BRUNELLO CUCINELLI

CONSOLIDATED FINANCIAL STATEMENTS AT 31ST DECEMBER 2018
COURTESY TRANSLATION FOR INTERNATIONAL READERS ONLY

CONTENTS

LETTER TO OUR SHAREHOLDERS

Esteemed shareholders,

Seven years have gone by since we have embarked on this path together, a fascinating path in my view, as it has enabled us to envisage and execute projects bound to fundamental values, human values. It is the very same values that we have upheld along our entire corporate history and that have enabled us to “meet” when we went public, to tackle new challenges together.

In the past year, the company’s fortieth since its first collection, we have celebrated some important anniversaries that have prompted us to look at the future with confidence. Thanks to our Foundation, whose work is in keeping with our corporate values, 10 years ago we opened our theatre, the only new building within the restoration work carried out in the Solomeo hamlet. This work was then extended to the valley surrounding the village, where three parks now make up a harmonious, uninterrupted environment that strictly combines nature and mankind, work and rest, productivity and spirituality. Each park is devoted to a specific purpose: the Industrial Park pays tribute to the world of labour, the Secular Youth Centre Park is linked to the world of sports and child-raising, finally the Agricultural Park is a true celebration of the love and generosity of our land; moreover, there is also a new “monument” devoted to human dignity as well as to the synergy between man and nature.

These works together form the so-called Hamlet of the Spirit, an achievement we have recently presented to over 500 journalists from all over the world: it is the result of our dream of a *Humanistic Capitalism* propelling our company since its very establishment, because we have always cherished the idea of preserving and nourishing harmony between places and people: it is the very same concept underlying the quality of life in our village, thus enabling us to fuel and support the creativity, craftsmanship and exclusivity that the whole world acknowledges as our own.

Through our boutiques, which we consider some kind of “windows” that from Solomeo look onto the whole world, we want to spread our message and at the same time be careful observers of what happens around us. Our *ecommerce* boutique is yet another important “gateway” to the world; through it we intend to convey the very same concepts of care and grace that make our physical stores so identifiable. We would like our customers to recognize and perhaps treasure an Italian experience, a warm hospitality that is able to welcome, help and win over their heart.

We have been travelling the world far and wide to meet our friends and showcase our project: the people we’ve met have shown great trust in our country. Our planet is nourished and enhanced by a wide variety of different cultures: from the East to the West, millions of lives come into contact, meet and engage both in the digital and in the physical world. For example, it is very important for us to be able to treat a market like the Chinese one as a familiar one, a “domestic” one; China is indeed very relevant on the world stage and will be increasingly so in the future. For this reason we believe that here in Italy we must cherish and preserve what foreigners appreciate about us, because their admiration concerns not only our products, but also the heritage from which they stem, the distinctive Italian lifestyle that can convey the energy and beauty of our landscape, our great history, our thousand traditions in high-quality manufacturing.

Technology has promoted speed, but this should not go to the detriment of the spiritual dimension we all share, regardless of all boundaries and differences. The respect for oneself and our fellow human beings, the care and protection of a humane time, the importance of a close relationship with our family and the community are becoming once again core topics of discussion. No tool, no connection and no technology can replace human feelings, but all of these great innovations can help and improve our daily life, provided that they do not "stifle" us with their digital noise nor neglect human values that are the backbone of our same existence.

We are very pleased with our 2018 results: our consistent, harmonious and sound growth goes hand in hand with the brand's positioning and image, which make us more confident in the values we have upheld over time. The Spring/Summer collection is going well and it has received positive feedback from our partners, the trade press and our clients. The praise received by our 2019 Fall Winter collection - whose sales campaign is nearly over - fuels our desire to design new collections with a fresh and contemporary style, highly artisanal products, everything that represents the true essence of luxury.

Our dream has been growing healthily thanks to our love for the arts, our respect for nature, our responsibility towards beauty. These are the values that daily underlie our labour, our rest, and the creativity of our "thinking souls" in Solomeo. Our activity has always aimed to go beyond mere profit-making, targeting the creation of a whole environment on a human scale for future generations especially, to make the world a better place, a "cradle" that is worth of its new mankind.

Solomeo, March 14, 2019

Brunello Cucinelli
Chairman and CEO

CORPORATE DETAILS

Registered Office of the Parent Company

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

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

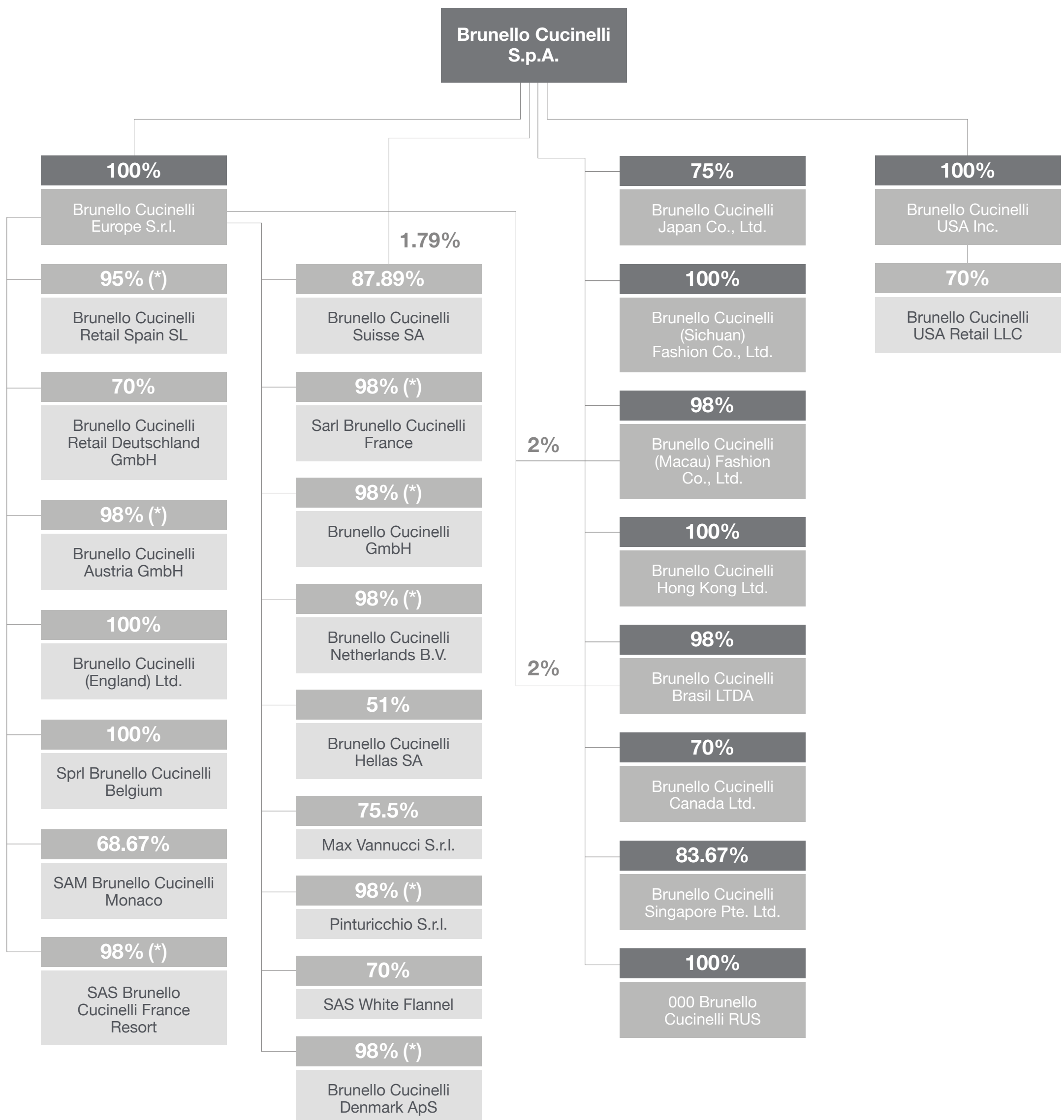
Official website http://investor.brunellocucinelli.com/en/

CORPORATE GOVERNANCE BODIES AT 31ST DECEMBER 2018

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 2018



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

GROUP STRUCTURE AT 31ST DECEMBER 2018

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 SA	Lugano - Switzerland
Brunello Cucinelli Retail Spain SL	Madrid - Spain
Brunello Cucinelli GmbH	Munich - Germany
Sarl Brunello Cucinelli France	Paris - France
Sprl Brunello Cucinelli Belgium	Brussels - Belgium
Max Vannucci S.r.l.	Corciano (PG) - Italy
Brunello Cucinelli Japan Co., Ltd	Tokyo - Japan
Brunello Cucinelli Retail Deutschland GmbH	Munich - Germany
Brunello Cucinelli Netherlands B.V.	Amsterdam - Holland
Brunello Cucinelli (Sichuan) Fashion Co., Ltd	Chengdu - China
Brunello Cucinelli Hellas SA	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	Macao
Pinturicchio S.r.l.	Corciano, frazione Solomeo (PG) - Italy
Brunello Cucinelli Brasil LTDA	São Paolo - Brazil
SAS White Flannel	Cannes - France
SAM Brunello Cucinelli Monaco	Principality of Monaco
Brunello Cucinelli Canada Ltd.	Vancouver - Canada
SAS Brunello Cucinelli France Resort	Courchevel - France
OOO Brunello Cucinelli RUS	Moscow - Russia
Brunello Cucinelli Singapore Pte. Ltd.	Singapore
Brunello Cucinelli Denmark ApS	Copenhagen - Denmark

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).
  The retail channel also includes the turnover of the sales points managed under the Group's responsibility and with direct employees located inside the department stores; at 31st December 2018 the Group directly managed 15 sales points within luxury department stores in Japan, as well as 6 sales points in luxury department stores in Canada, 1 sales point in luxury department stores in Italy and 2 sales points in luxury department stores in Europe;
- 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-shops). In this channel, the Group uses intermediaries represented by independent multibrand stores (or department stores) for sales to end users, with the result that 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 2018 compared to the situation at 31st December 2017:

Distribution channel	31st December 2018	31st December 2017
RETAIL	100	94
WHOLESALE MONOBRAND	27	30

The following table sets out existing sales points at 31st December 2018 by location:

	Italy	Europe	North America	Greater China	Rest of the World (RoW)	Total
Total Brunello Cucinelli Monobrand Network	15	46	26	22	18	127

BOARD OF DIRECTORS' REPORT ON OPERATIONS

COMPANY PHILOSOPHICAL AND STRATEGICAL STATEMENT

"On Preserving the Universe" Speech for the Company's 40th Anniversary

Brunello Cucinelli
Solomeo, the Company's garden, the evening of 13th July 2018

First of all, I want to thank everyone for coming this evening – some from very far away – to celebrate this very important moment for us: our company's first forty years!
I'd like to provide a backdrop to our event by dedicating a moment of reflection to those who once worked here but are no longer with us, starting with three of my childhood friends: Orlando, who was our second employee, Claudio, otherwise known as Ciaccio, and Antonio Ceccarini: let's give them a round of applause, and thank you!
I'd now like to step back in time with you and retrace the past forty years of our company. I come from a small village just a stone's throw away from here – Castel Rigone – and this is where I had the wonderful life experience of growing up in the country. I come from a farming family, and even though we didn't have electricity or running water in our home, there was a truly beautiful ambience in our family. There were thirteen of us, and our neighbors had nine family members, so in a way it was like living in a very tiny hamlet.
In my mind's eye, there will always be the beautiful, gentle image of my grandfather who, despite being quite thin, had gone to war; holding me in his arms, he would tell me amazing war stories that were however never negative. Of all the memories I have of my grandfather, one image stands out in particular: in the evening he would raise his eyes to the sky (because when there are no lights in your home, your instinct is to gaze up at the sky, the sunset, and the stars), and he'd often say: «May God send us a fair amount of wind, a fair amount of sun, and a fair amount of fog…». Just imagine this great idea of his, of asking God Almighty for what is "fair".
Every year shortly before Christmas, when work in the fields would draw to a close, it was time to go and square things up with the landowner. My grandfather and uncle would go to meet the landowner, and when they came home the family was never told how much money had been earned. Instead, they said things that fascinated me, like: «It's been a good year, let's hope that God will help us during the coming year. The wheat went well, but maybe the wine not so much…». There was this intriguing idea about the relationship between profit, on the one hand, and giving back, on the other. Giving back is a very human concept; it's not a gift, but something that is done in the right way. This has always been a wonderful memory for me.
I was the youngest of three brothers, my cousin Walter also lived with us, and my job was to lead the oxen. Since we didn't have any machinery, we had to plow the land using animals. And when you lead oxen, the only way to make a straight furrow is to keep the animal walking inside the track; otherwise, if it strays outside, the furrow ends up being a bit crooked. I was good at keeping one of the two oxen inside the furrow. My father would say to me: «Look at those beautiful, straight furrows!». «Ok, Dad. But why do they have to be straight?». And he'd reply: «Because they're more beautiful that way!».
We had a small farm in the mountains, but I can assure you that it was kept with amazing care; that care is just one example of the beauty there is in respecting the dignity of the land. Later, as an adult, I saw myself mirrored in one of Goethe's fascinating stories: coming into Tuscany, Goethe sees a farmer who is observing something as he plows the ground. Goethe asks the farmer: «Excuse me, but what are you looking at?». «I'm looking at the furrows». «But why are you looking at them?». «Because they have to be straight». «And why do they have to be straight?». «Because they look more beautiful that way!». When I read this, I couldn't help but think of my father's words, and the charm of beautiful furrows.

Up until I turned fifteen, this is what characterized the first part of my life, spent in the countryside. For example, my uncle cut my hair. And I remember one Christmas when my Mom gave me a pair of green corduroy trousers – I must have been eight or nine years old – and she said: «Oh, look how nice they are!». But I'd never liked the color green, so I secretly buried them behind the house. My Mom eventually asked me what had happened to them. «Oh, I haven't seen them anymore!» I answered. But I can remember exactly where I buried them, and I'd still be able to find them today! This is why you won't find the color green in our collections very often: you see, these are the things that life gives you. Just think, I saw the sea for the first time when I was fourteen years old; this special attachment I have to the land is indeed something that truly characterizes who I am.

Later we moved closer to town, because my father's and uncle's dream was to work in a factory. I remember how our lives changed so suddenly when – from one evening to the next morning – we were living in a small house that my family had built at Ferro di Cavallo, right outside of Perugia. In this new house we had electricity, a bathroom, and heating, yet we didn't chat very much at dinner anymore, and we didn't raise our eyes to the sky because we had a television. And so it was a very clear-cut, radical change for us.

My father went to work in the factory, but he wasn't happy there because some of his supervisors had no respect for his human dignity. When he came home in the evening he'd often say: «What have I done to God, to be humiliated in this way?». For a fifteen, sixteen year-old kid, seeing his Dad's eyes glistening with tears from the humiliation… well, you can imagine what my reaction was. In that moment I said to myself: «I don't know what I will do in life, but I would like to work for the moral and economic dignity of all human beings». You see, that was a crucial moment in my life, because it coincided with the period when we worked and lived in the country and I went to school in Perugia. I'd leave the house at six in the morning with my brothers; we'd wear our boots because we had to walk two kilometers, then change into our shoes and go to school. And when we got there, the other kids would always call us "peasants"! It may not seem like much of an insult, but to me it felt like a truly offensive term…

I couldn't understand why they insulted us, just because we were dressed like farmers. It's true that we always wore the same clothes, and as I already mentioned my uncle cut my hair, but we were also always neat and clean, and if we spoke dialect it was because nobody had ever taught us to speak Italian. In my mind, none of this could justify the kids who made fun of us. And to top it all off, there were also special classes for the "city kids".

At school I sat next to a dear friend of mine, whose Mom passed away when he was sixteen. You have to imagine what it was like for a child – a kid like me, who came from a small town far away near Gubbio – to lose his Mom. Well, every day the "city kids" would steal his snack! So one morning I asked my mother to prepare two snacks (we didn't have the fifty lire to buy a snack), and I brought a tube of laxative cream to school. I put the cream in my friend's sandwich and then told him: «Don't worry, this morning we'll find out who steals your snacks!». And sure enough, around ten o'clock, two kids – the two "clever" guys – asked: «Professor, can I go to the bathroom?». Any desire to steal my friend's snack ended that day, for sure! The fact is, I still don't understand today why people feel the need to offend and humiliate other human beings… Many of those "city kids" knew that we didn't have the money to buy a fifty lire sandwich. You see, that was when I began to strongly develop the idea that human dignity must be respected. In fact, I believe that if a human being has not had much luck in life, then we should try to be kind companions to him or her in some way, even if just with our thoughts; this was the idea I started to consider deeply. I didn't know what I'd end up doing in life, you see. But whatever it would be, I wanted to do it for the dignity of all human beings.

I spent a lot of time in a bar during the next period of my life; ten years in a place which I still consider to be «the university of my soul». This is because a bar is a special place for those who spend time there regularly; it's a place where someone will always listen to your sorrows. Today, do you know anyone who will listen to your sorrows? Who can you share them with? It's not easy to find someone, because our human relationships have deteriorated a bit. In any case, I also really liked hanging out at the bar because you had to be smart, fast, and quick on your feet! I remember two guys in particular who used to spend time at the bar; they were attending the high school with a scientific course of study and used to discuss philosophy a lot together. For example, they liked to talk about Kant, but I wasn't able to take part in those discussions, even though I was attracted to what they were saying. So I did some research on my own, hoping to find at least a few of Kant's works. At the time it was no easy task trying to understand him, and today it is still quite a challenge. However I found two quotes from that great philosopher which changed my life forever. You've seen one of these (for those of you who have visited Solomeo) on the beautiful plaque placed below a bust of Kant, which says: «Act in such a way that you treat humanity, whether in your own person or in the person of another, never merely as a means to an end, but always at the same time as an end». In other words, humanity is the noble aim.
I also came upon another extraordinary and slightly better known phrase by Kant: «Two things awe me the most, the starry sky above me and the moral law within me». When I first read that phrase it was like seeing my father again, because he would always say to me: «You must be a respectable person, you must be a gentleman!». And you can imagine how I answered him: «Come on Dad, you're always saying the same thing, it's so boring!».
It was only when I became older that I understood the meaning of all this; as an adult I encountered the amazing Chinese thinker Confucius. Just listen to how he expresses himself so wonderfully, and let's reflect on how he faced life: «At fifteen, I set my heart on learning [quite honestly, I did not]. At thirty, I had planted my feet firmly upon the ground and complied with the rules. At forty, I no longer suffered from perplexities. At fifty, I knew what the biddings of Heaven were». And you know, understanding the biddings of heaven - which in essence means settling your issues with the heavens - is a rather significant accomplishment. Then Confucius continued on: «At sixty, I heard them with docile ear. At seventy, I could follow the dictates of my own heart; for what I desired no longer overstepped the boundaries of right». This is who I have become: few things can disturb me. Therefore Confucius has influenced my life substantially.
So you can see how the bar was really a special place. Mostly men spent time in the bar; the only woman who came was my friend Lella, a prostitute. She'd quit working early and come to the bar sometimes, but she was often ridiculed. The men would laugh about her work, and when she lost at cards it meant she had lost almost everything she'd earned in a day of pain. That woman, who was thirty-five at the time, really fascinated me. I was around eighteen/twenty years old, and after I was done at the bar for the evening, I'd listen to her tell me all about her life's hardships. What she shared with me has influenced me in so many ways.
This is why I say that there's always someone who will listen to your sorrows in a bar; we all come into life with suffering, and some of that suffering we carry secretly to our graves.
This lovely period of my life came to an end when I graduated from high school, though I certainly hadn't studied very much: my final grade was forty out of sixty, and I don't even have any of those textbooks anymore… Then I went to university to study Engineering, but after three years I'd only taken one exam (Descriptive Geometry), and I wasn't even admitted to the oral exam. In any case, I went to university because I liked to discuss things: I would talk about everything under the sun with the other students, kind of like at the bar, though we'd also discuss topics such as politics, economics, and theology. There was that pólemos *which was so dear to Heraclitus, the great Greek philosopher who suggested that discussion is like a father and teacher for all humanity. But only discussions which are conducted with great kindness and courtesy, of course.*

After a while, I got this idea to dye cashmere – which of course you all know about. However I was always playing cards (I honestly don't know why), and all I remember is that I was pretty good at it because I'd practice a lot at night. In our small home, my mother could hear me shuffling the cards in my hands, and so she'd ask: «What are you doing?»; and I'd answer: «I'm practicing!». I could count 48 in scopa *(an Italian card game); I was a good card player because of my math skills. I never pushed my luck though, because whenever you made mistakes in a game, you would be the laughing stock for twenty days running! This is an example, in a way, of my search for perfection. Eventually I started this entrepreneurial business, and you all know how things went from there.*

But I wanted to reflect together on something else, today: the Solomeo project. I wanted this company to be profitable, to make the fair amount *of profits, and I wanted that to be achieved through ethics, dignity, and morals. I don't know if we're achieving this, but this is our goal in life: to make the fair amount of profits, and then somehow share those profits.*
By sharing profits I mean devoting a part of it to the business in order to strengthen it, devoting a part of it to myself – though in all honesty I have a rather average lifestyle here in Solomeo, and I'm quite content with that (after all, we didn't have anything in Castel Rigone and I was content, and we didn't have anything at the bar, either, which was also fine with me), but whenever I've raised my eyes to the sky I've always found my path. And then a part of the profits should be devoted to our co-workers, so that they can have some extra euros in their pockets, and another part should be donated to humanity.
What does it mean to devote profits to humanity? I believe that we are guardians – temporary guardians albeit – but still guardians. A guardian renovates and builds things like a guardian, whereas an owner builds like an owner, which means that he's already thinking about selling later, he's thinking about making a profit. Our company has developed over the years thanks to the wise voices of the great masters who have enlightened me. One of these voices belongs to the emperor Hadrian, who said: «I feel responsible for the beauty of the world». Here was the most important person in the empire saying that he felt responsible for the beauty of the entire world. He also said: «Whenever I set out to build something, I need to treat the earth well».
So this is what we've been trying to do in *Solomeo and* for *Solomeo; even though it's my second hometown, it comes first in my heart. I've been living here with my wife, a native of Solomeo, for 47 years now: she was sixteen and I was seventeen when we first met.*
I've always thought that life in a hamlet is special; while it's true that I was born in a hamlet, we also have Jean-Jacques Rousseau who said this, in 1765: «City life is hard, we should return to the hamlets to discuss and make new plans for humanity». We do indeed need to make new plans for humanity, and things like loneliness, spiritual poverty, and economic poverty are hard to find in a hamlet. People help one another in hamlets, and that makes the value of life different there.
So in this spirit we have tried to restore Solomeo as restorers, and not as builders. To be honest, the few things that we've built have been made to last centuries. For example the theatre, which we'd imagined as a secular temple of art, was designed to last a thousand years, and I can assure you that it will! It is indeed a temple of art that is destined to endure for centuries.
We've finished the restoration work in the valley. I believe that the outskirts need to be cared for: seventy percent of the population lives on the outskirts, and so we wanted these places to be as lovely *as the historic centres. Our cities and especially the smaller, medieval hamlets have lovely and quaint historic centres, whereas the outskirts tend to be less interesting – through no fault of anyone in particular. We've built small factories on the outskirts,*

along with malls, but there are no squares, and no homes… This is where we need to start, and so our aim has been to make the outskirts of Solomeo into an example of how an outlying area can be lovely. We've created and built what I think is a beautiful monument to the earth there, because, as Xenophanes said: «everything springs from the earth».

We have a rather nice winery there – actually, I wouldn't say "rather" but very nice! So many skilled hands went into building it. The construction workers would say to me: «Mr. Brunello, where did you get the idea to make something so skillfully amazing and magnificent as this?» We basically took one hundred and seventy-two thousand bricks, and built something using the same technique of the Phoenicians!

And we didn't stop there: we created a monument which I believe is truly beautiful because it's a tribute to human dignity. I hope you'll all get a chance to see it. I'm sure it will still be standing in two thousand years. I like to joke around with the kids in Solomeo, and tell them: «Try to take good care of it, because when my final day arrives I will come to check on it!».

In fact, you should know that in my sixtieth year I decided one day that the soul is immortal, and no one can get me to change my mind; this thought has made my relationship with the heavens a very special one. I converse with the heavens. This reflects the Benedictine culture in some ways; it's this idea of laying a stone for those who will come after us, for the next thousand years.

Let me tell you an amazing story: the day after an earthquake shook the small town of Norcia, I went to visit my monk friends. Father Cassian greeted me with teary eyes; he was there with his seventeen monks, and said to me: «We are crying over our city», just as Saint Benedict did when in a dream he imagined that his monastery was being destroyed by the Lombards (which actually happened in real life!). «However, – he told me – remember that while Nebuchadnezzar was destroying Jerusalem, there was a prophet named Jeremiah, a true genius. And standing beside him was his young scribe Baruch, and in Hebrew Baruch means Benedict. And Baruch said: "Here is a document that states you are the owner of that land over there; remember that this is where Jerusalem must rise up again!"».

This is the idea about planning for the centuries to come, even with just one stone; it's about being temporary guardians, appreciating and looking after what's beautiful. You see, beauty is something special, though Aristotle taught us that «God also exists in the little things». When I say "God", I mean the creation above us, which I believe is the same for everyone: Jews, Muslims, Christians…

We have to refocus, though, we need (and I'm thinking about young people in particular when I say this) to make this century truly special! We need our twenty- and thirty-somethings to be the new guardians of creation, because that's what you young folks are. The adults of this generation have made two serious mistakes with the younger generations. The first mistake is that we've instilled this idea that you have to be fearful. I don't understand why we should instill the need to be fearful: our parents survived war, went hungry, and suffered under a dictator, and yet they didn't instill any fear in us. So starting tomorrow, we need to substitute fear with courage! There's no logic in living a life without hope.

We adults have also committed another, perhaps worse, error (in my opinion, at least). We've said «So, you're not going to study? Well then, you'll just have to go to work!». What this does is put the blame of not having studied on work, thus stripping it of its moral and economic dignity. Fortunately, though, this is changing. This is why I say that we've had almost thirty years of civilization in crisis, in which the most fundamental ideals have become dulled. Yet we'd do well to remember what Heraclitus said: «While things rest, the world is renewed». We are in a stage of great rebirth.

