BRUNELLO CUCINELLI

CONSOLIDATED FINANCIAL STATEMENTS AT 31ST DECEMBER 2019

(COURTESY TRANSLATION FOR THE CONVENIENCE OF INTERNATIONAL READERS)

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LETTER TO INVESTORS

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Part I

A Letter for the New Time

In this letter I do not intend to dwell on the current situation, on how it affects the whole world, or on how important it is to comply with the instructions of those who have the responsibility to protect our health and our lives. You already know all this too well, it is an obligation to us and to mankind. Too many things we have learned in such a short time; too many things we thought indispensable have turned out to be superfluous, too many feelings we thought dormant re-emerged like new springs. In this letter, instead, I want to tell you what is taking shape in our hearts, inside us, beyond the suffering: I want to focus on those changes that slowly but surely, from day to day - perhaps without us even realizing it yet - are almost reshaping our human structure, showing us just how beautiful the world can be, that very same world that we took for granted until yesterday.

Until a few days ago, the time that flows from one daily action to the next was driven by the frantic urgency of an ongoing haste and frenzy without a conscious reason; today time has changed its pace like in a melody where every musical beat falls where the score of Creation wants it to be, and generates a music of memories and future that we won't easily forget. How many times, in yesterday's life, our words stole the space of feelings, forgetting that the first truly universal word is the example of a life led with moderation!

How many times, wrapped up in a life that we believed to be the best possible, somewhere, perhaps even in our dreams, we wondered if our behaviour was not completely respectful of Creation, and for a moment we thought that maybe we were acting against nature?

Surely it has happened to each of us, maybe this memory is not very flattering. Today we are enwrapped in our pain. But how would we be if we could see what life will be like soon, tomorrow, when all this is over? We would certainly be more at peace, if not even joyful, just like in that magnificent universal work, “The Betrothed”, when Renzo, just out of the leper hospital, rejoiced in his new life, and Manzoni writes about him: “But much would his enjoyment have been increased, could he have surmised what would be seen a few days after. This water carried off, washed away, so to speak, the contagion, [...] At the end of a week, shops were opened, people returned to their houses, quarantine was hardly spoken of, and there remained of the pestilence but a few scattered traces”.

The rising of a new time has already begun from the shadows of a painful night; this new time, my esteemed friends, I see it brimming with fabulous opportunities, a bearer of new lifeblood, a creator of ideas revolving around a renewed desire for life. I know that there will be economic growth; I know that enthusiasm will make our hearts soar. But at the end of this all we will be different; we too, like time, will be somehow new. Something has been transformed and it will make us see things and life in a different, beautiful, enchanted light. That very same bread, which we took for granted yesterday, will now be a new surprise, a warning to remind us of those who do not have any bread, and should have it. In every man we will recognize another man: our brother. Something has changed, and it will reveal us that family is the bud of society. And so water, the fields of wheat, the orchards, and the animals that feed us, will take on a new look, they will be full of a meaning that is their natural, fair, balanced one, they will become almost sacred. This value is that of the rhythm of Creation, which beats in our hearts.

Dear friends, I am convinced that the new time will be a fascinating opportunity for us to restore the relationship between humanism and technology, between consumption and the economy, between the spirit and harmony, between profit and giving back. I have always imagined our life as the relationship between us and our destiny, which - like the ring of a planet, or in the shape of an enormous wheel - turns slowly but steadily, carrying some good and some pain on its every spoke, and always, always, the spoke of our cherished opportunities.

So I would like to say that this is an opportunity that does not concern an individual man only, but every single man in the world. Our eyes, our hearts, our muscles, our tiniest most sensitive nerve must be tightened and quivering, ready to grasp the universal gift that our destiny has prepared for us: we will be different, because it will no longer be possible to abuse Creation, because never before has the word “growth” been linked to moderation and not to excess, because never again will we turn our heads from what we do not like. The new time is this opportunity: to redress our relationship with Creation according to its rules, the rules of simple use and not waste or consumption, respect for human dignity, fair work, and everything in the world that is worthy of being called “human”.

I have no doubt about this new time, a time that will speak to us with a silent and piercing language, a time as new as we will be. One day, thinking back to this lazy, idle time, for a while we will perceive it with a sort of revulsion, but then unexpectedly, maybe on a spring day like today, in the early morning, when the last night stars go out in the sky, when the painful memories overwhelm us, we will be surprised to feel almost a sense of fondness, an unconceivable warmth towards today’s times, and we will then realize that with time we end up loving even our sorrows, because they taught us our new life. This is how we like to lead our life, this is how we will try to continue to lead our enterprise.

Part II

Our vision for 2020 with plans for 2021 - 2022

The current year had started extremely well from an economic point of view until February 29th, 2020, so to date we are commenting on the first quarter whose turnover is basically in line with 2019. It is clearly impossible now to make a forecast for the full year, maybe we'll have to wait 2 or 3 months, but we think that this is a strongly "**temporary**" situation that has nothing to do with the 2008 downturn, a truly "**structural**" one, when we could not plan ahead because of poor visibility.
The company has prepared the ground to deliver balanced growth in 2020 - 21 - 22. Under the current circumstances we are monitoring the current year very closely but still maintain a very positive vision for 2021 - 22; after this "**extraordinary**" event in 2020, we believe that recovery will set in and we will return to strong growth for the next 2 years. Therefore, against this background, we are sticking to our basic strategy with focus and dedication, namely the great value of the brand supported by the top-notch craftsmanship and quality of our products and the human value and knowledge of our team that fully supports us, to our great joy and emotion.

Part III

Philosophical and Strategic Report 2019

We see the year just ended as an **excellent** one, one of the most remarkable in our history. It has marked the first year of our multiyear project 2019 - 2028, in which we aim at doubling our turnover and achieving healthy, balanced and sustainable profits, pursuant to those values we believe in and that represent our idea of **humanistic enterprise**, tirelessly seeking for the right balance between **profit and giving back**.
Our product should feature quality, craftsmanship, manual skills and creativity thanks to the quality of our co-workers; we work at a healthy and gracious pace, an essential condition for creativity, that same creativity that shows the love for our land, the mother of all things.

We have always been strong supporters of that beautiful made in Italy that belongs to us.
In 2019 we held an important meeting in Solomeo with some friends from the Silicon Valley, who took part in what we called "**The Symposium of Soul and Technology**". Here, in our ancient hamlet, sheltered away from any distractions, we gathered some friends whom I named "**the Leonardo of the 3rd Millennium**", including Jeff Bezos, Reid Hoffman, Drew Houston, while my dear friend Marc Benioff sent us a beautiful letter, as he was not able to join us. In the three days we spent together, we engaged in thorough discussions on the soul, on how to act as guardians of Creation, on planning for the next 3 months, 3 years but also 300 and 1000 years, because this is our duty in life. At this time when communication, means of transport, and the exchange of knowledge closely connect all the souls of the world to one another, we all feel the responsibility to live, to work, to build and rebuild in **Harmony with Creation**. We would like Humanistic Capitalism - on which our company's philosophy is based - to tackle the new challenges of the millennium with the same values that have always guided it: a balanced approach, respect for human dignity and the safeguarding of nature.

Acting as guardians and keeping up traditions, combined with highly specialized manual skills, contribute to the creation of unique items, which can be handed down and repaired, as they are part of a "human life cycle". **We believe the ethics of repairing and mending to be another important theme of our days**: when technology turns to the future and seems to leave behind anything that does not work perfectly, a human gesture is called for to repair, restore, recover: all these actions mirror a mind-set focused on evolving, adjusting, renewing without losing the past, indeed valuing it in order to hand it down - richer and more beautiful - to the new generations. In our factory we have a whole department devoted to reconditioning, repairing these garments. We believe that the culture of repairing means teaching and transmitting knowledge to others and to the future. This is why we care about and increase year after year the proposition of **Solomeo's School of Arts and Crafts**, which today boasts seven classes teaching the crafts that have made the heritage of "Made in Italy" clothing industry great. These manual trades have long been neglected and can now acquire a renewed charm in the eyes of the younger generation.

In 2019 we have carried out significant projects, which we think represent a natural complement and enrichment of our image and our ready-to-wear offer, always in line with the positioning and values of the brand.

The **new Children's Collections, designed according to a "children-friendly philosophy"**, convey the values, the high quality of materials and the worth of craftsmanship applied to the collections dedicated to our offspring, the new generations. The interest and positive feedback received from our partners as well as the first sales results prove that we have managed to transfer the same taste and values that feature in the Men's and Women's Collections.

We are very satisfied with **the development of the "Sartoria Solomeo" project**, aimed at expanding and refining the offer of men's suits, where we try to provide our customers with a contemporary and youthful image of sartorial taste, elegant without being limited to the formal world.

As part of the company's development and attention to technological innovation, **the Fabbrica Contemporanea ("Contemporary Factory") project is based on the principle of enhancing and supporting the creativity and productivity of the human being**. In cooperation with distinguished universities and research centres - including IIT, MIT, UNIPG and SDA Bocconi - we have developed a support network not only within Brunello Cucinelli, but also involving all of our third-party subcontractors, the true jewel in our crown, namely 364 companies with about 15 employees each, i.e. about 5000 human beings in total.

75% of these companies are located in Umbria, and the remaining ones between Tuscany and Marche. As you can imagine, they are champions of top-notch craftsmanship, you could call them "**the great value of our region**", especially relevant at this moment in time.

Thank you immensely,

Solomeo, 30 marzo 2020

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

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.

