there have been changes in the estimates used to calculate the asset's recoverable amount after the latest recognition of impairment. In such case, the asset's carrying amount is written up to its recoverable amount, but such increased amount may not exceed the carrying amount that would have been calculated, net of depreciation/amortisation, if no impairment loss had been recognised in previous years. Reversals of impairment losses are recognised as income in profit or loss. After the reversal of an impairment loss, the depreciation/amortisation charged on the asset is adjusted in future periods in order to write-off the new carrying amount, less any residual values, on a straight-line basis over its remaining useful life. Impairment losses recognised for goodwill cannot be subsequently reversed.

NON-CURRENT ASSETS HELD FOR SALE

Non-current assets held for sale are classified as such if the carrying amount of the asset will be recovered primarily through a sale transaction rather than its continued use. For this to occur, the asset must be available for immediate sale in its present condition, subject to the standard conditions for the sale of such assets and the sale must be highly probable.

After their initial classification, non-current assets held for sale are measured at the lower of carrying amount - if it had not been classified as held for sale - and fair value less costs to sell.

LEASING

The definition of a contractual agreement as a leasing transaction (or containing a lease) is based on the substance of the agreement and requires an assessment of whether the fulfilment of the agreement is dependent on the use of one or more specific activities or whether the agreement transfers the right to use such activities. The assessment of whether an agreement contains a lease or not is made at the beginning of the agreement.

The Group as lessee

A lease contract is classified as a finance lease or operating lease at the inception of the lease. A lease that transfers to the group substantially all the risks and rewards deriving from the ownership of the leased asset is classified as a finance lease.

Finance leases are capitalised at the date of inception of the lease at the fair value of the leased property or, if lower, at the present value of the lease payments. Lease payments are allocated between principal and interest, allowing for the application of a constant rate of interest on the remaining balance of the debt. Borrowing costs are charged to the income statement.

Leased assets are depreciated over their estimated useful life. However, where there is reasonable certainty that the Group will obtain ownership of the asset at the end of the contract, the asset is depreciated over the shorter of the estimated useful life of the asset or the term of the lease.

An operating lease is a lease that is not identified as a financial lease. Operating lease payments are recognised as expenses in the income statement in a straight line over the duration of the contract.

The Group as lessor

Leases that leave the group substantially all the risks and rewards deriving from the ownership of the leased asset are classified as operating leases. The initial costs of entering into the contract are added to the carrying amount of the leased asset and recognised according to the duration of the contract on the same basis as lease income. Contingent lease income is recognised as revenue in the period in which it matures.

FINANCIAL ASSETS AND OTHER NON-CURRENT ASSETS

These assets are measured using the amortised cost criterion by using the effective discount rate method net of any provision for impairment.

Amortised cost is calculated by considering any purchase discount or premium and includes fees that are an integral part of the effective interest rate and transaction costs.

Receivables with maturity exceeding one year that are non-interest bearing or earn interest below market rate are discounted by using interest rates in line with the market.

INVENTORIES

Inventories are measured at the lower of purchase and/or production cost, calculated by means of the weighted average cost method, and net realizable value. Purchase cost includes relative ancillary costs for purchases in the period. Production cost includes directly attributable costs and a portion of indirect costs reasonably attributable to the products. Net realizable value consists of the estimated selling price less estimated completion costs and estimated selling costs.

Where necessary, an allowance for obsolescence is established for materials or products, in view of their expected use and realizable value.

TRADE RECEIVABLES AND OTHER RECEIVABLES AND CURRENT ASSETS

Trade receivables and other receivables and current assets are initially recognised at fair value, which generally corresponds to nominal value and are subsequently measured at amortised cost and written down in case of impairment. They are also adjusted to their expected realizable value, if lower, via a specific allowance for bad debts.

Receivables in currencies other than the euro are recognised at the exchange rate at the transaction date and then translated at the exchange rate at year-end. Gains or losses on translation are recognised in profit or loss.

If trade receivables and other receivables and current assets have credit terms beyond the normal and do not generate interest, an analytic discount process is applied based on assumptions and estimates.

OTHER FINANCIAL ASSETS (CURRENT AND NON-CURRENT)

Other financial assets are initially recognised at fair value and subsequently measured at amortised cost.

A financial asset (or, were applicable, part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed a contractual obligation to pay all such flows immediately to a third party;
- the Group has transferred rights to receive cash flows from the asset and (a) has substantially transferred all of the risks and benefits of ownership of the financial asset or (b) has not substantially transferred all of the risks and benefits of the asset but has transferred control of same.

Where the Group has transferred rights to receive cash flows from the asset but has not transferred or retained substantially all of the risks and benefits or has not lost control of same, the asset is recognised to the extent of the Group's residual interest in the asset. A residual interest that takes the form of a guarantee on the transferred asset is valued at the lower of the initial carrying amount of the asset and the maximum price that the Group might be required to pay.

If the residual interest takes the form of an option issued and/or acquired on the transferred asset (including cash settled or similar options), the Group's interest corresponds to the amount of the transferred asset that the Group may repurchase. Nevertheless, in case of a put option issued on an asset measured at fair value (including cash settled or similar options), the Group's residual interest is limited to the lesser of the fair value of the transferred asset and the exercise price of the option.

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This category includes assets held for trading and assets designated at initial recognition as financial assets at fair value through profit or loss. Assets held for trading are all those assets purchased to be resold or bought back in the short term.

Financial assets at fair value through profit or loss are recognised in the statement of financial position at their fair value while changes in their fair value are recognised as financial income (expenses) in the income statement.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand and demand and short-term deposits (the latter with original maturity not beyond three months). Cash and cash equivalents are recognised at nominal value and at the spot exchange rate at year-end if in foreign currency.

FINANCIAL PAYABLES

Loans are initially recognised at the fair value of the amounts borrowed, less ancillary loan charges.

After initial recognition, loans are measured at amortised cost by using the effective interest rate method.

Any gain or loss is recognised through profit or loss when the liability is extinguished, in addition to by means of amortisation.

PROVISIONS FOR RISKS AND CHARGES

The Group makes provisions for risks and charges when there is a present obligation (legal or constructive) arising from a past event, when it is probable that there will be an outflow of resources to settle the obligation and when a reliable estimate can be made of the amount of the obligation.

When the Group believes that an allocation to provisions for risks and charges will be partially or totally reimbursed (for example, in case of risks covered by insurance policies), the indemnity is recognised specifically and separately in assets if (and only if) reimbursement is practically certain. In this case, the cost of any provision is recognised in profit or loss net of the amount recognised for the indemnity.

If the effect of discounting of the cash value is significant, provisions are discounted by using a pre-tax discount rate that reflects, where appropriate, the specific risks of the liability. When discounting is performed, the increase in the allocation due to the passage of time is recognised as financial expense.

POST-EMPLOYMENT BENEFITS

Post-employment benefits are defined on the basis of programs which, even if not yet formalized, according to their characteristics are classified as "defined benefit" and "defined contribution" programs.

Italian law (article 2120 of the Italian civil code) prescribes that all employees shall receive an indemnity (the employees' termination liability or the TFR) on the termination of employment. The indemnity is calculated on the basis of certain items making up the employee's annual salary for each year of service (appropriately revalued) and the number of years of service. Under Italian law, the liability for this indemnity is recognised as the undiscounted accrued amount at the date of the financial statements, as if all employees were to terminate employment on such date.

In considering the Italian TFR, the International Financial Reporting Interpretations Committee (IFRIC) of the International Accounting Standards Board (IASB) concluded that under IAS 19 the liability must be calculated under the Projected Unit Credit Method ("PUCM"), by which the liability for accrued benefits must reflect the expected employment termination date and must be discounted to present value.

The actuarial assumptions and their effects take into consideration the regulatory changes introduced by the Italian government, which provided employees the option of transferring their accrued TFR to INPS (the national social security organisation) or to supplementary pension funds from 1st July 2007.

The Group's net obligation deriving from defined benefit plans is calculated by estimating the amount of the future benefit that employees have accrued in exchange for the years of service, and this benefit is discounted to present value. Actuarial gains and losses from defined benefit plans, accumulated up to the previous year and reflecting the effects deriving from changes in the actuarial assumptions used, are recognised in profit or loss.

The actuarial estimate of the liability was calculated by an independent actuary.

The Group has no other defined benefit pension plans.

The Group's obligation deriving from defined benefit plans is limited to the payment of contributions to the state entity or separate entity (supplementary pension scheme or fund) and is calculated on the basis of the contributions due on an accruals basis.

FINANCIAL INSTRUMENTS

Financial instruments are initially recognised at fair value and after initial recognition are measured by category as required by IAS 39.

For financial assets, this treatment is based on the following classifications:
– Financial assets at fair value through profit or loss;
– Held-to-maturity investments;
– Loans and receivables;
– Available-for-sale financial assets.

There are only two categories for financial liabilities:
– Financial liabilities recognised at fair value through profit or loss;
– Liabilities at amortised cost.

The methods for calculating the fair value of such financial instruments for accounting or reporting purposes are summarized below, with reference to the principal categories of financial instruments to which they are applied:
– derivatives: adequate pricing models are adopted based on market values of interest rates and exchange rates;
– non-listed financial receivables and payables: the discounted cash flow method is applied to financial instruments with maturity exceeding 1 year, that is cash flows are discounted to present value in view of current interest rates and credit rating;
– listed financial instruments: the market value on the reference date is used.

Derivatives
The Brunello Cucinelli Group uses derivative financial instruments only for purposes of hedging financial risks deriving from changes in exchange rates on business transactions in foreign currency and from changes in interest rates on bank debt.

In line with the requirements of IAS 39, derivatives may be treated as hedges only when:
– there is formal designation and documentation of the hedge relationship when the hedge commences;
– the hedge is expected to be highly effective;
– the effectiveness can be reliably measured; and
– the hedge is highly effective throughout the various designated accounting periods.

All derivatives are measured at fair value. When the derivatives satisfy hedge accounting requirements, the following accounting treatment is applied:

Fair value hedge - if a derivative is designated to hedge exposure to changes in the fair value of an asset or a liability through profit or loss. Gains and losses from subsequent measurements of the fair value are recognised through profit or loss, as are gains and losses on the hedged item.

Cash flow hedge - if a derivative is designated to hedge exposure to changes in the cash flows of an asset or a liability or of a highly probable transaction that may have effects on the income statement, the effective portion of the gains or losses on the financial instrument is recognised in equity. Accumulated gains or losses are reclassified from equity to profit or loss in the same period in which the hedge transaction is recognised; the gain or loss associated with a hedge, or the part of the hedge that has become ineffective, is recognised in profit or loss when the ineffectiveness is identified.

The Group applies cash flow hedge accounting to stabilize cash flows related to loans payable and, to hedge revenues in foreign currency. Consequently, the effective component of the change in fair value of derivatives negotiated to hedge highly probable foreign currency transactions is allocated to a specific reserve in equity. When the hedged transaction takes place, the amounts recognised in the reserve are reclassified to revenues in the income statement. The ineffective component of this change in fair value is recognised in financial income and expense in the income statement. In accordance with the methods adopted for accounting for hedged items, changes in fair value subsequent to the occurrence of hedged transactions are recognised in financial income and expense in the income statement.

If hedge accounting cannot be applied, the effects deriving from the fair value measurement of the derivative are recognised directly through profit or loss.

REVENUES AND COSTS

Revenues and costs are stated on an accrual basis when their measurement generates an asset or a liability pursuant to the IFRSs. Revenues and income, stated net of returns, discounts, allowances and bonuses, are recognised at fair value to the extent that such value can be reliably determined and to the extent it is probable that the related economic benefits will be obtained and that the company has transferred all the significant risks and rewards of ownership of the goods.

FINANCIAL INCOME AND EXPENSE

Financial income and expense are recognised on an accruals basis as the interest accruing on the net value of the relative financial assets and liabilities, calculated using the effective interest rate.

INCOME TAXES

Current taxation

Current income taxes are based on an estimate of taxable profit and are calculated by applying the tax legislation in force in countries in which the Brunello Cucinelli Group conducts its business. Current tax liabilities are calculated by applying the tax rates that have been enacted or substantially enacted by the balance sheet date.

Current tax payables are classified in balance sheet net of any advance tax payments made.

Deferred taxation

Deferred taxes are calculated on the deductible temporary differences (which give rise to deferred tax assets) and taxable temporary differences (which give rise to deferred d tax liabilities) at year end between the carrying amounts of assets and liabilities and their tax bases.

Deferred tax assets are recognised to the extent that it is probable that there will be adequate taxable profit against which temporary differences and deferred tax assets and liabilities can be utilized.