I would be so happy if you came away this evening with the concept of a moral, civic, spiritual, human, and ethical rebirth, with this idea that the world is new. *However, it's impossible to imagine governing humanity only with science. You see, I believe that humanity should be governed with the mind and the soul together: I'm talking about the brilliant mind that was so dear to Apollo, as you know, and the soul that was so dear to Dionysus. Or the mathematical mind so dear to Voltaire, and the soul so dear to Rousseau… I believe that this is the century in which we must merge all of this together. And together, we have indeed built something special.*

Sometimes people ask me: «Did you think you would end up where you are now today?» To be honest, I was already happy about the first fifty-three pullovers that we sold to my friend, who has been buying from us for forty years now. In any case, we've tried to do our very best: I don't know whether we've achieved that, but the goal has always been to work with you as we nurture respect for human beings, without harming humanity – or at least we hope to do as little harm as possible. We decided to be a true, classic, made-in-Italy brand: it's true that our brand is expensive, but I believe that every product should have the right price, and the right wages should go to those who manufactured a given product.

You have been our very trustworthy, kind partners: as we've worked with one another I hope that we have behaved well, because this is my lifelong dream, in a way. If at the end of my life people say that I was a respectable *person, I wouldn't mind at all, believe me! And if you want to write something on my grave, you could write "he loved beauty", because that is what we've been working for.*

We have carried out a rather important endeavor so far, and now our task is to safeguard it for the next two centuries. I'm not sure how we'll achieve that, but I would like to imagine that in this valley, for the next two centuries, there will be a contemporary company which is committed to preserving the dignity of human beings, and represents the Italian taste, style, and way of doing things. However the company I have in mind must also represent the kindness that was so dear to Saint Benedict. You should know that I am very fond of Saint Benedict and Saint Francis; for example, when our friends who did the catering the other day in Milan asked me: «But what if it rains?», I answered: «It definitely won't rain, there's absolutely no possibility that it will rain!». Whenever we've put on an event it has never rained, maybe because I always make a special appeal to those two saints, and say: «we can help you to support beauty and restore things to their original beauty, but please give us a hand when we need it!»

The Benedictine Rule is actually quite modern: Benedict's advice is to take care of our minds with study, our souls with prayer, and work, every single day. He asks us to be balanced, to not become too busy or too entrenched in the things of the world, because this kind of connection can be hurtful to our souls.

We can express this concept in another way: just as it's good to work a fair amount of hours without overexerting ourselves or falling into the trap of exploitation and self-exploitation – in the same way, if we think about what internet now allows us to do, it's also good to be online in a balanced way. After all, if we are online all the time we lose our ability to fully enjoy life, we lose the warmth of human relationships, we even risk forgetting how precious a smile is, or an embrace, or that moment when we look into each other's eyes.

But the value of fair work also requires focusing on another fundamental aspect: the workplace. In Solomeo, our workplaces are more comfortable, beautiful, and pleasant than most because they were designed for working peacefully. This is another highly important value! And that's not all: in Solomeo, you employees don't have to clock in or out, yet you are all so punctual. I really like this; it shows a great sense of collective responsibility, a kind of common good that is shared by everyone.

However we do need to be careful of the underlying fear we have: you saw that paper the other day, which sadly explained that in 2017, 41,000 people died in wars… This is such a painful fact, yet just think about the almost twenty-five million deaths in Europe alone caused by World War Two! We must have the courage to watch our children and grandchildren grow up, we must have the courage to feel – as I explained before – that we are their loving guardians and spiritual advisors. We need to remember our grandparents who held us in their arms…
As I said before, I remember how my grandfather never spoke about anything bad to me: I only have beautiful memories of him, as he talked to me about the war. We can be better people again.
We're here today because we wanted to celebrate this 40th anniversary with a little party, and have the chance to talk together: it's just us, the people who work here, and all of you – 330 respectable companies representing about 4,200 people, all of them skillful artisans. Together we have been able to create something lovely, outside of work, too. I would love it if your workshops were always cared for the way they are now; I would love it if your co-workers would always receive a kind gesture, a pat on the back… After all, Hadrian the emperor said: «I never met anyone who, after being paid a compliment, did not feel better».
And so, as I stand here and thank you for all of this, I'd love it if we all went home and started to imagine being better citizens, to take culture and the lives of our cities back into our own hands. Remember what the Greeks used to say: «If your doorstep is clean, your city will be clean».
Let's respect the law: the great thinkers have always taught us that laws should be honored even more than our own parents. Let's return to being proud citizens of our splendid Italy, this amazing country for which our grandparents and parents went to war. They sacrificed themselves for this country! Let's try and instill the joy of living in our children, even when we are forced to muddle through the less interesting moments of our lives. Because in the end, everyone has to endure hard times.
My infinite thanks to all of you for your gift – I'll truly treasure these books! Allow me to share another quote by Hadrian, which you could tell your children or grandchildren: «books have shown me the path of life». In my adult life I've come to understand the significance of books, and personally I think that if there's anything I could not do without, it would have to be books. Thank you for these books you have given me, thanks so much! You see, these books were probably written three hundred or four hundred years ago by scribes who imagined they would last for a thousand years. The History of Italy *by Guicciardini, how wonderful! Thank you everyone, from the bottom of my heart!*
You've brought a bunch of gifts to our home but we haven't opened them yet. My wife and I and the rest of the family plan to open them this weekend, so next week we'll be able to thank you. That said, I already feel so grateful for them now.
In 1937, the soviet regime sentenced Pavel Florenskij to death in Saint Petersburg (previously Leningrad), and one or two days before he was executed he wrote these truly amazing words: «Oh my dear children, I've been meaning to tell you this for so long: Look at the stars more often. When something weighs on your soul, look at the stars or the blue sky. When you feel sad, when they offend you, when things do not work out, when storms blow through your soul, go out into the open air and converse alone with Heaven. Then your soul will find rest». We all need to raise our eyes to the sky, and «life will return – as Saint Augustine said – and be renewed».
So thank you very much, for everything. My desire today was to convey a positive feeling for humanity: I live on positivity, I live on hope. Of course, difficult moments will come. Let's hope they are few. But when they do come we can raise our eyes to the sky and console ourselves. Thank you for having come from so far away, thanks again for everything, and may Creation enlighten us!

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 (Perugia), Italy.

The Group's product range focuses on a single brand: Brunello Cucinelli, internationally recognized as one of the finest examples of absolute luxury, combining "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 embrace the tastes of a very broad set of young and less-young customers while retaining value over time. Merging old and new, business goals and "human" needs is 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 used for illustration at prestigious universities.

HUMAN PRIVACY

BRUNELLO CUCINELLI

BRAND IDENTITY: PROTECTION OF DISTINCTIVE VALUES AND RESPECT FOR TIME

The year confirmed our healthy and gracious growth project, pursuing the "**respect for the moral and economic dignity**" of all those "thinking souls" that accompany the life of the business, in a synthesis of "**profit and gift**".
Economic growth and respect for the values of our Company have always been the main feature of our daily life, representing the cornerstones with which we try to achieve that idea of "humanistic capitalism" which is so dear to our hearts and which we want to use as a basis for continuing to plan future growth, **generating profit and endeavoring to create beauty** without ever causing harm to humanity.
We try to create this special relationship with all of the "Human Resources" with whom we work, amongst whom an extremely important place goes to the "knowing hands" of the artisan workshops to be found in our "beloved" region of Umbria and our "Italy", which with dedication, care and top-level skills create our products.

We would always like to maintain a path of "**growth in harmony with the universe, in order to follow the natural rhythm of the world**", thanks also to "spirit of the places" where we live and work.
We believe it fundamental to keep that spirit of "**guardianship**" which we try to live on a daily basis, in each business activity and in everyday life in the Hamlet of Solomeo.
We are grateful to the 500 journalists from all over the world whom we welcomed in Solomeo last September for the presentation of our global project for the "restoration of the Hamlet" and its periphery, looked after for years by the "**Brunello and Federica Cucinelli Foundation**", whose objective has always been the dignity and beauty of the places where we live and work in order to hand these on to those who come after us.
We have tried to make Solomeo a sort of "**Hamlet of the Spirit**", a place where you can live and work in harmony with the Universe, and after carrying out the restoration and preservation of the small village and its periphery the Brunello and Federica Cucinelli Foundation have built monuments designed for eternity: the Theatre, the secular temple of culture; the Monument, dedicated to the dignity of man, and the Cellar, a monument to the dignity of the Earth, recalling Xenophanes who said, "**all things are from the earth**".

We have the clear perception that the **company and the brand are both experiencing a very, very positive moment**: we are treading a long-term growth path with a great deal of satisfaction, and after doubling sales over the past 7 years, starting from the Company's listing in 2012, we are structurally ready to support the growth project for the next 10 years with a young, passionate business that can count on a solid partnership all along the supply chain.
It gives us enormous pleasure to breathe the very positive atmosphere that surrounds our brand, the decisive appreciation with which all our collection proposals are welcomed, as well as the lifestyle which we believe they have been capable of building, starting out from our values and our business identity.
Made in Italy, craftsmanship, exclusivity are the foundations that have enabled our brand to reach the utmost levels of prestige, affirming it as a reference point for the ready-to-wear casual chic daytime apparel offer and – we believe – as one of the world's leading exponents in the **top-range luxury sector**.

The desire to **preserve the brand's extremely high allure** and the continuous research for the contemporaneity of the offer are supported by **constant investments** supporting the product, the distribution network and the projection of the brand in both the physical and online channels.
We invest to develop collections that include unique and special articles, we seek out raw materials of absolute quality, we produce through artisan workshops that are exclusively located in Italy, characterized by their top level craftsmanship and innovation.

In **women's** wear, creative development has moved in two parallel directions, strategically very important, these being the further raising of our offer by way of tailoring that makes our clothing an absolute reference point for the really luxurious ready-to-wear item and the freshness of our proposal, also capable of attracting a younger public compared to customers whose loyalty has already been secured.
Our proposal for **men** is representative of Italian taste and authentic Made in Italy products, characterized by a proposal that is both young and refined, also and above all as the result of the details and particulars that are its main feature.
We believe that these aspects are of special importance for a suit that needs a fresh cut, contemporary fabrics, spaces looked after in every detail. The commencement of "**Solomeo Tailoring**" has the strategic role of profoundly renovating the image of wearing a suit and in this way succeeds in attracting a young public. We believe that a determinate factor in creating an innovative and successful proposal is our ability to propose special visual merchandising, innovate the corners of the suits, break the "traditional" connotation associated with the "made-to-measure" service and above all have young, credible and attractive sales assistants who are able to advise and direct customers towards that fresh and modern taste that distinguishes us.

Our brand calls to mind a great deal more than just the image of a product, it proposes a far vaster framework of **Italian lifestyle**, in which the addition of new categories and extensions of the type of the offer occur in a natural and consistent manner.
The brand's credibility, for both men's wear and women's wear and also for the various age bands, represents an additional big advantage, determining its important long-term growth potential.
We maintain a firm desire to grasp this potential gradually, without ever accelerating and running the risk of diluting the brand's image, thereby giving it the utmost of care.

"**Safeguarding the brand**" **assumes constant modernization of all the spaces in top-level locations**, in both the monobrand channel and the areas assigned to the brand in the multibrand channel, elevating each space to becoming a **representation of our lifestyle**.
We have tried to make our spaces real Italian homes, capable of fully expressing our identity and discreetly proposing the atmosphere that we live and breathe in our Solomeo, recreating that warmth that distinguishes our concept of hospitality.
To create a luxury experience that "communicates" our values we endeavor to make all our spaces welcoming, with prompt but never invasive service, building a relationship through a professional approach and with human warmth that goes well beyond the single sale and becomes a real **sharing of values, moments and time spent together**.

As always **Visual Merchandising** plays an extremely important role, dynamic and attentive to trends, fundamental for fully interpreting the taste of the collection in all the spaces where the brand is present, ranging from the monobrand and physical multibrand channel to the web.
In this fundamental and established role in defining our "taste", communication remains visibly and emotionally effective, it speaks to the mind and the heart.

In achieving our results and in creating our sustainable business, we believe that the **Multibrand channel** that we have always considered to be the "**guardian and custodian**" of the brand will continue to play a role of primary importance; we believe there is something **special in the relationship** we have succeeded in creating over the years with the finest of luxury multibrand boutiques and with the most important Luxury Department Stores, accompanied by the desire to **keep the luxury offer at the highest levels** and constantly renew it.
Multibrand distribution synergistically completes the platform of our monobrand stores, whose development continues to pursue a balance between the three objectives of prestige, efficacy and sustainability.

LANDING PAGE WEBSITE

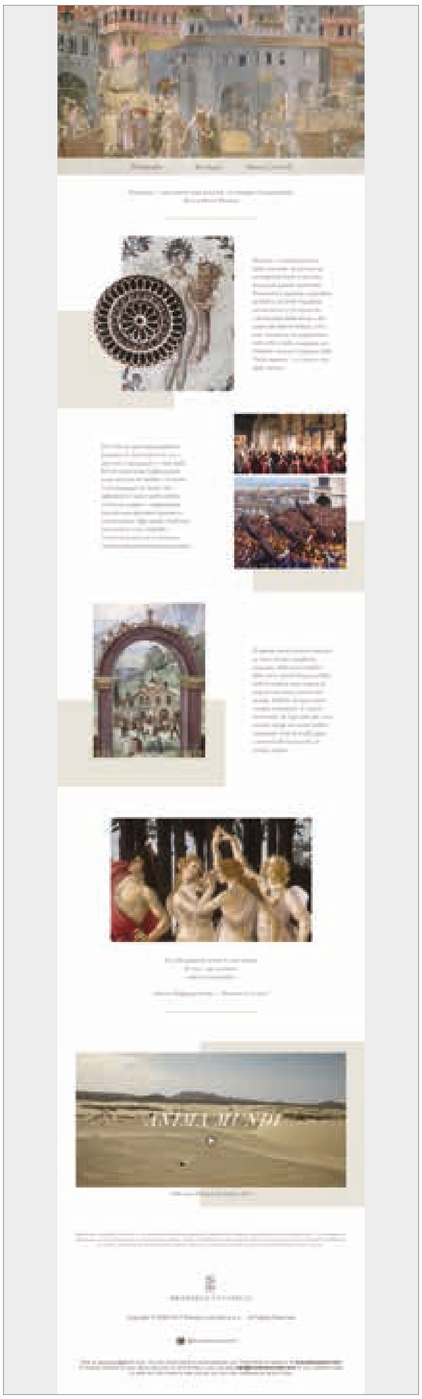
http://www.brunellocucinelli.com/en/home.html

To the concept of the store format we prefer the idea of localizing every store and distinguishing it by enhancing pre-existing elements or respecting local visual codes. The development of a network of "resort" stores, of smaller size but considerably effective in communicating the brand's characteristic "taste", turned out to be a very interesting exercise.
The flexibility shown in adopting different business models (wholesale-retail) and the variety of the stores' formats and floor areas are inspired by the desire to make a visit to our spaces increasingly interesting for our customers.

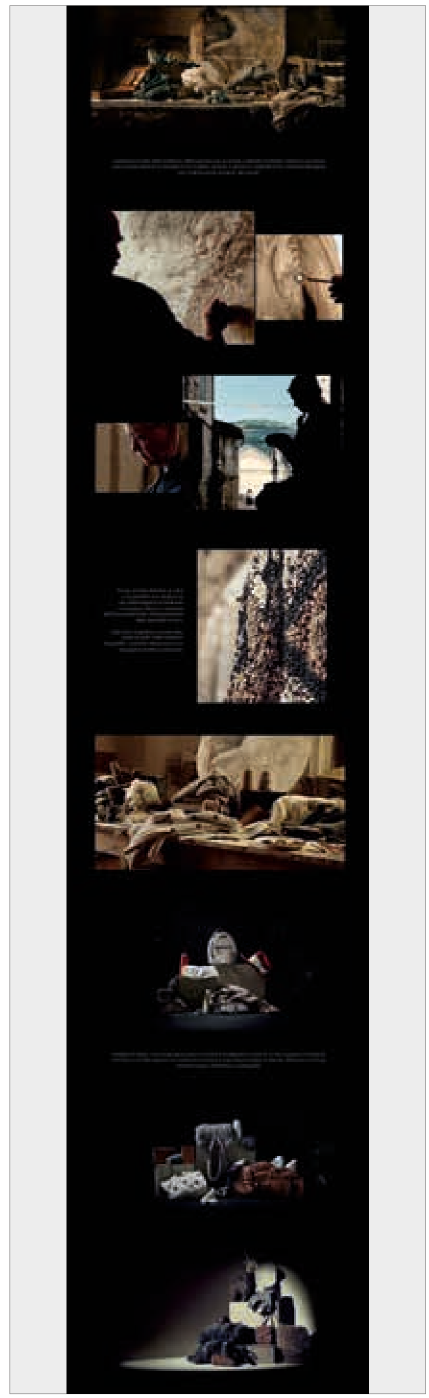
The exclusivity of our presence assumes the planning of a limited number of openings of prestigious boutiques that contribute to fueling the brand's allure, with a balanced presence in the different geographical areas.
In our approach to the markets, we have always considered the European and American markets to be "domestic" due to their cultural and physical proximity; given the importance of the **Chinese market**, we have decided to try treating **this market as "domestic" too**.
We believe the Chinese market to be of great importance, representative as it is of a **thousand-year-old culture** to which we are immensely **grateful** and bring our highest respect, and which also embraces our valuable cashmere, without which we would never have been able to start up our business.
We are well aware of the potential of this market which we'd like to approach gradually, always maintaining an emphasis on exclusivity, aware also of the search by the Chinese customer for "Italian lifestyle, "top-quality articles" and "real luxury" in all aspects of daily life.

We also continue to believe that a healthy and prestigious physical distribution is the fundamental basis for grasping all the opportunities offered by the digital world.
In this respect we are very pleased with our "**Humanist Artisans of the Web**" project, where we have adopted all the latest technologies but always with full respect for what we call "**Human Privacy**".
We are also extremely satisfied with the development our digital project, whose design and realization started in 2015 to arrive at the setting up of two separate online sites.
The first site is fully dedicated to the philosophy of the business (**corporate**), its underlying values and its business history, while the second is dedicated to the **e-commerce boutique**, used for the presentation and sale of our collections, with the aim of providing a narrative of the humanistic company on the digital channels that is consistent with the narrative of the physical world.
Through our digital strategy we would like to take to the web our world, our atmosphere and the culture of our company and Solomeo, by setting our sights on top quality contents, selecting the aspects of online visibility and safeguarding our brand from the over-exposure that the web can lead to.
E-commerce has been designed as a digital flagship at a national level, equipping it with a wide assortment of items as the means of presenting and digitally representing the Company's collections, its image and creativity and its lifestyle.
The most tangible aspects of the online purchasing experience have been planned and studied with equal care, and a human, courteous and open service has been put at the customer's disposal, one that is able to swiftly establish personal relationships with customers accompanied by that chemistry which can easily be created in the physical retail world but which can rarely be found online.

NEWSLETTER MARCH 2018



HOME PAGE NOVEMBER 2018



COLLECTIONS

The 2019 collections, recently presented, have been warmly welcomed by customers, specialist press and buyers: for both the men's and the women's collection, the innovation and creative contribution blend naturally with the outstanding craftsmanship, the Made in Italy tradition and above all the brand's heritage.

The collections are rooted in the distinctive Brunello Cucinelli identity in order to develop this in a modern and refined context. The style is a precise statement of belonging to a balanced world far from excesses and based on an expression of authentic and discreet luxury.

The desire for tradition rises as the result of new and first-time interpretations. Nothing is forced or pushed, everything is carefully weighted: the introduction of unusual items and more liberal combinations is always within the context of an attentive sensitivity to dressing well.

Light, soft and captivating, the fabrics and hides transmit a natural sensation of comfort and esteem. The classic patterns are rediscovered through the play of variants of texture, nuance and effects, always in a discreet manner. The essentiality and non-conventional aesthetics concentrate their attention on contrasting materials and effects. Centre stage for the winter season, knitwear expresses itself through a knowing return to the origins: braids, brioche stiches and Irish stitches are renovated by sought-after shapes and details.

In the 2019 Men's 2019 Fall/Winter Collection, the conception of the Brunello Cucinelli suit is significant in describing the innovation of the taste: not only interpreted according to formal standards but rather acting as the daily expression of an easy-going style, having a versatile spirit thanks to trousers with soft lines matching with pullovers, sweatshirts, casual shirts and overcoats of enveloping volumes. The tailored jacket that exalts the male physique is confirmed as the lynchpin of every look. All the other categories are enhanced by a slightly wider new wearability: first and foremost the trousers, both classical and casual, then the precious overcoats, Caban jackets and deconstructed outerwear reveal a contemporary spirit with soft, straight lines, perfectly calibrated for winter overlays.

A dialogue between neutral and clear nuances, luxurious fibers and long-range inspirations enrich the Women's 2019 Fall/Winter Collection. A blend of the classical standards of good taste, hints of *bon ton* elements and references to male tailoring are the salient features of the collection. Vintage influences, which crossing various eras are reinterpreted though immaculate aesthetics and evolve in a fresh modernity. The brand's underlying principles are naturally linked to the trends of the moment and speak directly to the latest generations, brought up to the tune of streetwear and now attentive to creations of a more essential character. The versatility and coherence of the collections additionally enables the proposals and the aesthetics to evolve and be renewed as the season progresses. The phased launch of subjects and items identified on the basis of the progression of the season and the harmonic development of the proposal enables customers to take advantage of an experience of the collection that is continuously updated and renewed, in both the world's boutiques and the e-commerce channel.

INVESTMENTS

The desire to keep the business constantly modern and contemporary is supported by an important long-term investment project, in the conviction that "**protecting the brand**" calls for daily effort as a means of preserving its **exclusivity** by shielding and protecting its allure in both the **physical channel** and the **digital channel**.
Our constant commitment is addressed towards "**protecting the brand**", which we pursue in our daily activities, in the new initiatives we introduce, in the development of collections that include unique and special articles, in the search for raw materials of outstanding quality and in production through artisan workshops based exclusively in Italy and with an extremely high level of content of work based on manual skill, craftsmanship and innovative ability.
At the same time "protecting the brand" assumes a presence in top-level locations and renewal of the spaces in the monobrand boutiques and all the areas designated for the brand inside the most prestigious Luxury Department Stores, making them tangible representations of our lifestyle and our constant search for uniqueness.

Of utmost importance is the brand's image, not only in the boutiques but also in the showrooms and in all the spaces that represent a point of encounter between the collection, the specialized press and our customer, understood both as the end customer and the buyers of the most important multibrand stores in which we are present.
Why is why we believe that the freshness and constant renewal of the spaces in which the collections are presented are key items, capable of providing value added to the product itself as a guarantee of that contemporaneity so much sought after by the end customer.

In this highly technological context we are accustomed to taking photographs, shooting videos, reproducing images and “posting” items on the web; this new way of interpreting reality, and constantly “re-proposing” it, requires us to continually enhance and update all of our spaces, making them increasingly fresh, in order to provide the right dignity and recognitions to the articles in the collection, which would risk looking “normal” if presented in an environment not worthy of the name.
This also means giving significant emphasis to detail and visual merchandising, an essential item for us, because if blended in properly it can create a “special” look, one capable of capturing the attention of a customer wanting to learn and be led in this “casual-chic” that the press and international buyers acknowledge as being “unique” in us.
In a world where everything is evolving rapidly we have to accept these changes, and a saying by Voltaire would seem to show us the way to facing a world in constant evolution: “*If you don’t accept the changes of your time you’ll probably have the worst of it*”.
This is the spirit with which we too face the challenge on the web, and we are very pleased with the growth of the digital project as we also are with the way we approach the internet, as always seeking to be “Humanistic Artisans of the Web” and adopting the latest technologies, but never failing to respect what we call “Human Privacy”.

This is the philosophy which has always guided our investment project, with capex totaling €45.0 million in 2018, and which will continue to guide our planning over the upcoming years.
Commercial investments of €30.7 million related mainly to openings of prestigious boutiques located in the most representative streets of the luxury capitals, the enlargement and renovation of showrooms and an increase in floor space in the Luxury Department Stores.
Investments in logistic promotion and digital IT amounted to €14.3 million, allocated to the digital project, IT infrastructure and the continuous renewal of production plant, making logistical structures adapted to managing all of our activities gradually available and equipped.

INTRODUCTION

This Financial Report at 31st December 2018 has been prepared pursuant to Italian Legislative Decree no. 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 (IFRSs) issued by the International Accounting Standards Board (IASB) and adopted by the European Union.

SUMMARY DATA AT 31ST DECEMBER 2018

The following tables provide: (i) a summarized consolidated income statement for the year ended 31st December 2018 with comparative figures for the previous year; (ii) a consolidated balance sheet reclassified by sources and applications at 31st December 2018 with comparative figures at 31st December 2017; and (iii) figures for capital expenditure and cash flows from operating activities for 2018 with comparative figures for the year ended 31st December 2017.

Summarized consolidated income statement

(In thousands of euro)	Year ended 31st December				Change	
	2018	% of sales	2017 (restated)	% of sales	2018 vs. 2017	2018 vs. 2017%
Net revenues	552,996	99.7%	511,710 (1)	99.6%	41,286	+8.1%
Revenues from sales and services	554,444	100.0%	513,823 (1)	100.0%	40,621	+7.9%
EBITDA	95,143	17.2%	87,476	17.0%	7,667	+8.8%
Operating profit	69,538	12.5%	64,721	12.6%	4,817	+7.4%
Net profit for the year	51,042	9.2%	52,485	10.2%	(1,443)	-2.7%
Normalized net profit for the year (2)	46,019 (2)	8.3%	42,084 (2)	8.2%	3,935	+9.4%

(1) Accounting standard IFRS 15 ("Revenue from Contracts with Customers"), which became effective on 1st January 2018, requires a different accounting treatment from the past for certain types of contract for the sale of goods in multibrand spaces operated under the "concession" formula.
The application of this new accounting standard led to an increase in net revenues and operating costs (rent) by the same amount (€8.1 million at 31st December 2017). As a result no change occurred in the absolute amounts for EBITDA, operating profit or net profit for the year.

(2) Normalized net profit for the year refers to the result before the estimated tax benefit arising from the "patent box" scheme, which led to an accumulated reduction in direct taxes of approximately €5.0 million in 2018 and approximately €10.4 million in 2017 (relating to the three-year period 2015-2017).