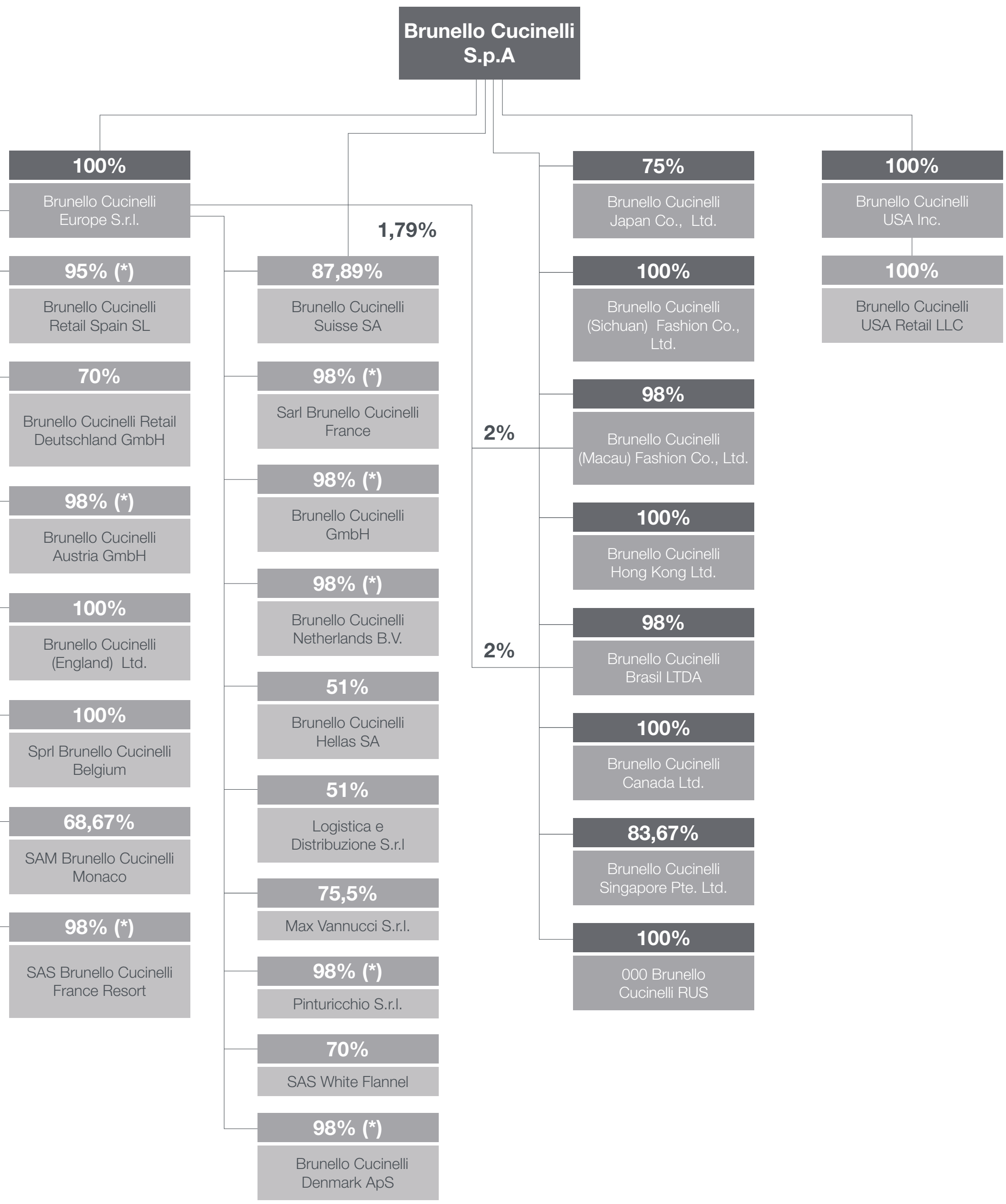
Official website http://investor.brunellocucinelli.com/en/

CORPORATE GOVERNANCE BODIES AT 31ST DECEMBER 2019

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 2019



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

GROUP STRUCTURE AT 31ST DECEMBER 2019

Company name	Registered office
Brunello Cucinelli S.p.A.	Corciano, frazione Solomeo (PG) – Italy
Brunello Cucinelli Europe S.r.l.	Corciano, frazione Solomeo (PG) – Italy
Logistica e Distribuzione S.r.l.	Milan – Italy
Max Vannucci S.r.l.	Corciano (PG) – Italy
Pinturicchio S.r.l.	Corciano, frazione Solomeo (PG) – Italy
Brunello Cucinelli Austria GmbH	Vienna – Austria
Sprl Brunello Cucinelli Belgium	Brussels – Belgium
Brunello Cucinelli Denmark ApS	Copenhagen – Denmark
Brunello Cucinelli Retail Deutschland GmbH	Munich – Germany
Brunello Cucinelli (England) Ltd.	London – United Kingdom
Sarl Brunello Cucinelli France	Paris – France
SAS Brunello Cucinelli France Resort	Courchevel – France
Brunello Cucinelli GmbH	Munich – Germany
Brunello Cucinelli Hellas SA	Athens – Greece
SAM Brunello Cucinelli Monaco	Principality of Monaco
Brunello Cucinelli Netherlands B.V.	Amsterdam – Holland
OOO Brunello Cucinelli RUS	Moscow – Russia
Brunello Cucinelli Retail Spain SL	Madrid – Spain
Brunello Cucinelli Suisse SA	Lugano – Switzerland
SAS White Flannel	Cannes – France
Brunello Cucinelli Canada Ltd.	Vancouver – Canada
Brunello Cucinelli USA Inc.	New York – USA
Brunello Cucinelli USA Retail LLC	New York – USA
Brunello Cucinelli (Sichuan) Fashion Co., Ltd.	Chengdu – China
Brunello Cucinelli Hong Kong Ltd.	Hong Kong – China
Brunello Cucinelli (Macau) Fashion Co., Ltd.	Macao – China
Brunello Cucinelli Brasil LTDA	Sao Paulo – Brazil
Brunello Cucinelli Japan Co., Ltd.	Tokyo – Japan
Brunello Cucinelli Singapore Pte. Ltd.	Singapore

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 sales points managed under the Group's responsibility and with direct employees located inside the department stores. At 31st December 2019, 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, 6 sales points in luxury department stores in Europe, 1 sales point in luxury department stores in Italy and 1 sales point in luxury department stores in China.
- 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 2019 compared to the situation at 31st December 2018:

Distribution channel	31st December 2019	31st December 2018
RETAIL	106	100
WHOLESALE MONOBRAND	30	27

The following table sets out existing sales points at 31st December 2019 by location:

	Italy	Europe	North America	China	Rest of the World (Row)	Total
Total Brunello Cucinelli Monobrand network	14	48	31	24	19	**136**

BOARD OF DIRECTORS' REPORT ON OPERATIONS

COMPANY PHILOSOPHICAL AND STRATEGICAL STATEMENT

The art of repairing

The Benedictine monk Jean Leclerq, towards the end of the last century, stated that, «Repairing is a natural fact of universal order and consists in making anything pass from a state considered less good to a better state». I like this definition and I am fascinated by the gesture of reparation, because in it I see the intention to remedy a situation of degradation, restoring in the object what it had previously lost.

It is all about respecting the value of things and people who over time have made those things with dedication and love.

In a Bible verse, the prophet Isaiah says to the people of Israel repatriated from Babylon, «Your people will rebuild the ancient ruins; you shall be called the repairer of the breach, the restorer of streets to dwell in ».

The high significance of repair – which goes far beyond the instrumental purpose of being able to continue to use a particular object – lies in the human value and dignity of all those who have lived to give us the goods we use. Repairing is praxis but it is also a symbol.

John Ruskin, a great figure of the nineteenth century, used to say that we must accept the end of things. A building, an item of clothing, anything that is part of our life will sooner or later cease to exist, taking a part of us with it. For this reason, added Ruskin, we must do everything to extend its life. How? By maintaining it through small, constant works of repair: repositioning a tile that the wind has moved, plugging the hole in a water pipe, replacing a broken window; all this, if combined with cleanliness and desire for beauty, will prolong the existence of an object in a natural way.

If, on the other end, we let every object of ours, as soon as it is defective, be discarded, with it we will throw away a small or large part of our memory, because in the objects of our life resides not only our matter, but also our spirit. To remember, in Latin, means "recall to the heart".

Sometimes I think that the fervor for repairing has some kind of sacredness, and the gestures that belong to it, as a whole, make me think of an endearing form of liturgy, or ritual.

We grant ourselves, when it is fair to do so, the possibility of repairing the mistakes we have made. I find this a very human intention and the foundation of human respect. I approve of someone who, once a mistake has been made, is so cautious as to take note of it and start again, transforming that experience into individual growth. That is, we "repair" ourselves. Why shouldn't we treat our things in the same way?

These have been good habits for centuries, and it seems to me that they have always worked not only for the benefit of individuals, but also for society. Perhaps, however, something has changed in recent times, and slowly the action of discarding faulty things has become widespread, to the point of replacing, in certain cases, the act of repairing. I do not want to express any judgments I do not have the right to make. After all, sometimes in high-tech the complexity of the object makes repairing it a very unviable solution. On the contrary, I believe that such a solution, if applied in the constant awareness of the human benefit to which the object itself is aimed, is to be commended. Therefore, I never believe a straight "yes" or "no" to be a suitable attitude. But the fact that repairing, as an inte-

gral part of life, does not disappear, seems to me the most lovable way to tend to the dignity of the human being – it is an action carried out "according to nature".

More in general, "acting according to nature" is an expression that I like, because it is kind and at the same time rich in meaning. Acting according to nature signifies using natural means as far as possible, employing mechanical tools or technology with wisdom and prudence and only if the need might arise. Growing wheat without using chemical fertilizers or herbicides does not produce an "organic" wheat, but a natural wheat. Natural is the action of the plough that opens furrows for sowing. Of course – I remember this well – natural wheat didn't grow very tall and was harvested only once or twice a year. But the earth had time to rest, and remained alive; we had time to rest, and the nourishment that mother earth gave us was the right one.

I do not neglect progress, on the contrary, I consider it the salt of the future; but I like to emphasize the meaning I have always attributed to this term, that is, human progress. Confucius' actions always followed the rule: « I hand down, I do not create». Even if it may seem at odds with the idea of progress, perhaps, on closer inspection, it is not; perhaps it is what actually enables progress, precisely because it preserves its own tradition, the one that, among other things, is maintained by repair.

But if, on the one hand, we must preserve, I have always been convinced that a radical approach to preservation leads to paralysis, and that preservation exists only, and precisely, when changes are accepted. Another philosopher, closer to us, Voltaire, thought that embracing change is very useful, because «those who do not embrace change will also miss out on any benefit that would result from it».

Imagining a place where preservation and change harmoniously blend may be the right way to achieve healthy, balanced and sustainable progress.