Deferred tax assets are reviewed at each year end and written down to the extent it is no longer probable that there will be adequate taxable profit to enable all or part of such assets to be recovered.

Deferred tax assets that have not been recognised are reviewed at each year end and recognised to the extent it has become probable that there will be adequate taxable profit to enable such deferred tax assets to be recovered.

Deferred tax assets and liabilities are calculated on the basis of the tax rates that are expected to apply to the year in which such assets are realized or such liabilities are settled, based on tax rates (and tax laws) in force as well as those already enacted or substantially enacted by the balance sheet date.

Deferred tax assets and liabilities are recognised through profit or loss, except for those relating to items recognised directly in equity, in which case deferred taxes are recognised in equity.

Deferred tax assets and liabilities are offset when they relate to the same taxation authority and when there is a legally enforceable right to set off current tax assets against current tax liabilities.

Deferred tax assets and deferred tax liabilities are classified as non-current assets and liabilities.

EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the Group's profit by the weighted average of shares outstanding during the year. To calculate diluted earnings per share, the weighted average of shares outstanding is adjusted by assuming the conversion of all potential shares with dilutive effect. Likewise, net profit is adjusted to consider the effects (net of taxes) of conversion.

Diluted earnings per share coincide with basic earnings per share because there are no outstanding shares or options other than ordinary shares.

OPERATING SEGMENTS

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

4. CHANGES IN ACCOUNTING STANDARDS, NEW ACCOUNTING STANDARDS, CHANGES IN ACCOUNTING ESTIMATES AND RECLASSIFICATIONS

The accounting standards and policies applied are the same as those used to prepare the consolidated financial statements as at 31st December 2016; In November 2017, amendments were published, already applicable in 2017, including:

Amendment to IAS 7 – "Disclosure initiative": the changes concern the introduction of disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, whether changes from financing cash flows indicating separately the changes arising from obtaining or losing control of subsidiaries or other businesses, the effect of changes in foreign exchange rates and the changes in fair values.

See note 16 of these notes for more information on this issue.

Amendment to IAS 12 – "Recognition of Deferred Tax Assets on Unrealised Losses": The amendments clarify the recognition of a deferred tax asset that is related to a debt instrument measured at fair value.

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

The paragraphs below illustrate the standards and interpretations which had been published but which were not in force 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*

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments, which replaced IAS 39 Financial Instruments: Recognition and Measurement, and all previous versions of IFRS 9. IFRS 9 covers all three of the aspects relating to the project on the accounting for financial instruments: classification and valuation, loss of value 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 and not restate the comparative information. Overall, the Group does not anticipate significant impacts on its statement of financial position and net equity.

(a) *Classification and measurement*

The Group does not anticipate significant impacts on its financial statements and net equity resulting from the application of the classification and measurement requirements in IFRS 9. All financial assets currently recognised at fair value are expected to continue to be measured at fair value. Loans, as well as trade receivables, are held to collect the contractual cash flows representing payments of principal and interest. The Group assessed the contractual cash flow characteristics of these instruments and concluded that they meet the criteria to be measured at amortised cost in accordance with IFRS 9. Therefore, these financial instruments will no longer need to be reclassified.

(b) *Impairment*

IFRS 9 requires that the Group recognise the expected credit losses on all trade receivables, loans and debt securities, considering either a 12-month period or the entire contractual period of the instrument. Based on currently available information, the Group does not expect this provision will have significant impacts; we also believe that the analysis could be subject to changes once the we receive further information 2108, which is when we will adopt IFRS 9.

(c) *Hedge accounting*

The Group has established 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 change the general principle whereby a company can book effective hedging relationships, Group does not anticipate significant impacts on the financial statements due to the application of the new hedging requirements under IFRS 9.

IFRS 15 ***Revenue from Contracts with Customers***

Issued in May 2014, IFRS 15 introduced a new five-stage model applicable for revenue from contracts with customers and supersedes all existing IFRS requirements on revenue recognition (IAS 18, IAS 11, IFRIC 13, IFRIC 15, IFRIC 18 e SIC 31). IFRS 15 requires revenue to be recognised for the amount that reflects the consideration to which an entity believes it is entitled in exchange for the transfer of goods or services to a customer. The standard takes effect for annual periods starting on or after 1st January 2018, with full or amended retrospective application. Early application is permitted.

The Group plans to apply the new standard from the mandatory effective date using the full retrospective approach. The Group conducted an assessment of the impact of IFRS 15, by simulating the application of the standard to commercial practices and contracts for the main revenue streams (retail, wholesale monobrand and wholesale multibrand) identified at Group level. We concluded this assessment in 2017.

Regarding the application of IFRS 15, the Group has taken the following aspects into consideration:

(a) *Retail sales*

Currently, based on the analyses conducted, the Group expects the application of IFRS 15 to contracts with clients whereby the sale of goods is the only obligation, will not have a significant impact on the Group's revenues and income statement in Italy, Europe and Greater China.

On the other hand, for the geographic areas of North America and the Rest of the World, the Group expects, for certain types of contracts, the application of IFRS 15 will result in a similar increase in net revenues and costs for services with no change in the value of retained earnings at 31st December 2017.

In these geographical areas, the Group sells its products through department stores that act as agents and which charge back to the Group the services rendered (rental of the premises, advertising activities, marketing events, etc.) in relation to the value of the goods sold to the final customer. In these contracts, the department store is not considered as the primary party responsible for fulfilling the promise to supply goods to the end customer.

Moreover, the department store does not have the authority to set the price of goods sold to customers.

Consequently, the application of IFRS 15 will require, for these types of contracts, the recognition of gross revenue of sales and the separate disclosure of the costs of services rendered by the department store.

The Group expects revenue recognition to take place when control over the goods is transferred to the customer, which is generally when the goods are delivered, as is the case with the current standards (i.e. revenue recognition at a point in time).

(b) Variable consideration – right of return

As regards the analysis of contracts with customers that provide for a right of return of goods sold within a specific period of time, we expect that the application of IFRS 15 will not have a substantial impact on the Group.

(c) Presentation and required disclosure

Regarding presentation and required disclosure, a section that is largely new, IFRS 15 has more detailed provisions than the current standards. However, in view of the fact that the analysis of commercial practices, contracts and revenue streams revealed the predominance of revenue recognition at a given point in time, the Group does not expect any implementation difficulties to address the need for additional information.

IFRS 16 *Leases*

IFRS 16 was published in January 2016 and supersedes IAS 17 Leasing, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Lease - Incentives and SIC-27 Evaluating the Substance of Transactions in the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and introduces a single lessee accounting model, with a treatment similar to that of finance leases under IAS 17. Under the new standard there are two exemptions for lessees, one for leases of low-value assets (e.g. personal computers) and one for short-term leases (i.e. leases of 12 months or less). At the inception of the lease, the lessee recognises a liability for the lease payments (i.e. lease liability) and an asset which represents the right to use the underlying asset for the term of the agreement (i.e. the right-of-use asset). Lessees will treat separately the interest expense on the lease liability and the depreciation of the right-of-use asset.

Lessees must remeasure also the lease liability upon occurrence of specific events (e.g. a change in terms and conditions of the lease, a change in future lease payments as a result of a change in an index or an interest rate used to determine those payments). The lessee generally recognises the amount of the lease liability remeasurement as an adjustment to the right-of-use asset.

Under IFRS 16 the accounting treatment for lessors is largely the same at that under IAS 17. Lessors will continue to classify leases either as operating leases or finance leases.

IFRS 16 requires more extensive disclosure for both lessors and lessees than IAS 17.

IFRS 16 will be effective for annual periods beginning on or after 1st January 2019. Early application is permitted only for companies which also apply IFRS 15. A lessee may elect to apply IFRS 16 by using a fully retrospective approach or a modified retrospective approach. The transitional provisions laid down by the standard allow certain reliefs.

In 2018, the Group will continue to determine the potential effects of IFRS 16 on its consolidated financial statements.

5. TRANSLATION OF FINANCIAL STATEMENTS IN A CURRENCY OTHER THAN THE EURO AND ITEMS IN FOREIGN CURRENCY

The consolidated financial statements are presented in euro, the functional and presentation currency adopted by the Company. As permitted by IAS 1, the amounts are in thousands of Euro.
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 recognised 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	
	31st December 2017	31st December 2016	31st December 2017	31st December 2016
US dollar	1.129700	1.106903	1.1993	1.0541
Swiss franc	1.111700	1.090155	1.1702	1.0739
Japanese yen	126.7112	120.196653	135.01	123.4
RMB	7.629000	7.352221	7.8044	7.3202
British pound	0.87667	0.819483	0.88723	0.85618
Hong Kong dollar	8.8045	8.59219	9.372	8.1751
Real	3.6054	3.856143	3.9729	3.4305
Canadian dollar	1.4647	1.465878	1.5039	1.4188
Ruble	66.5458	–	69.392	–

6. BUSINESS COMBINATIONS

Acquisition of a controlling interest in "OOO Perugia"

On 2nd March 2017, the Company finalised the acquisition, from Ms. 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 "OOO Perugia", 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 was €8,820 thousand. The remaining interest remains held by Victoria Vasilievna Saava.

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

(In thousands of euro)	**Fair value recognised at the acquisition date**
Other intangible assets	4
Property, plant and equipment	22
Other non-current financial assets	263
Total non-current assets	**289**
Inventories	2,454
Trade receivables	1,383
Other receivables and current assets	201
Cash and Cash equivalents	486
Total current assets	**4,524**
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 current liabilities	**1,364**
Total liabilities	**1,948**
Fair value of total net identifiable assets	**2,865**
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.

7. COMMENTS ON THE MAIN ITEMS OF THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

NOTE 1. Goodwill

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

(In thousands of euro)	31st December 2017	31st December 2016	Change
Goodwill	7,045	–	7,045
Total goodwill	**7,045**	**–**	**7,045**

Goodwill at 31st December 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.
For details on this transaction, please see the above section "Business combinations".

Changes in the net book value of the item Goodwill during the half ended at 31st December 2017, are shown below:

(In thousands of euro)	Goodwill	Total goodwill
Balance at 01st January 2017	**–**	**–**
Purchases	–	–
Net decreases	–	–
Translation differences	–	–
Value adjustments	–	–
Reclassifications	–	–
Change in the scope of consolidation	7,045	7,045
Depreciation	–	–
Balance at 31st December 2017	**7,045**	**7,045**

Reference should be made to paragraph 2.1 "Impairment testing" for a detailed description of the activities carried during the year ended 31st December 2017.

NOTE 2. Intangible assets

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

(In thousands of euro)	31st December 2017	31st December 2016	Change
Concessions, licenses, trademarks and similar rights	5,667	5,525	142
Key money	17,531	23,137	(5,606)
Other intangible assets	10	161	(151)
Assets under construction and advances	742	-	742
Total intangible assets	**23,950**	**28,823**	**(4,873)**

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

(In thousands of euro)	31st December 2017			31st December 2016		
	Historical cost	Accumulated amortisation	Net book value	Historical cost	Accumulated amortisation	Net book value
Concessions, licenses, trademarks and similar rights	15,092	(9,425)	5,667	12,441	(6,916)	5,525
Key money	38,678	(21,147)	17,531	40,314	(17,177)	23,137
Other intangible assets	50	(40)	10	758	(597)	161
Assets under construction and advances	742	-	742	-	-	-
Total intangible assets	**54,562**	**(30,612)**	**23,950**	**53,513**	**(24,690)**	**28,823**

Intangible assets, in the amount of €23,950 thousand at 31st December 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 lessees in order to enter new agreements with the lessors.

The following tables show the changes in the individual items of intangible assets for the years ended 31st December 2017 and 31st December 2016:

(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 01st January 2017	**5,525**	**23,137**	**161**	**–**	**28,823**
Purchases	2,986	–	–	742	3,728
Net decreases	–	–	–	–	–
Translation differences	(123)	(242)	–	–	(365)
Value adjustments	–	(602)	(141)	–	(743)
Reclassification for fund transfers	93	–	–	–	93
Reclassifications for assets classified as held for sale	–	–	–	–	–
Changes in scope of consolidation	4	–	–	–	4
Depreciation	(2,818)	(4,762)	(10)	–	(7,590)
Balance at 31st December 2017	**5,667**	**17,531**	**10**	**742**	**23,950**

(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 01st January 2016	**3,982**	**27,245**	**201**	**51**	**31,479**
Purchases	3,797	390	33	–	4,220
Net decreases	(3)	–	–	–	(3)
Translation differences	35	(127)	–	(2)	(94)
Value adjustments	–	(602)	–	–	(602)
Reclassification for fund transfers	49	–	–-	(49)	–
Reclassifications for assets classified as held for sale	–	(123)	–	–	(123)
Depreciation	(2,335)	(3,646)	(73)	–	(6,054)
Balance at 31st December 2016	**5,525**	**23,137**	**161**	**–**	**28,823**

Investments for the year amounted to €3,728 thousand, of which €375 thousand for Key Money recognised in “Assets under construction and advances”, €3,095 thousand related to the project to upgrade the information technology and IT/digital systems, which have been capitalised under the items “Concessions, licenses, trademarks and similar rights” (€2,768 thousand) and “Other intangible fixed assets” (€327 thousand). This last item also includes the investments for the project called “Contemporary Factory”, for a total of €307 thousand, which will have a duration of 18 months (see the Management Report, “Investments” section for further details).