Consolidated balance sheet classified by sources and applications

(In thousands of euro)	Year ended at		Change	
	31st December 2018	31st December 2017	2018 vs. 2017	2018 vs. 2017%
Net working capital	129,457	126,993	2,464	+1.9%
Non-current assets	172,829	152,969	19,860	+13.0%
Other non-current assets/(liabilities)	(368)	(1,068)	700	-65.5%
Net invested capital	**301,918**	**278,894**	**23,024**	**+8.3%**
Net debt	14,536	15,703	(1,167)	-7.4%
Shareholders' equity	287,382	263,191	24,191	+9.2%
Sources of funds	**301,918**	**278,894**	**23,024**	**+8.3%**

Other summary data

(In thousands of euro)	Year ended at		Change	
	31st December 2018	31st December 2017	2018 vs. 2017	2018 vs. 2017%
Capital expenditure	45,021	35,682	9,339	+26.2%
Cash flows from operating activities	70,102	85,741	(15,639)	-18.2%

Capital expenditure in the table does not include an amount of €6,510 thousand euro paid by the parent company Brunello Cucinelli S.p.A. to acquire the minority interest in the subsidiary OOO Brunello Cucinelli RUS, which has been recognized in equity reserves in accordance with IFRSs. Details of this transaction may be found in the section "Significant events during 2018".

ALTERNATIVE PERFORMANCE MEASURES

To enable it to provide a better assessment of business performance the Brunello Cucinelli Group uses certain alternative performance measures which are not identified as accounting measures by IFRS. The way in which the Group calculates these figures may therefore 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, determined in accordance with the ESMA Guidelines on Alternative Performance Measures (ESMA/2015/1415) adopted by Consob by way of Communication no. 92543 of 3rd December 2015, only refer to the Group's performance for the accounting period covered by this Financial Report and the periods presented for comparative purposes, and not to the Group's expected performance.

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

- **EBITDA:** *operating profit before depreciation and amortization*.
- **Net Working Capital:** the sum of *inventories* and *trade receivables* less *trade payables* and the net balance (asset or liability) of all the other balance sheet items classified as *current assets or current liabilities*.
- **Commercial Working Capital:** the sum of *inventories* and *trade receivables* less *trade payables*.
- **Net Invested Capital:** the sum of *non-current assets* and *current assets*, excluding financial assets (*other current financial assets and cash and cash equivalents*), less *non-current liabilities and current liabilities*, excluding financial liabilities (*current and non-current bank debt, current and non-current financial payables*)
- **Net Debt:** 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, less *cash and cash equivalents* and *other current financial assets*, including the fair value (positive or negative) of hedging derivatives on loans.
- **Capex:** capital expenditures refer to gross investments in intangible assets, property, plant and equipment and investment property and to net investments in financial assets.

THE GROUP'S RESULTS FOR 2018

The year has confirmed the **sustainability of a healthy and gracious growth project** both from an **economic point of view** and from the standpoint of the **moral dignity** of each individual who, with his own contribution, has made these results possible.
The year was **splendid**, in the attempt to realize the idea of "**humanistic capital**" that is so dear to our hearts and in the hope of having contributed in some way, even small, to improving the economic and moral conditions of humanity as a whole.

We achieved economic growth and a successful performance in the year gone by with full regard for our business values, on which we also continue to plan our future growth to the benefit of the Company, the people, the local area in which we live, our shareholders and all of our stakeholders.
That is the reason we continue to imagine a kind of "**humane sustainability**", something capable of creating profit and generating beauty, and constantly seek to produce without causing harm to humanity.

Revenues from sales and services amounted to €554,444 thousand in 2018, representing an increase of 7.9 over the previous year.

Net revenues at 31st December 2018 posted an increase of 8.1% to close at €552,996 thousand, compared to €511,710 at 31st December 2017.
As stated earlier the Group adopted the new accounting standard IFRS 15 on 1st January 2018, using the "full retrospective" approach, meaning that comparative figures for the previous year are presented as if the new standard had been applied.
The application of IFRS 15 has led to a new criterion for accounting for certain types of contract, relating in 2017 to sales made in multibrand spaces operated under the "concession" formula, meaning in the 6 shop-in-shops in the Luxury Department Stores in Canada and the 15 shop-in-shops in the Luxury Department Stores in Japan. As a result, the comparative figure for revenues for the year ended 31st December 2017 rises from €503,571 thousand to €511,710 thousand, an increase of €8,139 thousand.

EBITDA at 31st December 2018 amounted to €95,143, or 17.2% of revenues from sales and services, compared to 17.0% at 31st December 2017, an increase of €7,667 thousand, corresponding to a rise of 8.8% over the previous year.
The introduction of the new accounting standard IFRS 15 produced no effect on the comparative figures for absolute EBITDA for the previous year, since against the increase in sales caused by the above accounting treatment there was an equal increase in operating costs (rentals).

Production costs for raw materials and outsourced work were virtually stable as a percentage of revenues from sales and services compared to the previous year (34.1% at 31st December 2018 compared to 34.2% at 31st December 2017).

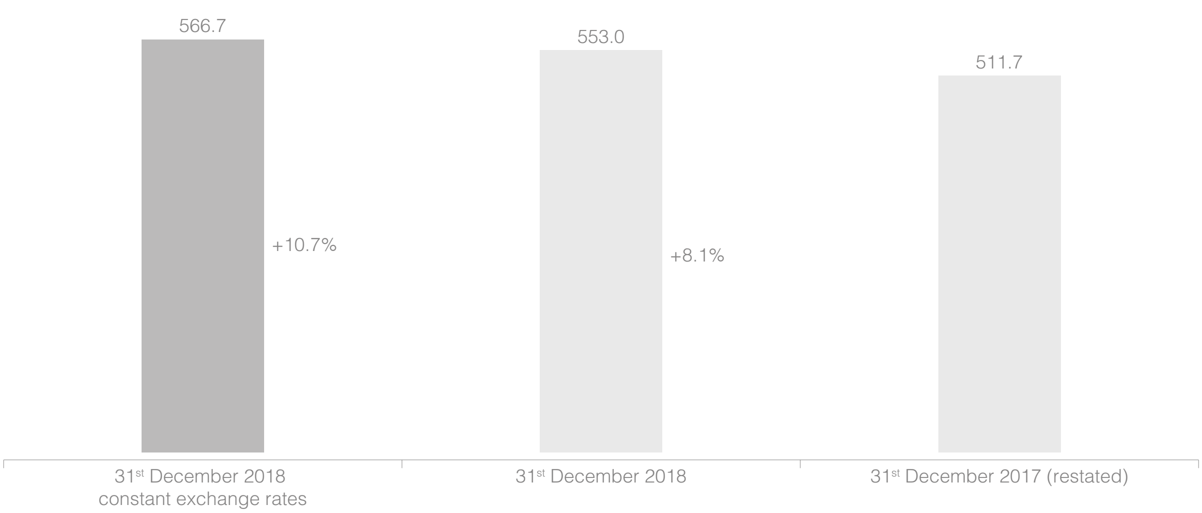
Net profit amounted to €51,042 thousand at 31st December 2018, corresponding to 9.2% of revenues from sales and services.
Net normalized profit at 31st December 2018 (which excludes the effect of the tax benefit arriving from the Patent Box scheme amounting to €5.0 million for the year then ended) totaled €46,019 thousand, corresponding to 8.3% of revenues from sales and services, an increase of €3,935 thousand (9.4%) over the 2017 figure.

SEASONALITY OF SALES

The Group carries out a business which although not subject to significant seasonal or cyclical trends in terms of total annual sales during the course of the year suffers from a lack of perfect homogeneity in the various quarters in terms of the flow of revenues and the costs deriving mainly from its industrial activities.
In addition, the market in which the Group operates is characterized by the typical seasonal nature of retail sales that affects its results.
A principal seasonality phenomenon arises from the selling methods in 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 2018 amounted to €552,996 thousand, an increase of 8.1 % over 2017. At constant exchange rates, meaning using the same average exchange rates as those used in 2017, revenues would have been €566,713 thousand, an increase of 10.7%.

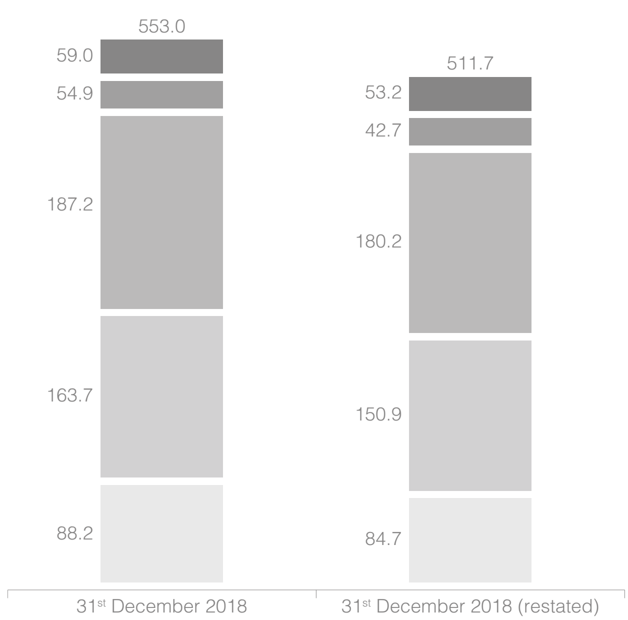


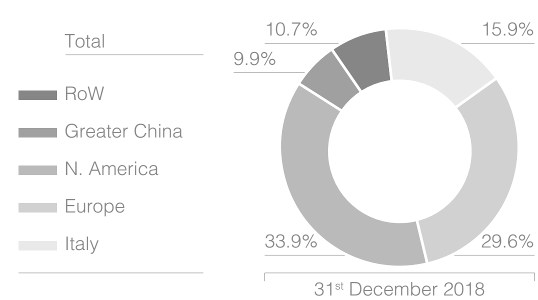
REVENUES BY GEOGRAPHICAL AREA

The international markets rose to 84.1% of net revenues in 2018, with an increase of 8.8%, accompanied by the very interesting and positive results achieved on the Italian market (15.9% of net revenues), where sales rose by 4.2%. The European market, including Italy, reached 45.6% of the total in 2018.

The following table provides details of revenues at 31st December 2018, compared with those of the previous year, analyzed by geographical area.

(In thousands of euro)	Year ended 31st December				Change	
	2018	**incid. %**	**2017 (restated)**	**incid. %**	**2018 vs. 2017**	**2018 vs. 2017 %**
Italy	88,220	15.9%	84,697	16.6%	3,523	+4.2%
Europe	163,707	29.6%	150,858	29.5%	12,849	+8.5%
North America	187,236	33.9%	180,186	35.2%	7,050	+3.9%
Greater China	54,887	9.9%	42,696	8.3%	12,191	+28.6%
Rest of the World (RoW)	58,946	10.7%	53,273	10.4%	5,673	+10.6%
Total	**552,996**	**100.0%**	**511,710**	**100.0%**	**41,286**	**+8.1%**





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

Italy

Net revenues for "Italy" represented 15.9% of all revenues (16.6% in the previous year), posting an increase of €3,523 thousand in absolute terms over 31st December 2017, corresponding to +4.2% (€88,220 thousand in 2018, €84,697 thousand in 2017).

Italy continues to be very important for the brand's image, the country identifies fashion trends which will then go on to represent chic taste throughout the world.
The Italian market achieved a positive performance during the year regarding both local customers and top-end tourism, which includes the Chinese, which despite only representing a limited portion of sales points to a constant progression.

At 31st December 2018, the monobrand network (direct and wholesale monobrand) consisted of 15 boutiques.

Europe

Net revenues for "Europe" accounted for 29.6% of total revenues (29.5% in the previous year) and increased by 8.5%. Revenues rose from €150,858 thousand to €163,707 thousand, up by €12,849 thousand in absolute terms.

This represents solid growth thanks to the results achieved in all the countries where we have a presence and to the purchases made not only by domestic but also by international customers.
By virtue of its positioning at the top end of the luxury scale and the nature of the Brunello Cucinelli customer, the brand's strength supported a rising performance.

At 31st December 2018, the monobrand network (direct and wholesale monobrand) consisted of 46 boutiques.

North America

Net revenues for "North America" accounted for 33.9% of total revenues compared to 35.2% in 2017. Revenues rose from €180,186 thousand to €187,236 thousand, an increase of €7,050 thousand or 3.9%.

Broadly positive results were achieved in the North American market, which we have always approached in the same way as the domestic market given the profound awareness and allure that the brand has achieved in the area over the years.
The growth in revenues is due to a positive performance in the monobrand and multibrand channels; tourist flows are on the increase, to which should be added a solid rise in local demand.

At 31st December 2018, the monobrand network consisted of 26 boutiques.

Greater China

Net revenues for “Greater China” accounted for 9.9% of total revenues (8.3% in the previous year) and increased by €12,191 thousand (+28.6%). Revenues rose from €42,696 thousand to €54,887 thousand.

Mainland China confirmed the positive trend of recent months.
Revenues rose in both the monobrand channel and the multibrand channels, which posted very interesting organic growth following the opening of new spaces dedicated to the brand over the last few months of the year.
Our current presence, limited and at the same time exclusive, supports the huge growth potential of the Chinese market, which we are endeavoring to take advantage of gradually and without compromising the prestige of the offer or distribution. We see considerable opportunities for business for us in this market over the next few years and in the long term.

At 31st December 2018, the total network consisted of 22 boutiques.

Rest of the World

Net revenues for the “Rest of the World” increased by 10.6 % in 2018 over those of the previous year. Revenues rose from €53,273 thousand to €58,946 thousand.

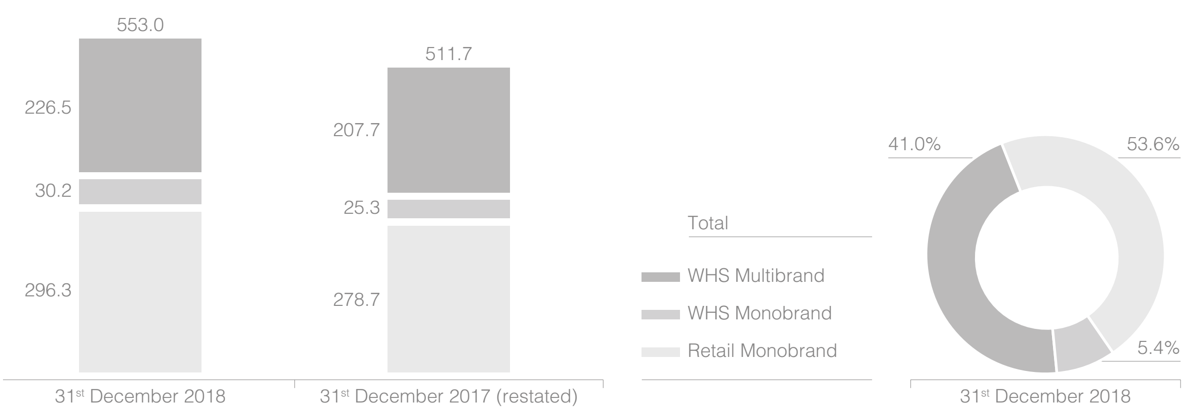
Solid results were achieved in the Middle East and Japan and in all the other geographical areas where we have a presence; local demand and demand from top-end tourists point to “healthy” growth.

At 31st December 2018, there were 18 monobrand stores.

REVENUES BY DISTRIBUTION CHANNEL

The following table sets out the net revenues earned by the Group in 2018 and 2017, analyzed by distribution channel.

(In thousands of euro)	Year ended 31st December				Change	
	2018	%	2017 (restated)	%	2018 vs. 2017	2018 vs. 2017 %
Retail Monobrand	296,265	53.6%	278,693	54.5%	17,572	+6.3%
Wholesale monobrand	30,205	5.4%	25,305	4.9%	4,900	+19.4%
Wholesale multibrand	226,526	41.0%	207,712	40.6%	18,814	+9.1%
Total	**552,996**	**100.0%**	**511,710**	**100.0%**	**41,286**	**+8.1%**



RETAIL MONOBRAND

Net revenues generated by the retail channel amounted to €296,265 thousand, an increase of €17,572 thousand, or 6.3%, over the previous year.
At 31st December 2018 the retail channel accounted for 53.6% of the Group's total net revenues, a decrease compared to the figure of 54.5% at 31st December 2017.

The year confirmed healthy like-for-like growth of 3.5%, in line with our plans, with positive sell-outs of the 2018 spring/summer and 2018 fall/winter collections.

The network consisted of 100 boutiques at 31st December 2018; 2 new boutiques were opened during the year to which should be added 4 conversions from the wholesale monobrand channel.

WHOLESALE MONOBRAND

Net revenues generated by sales made through the wholesale monobrand channel amounted to 5.4% of total net revenues, an increase of 4.9% over 2017. In absolute terms net revenues amounted to €30,205 thousand, a rise of €4,900 thousand over 31st December 2017, or 19.4%.

The network consists of 27 boutiques; there were 4 conversions to the direct channel in 2018, balanced by the positive contribution coming from the important opening in the prestigious Dubai Mall.

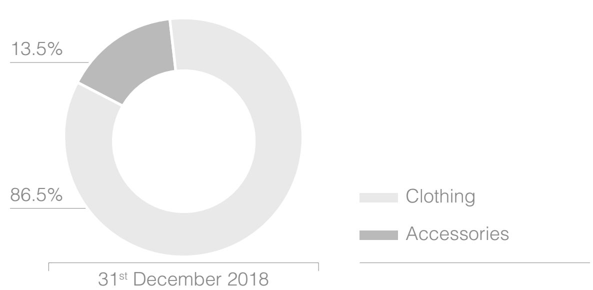
WHOLESALE MONOBRAND

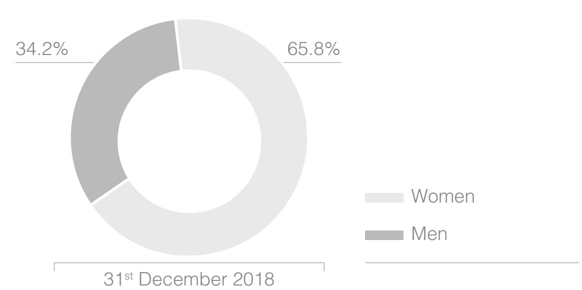
Net revenues made through the wholesale multibrand channel amounted to €226,526 thousand (an increase of €18,814 thousand over 31st December 2017, or 9.1%).
The proportion of net revenues for the channel rose from 40.6% at 31st December 2017 to 41.0% at 31st December 2018.

The rise in revenues reflects the very positive order intake for both the Men's and Women's collections.
The overwhelmingly favorable opinion of the specialist press on the presentation of the collections was confirmed by the performance in the selling spaces, with excellent sell-outs; a positive contribution came from the new spaces dedicated to the brand inside Luxury Department Stores and from selective entry into exclusive multibrand stores and Specialty Stores.

REVENUES BY PRODUCT LINE AND END CUSTOMER

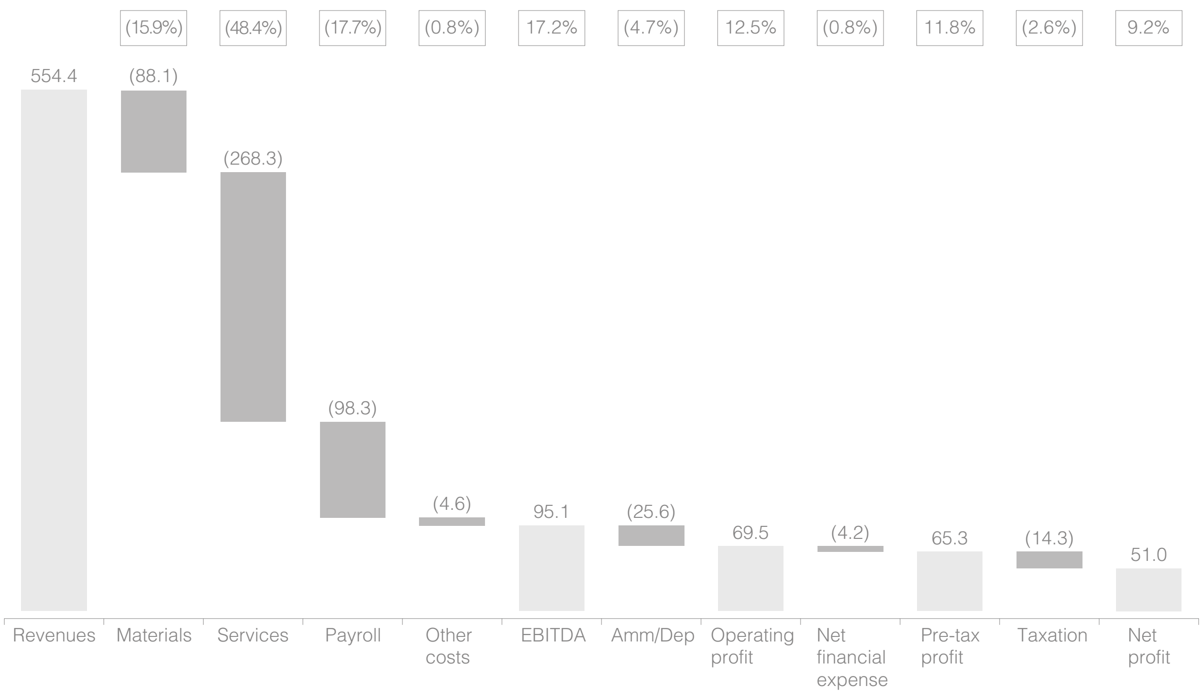
The following is a graphical representation of the Brunello Cucinelli Group's revenues at 31st December 2018, analyzed by product line and end customer:





ANALYSIS OF THE INCOME STATEMENT

The following is a graphical representation of the income statement at 31st December 2018 setting out performance for the year:



OPERATING RESULTS

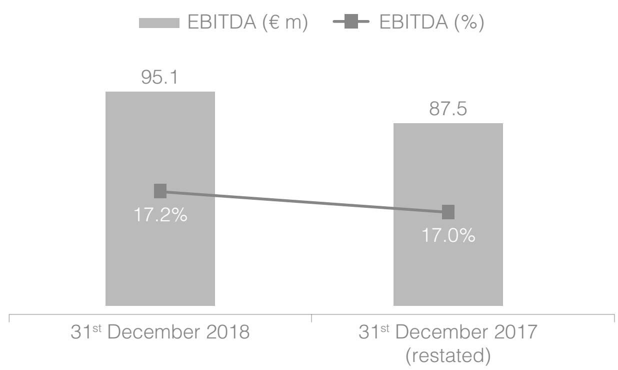
The following table provides a summary of operating profit and EBITDA:

(In thousands of euro)	Year ended 31st December				Change	
	2018	% of sales	2017	% of sales	2018 vs. 2017	2018 vs. 2017 %
Operating profit	**69,538**	**12.5%**	**64,721**	**12.6%**	**4,817**	**+7.4%**
+ Amortization/depreciation	25,605	4.7%	22,755	4.4%	2,850	+12.5%
EBITDA	**95,143**	**17.2%**	**87,476**	**17.0%**	**7,667**	**+8.8%**

EBITDA at 31st December 2018 amounted to €95,143 thousand, representing 17.2% of revenues from sales and services and an increase of 8.8% over the figure for the previous year. At 31st December 2017 EBITDA represented 17.0% of revenues from sales and services.

The impact of the cost of production for raw materials and outsourced work in percentage terms was essentially in line with that of the previous year (34.1% at 31st December 2018 compared to 34.2% at 31st December 2017), confirming the above-mentioned principles of a healthy and gracious growth project.

The following table sets out the trends in the Group's EBITDA at 31st December 2018 and 31st December 2017 in graphical form:

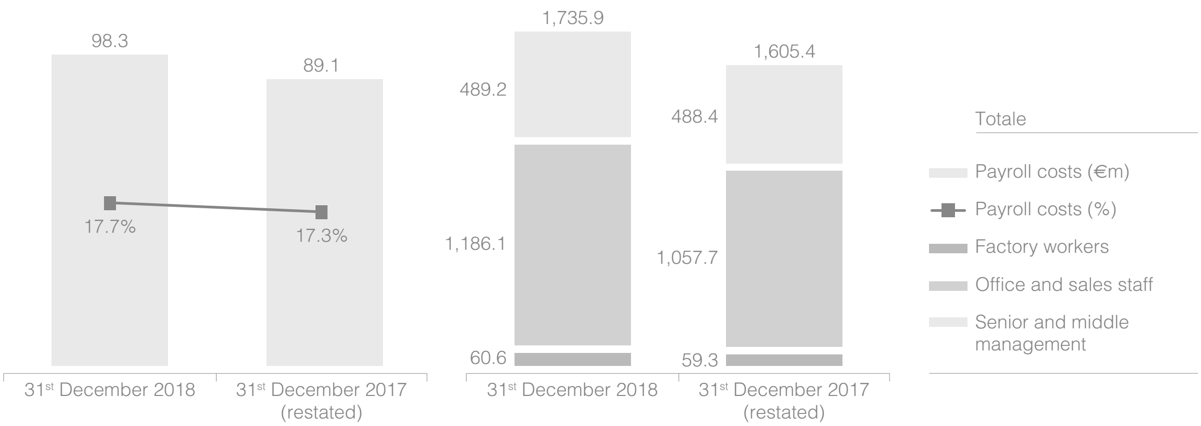


The economic dynamics characterizing 2018 are represented by an essential balance in net revenues across the various channels, in line with 2017. These dynamics led to an essential balance in margins across the various channels and in the total of revenues earned. Production costs for raw materials and outsourced work were in fact stable across the two years (34.1% at 31st December 2018 compared to 34.2% at 31st December 2017).

(In thousands of euro)	Year ended 31st December				Change	
	2018	% of sales	2017	% of sales	2018 vs. 2017	2018 vs. 2017 %
Costs for raw materials and consumables	95,359	17.2%	87,211	17.0%	8,148	+9.3%
Change in inventories	(7,303)	-1.3%	(4,310)	-0.8%	(2,993)	+69.4%
Outsourced work	101,095	18.2%	92,811	18.1%	8,284	+8.9%
Total	**189,151**	**34.1%**	**175,712**	**34.2%**	**13,439**	**+7.6%**

Payroll costs amounted to €98,329 thousand at 31st December 2018 and had a percentage impact of 17.7% compared to 17.3% at 31st December 2017, for an increase in absolute terms of €9,268 thousand over 2017.

Full Time Equivalents (FTEs) totaled 1,735.9 at 31st December 2018 compared to 1,605.4 at 31st December 2017 (+130.5), which was principally due to an increase in sales staff resulting from the expansion of the directly operated sales outlet network, the strengthening of the central structures, in particular in the highly-expanding markets, and certain internationalization processes (sales and research and development activities).