COMPANY INFORMATION

OUR COMPANY

Brunello Cucinelli S.p.A. is a company registered under the Italian laws with registered office at Viale Parco dell'Industria 5, Solomeo (Perugia), Italy, and listed on the Borsa Italiana S.p.A. Electronic Stock Exchange (MTA).
The company business focuses on the production and marketing of clothing and accessories under the Brunello Cucinelli brand, which is recognized internationally as a reference point in the **luxury** industry, combining ***Made in Italy*** features with the ability to interpret new trends while always maintaining excellence in quality and guaranteeing the translation into practice of an **ethical work** concept.
The brand's distinctive elements have always been **craftsmanship, exclusivity** and **contemporaneity**, within the scope of a more general world view inspired on the values of **human dignity** and the **beauty of Creation** that find their expression in the "Brunello Cucinelli" **total look menswear and womenswear collections**.
By means of the brand's remarkable ability to "listen to" the market, the collections capture the evolution of the traditional principles of elegance and translate them into prêt-à-porter lines that harmoniously embrace the needs of international customers searching for quality garments that can preserve their value over time.
The Brunello Cucinelli enterprise is universally acknowledged as a key example of ethical "**Humanistic capitalism**" and known to be a company capable of growing in a **healthy, balanced** and **sustainable** way which maintains a business **in harmony with Creation** and an organization founded on "**human sustainability**" as the key points of its entrepreneurial philosophy.

Human Privacy

BRUNELLO CUCINELLI

BRAND IDENTITY: WE ARE OUR VALUES

The year **2019** was an **excellent** year, marked by growth not only in terms of revenues and profitability, but also as regards the brand positioning and the international recognition of the company's ability to interpret the modern culture of beauty and of **human sustainability**, which we are proud to offer.

This is the spirit of our work here in Solomeo: **gracious growth** that accompanies a **healthy profit**, the **respect for everyone and everything** (people, things, places and surroundings) as a founding value and the principle of "doing business". This is the reason why **we are our values**, since we recognize ourselves in the values we embody and, at the same time, those values we strongly believe in urge us to act in a certain way, day after day. As Kant wonderfully puts it: «*Act in such a way that you treat humanity, whether in your own person or in the person of any other, never merely as a means to an end, but always at the same time as an end*».

In 2019, we kicked off our ten-year project, after we completed the first phase of our long-term growth project in 2018, by doubling our turnover in the 7 years following the company listing in 2012. The ten-year Project aims at striking a **healthy profit**, always in full respect of all human beings and of Creation as a whole, **maintaining our brand's very high allure**, pursuing sustainable growth in compliance with the values the company embodies, and **additionally doubling the turnover**.

Our vision of "Sustainability"

By means of a "**just profit**", our intention is to acknowledge **moral** and **economic dignity** to all the human resources working with the company. The "**balance between profit and gift**" is one of our key values, our own way of concretely experiencing the concept of "humanistic capitalism" as we interpret our daily work in "**harmony with Creation**" and with particular attention towards the dignity of human beings.

In this approach, it is paramount not only to respect the **moral and economic dignity** of the human resources who work with us, but also to care for our own workspaces and territories, taking up a *pro-tempore* role as guardians of a small portion of our beloved planet Earth. Our desire is, in fact, to pass over to our children and grandchildren those places where we live and work, preserving them and their beauty in even better conditions compared to how our parents passed them onto us.

Hence, everything revolves around the essential indispensable **idea of guardianship**. The beauty we observe – which is, in fact, the beauty of relationships – is what lets us focus on our goal to cultivate the good and «t*he perfect good* – as Aristoteles puts it – *is one that is desired for its own sake and never for the sake of something else*».

It was really very interesting to start a dialogue on these issues with those whom we call the "**Young Leonardo of the Third Millennium**", i.e. entrepreneurs, managers, smart and ingenious minds from the Silicon Valley, whom we had the honor to host in Solomeo in May 2019. We discussed and exchanged our ideas with them, particularly on the big issues of life, trying to share and design a **vision of the world for the next millennia** driven by the great values of humanity to the benefit of those who are coming after us.

The customer as the "ambassador" of the Brunello Cucinelli philosophy and taste

Our focus on the issues of "human sustainability" is shared by all our customers, who show their belief in the connection of the company with the territory and with our founding values. For the new generations in particular, sharing the company's values and concrete commitment to experience them consistently has become one of the reasons to choose and buy our brand's products.

We also believe that the end customer identifies as the "ambassador" of the Brunello Cucinelli philosophy and taste. The **contemporary character of our offer**, which we pursue in all our collections, deeply contributes to increase the **appeal** and **desirability** of our products, strengthening the connection and the sense of belonging the customer feels with regard to our lifestyle proposal and, in a broader sense, to our worldview.

The brand's allure and contemporary character

In this context, we are very proud of our brand's allure, which we believe is paramount to ensure the company's healthy growth over the next decades. This is the reason why we are devoting utmost attention to searching for exclusivity not only in our offer but also as regards our presence on the market through highly selected spaces and locations.

Our proposal sets off from the **very high quality of the natural raw materials and of the skilled hand-made processing**, where craftsmanship, creativity and manual skills combine with the Italian **savoir-faire** to convey a **contemporary sports-chic taste** into our collections.

We believe that the strategic decisions we have adopted in 2019 have further strengthened our positioning at the top of the luxury industry. This is also proven by the success of our latest collections, which offered an **exclusive lifestyle while maintaining a sophisticated and elegant ready-to-wear identity**.
Hence, our daily mission proved to be good: the goal was to **preserve the brand's contemporary character** through **a continuous search for styles, tastes and trends** without forgetting the "no logo" identification that our customers so deeply appreciate.

The brand's contemporary character is supported by our **continuous focus on listening**, which we practice in all its forms and on all possible occasions: from the multibrand buyers who give their feedback on our collections to selected prestigious international press, from the store managers who manage our sales points in the most important luxury avenues to the end customers.

Our investments to protect the brand

We keep on investing with the main goal of **protecting the brand's allure**. Thus, we are investing in R&D for excellence in our raw materials, our highly manual manufacturing processes, the artisanal workshops based in Italy only, the creation of new, fresh and original collections, the search for prestigious locations where our brand can fully express its style, refined taste and exclusivity.
Our investments span over several years to make our **company always innovative and contemporary** in terms of collections, manufacturing and logistic facilities as well as IT infrastructures.
We want to maintain the very high level of all our workplaces, thanks to prestigious, constantly renewed locations, showrooms and spaces, and to our presence in major luxury department stores worldwide.

Our style, now also online

We are trying to maintain a **contemporary presence online**, offering a focused, gratifying online experience that can best represent the company's evolution. Whether that is online or in a traditional brick-and-mortar store, we want to offer a "fresh, dynamic and modern" image of our company, in line with the new trends.

This project includes the **evolution of our institutional website** that embodies our corporate philosophy and our reference values, particularly "human sustainability", which have always characterized our work and which drive our business day after day.

The Sartoria Solomeo Project

The year 2019 was the first full year since we launched the "**Sartoria di Solomeo**" project and the customers' feedbacks have proven to be very positive. In fact, this new project is stirring up great interest: we believe that this is due mainly to the desire to wear garments characterized by a **contemporary fit**, manufactured using **fabrics** that mirror the **current trend**, and interpreted through the suggestions of **young tailors**, who are keen receptors of **new tastes and trends**.

The Kids Project

We are positive about the development of the new "**Kids project**", a natural **extension of our ready-to-wear offer**, launched last October in some major sales points starting with the Fall/Winter 2019 collections. The next Spring/Summer 2020 season will actually represent its first full collection.
Our feelings are very positive and we believe we have been able to c**onvey our distinctive taste into our "Kids" proposal too**. The figures regarding the orders placed for the Spring/Summer 2020 collection, in fact, are very promising and the comments we have received from all partners are highly positive.

Garment repair

Sharing the values that characterize our reality is one of the pillars of our corporate philosophy and culture. We are happy with the close relationship we have been able to establish with the end customers, and we actually have the impression that we have somehow been able to share the **value of guardianship** and the **"emotional" component of our garments**.

For many customers, owning a Brunello Cucinelli item means to "**safeguard**" it and maybe to pass it on to the next generations; or, simply, not to discard it after one season but to keep it because "*they like it or because it reminds them of special moments in their life*".

The idea translates into the "**repair**" of the purchased items that may be ruined or worn-out due to their use in time. This service, which we have always offered to our customers, is an integral part of the concepts of "**human sustainability**" and "**respect for Creation**" that we strongly believe in.

The "Celestial Empire" project

The Chinese world plays a paramount role in both geographical and socio-cultural terms.

We believe that this century is the Century of **China**, whose millenary culture we admire and towards which the **Italian, European and Anglo-Saxon lifestyle** feels a **strong attraction**.

We are keeping an eye on this fascinating, immense country and in 2018 we launched the **"Celestial Empire" project**, aimed at focusing on and understanding the culture of our friends, the Chinese people, always aware of the added value we can attain from mutual gracious **esteem, trust and confrontation**.
No doubt, this market has a very interesting potential in both the monobrand and the multibrand channel, and we would like to grab this opportunity gradually within the scope of a medium-to-long term project, keeping the brand's prestige and allure at the highest level.

We are happy with the relationship we have been able to establish with our customers. We strongly appreciate their **deep knowledge of the Brunello Cucinelli philosophy** and their self-evident pleasure when they make their purchases in spaces and boutiques where they can feel at ease, where they are advised well and where they know they can have a bit of our culture and lifestyle to take home.

We have decided to hire only **Chinese collaborators** at our **local facility**; we want to understand their culture and hence we are hosting them in Solomeo about double the time we usually ask our collaborators from the rest of the world to stay with us. Because we want to understand each other and to integrate better, trying to be open, ready to listen and to welcome our individual lifestyles.

This is a very special moment for those people and for all of us. Brunello Cucinelli, as a person and as a company, has had several occasions to express and receive feelings of closeness and full solidarity: it is clear that the situation our brothers have experienced in China and the courage they have shown in facing it can inspire and provide hope for the whole world.

PRESERVING VALUES

Trying to establish a solid balance between all the founding elements of our company is one of the most fascinating and stimulating goals of "Humanistic Capitalism", i.e. the distinctive philosophy that has fueled our brand since its origins. This entails **combining a gracious growth that can address the most demanding and refined markets in the world with the culture of manufacturing special items, born from our passion and from the hands of our artisans** at a pace that is in harmony with nature. The project of our gracious development is based on this fundamental combination, not to harm humanity and creation, but to enrich traditions and the territory as well.

The great interest and flattering appreciations for the brand confirm the positive current trend and urge us to pursue the ideals at the basis of a humanistic enterprise. International press, large luxury department stores, multibrand customers and end customers show that they understand and share the ideals and the message upon which our business is based, and that our products convey both in tangible form and as immaterial values. **The corporate philosophy along the entire manufacturing chain shall be passed on directly from the hamlet to the customer** through our garments, arrangements and boutiques thanks to an always-consistent development. The principle upon which the Humanistic Enterprise rests combines corporate decisions and the work that the seamstress (façonists) perform with artisanal care, to contribute to a common harmonic growth. We have always believed that sharing values represents the foundation for the brand's success and standing in the luxury sector, through highly skilled manual workers who manufacture unique items, which are increasingly becoming sought-after items among our most expert customers. Pursuant to the same philosophy, we assign the greatest importance to the **Trade School in Solomeo** which for many years now has contributed to the dissemination of a highly specialized craft, in which moral dignity must always go hand in hand with economic dignity.