The remaining portion of the increases, in the amount of €258 thousand relates to manufacturing and logistic activities.

"Value adjustments", in the amount of €743 thousand, refer to the write-down to reflect the recoverable amount of intangible assets as at 31st December 2017.

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

NOTE 2.1 Impairment testing

The Group sells its products through directly operated stores located on prestigious streets in major cities around the world.

At year-end, the Company, as required by IAS 36 and internal procedures, conducts impairment tests on non-current assets (€168.7 million as at 31st December 2017) and, in particular:
– Goodwill (€7.0 million as at 31st December 2017) and
– Intangible assets (€23.9 million as at 31st December 2017, including €17.5 million for Key Money; these refer to indemnities paid to the tenant according to industry practices in order to take over the lease for a strategically located shop).

Management carried out an assessment of the recoverability of the assets referred to above in the following geographical areas:
– Russia
– China
– Japan
– Brazil

Impairment Test Structure
The main assumptions used in calculating recoverable value were as follows:
– estimated future cash flows from operating activities;
– discount rate (Weighted Average Cost of Capital, WACC)
– long-term nominal growth rate (g);
– terminal value.

The Group identified the cash generating units (i.e. CGU) based on geographical location, identified therefore as the smallest group of assets generating incoming cash flows.
This assessment is complex and requires the technical-professional opinions of Management, especially in forecasting the expected profitability of stores operating in a given country (and monitored at this level), which in turn is affected by the forecast of customer visits and spending in local markets, as well as by the assumptions underlying the calculation of the discount rate and terminal value.

Management reached its conclusions on the estimate of recoverable amount by using the value in use calculated under the Unlevered Discounted Cash Flow Method (UDCF).

This method was applied to cash flow projections based on the latest economic-financial forecasts available, over a period of at least three years (2018-2020) and on the assumptions made by management with respect to the performance of the markets in which the subsidiaries operate.

The discount rates used are as follows:

Country	WACC
Russia	13,0%
China	7,7%
Japan	4,6%
Brazil	8,99%

These discount rates, net of the tax effect, were considered appropriate to reflect the cost of money and the specific risk associated with operations, also taking into account the country risk. Discount rates were calculated in consideration of the market cost of debt and the Group's capital and financial structure.
The current value of cash flows for the years included in the various plans was supplemented by the Terminal value, determined according to the perpetuity growth model, at a growth rate (g), which represents the current value, at the last year of forecast, of all future cash flows expected.
In this case, Management considered an average growth rate (g) of 3.2%, corresponding to the expected long-term nominal growth rate.

Results of the impairment test at the reporting date
Non-current assets were tested for impairment as at 31st December 2017, confirming that the carrying amounts in the consolidated financial statements.

Sensitivity analysis
A sensitivity analysis was carried out on the impairment tests by simulating a change in the growth rate (g) of zero and a change in the WACC of +1%.
The outcome of this analysis was not very different from the recoverable value of the assets tested for impairment and did not give rise to the need record impairment on assets.

NOTE 3. Property, plant and equipment

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

(In thousands of euro)	31st December 2017	31st December 2016	Change
Land	4,201	4,055	146
Buildings	43,427	43,511	(84)
Leasehold improvements	48,697	43,272	5,425
Plant and machinery	3,304	3,693	(389)
Industrial and commercial equipment	1,985	2,090	(105)
Historical collection	3,187	2,534	653
Other assets	9,809	9,021	788
Assets under construction and advances	1,066	3,172	(2,106)
Total property, plant and equipment	**115,676**	**111,348**	**4,328**

Details of historical cost, accumulated depreciation and the carrying amount of property, plant and equipment at 31st December 2017 with comparative figures at 31st December 2016 are as follows:

(In thousands of euro)	31st December 2017			31st December 2016		
	Historical cost	Accum. depn.	Net book value	Historical cost	Accum. depn.	Net book value
Land	4,201	–	4,201	4,055	–	4,055
Buildings	51,062	(7,635)	43,427	49,653	(6,142)	43,511
Leasehold improvements	83,022	(34,325)	48,697	73,312	(30,040)	43,272
Plant and machinery	10,972	(7,668)	3,304	10,746	(7,053)	3,693
Industrial and commercial equipment	6,223	(4,238)	1,985	5,112	(3,022)	2,090
Historical collection	3,187	–	3,187	2,534	–	2,534
Other assets	20,880	(11,071)	9,809	18,335	(9,314)	9,021
Assets under construction and advances	1,066	–	1,066	3,172	–	3,172
Total property, plant and equipment	**180,613**	**(64,937)**	**115,676**	**166,919**	**(55,571)**	**111,348**

Property, plant and equipment at 31st December 2017 amounted to €115,676 thousand and mainly consists of the production and logistics buildings located at the Company's headquarters, leasehold improvements at stores and plant, machinery and equipment used for production and logistics.

Changes in the carrying amount of property, plant and equipment for the years ended 31st December 2017 and 31st December 2016 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 01st January 2017	**4,055**	**43,511**	**43,272**	**3,693**	**2,090**	**2,534**	**9,021**	**3,172**	**111,348**
Purchases	146	1,409	14,622	694	1,338	653	3,878	1,128	23,868
Net decreases	–	–	(78)	(107)	(33)	–	(138)	–	(356)
Translation differences	–	–	(2,674)	(33)	(27)	–	(424)	(57)	(3,215)
Value adjustments	–	–	(639)	–	–	–	(62)	(43)	(744)
Reclassification for fund transfers	–	–	2,741	9	–	–	294	(3,137)	(93)
Reclassifications for assets classified as held for sale	–	–	–	–	–	–	–	–	–
Change in scope of consolidation	–	–	19	–	–	–	–	3	22
Depreciation	–	(1,493)	(8,566)	(952)	(1,383)	–	(2,760)	–	(15,154)
Balance at 31st December 2017	**4,201**	**43,427**	**48,697**	**3,304**	**1,985**	**3,187**	**9,809**	**1,066**	**115,676**

(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 01st January 2016	**3,409**	**39,214**	**37,032**	**4,041**	**1,801**	**2,187**	**8,413**	**4,948**	**101,045**
Purchases	606	4,910	11,026	759	1,404	347	3,277	3,064	**25,393**
Net decreases	–	–	(49)	(55)	(88)	–	(289)	–	**(481)**
Translation differences	–	–	731	8	(5)	–	(15)	8	**727**
Value adjustments	40	(364)	(925)	(6)	–	–	(1)	–	**(1,256)**
Reclassification for fund transfers	–	1,141	3,665	(11)	–	–	53	(4,848)	**–**
Reclassifications for assets classified as held for sale	–	–	(87)	–	–	–	–	–	**(87)**
Depreciation	–	(1,390)	(8,121)	(1,043)	(1,022)	–	(2,417)	–	**(13,993)**
Balance at 31st December 2016	**4,055**	**43,511**	**43,272**	**3,693**	**2,090**	**2,534**	**9,021**	**3,172**	**111,348**

In 2017, the increases in Property, plant and equipment came to €23,868 consisting mainly of the following:

- investments for a total of €1,555 thousand in "Land" and "Buildings", mainly related to restructuring work at the facilities of the manufacturing company Pinturicchio S.r.l. located in Avenza, Carrara, as well as the completion of the multiyear project designed to double the industrial facilities in Solomeo;
- investments for €14,622 thousand in "Leasehold improvements", due mainly to the openings and expansion of DOS and wholesale monobrand stores and improvements to existing boutiques, showrooms, and the administrative and logistics facility in New York;
- investments for a total of €5,910 thousand, of which €694 thousand recognised under the item "Plant and machinery" (mainly referring to the upgrading of the water treatment system at the Solomeo industrial complex and to new machinery for production), €1,338 thousand recognised under the item "Industrial and commercial equipment" (mainly for investments made at sales points and at Solomeo headquarters), €3,878 thousand recognised under the item "Other assets" (mainly referring to investments in furniture and furnishings at sales points and at the new US administrative and logistics office in New York, as well as for usual development and upgrading activities for new machinery, furniture and furnishings, vehicles and equipment at the headquarters of Solomeo);
- investments in the amount of €653 thousand included under the item "Historical collection"
- additional investments recognised in "Assets under construction" totalling €1,128 thousand, mainly related to the expansion and upgrading works at the Showroom on Via Morimondo in Milan (Italy) and for setting up foreign DOS.

Investments in IT/Digital came to €854 thousand in 2017 and refer to tangible fixed assets.

"Value adjustments", in the amount of €744 thousand, refer to the write-down reflecting the recoverable amount of tangible assets as at 31st December 2017.

There were no further indications during the year of potential impairment of property, plant and equipment.

NOTE 4. Other non-current financial assets

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

(In thousands of euro)	31st December 2017	31st December 2016	Change
Guarantee deposits	6,298	5,740	558
Total other non-current financial assets	**6,298**	**5,740**	**558**

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 includes an amount of €1,786 thousand for the increase from new payments made by the Group (mainly relating to the sales point in Hong Kong, China, Macao and Japan), 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 €1,034 for the decrease from repayments obtained during the period (mainly relating to the sales points in Hong Kong), an amount of €503 thousand due to the negative change in the balance due to exchange rate effects on deposits held in foreign currency, and an amount of €46 thousand due to the increase generated by the discounting of balances.

NOTE 5. Inventories

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

(In thousands of euro)	31st December 2017	31st December 2016	Change
Raw materials and consumables	29,545	28,661	884
Work in progress and semi-finished goods	6,264	6,849	(585)
Finished goods and merchandise	116,838	119,304	(2,466)
Total inventories	**152,647**	**154,814**	**(2,167)**

Inventories at 31st December 2017 amounted to €152,647 thousand compared to €154,814 thousand at 31st December 2016. Detailed comments on changes in working capital may be found in the report on operations.

The Group does not recognise an inventory obsolescence provision as its stock management policies provide for an efficient process of selling and disposing of 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 at 31st December 2017 amounted to €45,178 thousand 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 amounts due for the supply of goods and services and are all collectible in the short term, as a result of which their carrying amount was the same as their fair value at the date of preparation of these financial statements.

The amount by which receivables in the financial statements have been written down is a reasonable estimate of the impairment arising from the specific non-collectability risk identified in these receivables.

Changes in the allowance for doubtful debts made during the year ended 31st December 2017, compared with the previous year, are as follows:

(In thousands of euro)	31st December 2017	31st December 2016
Amount at 1st January	**1,551**	**1,970**
Allocations	789	366
Utilizations	(570)	(785)
Amount at 31st December	**1,770**	**1,551**

The allocations to and utilizations are included under the item Value adjustments to assets and other provisions in the income statement. As regards the use of the allowance for doubtful debts existing in 2017, only €1 thousand of losses on bad debts was accounted for in the income statement; losses and uses accounted for a total of 0.11% of Net Revenues for the year (vs. 0.20% in 2016).

NOTE 7. Tax receivables

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

(In thousands of euro)	31st December 2017	31st December 2016	Change
IRES corporate income tax receivables	1,794	1,278	516
IRAP regional production tax receivables	7	–	7
Other tax receivables	976	708	268
Total tax receivables	**2,777**	**1,986**	**781**

Tax receivables amounted to €2,777 thousand at 31st December 2017. This amount relates to:

- the IRES receivable resulting from the difference between the higher advance payments with respect to the amount owed, which is determined at year-end, by the Parent (€1,743 thousand) and subsidiary Max Vannucci S.r.l. (€51 thousand); the subsidiary Max Vannucci S.r.l. has a receivable of €7 thousand for IRAP purposes;
- the receivable of €359 thousand accounted for in 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 the 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 17 December 2012 in application of Article 2 of Decree Law no. 201 of 2011 (the so-called Monti decree); it is worthy of note that the company collected €87 thousand in 2017;
- to taxes receivable by certain foreign subsidiaries for €617 thousand.