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

- Lease expense fell as a percentage of revenues from sales and services (12.8% at 31st December 2018 compared to 13.1% at 31st December 2017), but increased by €3,843 thousand in absolute terms over the previous year. The increase in absolute terms is due to the development of the retail network (2 openings in the year and 4 conversions from the wholesale monobrand channel), the enlargement of certain sales spaces and changes occurring in the spaces operated in Luxury Department Stores.
- Commissions and accessory charges relate to commissions payable to the agency network, with the percentage impact falling over that for the previous year (2.2% in 2018, 2.5% in 2017), due also to the evolution of the sales mix.
- Advertising and other marketing costs rose by €3,599 thousand in absolute terms, or 12.6%, increasing to 5.8% as a proportion of revenues from sales and services compared to 5.6% in the previous year. These costs relate to the communication and promotional activities carried out by the Group to disseminate its image and philosophy throughout the world. More specifically, these are mainly costs incurred for the production of physical and digital catalogues, advertising campaigns and materials, and exhibitions, fairs and the many events, big and small, always extremely international, organized both in Italy and abroad. Worthy of note in 2018 is an increase in digital communications activities, given that this channel represents an increasingly important and strategic communication vehicle.
- Transport and duties represented 3.4% of revenues in 2018, unchanged with respect to 2017.
- Credit card commissions rose by 2.1% over the previous year, strictly due the growth in the retail channel.

The following table provides a summary of these items for 2018 and 2017 together with the percentage of sales they represent.

(In thousands of euro)	Year ended 31st December				Change	
	2018	% of sales	2017 restated	% of sales	2018 vs 2017	2018 vs. 2017 %
Commissions and accessory charges	12,107	2.2%	12,701	2.5%	(594)	-4.7%
Advertising and other marketing costs	32,273	5.8%	28,674	5.6%	3,599	+12.6%
Transport and duties	18,739	3.4%	17,470	3.4%	1,269	+7.3%
Lease expense	71,051	12.8%	67,208	13.1%	3,843	+5.7%
Credit card commissions	5,001	0.9%	4,899	1.0%	102	+2.1%

NET FINANCIAL EXPENSE, TAXATION AND NET PROFIT

Net financial expense totaled €4,256 thousand at 31st December 2018, of which financial expense amounted to €26,330 thousand and financial income to €22,074 thousand.

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

(In thousands of euro)	Year ended 31st December				Change	
	2018	% of sales	2017	% of sales	2018 vs. 2017	2018 vs. 2017 %
Loan interest	483	0.1%	626	0.1%	(143)	-22.8%
Other (income)/expense, net	630	0.1%	825	0.2%	(195)	-23.6%
Other financial (income)/expense	**1,113**	**0.2%**	**1,451**	**0.3%**	**(338)**	**-23.3%**
Exchange (gains)/losses	(1,467)	-0.3%	1,187	0.3%	(2,654)	<-100.0%
Financial (income)/expense arising from adjusting derivatives to fair value	4,610	0.9%	2,669	0.4%	1,941	+72.7%
Total net financial expense	**4,256**	**0.8%**	**5,307**	**1.1%**	**(1,051)**	**-19.8%**

In an overall context in which net financial expense is improving (€5,307 thousand at 31st December 2017 compared to €4,256 thousand at 31st December 2018), worthy of note is the positive trend in foreign exchange management, also favorably affected by the end-of-period "currency balance" applied to intercompany loans denominated in currencies other than the euro by converting at the euro/currency exchange rate ruling at 31st December 2018.

Income taxes charged for the year amounted to €14,240 thousand and represented 21.8% of pre-tax consolidated profit. Normalizing the tax computation for the estimate of the tax benefit deriving from recognizing the effects of the “patent box” scheme in 2018 profit or loss, the tax rate would be 29.5%.

As part of “consultation” activities performed by the Umbria regional section of the national tax authorities, on 20th December 2018 the parent company received an assessment notice for fiscal 2013 relating to the free-of-charge transfer of its assets to public bodies, to recognized associations or foundations for the sole purpose of assistance, charity, education, schooling, study or scientific research and to not-for-profit associations.
In this respect the Company has filed defense briefs which are considered to be highly sound.

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 light of the above, normalized net profit for the year amounted to €46,019 thousand, or 8.3% of revenues from sales and services, which represents an increase of €3,935 thousand, or 9.4%, over the figure for 2017.

The following table provides an analysis of net profit between the portion attributable to shareholders of the parent company and the portion attributable to non-controlling interests:

(In thousands of euro)	**31st December 2018**	**31st December 2017**
Profit attributable to shareholders of the parent company	50,692	51,117
Profit attributable to non-controlling interests	350	1,368
Net profit	**51,042**	**52,485**

ANALYSIS OF KEY BALANCE SHEET AND FINANCIAL ITEMS

Provided below are comments on the main items of the Group's statement of financial position at 31st December 2018 reclassified by sources and applications, with comparative figures at 31st December 2017.

NET WORKING CAPITAL

The following table provides an analysis of the net working capital of the Brunello Cucinelli Group at 31st December 2018 and 31st December 2017:

(In thousands of euro)	**31st December 2018**	**31st December 2017**
Trade receivables	61,444	45,178
Inventories	161,764	152,647
Trade payables	(76,585)	(65,261)
Other current assets/(liabilities), net	(17,166)	(5,571)
Net working capital	**129,457**	**126,993**

There was an increase of €2,464 thousand in net working capital at 31st December 2018 over the balance at 31st December 2017. This is essentially due to the combined effects of the following:

– an increase of €16,266 thousand in trade receivables, which represent 11.1% of net revenues for the past 12 months compared to 8.8% at 31st December 2017. This increase in trade receivables, from €45.2 million to €61.4 million, is due, in a context of sound collection management, to a rise in the percentage incidence of wholesale revenues in 2018 over the previous year and to the important development of retail sales in *luxury malls* and the relative payment terms.
  Lastly, it is noted that the utilization of the bad debt allowance and the loss for bad debts recognized in profit or loss represented 0.13% of net revenues in 2018 (0.11% in 2017); a fully contained level, testifying to healthy credit management;

– inventories amounted to €161.8 million at 31st December 2018, compared to €152.6 million at 31st December 2017, falling from 29.8% to 29.3% as a percentage of sales; the increase of €9.1 million in absolute terms is mainly due to the selective openings of direct boutiques and conversions from the wholesale monobrand channel to direct monobrand, to enlargements, to new directly operated spaces inside Luxury Department Stores and to business growth in all channels, including the digital segment, which affects production levels.
  Raw materials rose by €1,891 thousand, from €29,545 thousand at 31st December 2017 to €31,436 thousand at 31st December 2018, while finished and semi-finished goods increased from €123,102 thousand at 31st December 2017 to €130,328 thousand at 31st December 2018, representing a rise of €7,226 thousand.

(In thousands of euro)	31st December 2018	31st December 2017
Raw materials	31,436	29,545
Finished and semi-finished goods	130,328	123,102
Inventories	**161,764**	**152,647**

– an increase of €11,324 thousand in trade payables, which represent 13.8% of net revenues for the past 12 months compared to 12.8% in the previous year; the balance at 31st December 2018 is mainly affected by the physiological increase in all the main costs arising from the rise in business volume during the year (raw materials and consumables +€8,148 thousand, outsourced work +€8,284 thousand and advertising and other marketing expenses +€3,599 thousand).
  In general, the dynamics of trade payables is organically linked to the growth in the business, the new development initiatives and the important investments, including those in communications, that accelerated in the final part of the year;
– the balance of "Other assets/(liabilities), net", €17,166 thousand at 31st December 2018 compared to €5,571 thousand at 31st December 2017. The main change in this item arises from the fair value measurement of derivatives hedging currency risk(1) (a liability of €4,777 thousand at 31st December 2018, while the corresponding figure at 31st December 2017 was an asset of €4,830 thousand).

NON-CURRENT ASSETS

Non-current assets at 31st December 2018 and 31st December 2017 may be analyzed as follows:

(In thousands of euro)	31st December 2018	31st December 2017
Intangible assets	38,583	30,995
Property, plant and equipment	125,652	115,676
Non-current financial assets	7,675	6,298
Investment property	919	–
Total non-current assets	**172,829**	**152,969**

Non-current assets at 31st December 2018 amounted to €172,829 thousand, compared to €152,969 thousand at 31st December 2017, representing a net increase of €19,860 thousand or 13.0%.
Reference should be made to the notes to the financial statements for details of movements during the year.
The considerable effect of depreciation in absolute terms is noted here (an increase of €2,850 thousand), being the result of the investments made, with the charge also rising from 4.4% of revenues from sales and services in 2017 to 4.7% in 2018.

(1) The Group's accounting policy follows the cash flow hedging rules which require the fair value to be recognized as an asset or liability item in the balance sheet (asset or liability for current financial instruments), with a corresponding reserve in shareholders' equity to reflect the effective component of the change in the fair value of derivatives, which is reclassified as revenue through profit or loss when the transaction being hedged is recognized for accounting purposes.

CAPITAL EXPENDITURE

In the year ended 31st December 2018 the Group made investments of €15,781 thousand in intangible assets, €27,372 thousand in intangible assets, €678 thousand in real-estate and €1,190 thousand in non-current financial assets (payments for guarantee deposits less refunds).
The following table provides an analysis of capital expenditure by type and category made by the Group in the years ended 31st December 2018 and 31st December 2017:

(In thousands of euro)	**31st December 2018**	**31st December 2017**
Capex in intangible assets	15,781	10,777
Capex in property, plant and equipment	27,372	23,890
Capex in non-current financial assets(*)	1,190	1,015
Capex in investment property	678	–
Total capital expenditure	**45,021**	**35,682**

(*) Guarantee deposits, net (payments less refunds).

As can be seen from the table, capital expenditure in 2018, directed towards the commercial channel, production and logistics, as well as the IT/Digital sector and investment property, amounted in total to €45,021 thousand. The capital expenditure shown in the table does not include an amount of €6,510 thousand euro paid by the parent company Brunello Cucinelli S.p.A. to acquire the minority interest in the subsidiary OOO Brunello Cucinelli RUS, which in accordance with IFRSs has been recognized in equity reserves. Details of this transaction may be found in the section "Significant events during 2018".

It should be remembered that the main goal of the long-term investment plan is to safeguard the exclusivity, prestige and protection of the brand, in both the "physical" and "digital" channels. In this respect approximately €30.7 million of the investments made in the year had a commercial nature, approximately €13.6 million regarded production, logistics and IT/Digital and approximately €0.7 million investment property.

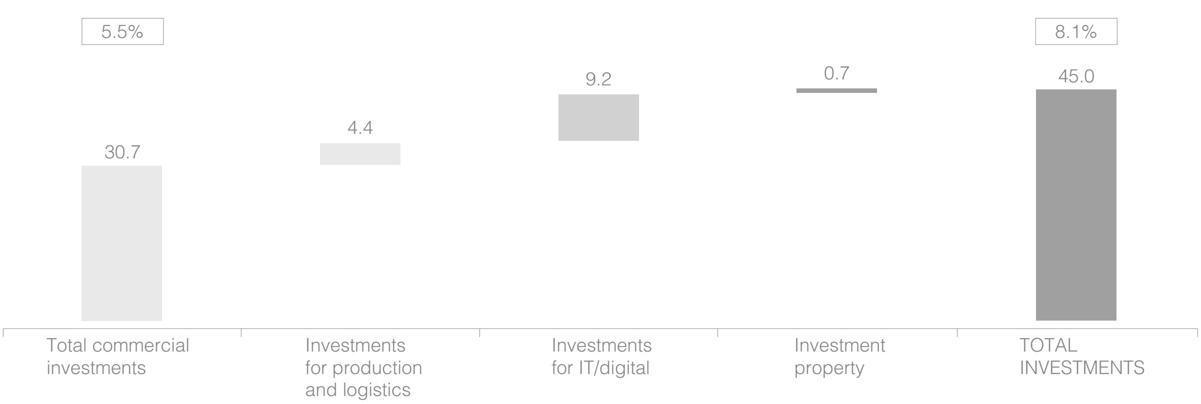
More specifically, investments in the commercial channel relate to exclusive openings, the enlargement of prestigious boutiques, an increase in the selling spaces in the Luxury Department Stores and the extension and renovation of showrooms, which we try to keep constantly contemporary. Among the latter, worthy of mention is the investment made in the new and larger boutique in Monte Carlo, which was opened in July 2018, and which together with the extension of the Milan – Montenapoleone flagship store in 2017 forms part of the long-term project to represent our values and our "Solomeo" in an increasingly complete and exclusive manner.

The investments in production, logistics and IT and Digital were made to keep production equipment increasingly up-to-date by developing cutting edge technology and adopting evolved information systems for running the Group's technological platforms, and to maintain the logistical sector always in a position to support our business with the utmost efficiency and efficacy.

IT/Digital investments are of particular importance (€9,261 thousand).
Among these, worthy of note is the tender supporting the Complex Research and Development Projects called by the Region of Umbria and financed by the European Union through the Regional Operational Programme of the European Regional Development Fund (ROP-ERDF). More specifically, this relates to the important "Contemporary Factory" project being carried out together with universities and technological research centers (the University of Perugia, the MIT in Boston, the Bocconi in Milan and the IIT-Italian Institute of Technology in Genoa) and technology suppliers and having the aim of developing a research and innovation-based strategy to foster the transformation of Italian manufacturing industry towards new product systems, processes and technologies, in line with the strategic agendas of the European Union. More specifically, the initiative was completed in November 2018, with a new production model being proposed in the fashion industry (to be implemented at "Brunello Cucinelli" brand satellite companies) that covers an area ranging from design to collections through to distribution, in a process "accompanied, and not dominated, by the new systems".
This project, which lasted a total of 18 months, generated research costs of €1.3 million (fully expensed in 2017 and 2018) and development costs of €1.7 million (capitalized as intangible assets). The amount financed, still to be collected at the balance sheet date, amounts to €1.0 million.

Investments in production and logistics (€4,400 thousand) support the top quality craftsmanship of our products, thanks to the constant renewal of our production equipment which we keep always up-to-date, combining innovation in processes with superb handiwork and making suitable logistical structures available for managing the related activities.
Capital expenditure of €678 thousand in non-business use land and buildings was also incurred in 2018; these assets are located in the hamlet of Solomeo and are recognized in the balance sheet as "investment property", as required by IAS 40.

The following is a graphical representation of the investments made by the Group in 2018, analyzed by use:



NET DEBT

The following table provides details of net financial debt as required by Consob Communication no. DEM/6064293 of 28th July 2006 and by the CESR Recommendation of 10th February 2005 "Recommendations for the consistent application of the European Commission's Regulation on Prospectuses":

(In thousands of euro)	31st December 2018	31st December 2017
A. Cash	(507)	(450)
B. Other liquid assets	(56,099)	(62,503)
C. Held-for-trading financial instruments	(8,996)	–
D. Cash and cash equivalents (A)+(B)+(C)	**(65,602)**	**(62,953)**
E. Current financial receivables	**(17)**	**(28)**
F. Current bank debt	27,014	3,878
G. Current portion of non-current debt	24,067	33,807
H. Other current financial payables	3,048	3,650
I. Current debt (F)+(G)+(H)	**54,129**	**41,335**
J. Net current debt (I)+(E)+(D)	**(11,490)**	**(21,646)**
K. Non-current bank debt	25,934	37,339
L. Bonds issued	–	–
M. Other non-current payables	92	10
N. Non-current debt (K)+(L)+(M)	**26,026**	**37,349**
O. Net debt (J)+(N)	**14,536**	**15,703**

At 31st December 2018 the Brunello Cucinelli Group's debt had improved slightly, by €1,167 thousand, over the corresponding balance at 31st December 2017, falling from a balance of €15,703 thousand at 31st December 2017 to €14,536 thousand at 31st December 2018.

During 2018 the Group took out new long-term loans for a total of €15.0 million and repaid loans amounting to €36.2 million.

Changes in the net financial position in 2018 were positively affected by cash generated by operations in a context characterized by the important investments of €45.0 million recalled above, the purchase of the minority interest in the Russian subsidiary for €6.5 million and the payment of €18.5 million for dividends distributed out of 2017 profits.

Finally it should be noted that:

– line item "H. Other current financial payables" mainly refers to financial debt arising on the purchase of the minority interest in OOO Brunello Cucinelli RUS, the measurement of the put option for the purchase of the minority interest in Brunello Cucinelli Japan Co., Ltd. and current liabilities for derivative instruments hedging interest rate risk;

– line item "M. Other non-current payables" relates to the non-current liability balance for derivative instruments hedging interest rate risk.

EQUITY

The following table provides details of shareholders' equity at 31st December 2018 and 31st December 2017:

(In thousands of euro)	31st December 2018	31st December 2017
Share capital	13,600	13,600
Reserves	220,381	194,284
Net profit attributable to shareholders of the parent company	50,692	51,117
Equity attributable to shareholders of the parent company	**284,673**	**259,001**
Equity attributable to non-controlling interests	2,709	4,190
Total equity	**287,382**	**263,191**

The parent company's share capital amounted to €13,600 thousand at 31st December 2018 and consisted of 68,000,000 fully paid ordinary shares.

The shareholding structure of Brunello Cucinelli S.p.A at 31st December 2018 as compiled from the communications sent to the Company and Consob and from other communications to the market is set out below:

Shareholder	Number of shares	% of ordinary share capital
Fedone S.r.l.	34,680,000	51.00%
FMR LLC	6,800,000	10.00%
Oppenheimer Funds Inc	3,304,800	4.86%
Other shareholders	23,215,200	34.14%
Total	**68,000,000**	**100.00%**

A comprehensive description of changes in equity may be found in the specific schedule and in note 13 to the financial statements.

Finally, as stated in the section "Significant events during 2018", Fedone S.r.l. announced on 9th January 2018 that it had completed the sale of 4,080,000 of the Company's shares, corresponding to 6.00% of its share capital, through an accelerated bookbuilding offering reserved for institutional investors. Settlement of this transaction took place on 12th January 2018 (delivery of the shares and payment of the consideration). Following the completion of the transaction, Fedone S.r.l. holds a total of 34,680,000 of the Company's ordinary shares, corresponding to 51% of its share capital.

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

The following is a reconciliation of the equity and net profit of the parent company and consolidated equity and net profit as of and for the year ended 31st December 2018:

(In thousands of euro)	31st December 2018	
	Equity	**Net profit**
Financial statements of the parent company	**299,672**	**52,125**
Difference between the equity of consolidated shareholdings and their carrying amount	8,129	5,452
Elimination of intercompany transactions	(35,756)	(6,743)
Elimination of dividends	–	(724)
Net investments in foreign operations	–	(632)
Tax effect of consolidation adjustments	12,628	1,214
Total attributable to shareholders of the parent company	**284,673**	**50,692**
Equity and net profit attributable to non-controlling interests	2,709	350
Consolidated financial statements	**287,382**	**51,042**

OPERATING AND FINANCIAL RATIOS

The main operating and financial ratios for the Brunello Cucinelli Group for the years in question are set out below.

PROFITABILITY RATIOS

The following table sets out trends in the main profitability ratios for 2018 and 2017. The figures for those two years have been normalized to highlight the effect of the tax benefit arising from the "Patent Box" scheme.

	31st December 2018	31st December 2017
ROE – Net profit for the year/Average equity in the year	17.20%	17.58%
ROI – Operating profit/Average net invested capital in the year	24.60%	23.74%
ROS – Operating profit/Revenues from sales and services	12.54%	12.60%

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 2018	31st December 2017
Equity/Total assets	56.96%	56.17%
Total current assets/Total current liabilities	179.85%	196.59%

TURNOVER RATIOS

	31st December 2018	31st December 2017
Receivables turnover *Revenues from sales and services/Average trade receivables*	10.4 times	11.1 times
Average collection period for trade receivables *(Average trade receivables/Revenues from sales and services) * 360*	34.6	32.4
Payables turnover (Costs for raw materials and consumables + Costs for services)/ Average trade payables	5.0 times	5.2 times
Average payment period for trade payables *(Average trade payables/(Costs for raw materials and consumables net of changes in inventories + Costs for services)) * 360*	70.2	69
Average days of inventory *((Average inventories – average advances)/Revenues from sales and services) * 360*	102.1	107.7

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 14th March 2019, may be consulted in the Governance section of the Company's website at **www.brunellocucinelli.it**.

INFORMATION ON THE CONSOLIDATED NON-FINANCIAL STATEMENT

In accordance with the requirements of article 3b of Legislative Decree no. 254/2016 the Brunello Cucinelli Group has prepared the consolidated non-financial statement, which is a separate report. The 2018 consolidated non-financial statement, prepared in accordance with GRI Standards, is available for consultation on the Company's website **www.brunellocucinelli.it**.

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

On 31st December 2018, the final trading day of the year, the official closing price of the Brunello Cucinelli share was €30.05 (+287.7% compared to the €7.75 per share set for the IPO, +11.3% compared to it closing value of €27.01 at the end of financial 2017). Market capitalization on 31st December 2018 was €2,043,400 thousand.

The following table provides details of the Company's share price and performance between 1st January 2018 and 31st December 2018:

	Euros	Date
IPO price	7.75	–
Minimum price(1)	24.70	6-Feb-18
Maximum price(1)	41.70	22-Aug-18
Official price	30.05	31-Dec-18
Capitalization	2,043,400,000	31-Dec-18
Number of outstanding shares	33,320,000	31-Dec-18
Free float	1,001,266,000	31-Dec-18

(1) Highs and lows recorded during daily trading which accordingly do not coincide with the official reference prices for the day.

SIGNIFICANT EVENTS DURING 2018

Sale of the Company's shares by Fedone S.r.l.

On 9th January 2018, Fedone S.r.l., the Company's controlling shareholder, sold 4,080,000 of the Company's shares, corresponding to 6.00% of its share capital, through an accelerated bookbuilding offering reserved for institutional investors. Mediobanca – Banca di Credito Finanziario S.p.A. acted as Sole Bookrunner for the placement. As announced to the market at the same date, Fedone confirmed its full commitment to maintain control of the Company in the very long term by holding the absolute majority of its shares.
Following the completion of the operation, Fedone S.r.l. holds a total of 34,680,000 of the Company's ordinary shares, corresponding to 51% of its share capital.

Purchase of an industrial building by the subsidiary Max Vannucci S.r.l.

On 29th March 2018 the subsidiary Max Vannucci S.r.l. purchased the industrial building situated in the municipality of Corciano for a price of €1,530 thousand. The company had previously been leasing the building for a considerable time for carrying out its operations.
The building was sold by Solomeo S.r.l., a related party of Brunello Cucinelli S.p.A. and accordingly also of Max Vannucci S.r.l.. Being material pursuant to Consob Regulation no. 17221/2010, the transaction was subject to the approval of the Board of Directors of Brunello Cucinelli S.p.A. and the related party transactions procedure adopted by the parent company, which among other things requires verification by an independent valuer of the reasonableness of the price paid.

Meeting of the shareholders of Brunello Cucinelli S.p.A.

The ordinary general meeting of the shareholders of the parent company Brunello Cucinelli S.p.A. was held on 9th April 2018. Shareholders approved the financial statements for the year ended 31st December 2017 and resolved to allocate net profit for the year as follows: €18,360,000 to be paid as a dividend of €0.27 per share to shareholders and €29,284,766 to be carried forward as retained earnings.

Formation of "Brunello Cucinelli Singapore Pte. Ltd."

On 9th May 2018 the parent company paid 51% of the share capital of Brunello Cucinelli Singapore Pte. Ltd. equal to 51 thousand Singapore Dollars. The remaining part of the capital was paid in by the minority shareholder Bluebell (Asia) Ltd.. Subsequently, on 31st May 2018, the parent company arranged for a capital increase of 200 thousand Singapore dollars, thereby increasing its interest to 83.67%.
The subsidiary will directly operate the two boutiques, previously run in the wholesale monobrand channel, that are located in the luxurious locations of Orchard Road and Marina Bay Sands.

Acquisition of the minority interest in "OOO Brunello Cucinelli RUS"

On 5th June 2018 the parent company purchased 38% of the capital of its subsidiary OOO Brunello Cucinelli RUS at a price of €6,510 thousand, of which €3,546 thousand was paid on the signing of the agreement and €600 thousand on 30th July 2018, with the remainder of €2,364 thousand to be paid by and no later than 30th April 2019. Following this transaction the parent company now holds 100% of the Russian subsidiary.
The price paid for the purchase of the minority interest has been recognized in equity reserves in accordance with IFRSs.

Conversion of the Copenhagen boutique to a DOS

"Brunello Cucinelli Denmark ApS" was established on 2nd July 2018, a 100% subsidiary of the Group, for directly operating the boutique in Copenhagen which was previously run by a local partner under a wholesale monobrand sales agreement.

Acquisition of a minority interest in "SAS Brunello Cucinelli France Resort"

The Group acquired 30% of the capital of the subsidiary SAS Brunello Cucinelli France Resort on 3rd October 2018 through the parent company, which acquired 2%, and the subsidiary Brunello Cucinelli Europe S.r.l., which acquired 28%. A price of €183 thousand was paid for this purchase, fully settled.

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 2018.
Pursuant to Consob Resolution no. 17221 of 12th March 2010, it is hereby stated that in the year ended 31st December 2018 the Group did not carry out any material transactions with related parties or any which 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, SAM Brunello Cucinelli Monaco, Brunello Cucinelli (Sichuan) Fashion Co., Ltd and Brunello Cucinelli Japan Co., Ltd) established and organized 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 it should be noted 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 bylaws 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 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 in the market in which the Brunello Cucinelli Group operates
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 operating in other segments of the luxury market will in future be positioned in the absolute luxury sector, thereby becoming the Company's direct competitors.

Risks related to the sale of the Brunello Cucinelli Group's products on an international basis
The Group sells its products throughout the world, and in particular in Europe, North America, Japan and 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 such. Sales could be influenced by a variety of events, such as market instability, natural disasters or socio-political upheaval (for example: terrorist attacks, coups d'état, armed conflicts). The occurrence of these events, difficult to predict, could negatively affect the demand for luxury goods in a certain country or lead to a reduction in tourist flow, thereby causing negative effects on the Group's business and growth prospects.

Risks related to changes in the national and international framework in which the Brunello Cucinelli Group operates
In the various jurisdictions in which it operates the Group is subject to legislation that applies to the goods it produces and/or markets. 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 require the Brunello Cucinelli Group to adopt stricter standards, which could lead to costs being incurred to adapt production facilities or product characteristics, or could limit the Group's performance, with the 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 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 the constant training conducted in the Company and 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 an increase in the respective prices

The principal raw materials used by the Brunello Cucinelli Group are yarns (especially cashmere yarns), textiles, and hides. The supply of cashmere is determined by various factors beyond the Group's control, some of which are unpredictable. For example, climatic conditions in regions (above all Mongolia) that supply raw cashmere, changes in the way goats are raised in these 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 accept 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 running currently existing directly operated stores (DOS) mainly arise from the difficulties involved with lease renewals, requests for higher rent, the revocation or non-renewal of commercial licenses (where required) and lower sales.