Brand protection is a key point in the contemporary market and world: the preservation of the brand's distinctive exclusivity is closely connected to the protection of the high artisanal quality of our collections and to the enhancement of the Italian lifestyle.

"**Safeguarding the brand**" thus means preserving its allure through a discreet communication that is closely linked to the values that identify the company: all forms of communication and environment that represent the brand clearly show their connection with the history and the activities that characterize Solomeo, where we work every day to translate the fundamental values of our Corporate philosophy into reality.

Recently we have completed the project that helped create what we like to call the "**Hamlet of the Spirit**", where research focused on the mutual integration and valorization of corporate life and the natural and traditional characteristics of the territory. Through a harmonic system, the restored hamlet – with the castle, the library, the School and the Theatre – is connected ideologically and ethically to the surrounding territory that makes up the Pleasant Peripheries. The design aims at providing renewed attention and dignity to this landscape, which, unfortunately, has not been duly cared for in the past. The area surrounding the hamlet harmoniously includes the Industrial Park around the company's headquarters, the Secular Oratory Park dedicated to sports and recreation, and the Agrarian Park devoted to the production of wine, oil and other typical local products.

In addition to the natural context, the "Hamlet of the Spirit" project also aims at enriching the experience and daily life of all the "thinking souls" who work in Solomeo. Special **attention is devoted to the workspaces** that are always cozy and naturally lit thanks to the large windows and glasses to allow employees to look outside, onto well-attended gardens and the sweet hills that characterize the landscape in Umbria. All these features deeply contribute to creating the ideal conditions to best express creativity, and they represent an essential part of the philosophy and practice of a humanistic enterprise.

The **setup** of all the spaces that represent the Brunello Cucinelli brand in the world – both boutiques and corner shops, in the monobrand channel and in the multibrand segment as well – **aims to convey the family atmosphere and the hospitality that characterize Italian houses**, to reflect our corporate identity in full. To create a luxury experience that "communicates" our values, our spaces are always very cozy and enriched with objects and elements we use in our everyday life in Solomeo. Our goal is to establish a successful, yet never invasive relationship with all our customers, which is not focused on the experience of a single sale but based on a well-balanced combination of professionalism and human warmth, on communication and shared values. In addition, we believe that a healthy and prestigious physical distribution represents the milestone to embrace the opportunities offered by the digital world at best.

We have always **assigned a major importance to Visual Merchandising** to define and complete the Brunello Cucinelli lifestyle proposal. A dynamic form of display that is renewed regularly and pays careful attention to the evolutions of the contemporary world, characterizing all monobrand and multibrand channels, including the digital "experience" of course. Special focus is placed on respecting "Human Privacy", i.e. the private space all human beings are entitled to, in both the relationships established inside traditional boutiques and in digital interactions.

The **development of a network of monobrand boutiques** always pursues the three goals of prestige, effectiveness and sustainability. As for the store format concept, we constantly try to merge the brand's values and the cultural and local features of each boutique, including the pre-existing structural elements that harmoniously blend into the new arrangements. The network of "resort" stores has proven to be particularly stimulating and successful: small in size, yet perfectly capable of communicating the brand's distinctive taste and philosophy.

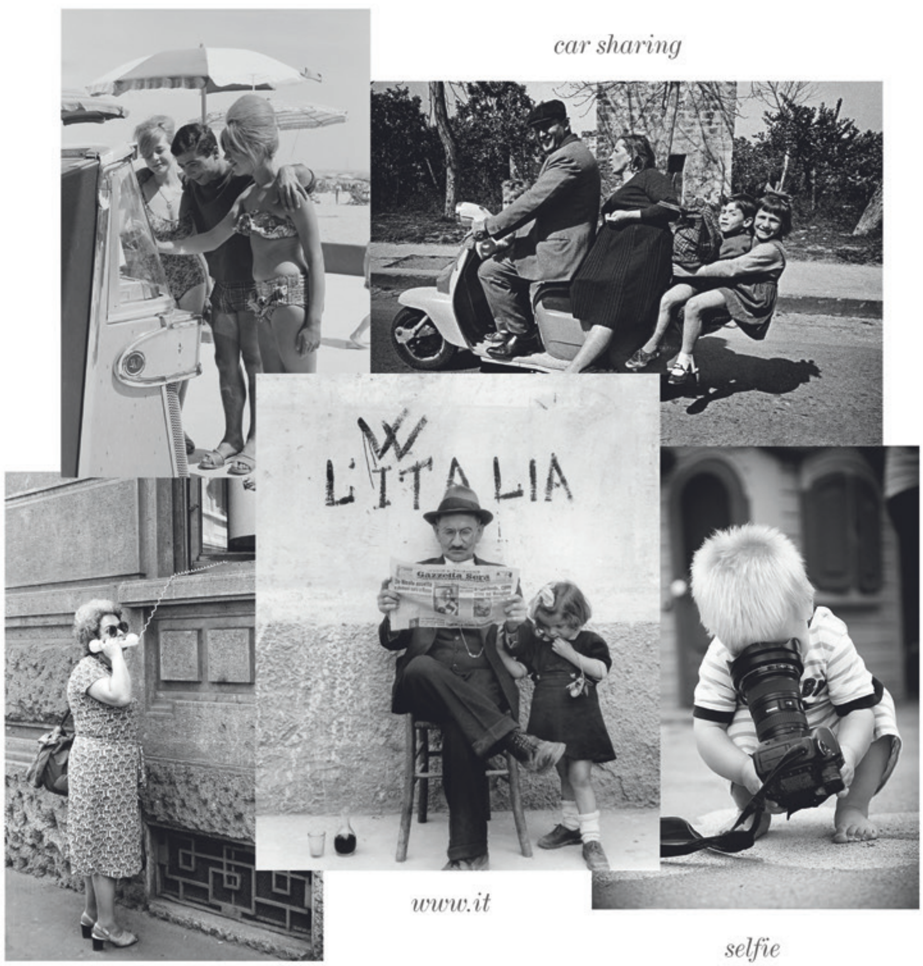
Due to its historical relevance and its importance for the future of the company, **we believe that the Multibrand channel is paramount**, not only to anchor the brand's image to a highly selected and constantly refreshed luxury offer but also to preserve the strong, healthy relationship we have established over time with the most beautiful luxury multibrand boutiques and the most important Luxury Department Stores in the world. Multibrand distribution always works in synergy with the platform of our monobrand stores.

As for the **digital world**, we are constantly at work to translate and convey the corporate philosophy through what we have labeled as our "Humanist Artisans of the Web", i.e. those ideal professionals that represent the perfect meeting point for the new generations and the humanistic and balanced approaches characterizing the brand in Solomeo.

Artigiani Umanisti del Web

music streaming

car sharing



www.it

selfie

mobile phone

BRUNELLO CUCINELLI

COLLECTIONS

Our 2020 collections have collected highly positive feedback from our customers and industry experts alike. The high quality of the materials and the refined artisanal workmanship are the cornerstones of the new inspirations and practical creative processes pursued by our style office. The Made in Italy tradition and the brand's heritage harmoniously integrate with the taste and ideals of the contemporary world.

Interestingly, the current market trend seems to be heading towards a taste that is quite close to Brunello Cucinelli's distinctive style, to meet the attention and demand for an elegant and versatile "ready to wear" style for both day- and eveningwear. A complete approach that can offer a consistent, fresh and contemporary style for both work and leisure time activities.

In an era that is increasingly focused on cutting down on all superfluous elements, also in our collections there is the need to concentrate on important values that help us select long-lasting, versatile ideas, projects and elements is key. The concept upon which the new creations rely responds to a way of thinking based on the origin of the word "elegance", from the Latin *eligere*: being able to choose, select and harmonize, to state renewed freedom to choose the best in terms of quality and versatility.

As one of the brand's distinctive feature, the selection of **materials** reflects the highest luxury standards: precious natural fibers alternating with modern rich fabrics always enhanced by **refined artisanal workmanship**. Particularly for the new winter collections, the natural aspects of both textures and colors make the collection atmosphere unique and fascinating.

The collections assign more and more room and relevance to the elements created with **distinctive luxury materials**: cashmere is accompanied by some of the most precious and richest fibers in the world, like alpaca, camel and vicuña, which reinterpret their traditional richness according to modern and refined principles, communicating a discreet and at the same time unique luxury. The proposal of precious **leathers** also represents an additional point of strength to distinguish the collection: the variety of the selection and of the kinds of workmanship makes it possible to follow the entire evolution of the season, from the softest nappa leathers for the iconic models to the warm and light shearlings.

During the winter season, **knitwear** becomes the core of all our collections with its wide proposal pursuing two main directions: the conscious, refined return to our origins on one side – with Cables, English Ribbing and Irish motifs renewed in their shapes and precious details. On the other, we propose increasingly special, rich and unique garments: a true expression of high-level craftsmanship and luxury to easily interpret contemporary evolutions.

The **new Fall/Winter 2020 Womenswear Collection** actually draws its shapes and colors from traditional Italian culture, from our taste for elegant dress, which conveys an idea of balance. The silhouettes are clean and essential, the volumes are maxi and soft, the classical male lines are reinterpreted with a feminine, sensual twist, while the artisanal workmanship is inspired by the organic world. Order and cleanliness blend together with the feeling of comfortable, cozy, natural luxury.

Designed according to the values of authenticity and longevity, the collection is conceived for an increasingly transversal and versatile use throughout different seasons, to accompany everyday evolution and to meet the needs of different occasions thanks to a styling that can be easily renewed with special items and accessories.

The traditional fabrics – granité, tricotine, cavalry twill, gabardine and wool– convey the feeling for structured textures. However, they become lighter and more fluid thanks to modern technologies and thin yarns. The male inspirations are softened by the sparkling glamour of female details, volumes and accessories: high boots are a must-have to wear with the new tailored long Bermuda shorts, the trousers or the pant-skirts resonate with an equestrian style.

Leathers play a key role, mainly for the color palette, which is fundamental for the styling as well as for a precious and sophisticated interpretation of unusual elements, like shirts, dresses, outerwear, jackets, capes, coats and down jackets.