NOTE 8. Other receivables and current assets

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

(In thousands of euro)	**31st December 2017**	**31st December 2016**	**Change**
VAT receivables	1,959	3,523	(1,564)
Other receivables	5,870	6,387	(517)
Prepayments and accrued income	4,117	3,634	483
Advances to suppliers	734	834	(100)
Due from agents	243	315	(72)
Total other receivables and current assets	**12,923**	**14,693**	**(1,770)**

VAT receivables amounted to €1,959 thousand at 31st December 2017 compared to €3,523 thousand at 31st December 2016 and mainly refer to the VAT balance. In 2017, the Company continued to manage the timing for the exercise of exemption rights , continuing the careful policy of issues and revocations of the above statements, so as to optimize its VAT credit position at year-end, which was lower than the previous year, decreasing €1,564 thousand. This position will be collected in full in the early months of 2018, with the simultaneous reinstatement of the annual VAT plafond.

Other receivables mainly consist of balances settled by credit cards before the end of the year for which payment has not yet been credited to the relevant bank accounts.

(2) The optimal management of VAT is based on the fact that the parent company Brunello Cucinelli S.p.A. avails itself of the option granted by Presidential Decree no. 633 of 26th October 1972 to be qualified as a “habitual exporter”. The status of habitual exporter allows the Company to buy or import goods and services without paying value added tax up to a set ceiling, the “plafond”, determined as the limit of the amount of transactions carried out with other countries in the previous calendar year. This option is exercised through the submission of specific statements of intent to suppliers and customs, through which the VAT-exemption regime takes shape.

Prepayments and accrued income mostly arise from payments made in advance for catalogues for the spring/summer collection, which will be delivered in the following half year, and lease instalments.

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

Accounts receivable from agents primarily relate to the sale of samples to the Group sales network. It should be noted that samples are the key tool allowing the sales network to undertake sales promotional activities with the customer base.

NOTE 9. Other current financial assets

Other current financial assets at 31st December 2017 with comparative figures at 31st December 2016 are as follows:

(In thousands of euro)	**31st December 2017**	**31st December 2016**	**Change**
Financial receivables	28	16	12
Short-term financial instruments	–	1,964	(1,964)
Total other current financial assets	**28**	**1,980**	**(1,952)**

At 31st December 2017, Other current financial assets totalled €28 thousand. This amount relates to accrued income on outstanding loans at year-end. Short-term financial instruments held for trading were disposed of during the year.

NOTE 10. Cash and cash equivalents

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

(In thousands of euro)	**31st December 2017**	**31st December 2016**	**Change**
Bank and post office deposits	61,868	45,543	16,325
Cash and other valuables	450	210	240
Cheques	635	675	(40)
Total cash and cash equivalents	**62,953**	**46,428**	**16,525**

The above values can be readily converted into cash, they are not subject to constraints or restrictions 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 domestic and foreign banks.
Reference should be made to the cash flow statement for details of the sources and uses that generated changes in cash and cash equivalents in the year ended 31st December 2017.

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, meaning those negotiated 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 31st December 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 31st December 2017 are set out below, with comparative figures at 31st December 2016.

(In thousands of euro)	**31st December 2017**	**31st December 2016**	**Change**
Current assets for derivative instruments hedging currency risk	4,856	932	3,924
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	**4,856**	**932**	**3,924**
Current liabilities for derivative instruments hedging currency risk	(26)	(3,858)	3,832
Current liabilities for derivative instruments hedging interest rate risk:			
– Current liabilities for derivative instruments hedging interest rate risk accounted for using hedge accounting	(353)	(400)	47
– Current liabilities for derivative instruments hedging interest rate risk not accounted for using hedge accounting	–	–	–
Total current liabilities - derivative financial instruments	**(379)**	**(4,258)**	**3,879**
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	(10)	(252)	242
– Non-current liabilities for derivative instruments hedging interest rate risk not accounted for using hedge accounting	–	–	–
Total non-current liabilities - derivative financial instruments	**(10)**	**(252)**	**242**

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

Derivative instruments hedging interest rate risk accounted for using hedge accounting

(In thousands of euro)	31st December 2017		31st December 2016	
	current portion	non-current portion	current portion	non-current portion
Derivative receivables/payables	(353)	(10)	(400)	(252)
IRS Total Fair Value	**(353)**	**(10)**	**(400)**	**(252)**

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

(In thousands of euro)	Negative Fair value		Positive fair value	
	31st December 2017	31st December 2016	31st December 2017	31st December 2016
Derivative receivables/payables	(26)	(3,858)	4,856	932
Total Fair Value of foreign exchange forward contracts	**(26)**	**(3,858)**	**4,856**	**932**

The following table sets out the carrying amount of outstanding financial instruments (current and non-current loans) reported in the statement of financial position, comparing them with their fair value.

(In thousands of euro)	31st December 2017 Fair Value	31st December 2016 Valore contabile
Current and non-current loans	72,091	71,146

Lastly, it is noted that, 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 entirely eliminated during 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 in 2017 came to a total of €11 thousand, relating to the residual life of assets before their disposal.

NOTE 13. Capital and reserves

Share capital at 31st December 2017 consisted of 68,000,000 fully paid ordinary shares amounting to €13,600 thousand.

Equity at 31st December 2017 amounted to €263,191 thousand, an increase of €37,309 thousand with respect to 31st December 2016.

Changes in equity during 2017 arose from the total results for the year 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 21st April 2017.

A dividend of €8,840 thousand was approved for the previous year.

Details of changes in equity for the years ended 31st December 2017 and 31st December 2016 can be found in the consolidated statement of changes in equity.

The share premium reserve was €57,915 and is net of the listing costs incurred during the 2012 financial year which were allocated against Shareholders' equity pro rata to the ratio between the number of new shares issued and the number of shares in existence following the IPO, in accordance with IAS 32.

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

(In thousands of euro)	31st December 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	1,639	(1,580)	3,219
IFRS first-time application reserve	(770)	(770)	–
Reserve for IAS 19 effects	(397)	(341)	(56)
Translation reserve	(1,739)	3,329	(5,068)
Consolidated retained earnings	(8,733)	(9,236)	503
Other reserves	**136,369**	**111,031**	**25,338**

The change in the "Cash flow hedge reserve", in the amount of €3,219 thousand, reflects the figure reported in the Statement of Comprehensive Income.

Equity attributable to non-controlling interests at 31st December 2017 was €4,190 thousand compared to €6,939 thousand in the prior year and represents minority interests in the Parent Company's subsidiaries.

NOTE 14. Post-employment 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. This liability is discounted to present value by the means described in IAS 19.

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

(In thousands of euro)	31st December 2017	31st December 2016
Present value of the obligation at the beginning of the year	**3,065**	**3,033**
Revaluation as per article 2120 of the Italian Civ. Cod.	163	96
Benefits paid	(79)	(105)
Change in consolidation scope	–	–
Financial (income) expense	(39)	(27)
Exchange rate difference	(4)	–
Actuarial (gains) losses	78	68
Present value of the obligation at the end of the year	**3,184**	**3,065**

The item "Actuarial (gains) losses" reflects the amount reported in the Statement of Comprehensive Income.

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

Financial assumptions

	31st December 2017	31st December 2016
Annual discount rate	1.89%	1.68%
Inflation rate	1.25%	1.25%
Expected staff turnover rate	8.80%	8.80%
Advances rate	1.00%	1.00%

Demographic assumptions

	31st December 2017	31st December 2016
Mortality	TABLE RG48	
Retirement age	65 years	

Turnover rate and advances on the employees' termination indemnity

	31st December 2017	31st December 2016
Advances rate %	1.00%	1.00%
Turnover rate %	8.80%	8.80%

The Company performed a sensitivity analysis on the actuarial assumptions used to determine the liability at 31st December 2017. In particular, all other things being equal, a change of +10% in the discount rate used would result in a decrease of €24 thousand in the liability while a change of -10% would result in an increase of €25 thousand in the liability.

Workforce

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

	31st December 2017	31st December 2016
Managers and middle managers	59.3	54.1
Office and sales staff	1,057.6	906.3
Factory workers	488.4	479.8
Total workforce	**1,605.3**	**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 shows the changes in provisions for risks and charges as at 31st December 2017 with comparative figures as at 31st December 2016:

(In thousands of euro)	31st December 2017	31st December 2016
Agents' supplementary termination indemnity provision - 1st January	**524**	**518**
Allocations	408	89
Utilizations	(330)	–
Recognized actuarial (gain) / loss	54	(83)
Agents' supplementary termination indemnity provision - 31st December	**656**	**524**
Other provisions for risks and charges - 1st January	**135**	**130**
Exchange rate difference	(25)	5
Allocations	182	–
Utilizations	(57)	–
Other provisions for risks and charges - 31st December	**235**	**135**
Total provisions for risks and charges	**891**	**659**

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

	31st December 2017	31st December 2016
Turnover rate - voluntary	6.00%	6.00%
Turnover rate - employer initiated	5.00%	3.00%
Discount rate	1.51%	1.55%

NOTE 16. Non-current bank debt

Non-current bank debt consists of variable interest long-term loans.

The following table provides details of the Brunello Cucinelli Group's outstanding loans at 31st December 2017, showing the portion due within 12 months, within 5 years and after 5 years:

Description *(In thousands of euro)*	**Residual on 31st December 2017**	**Amount due next year**	**Amount due within 5 years**	**Amount due after 5 years**
Total medium/long-term loans	71,146	33,807	37,339	–
Total non-current bank debt	**37,339**			

The following table shows the financial covenants set out in the credit facility agreements. These are calculated on an annual basis by referring to the consolidated financial statements of Brunello Cucinelli S.p.A. These covenants were met at 31st December 2017.

Parameter	**Limit**
Net financial position / Equity (or Shareholders' funds)	<0.75 or <1.00
Net financial position / EBITDA	<1.00 or <1.50

Net debt

The following table provides details of Brunello Cucinelli Group's net debt at 31st December 2017 together with comparative figures at 31st December 2016:

(In thousands of euro)	**31st December 2017**	**31st December 2016**
A. Cash	(450)	(210)
B. Other liquid assets	(62,503)	(46,218)
C. Held-for-trading financial instruments	–	(1,964)
D. Cash and cash equivalents (A)+(B)+(C)	**(62,953)**	**(48,392)**
E. Current financial receivables	**(28)**	**(16)**
F. Short-term bank loans	3,878	16,165
G. Current portion of non-current debt	33,807	42,287
H. Other current financial payables	3,650	1,172
I. Current financial payables (F) + (G) + (H)	**41,335**	**59,624**
J. Net current debt (I) + (E) + (D)	**(21,646)**	**11,216**
K. Non-current bank loans	37,339	37,567
L. Bonds issued	–	–
M. Other non-current payables	10	2,173
N. Non-current financial payables (K)+(L)+(M)	**37,349**	**39,740**
O. Net debt (J)+(N)	**15,703**	**50,956**

For detailed comments, please see the Report on Operations.

The changes in liabilities from financing activities are reported below in accordance with IAS 7 "Statement of cash flows":

(In thousands of euro)	31st December 2016	Cash flows	Currency translation differences	Change in fair value	Change in consolidation scope	Other	31st December 2017
Non-current bank debt	37,567	18,240	–	–	–	(18,468)	37,339
Other non-current financial payables	2,173	(2,326)	(179)	(242)	584	–	10
Bonds	–	–	–	–	–	–	–
Current portion of non-current bank debt	42,287	(25,512)	(1,476)	–	–	18,508	33,807
Other current financial payables	17,337	(9,597)	(165)	(47)	–	–	7,528
Current financial assets	(1,980)	1,964	–	–	–	(12)	(28)
Liquid assets	(46,428)	(18,362)	1,837	–	–	–	(62,953)
Net debt	**50,956**	**(35,593)**	**17**	**(289)**	**584**	**28**	**15,703**

Note that the "Cash flow" column shows the flows of the Consolidated Cash Flow statement; the "Other" column mainly refers to the effects of the reclassification of the "non-current" amount to the "current" amount of outstanding loans.

NOTE 17. Non-current financial payables

Non-current financial payables were reduced to zero during the year. This regarded the loan entered into by the subsidiary Brunello Cucinelli Hong Kong Ltd. in respect of its minority shareholder as a result of the acquisition of the entire stake by the Parent.

NOTE 18. Other non-current liabilities

Other non-current liabilities at 31st December 2017 came to €10,571 thousand compared with €8,017 thousand at 31st December 2016. The balance refers to amounts due after 12 months arising from the normalization of the rental payments for certain monobrand stores and showrooms in accordance with IAS 17. The increase compared to the prior year balance was predominantly a function of the new lease contracts entered into in 2017.