The increases in fixed costs arising on the opening of new DOS 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 its 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 those in the same sector) with economic and financial resources similar to or greater than its own.

Risks related to relationships 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 rather by orders, as is standard practice in the sector. Any sudden termination of relations with a significant number of façonisti, or a situation in which several façonisti fail to respect production schedules (to the extent agreed) on several 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 defense of industrial and intellectual property rights

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

Although the Company invests heavily to protect its brand and intellectual property rights, as well as in 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 wants 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 restrict (or halt) its business in such countries.

Lastly, the laws of numerous foreign countries are less severe in protecting intellectual property rights than is Italian law or the law of other European Union nations.

Risks related to 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 unpredictable and short-lived. 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 impair 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 Structures.

RESEARCH AND DEVELOPMENT ACTIVITIES

The Company continually 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.

As stated in the section on capital expenditure, the Group completed its "Contemporary factory" project during the year, which led to the expensing of research costs of €449 thousand and the capitalizing of development expenditure of €1,381 thousand.

The Company also incurred €9,961 thousand in 2018 for additional costs for personnel dedicated to research and development activities, 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 balance between asset and liability structures in order to maintain adequate levels of solvency.

The Group is exposed to various types of financial risk connected with 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 unfavorable changes in interest rates. Changes in market interest rates affect borrowing costs and the returns on the different investments, thus the level of the Group's financial income and expense, and their fair value.

It is the Company's policy to hedge the exposure to the medium- and long-term portion of debt against market risk due to interest rate changes. To manage such risk, the Company employs derivative instruments such as interest rate swaps.

Currency risk

The Group operates at an international level and, as such, 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 euro, fluctuations in the exchange rates used to translate the currency-denominated financial statements of subsidiaries might significantly affect consolidated results, net debt and equity, as these are expressed in euro in the Group's financial statements, and the various 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 unfavorable 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 Company enters 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 setting the expiry date of the derivative as the expected collection date of the sales invoices. 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 short-term commitments and financial requirements. The main factors determining the Group's degree of liquidity are on the one hand the funds generated or used 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 in its 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, this risk is limited to the sales managed directly in the boutiques by the landlord-proprietor of the mall; the remainder of the turnover comes from the pure retail channel, with payments being made 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 using the information obtainable from specialized agencies and by studying and analyzing data regarding the performance of established customers. In addition, balances are constantly monitored throughout the year to ensure timely action and to reduce the risk of loss.

Fiscal risk

At 31st December 2018, the Group structure consisted of 28 companies located in 21 different countries. The parent company, Brunello Cucinelli S.p.A., has adopted the national tax consolidation scheme, exclusively with the direct subsidiary Brunello Cucinelli Europe S.r.l., thus determining a single taxable basis. 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. In terms of reviewing the adequacy and correctness of tax compliance, the tax risk management system adopted by management obviously cannot completely exclude the risk of tax audits.

A detailed analysis and description of financial risk management can be found in the notes to these financial statements, together with the other disclosures required by IFRS 7.

SUBSEQUENT EVENTS

No material subsequent events occurred between 31st December 2018 and the date of this consolidated report.

BUSINESS OUTLOOK

Our 40th year of activities was an **extremely important** one for us, having now "completed" the first phase of our long-term growth project, **doubled our sales in the 7 years** following **listing in 2012** and exceeded €550 million in revenues.
In this period we have maintained constant double-digit growth in both margins and earnings, constantly seeking the "**right profit**", meaning the amount that acknowledges the **moral** and **economic** dignity of all the human resources who collaborate with the Company, in our desire and will to satisfy the idea of "**humanistic capitalism**" that underlies the philosophy of our business.

The strategic decisions we have taken over these past few years, consistent with the brand's heritage, have further strengthened our positioning at the top of the luxury sector, creating an exclusive lifestyle and preserving a **ready-to-wear contemporary, sophisticated and chic** identity.

Projecting growth over the **next 10 years**, with the wish to keep the brand's allure at a maximum and as part of a sustainable growth plan we would like to **double sales again** and achieve a **healthy profit**, one that is always **respectful of the human being and all things created**.

Over all these years, from the founding of the business in 1978 and from the first proposal of women's cashmere knitwear, we have always put the emphasis on safeguarding the brand, with an offer that has progressively been extended to the complete female and male ready-to-wear offer in order to arrive at the creation of a taste and a lifestyle in which customers can identify themselves.
As part of this plan, we continue to invest in initiatives that are consistent with our brand's image and DNA.

We once again invested significant resources in the **development of the digital channel** in 2018, also by creating new logic bases, and introduced a proposal for the **made-to-measure men's suit**. We are very, very satisfied with these projects, in terms of both image and sales, and are continuing to invest in 2019.

In 2019 we are additionally extending our ready-to-wear offer to the "**Child**", with dedicated collections that will make their debut in the second half of the year, by completing the internal structure supporting a project which saw the start of the research and development phase in 2018.

Given the very good performance of sales in the first part of the year, and the excellent results in orders for the 2019 fall/winter collection, we can comfortably expect a fine growth level of around 8% in sales and a healthy rise in profits, continuing our important investment project as always. This is the first year of the new decade, 2019-2028, in which we expect to double sales by seeking to work passionately and with dedication with the Universe, always believing in our Italy and the outstanding quality and creativity of the manufacturing culture that makes us loved throughout the world.

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

PRIMARY STATEMENTS AT 31ST DECEMBER 2018

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31ST DECEMBER 2018

(In thousands of euro)	NOTE	31st December 2018	of which with related parties	31st December 2017	of which with related parties
Non-current assets					
Goodwill	1	7,045		7,045	
Intangible assets	2	31,538		23,950	
Property, plant and equipment	3	125,652	16,804	115,676	15,384
Investment property	4	919		–	
Other non-current financial assets	5	7,675	32	6,298	32
Deferred tax assets	23	16,777		15,693	
Total non-current assets		**189,606**		**168,662**	
Current assets					
Inventories	6	161,764		152,647	
Trade receivables	7	61,444	46	45,178	45
Tax receivables	8	828		2,777	
Other receivables and other current assets	9	16,076		12,923	
Other current financial assets	10	9,013		28	
Cash and cash equivalents	11	56,606		62,953	
Derivative financial instruments – current assets	12	418		4,856	
Total current assets		**306,149**		**281,362**	
Total assets		**495,755**		**450,024**	

(In thousands of euro)	NOTE	31st December 2018	of which with related parties	31st December 2017	of which with related parties
Equity					
Equity attributable to shareholders of the parent company					
Share capital	13	13,600		13,600	
Share premium reserve	13	57,915		57,915	
Other reserves	13	162,466		136,369	
Net profit (loss) attributable to shareholders of the parent company	13	50,692		51,117	
Total equity attributable to shareholders of the parent company		**284,673**		**259,001**	
Non-controlling interests					
Capital and reserves attributable to non-controlling interests	13	2,359		2,822	
Net profit (loss) attributable to non-controlling interests	13	350		1,368	
Total equity attributable to non-controlling interests		**2,709**		**4,190**	
Total equity		**287,382**		**263,191**	
Non-current liabilities					
Post-employment benefits	14	3,048		3,184	
Provisions for risks and charges	15	920		891	
Non-current bank debt	16	25,934		37,339	
Other non-current liabilities	17	11,921		10,571	
Deferred tax liabilities	23	1,256		2,115	
Derivative financial instruments - non-current liabilities	12	92		10	
Total non-current liabilities		**43,171**		**54,110**	
Current liabilities					
Trade payables	18	76,585	818	65,261	412
Current bank debt	19	51,081		37,685	
Current financial payables	20	2,842		3,297	
Tax payables	21	2,781		1,434	
Derivative financial instruments - current liabilities	12	5,401		379	
Other current liabilities	22	26,512	1,074	24,667	36
Total current liabilities		**165,202**		**132,723**	
Total liabilities		**208,373**		**186,833**	
Total equity and liabilities		**495,755**		**450,024**	

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31ST DECEMBER 2018

(In thousands of euro)		Year ended 31st December			
	NOTE	2018	of which with related parties	2017	of which with related parties
Net revenues	24	552,996	16	511,710	11
Other operating income	24	1,448	75	2,113	36
Revenues from sales and services		**554,444**		**513,823**	
Costs for raw materials and consumables	25	(88,056)	(50)	(82,901)	(15)
Costs for services	26	(268,328)	(2,937)	(248,467)	(2,903)
Payroll costs	27	(98,329)	(887)	(89,061)	(535)
Other operating costs	28	(5,916)		(5,053)	
Own work capitalized	29	2,470		1,873	
Depreciation and amortization	30	(25,605)		(22,755)	
Value adjustments to assets and other provisions	31	(1,142)		(2,738)	
Total operating costs		**(484,906)**		**(449,102)**	
Operating profit		**69,538**		**64,721**	
Financial expense	32	(26,330)		(23,504)	
Financial income	33	22,074		18,197	
Pre-tax profit		**65,282**		**59,414**	
Income taxes	23	(14,240)		(6,929)	
Net profit for the year		**51,042**		**52,485**	
Net profit attributable to shareholders of the parent company	13	50,692		51,117	
Net profit attributable to non-controlling interests	13	350		1,368	
Basic earnings per share	34	0.74547		0.75172	
Diluted earnings per share	34	0.74547		0.75172	

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31ST DECEMBER 2018

(In thousands of euro)		Year ended 31st December	
	NOTE	2018	2017
Net profit for the year (A)		**51,042**	**52,485**
Other items of comprehensive income:			
Other items of comprehensive income that may be reclassified to profit or loss:		**(1,653)**	**(2,223)**
Cash flow hedges	13	(3,266)	4,236
Tax effect	13	784	(1,017)
Change in cash flow hedge reserve	**13**	**(2,482)**	**3,219**
Exchange gains (losses) on translation of the financial statements of foreign operations		349	(4,040)
Exchange gains (losses) on net investments in foreign operations		632	(1,845)
Tax effect		(152)	443
Other items of comprehensive income that will not be reclassified to profit or loss:	**13**	**(35)**	**(58)**
Remeasurement of defined benefit plans (IAS 19)		(46)	(78)
Tax effect		11	20
Total other comprehensive income net of tax (B)		**(1,688)**	**(2,281)**
Total comprehensive income for the year (A) + (B)		**49,354**	**50,204**
Attributable to:			
Shareholders of the parent company		48,821	49,213
Non-controlling interests		533	991

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST DECEMBER 2018

(In thousands of euro)		Year ended 31st December	
	NOTE	2018	2017
Cash flows from operating activities			
Net profit for the year	13	51,042	52,485
Adjustments to reconcile net profit for the year to cash from operating activities:			
Depreciation, amortization and write-downs	30	25,605	22,755
Allocation to provisions for employee benefits	14	97	124
Allocation to provisions for risks and charges/allowance for obsolescence/allowance for bad and doubtful debts		1,179	2,780
Change in other non-current liabilities		911	3,629
(Gains)/losses on disposal of non-current assets		52	163
Payments for employee termination indemnities	14	(283)	(79)
Payments from provisions for risks and charges	15	–	(330)
Net change in deferred tax assets and liabilities		(1,248)	(1,058)
Change in fair value of financial instruments		6,277	(3,809)
Change in operating assets and liabilities:			
Trade receivables		(16,614)	882
Inventories		(7,284)	(2,998)
Trade payables		7,836	9,040
Other current assets and liabilities		2,532	2,157
Cash from operating activities (A)		**70,102**	**85,741**
Cash flows from investing activities			
Investments in property, plant and equipment	3	(27,327)	(23,743)
Investments in intangible assets	2	(15,781)	(3,728)
Investments in financial assets		(1,190)	(752)
Property investments	4	(678)	–
Investments in securities held for trading	10	(8,996)	1,964
Acquisition of OOO Brunello Cucinelli RUS, net of cash acquired		–	(8,334)
Disposal of property, plant and equipment and key money		563	393
Assets held for sale		–	–
Cash used in investing activities (B)		**(53,409)**	**(34,200)**
Cash flows from financing activities			
Medium/long-term loans received	16	15,045	39,013
Medium/long-term loans repaid	16	(36,244)	(20,773)
Drawdowns/(repayments) of short-term loans	16	–	(25,512)
Net change in short-term financial liabilities	16	22,650	(9,597)
Net change in long-term financial liabilities	16	–	(2,326)
Capital increases, amounts paid in by shareholders and other changes in equity		(6,662)	(2,936)
Dividends paid		(18,471)	(11,048)
Cash used in financing activities (C)		**(23,682)**	**(33,179)**
Total cash flows (D=A+B+C)	16	**(6,989)**	**18,362**
Effect of exchange rates on cash and cash equivalents (E)	16	**642**	**(1,837)**
Cash and cash equivalents at the beginning of the year (F)	11	**62,953**	**46,428**
Cash and cash equivalents at the end of the year (G=D+E+F)	11	**56,606**	**62,953**
Additional information:			
Interest paid		1,424	2,003
Income taxes paid		10,784	8,106

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31ST DECEMBER 2018

(In thousands of euro)	Note	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 the parent company	Total equity attributable to non-controlling interests	Total equity
1st January 2018	**13**	**13,600**	**2,720**	**57,915**	**–**	**(1,739)**	**135,388**	**51,117**	**259,001**	**4,190**	**263,191**
Net profit for the year								50,692	50,692	350	51,042
Other profits/(losses)						644	(2,515)		(1,871)	183	(1,688)
Total comprehensive income		**–**	**–**	**–**	**–**	**644**	**(2,515)**	**50,692**	**48,821**	**533**	**49,354**
Allocation of net profit for the year	13						51,117	(51,117)	–	–	–
Dividends paid	13						(18,360)		(18,360)	(111)	(18,471)
Change in consolidation scope and operations under common control							(4,759)		(4,759)	(1,903)	(6,662)
Other changes							(30)		(30)	–	(30)
31st December 2018	**13**	**13,600**	**2,720**	**57,915**	**–**	**(1,095)**	**160,841**	**50,692**	**284,673**	**2,709**	**287,382**

(In thousands of euro)	Note	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 the parent company	Total equity attributable to non-controlling interests	Total equity
1st January 2017	**13**	**13,600**	**2,720**	**57,915**	**–**	**3,329**	**104,982**	**36,397**	**218,943**	**6,939**	**225,882**
Net profit for the year								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 net profit for the year	13						36,397	(36,397)	–	–	–
Dividends paid	13						(10,880)		(10,880)	(168)	(11,048)
Change in consolidation scope and operations under common control							1,650		1,650	(3,498)	(1,848)
Other changes							75		75	(74)	1
31st December 2017	**13**	**13,600**	**2,720**	**57,915**	**–**	**(1,739)**	**135,388**	**51,117**	**259,001**	**4,190**	**263,191**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31ST DECEMBER 2018

1. BASIS OF PREPARATION

1.1 CONTENT AND FORMAT OF THE 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 effective at the balance sheet date. 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 2018, approved by the Board of Directors on 14th March 2019, consist of 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 increasing order of liquidity, where:
- non-current assets consist of items that are expected to be recovered after more than twelve months and include intangible assets, property, plant and equipment and financial assets;
- current assets consist of items that are expected to be recovered after no more than twelve months;
- non-current liabilities consist of items that are expected to be settled after more than twelve months, including loans, provisions and the employees' termination indemnity (TFR);
- current liabilities consist of items falling due after no more than twelve months, including the short-term portion of long-term loans, provisions and the employees' termination indemnity (TFR).

The format for the consolidated income statement classifies costs by nature.

The consolidated cash flow statement has been prepared using the indirect method and is presented in accordance with IAS 7, classifying cash flows into operating activities, investing activities and financing activities.

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

With reference to Consob Resolution no. 15519 of 27th July 2006 and Communication DEM no. 6064293 of 28th July 2006, the financial statements present information on significant related party transactions in order to provide a more complete disclosure, and income and expense arising from non-recurring events or transactions, if significant, is shown separately in the comments provided by management and in the financial disclosures.

2. SCOPE OF CONSOLIDATION

The consolidated financial statements present the financial position, results 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 2018.

Such financial statements have been prepared on the basis of the accounting situations of the Company and its subsidiaries, suitably adjusted to comply with IFRSs.

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 of that subsidiary until the date it ceases to control it. The assets, liabilities, income and expenses of the subsidiary acquired or disposed of during the period are included in the Group's comprehensive income from the date on which it gains control until the date it no longer exerts control.

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 statement of financial position, the consolidated income statement and the consolidated statement of comprehensive income separately from profits and equity attributable to the shareholders of the parent company.

At 31st December 2018 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 IFRS 11).

The following table provides summary information on the Company's subsidiaries at 31st December 2018, 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 in currency	Percentage holding	
				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%	
Sprl Brunello Cucinelli Belgium	Brussels – Belgium	Euro	20,000		100.00%
Sarl Brunello Cucinelli France	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 SL	Madrid – Spain	Euro	200,000	5.00%	95.00%
Brunello Cucinelli Suisse SA	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	200,000,000	100.00%	
Brunello Cucinelli Hellas SA	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/ Hong Kong dollar	22,847,312	98.00%	2.00%
Pinturicchio S.r.l.	Corciano (PG) - Italy	Euro	100,000	2.00%	98.00%
Brunello Cucinelli Brasil LTDA	São Paolo - Brazil	Real	11,200,000	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 Ltd.	Vancouver – Canada	Canadian dollar	100	70.00%	
SAS Brunello Cucinelli France Resort	Courchevel – France	Euro	100,000	2.00%	98.00%
OOO Brunello Cucinelli RUS	Moscow - Russia	Ruble	15,000,000	100.00%	
Brunello Cucinelli Singapore Pte. Ltd.	Singapore	Singapore dollar	300,000	83.67%	
Brunello Cucinelli Denmark ApS	Denmark	Danish krone	750,000	2.00%	98.00%

There were changes in the scope of consolidation in 2018 following the formation of "Brunello Cucinelli Singapore Pte. Ltd." and "Brunello Cucinelli Denmark ApS". A description of these operations can be found in the section "Significant events during 2018".

3. ACCOUNTING STANDARDS

INTRODUCTION

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

The consolidated financial statements are presented in euro and all amounts are rounded to the nearest thousand euro unless otherwise stated.

DISCRETIONAL ASSESSMENTS AND SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of the Brunello Cucinelli Group's consolidated financial statements requires the Company's directors to make discretional measurements, estimates and assumptions that affect the amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities at the balance sheet 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 for 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 bad and doubtful debts
The allowance for bad and doubtful debts represents management's best estimate of the amount required to adjust receivables to their estimated realizable value on the basis of information available at the date of preparation of the financial statements to ensure that receivables are stated at expected net realizable value. The Group uses the simplified approach and recognizes the expected losses on all trade receivables on the basis of their residual duration, by establishing a criterion for determining the allowance based on the past loss experience of individual Group companies, adjusted also to take account of specific forecasting factors relating to creditors and the economic environment. The amount of expected losses is sensitive to changes in circumstances and the expected economic conditions.

Useful lives of tangible and intangible fixed assets and impairment testing
The depreciation and amortization of property, plant and equipment and intangible assets with a finite useful life and the forward-looking data used for impairment testing require subjective estimates to be made by the directors. Such estimates are reviewed at every balance sheet date 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” in the notes that follow for a discussion of impairment testing.

Derivatives
The measurement of derivative financial 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 described in the specific section on “Derivatives” in the notes that follow. The estimates and assumptions considered are constantly reviewed and the effects of any changes are recognized immediately in the financial statements.
Estimates and assumptions are made by directors with the support of the corporate functions and, where appropriate, of independent specialists, and are regularly reviewed.

BUSINESS COMBINATIONS AND GOODWILL

Business combinations are accounted for using the purchase method. This requires the identifiable assets (including any intangible assets not previously recognized) and the identifiable liabilities (including contingent liabilities) of the acquired company to be recognized at fair value.

The goodwill acquired in a business combination is initially measured at cost, represented by the excess of the consideration transferred plus the amount recognized for any non-controlling interest over the fair value of the net 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 at 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 under IFRS 8 *Operating Segments*.

When goodwill is part of a cash-generating unit (a group of cash-generating units) and some of the assets in this group 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 recognized in profit or loss.

TRANSACTIONS BETWEEN ENTITIES UNDER COMMON CONTROL

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 reorganizational aims of such transactions, and in application of the Group's applicable accounting policy, these are recognized on the basis of the existing carrying amounts in the financial statements of the companies involved, without recognizing any economic effects.

INTANGIBLE ASSETS

Intangible assets are recognized 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 recognized at fair value at the acquisition date if such value can be reliably determined. Internally produced intangible assets are not capitalized and are recognized in profit or loss in the year in which the relevant costs are incurred.

Intangible assets with finite useful lives are amortized 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 arising from the intangible asset are recognized by changing the amortization period and/or method and are treated as changes in accounting estimate. The amortization of intangible assets with finite lives is recognized in profit or loss in the cost category consistent with the function of the intangible asset.

Intangible assets are derecognized on disposal (or when the purchaser obtains control of the asset) or when no future economic benefits are expected to be obtained form its use or disposal. Gains or losses on the disposal of an intangible asset (measured as the difference between the net proceeds from the disposal and the carrying amount of the asset) are recognized in profit or loss.

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 capitalized by virtue of expected incremental revenues deriving from the possibility of operating in prestigious locations.

Key money is amortized 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 the Group's trademarks.

Research and development expenditure
Research costs are expensed in the period in which they are incurred. Development costs incurred in relation to a specific project are recognized as intangible assets when the Group can demonstrate the following:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- its intention to complete the intangible asset and use or sell it;
- how the intangible asset will generate probable future economic benefits (proceeds from the sale of products or services, cost savings or other benefits arising from the use of the asset);
- the availability of resources to complete the asset;
- its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Subsequent to initial recognition, development assets are measured at cost less amortization and any impairment losses. Amortization of the asset begins when development has been completed and the asset is available for use. Development assets are amortized over the period of the expected benefits. During the development period the asset is impairment tested on an annual basis.

PROPERTY, PLANT AND EQUIPMENT

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

Property, plant and equipment acquired in business combinations is recognized 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 capitalized.

Property, plant and equipment is stated net of accumulated depreciation and any impairment losses 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 recognized separately. Land, with or without buildings, is recognized separately and is not depreciated because it has an indefinite useful life.

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

The carrying amount of an item of property, plant and equipment and any initially recognized significant component is derecognized on disposal (meaning at the date the purchaser gains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on the derecognition of the asset (calculated as the difference between the disposal proceeds and the carrying amount) is recognized in profit or loss on derecognition.

Historical collection

For each of its collections 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 every balance sheet date, 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 (book value) 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 belongs.

In calculating value in use, the Group discounts the current value of estimated future cash 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 referring to current conditions: therefore, the estimates do not consider benefits deriving from future reorganizations 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 its recoverable amount.

Impairments to operating assets are recognized in profit or loss in the cost categories consistent with the function of the impaired asset. At every balance sheet date, the Group also considers whether there are any indicators of reductions in losses recognized 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/amortization, if no impairment loss had been recognized in previous years. Reversals of impairment losses are recognized as income in profit or loss. After the reversal of an impairment loss, the depreciation/amortization 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 recognized for goodwill cannot be subsequently reversed.

INVESTMENT PROPERTY

Tangible assets held for the income they earn and not for use in the ordinary course of business are classified as "investment property" in accordance with IAS 40, and are accounted for at cost. The assets belonging to this category consist of land and/or buildings (or parts of factories) held by the owner or by the lessee under a finance lease or operating lease to earn rentals.
This type of property is classified separately from other owned property. Investment property is stated net of accumulated depreciation and any impairment losses. The useful life of the Group's investment property is 33 years. The carrying amount of investment property is tested for impairment if events or changes in situation indicate that the carrying amount may not be recovered. Impairment losses are recognized in profit or loss as value adjustments to assets and other provisions. Impairment losses are reversed if the reasons for recognizing them no longer hold. Investment property is derecognized on disposal (meaning at the date the purchaser obtains control) or when the investment property is permanently withdrawn and no future economic benefits are expected from its disposal. The proceeds considered in calculating the gain or loss resulting from the derecognition of an investment property are determined using the requirements for establishing the price of a transaction stated in IFRS 15.

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 continuing 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.
On initial recognition, non-current assets held for sale are measured at the lower of carrying amount – as if they had not been classified as held for sale - and fair value less costs to sell.

LEASING

The definition of a contractual agreement as a lease (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 capitalized at the date of inception of the lease at the fair value of the leased asset 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 profit or loss.

Leased assets are depreciated over their estimated useful life. However, if there is no 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 and the lease term.

An operating lease is a lease other than a financial lease. Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

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 negotiating the contract are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as lease income. Contingent rent is recognized as income in the period in which it matures.

FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

In IFRS 9, the general principle is that an entity shall recognize a financial asset or a financial liability in its statement of financial position when, and only when, the entity becomes party to the contractual provisions of the instrument.

Financial assets

On initial recognition, financial assets are classified on the basis of the contractual cash flow characteristics of the financial asset and the business model that the Group uses for managing such assets.

Financial assets are classified into four categories on the basis of these characteristics:
- Financial assets at amortized cost (debt instruments);
- Financial assets at fair value through comprehensive income with the reclassification of accumulated gains and losses (debt instruments);
- Financial assets at fair value through comprehensive income
- Financial assets at fair value through profit or loss.

On initial recognition, the Group measures a financial asset at fair value plus transaction costs in the case of a financial asset not at fair value through profit or loss. Trade receivables that do not contain a significant interest component or for which the Group has applied the practical expedient are measured at the transaction price determined in accordance with IFRS 15.

Subsequent to initial recognition, the Group measures financial assets at amortized cost, at fair value through comprehensive income or at fair value through profit or loss.

Financial assets at amortized cost (debt instruments)
The Group measures financial assets at amortized cost if both the following requirements are met:
- the financial asset is held as part of a business model whose objective is to hold financial assets in order to collect contractual cash flows;
- the contractual terms of the financial asset provide for cash flows at specific dates represented solely by payments of the principal and the interest on the amount of the principal to be repaid.

Financial assets at amortized cost are subsequently measured using the effective interest method and are impairment tested. Profits and losses are recognized in profit or loss when the asset is derecognized, modified or revalued.
Among the Group's financial assets at amortized cost are trade receivables and guarantee deposits.