Within the frame of ordered and refined minimalism, accessories play a paramount role to characterize the outfit through essential, precious and timeless stylistic elements. Natural leathers, enhanced by polished effects, alternate with prints that resemble organic textures.

The **Fall/Winter 2020 Menswear Collection** is inspired by the evolution of urban scenarios and the dynamism that characterizes the glamorous vitality of contemporary cities. The modern man's style mirrors this ability to evolve, to reflect the changing identity, to match tradition and modernity. In a cosmopolitan and multicultural view, style can provide new life to the elements of the past, convert functionalities and aesthetics and connect the vibrations from the past with avant-garde suggestions.

The collection can reinterpret elegance and functionality, harmoniously adding details to unusual contexts, and integrating the new and the classic in a unique, balanced and innovative way. Innovation is founded on a modern twist for shapes, materials and details, on a careful combination to enhance all the inspirations under a new light. The style of some iconic items becomes new thanks to original materials; the details of the past are recovered in a contemporary perspective and a modern styling makes the balance of all looks much finer.

All items in the collection reveal a well-defined character and express their utmost potential in the combinations. The combinations of materials, inserts and colors with contrasting and modulation effects imbue each element with a dynamic spirit and create harmonious and versatile looks. As for the sartorial lines of jackets – which represent the central pillar of the outfits – soft, enveloping volumes provide a modern appeal.

The new fabrics for suits and jackets are characterized by strong, however discreet patterns and color flashes, to convey a refined urban taste within a well-balanced look. The outwear inspired by the sports items alternates with extra light technical materials and soft cloths in noble natural fibers, enriched with membranes and finishes that complete protection.

INVESTMENTS

Brunello Cucinelli is a company drawing inspiration from the Great Values of the past for its business operations, with an **eye on the future**, starting from a strong attachment to its cultural and territorial roots, in full awareness of the fact that tomorrow's success depends on how carefully we plant our seeds today.

This is the reason why the company has always placed **much attention on its investments**, devoting resources, understanding, attention and strategy to create a **path** of sustainable growth. In fact, we believe that appropriate investments represent a key factor to **keep a modern enterprises contemporary and sustainable in the long run**, and this is why the impact of investments on our revenues has structurally increased throughout the years.

Our investments pursue two clear strategic goals: **to support the very high positioning** the Brunello Cucinelli brand has gained, and to always maintain **the company on the cutting edge, also from a technological point of view**.

Maintaining the **brand's allure and contemporaneity** first entails the **constant renovation of our showrooms** and of the **spaces where we present our collections**. We pursue this by creating new settings season after season that are the background for the numerous photos and videos we produce and share when we meet customers and press.

Everything changes very quickly in today's fashion; hence, the presentation of each collection demands innovation, new ideas, new modern and glamorous spaces, where our meeting with the customers – both multibrand and end customers – can be both a moment to present our offer and a source of inspiration and engagement.

Even though we strongly focus on the new digital channels, we still believe that the **physical space of a boutique** is and will be paramount to create a healthy relationship with our customers, based on esteem, trust and complicity. Both with customers who already know and have already purchased our brand and with those who discover the Brunello Cucinelli collections for the first time.

This is why we believe it is fundamental, from the point of view of the brand's image, that all our boutiques and sales points pursue the same process of renewal of the main showrooms, thus meeting the end customer's evident tendency to search for authentically Italian "lifestyle" inspirations.

The same attention we pay to how we present ourselves in the physical world is applied also to how our brand shows itself in the **digital world**. Just like in face-to-face encounters, the same eye for details, style and refinement, the same desire to establish an "intimate" relationship with our customer find their expression in **our online contacts, for our presence to be always contemporary and modern** both in the online boutique and on the corporate website.

As for the traditional physical stores, the **online boutique** also needs to be constantly updated both technically and as regards "visual merchandising" to guarantee that such an important asset always remains contemporary. We apply the same approach to our **corporate website**, with reference to both style and contents, with the paramount **addition of the themes of "Harmony with Creation and Human Sustainability"** together with our vision of "Humanistic Capitalism" according to Brunello Cucinelli's words and vision.
In fact, we are pleased to notice that often the philosophical section of our website together with the "product" section of our online boutique represent the first points of contact of a younger audience with our brand.

For an absolute luxury brand like Brunello Cucinelli, as it is internationally recognized, **investments** in these fields are quite relevant, equal to **Euro 52.6 million only in 2019**, with an increase compared to Euro 45 million invested in 2018.

Particularly, **commercial investments**, equal to **Euro 37.7 million**, were destined to the opening of some exclusive boutiques, including those at the beginning of 2020 in the very elegant, trendy and young Meatpacking District in New York, and in the prestigious Avenue Montaigne in Paris.

Commercial investments also supported the extension of some prestigious boutiques, the growth in the sales areas inside Luxury Department Stores, the renovation of our showrooms and the related increase in the spaces.

To conclude, please note the relevant **investments dedicated to manufacturing, logistics and IT/digital services**, totaling **Euro 14.9 million**.

INTRODUCTION

This Financial Report at 31st December 2019 has been prepared pursuant to the 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 2019

The following tables provide: (i) summarized consolidated income statement for the year ended 31st December 2019, with comparative figures for the previous year, (ii) a consolidated balance sheet reclassified by sources and applications at 31st December 2019, with comparative figures at 31st December 2018; and (iii) figures for capital expenditure and cash flows from operating activities for 2019, with comparative figures for the year ended 31st December 2018.

Summarized consolidated income statement

(In thousands of euro)	Year ended 31st December 2019						Change	
	2019	% of sales	(excluding IFRS 16)	% of sales	2018	% of sales	2019 vs 2018	2019 vs. 2018%
Net revenues	607,761	99.9%	607,761	99.8%	552,996	99,7%	54.765	+9.9%
Other operating income	826	0.1%	1,019	0.2%	1,448	0,3%	(429)	-29.6%
Materials(1)	(72,279)	-11.9%	(72,279)	-11.9%	(88,056)	-15,9%	15,777	-17.9%
Services	(248,067)	-40.8%	(311,828)	-51.2%	(268,328)	-48,4%	(43,500)	+16.2%
Payroll	(112,199)	-18.4%	(112,199)	-18.4%	(98,329)	-17,7%	(13,870)	+14.1%
Other operating costs	(7,530)	-1.2%	(7,530)	-1.2%	(5,916)	-1,1%	(1,614)	+27.3%
Own work capitalized	2,382	0.4%	2,382	0.4%	2,470	0,4%	(88)	-3.6%
Value adjustments to assets	(1,268)	-0.2%	(1,268)	-0.2%	(1,142)	-0,2%	(126)	+11.0%
EBITDA	**169,626**	**27.9%**	**106,058**	**17.4%**	**95,143**	**17,2%**	**10,915**	**+11.5%**
Depreciation and amortization	(86,250)	-14.2%	(29,245)	-4.8%	(25,605)	-4,6%	(3,640)	+14.2%
Operating profit	**83,376**	**13.7%**	**76,813**	**12.6%**	**69,538**	**12,6%**	**7,275**	**+10.5%**
Net financial expense	(14,200)	-2.3%	(5,411)	-0.9%	(4,256)	-0,8%	(1,155)	+27.1%
Pre-tax profit	**69,176**	**11.4%**	**71,402**	**11.7%**	**65,282**	**11,8%**	**6,120**	**+9.4%**
Income taxes	(16,093)	-2.6%	(22,096) (2)	-3.6%	(19,263)	-3.5%	(2,833)	+14.7%
tax rate	23.3%		30.9%(2)		29.5%			
Profit for the period	**53,083**	**8.7%**	**49,306**(2)	**8.1%**	**46,019**	**8.3%**	**3,287**	**+7.1%**

(1) Including changes in inventories.
(2) Profit for the period has been normalized for the effects of the estimated tax benefit arising from the Patent Box scheme, quantified as a reduction in direct taxation of Euro 5.6 million at 31st December 2019 (Euro 5.0 million at 31st December 2018).

Consolidated balance sheet reclassified by sources and applications:

(In thousands of euro)	Year ended at			Change	
	31st December 2019	31st December 2019 (excluding IFRS16)	31st December 2018	2019 vs. 2018	2019 vs. 2018%
Net working capital	155,104	152,524	129,457	23,067	+17.8%
Non-current assets	607,091	196,684	172,829	23,855	+13.8%
Other non-current assets/(liabilities)	18,376	(1,449)	(368)	(1,081)	>+100.0%
Net invested capital	**780,571**	**347,759**	**301,918**	**45,841**	**+15.2%**
Net debt	481,232	30,070	14,536	15,534	>+100.0%
Shareholders' equity	299,339	317,689	287,382	30,307	+10.5%
Sources of funds	**780,571**	**347,759**	**301,918**	**45,841**	**+15.2%**

Other summary data:

(In thousands of euro)	Year ended at			Change	
	31st December 2019	31st December 2019 (excluding IFRS16)	31st December 2018	2019 vs. 2018	2019 vs. 2018%
Cash flows from operating activities	115,096	62,112	70,102	(7,990)	-11.4%
Net cash flows (used in) investing activities	(52,007)	(52,007)	(53,409)	1,402	-2.6%
Cash flows from (used in) financing activities	(51,595)	1,389	(23,682)	25,071	<-100.0%
Total cash flows	**11,494**	**11,494**	**(6,989)**	**18,483**	**<-100.0%**
Capital expenditure	**52,591**	**52,591**	**45,021**	**7,570**	**+16.8%**

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 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.

Following the application of the new accounting standard IFRS 16, at 31st December 2019 the Brunello Cucinelli Group introduced a series of performance measures for EBITDA, Net Invested Capital and Net Debt.

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

- **EBITDA *including IFRS 16***: *Operating profit before Depreciation and amortization*.
- **EBITDA**: *Operating profit* calculated in accordance with the accounting standards in force before the introduction of the new accounting standard IFRS 16 before *Depreciation and amortization* calculated in accordance with the accounting standards in force before the introduction of the new accounting standard IFRS 16.
- **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 including IFRS 16**: the sum of *Non-current assets* and *Current assets less Non-current liabilities* and *Current liabilities*, excluding the financial items included in the total Net Debt (*Other current financial assets, Cash and Cash Equivalents, Current and non-current bank debt, current and non-current financial payables, Financial liabilities for current leases and Financial liabilities for non-current leases*).
- **Net Invested Capital**: the Net Invested Capital excluding Rights of use and Financial assets for non-current leases.
- **Net Debt including IFRS 16**: the sum of *current and non-current bank debt, current and non-current lease liabilities 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.
- **Net Debt**: consists of net debt excluding *Current and non-current* lease liabilities.
- **Capex:** capital expenditure refers to gross investments in Intangible assets (including Key Money) property, plant and equipment and investment property, and to net increases in non-current financial assets. Increases in right-of-use assets are excluded.