(In thousands of euro)	31st December 2017	31st December 2016	Change
Deferred rent as per IAS 17	10,571	8,017	2,554
Total other non-current liabilities	**10,571**	**8,017**	**2,554**

NOTE 19. Trade payables

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

(In thousands of euro)	31st December 2017	31st December 2016	Change
Trade payables to third party suppliers	65,261	63,356	1,905
Total trade payables	**65,261**	**63,356**	**1,905**

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

NOTE 20. Current bank debt

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

(In thousands of euro)	31st December 2017	31st December 2016	Change
Bank advances on bills and invoices	3,878	16,165	(12,287)
Short-term loans.	–	26,988	(26,988)
Current portion of medium/long-term loans	33,807	15,299	18,508
Total current bank debt	**37,685**	**58,452**	**(20,767)**

Bank advances refer to cash advanced on unaccepted trade bills and invoices which is required to finance operating activities.

The item “Short-term loans”, present in the previous year, refers to loans to be repaid within 12 months, entered into by the foreign subsidiaries. There were no short-term loans as at 31st December 2017.

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

NOTE 21. Current financial payables

Current financial payables as at 31st December 2017 amounted to €3.297 thousand, of which €2.628 thousand for a financial advance received by foreign clients to guarantee payments, €629 thousand for recognition of the put option held by the minority shareholder in Brunello Cucinelli Japan Co. Ltd., and €40 thousand for the accrued interest on outstanding loans.

(In thousands of euro)	**31st December 2017**	**31st December 2016**	**Change**
Current financial payables	3,257	690	2,567
Accrued loan interest	40	82	(42)
Total current bank debt	**3,297**	**772**	**2,525**

NOTE 22. Tax payables

Tax payables at 31st December 2017 amounted to €1,434 thousand, compared to €1,104 thousand at 31st December 2016. This item consists mainly of the subsidiary Pinturicchio S.r.l.'s liabilities for IRES, the parent company's liabilities for IRAP tax and the liability for current taxes taken to the consolidation by subsidiaries.

(In thousands of euro)	**31st December 2017**	**31st December 2016**	**Change**
Current IRES corporate income tax payables	17	98	(81)
Current IRAP regional production tax payables	280	15	265
Other tax payables	1,137	991	146
Total tax payables	**1,434**	**1,104**	**330**

NOTE 23. Other current liabilities

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

(In thousands of euro)	31st December 2017	31st December 2016	Change
Due to agents	2,215	2,511	(296)
Due to employees	6,040	4,953	1,087
Social security payables	3,809	3,361	448
Taxes withheld by the Italian companies (IRPEF and other withholdings)	2,895	2,569	326
VAT payables to tax authorities	1,843	1,615	228
Payables for current non-income taxes	936	882	54
Due to others	6,083	4,996	1,087
Accrued expenses and deferred income	846	1,183	(337)
Total other current liabilities	**24,667**	**22,070**	**2,597**

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 consist of balances payable for December wages and salaries, paid during the first few days of January, and the accrual for vacation leave vested but not yet taken, while social security payables relate to contributions due on December wages and salaries and on the wages earned in December but paid out in the first days of January.

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

VAT payables to tax authorities refer to ordinary sums due by the foreign subsidiaries at 31st December 2017.

Amounts due to others mainly regard advances that Group companies 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 31st December 2017 with comparative figures at 31st December 2016 is as follows:

(In thousands of euro)	31st December 2017	31st December 2016	Change
Deferred tax assets	15,693	15,709	(16)
Deferred tax liabilities	(2,115)	(2,519)	404

Compared to the previous year, deferred tax assets and liabilities were largely stable. They refer mainly to the tax effect of the elimination of intragroup margins in inventories (€8,088 thousand) and the recognition of deferred taxation on the tax losses of subsidiaries (€3,762 thousand, of which some €2.4 million is attributable to Brunello Cucinelli (Sichuan) Fashion Co, Ltd., which was profitable in the past two years -2016 and 2017- and began the recovery of the losses accumulated in the start-up phase).
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.

Details of net deferred taxes at 31st December 2017 and 2016 are set out in the following table:

(In thousands of euro)	Year ended 31st December							
	Statement of financial position		**Equity**		**Income Statement**		**Exchange rate differences, change in scope of consolidation and other changes**	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Amortisation of intangible assets	(456)	(1,016)			560	(41)		26
Depreciation of tangible fixed assets	(269)	(448)			131	(16)	48	(14)
Fixed asset value adjustments	–	312			(312)	312		
Allowance for bad debts	385	334			51	(161)		
IAS 39 - Arrangement fees	9	17			(8)	(10)		
Fair value of derivatives	(518)	499	(1,017)	(401)	–	(5)		
Leasing IAS 17 - instalment normalisation	82	72			16	23	(6)	2
IAS 39 - Amortised cost	(3)	(4)			1	2		
Employee termination indemnity as per IAS 19	75	61	20	16	(6)	(2)		
Agents' indemnity per IAS 37	121	121			–	(18)		
Listing costs	–	–			–	(411)		
Elimination of intragroup margins in inventory	8,088	7,621			467	763		
Elimination of intragroup gains	9	9			–	–		
Deferred taxation on tax losses	3,762	4,762			(1,000)	243		
Unrealized currency gains and losses	932	(335)			1,267	(386)		
Unrealized gains and losses on changes in fair value of financial instruments held for trading	–	(7)			7	(7)		
Deferred capital gains	(36)	(113)			77	(26)		
Transactions taxed on a cash basis	40	122			(72)	82	(10)	6
Sales of shares in Brunello Cucinelli Suisse S.A. to employees	45	48			–	48	(3)	–
Taxation of Cucinelli Holding LLC's investment in Brunello Cucinelli USA Inc. Put option on non-controlling interest in Brunello Cucinelli England	890	888			116	108	(114)	30
Net investments in foreign operations			443		(443)	–		
Other	422	247			207	(280)	(31)	(1)
Deferred tax (income) expense					**1,059**	**218**		
Deferred taxation recognised in equity			**(554)**	**(385)**				
Exchange rate differences and consolidation scope changes							**(117)**	**49**
Deferred tax assets (liabilities), net	**13,578**	**13,190**						
Presented in the statement of financial position as follows:								
Deferred tax assets	15,693	15,709						
Deferred tax liabilities	(2,115)	(2,519)						
Deferred tax assets, net	**13,578**	**13,190**						

INCOME TAXES

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

(In thousands of euro)	31st December 2017	31st December 2016	Change
Current taxation	14,263	16,734	(2,471)
Deferred taxation	(1,059)	(218)	(841)
Prior year taxes	(6,275)	(235)	(6,040)
Income taxes in the consolidated income statement	**6,929**	**16,281**	**(9,352)**
Income taxes in comprehensive income	554	385	169
Total income taxes	**7,483**	**16,666**	**(9,183)**

The following is a reconciliation between the statutory tax rate and the effective tax rate for the Brunello Cucinelli Group for the years ended 31st December 2017 and 31st December 2016:

(In thousands of euro)	Year ended 31st December	
	2017	2016
Pre-tax profit	**59,414**	**53,400**
IRES rate in effect for the year	24,00%	27,50%
Income tax at statutory tax rate	**(14,259)**	**(14.685)**
Income taxes charged with different rates (IRAP)	(2,084)	(2,397)
Effect of different tax rate for foreign companies	(634)	208
Prior year taxes	(116)	235
"Patent Box" tax benefits for 2015 and 2016	6,391	–
"Patent Box" tax benefits for 2017	4,010	–
Other changes	(237)	358
Total reported income tax amount	**(6,929)**	**(16,281)**
Effective tax rate	*-11.66%*	*-30.49%*

8. 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 for the year ended 31st December 2017 with comparative figures for the year ended 31st December 2016 is as follows

(In thousands of euro)	31st December 2017	31st December 2016	Change
Net revenues	503,571	455,971	47,600
Other operating income	2,113	1,058	1,055
Total revenues from sales and services	**505,684**	**457,029**	**48,655**

Net revenues are earned from the sale of clothing and accessories of the Brunello Cucinelli Group. For detailed

The item "Other operating income" refers mainly to rental receipts for spaces used by trading partners.

Revenues may be analysed by geographical area as follows:

(In thousands of euro)	Year ended 31st December				Change	
	2017	% share	2016	% share	2017 vs. 2016	2017 vs. 2016 %
Italy	84,697	16.8%	76,198	16.7%	8,499	+11.2%
Europe (1)	150,858	30.0%	136,402	29.9%	14,456	+10.6%
North America (2)	178,656	35.5%	167,657	36.8%	10,999	+6.6%
Greater China (3)	42,696	8.5%	31,348	6.9%	11,348	+36.2%
Rest of World (RoW) (4)	46,664	9.2%	44,366	9.7%	2,298	+5.2%
Total	**503,571**	**100.0%**	**455,971**	**100.0%**	**47,600**	**+10.4%**

(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)	Year ended 31st December				Change	
	2017	% share	2016	% share	2017 vs. 2016	2017 vs. 2016 %
Retail	270,554	53.7%	226,220	49.6%	44,334	+19.6%
Wholesale Monobrand	25,305	5.0%	34,176	7.5%	(8,871)	-26.0%
Wholesale Multibrand	207,712	41.3%	195,575	42.9%	12,137	+6.2%
Total	**503,571**	**100.0%**	**455,971**	**100.0%**	**47,600**	**+10.4%**

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 the year ended 31st December 2017 with comparative figures for the year ended 31st December 2016 is as follows:

(In thousands of euro)	31st December 2017	31st December 2016	Change
Costs for raw materials and consumables	87,211	81,803	5,408
Change in inventories	(4,310)	(8,915)	4,605
Total costs for raw materials and consumables	**82,901**	**72,888**	**10,013**

For comments on this item, reference should be made to the Report on operations.

NOTE 27. Costs for services

The composition of costs for services for the year ended 31st December 2017 with comparative figures for the year ended 31st December 2016 is as follows:

(In thousands of euro)	31st December 2017	31st December 2016	Change
Outsourced work	92,811	87,005	5,806
Commissions and accessory charges	12,701	12,798	(97)
Advertising and other marketing expenses	28,674	24,657	4,017
Transport and duties	17,470	16,034	1,436
Lease expense	59,069	54,997	4,072
Credit card charges	4,899	3,985	914
Outsourced services and miscellaneous consultancy	6,518	5,873	645
Directors' and statutory auditors' fees	2,635	2,255	380
Maintenance services	4,596	3,860	736
Insurance	1,438	1,150	288
Website maintenance and support	987	303	684
Other general expenses	4,718	3,582	1,136
Total costs for services	**240,328**	**219,884**	**20,444**

Reference should be made to the report on operations for comments on trends in costs for services.
It is worth mentioning that the item “Outsourced services and miscellaneous consultancy” includes an amount of €620 thousand for research costs relating to the “Contemporary Factory” project, details of which may be found in the Report on Operations. Furthermore, costs for services also includes extra IT/Digital related expenses in the amount of €2,862 thousand, a sharp increase with respect to previous years.

NOTE 28. Payroll costs

The composition of payroll costs for the year ended 31st December 2017 with comparative figures for the year ended 31st December 2016 is as follows:

(In thousands of euro)	31st December 2017	31st December 2016	Change
Wages and salaries	69,862	63,929	5,933
Social charges	14,586	13,513	1,073
Employees' termination indemnity	2,548	2,354	194
Other payroll costs	2,065	1,562	503
Total payroll costs	**89,061**	**81,358**	**7,703**
of which non-recurring costs	***-***	***1,523***	***(1,523)***

Further details of payroll costs can be found in the Report on operations.

NOTE 29. Other operating costs

The composition of other operating costs for the year ended 31st December 2017 with comparative figures for the year ended 31st December 2016 is as follows:

(In thousands of euro)	31st December 2017	31st December 2016	Change
Taxes and duties	2,272	2,091	181
Ordinary capital losses	214	162	52
Losses on bad debts	1	139	(138)
Miscellaneous operating costs	2,566	2,910	(344)
Total other operating costs	**5,053**	**5,302**	**(249)**

NOTA 30. Own work capitalized

Own work capitalized (€1,873 thousand in 2017 and €1,325 thousand in 2016) relate to production costs incurred to develop the historical collection, internal costs incurred for the development of IT software, costs incurred for the "Contemporary Factory" project and for the internal fit out of the Group's boutiques.

NOTE 31. Amortisation and depreciation

The composition of amortisation and depreciation for the year ended 31st December 2017 with comparative figures for the year ended 31st December 2016 is as follows:

(In thousands of euro)	31st December 2017	31st December 2016	Change
Amortization of intangible assets	7,594	6,054	1,540
Depreciation of property, plant and equipment	15,161	13,993	1,168
Total depreciation and amortization	**22,755**	**20,047**	**2,708**

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 (€2,738 thousand in 2017 and €2,230 thousand in 2016) relate to accruals to the allowance for bad debts and the agents' supplementary termination indemnity provision and write-downs of the residual carrying amount of the Key money, the capitalised leasehold improvements and other capitalized goods accounted for during the relocation of the Group's boutiques.