Financial assets at fair value through profit or loss
This category includes assets held for trading, assets designated on initial recognition as financial assets at fair value through profit or loss and financial assets mandatorily measured at fair value. Assets held for trading are those acquired for sale or repurchase in the short term. Derivatives, including separated derivatives, are classified as financial instruments held for trading, unless designed as effective hedging instruments.
Financial instruments at fair value through profit or loss are carried in the statement of financial position at fair value, with net changes in fair value recognized in profit or loss.
Derivative instruments form part of this category. Derivatives, including separated derivatives, are classified as financial instruments held for trading, unless designed as effective hedging instruments.

Reclassification

A financial asset is only reclassified when there is a change in the contractual terms that significantly affects the previously expected cash flows or when Group changes its business model for managing financial assets. Reclassifications are only made prospectively from the reclassification date, without restating any previously recognized gains, losses or interest.

Derecognition

A financial asset (or where applicable a part of a financial asset or a part of a group of similar financial assets) is firstly derecognized (e.g. eliminated from the Group's statement of financial position) when:

– the rights to receive the cash flows from the financial assets expire, or
– the Group transfers the right to receive cash flows from the asset from a third party and has assumed a contractual obligation to pay them in full and without delay and (a) has substantially transferred all the risks and rewards of ownership of the financial asset, or (b) retains substantially all the risks and rewards of ownership of the financial asset but has transferred control of the asset.

Impairment of financial assets

The Group recognizes an impairment loss for the expected losses to be incurred for all financial assets consisting of debt instruments that are not held at fair value through profit or loss. More specifically, the impairment provisions apply to all financial assets at amortized cost and at fair value through comprehensive income, while financial assets at fair value through profit or loss are excluded.

The Group uses the simplified approach and recognizes the expected losses on all trade receivables on the basis of their residual duration, by establishing a criterion for determining the allowance based on the past loss experience of individual Group companies, adjusted also to take account of specific forecasting factors relating to creditors and the economic environment.

Financial liabilities

Financial liabilities are classified and measured at amortized cost using the effective interest rate, except for financial liabilities which, failing to meet the requirements for being measured at amortized cost, are classified at fair value through profit or loss. Financial liabilities held for trading fall into the latter category.

Derivatives with a negative fair value are also classified and measured at fair value through profit or loss, except for those held as effective hedging instruments. All financial liabilities are initially recognized at fair value, to which directly attributable transaction costs are added in the case of loans and payables. The Group's financial liabilities consist of trade and other payables, loans, including overdrafts, and derivative financial instruments.

The measurement of financial liabilities depends on their classification as financial liabilities at fair value through profit or loss or loans and financing.

Loans and financing

Subsequent to initial measurement, loans are measured at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the liability is extinguished as well as through the amortization process. Amortized cost is calculated by determining the discount or premium on acquisition and the charges or costs that form an integral part of the effective interest rate. The amortization charge at the effective interest rate is recognized as financial expense in the income statement.
Financial liabilities may not be reclassified.
This category generally consists of interest-bearing loans.

Derecognition

A financial liability is derecognized when the obligation underlying the liability is extinguished, cancelled or discharged. If an existing financial liability is replaced by another one from the same lender with substantially different terms, or if the terms of an existing liability are substantially modified, this exchange or modification is treated as the extinguishment for accounting purposes of the original liability accompanied by the recognition of a new liability, with recognition of any difference between the two accounting balances in profit or loss.

Offsetting financial instruments

A financial asset and a financial liability are offset and the net amount presented in the statement of financial position when, and only when, the Group has a current legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Derivatives

The Brunello Cucinelli Group uses derivative financial instruments only for the purpose 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.

As permitted by paragraph 7.2.21 of IFRS 9, the Group has elected to continue to apply the requirements of IAS 39 to hedge accounting.
In line with the requirements of IAS 39, taken up by IFRS 9, derivatives may only be treated as hedges when:
– at the inception of the hedge there is formal designation and documentation of the hedging relationship;
– the hedge is expected to be highly effective;
– the effectiveness of the hedge can be reliably measured; and
– the hedge is highly effective throughout the financial reporting periods for which it was designated.

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 of the hedging instrument are recognized 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 an effect on the income statement, the effective portion of the gains or losses on the financial instrument is recognized in equity. Accumulated gains or losses are reclassified from equity to profit or loss in the same period in which the hedged transaction is recognized; the gain or loss associated with a hedge, or the part of the hedge that has become ineffective, is recognized in profit or loss when the ineffectiveness is identified.

The Group applies cash flow hedge accounting to stabilize cash flows on loans payable and to hedge revenues in foreign currency. As a consequence 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 recognized in the reserve are reclassified to revenues in the income statement. The ineffective component of this change in fair value is recognized 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 recognized 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 recognized directly in profit or loss.

INVENTORIES

Inventories are measured at the lower of purchase and/or production cost, calculated using the weighted average cost formula, and net realizable value. Purchase cost includes the 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 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.

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 recognized at nominal value and at the spot exchange rate at the balance sheet date if in foreign currency.

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 reimbursement is recognized specifically and separately in assets if (and only if) reimbursement is practically certain. In this case, the cost of any provision is recognized in profit or loss net of the amount recognized for the reimbursement.

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 recognized 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 features 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 remuneration for each year of service (appropriately revalued) and the number of years of service. Under Italian law, the liability for this indemnity is recognized 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 organization) 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 recognized fully in profit or loss.

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

The Group has no other defined benefit pension plans.

The Group's obligation deriving from defined contribution 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.

REVENUES AND COSTS

Revenue from contracts with customers
Revenue from contracts with customers is recognized when the control of goods or services is transferred to the customer for an amount that reflects the consideration that the Group expects to receive in exchange for such goods or services.

Sale of goods
Revenue arising from the sale of goods is recognized when the control of the asset is transferred to the customer, usually on dispatch.
The Group considers whether there are other promises in the contract which represent obligations to be met to which a part of the consideration for the transactions must be allocated (for example warranties). In determining the price of the transaction for the sale of the asset, the Group considers the effects of any variable consideration, any significant financing component, any non-monetary consideration and any consideration to be paid to the customer (if such exists).

Variable consideration – right of return
The Group only recognizes the right to return in cases that are residual and ancillary to the ordinary performance of the commercial relationship existing with its customers. When a contract with a customer provides for the return of goods, the Group uses expected value to estimate the goods that will not be returned because such method is the best for predicting the amount of the variable consideration to which the Group will be entitled.

Government grants

Government grants are recognized when there is reasonable assurance that they will be received and that all the conditions attaching to them will be complied with. Grants relating to cost items are recognized as income but are allocated systematically over the periods necessary to match them with the related costs that they are intended to compensate. Grant relating to assets are recognized as income on a straight-line basis over the expected useful life of the asset involved.

If the Group receives a non-monetary grant, the asset and the related grant are recognized at nominal value and released to profit or loss on a straight-line basis over the expected useful life of the asset involved.

Costs

Costs are recognized when they relate to goods and services sold or used during the year either by systematic allocation or when any future utility is not expected.

In accordance with IAS 38, advertising and research costs are fully expensed when the service has been rendered and delivered to the Group.

Costs are recognized by their nature under the applicable IFRS standards.

FINANCIAL INCOME AND EXPENSE

Financial income and expense is recognized on the basis of the interest accruing on the net amount of the relative financial assets and liabilities using the effective interest rate method.

INCOME TAXES

Current taxes

Current income taxes are based on an estimate of the tax charge, 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 the statement of financial position net of any advance tax payments made.

Deferred taxes

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 tax liabilities) at the balance sheet date between the carrying amounts of assets and liabilities and their tax bases.

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

Deferred tax assets are reviewed at each balance sheet date 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.

Previously unrecognized deferred tax assets are reviewed at each year end and recognized to the extent it has become probable that there will be adequate taxable profit to enable these 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 the asset is realized or the liability is settled, based on the tax rates in laws in force as well as those already enacted or substantially enacted by the balance sheet date.

Deferred tax assets and liabilities are recognized through profit or loss, except for those relating to items recognized directly in equity, in which case deferred taxes are recognized 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 net profit by the weighted average number of shares outstanding during the year. To calculate diluted earnings per share, the weighted average number 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 purpose 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

4.1 NEW ACCOUNTING STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE GROUP

On 1st January 2018 the Group adopted IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* for the first time. These standards require the restatement of prior financial statements in the case of full retrospective application.

The Group has not early adopted any new standard, interpretation or amendment that has been issued but is not yet effective.

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 that supersedes all existing IFRS requirements on revenue recognition (IAS 18, IAS 11, IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31). IFRS 15 requires revenue to be recognized 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 has applied 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. This assessment was completed in 2017.

The Group has taken the following aspects into consideration regarding the application of IFRS 15:

(a) Retail sales
Applying IFRS 15 to contracts with customers where the sale of goods is the only obligation, the Group has not identified any significant impact on its revenues or income statement in the geographical areas of Italy, Europe and Greater China.
On the other hand for the geographical areas of North America and the Rest of the World, for certain types of contract the Group noted that the application of IFRS 15 results in a similar increase in net revenues and costs for services, with no change in 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 fees back to the Group for the services rendered (rental of 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 discretional power to set the price of goods sold to customers. Consequently, for these types of contracts, applying IFRS 15 requires the presentation of gross revenue for sales and the separate indication of the cost of the services rendered by the department store, the latter being services to be presented separately from the sale of products to end customers.

The effect at 31st December 2017 of applying IFRS 15 was as follows:

– increase in net revenues: €8,139 thousand;
– increase in costs for services: €8,139 thousand;

The Group has noted that revenue is recognized when control over the goods is transferred to the customer, which is generally when the goods are delivered, similar to the case with the current standards (i.e. revenue recognition at a point in time).

(b) Variable consideration – right of return

The Group only recognizes the right to return in cases that are residual and ancillary to the ordinary performance of the commercial relationship existing with its customers. Consequently no significant impact from the application of IFRS 15 arose from the analysis of contracts with customers that provide for a right of return of goods sold within a specific period of time. When a contract with a customer provides for the right of return of goods, the Group assesses the variable consideration in accordance with the new standard.

(c) Presentation and required disclosure

The presentation and disclosure requirements of IFRS 15, largely new, are more detailed than those of the previous standards. However, in view of the fact that the analysis of contracts and revenue streams revealed the predominance of revenue recognition at a given point in time, and given the results of the assessments, which did not identify any significant judgmental estimates, no necessity has arisen for additional disclosures.

As required for consolidated financial statements, the Group has separated the revenue arising from contracts with customers into the categories that show how the nature, amount, timing and uncertainty of revenues and cash flows are affected by economic factors: reference should be made to note 24 for the relevant disclosures.

IFRS 9 *Financial Instruments*

In July 2015, 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 combines all three of the aspects relating to the project on accounting for financial instruments: classification and measurement, impairment and hedge accounting. IFRS 9 is applicable for 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 adopted the new standard at its effective date and did not restate comparative information, as there was no significant impact on its statement of financial position or net equity.

Classification and measurement
The Group did not identify any significant effects on its financial statements or net equity resulting from the application of the classification and measurement requirements of IFRS 9. All financial assets currently measured at fair value accordingly continue to be measured in this way. Loans, as well as trade receivables, are held to collect cash flows of payments of principal and interest at the contractual due dates. The Group assessed the characteristics of the contractual cash flows of these instruments and concluded that they meet the criteria for measurement at amortized cost in accordance with IFRS 9. There was no need, therefore, to reclassify these financial instruments.

(a) Impairment
IFRS 9 requires the Group to recognize the expected credit losses on all the obligations in portfolio, loans and trade receivables, considering either a 12-month period or the entire contractual period of the instrument.
The Group uses the simplified approach and recognizes the expected losses on all trade receivables on the basis of their residual duration by establishing a criterion for determining the allowance based on the past loss experience of individual Group companies, adjusted also to take account of specific forecasting factors relating to creditors and the economic environment. The Group analyzed the historical percentage of insolvency of its customer portfolio in 2017 and supplemented this historic information with that used in the existing valuation procedure. The Group already conducted a specific risk analysis for categories of credit on the basis of country risk, the residual duration and the recovery procedures used. As a result, therefore, the provisions of IFRS 9 have not led to significant effects as a whole on the Group's equity.

(b) Hedge accounting
The Group has established that all its current hedging relationships which are currently designated as effective 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, the application of the requirements of IFRS 9 for the purpose of defining hedges have not had any significant effect on the Group's financial statements.

4.2 ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

IFRS 16 Leases
IFRS 16 was issued in January 2016 and replaced IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 *Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.*

IFRS 16 establishes the principles for recognizing, measuring, presenting and providing disclosures on lease contracts and requires lessees to account for lease contracts in their financial statements using a single accounting model similar to that used for accounting for finance leases under IAS 17. On the other hand the way in which lessors account for leases remains essentially unchanged compared to the requirements of IAS 17, with a distinction being made between two types of lease: operating and finance.

In summary, IFRS 16 requires lessees to recognize a liability for the lease payments (the **lease liability**) and an asset representing the right to use the underlying asset during the lease term (the **right-of-use asset**) at the commencement date of the lease. Lessees are required to recognize the **interest expense** on the lease liability and the **depreciation** of the right-of-use asset separately.
Lessees are additionally required to reassess the amount of the liability on the occurrence of specific events (for example a change in the lease term or a change in the future lease payments resulting from the change of an index or rate used to determine those payments). In general, the lessee recognizes the remeasurement difference in the lease liability as an adjustment to the right-of-use asset.
The standard includes two exceptions for lessees: low-value assets and short-term lease contracts having a term of less than or equal to 12 months.

The main effects on the Group's consolidated financial statements are as follows:

– statement of financial position: an increase in non-current assets for the recognition of the leased right-to-use asset with a counter-entry to an increase in financial liabilities;
– income statement: a different qualification and classification of the costs, with the recognition of the depreciation of the right-to-use asset instead of lease expense;
– alternative performance measures: the different qualification and classification of the costs will have an effect on the calculation of EBITDA, on net invested capital and net financial debt and on the other economic and financial ratios.

The Group has completed its preliminary assessment project, which it began in January 2018, on the potential effects of applying the new standard at the transition date (1st January 2019). This process was carried out in various stages, including fully documenting the contracts potentially liable to contain a lease and analyzing these to understand the main clauses relevant for IFRS purposes, as well as determining the discount rate to be used in the calculation of the new liability resulting from these contracts.
The process of implementing the Company's new IT system is at the completion stage, and this will be responsible for managing the standard from an accounting standpoint as well as aligning the administrative and control procedures covering the critical areas on which the standard is based. It is expected that this process will be completed in the first half of 2019.

The application of IFRS 16 will have a significant effect on the consolidated financial statements of the Brunello Cucinelli Group.
In accordance with the transitional provisions of IFRS 16, the Group will take the "**modified retrospective**" approach, which consists in recognizing the cumulative effect of initially applying IFRS 16 at the date of initial application, namely 1st January 2019.
The Group will recognize the following for lease contracts previously classified as operating leases:

a) a financial liability equal to the present value of the remaining future payments at the transition date, discounted to present value by using for each contract the incremental borrowing rate applicable at the transition date;
b) a right-of-use asset equal to the book value, as if the standard had been applied from the effective date, but discounted using the incremental borrowing rate at the date of initial application.

The transition to IFRS 16 introduces a number of elements requiring professional judgment that lead to the establishment of certain accounting policies and the use of assumptions and estimates regarding the lease term and the determination of the incremental borrowing rate.

In line with the above-mentioned strategy, the Group has performed simulations to measure the effect on equity of lease contracts at the transition date, identifying an estimated effect of between €320 million and €380 million on the balance sheet.

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, amounts are stated 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 recognized in profit or loss.
The following table shows the exchange rates used for calculating the amounts in euro that are expressed in foreign currency in the financial statements of subsidiaries (currency amount per euro):

	Average exchange rates		Closing exchange rates	
	31st December 2018	31st December 2017	31st December 2018	31st December 2017
US dollar	1.18100	1.12970	1.14500	1.19930
Swiss franc	1.15500	1.11170	1.12690	1.17020
Japanese yen	130.39590	126.71120	125.85000	135.01000
RMB	7.80810	7.62900	7.87510	7.80440
British pound	0.88471	0.87667	0.89453	0.88723
Hong Kong dollar	9.25590	8.80450	8.96750	9.37200
Real	4.30850	3.60540	4.44400	3.97290
Canadian dollar	1.52940	1.46470	1.56050	1.50390
Ruble	74.04160	66.54580	79.71530	69.39200
Singapore dollar	1.57920	–	1.55910	–
Danish kroner	7.45890	–	7.46730	–

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

NOTE 1. Goodwill

The composition of goodwill at 31st December 2018 with comparative figures at 31st December 2017 is as follows:

(In thousands of euro)	31st December 2018	31st December 2017	Change
Goodwill	7,045	7,045	–
Total goodwill	**7,045**	**7,045**	**–**

Goodwill at 31st December 2018 amounted to €7,045 thousand and arises from the business combination that took place in 2017 for the acquisition of 62% of OOO Brunello Cucinelli RUS.
No movements in this item took place in the year ended 31st December 2018 and there were no indications of impairment.

NOTE 2. Intangible assets

The composition of intangible assets at 31st December 2018 with comparative figures at 31st December 2017 is as follows:

(In thousands of euro)	31st December 2018	31st December 2017	Change
Concessions, licenses, trademarks and similar rights	5,894	5,667	227
Key money	20,530	17,531	2,999
Other intangible assets	1,643	10	1,633
Assets under formation and advances	3,471	742	2,729
Total intangible assets	**31,538**	**23,950**	**7,588**

Details of historic cost, accumulated amortization and the net book value of intangible assets at 31st December 2018 with comparative figures at 31st December 2017 are as follows:

(In thousands of euro)	31st December 2018			31st December 2017		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Concessions, licenses, trademarks and similar rights	18,377	(12,483)	5,894	15,092	(9,425)	5,667
Key money	46,034	(25,504)	20,530	38,678	(21,147)	17,531
Other intangible assets	1,721	(78)	1,643	50	(40)	10
Assets under formation and advances	3,471	–	3,471	742	–	742
Total intangible assets	**69,603**	**(38,065)**	**31,538**	**54,562**	**(30,612)**	**23,950**

Intangible assets amounted to €31,538 thousand at 31st December 2018 and consisted principally of the key money paid to obtain the availability under lease arrangements of leased 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 table sets out the changes in the net book value of intangible assets for the years ended 31st December 2018 and 31st December 2017:

(In thousands of euro)	**Concessions, licenses, trademarks and similar rights**	**Key money**	**Other intangible assets**	**Assets under formation and advances**	**Total intangible assets**
1st January 2018	**5,667**	**17,531**	**10**	**742**	**23,950**
Increases	3,263	7,695	1,364	3,459	15,781
Net decreases	–	–	–	–	–
Translation differences	32	69	–	–	101
Value adjustments	–	(3)	–	–	(3)
Reclassifications	48	375	307	(730)	–
Changes in scope of consolidation	–	–	–	–	–
Amortization	(3,116)	(5,137)	(38)	–	(8,291)
31st December 2018	**5,894**	**20,530**	**1,643**	**3,471**	**31,538**

(In thousands of euro)	**Concessions, licenses, trademarks and similar rights**	**Key money**	**Other intangible assets**	**Assets under formation and advances**	**Total intangible assets**
1st January 2017	**5,525**	**23,137**	**161**	**–**	**28,823**
Increases	2,986	–	–	742	3,728
Net decreases	–	–	–	–	–
Translation differences	(123)	(242)	–	–	(365)
Value adjustments	–	(602)	(141)	–	(743)
Reclassifications	93	–	–	–	93
Changes in scope of consolidation	4	–	–	–	4
Amortization	(2,818)	(4,762)	(10)	–	(7,590)
31st December 2017	**5,667**	**17,531**	**10**	**742**	**23,950**

Investments for the year amounted to €15,781 thousand, of which €7,695 thousand for key money; a further €7,892 thousand, which relates to the project to upgrade the information technology and IT/digital systems, has been capitalized under the items “Concessions, licenses, trademarks and similar rights” (as to €3,069 thousand), “Other intangible assets” (as to €1,364 thousand) and “Assets under formation and advances” (as to €3,459 thousand).

Among the principal investments were those relating to the "Contemporary Factory" project which is discussed in detail in the Report on Operations, recognized under the item "Other intangible assets" in the amount of €1.364 thousand at 31st December 2018, as well as the project to implement the new ERP system used by the parent company for administration and financial management, recognized under the item "Assets under formation and advances", which will enter service in 2019.

The remainder of the increases, amounting to €194 thousand, relate to investments in production and logistics.

"Value adjustments" of €3 thousand regard a write-down of intangible assets to recoverable amount at 31st December 2018.
There were no further indications during the year of a possible impairment of intangible assets.

NOTE 2.1 impairment testing

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

As required by IAS 36 and internal procedures, at each balance sheet date the Company conducts impairment tests on non-current assets (€189.6 million at 31st December 2018) and in particular on:
- Goodwill (Euro 7.0 million at 31st December 2018) and
- Other intangible assets (€31.5 million at 31st December 2018, including key money of €20.5 million; these refer to indemnities paid to the tenant in accordance with industry practice 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
- Principality of Monaco and Cannes
- Japan
- Brazil
- Spain

Impairment test structure
The main assumptions used in calculating the recoverable amount 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 has identified cash-generating units (CGUs) based on geographical location, being the smallest group of assets generating incoming cash flows.
The 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 were as follows:

Country	WACC
Russia	11.1%
Principality of Monaco and Cannes	7.7%
Japan	7.0%
Brazil	11.8%
Spain	8.6%

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 country risk. Discount rates were calculated in consideration of the market cost of debt and the Group's capital and financial structure.
To the present value of cash flows for the years included in the various plans was added the terminal value, determined according to the perpetuity growth model, at a growth rate (g), which represents the present value, at the latest year of forecast, of all expected future cash flows.
In this case, management considered an average growth rate (g) of 3.4%, corresponding to the expected long-term nominal growth rate.

Results of impairment testing at the reporting date
Non-current assets were tested for impairment at 31st December 2018, confirming the carrying amounts in the consolidated financial statements.

Sensitivity analysis on the impairment testing
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 amount of the assets tested for impairment and did not give rise to the need to recognize any impairment losses on the assets.

NOTE 3. Property, plant and equipment

The composition of property, plant and equipment at 31st December 2018 with comparative figures at 31st December 2017 is as follows:

(In thousands of euro)	31st December 2018	31st December 2017	Change
Land	4,648	4,201	447
Buildings	43,386	43,427	(41)
Leasehold improvements	53,150	48,697	4,453
Plant and machinery	3,718	3,304	414
Industrial and commercial equipment	2,004	1,985	19
Other assets	16,777	12,996	3,781
Assets under construction and advances	1,969	1,066	903
Total property, plant and equipment	**125,652**	**115,676**	**9,976**

Details of historical cost, accumulated depreciation and the net book value of property, plant and equipment at 31st December 2018, with comparative figures at 31st December 2017, are as follows:

(In thousands of euro)	31st December 2018			31st December 2017		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Land	4,648	–	4,648	4,201	–	4,201
Buildings	52,552	(9,166)	43,386	51,062	(7,635)	43,427
Leasehold improvements	97,538	(44,388)	53,150	83,022	(34,325)	48,697
Plant and machinery	12,081	(8,363)	3,718	10,972	(7,668)	3,304
Industrial and commercial equipment	7,668	(5,664)	2,004	6,223	(4,238)	1,985
Other assets	30,738	(13,961)	16,777	24,067	(11,071)	12,996
Assets under construction and advances	1,969	–	1,969	1,066	–	1,066
Total property, plant and equipment	**207,194**	**(81,542)**	**125,652**	**180,613**	**(64,937)**	**115,676**

Property, plant and equipment at 31st December 2018 amounted to €125,652 thousand and mainly consists of the production and logistics buildings located at the Company's headquarters, leasehold improvements at rented stores and plant, machinery and equipment used for production and logistics.

Changes in the net carrying amount of property, plant and equipment for the years ended 31st December 2018 and 31st December 2017 were as follows:

(In thousands of euro)	Land	Buildings	Leasehold improvements	Plant and machinery	Industrial and commercial equipment	Other assets	Assets under construction and advances	Total property, plant and equipment
1st January 2018	**4,201**	**43,427**	**48,697**	**3,304**	**1,985**	**12,996**	**1,066**	**115,676**
Increases	517	1,448	13,353	1,375	1,858	6,923	1,898	27,372
Net decreases	–	–	(360)	(21)	(45)	(189)	–	(615)
Translation differences	–	–	948	3	(3)	187	(1)	1,134
Changes in scope of consolidation	–	–	(244)	(15)	(18)	(83)	–	(360)
Value adjustments	(70)	45	600	11	–	167	(994)	(241)
Reclassifications	–	–	–	–	–	–	–	–
Depreciation	–	(1,534)	(9,844)	(939)	(1,773)	(3,224)	–	(17,314)
31st December 2018	**4,648**	**43,386**	**53,150**	**3,718**	**2,004**	**16,777**	**1,969**	**125,652**

(In thousands of euro)	Land	Buildings	Leasehold improvements	Plant and machinery	Industrial and commercial equipment	Other assets	Assets under construction and advances	Total property, plant and equipment
1st January 2017	**4,055**	**43,511**	**43,272**	**3,693**	**2,090**	**11,555**	**3,172**	**111,348**
Increases	146	1,409	14,622	694	1,338	4,531	1,128	23,868
Net decreases	–	–	(78)	(107)	(33)	(138)	–	(356)
Translation differences	–	–	(2,674)	(33)	(27)	(424)	(57)	(3,215)
Changes in scope of consolidation	–	–	(639)	–	–	(62)	(43)	(744)
Value adjustments	–	–	2,741	9	–	294	(3,137)	(93)
Reclassifications	–	–	19	–	–	–	3	22
Depreciation	–	(1,493)	(8,566)	(952)	(1,383)	(2,760)	–	(15,154)
31st December 2017	**4,201**	**43,427**	**48,697**	**3,304**	**1,985**	**12,996**	**1,066**	**115,676**

The Brunello Cucinelli Group made investments in property, plant and equipment in 2018 of €27,372 thousand consisting mainly of the following:

– investments for a total of €1,965 thousand in "Land" and "Buildings", mainly relating to the purchase of an industrial building by the subsidiary Max Vannucci S.r.l.;

– investments of €13,353 thousand in "Leasehold improvements", principally due to the openings and expansion of DOS and wholesale monobrand stores and improvements to existing boutiques and showrooms throughout the world;

- investments totaling €9,990 thousand, of which €1,375 thousand recognized under "Plant and machinery" (mainly referring to new machinery for production), €1,858 thousand under "Industrial and commercial equipment" (mainly for investments made at sales points and at Solomeo headquarters), €6,757 thousand under "Other assets" (mainly referring to investments in furniture and furnishings at sales points as well as to usual development and upgrading activities in new machinery, furniture and furnishings, vehicles and equipment at the headquarters in Solomeo);
- investments of €166 thousand referring to the item "Historical collection";
- additional investments recognized in "Assets under construction and advances" totaling €1,898 thousand, mainly relating to the work carried out in setting up foreign DOS.