THE GROUP'S RESULTS FOR 2019

We consider **2019** an **excellent year**, one of the best in our history, and the first in our **growth project** with the goal of doubling our turnover in 10 years.
We have the concrete impression that the feeling about the brand is very very positive: international press, large luxury department stores, multibrand customers and end-customers have clearly expressed their enthusiasm and share the values of our company, values that we try to respect every day in our home town of Solomeo, which we love to call "Hamlet of the Spirit".

We introduced many **new initiatives** in 2019 while remaining fully consistent with the brand's positioning and values.
In particular, we are very happy with the results we are achieving with the "**Sartoria Solomeo**" project, with which we have sought to respond to those male customers looking for a youthful and contemporary "sartorial" look that does not sacrifice elegance and extreme refinement.
2019 was also the year of the launch of our **Kids' collections**, a natural extension of our ready-to- wear line. The comments received from all our partners and the initial feedback arriving with the orders are very positive. It appears that we have managed to transfer the look that distinguishes the adult collections – a sort of Mini-Me – to our children's line.
We still believe in the great value of **repairing, re-using** and **handing down** our garments, thanks to the skilled seamstresses who are able to regenerate and give new life to garments consumed by the passage of time.

Revenues from sales and services in 2019 amounted to €608,587 thousand, representing a rise of 9.8% over the figure for the corresponding period last year.

Net revenues at 31st December 2019 posted an increase of 9.9%, to reach €607,761 thousand compared to €552,996 at 31st December 2018.

As stated in the introduction, the initial application of the new accounting standard IFRS 16 on 1st January 2019 had a significant effect on the main economic and financial indicators, and these cannot be compared to those of previous periods. As a result, in 2019, a year of transition to the new IFRS, EBITDA and operating profit have been recalculated as shown in the preceding tables and the relative comments below refer to those amounts.

EBITDA at 31st December 2019 amounted to €106,058 thousand or 17.4% or Revenues from sales and services, compared to 17.2% at 31st December 2018, an increase of €10.915 thousand, corresponding to a rise of 11.5%, over the previous year.
Worthy of note is the improvement in 2019 in costs for raw materials and outsourced work as a proportion of production costs compared to 2018 (31.5% at 31st December 2019 compared to 34.1% at 31stDecember 2018). This improvement is also due to an increase in the proportion represented by the retail channel (55.8% at 31st December 2019 compared to 53.6% at 31st December 2018). This growth, partly organic in the existing sales points and partly generated by an increase in the direct sales points (6 DOS and 5 sales points under concession), led to a corresponding increase in lease expense and payroll costs, which should be interpreted as a sort of offset between an improvement in the average margin and a rise in certain operating costs.

Normalized net profit at 31st December 2019 totaled €49,306 thousand, corresponding to 8.1% of revenues from sales and services. Please note that the figure at 31st December 2019 excludes the effect of the tax benefit from the so-called Patent Box scheme amounting to €5.6 million at 31st December 2019.

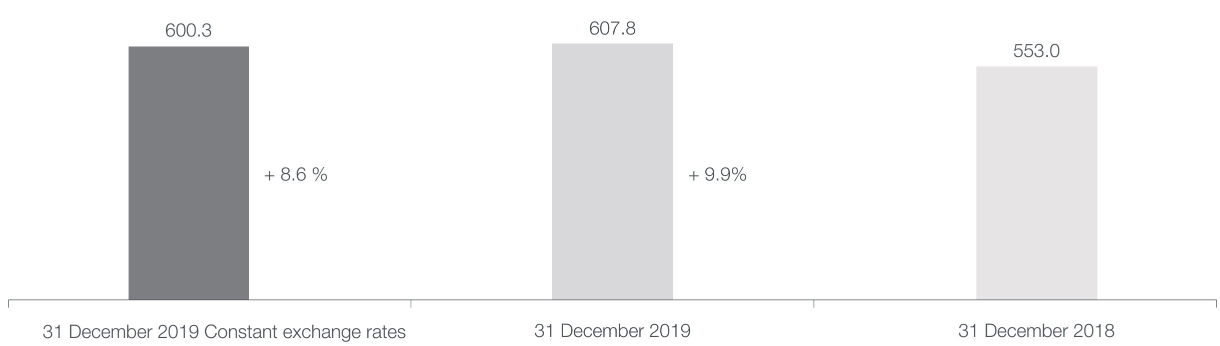
SEASONALITY OF SALES

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 luxury 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 2019 amounted to €607,761 thousand, an increase of 9.9% over 2018. At constant exchange rates, meaning using the same average exchange rates as those used in 2018, revenues would have been €600,347 thousand, an increase of 8.6%.

The international markets rose to 85.2% of net revenues, with an increase of 11.5%, accompanied by the very interesting and positive results achieved on the Italian market (14.8% of net revenues), where sales rose by 1.7%. The European market, including Italy, reached 45.2% of the total.



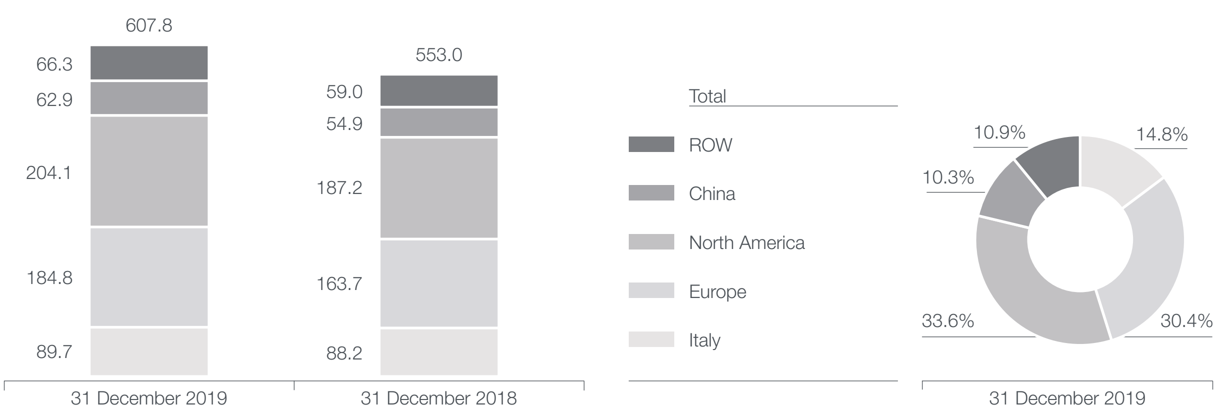
30,4%

The total increase in Net Revenues amounts to €54,765 thousand at current exchange rates (+9.9%). This can be attributed to the organic growth of the Retail channel connected to the development of existing sales points, to the opening of new DOS (six net openings compared to 31st December 2018) and five new openings of sales points under concession, and to the increase of the wholesale multibrand channel compared to 31st December 2018.

REVENUES BY GEOGRAPHICAL AREA

During 2019, the Brunello Cucinelli Group showed major growths throughout all the international markets. The related percentage on net revenues amounts to 85.2% and increases total 11.5% over the previous year; the Italian market is also reporting an interesting increase in revenues, equal to 1.7%, showing healthy and sustainable results. The following table provides details of revenues at 31st December 2019, compared with those of the previous year, analyzed by geographical area.

(In thousands of euro)	Year ended 31st December				Change	
	2019	**incid. %**	**2018**	**incid. %**	**2019 vs. 2018**	**2019 vs. 2018 %**
Italy	89,720	14.8%	88,220	15.9%	1,500	+1.7%
Europe	184,751	30.4%	163,707	29.6%	21,044	+12.9%
North America	204,109	33.6%	187,236	33.9%	16,873	+9.0%
China	62,898	10.3%	54,887	9.9%	8,011	+14.6%
Rest of the World (RoW)	66,283	10.9%	58,946	10.7%	7,337	+12.4%
Total	**607,761**	**100.0%**	**552,996**	**100.0%**	**54,765**	**+9.9%**



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

Italy

Net revenues for "Italy" represented 14.8% of all revenues (15.9% in the previous year), posting an increase of €1,500 thousand in absolute terms over 31st December 2018, corresponding to +1.7% (€89,720 thousand in 2019; €88,220 thousand in 2018).

The growth in local customer demand has accompanied a solid increase in international customer purchases thanks to the collection proposal and the important contribution of our flagship store in Montenapoleone-Milan, a city that we consider to be one of the European fashion capitals together with London and Paris.

At 31st December 2019, the monobrand network (direct or wholesale monobrand) consisted of 14 boutiques.

Europe

Net revenues for "Europe" accounted for 30.4% of total revenues (29.6% in the previous year) and increased by 12.9%, from €163,707 thousand to €184,751 thousand, with a growth of €21,044 thousand in absolute terms.

All geographical areas report solid results thanks to the presence of our brand in successful boutiques, which are very important for us. Indeed, we believe that, by paying attention to details and visual merchandising, boutiques can contribute decisively to further strengthen the brand's allure.

At 31st December 2019, the monobrand network (direct and wholesale monobrand) consisted of 48 boutiques

North America

Net revenues for "North America" accounted for 33.6% of total revenues compared to 33.9% in 2018. Revenues rose from €187,236 thousand to €204,109 thousand, an increase of €16,873 thousand, or 9.0%.

We are fully satisfied with the registered growth, our relationships with the customers – both final and multibrand – and our presence in the market, with exclusive spaces in the monobrand and multibrand channels.
We are very satisfied with the agreement reached for the upcoming opening of the boutique in the "Meatpacking District" in New York, considered a very chic, trendy and young area, fully in line with the style of our products.

At 31st December 2019, the monobrand network consisted of 31 boutiques.

China

Net revenues for "China" accounted for 10.3% of total revenues (9.9% in the previous year) and increased by €8,011 thousand (+14.6%). Revenues rose from €54,887 thousand to €62,898 thousand.

We consider the performance in China to be significant, fully consistent with the growth forecasted in the long-term planning of our "Celestial Empire" project.
This market undoubtedly has a great potential, both for the monobrand and multibrand channels, and we would like to gradually seize these opportunities, maintaining the brand's prestige and allure.

At 31st December 2019, the total network consisted of 24 monobrand boutiques.