NOTE 33. Financial expense

The composition of financial expense for the year ended 31st December 2017 with comparative figures for the year ended 31st December 2016 is as follows:

(In thousands of euro)	31st December 2017	31st December 2016	Change
Mortgage loan interest	626	698	(72)
Interest expense on advances and discounting invoices	649	620	29
Bank interest	97	373	(276)
Realized exchange losses	16,558	12,494	4,064
Unrealized exchange losses	2,526	1,655	871
Financial expense on derivative financial instruments	2,691	1,829	862
Miscellaneous financial expense	357	375	(18)
Total financial expense	**23,504**	**18,044**	**5,460**

For comments on this item, reference should be made to the Report on operations.

NOTE 34. Financial income

The composition of financial income for the year ended 31st December 2017 with comparative figures for the year ended 31st December 2016 is as follows:

(In thousands of euro)	31st December 2017	31st December 2016	Change
Bank interest	85	88	(3)
Interest income on financial assets	10	-	10
Realized exchange gains	16,804	11,547	5,257
Unrealized exchange gains	1,093	2,530	(1,437)
Financial income on derivative financial instruments	22	86	(64)
Miscellaneous income	183	548	(365)
Total financial income	**18,197**	**14,799**	**3,398**

For comments on this item, reference should be made to the Report on operations.

NOTA 35. Basic and diluted earnings per share

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

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 payment of dividends for the year must be approved by shareholders in a general meeting and accordingly a liability has not been recognised for this matter in the consolidated financial statements of the Brunello Cucinelli Group at 31st December 2017; the same situation held at 31st December 2016.

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

	31st December 2017	31st December 2016
Net profit attributable to owners of the parent (thousands of euro)	51,117	36,397
Number of ordinary shares at the end of the year	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)	0.75172	0.53525
Diluted earnings per share (euro)	0.75172	0.53525

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 this item at 31st December 2017, compared with the situation at 31st December 2016, is as follows:

(In thousands of euro)	31st December 2017	31st December 2016	Change
Assets with third parties	25	20	5
Total commitments and risks	**25**	**20**	**5**

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.

FINANCIAL RISK MANAGEMENT

The Brunello Cucinelli Group is exposed to varying degrees to financial risks arising from its core business. More specifically, the Group is simultaneously exposed to market risk (interest rate risk and currency risk), liquidity risk and credit risk.

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 financing instruments most often used are:

– long-term loans with multi-year repayment schedules to fund investments in capital assets;
– short-term loans and bank overdrafts to finance working capital.

In addition, the Brunello Cucinelli Group enters financial instrument contracts hedging the risk of fluctuations in interest rates, which could affect long-term debt servicing costs, and foreign exchange rates, which could affect the Group's results.

The average cost of debt is based on 3-month and 6-month Euribor, plus a spread that depends on the financing instrument used and on the Company's rating.
The Brunello Cucinelli Group uses derivatives to hedge interest rate and foreign exchange rate risks.
The Group does not use derivatives for speculative purposes.

INTEREST RATE RISK

The Brunello Cucinelli Group manages interest rate risk by considering its overall exposure: as part of its general policy of optimising financial resources, the Group looks for balance through the use of less onerous forms of financing.

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.
At 31st December 2017, there were 19 positions regarding interest rate swap derivatives to hedge the risk of a potential increase in the cost of servicing bank debt due to fluctuations in market rates. The notional value of these positions was €65.1 million with a negative fair value of approximately €363 thousand.

At 31st December 2016, there were 13 positions regarding interest rate swap derivatives to hedge the risk of a potential increase in the cost of servicing bank debt due to fluctuations in market rates. The notional value of these positions was €51.2 million with a negative fair value of approximately €652 thousand.

The short-term portion of bank debt, used mainly to finance working capital needs, is not covered by an interest rate hedge.
The cost of bank debt is equal to Euribor for the period plus a spread that depends on the type of credit facility used. The applied spreads are comparable to the best market standards. The interest rate risk to which the Brunello Cucinelli Group is exposed derives primarily from its outstanding financial debt.

The Brunello Cucinelli Group's principal sources of exposure to interest rate risk derive from short-term and long-term loans and derivative instruments. Even though the Group adopts a precise hedging policy, the potential effects on 2017 results (2016 for comparative figures) deriving from interest rate risk are:
– potential change in financial expense and differential costs for outstanding derivatives in 2017;
– potential change in fair value of outstanding derivatives.

On the other hand, potential changes in the fair value of the effective component of outstanding hedging instruments cause an effect on equity.

The Brunello Cucinelli Group has estimated the potential effects on its 2018 income statement and equity, calculated with reference to the situation at the end of 2017 (effects on 2017 for comparative figures calculated with reference to the situation at the end of 2016), produced by a simulation of the change in the yield curve, by using internal assessment models based on generally accepted principles. More specifically:
– for loans, the effects were estimated by simulating a parallel shift of +100/-30 basis points (+1%/-0.3%) in the yield curve, applied only to cash flows expected for 2017 (2016 for comparative figures);
– for derivatives, by simulating a parallel shift of +100/-30 basis points (+1%/-0.3%) in the yield curve.

With reference to the situation at 31st December 2017, a parallel shift of +100 basis points (+1%) in the yield curve would produce an increase in interest expense of €301 thousand in 2017, offset for €421 thousand by an increase in differentials collected from outstanding derivatives. A parallel shift of -30 basis points (-0.3%) in the yield curve would produce a decrease in interest expense of €90 thousand, offset by a reduction of €126 thousand in differentials collected from outstanding derivatives.

With reference to the situation at 31st December 2016, a parallel shift of +100 basis points (+1%) in the yield curve would produce an increase in interest expense of €345 thousand in 2016, offset for €327 thousand by an increase in differentials collected from outstanding derivatives. A parallel shift of -30 basis points (-0.3%) in the yield curve would produce a decrease in interest expense of €103 thousand, offset by a reduction of €98 thousand in differentials collected from outstanding derivatives.

	Interest 31st December 2017		
Loans	**Residual debt** *(Euro/000)*	**Effect on 2017 +100 bps** *(Euro/000)*	**Effect on 2017 -30 bps** *(Euro/000)*
Loans payable	71,146	(301)	90
Total loans	**71,146**	**(301)**	**90**

Derivative instruments	**Residual notional** *(Euro/000)*	**Effect on 2017+100 bps** *(Euro/000)*	**Effect on 2017-30 bps** *(Euro/000)*
Cash flow hedges	65,059	421	(126)
Other derivatives	–	–	–
Total derivative instruments	**65,059**	**421**	**(126)**
TOTAL		**120**	**(36)**

	Interest 31st December 2016		
Loans	**Residual debt** *(Euro/000)*	**Effect on 2016+100 bps** *(Euro/000)*	**Effect on 2016 -30 bps** *(Euro/000)*
Loans payable	79,854	(345)	103
Total loans	**79,854**	**(345)**	**103**

Derivative instruments	**Residual notional** *(Euro/000)*	**Effect on 2016 +100 bps** *(Euro/000)*	**Effect on 2016 -30 bps** *(Euro/000)*
Cash flow hedges	51,204	327	(98)
Other derivatives	–	–	–
Total derivative instruments	**51,204**	**327**	**(98)**
TOTAL		**(18)**	**5**

With reference to the situation at 31st December 2017, a parallel shift of +100 basis points (+1%) in the yield curve would produce an increase in the carrying amount of outstanding hedging derivatives of €923 thousand with an effect solely on equity. A parallel shift of -30 basis points (-0.3%) in the yield curve would produce an increase in the balance sheet carrying amount of outstanding hedging derivatives of €268 thousand, with an effect solely on equity.

With reference to the situation at 31st December 2016, a parallel shift of +100 basis points (+1%) in the yield curve would produce an increase in the carrying amount of outstanding hedging derivatives of €733 thousand with an effect solely on equity. A parallel shift of -30 basis points (-0.3%) in the yield curve would produce an increase in the balance sheet carrying amount of outstanding hedging derivatives of €224 thousand, with an effect solely on equity.

	Sensitivity of derivative fair value 31st December 2017									
	Notional value *(Euro/000)* A	Fair value *(Euro/000)* b	Net fair value +100 bps c	Change in net fair value +100 bps d = c-b	Effect on income statement +100 bps e = d-f	Effect on equity+100 bps f	Net fair value -30 bps g	Change in net fair value -30bps h = g-b	Effect on income statement -30bps i = h-j	Effect on equity -30 bps J
Cash flow hedges	65,059	(363)	560	923	–	923	(631)	(268)	–	(268)
Other derivatives	–	–	–	–	–	–	–	–	–	–
TOTAL	**65,059**	**(363)**	**560**	**923**	**–**	**923**	**(631)**	**(268)**	**–**	**(268)**

	Sensitivity of derivative fair value 31st December 2016									
	Notional value *(Euro/000)* A	Fair value *(Euro/000)* b	Net fair value +100 bps c	Change in net fair value +100 bps d = c-b	Effect on income statement +100 bps e = d-f	Effect on equity+100 bps f	Net fair value -30 bps g	Change in net fair value -30bps h = g-b	Effect on income statement -30bps i = h-j	Effect on equity -30 bps J
Cash flow hedges	51,204	(652)	81	733	–	733	(876)	(224)	–	(224)
Other derivatives	–	–	–	–	–	–	–	–	–	–
TOTAL	**51,204**	**(652)**	**81**	**733**	**–**	**733**	**(876)**	**(224)**	**–**	**(224)**

The assumptions regarding the range of changes in market parameters used to simulate shocks were formulated on the basis of an analysis of the trend of such parameters over a 12-month period.

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 currency risk deriving from its business activities, the Brunello Cucinelli Group enters derivative contracts (forward exchange contracts) that predefine the exchange rate or a range of exchange rates at future dates.

The forward contracts are stipulated when seasonal price lists in foreign currency are prepared, based on estimated sales and considering the expected collection date of the sales invoices at the expiry date of the derivative. Specifically, the Group sets its selling prices in euro and calculates the corresponding prices in foreign currency by applying the average forward exchange rate.

Starting in 2010, the Company adopted cash flow hedge accounting to account for derivative contracts hedging currency risk arising from foreign currency business transactions deemed highly probable. Consequently, the effective component of the change in fair value of derivatives negotiated to hedge highly probable foreign currency transactions is allocated to a specific reserve in equity. When the hedged transaction takes place, the amounts recognised in the reserve are reclassified to revenues in the income statement. The ineffective component of this change in fair value is recognised in financial income and expense in the income statement. In accordance with the methods adopted for accounting for hedged items, changes in fair value subsequent to the occurrence of hedged transactions are recognised in financial income and expense in the income statement.

The aim of the Company's financial policy is to prevent results from operations from being affected by fluctuations in exchange rates between the stipulation date of forward contracts and the time of invoicing and subsequent collection.

During 2017 the Group reclassified as a decrease in revenues €1,427 thousand previously recognised in the cash flow hedge reserve.
During 2016 the Group reclassified as a decrease in revenues €2,540 thousand previously recognised in the cash flow hedge reserve.

The potential effects on the 2017 income statement (2016 for comparative purposes) arising from currency risk are:
- write-up/write-down of asset and liability items expressed in foreign currency;
- change in fair value of outstanding derivatives hedging asset and liability items expressed in foreign currency;
- change in fair value of the ineffective component of outstanding derivatives hedging highly probable transactions in foreign currency.

The potential effects on the 2018 closing equity (2017 for comparative purposes) arising from currency risk are:
- change in fair value of the ineffective component of outstanding derivatives hedging highly probable transactions in foreign currency.

The Brunello Cucinelli Group has estimated the potential effects on its 2018 income statement and equity, calculated with reference to the situation at the end of 2017 (2016 for comparative purposes), produced by a shock on the exchange rate market (with reference to currencies in which the Group has significant exposure at each closing date), by using internal assessment models based on generally accepted principles.