Investments in IT/Digital relating to tangible fixed assets amounted to €1,369 thousand in 2018.

"Value adjustments" of €360 thousand regard a write-down of tangible assets to their recoverable amount at 31st December 2018.

There were no indications during the year of any further impairment of property, plant and equipment recognized in the balance sheet.

NOTE 4. Investment property

This item, amounting to €919 thousand, refers to three separate property complexes, not for business use, located in Solomeo. As required by IAS 40, these assets were separated out from the other property owned by the Group. Investments of €678 thousand were made in these properties during the year.

NOTE 5. Other non-current financial assets

The composition of other non-current financial assets at 31st December 2018 with comparative figures at 31st December 2017 is as follows:

(In thousands of euro)	31st December 2018	31st December 2017	Variazione
Guarantee deposits	7,675	6,298	1,377
Total other non-current financial assets	**7,675**	**6,298**	**1,377**

Other non-current financial assets consist of guarantee deposits which mainly relate to amounts paid by the Brunello Cucinelli Group on entering lease agreements for monobrand stores.
The change for the year includes amounts of €1,324 thousand for the increase arising from new payments made by the Group, €134 thousand for the decrease from reimbursements obtained during the period, €191 thousand due to the positive change in the balance arising from exchange rate effects on deposits held in foreign currency and €4 thousand from the decrease generated by discounting balances at the balance sheet date.

NOTE 6. Inventories

The composition of inventories at 31st December 2018 with comparative figures at 31st December 2017 is as follows:

(In thousands of euro)	31st December 2018	31st December 2017	Change
Raw materials and consumables	31,436	29,545	1,891
Work in progress and semi-finished goods	9,652	6,264	3,388
Finished goods and merchandise	120,676	116,838	3,838
Total inventories	**161,764**	**152,647**	**9,117**

At 31st December 2018 inventories amounted to €161,764 thousand compared to €152,647 thousand at 31st December 2017. The increase in absolute value, essentially homogeneous across all the items making up inventories (raw materials, semi-finished goods and finished goods), is in line in percentage terms with the increase in net revenues over the past 12 months, 29.3% at 31st December 2018 compared to 29.8% at 31st December 2017.

The Group does not recognize 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 7. Trade receivables

Trade receivables at 31st December 2018 amounted to €61,444 thousand compared with €45,178 thousand at 3 1st December 2017. Detailed comments on changes in working capital can 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, which means that their carrying amount is effectively 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 bad and doubtful debts during the year ended 31st December 2018, compared with the year ended 31st December 2017, are as follows:

(In thousands of euro)	2018	2017
1st January	**1,770**	**1,551**
Allocations	802	789
Utilizations	(705)	(570)
31st December	**1,867**	**1,770**

Allocations and utilizations are included under the item “Value adjustments to assets and other provisions” in the income statement. Losses of €26 thousand were recognized in profit and loss in 2018 for the utilization of the existing allowance; losses and utilizations taken as a whole amounted to 0.13% of net revenues in 2018 (0.11 in 2017).

The ageing of overdue trade receivables is set out in the following table:

	31st December	
Overdue by:	**2018**	**2017**
0-90 days	5,336	5,496
91-180 days	3,078	4,000
Over 180 days	2,950	3,427
Total	**11,364**	**12,923**

NOTE 8. Tax receivables

The composition of tax receivables at 31st December 2018 with comparative figures at 31st December 2017 is as follows:

(In thousands of euro)	**31st December 2018**	**31st December 2017**	**Change**
IRES corporate income tax receivables	52	1,794	(1,742)
IRAP regional production tax receivables	6	7	(1)
Other tax receivables	770	976	(206)
Total tax receivables	**828**	**2,777**	**(1,949)**

Tax receivables amounted to €828 thousand 31st December 2018 and consisted of the following:

– €359 thousand relating to additional amounts paid on account by the subsidiary Pinturicchio S.r.l. compared to the balance actually due at the end of the year; the subsidiary Pinturicchio S.r.l. also has a receivable of €6 thousand due for IRAP tax;
– €359 thousand relating to the receivable recognized for the first time in 2013 following 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 17th December 2012 in application of article 2 of Decree Law no. 201 of 2011 (the “Monti decree”);
– tax credits of €411 recognized by certain foreign subsidiaries.

NOTE 9. Other receivables and other current assets

The composition of other receivables and other current assets at 31st December 2018 with comparative figures at 31st December 2017 is as follows:

(In thousands of euro)	31st December 2018	31st December 2017	Change
Receivable from the tax authorities	3,419	1,959	1,460
Other receivables	6,496	5,870	626
Prepayments and accrued income	4,959	4,117	842
Advances to suppliers	969	734	235
Due from agents	233	243	(10)
Total other receivables and other current assets	**16,076**	**12,923**	**3,153**

Receivables from the tax authorities amount to €3,419 thousand at 31st December 2018 compared to €1,959 thousand at 31st December 2017 and mainly refer to VAT receivables. In 2017 the Company continued to manage the timing for the exercising of exemption(2) rights, continuing the careful policy of issues and revocations of the mentioned statements, so as to optimize its VAT credit position at year end, which was higher than the previous year due to ordinary activities in December. This position will be collected in full in the early months of 2019, with the simultaneous restatement of the annual VAT plafond.

Other receivables mainly consist of balances settled by credit card before the balance sheet date, for which payment has not yet been credited to the Group's bank accounts.

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

Advances to suppliers mainly relate to *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.

(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.

NOTE 10. Other current financial assets

The composition of other current assets financial at 31st December 2018 with comparative figures at 31st December 2017 is as follows:

(In thousands of euro)	31st December 2018	31st December 2017	Change
Financial receivables	17	28	(11)
Short-term financial instruments	8,996	–	8,996
Total other current financial assets	**9,013**	**28**	**8,985**

At 31st December 2018 other current financial assets amounted to €9,013 thousand.
Of the total, €8,996 thousand represents the fair value of two composite life assurance contracts. More specifically, these are contracts stipulated under Italian law which provide a combination of class I (segregated management) and class III (unit-linked) business and enable an investment to be made that can be redeemed at any time in the form of principal. In substance this represents an extremely prudent and liquid form of remunerating the business's cash.
The balance of €17 thousand relates to prepayments of loans outstanding at the year end.

NOTE 11. Cash and cash equivalents

The composition of cash and cash equivalents at 31st December 2018 with comparative figures at 31st December 2017 is as follows:

(In thousands of euro)	31st December 2018	31st December 2017	Change
Bank and post office deposits	55,951	61,868	(5,917)
Cash and other valuables	507	450	57
Cheques	148	635	(487)
Total cash and cash equivalents	**56,606**	**62,953**	**(6,347)**

The above amounts can be readily converted into cash, they are not liable 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 leading domestic and foreign banks.
Reference should be made to the cash flow statement for details of the sources and applications that generated changes in cash and cash equivalents in the year ended 31st December 2018 compared to 2017.

NOTE 12. Derivatives

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

The Company only takes out these contracts 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 their current value is based on valuation techniques that use input parameters (such as rate curves, foreign exchange rates, etc.) observable on the market (level 2 of the fair value hierarchy included in IFRS 7).

The following is noted for outstanding financial instruments at 31st December 2018:
– all financial instruments at fair value form part of Level 2 (the same situation existed in 2017);
– there have been no transfers from Level 1 to Level 2 or vice versa in 2018;
– there have been no transfers from Level 3 to other levels or vice versa in 2018.

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

Details of the composition of "Derivative financial instruments - assets" and "Derivative financial instruments - liabilities" at 31st December 2018 are set out below, with comparative figures at 31st December 2017.

(In thousands of euro)	31st December 2018	31st December 2017	Change
Current assets for derivative instruments hedging currency risk	418	4,856	(4,438)
Current assets for derivative instruments hedging interest rate risk:			
– Current assets for derivative instruments hedging interest risk accounted for using hedge accounting	–	–	–
– Current assets for derivative instruments hedging interest risk not accounted for using hedge accounting	–	–	–
Total derivative financial instruments - current assets	**418**	**4,856**	**(4,438)**
Current liabilities for derivative instruments hedging currency risk	(5,195)	(26)	(5,169)
Current liabilities for derivative instruments hedging interest rate risk:			
– Current liabilities for derivative instruments hedging interest rate risk accounted for using hedge accounting	(206)	(353)	147
– Current liabilities for derivative instruments hedging interest rate risk not accounted for using hedge accounting	–	–	–
Total derivative financial instruments - current liabilities	**(5,401)**	**(379)**	**(5,022)**
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	(92)	(10)	(82)
– Non-current liabilities for derivative instruments hedging interest rate risk not accounted for using hedge accounting	–	–	–
Total derivative financial instruments - non-current liabilities	**(92)**	**(10)**	**(82)**

The contractual features and the relative fair value of derivative financial instruments hedging interest rate risk at 31st December 2018 and 31st December 2017 are as follows:

Derivatives on interest rate risk accounted for using hedge accounting

(In thousands of euro)	31st December 2018		31st December 2017	
	Current portion	Non-current portion	Current portion	Non-current portion
Derivative assets/(liabilities)	(206)	(92)	(353)	(10)
Total fair value of IRS	**(206)**	**(92)**	**(353)**	**(10)**

The contractual features and the relative fair value of derivative financial instruments hedging currency risk at 31st December 2018 and 31st December 2017 are as follows:

(In thousands of euro)	Negative fair value		Positive fair value	
	31st December 2018	31st December 2017	31st December 2018	31st December 2017
Derivative assets/(liabilities)	(5,195)	(26)	418	4,856
Total fair value of forward foreign exchange contracts	**(5,195)**	**(26)**	**418**	**4,856**

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 2018 Fair Value	31st December 2018 Book value
Current and non-current loans	50,257	50,001

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 these financial statements.

NOTE 13. Capital and reserves

Share capital at 31st December 2018 amounted to €13,600 thousand and consisted of 68,000,000 fully paid ordinary shares.

Equity at 31st December 2018 totaled €287,382 thousand, an increase of €24,191 thousand over 31st December 2017.
Changes in equity in 2018 arose from the net profit for the year and the distribution of a dividend of €18,360 thousand approved by the general meeting of the shareholders of the parent Brunello Cucinelli S.p.A. on 19th April 2018.
A dividend of €10,880 thousand was approved in the previous year.

Details of changes in equity for the years ended 31st December 2018 and 31st December 2017 are reported in the consolidated statement of changes in equity.

The share premium reserve amounted to €57,915 thousand and is stated net of the listing costs incurred during 2012, which were deducted from 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 equity reserves at 31st December 2018 with comparative figures at 31st December 2017 were as follows:

(In thousands of euro)	**31st December 2018**	**31st December 2017**	**Change**
Legal reserve	2,720	2,720	–
Extraordinary reserve	169,873	140,589	29,284
Revaluation reserve	3,060	3,060	–
Cash flow hedge reserve	(843)	1,639	(2,482)
IFRS first-time adoption reserve	(770)	(770)	–
Reserve for IAS 19 effects	(429)	(397)	(32)
Translation reserve	(1,095)	(1,739)	644
Consolidated retained losses	(10,050)	(8,733)	(1,317)
Total other reserves	**162,466**	**136,369**	**26,097**

The change of €2,482 thousand in the "Cash flow hedge reserve" reflects the figure reported in the consolidated statement of comprehensive income.

The translation reserve consists of the accumulated exchange differences arising from the translation of foreign financial statements expressed in a currency other than the euro as well as the exchange differences generated by an intercompany loan (which at 31st December 2018 amounted to €13,974 thousand translated into euros) for which settlement is not planned nor likely to occur in the foreseeable future. As such it has been classified and was recognized initially in a separate component of equity in accordance with paragraph 15 of IAS 21 "Net Investment in a Foreign Operation".

Equity attributable to non-controlling interests at 31st December 2018 was €2,709 thousand compared to €4,190 thousand in the prior year and represents minority interests in the Group'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. The liability is discounted to present value by the means described in IAS 19.

The following table sets out the changes in liabilities for employee benefits for the period ended 31st December 2018 with comparative figures for the year ended 31st December 2017:

(In thousands of euro)	31st December 2018	31st Decemb 2017
Present value of the obligation at the beginning of the year	**3,184**	**3,065**
Revaluation pursuant to article 2120 of the Italian civil code	127	163
Benefits paid	(283)	(79)
Change in scope of consolidation	–	–
Financial (income)/expense	(30)	(39)
Exchange differences	4	(4)
Actuarial (gains)/losses	46	78
Present value of the obligation at the end of the year	**3,048**	**3,184**

The item "Actuarial (gains)/losses" reflects the balance to be found in the consolidated statement of comprehensive income.

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

Financial assumptions

	31st December 2018	31st December 2017
Annual discount rate	1.15%	1.89%
Inflation rate	1.00%	1.25%
Expected staff turnover rate	8.80%	8.80%
Advances rate	1.00%	1.00%

Demographic assumptions

	31st December 2018	31st December 2017
Mortality	Table RG48	
Retirement age	65 years	

Turnover rate and advances on the employees' termination indemnity

	31st December 2018	31st December 2017
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 2018. In particular, all other things being equal, a change of +10% in the discount rate used would have resulted in a decrease of €17 thousand in the liability while a change of -10% would have resulted in an increase of €17 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 2018	31st December 2017
Managers and middle managers	60.6	59.3
Office and sales staff	1,186.1	1,057.6
Factory workers	489.2	488.4
Total workforce	**1,735.9**	**1,605.3**

NOTE 15. Provisions for risks and charges

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

The following table sets out the changes in provisions for risks and charges for the year ended 31st December 2018 with comparative figures for the year ended 31st December 2017:

(In thousands of euro)	**31st December 2018**	**31st December 2017**
Agents' supplementary termination indemnity at 1st January	**656**	**524**
Allocations	–	408
Utilizations	–	(330)
Actuarial (gains)/losses	(24)	54
Agents' supplementary termination indemnity at 31st December	**632**	**656**
Other provisions at 1st January	**235**	**135**
Exchange differences	11	(25)
Allocations	42	182
Utilizations	–	(57)
Other provisions for risks at 31st December	**288**	**235**
Total provisions for risks and charges	**920**	**891**

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

	31st December 2018	**31st December 2017**
Turnover rate – voluntary	6.00%	6.00%
Turnover rate – employer initiated	5.00%	5.00%
Discount rate	1.15%	1.51%

NOTE 16. Non-current bank debt

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

The following table provides details of the Brunello Cucinelli Group's outstanding loans at 31st December 2018, showing the portion due within 12 months, between 1 and 5 years and after 5 years:

Description *(In thousands of euro)*	Outstanding balance at 31st December 2018	Amount due within 12 months	Amount due between 1 and 5 years	Amount due after 5 years
Total long-term loans	50,001	24,067	25,934	–
Total non-current bank debt	**25,934**			

Covenants on these loans, determined on an annual basis, are as follows. These are based on the figures in the consolidated financial statements of Brunello Cucinelli S.p.A. and had been complied with at 31st December 2018.

Parameter	Limit
Net financial position / Net 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 the net debt of the Brunello Cucinelli Group at 31st December 2018 with comparative figures at 31st December 2017:

(In thousands of euro)	31st December 2018	31st December 2017
A. Cassa	(507)	(450)
B. Other cash and cash equivalents	(56,099)	(62,503)
C. Held-for-trading financial instruments	(8,996)	–
D. Cash and cash equivalents (A)+(B)	**(65,602)**	**(62,953)**
E. Current financial receivables	**(17)**	**(28)**
F. Current bank debt	27,014	3,878
G. Current portion of non-current debt	24,067	33,807
H. Other current financial liabilities	3,048	3,650
I. Current financial debt (F) + (G) + (H)	**54,129**	**41,335**
J. Net current debt (I) + (E) + (D)	**(11,490)**	**(21,646)**
K. Non-current bank debt	25,934	37,339
L. Bonds issued	–	–
M. Other non-current liabilities	92	10
N. Non-current debt (K)+(L)+(M)	**26,026**	**37,349**
O. Net debt (J)+(N)	**14,536**	**15,703**

For detailed comments on this table reference should be made to the Report on Operations.

As required by IAS 7 *Cash Flow Statements* the following table sets out changes in liabilities deriving from financing activities:

(In thousands of euro)			Non-monetary flows				
	31st December 2017	Cash flows	Exchange differences	Change in fair value	Change in consolidation scope – purchase of minority interest	Other	31st December 2018
Non-current bank debt	37,339	(21,199)	–	–	–	9,794	25,934
Other non-current financial liabilities	10	–	–	82	–	–	92
Bonds	–	–	–	–	–	–	–
Current portion of non-current debt	33,807	–	–	–	–	(9,740)	24,067
Other current financial liabilities	7,528	20,436	41	(307)	2,364	–	30,062
Current financial assets	(28)	–	–	(8,996)	–	11	(9,013)
Cash and cash equivalents	(62,953)	6,989	(642)	–	–	–	(56,606)
Net debt	**15,703**	**6,226**	**(601)**	**(9,221)**	**2,364**	**65**	**14,536**

The column "Cash flows" corresponds to the flows reported in the consolidated cash flow statement while the column "Other" mainly relates to the effect of reclassifying the "non-current" portion of outstanding loans to "current".

NOTE 17. Other non-current liabilities

Other non-current liabilities at 31st December 2018 amounted to €11,921 thousand compared with €10,571 thousand at 31st December 2017. 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 in the balance compared with the previous year end arises from new rental contracts stipulated in 2018.

(In thousands of euro)	31st December 2018	31st December 2017	Change
Deferred rent as per IAS 17	11,921	10,571	1,350
Total other non-current liabilities	**11,921**	**10,571**	**1,350**

NOTE 18. Trade payables

The composition of trade payables at 31st December 2018 with comparative figures at 31st December 2017 is as follows:

(In thousands of euro)	31st December 2018	31st December 2017	Change
Trade payables to third party suppliers	76,585	65,261	11,324
Total trade payables	**76,585**	**65,261**	**11,324**

Trade payables represent amounts due for the supply of goods and services. Comments on changes in net working capital may be found in the Report on Operations.

NOTE 19. Current bank debt

The composition of current bank debt at 31st December 2018 with comparative figures at 31st December 2017 is as follows:

(In thousands of euro)	31st December 2018	31st December 2017	Change
Bank advances on bills and invoices	27,014	3,878	23,136
Current portion of long-term loans	24,067	33,807	(9,740)
Total current bank debt	**51,081**	**37,685**	**13,396**

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

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

NOTE 20. Current financial payables

Current financial payables at 31st December 2018 amounted to €2,842 thousand, of which €2,364 thousand for a loan relating to the purchase of the minority interest in OOO Brunello Cucinelli RUS and €469 thousand for the value of the put option held by the minority shareholder in Brunello Cucinelli Japan Co., Ltd.. The balance of €9 thousand relates to the interest accrued on outstanding loans.

(In migliaia di Euro)	31st December 2018	31st December 2017	Change
Current financial payables	2,833	3,257	(424)
Accrued loan interest	9	40	(31)
Total current financial payables	**2,842**	**3,297**	**(455)**

NOTE 21. Tax payables

Tax payables at 31st December 2018 amount to €2,781 thousand compared to €1,434 thousand at 31st December 2017. This item mainly consists of the parent company's liabilities for IRES and IRAP and the liability for current taxes taken to the consolidation by subsidiaries.

(In thousands of euro)	31st December 2018	31st December 2017	Change
Current IRES corporate income tax payables	1,389	17	1,372
Current IRAP regional production tax payables	298	280	18
Other tax payables	1,094	1,137	(43)
Total tax payables	**2,781**	**1,434**	**1,347**

NOTE 22. Other current liabilities

The composition of other current liabilities at 31st December 2018 with comparative figures at 31st December 2017 is as follows:

(In thousands of euro)	31st December 2018	31st December 2017	Change
Due to agents	2,447	2,215	232
Due to employees	6,511	6,040	471
Social security payables	4,251	3,809	442
Taxes withheld by the Italian companies (IRPEF and other withholdings)	3,154	2,895	259
VAT payables	1,715	1,843	(128)
Payables for current taxes not on income	871	936	(65)
Other payables	4,959	6,083	(1,124)
Other current payables to related parties	1,074	–	1,074
Accrued expenses and deferred income	1,530	846	684
Total other current liabilities	**26,512**	**24,667**	**1,845**

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, settled during the first few days of January, and the accrual for vacation leave vested but not yet taken. Social security payables refer to contributions on wages and salaries paid in December and those recognized on an accruals basis in December but paid during the first days of January.

Taxes withheld by the Italian companies consist of end of year balances for IRPEF and withholding taxes paid over in January.

VAT payables relate to ordinary balances of foreign subsidiaries at 31st December 2018.

Other payables mainly consist of advances that the Company receives before shipping goods to certain retail and wholesale customers, mostly situated abroad.

Other current payables to related parties include a balance of €1,011 thousand due to the parent company Fedone S.r.l. following the sale of the IRES receivable accruing in 2017, carried out with the favorable opinion of the Control and Risks Committee. This debt was settled in February 2019.

NOTE 23. Taxation

DEFERRED TAX ASSETS AND LIABILITIES

The composition of deferred tax assets and liabilities at 31st December 2018 with comparative figures at 31st December 2017 is as follows:

(In thousands of euro)	31st December 2018	31st December 2017	Change
Deferred tax assets	16,777	15,693	1,084
Deferred tax liabilities	(1,256)	(2,115)	859

The net deferred tax asset balance, arising from the sum of deferred tax assets and deferred tax liabilities, amounted to €15,521 thousand at 31st December 2018 compared to €13,578 thousand at 31st December 2017. Deferred tax assets arise mainly from the tax effect of the elimination of intercompany margins in inventories (€9,952 thousand), the recognition of deferred tax assets for the tax losses of subsidiaries (€2,960 thousand) and the deferred tax assets (of €1,337 thousand) recognized by the parent company that arise mostly from unrealized currency transactions and currency hedging transactions.

Deferred tax assets are recognized to the extent that it is probable that sufficient future 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 2018 and 2017 are set out in the following table:

(In thousands of euro)	Year ended 31st December							
	Statement of financial position		**Equity**		**Income statement**		**Exchange differences, change in consolidation scope and other changes**	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Amortization of intangible assets	(4)	(456)			452	560		
Depreciation of tangible fixed assets	(277)	(269)			8	131	(16)	48
Fixed asset value adjustments						(312)		
Allowance for bad debts	393	385			8	51		
IAS 39 - arrangement fees		9			(9)	(8)		
Fair value of derivatives	266	(518)	784	(1,017)				
IAS 17 – lease payment normalization	59	82			(25)	16	2	(6)
IAS 39 – amortized cost	1	(3)			4	1		
Employee termination indemnity as per IAS 19	86	75	11	20	(1)	(6)		
Agents' indemnity as per IAS 37	121	121						
Listing costs								
Elimination of intragroup margins in inventories	9,952	8,088			1,864	467		
Elimination of intragroup gains	9	9						
Deferred taxation on tax losses	2,960	3,762			(802)	(1,000)		
Unrealized exchange gains and losses	266	932			(666)	1,267		
Unrealized gains and losses on changes in fair value of financial instruments held for trading						7		
Deferred capital gains		(36)			36	77		
Transactions taxed on a cash basis		40			(41)	(72)	1	(10)
Sales of shares in Brunello Cucinelli Suisse S.A. to employees	47	45					2	(3)
Taxation of the investment of Brunello Cucinelli USA Retail LLC in Brunello Cucinelli USA Inc.	1,027	890			92	116	45	(114)
Net investments in foreign operations			(152)	443	152	(443)		
Other	615	422			186	207	7	(31)
Deferred tax (income)/expense					**1,258**	**1,059**		
Deferred taxation recognized in equity			**643**	**(554)**			**41**	**(117)**
Exchange rate differences and consolidation scope changes								
Deferred tax assets (liabilities), net	**15,521**	**13,578**						
Presented in the statement of financial position as follows:								
Deferred tax assets	16,777	15,693						
Deferred tax liabilities	(1,256)	(2,115)						
Deferred tax assets, net	**15,521**	**13,578**						

INCOME TAXES

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

(In thousands of euro)	31st December 2018	31st December 2017	Change
Current taxation	15,152	14,263	889
Deferred taxation	(1,258)	(1,059)	(199)
Prior year taxes	346	(6,275)	6,621
Total income tax charge in the consolidated income statement	**14,240**	**6,929**	**7,311**
Income taxes in comprehensive income	(643)	554	(1,197)
Total income taxes	**13,597**	**7,483**	**6,114**

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 2018 and 2017:

(In thousands of euro)	Year ended 31st December	
	2018	2017
Pre-tax profit	**65,282**	**59,414**
IRES rate in effect for the year	24.00%	24.00%
Theoretical tax charge	**(15,668)**	**(14,259)**
Income taxes charged at a different rate (IRAP)	(2,089)	(2,084)
Effect of the different tax rates of foreign companies	(1,257)	(634)
Prior year taxes	346	(116)
"Patent Box" tax benefits for 2015 and 2016	–	6,391
"Patent Box" tax benefits for 2017	–	4,010
"Patent Box" tax benefits for 2018	5,023	–
Other changes	(595)	(237)
Total reported income tax	**(14,240)**	**(6,929)**
Effective tax rate	*-21.81%*	*-11.66%*

Reference should be made to the Report on Operations for detailed comments on the “Patent Box” scheme.

7. COMMENTS ON THE MAIN ITEMS OF THE CONSOLIDATED INCOME STATEMENT

NOTE 24. Revenues from sales and services

The composition of revenues from sales and services for the year ended 31st December 2018 with comparative figures for the year ended 31st December 2017 (restated) is as follows:

(In thousands of euro)	31st December 2018	31st December 2017 (restated)	Variazione
Net revenues	552,996	511,710	41,286
Other operating income	1,448	2,113	(665)
Total revenues from sales and services	**554,444**	**513,823**	**40,621**

Net revenues are earned from the sale of clothing and accessories of the Brunello Cucinelli Group.
For detailed comments reference should be made to the Report on Operations.

Other operating income mainly relates to rental income from premises used by commercial partners.