Rest of the world

Net revenues for the "Rest of the World" increased by 12.4% in 2019 over those of the previous year. Revenues rose from €58,946 thousand to €66,283 thousand.

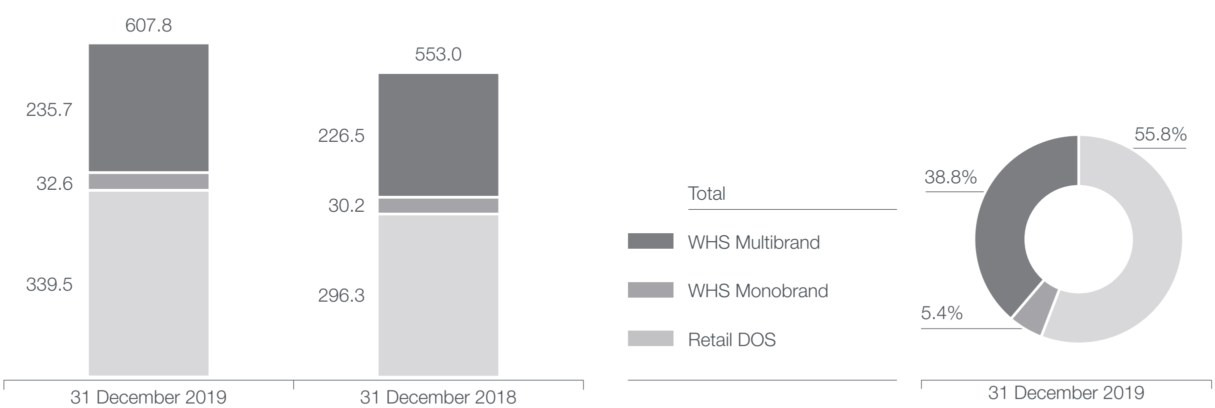
The collection has enjoyed growth in all geographical areas, and customers' interest in the luxury of special garments is increasingly evident and fully aligns with the distinctive characteristics of our brand.

At 31st December 2019, there were 19 monobrand stores.

REVENUES BY DISTRIBUTION CHANNEL

The following table sets out the net revenues earned by the Group in 2019 and in 2018, analyzed by distribution channel.

(In thousands of euro)	Year ended 31st December				Change	
	2019	**incid. %**	**2018**	**incid. %**	**2019 vs. 2018**	**2019 vs. 2018 %**
Retail	339,435	55.8%	296,265	53.6%	43,170	+14.6%
Wholesale monobrand	32,617	5.4%	30,205	5.4%	2,412	+8.0%
Wholesale multibrand	235,709	38.8%	226,526	41.0%	9,183	+4.1%
Total	**607,761**	**100.0%**	**552,996**	**100.0%**	**54,765**	**+9.9%**



RETAIL

Net revenues generated by the retail channel amounted to €339,435 thousand, an increase of €43,170 thousand, or 14.6% over the previous year.
At 31st December 2019, the retail channel accounted for 55.8% of the Group's total net revenues, an increase compared to 53.6% at 31st December 2018.

We consider the +4.2% like-for-like growth reported in 2019 to be very positive, also thanks to a current market orientation that is particularly similar to ours.

At 31st December 2019, the network consisted of 106 direct boutiques, compared to 100 boutiques at 31st December 2018, with 3 openings in the last quarter of 2019.

WHOLESALE MONOBRAND

Net revenues generated by sales made through the wholesale monobrand channel amounted to 5.4% of total net revenues, in line with 5.4% in 2018. In absolute terms, net revenues amounted to €32,617 thousand, a rise of €2,412 thousand over 31st December 2018, or 8.0%.

The network consists of 30 boutiques compared to 27 boutiques at 31st December 2018

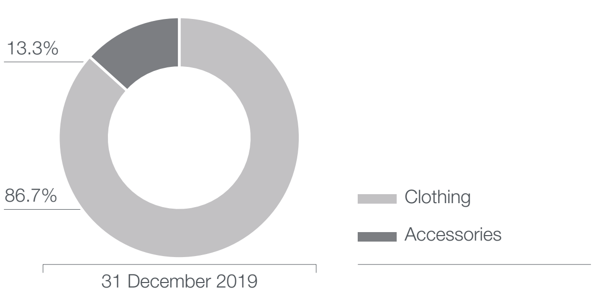
WHOLESALE MULTIBRAND

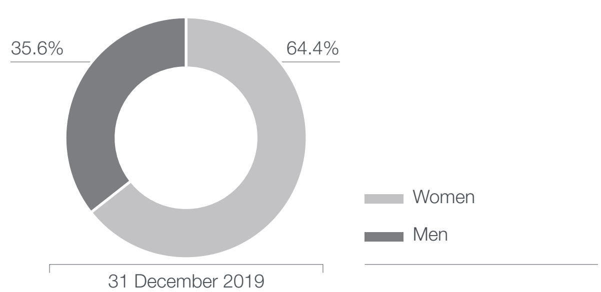
Net revenues made through the wholesale multibrand channel amounted to €235,709 thousand (an increase of €9,183 thousand over 31st December 2018, or 4.1% compared to 2018).
The proportion of net revenues for the channel passed from 41.0% at 31st December 2018 to 38.8% at 31st December 2019.

The growth in the multibrand channel is supported by the special relationship that binds us to the most important global luxury department and specialty stores, which have increased the space dedicated to our brand to meet the demands of the most sophisticated customers, while also increasing the traffic of the highest luxury segment.

REVENUES BY PRODUCT LINE AND END CUSTOMER

The following is a graphical representation of the Brunello Cucinelli Group's revenues at 31st December 2019, analyzed by product line and end customer:

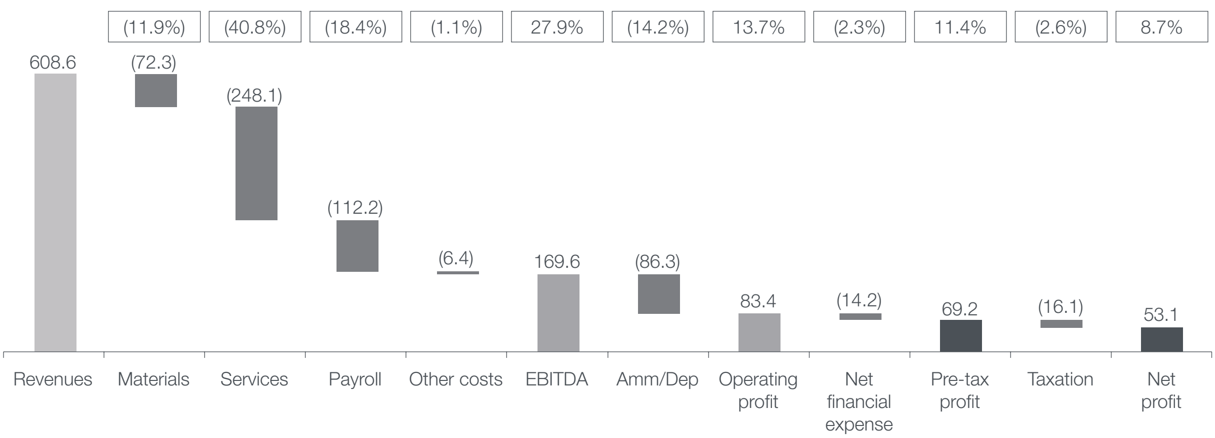




ANALYSIS OF THE INCOME STATEMENT

The following is a graphical representation of the income statement at 31st December 2019 setting out performance for the year.
As discussed earlier, the reported figures have been restated to eliminate the effect of applying the new accounting standard IFRS 16, effective from 1st January 2019; as a consequence, comments on the results for this year are provided excluding the effect of that standard in order to maintain a comparative base consistent with the corresponding period in 2018. Where applicable, the effects arising from applying the new standard are highlighted and separate comments are provided thereon.

Reference should be made to note 4.1 of this Financial Report "New accounting standards, interpretations and amendments adopted by the Group".



OPERATING RESULTS

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

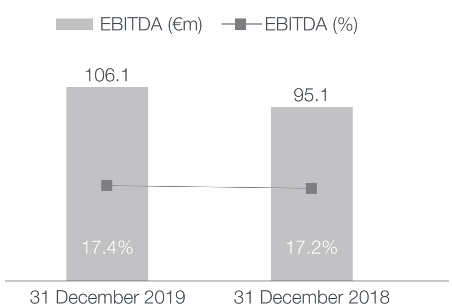
(In thousands of euro)	Year ended 31st December 2019						Change	
	2019	% of sales	(excluding IFRS 16)	% of sales	2018	% of sales	2019 vs. 2018	2019 vs. 2018 %
Operating profit	**83,376**	**13.7%**	**76,813**	**12.6%**	**69,538**	**12.6%**	**7,275**	**+10.5%**
+ Amortization/ depreciation	86,250	14.2%	29,245	4.8%	25,605	4.6%	3,640	+14.2%
EBITDA	**169,626**	**27.9%**	**106,058**	**17.4%**	**95,143**	**17.2%**	**10,915**	**+11.5%**

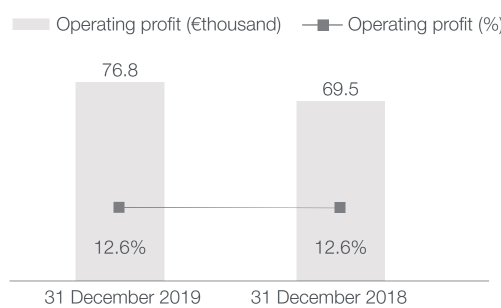
EBITDA at 31st December 2019 amounted to €106,058 thousand, representing 17.4% of revenues from sales and services and an increase of €10,915 thousand compared to the past year. At 31st December 2018, EBITDA represented 17.2%.

The application of the new accounting standard IFRS 16 (which for leases falling with the scope of the standard leads for accounting purposes to the non-linear replacement of lease expense by the amortization charge on right-of-use assets and interest expense on lease liabilities) caused a significant positive change in EBITDA, which rose to 27.9% of revenues from sales and services at 31st December 2019.

The Operating profit at 31st December 2019 amounted to €76,813 thousand, representing 12.6% of revenues from sales and services, in line with the previous year. Worthy of note is the significant impact of amortization and depreciation: in absolute terms this rose by €3,640 thousand due to the significant investments made over the past three years, rising to 4.8% of revenues from sales and services compared to 4.6% in the past year.
The application of the new accounting standard IFRS 16 led to the recognition of increased amortization on right-of-use assets amounting to €57,005 thousand, taking the proportion of this item to 14,2%.