Exposure of balance sheet items	FOREIGN CURRENCY EXPOSURE 2017			SENSITIVITY 2017	
	Assets	Liabilities	Net	Income Statement Euro/US dollar	
	(US dollar/000)			+ 5% (Euro/000)	- 5% (Euro/000)
Balances arising from sales and purchases	6,268	(1,947)	4,321	(180.1)	180.1
Total exposure of balance sheet items	**6,268**	**(1,947)**	**4,321**	**(180.1)**	**180.1**

Exposure arising from highly probable future transactions	Notional	Change in equity Euro/US dollar	
		+ 5% (Euro/000)	- 5% (Euro/000)
Forward sales (notional amount)	(81,500)	3.398	(3.398)

Exposure of balance sheet items	Assets	Liabilities	Net	Income Statement Euro/Swiss franc	
	(Swiss franc/000)			+ 5% (Euro/000)	- 5% (Euro/000)
Balances arising from sales and purchases	283	(385)	(102)	4.3	(4.3)
Total exposure of balance sheet items	**283**	**(385)**	**(102)**	**4.3**	**(4.3)**

Exposure arising from highly probable future transactions	Notional	Change in equity Euro/ Swiss franc	
		+ 5% (Euro/000)	- 5% (Euro/000)
Forward sales (notional amount)	(4,500)	192	(192)

Exposure of balance sheet items	Assets	Liabilities	Net	Income Statement Euro/British pound	
	(British pound/000)			+ 5% (Euro/000)	- 5% (Euro/000)
Balances arising from sales and purchases	977	(72)	905	(51.0)	51.0
Total exposure of balance sheet items	**977**	**(72)**	**905**	**(51.0)**	**51.0**

Exposure arising from highly probable future transactions	Notional	Change in equity Euro/ British pound	
		+ 5% (Euro/000)	- 5% (Euro/000)
Forward sales (notional amount)	(8,900)	502	(502)

Exposure of balance sheet items	Assets	Liabilities	Net	Income Statement Euro/Japanese yen	
	(Japanese yen/000)			+ 5% (Euro/000)	- 5% (Euro/000)
Balances arising from sales and purchases	356,393	(203,675)	152,718	(56.6)	56.6
Total exposure of balance sheet items	**356,393**	**(203,675)**	**152,718**	**(56.6)**	**56.6**

Exposure arising from highly probable future transactions	Notional	Change in equity Euro/ Japanese yen + 5% (Euro/000)	Change in equity Euro/ Japanese yen - 5% (Euro/000)
Forward sales (notional amount)	(810,000)	300	(300)

Exposure of balance sheet items	Assets (Hong Kong dollar/000)	Liabilities (Hong Kong dollar/000)	Net (Hong Kong dollar/000)	Income Statement Euro/Hong Kong dollar + 5% (Euro/000)	Income Statement Euro/Hong Kong dollar - 5% (Euro/000)
Balances arising from sales and purchases	752	(2,622)	(1,870)	10.0	(10.0)
Total exposure of balance sheet items	**752**	**(2,622)**	**(1,870)**	**10.0**	**(10.0)**

Exposure arising from highly probable future transactions	Nozionale Notional	Change in equity Euro/Hong Kong dollar + 5% (Euro/000)	Change in equity Euro/Hong Kong dollar - 5% (Euro/000)
Forward sales (notional amount)	(31,400)	168	(168)

Exposure of balance sheet items	Assets (Canadian dollar/000)	Liabilities (Canadian dollar/000)	Net (Canadian dollar/000)	Income Statement Euro/Canadian dollar + 5% (Euro/000)	Income Statement Euro/Canadian dollar - 5% (Euro/000)
Balances arising from sales and purchases	3,025	(513)	2,512	(83.5)	83.5
Total exposure of balance sheet items	**3,025**	**(513)**	**2,512**	**(83.5)**	**83.5**

Exposure arising from highly probable future transactions	Notional	Change in equity Euro/Canadian dollar + 5% (Euro/000)	Change in equity Euro/Canadian dollar - 5% (Euro/000)
Forward sales (notional amount)	(10,780)	358	(358)

Exposure of balance sheet items	Assets (Renminbi/000)	Liabilities (Renminbi/000)	Net (Renminbi/000)	Income Statement Euro/Renminbi + 5% (Euro/000)	Income Statement Euro/Renminbi - 5% (Euro/000)
Balances arising from sales and purchases	27,968	(3,571)	24,397	(156.3)	156.3
Total exposure of balance sheet items	**27,968**	**(3,571)**	**24,397**	**(156.3)**	**156.3**

Exposure arising from highly probable future transactions	Notional	Change in equity Euro/ Renminbi + 5% (Euro/000)	Change in equity Euro/ Renminbi - 5% (Euro/000)
Forward sales (notional amount)	(45,400)	291	(291)

Exposure of balance sheet items	Assets	Liabilities	Net	Income Statement Euro/Real	
		(Real/000)		+ 5% (Euro/000)	- 5% (Euro/000)
Balances arising from sales and purchases	114	(64)	50	(0.6)	0.6
Total exposure of balance sheet items	**114**	**(64)**	**50**	**(0.6)**	**0.6**

Exposure of balance sheet items	Assets	Liabilities	Net	Income Statement Euro/Ruble	
		(Ruble/000)		+ 5% (Euro/000)	- 5% (Euro/000)
Balances arising from sales and purchases	–	(14,380)	(14,380)	10.3	(10.3)
Total exposure of balance sheet items	**–**	**(14,380)**	**(14,380)**	**10.3**	**(10.3)**

Exposure of balance sheet items	FOREIGN CURRENCY EXPOSURE 2016			SENSITIVITY 2016	
	Assets	Liabilities	Net	Income Statement Euro/US dollar	
		(US dollar/000)		+ 5% (Euro/000)	- 5% (Euro/000)
Balances arising from sales and purchases	9,034	(2,680)	6,354	(301.0)	301.0
Total exposure of balance sheet items	**9,034**	**(2,680)**	**6,354**	**(301.0)**	**301.0**

Exposure arising from highly probable future transactions	Notional	Change in equity Euro/US dollar	
		+ 5% (Euro/000)	- 5% (Euro/000)
Forward sales (notional amount)	(106,000)	5,028	(5,028)

Exposure of balance sheet items	Assets	Liabilities	Net	Income Statement Euro/Swiss franc	
		(Swiss franc/000)		+ 5% (Euro/000)	- 5% (Euro/000)
Balances arising from sales and purchases	178	(311)	(133)	6.2	(6.2)
Total exposure of balance sheet items	**178**	**(311)**	**(133)**	**6.2**	**(6.2)**

Exposure arising from highly probable future transactions	Notional	Change in equity Euro/ Swiss franc	
		+ 5% (Euro/000)	- 5% (Euro/000)
Vendite a termine (Valore Nozionale)	(5,550)	258	(258)

Exposure of balance sheet items	Assets	Liabilities	Net	Income Statement Euro/British pound	
	(British pound/000)			+ 5% (Euro/000)	- 5% (Euro/000)
Balances arising from sales and purchases	764	(81)	683	(39.9)	39.9
Total exposure of balance sheet items	**764**	**(81)**	**683**	**(39.9)**	**39.9**

Exposure arising from highly probable future transactions	Notional	Change in equity Euro/ British pound	
		+ 5% (Euro/000)	- 5% (Euro/000)
Forward sales (notional amount)	(7,550)	441	(441)

Exposure of balance sheet items	Assets	Liabilities	Net	Income Statement Euro/Japanese yen	
	(Japanese yen/000)			+ 5% (Euro/000)	- 5% (Euro/000)
Balances arising from sales and purchases	300,949	(131,449)	169,500	(68.7)	68.7
Totale esposizione lorda poste patrimoniali	**300,949**	**(131,449)**	**169,500**	**(68.7)**	**68.7**

Exposure arising from highly probable future transactions	Notional	Change in equity Euro/ Japanese yen	
		+ 5% (Euro/000)	- 5% (Euro/000)
Forward sales (notional amount)	(1,755,000)	711	(711)

Exposure of balance sheet items	Assets	Liabilities	Net	Income Statement Euro/Hong Kong dollar	
	(Dollaro Hong Kong/000)			+ 5% (Euro/000)	- 5% (Euro/000)
Balances arising from sales and purchases	819	(2,434)	(1,615)	9.9	(9.9)
Total exposure of balance sheet items	**819**	**(2,434)**	**(1,615)**	**9.9**	**(9.9)**

Exposure arising from highly probable future transactions	Notional	Change in equity Euro/Hong Kong dollar	
		+ 5% (Euro/000)	- 5% (Euro/000)
Forward sales (notional amount)	(19,300)	118	(118)

Exposure of balance sheet items	Assets	Liabilities	Net	Income Statement Euro/Canadian dollar	
	(Canadian dollar/000)			+ 5% (Euro/000)	- 5% (Euro/000)
Balances arising from sales and purchases	2,878	(322)	2,556	(90.1)	90.1
Total exposure of balance sheet items	**2,878**	**(322)**	**2,556**	**(90.1)**	**90.1**

Exposure arising from highly probable future transactions	Notional	Change in equity Euro/Canadian dollar	
		+ 5% (Euro/000)	- 5% (Euro/000)
Forward sales (notional amount)	(10,791)	380	(380)

Exposure of balance sheet items	Assets	Liabilities	Net	Income Statement Euro/Renminbi	
		(Renminbi/000)		+ 5% (Euro/000)	- 5% (Euro/000)
Balances arising from sales and purchases	27,951	(6,604)	21,347	(145.8)	145.8
Total exposure of balance sheet items	**27,951**	**(6,604)**	**21,347**	**(145.8)**	**145.8**

Exposure arising from highly probable future transactions	Notional	Change in equity Euro/ Renminbi	
		+ 5% (Euro/000)	- 5% (Euro/000)
Forward sales (notional amount)	(27,900)	191	(191)

Exposure of balance sheet items	Assets	Liabilities	Net	Income Statement Euro/Real	
		(Real/000)		+ 5% (Euro/000)	- 5% (Euro/000)
Balances arising from sales and purchases	108	(96)	12	(0.2)	0.2
Total exposure of balance sheet items	**108**	**(96)**	**12**	**(0.2)**	**0.2**

The assumptions regarding the range of changes in market parameters used to simulate shocks were formulated on the basis of an analysis of the trend of such parameters with reference to a 30-60-90 day horizon, in line with the expected length of exposure.

LIQUIDITY RISK

The Brunello Cucinelli Group manages liquidity risk by keeping strict control of the items making up working capital and in particular receivables from customers and payables to suppliers.

The Group concentrates on generating a good level of cash in order to use this for the outflows required for paying suppliers, therefore without impairing the short-term treasury balance and avoiding critical points and tensions in current liquidity.

The following tables provide a stratification of outstanding liabilities for financial instruments at 31st December 2017 and 2016 by due date:

	31st December 2017				
	Financial payables				
	Capital (Euro/000) a	Interest (Euro/000) b	Trade payables (Euro/000) c	Derivative instruments (Euro/000) d	TOTAL (Euro/000) e = a+b+c+d
Due date:					
Within 12 months	33,724	464	65,261	352	99,801
Between 1 and 2 years	20,789	232	–	73	21,094
Between 2 and 3 years	9,014	130	–	(20)	9,124
Between 3 and 5 years	7,619	61	–	(41)	7,639
Between 5 and 7 years	–	–	–	(1)	(1)
Over 7 years	–	–	–	–	–
TOTAL	**71,146**	**887**	**65,261**	**363**	**137,657**

	31st December 2016				
	Financial payables				
	Capital (Euro/000) a	Interest (Euro/000) b	Trade payables (Euro/000) c	Derivative instruments (Euro/000) d	TOTAL (Euro/000) e = a+b+c+d
Due date:					
Within 12 months	42,288	485	63,356	425	106,554
Between 1 and 2 years	26,404	279	–	242	26,925
Between 2 and 3 years	9,454	68	–	26	9,548
Between 3 and 5 years	1,708	9	–	2	1,719
Between 5 and 7 years	–	–	–	–	–
Over 7 years	–	–	–	–	–
TOTAL	**79,854**	**841**	**63,356**	**695**	**144,746**

The estimate of the future costs implicit in loans and the expected future differentials implicit in the derivative instruments was determined on the basis of the yield curves of the interest rates on the reporting date (31st December 2017 and 31st December 2016).

CREDIT RISK

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

The Brunello Cucinelli Group's exposure to commercial credit risk relates solely to sales made through the wholesale multibrand channel and the wholesale monobrand channel, which together represented 46.3% of net revenues for the year ended 31st December 2017, while the remaining turnover regards sales made through 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. As confirmation of this policy, reference should be made to the changes in the allowance for bad debts for the years ended 31st December 2017 and 2016 set out in note 6. In particular, note that the incidence rate of the sum of the uses of the allowance for bad debts and losses on bad debts with respect to net revenues (0.11% in 2017 and 0.20% in 2016) support our prudent and sound mindset in credit-management.

The carrying amount of trade receivables in the financial statements is stated net of the allowance for bad debts on the basis of the risk that the counterparty will fail to meet its obligations, determined by considering the available information on the solvency of the customer and historical data.

The following tables provide an ageing of trade receivables at 31st December 2017 and 2016:

	Situazione al 31 dicembre	
Overdue by:	**2017**	**2016**
0-90 days	5,496	5,686
91-180 days	4,000	3,399
Over 180 days	3,427	4,303
TOTAL	**12,923**	**13,388**

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.