Revenues may be analyzed by geographical area as follows:

(In thousands of euro)	Year ended 31st December				Change	
	2018	%	2017 (restated)	%	2018 vs. 2017	2018 vs. 2017 %
Italy	88,220	15.9%	84,697	16.6%	3,523	+4.2%
Europe(1)	163,707	29.6%	150,858	29.5%	12,849	+8.5%
North America(2)	187,236	33.9%	180,186	35.2%	7,050	+3.9%
Greater China(3)	54,887	9.9%	42,696	8.3%	12,191	+28.6%
Rest of the World (RoW)(4)	58,946	10.7%	53,273	10.4%	5,673	+10.6%
Total	**552,996**	**100.0%**	**511,710**	**100.0%**	**41,286**	**+8.1%**

(1) "Europe" refers to the member states of the European Union (excluding Italy), the other countries of geographic Europe and the countries of the former Soviet Union.
(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 analyzed by distribution channel as follows:

(In thousands of euro)	Year ended 31st December				Change	
	2018	%	2017 (restated)	%	2018 vs. 2017	2018 vs. 2017 %
Retail	296,265	53.6%	278,693	54.5%	17,572	+6.3%
Wholesale monobrand	30,205	5.4%	25,305	4.9%	4,900	+19.4%
Wholesale multibrand	226,526	41.0%	207,712	40.6%	18,814	+9.1%
Total	**552,996**	**100.0%**	**511,710**	**100.0%**	**41,286**	**+8.1%**

In accordance with the new accounting standard IFRS 15 the Group recognizes revenues for the sale of goods "at a point in time".

Reference should be made to the Report on Operations for comments on revenue performance.

NOTE 25. Costs for raw materials and consumables

The composition of costs for raw materials and consumables for the year ended 31st December 2018 with comparative figures for the year ended 31st December 2017 is as follows:

(In thousands of euro)	31st December 2018	31st December 2017	Change
Costs for raw materials and consumables	95,359	87,211	8,148
Change in inventories	(7,303)	(4,310)	(2,993)
Total costs for raw materials and consumables	**88,056**	**82,901**	**5,155**

Reference should be made to the Report on Operations for comments on the changes in this item.

NOTE 26. Costs for services

The composition of costs for services for the year ended 31st December 2018 with comparative figures for the year ended 31st December 2017 is as follows:

(In thousands of euro)	31st December 2018	31st December 2017 (restated)	Change
Outsourced work	101,095	92,811	8,284
Commissions and accessory charges	12,107	12,701	(594)
Advertising and other marketing costs	32,273	28,674	3,599
Transport and duties	18,739	17,470	1,269
Lease expense	71,051	67,208	3,843
Credit card commissions	5,001	4,899	102
Outsourced services, training and miscellaneous consultancy	6,011	6,518	(507)
Directors' and statutory auditors' fees	2,588	2,635	(47)
Maintenance services	4,671	4,596	75
Insurance	1,435	1,438	(3)
Electricity, telephone, gas, water and postal expenses	4,518	3,812	706
Digital maintenance and assistance	1,056	987	69
Other general expenses	7,783	4,718	3,065
Total costs for services	**268,328**	**248,467**	**19,861**

The principal "Costs for services" are discussed in the Report on Operations to which reference should be made. The other costs rose in total by €3.4 million over 31st December 2017 and mainly consist of staff travelling and transfer expenses, which increased significantly due to training activities (commercial and on the product at the Group's sales points), and costs for carrying out activities and research on the product and for visual merchandising; in addition, also of importance are the costs incurred for security at the Company's operating facilities and at all direct sales points and those incurred for staff training. In conclusion it should be noted that costs for services also include an amount of €3,700 thousand relating to expenses of an IT/Digital nature.

NOTE 27. Payroll costs

The composition of payroll costs for the year ended 31st December 2018 with comparative figures for the year ended 31st December 2017 is as follows:

(In thousands of euro)	31st December 2018	31st December 2017	Change
Wages and salaries	76,162	69,862	6,300
Social charges	17,134	14,586	2,548
Employees' termination indemnity	2,751	2,548	203
Other payroll costs	2,282	2,065	217
Total payroll costs	**98,329**	**89,061**	**9,268**

Reference should be made to the Report on Operations for further detail.

Costs for raw materials, payroll costs and costs for services include significant investments in important research and development projects to broaden our market proposal (product mix and services offered, coverage of international markets), including digital and the made-to-measure suit proposal.

NOTE 28. Other operating costs

The composition of other operating costs for the year ended 31st December 2018 with comparative figures for the year ended 31st December 2017 is as follows:

(In thousands of euro)	31st December 2018	31st December 2017	Change
Taxes and duties	2,790	2,272	518
Ordinary capital losses	97	214	(117)
Losses on bad debts	26	1	25
Miscellaneous operating costs	3,003	2,566	437
Total other operating costs	**5,916**	**5,053**	**863**

NOTE 29. Own work capitalized

The increase of €2,470 thousand in own work capitalized (€1,873 thousand in 2017) mainly relates to production costs incurred to develop the historical collection, costs for the "Contemporary Factory" project and costs for the internal fit out of the Group's boutiques.

NOTE 30. Depreciation and amortization

The composition of depreciation and amortization for the year ended 31st December 2018 with comparative figures for the year ended 31st December 2017 is as follows:

(In thousands of euro)	31st December 2018	31st December 2017	Change
Amortization of intangible assets	8,291	7,594	697
Depreciation of property, plant and equipment	17,314	15,161	2,153
Total depreciation and amortization	**25,605**	**22,755**	**2,850**

The increase in the depreciation and amortization charge is in line with the investments made by the Group. Reference should be made to the Report on Operations for comments on the changes.

NOTE 31. Value adjustments to assets and other provisions

Value adjustments to assets and other provisions (€1,142 thousand in 2018 and €2,738 thousand in 2017) relate to allocations to the allowance for bad and doubtful debts and the agents' supplementary termination indemnity provision and adjustments to the residual net book value of tangible and intangible assets recognized on repositioning the Group's boutiques.

NOTE 32. Financial expense

The composition of financial expense for the year ended 31st December 2018 with comparative figures for the year ended 31st December 2017 is as follows:

(In thousands of euro)	**31st December 2018**	**31st December 2017**	**Change**
Mortgage loan interest	483	626	(143)
Interest payable on advances and discounted invoices	474	649	(175)
Bank interest	125	97	28
Realized exchange losses	15,783	16,558	(775)
Unrealized exchange losses	4,177	2,526	1,651
Financial expense on derivatives	4,637	2,691	1,946
Miscellaneous financial expense	651	357	294
Total financial expense	**26,330**	**23,504**	**2,826**

For a comment on the changes reference should be made to the Report on Operations.

NOTE 33. Financial income

The composition of financial income for the year ended 31st December 2018 with comparative figures for the year ended 31st December 2017 is as follows:

(In thousands of euro)	**31st December 2018**	**31st December 2017**	**Change**
Bank interest	100	85	15
Interest income on securities and financial assets	–	10	(10)
Realized exchange gains	18,953	16,804	2,149
Unrealized exchange gains	2,474	1,093	1,381
Financial income on derivatives	27	22	5
Miscellaneous financial income	520	183	337
Total financial income	**22,074**	**18,197**	**3,877**

For a comment on the changes reference should be made to the Report on Operations..

NOTE 34. 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 ordinary shares outstanding 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 general meeting and accordingly a liability has not been recognized for this matter in the consolidated financial statements of the Brunello Cucinelli Group at 31st December 2018. The same situation held at 31st December 2017.

The following table sets out the net profit and share information used to calculate basic and diluted earnings per share:

	31st December 2018	31st December 2017
Net profit attributable to owners of the parent *(thousands of euro)*	50,692	51,117
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 (*in euro*)	0.74547	0.75172
Diluted earnings per share (*in euro*)	0.74547	0.75172

NOTE 35. Commitments and risks

Commitments and risks consist of the assets owned by the Brunello Cucinelli Group held at third party premises. The composition of the item at 31st December 2018 with comparative figures 31st December 2017 is as follows:

(In thousands of euro)	31st December 2018	31st December 2017	Change
Assets with third parties	20	25	(5)
Total commitments and risks	**20**	**25**	**(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 articles of clothing 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 finance 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 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 optimizing financial resources, the Group looks for balance through the use of less onerous forms of financing.

It is the Company's policy to hedge 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 2018, 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 €55.5 million with a negative fair value of approximately €298 thousand.
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.

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. Although the Group adopts a precise hedging policy, the potential effects on 2018 results (2017 for comparative figures) deriving from interest rate risk are:
- potential change in financial expense and differential costs for outstanding derivatives in 2018;
- 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 2019 income statement and equity, calculated with reference to the situation at the end of 2018 (with effects on 2018 for comparative figures calculated with reference to the situation at the end of 2017), 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 2018 (2017 for comparative figures);
- for derivatives, by simulating a parallel shift of +100/-30 basis points (+1%/-0.3%) in the yield curve.

For the situation at 31st December 2018, a parallel shift of +100 basis points (+1%) in the yield curve would produce an increase in interest expense of €181 thousand in 2018, offset for €360 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 €54 thousand, offset by a reduction of €107 thousand in differentials collected from outstanding derivatives.

For 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 decrease of €126 thousand in differentials collected from outstanding derivatives.

	Interest 31st December 2018		
Loans	**Residual debt** *(Euro/000)*	**Effect on 2018 results +100 bps** *(Euro/000)*	**Effect on 2018 results -30 bps** *(Euro/000)*
Loans payable	50,001	(181)	54
Total loans	**50,001**	**(181)**	**54**

Derivative instruments	**Residual notional** *(Euro/000)*	**Effect on 2018 results +100 bps** *(Euro/000)*	**Effect on 2018 results -30 bps** *(Euro/000)*
Cash flow hedges	55,517	360	(107)
Other derivatives	–	–	–
Total derivative instruments	**55,517**	**360**	**(107)**
TOTAL		**179**	**(53)**

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

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

For the situation at 31st December 2018, 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 €966 thousand with an effect solely on equity. A parallel shift of -30 basis points (-0.3%) in the yield curve would produce a decrease in the balance sheet carrying amount of outstanding hedging derivatives of €289 thousand, with an effect solely on equity.

For 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 a decrease in the balance sheet carrying amount of outstanding hedging derivatives of €268 thousand, with an effect solely on equity.

	Sensitivity of the fair value of derivatives at 31st December 2018									
	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	55,517	(298)	668	966	–	966	(587)	(289)	–	(289)
Other derivatives	–	–	–	–	–	–	–	–	–	–
Total	**55,517**	**(298)**	**668**	**966**	**–**	**966**	**(587)**	**(289)**	**–**	**(289)**

	Sensitivity of the fair value of derivatives at 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)**

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 unfavorable 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 recognized in the reserve are reclassified to revenues in the income statement. The ineffective component of this change in fair value is recognized 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 recognized 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 2018 the Group reclassified as an increase in revenues €2,520 thousand previously recognized in the cash flow hedge reserve.
During 2017 the Group reclassified as a decrease in revenues €1,427 thousand previously recognized in the cash flow hedge reserve.

The potential effects on the 2018 income statement (2017 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 2019 income statement (2018 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 2019 income statement and equity, calculated with reference to the situation at the end of 2018 (2017 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 2018			SENSITIVITY 2018	
	Assets	Liabilities	Net	Income Statement Euro/US dollar	
	(US dollar/000)			+ 5% (Euro/000)	- 5% (Euro/000)
Trade balances	9,851	(2,809)	7,042	(307.5)	307.5
Total exposure of balance sheet items	**9,851**	**(2,809)**	**7,042**	**(307.5)**	**307.5**

Exposure arising from highly probable future transactions	Notional	Change in equity cambio Euro/Dollaro americano	
		+ 5% (Euro/000)	- 5% (Euro/000)
Forward sales (notional amount)	(160,050)	6,989	(6,989)

Exposure of balance sheet items	Assets	Liabilities	Net	Income Statement Euro/Swiss franc	
	(Swiss franc/000)			+ 5% (Euro/000)	- 5% (Euro/000)
Trade balances	91	(510)	(419)	18.6	(18,6)
Total exposure of balance sheet items	**91**	**(510)**	**(419)**	**18.6**	**(18,6)**

Exposure arising from highly probable future transactions	Notional	Change in equity Euro/Swiss franc	
		+ 5% (Euro/000)	- 5% (Euro/000)
Forward sales (notional amount)	(12,620)	560	(560)

Exposure of balance sheet items	Assets	Liabilities	Net	Income Statement Euro/British pound	
	(British pound/000)			+ 5% (Euro/000)	- 5% (Euro/000)
Trade balances	1,391	(141)	1,250	(69.9)	69.9
Total exposure of balance sheet items	**1,391**	**(141)**	**1,250**	**(69.9)**	**69.9**

Exposure arising from highly probable future transactions	Notional	Change in equity Euro/British pound	
		+ 5% (Euro/000)	- 5% (Euro/000)
Forward sales (notional amount)	(15,880)	888	(888)

Exposure of balance sheet items	Assets	Liabilities	Net	Income Statement Euro/Japanese yen	
	(Japanese yen/000)			+ 5% *(Euro/000)*	- 5% *(Euro/000)*
Trade balances	381,637	(541,387)	(159,750)	63.5	(63.5)
Total exposure of balance sheet items	**381,637**	**(541,387)**	**(159,750)**	**63.5**	**(63.5)**

Exposure arising from highly probable future transactions	Notional	Change in equity Euro/Japanese yen	
		+ 5% *(Euro/000)*	- 5% *(Euro/000)*
Forward sales (notional amount)	(1,651,000)	656	(656)

Exposure of balance sheet items	Assets	Liabilities	Net	Income Statement Euro/Hong Kong dollar	
	(Hong Kong dollar /000)			+ 5% *(Euro/000)*	- 5% *(Euro/000)*
Trade balances	2,031	(1,994)	37	(0.2)	0.2
Total exposure of balance sheet items	**2,031**	**(1,994)**	**37**	**(0.2)**	**0.2**

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)	(51,900)	289	(289)

Exposure of balance sheet items	Assets	Liabilities	Net	Income Statement Euro/Canadian dollar	
	(Canadian dollar/000)			+ 5% *(Euro/000)*	- 5% *(Euro/000)*
Trade balances	5,138	(1,246)	3,892	(124.7)	124.7
Total exposure of balance sheet items	**5,138**	**(1,246)**	**3,892**	**(124.7)**	**124.7**

Exposure arising from highly probable future transactions	Notional	Change in equity Euro/Canadian dollar	
		+ 5% *(Euro/000)*	- 5% *(Euro/000)*
Forward sales (notional amount)	(18,500)	593	(593)

Exposure of balance sheet items	Assets	Liabilities	Net	Income Statement Euro/Renminbi + 5%	Income Statement Euro/Renminbi - 5%
	(Renminbi/000)			(Euro/000)	(Euro/000)
Trade balances	34,348	(6,929)	27,419	(174.1)	174.1
Total exposure of balance sheet items	**34,348**	**(6,929)**	**27,419**	**(174.1)**	**174.1**

Exposure arising from highly probable future transactions	Notional	Change in equity Euro/ Renminbi + 5%	Change in equity Euro/ Renminbi - 5%
		(Euro/000)	(Euro/000)
Forward sales (notional amount)	(65,500)	416	(416)

Exposure of balance sheet items	Assets	Liabilities	Net	Income Statement Euro/Real + 5%	Income Statement Euro/Real - 5%
	(Real/000)			(Euro/000)	(Euro/000)
Trade balances	100	(81)	19	(0.2)	0.2
Total exposure of balance sheet items	**100**	**(81)**	**19**	**(0.2)**	**0.2**

Exposure of balance sheet items	Assets	Liabilities	Net	Income Statement Euro/Ruble + 5%	Income Statement Euro/Ruble - 5%
	(Ruble/000)			(Euro/000)	(Euro/000)
Trade balances	(311)	(18,409)	(18,720)	11.7	(11.7)
Total exposure of balance sheet items	**(311)**	**(18,409)**	**(18,720)**	**11.7**	**(11.7)**

Exposure of balance sheet items	Assets	Liabilities	Net	Income Statement Euro/Singapore dollar + 5%	Income Statement Euro/Singapore dollar - 5%
	(Singapore dollar/000)			(Euro/000)	(Euro/000)
Trade balances	–	(32)	(32)	1.0	(1.0)
Total exposure of balance sheet items	**–**	**(32)**	**(32)**	**1.0**	**(1.0)**

Exposure arising from highly probable future transactions	Notional	Change in equity Euro/Singapore dollar + 5%	Change in equity Euro/Singapore dollar - 5%
		(Euro/000)	(Euro/000)
Forward sales (notional amount)	(1,980)	63	(63)

Exposure of balance sheet items	Assets	Liabilities	Net	Income Statement Euro/Danish Kroner	
	(Danish Kroner/000)			+ 5% (Euro/000)	- 5% (Euro/000)
Trade balances	272	(109)	163	(1.1)	1.1
Total exposure of balance sheet items	**272**	**(109)**	**163**	**(1.1)**	**1.1**

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)
Trade balances	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)
Trade balances	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)
Trade balances	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)
Trade balances	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)	- 5% (Euro/000)
Forward sales (notional amount)	(810,000)	300	(300)

Exposure of balance sheet items	Assets	Liabilities	Net	Income Statement Euro/Hong Kong dollar	
	(Dollaro Hong Kong/000)			+ 5% (Euro/000)	- 5% (Euro/000)
Trade balances	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	Notional	Change in equity Euro/Hong Kong dollar	
		+ 5% (Euro/000)	- 5% (Euro/000)
Forward sales (notional amount)	(31,400)	168	(168)

Exposure of balance sheet items	Assets	Liabilities	Net	Income Statement Euro/Canadian dollar	
	(Dollaro Canadese/000)			+ 5% (Euro/000)	- 5% (Euro/000)
Trade balances	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)	- 5% (Euro/000)
Forward sales (notional amount)	(10,780)	358	(358)

Exposure of balance sheet items	Assets	Liabilities	Net	Income Statement Euro/Renminbi	
	(Renminbi/000)			+ 5% (Euro/000)	- 5% (Euro/000)
Trade balances	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)	- 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)
Trade balances	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)
Trade balances	–	(14,380)	(14,380)	10.3	(10.3)
Total exposure of balance sheet items	**–**	**(14,380)**	**(14,380)**	**10.3**	**(10.3)**

The assumptions regarding the range of changes in market parameters used to simulate shocks were formulated on the basis of an analysis of the historical 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 2018 and 2017 by due date:

	31st December 2018				
	Financial payables				
	Principal (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	24,089	261	76,585	205	101,140
Between 1 and 2 years	12,260	152	–	104	12,516
Between 2 and 3 years	9,418	89	–	17	9,524
Between 3 and 5 years	4,234	28	–	(31)	4,231
Between 5 and 7 years	–	–	–	(1)	(1)
Over 7 years	–	–	–	–	–
Total	**50,001**	**530**	**76,585**	**295**	**127,411**

	31st December 2017				
	Financial payables				
	Principal (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	–	–	–	–	–
Totale	**71,146**	**887**	**65,261**	**363**	**137,657**

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 at the reporting date (31st December 2018 and 31st December 2017).

CREDIT RISK

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

The Brunello Cucinelli Group's exposure to commercial credit risk relates solely to sales made through the wholesale multibrand channel and the wholesale monobrand channel, which together represented 46.4% of net revenues for the year ended 31st December 2018, 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 analyzing 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 2018 and 2017 set out in note 7. In particular, it can be noted that the percentage ratio of the sum of the utilizations of the allowance for bad debts and bad debt losses as compared to net revenues (0.13% in 2018 and 0.11% in 2017) support a 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 2018 and 2017:

	31st December	
Overdue by:	**2018**	**2017**
0-90 days	5,336	5,496
91-180 days	3,078	4,000
over 180 days	2,950	3,427
Total	**11,364**	**12,923**

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 12th March 2010, it is hereby stated that in the year ended 31st December 2018 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 2018 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 current liabilities
MO.AR.R. S.n.c.	3	4	50	84		8,502			510	
CMB Impianti Industriali S.r.l. (Cucinelli Giovannino)				7		5,549			5	
AS.VI.P.I.M. Gruppo Cucinelli		6		830		6		4	73	
Solomeo S.r.l.		6		924		2,738	32	5	7	
Verna S.r.l.		6		500				5	80	
Brunello Cucinelli family	4	2			887					63
Prime Service Italia S.r.l.		3		469					68	
Fedone S.r.l.		6		68				5	25	1,011
Brunello Cucinelli Foundation	4	18		4				15	1	
Parco Agrario Solomeo	5	14		51		9		8	49	
S.C.R. Oratorio Interreligioso S.S.D. A.r.l.		10						4		
Total related parties	**16**	**75**	**50**	**2,937**	**887**	**16,804**	**32**	**46**	**818**	**1,074**
Total consolidated financial statements	**552,996**	**1,448**	**88,056**	**268,328**	**98,329**	**125,652**	**7,675**	**61,444**	**76,585**	**26,512**
Proportion %	*0.00%*	*5.18%*	*0.06%*	*1.09%*	*0.90%*	*13.37%*	*0.42%*	*0.07%*	*1.07%*	*4.05%*

More specifically:

- MO.AR.R. S.n.c.: commercial transactions with the company MO.AR.AR S.n.c., in which Mr. Enzo Cucinelli, brother of Cav. Lav. Brunello Cucinelli, holds 50% of the share capital, relate to: (i) purchases of decorating materials used for fitting out exhibitions and fairs and (ii) investments for the furnishing of the new stores and offices;
- CMB Impianti Industriali S.r.l. (Cucinelli Giovannino): a company that is headed by Mr. Giovannino Cucinelli, Cav. Lav. Brunello Cucinelli's brother. Costs for services consist of 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 is capitalized in property, plant and equipment;
- AS.VI.P.I.M. Gruppo Cucinelli: this association conducts the surveillance of all of the buildings 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.: a company in which Cav. Lav. Brunello Cucinelli is the Chairman and CEO; transactions mainly relate to the rental of property used by the Company for conducting operations in the area close to its headquarters;
- Verna S.r.l.: this company, whose shareholders are Cav. Lav. Brunello Cucinelli and Fedone S.r.l., provides services for the cleaning of the premises and factories of the Company's administrative and production facility in Solomeo;
- Brunello Cucinelli family: payroll costs consist of the remuneration due to the members of the family of Brunello Cucinelli for working in the Company;
- Prime Service Italia S.r.l.: this company, controlled by Cav. Lav. Brunello Cucinelli, provides transport services on behalf of Group companies;
- Fedone S.r.l.: a company in which Cav. Lav. Brunello Cucinelli is the Chairman and CEO and which holds a 51% interest in the parent company; other current liabilities of €1,011 thousand relate to the sale of a tax credit, described in note 22;
- Brunello Cucinelli Foundation, Parco Agrario Solomeo and S.C.R. Oratorio Interreligioso S.S.D. A.r.l.: insignificant amounts relating mainly to recharges for services rendered.

SUBSEQUENT EVENTS

Reference should be made to the Report on Operations for significant events occurring after the balance sheet date.

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

The compensation accruing and 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 2018 amounted to €965 thousand.
The compensation accruing to the Board of Statutory Auditors of Brunello Cucinelli S.p.A. for the year ended 31st December 2018 amounted to €148 thousand.
The following table sets out 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 2018:

(In euro)		Year ended 31st December2018							
First and last name	Office held	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)	802,800	–	–	–	–	802,800
Moreno Ciarapica	Director	01-Jan / 31-Dec	a)	2,800	–	–	–	–	2,800
Riccardo Stefanelli	Director	01-Jan / 31-Dec	a)	2,800	–	–	–	–	2,800
Luca Lisandroni	Director	01-Jan / 31-Dec	a)	2,400	–	–	–	–	2,400
Giovanna Manfredi	Director	01-Jan / 31-Dec	a)	2,400	–	–	–	–	2,400
Camilla Cucinelli	Director	01-Jan / 31-Dec	a)	2,800	–	–	–	–	2,800
Carolina Cucinelli	Director	01-Jan / 31-Dec	a)	2,800	–	–	–	–	2,800
Andrea Pontremoli	Independent director	01-Jan / 31-Dec	a)	27,800	17,500	–	–	–	45,300
Matteo Marzotto	Independent director	01-Jan / 31-Dec	a)	27,800	10,000	–	–	–	37,800
Candice Koo	Independent director	01-Jan / 31-Dec	a)	27,800	2,500	–	–	–	30,300
Massimo Bergami	Independent director	01-Jan / 31-Dec	a)	27,800	5,000	–	–	–	32,800

a) On the approval of the 2019 financial statements

The following table sets out the compensation paid to members of the Board of Statutory Auditors for the year ended 31st December 2018.

Collegio sindacale

(In euro)		Year ended 31st December2018			
First and last name	Office held	Term of office	Expiry date	Emoluments	Total
Paolo Prandi	Presidente	01-Jan / 31-Dec	a)	58,363	58,363
Alessandra Stabilini	Sindaco effettivo	01-Jan / 31-Dec	a)	44,660	44,660
Gerardo Longobardi	Sindaco effettivo	01-Jan / 31-Dec	a)	44,660	44,660

a) On the approval of the 2019 financial statements

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

Type of service *(In thousands of euro)*	**Service provided by**	**Recipient**	**Total compensation 2018**
Audit	Auditor of the parent company	Parent company	468
Other services	Auditor of the parent company	Parent company	18
	Network of the parent company's auditor	Parent company	–
Subtotal			**486**
Audit	i) Network of the parent company's auditor	Subsidiary	103
	ii) Other auditors	Subsidiary	68
Subtotal			**171**
Total			**657**

POSITIONS OR TRANSACTIONS RELATED TO NON RECURRING AND/OR UNUSUAL ACTIVITIES

It is hereby stated pursuant to Consob Communication no. DEM/6064293 of 28th July 2006 that the Group has not carried out any atypical or unusual operations as defined in that Communication.

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

CERTIFICATION 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 Chief Executive Officer, 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 characteristics of 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 – 31st December 2018.
2. No significant matters arose from applying the administrative and accounting procedures for preparing the annual consolidated financial statements as of and for the year ended 31st December 2018.
3. We also certify that:

    3.1 The annual consolidated financial statements:

a) have been prepared in accordance with the international accounting standards recognized 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 financial position, results and cash flows of the issuer as well as 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 risks and uncertainties to which they are exposed.

14th March 2019

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

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, 2018, 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, 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005.

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 Euro 2.525.000,00 i.v.
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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, 2018 such assets amount to Euro 20.5 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.

2

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, 2018, including their consistency with the related consolidated financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required 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, 2018 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the 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, 2018 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, 5th april 2019

EY S.p.A.
Signed by: Massimo Antonelli, partner

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