Pursuant to Consob Resolution no. 17221 of 12nd March 2010, it is hereby stated that in the year ended 31st December 2017, the Group did not carry out any significant transactions with related parties or any which have materially affected the Group's financial position or results.

Details of the Brunello Cucinelli Group's transactions and balances with related parties as of and for the year ended 31st December 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	Trade receivables	Trade payables	Other debts
MO.AR.R. S.n.c.	–	–	15	104	–	7,898	–	–	203	–
Cucinelli Giovannino	–	–	–	3	–	5,513	–	–	2	–
CMB Impianti Industriali S.r.l.	–	–	–	8	–	202	–	–	19	–
AS.VI.P.I.M. Gruppo Cucinelli	4	3	–	818	–	–	–	4	–	–
Solomeo S.r.l.	–	3	–	913	–	1,762	32	5	8	–
Verna (former Socrate S.r.l.)	–	3	–	423	–	–	–	5	45	–
Brunello Cucinelli Family	4	3	–	–	535	–	–	–	–	36
Prime Service Italia S.r.l.	–	–	–	555	–	–	–	–	114	–
Fedone S.r.l.	–	3	–	64	–	–	–	5	20	–
Fondazione Brunello Cucinelli	3	10	–	7	–	–	–	14	1	–
Parco Agrario Solomeo	–	8	–	8	–	9	–	8	–	–
Solomeo Castel Rigone Calcio S.S.D. A.r.l.	–	3	–	–	–	–	–	4	–	–
Total related parties	**11**	**36**	**15**	**2,903**	**535**	**15,384**	**32**	**45**	**412**	**36**
Total consolidated financial statements	**503,571**	**2,113**	**82,901**	**240,328**	**89,061**	**115,676**	**6,298**	**45,178**	**65,261**	**24,667**
% share	*0,00%*	*1,70%*	*0,02%*	*1,21%*	*0,60%*	*13,30%*	*0,51%*	*0,10%*	*0,63%*	*0,15%*

More specifically:

- MO.AR.R. S.n.c.: commercial relationships with MO.AR.R. company 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 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;
- CMB Impianti Industriali S.r.l.: company refers to Mr. Giovannino Cucinelli, with which they started working with in the second half of 2017;
- 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. (ex Socrate S.r.l.): this company, whose shareholders are Cav. Lav. Brunello Cucinelli and Fedone S.r.l., provides cleaning services for the premises of the administrative offices and production facility in Solomeo;
- Brunello Cucinelli family: payroll costs consist of the remuneration due to the family of Brunello Cucinelli.
- Prime Service Italia S.r.l.: controlled by Cav. Lav. Brunello Cucinelli, this company provides transport services on behalf of Group companies;
- Fedone S.r.l., Fondazione Brunello Cucinelli, Parco Agrario Solomeo and Solomeo Castel Rigone Calcio S.S.D. A.r.l.: these relate to insignificant amounts mainly for the reimbursement of services performed.

SUBSEQUENT EVENTS

Reference should be made to the Report on operations for significant events occurring after the reporting date of these consolidated financial statements.

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. for the year ended 31st December 2017 amounted to €954 thousand.

The accrued compensation relating to the Board of Statutory Auditors of Brunello Cucinelli S.p.A. for the year ended 31st December 2017 amounted to €149 thousand.

The following table shows the compensation paid for any reason and in any form to members of the Board of Directors by Brunello Cucinelli S.p.A. and by its direct and indirect subsidiaries for the year ended 31st December 2017:

(Euro)		Year ended 31st December 2017							
First and last name	**Position**	**Term of office**	**Expiry date**	**Compensation**	**Compensation for attendance at committees**	**Non-monetary benefits**	**Remuneration, bonuses and other incentives**	**Other compensation**	**Total**
Brunello Cucinelli	Chairman and CEO	01-Jan / 31-Dec	a)	803,200	–	–	–	–	803,200
Moreno Ciarapica	Board member	01-Jan / 31-Dec	a)	3,200	–	–	–	–	3,200
Riccardo Stefanelli	Board member	01-Jan / 31-Dec	a)	3,200	–	–	–	–	3,200
Giovanna Manfredi	Board member	01-Jan / 31-Dec	a)	3,200	–	–	–	–	3,200
Camilla Cucinelli	Board member	01-Jan / 31-Dec	a)	1,600	–	–	–	–	1,600
Carolina Cucinelli	Board member	20-Apr / 31-Dec	a)	2,400	–	–	–	–	2,400
Luca Lisandroni	Board member	01-Jan / 31-Dec	a)	3,200	–	–	–	–	3,200
Andrea Pontremoli	Independent Director	01-Jan / 31-Dec	a)	26,815	15,995	–	–	–	42,810
Matteo Marzotto	Independent Director	01-Jan / 31-Dec	a)	26,015	10,000	–	–	–	36,015
Candice Koo	Independent Director	01-Jan / 31-Dec	a)	26,815	4,005	–	–	–	30,820
Massimo Bergami	Independent Director	20-Apr / 31-Dec	a)	19,872	3,494	–	–	–	23,366
Giuseppe Labianca	Board member	01-Jan /19-Apr	b)	800	–	–	–	–	800

a) approval of the financial statements for the 2019 financial year.
b) approval of the financial statements for the 2016 financial year.

The following table shows the compensation paid to members of the Board of Statutory Auditors for the year ended 31st December 2017.

Board of Statutory Auditors

(Euro)		Year ended 31st December 2017			
First and last name	**Position**	**Term of office**	**Expiry date**	**Emoluments**	**Total**
Gerardo Longobardi	Chairman	01-Jan /19-Apr	b)	34,778	34,778
Ravizza Lorenzo Lucio Livio	Standing auditor	01-Jan /19-Apr	b)	26,014	26,014
Alessandra Stabilini	Standing auditor	01-Jan /19-Apr	b)	25,653	25,653
Paolo Prandi	Chairman	20-Apr / 31-Dec	a)	23,920	23,920
Gerardo Longobardi	Standing auditor	20-Apr / 31-Dec	a)	19,414	19,414
Alessandra Stabilini	Standing auditor	20-Apr / 31-Dec	a)	19,414	19,414

a) approval of the financial statements for the 2019 financial year.
b) approval of the financial statements for the 2016 financial year.

DISCLOSURES PURSUANT TO ARTICLE 149-DUODECIES OF THE ISSUERS' REGULATIONS

Type of service *(In thousands of euro)*	**Service provided by**	**Recipient**	**Total Compensation 2017**
Audit	Auditor of the parent company	Parent Company	544
Attestation services on tax returns	Auditor of the parent company	Parent Company	–
Other services	Auditor of the parent company	Parent Company	82
	Network of the auditor of the parent company	Parent Company	–
Subtotal			**626**
Audit	i) Network of the auditor of the parent company	Subsidiary	90
	ii) Other auditors	Subsidiary	58
Subtotal			**148**
Total			**744**

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 Office

CERTIFICATION PURSUANT TO ARTICLE 154-BIS OF LEGISLATIVE DECREE NO. 58 OF 24TH FEBRUARY 1998 (CONSOLIDATED FINANCE LAW) AND 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
   - the effective application of the administrative and accounting procedures for the preparation of the annual consolidated financial statements during the period 1st January 2017 - 31st December 2017.
2. No significant aspects arose from applying the administrative and accounting procedures for the preparation of the consolidated financial statements as of and for the year ended 31st December 2017.
3. We also certify that:

   3.1 the consolidated financial statements:

a) have been prepared in accordance with international accounting standards applicable and recognised by the European Community as per Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19th July 2002;

b) agree with the balances on the books of account and the accounting records;

c) are 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 report on operations includes a reliable analysis of the performance and operating result as well as of the situation of the issuer and the set of companies included in the consolidation. It also provides a description of the main risks and uncertainties to which they are exposed.

7th March 2018

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

Moreno Ciarapica
Manager in charge of preparing the
corporate accounting documents

REPORT OF THE EXTERNAL AUDITORS

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Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010 and article 10 of EU Regulation n. 537/2014
(Translation from the original Italian text)

To the Shareholders of
Brunello Cucinelli S.p.A.

Report on the Audit of the Consolidated Financial Statements

Opinion

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

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at December 31, 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005.

Basis for Opinion

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

Key Audit Matters

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

EY S.p.A.
Sede Legale: Via Po, 32 - 00198 Roma
Capitale Sociale deliberato Euro 3.250.000,00, sottoscritto e versato Euro 3.100.000,00 i.v.
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Iscritta all'Albo Speciale delle società di revisione
Consob al progressivo n. 2 delibera n.10831 del 16/7/1997

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We identified the following key audit matters:

Key Audit Matter	Audit Response
Recoverability of Intangible Assets (key money)	
The Group sells its products through directly operated stores located in the most exclusive and important location all over the world. Operators in this sector use to pay an indemnity (key money) to assume the lease of commercial properties in prestigious locations. Such costs are accounted for as intangible assets and amortized over the scheduled lease term. As at December 31, 2017 such assets amount to Euro 17.5 million. The group management monitors the performance of each store and the performance of each geographical area and evaluates, at least annually, if there are any indicators of impairment and, if present, performs an impairment test of such assets. We have considered the recoverability of key money assets as a key audit matter as it requires a technical and professional judgment from management, with particular reference to the cash flows forecasts for each store, influenced by assumptions in clients' expenditures, as well as to assumptions in assessing the discount rate and terminal value assumptions used in impairment model. The note 2.1 "Impairment testing" to the consolidated financial statements discloses Group management's assessment of the recoverability of key money assets.	Our audit procedures included, among others, the following: i) analysis of the Group impairment test process, including the identification of impairment indicators for non-performing stores and management's analysis of cash flows forecasts for each store; ii) analysis of the key assumptions used in the impairment test performed on the Group's Cash Generating Units (CGUs) for which impairment indicators were present; iii) look-back analysis of actual results as compared to forecasted results to corroborate the ability of management to formulate reliable forecasts; and iv) assessment of the key assumptions used by management in the impairment model with the support of our valuation experts. Lastly, we reviewed the accuracy of the disclosures included in the consolidated financial statements.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

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

The Directors are responsible for assessing the Group's ability to continue as a going concern and, when preparing the consolidated financial statements, for the appropriateness of the going concern assumption, and for appropriate disclosure thereof. The Directors prepare the consolidated financial statements on a going concern basis unless they either intend to liquidate the Parent Company Brunello Cucinelli S.p.A. or to cease operations, or have no realistic alternative but to do so.

The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Group's financial reporting process.

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

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

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to consider this matter in forming our opinion. Our

conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;

- we have evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- we have obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We have provided those charged with governance with a statement that we have complied with the ethical and independence requirements applicable in Italy, and we have communicated with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we have determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We have described these matters in our auditor's report.

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

The shareholders of Brunello Cucinelli S.p.A., in the general meeting held on January 27, 2012, engaged us to perform the audits of the consolidated financial statements for each of the years ending December 31, 2012 to December 31, 2020.

We declare that we have not provided prohibited non-audit services, referred to article 5, par. 1, of EU Regulation n. 537/2014, and that we have remained independent of the Group in conducting the audit.

We confirm that the opinion on the consolidated financial statements included in this report is consistent with the content of the additional report to the audit committee (Collegio Sindacale) in their capacity as audit committee, prepared pursuant to article 11 of the EU Regulation n. 537/2014.

Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated 27 January 2010 and of article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998

The Directors of Brunello Cucinelli S.p.A. are responsible for the preparation of the Report on Operation and of the Report on Corporate Governance and Ownership Structure of Group Brunello

Cucinelli as at December 31, 2017, including their consistency with the related consolidated financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations and of specific information included in the Report on Corporate Governance and Ownership Structure as provided for by article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998, with the consolidated financial statements of Brunello Cucinelli Group as at December 31, 2017 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the Report on Operation and the above mentioned specific information included in the Report on Corporate Governance and Ownership Structure are consistent with the consolidated financial statements of Brunello Cucinelli Group as at December 31, 2017 and comply with the applicable laws and regulations.

With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated 27 January 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Statement pursuant to article 4 of Consob Regulation implementing Legislative Decree n. 254, dated 30 December 2016

The Directors of Brunello Cucinelli S.p.A. are responsible for the preparation of the non-financial information pursuant to Legislative Decree n. 254, dated 30 December 2016. We have verified that non-financial information have been approved by Directors.

Pursuant to article 3, paragraph 10, of Legislative Decree n. 254, dated 30 December 2016, such non-financial information are subject to a separate compliance report signed by us.

Perugia, 27th march 2018

EY S.p.A.
Signed by: Dante Valobra, partner

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