The following table sets out in graphical form the trends in the Group's EBITDA and Operating profit at 31st December 2019 and 31st December 2018:





As noted above, the EBITDA accounts for 17.4%, an increase of €10,915 thousand in absolute terms, or +11.5%.

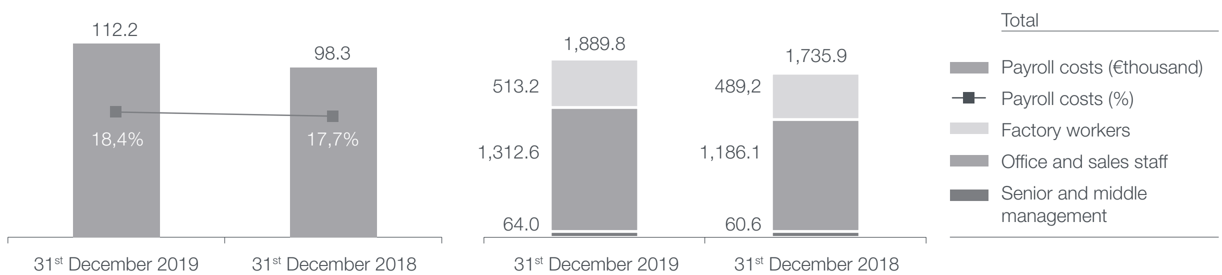
The economic dynamics characterizing 2019 are represented by a higher proportion of net revenues in the Retail distribution channel on the total net revenues for the year (55.8% at 31st December 2019 against 53.6% at 31st December 2018).

The dynamics described above have contributed to increase the proportion of production costs for raw materials and outsourced work (31.5% at 31st December 2019 compared to 34.1% at 31st December 2018), to reflect the positive trend of the price-mix.

(In thousands of euro)	**Year ended 31st December**				**Change**	
	2019	**% of sales**	**2018**	**% of sales**	**2019 vs. 2018**	**2019 vs. 2018 %**
Costs for raw materials and consumables	112,403	18.5%	95,359	17.2%	17,044	+17.9%
Change in inventories	(40,124)	-6.6%	(7,303)	-1.3%	(32,821)	<-100.0%
Outsourced work	119,363	19.6%	101,095	18.2%	18,268	+18.1%
Total	**191,642**	**31.5%**	**189,151**	**34.1%**	**2,491**	**+1.3%**

Payroll costs amounted to €112,199 thousand at 31st December 2019, with a proportion of 18.4% compared to 17.7% at 31st December 2018, for an increase in absolute terms of €13,870 thousand over 2018.

Full Time Equivalents (FTEs) totaled 1,889.8 at 31st December 2019 compared to 1,735.9 at 31st December 2018 (+153.9). This 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 development of the new Kids line project.



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

- Lease expense increased as a percentage of total revenues from sales and services (14.1% at 31st December 2019 compared to 12.8% at 31st December 2018), with a growth in absolute terms by €14,520 thousand over the previous year. The increase in absolute terms of lease expenses is due to the development of the retail network commented above, to the enlargement of sales spaces and showrooms and to the dynamics of the spaces operated in Luxury Department Stores.
- Advertising and other marketing costs rose by €3,197 thousand, or 9.9% as a proportion of revenues on sales and services in line with the figure at 31st December 2018 (5.8%).These costs relate to the communication and promotional activities carried out by the Group to disseminate its image and philosophy throughout the world. These are mainly costs incurred for the production of physical and digital catalogues, advertising campaigns and materials, and exhibition, fairs and the many events organized both in Italy and abroad. Worthy of note in 2019 is an increase in digital communication activities, given that this channel represents an increasingly important and strategic vehicle.
- Transport and duties represented 3.6% of revenues in 2019, compared to 3.4% in 2018, an increase in absolute terms of €3,411 thousand;
- Commissions and accessory costs, which relate to commissions payable to the agency network, decreased by €2,851 thousand in absolute terms, with the percentage impact falling over that of the previous year (1.5% in 2019, 2.2% in 2018), due also to the internalization of some sales activities;
- Credit card charges, which represent 1.0% as a proportion (0.9% in the previous year), rose by 27.2% over 2018, strictly due to the growth of the retail channel.

The following table provides a summary of these items for 2019 and 2018, together with the percentage of sales and services they represent.

(In thousands of euro)	Year ended 31st December						Change	
	2019	% of sales	2019 *(excluding IFRS 16)*	% of sales	2018	% of sales	2019 vs. 2018	2019 vs. 2018 %
Lease expense	21,810	3.6%	85,571	14.1%	71,051	12.8%	14,520	+20.4%
Advertising and other marketing costs	35,470	5.8%	35,470	5.8%	32,273	5.8%	3,197	+9.9%
Transport and duties	22,150	3.6%	22,150	3.6%	18,739	3.4%	3,411	+18.2%
Commissions and accessory charges	9,256	1.5%	9,256	1.5%	12,107	2.2%	(2,851)	-23.5%
Credit card commissions	6,361	1.0%	6,361	1.0%	5,001	0.9%	1,360	+27.2%

The application of the new accounting standard IFRS 16 led to a positive change in the Lease expense item, equal to €21,810 thousand in absolute terms at 31st December 2019, or 3.6% as a proportion of sales.

NET FINANCIAL EXPENSE, TAXATION AND NET PROFIT

Net financial expense totaled €5,411 thousand at 31st December 2019, of which financial expense amounted to €30,938 thousand and financial income to €25,527 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	
	2019	% of sales	2019 *(excluding IFRS 16)*	% of sales	2018	% of sales	2019 vs. 2018	2019 vs. 2018 %
Loan interest	401	0.1%	401	0.1%	483	0.1%	(82)	-17.0%
Other income/(expense), net	1,455	0.2%	1,455	0.2%	630	0.1%	825	>+100.0%
Other financial income/(expense)	**1,856**	**0.3%**	**1,856**	**0.3%**	**1,113**	**0.2%**	**743**	**+66.8%**
Financial income/(expense) for leasing	10,441	1.7%	-	0.0%	-	0.0%	-	>+100.0%
Exchange losses/(gains)	(3,341)	-0,6%	(1,689)	-0.3%	(1,467)	-0.3%	(222)	+15.1%
Financial income/(expense) from adjusting derivatives to the fair value	5,244	0.9%	5,244	0.9%	4,610	0.9%	634	+13.8%
Total net financial expense	**14,200**	**2.3%**	**5,411**	**0.9%**	**4,256**	**0.8%**	**1,155**	**+27.1%**

The proportion of net financial expense on revenues accounts for 0.9%, compared to 0.8% in 2018.

As shown in the table, loan interests in 2019 were substantially in line with 2018, while the increase in the "Other income/(expense), net" item is principally due to passive interests on trade advance payments.

In this respect the effect of hedging transactions on interest rates and exchange rates, amounting to €5,244 thousand in the first half of 2019 compared to €4,610 thousand in 2018, should also be noted. These balances mainly represent the costs incurred for hedging the risk arising from fluctuations in exchange rates, whose measurement is also affected by short- and medium-term expectations expressed by the exchange rate curves used; so by their nature they are subject to fluctuations between different periods.

Applying the new accounting standard IFRS 16 led to a negative change in the balance in question, an amount of €8,789 thousand, through the recognition of interest expense on lease liabilities amounting to €10,441 thousand, partially offset by the recognition of total exchange gains of €1,654 thousand.

The income tax charge for the period amounted to €16,447 thousand, representing 23.3% of consolidated pre-tax profit. Normalizing the tax computation for the estimate of the tax benefit deriving from recognizing the effects of the "patent box" scheme in 2019 profit or loss, the tax rate would be 30.9%. We have always considered a healthy tax-rate around this level for a Group like ours that produces most of its taxable profit in Italy.
In the light of the above, the normalized net profit for the year amounted to €49,306 thousand or 8.1% of revenues from sales and services.

The following table shows an analysis of net profit between the portion attributable to the Group and the portion attributable to non-controlling interests:

(In thousands of euro)	**31st December 2019**	**31st December 2019 (excl. IFRS 16 and normalized Patent Box)**	**31st December 2018 (normalized Patent Box)**
Profit attributable to the Group	52,553	48,653	45,669
Profit attributable to non-controlling interests	530	653	350
Net profit	**53,083**	**49,306**	**46,019**

(1) Net profit for the year was normalized also for the economic effects generated by the Patent Box tax benefit, producing a decrease in direct taxes at 31st December 2019 equal to €5.6 million and at 31st December 2018 equal to €5.0 million.

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 2019 reclassified by sources and applications, with comparative figures at 31st December 2018.

As discussed earlier, the reported figures have been restated to eliminate the effect of applying the new accounting standard IFRS 16, effective from 1st January 2019, enabling a comparison to be made with the balances for previous periods.
The effects arising from the application of the new standard are highlighted and separate comments are provided thereon.

For a comment on the effect of the new standard IFRS 16, reference should be made to note 4.1 of this Financial Report "New accounting standards, interpretations and amendments adopted by the Group".

NET WORKING CAPITAL

The following table provides an analysis of the net working capital of the Brunello Cucinelli Group at 31st December 2019 and 31st December 2018:

(In thousands of euro)	**31st December 2019**	**31st December 2019 *(excluding IFRS 16)***	**31st December 2018**
Trade receivables	58,622	58,622	61,444
Inventories	204,868	204,868	161,764
Trade payables	(89,453)	(89,453)	(76,585)
Other current assets/(liabilities), net	(18,933)	(21,513)	(17,166)
Net working capital	**155,104**	**152,524**	**129,457**

There was an increase of €23,067 thousand in the net working capital at 31st December over the balance at 31st December 2018. This is essentially due to the combined effects of the following:

– A decrease of €2,822 thousand in trade receivables, which represent 9.6% of net revenues for the past 12 months compared to 11.1% at 31st December 2018. The decrease is due to the normal, careful collection management, showing a dynamic in the second part of the year affected by the sales trend in the wholesale channel. It is noted that the utilization of the bad debt allowance and the loss for bad debts recognized in profit or loss at 31st December 2019 represented 0.22% of net revenues; a fully contained level, testifying to healthy credit management confirmed by the substantial stability of the forthcoming due dates, whose details are given in Note 9 to this report.

– Inventories amounted to €43,104 thousand, a proportion of 33.7% of net revenues, showing an increase compared to 31st December 2018 (29.3%).

(In thousands of euro)	**31st December 2019**	**31st December 2018**
Raw materials	37,760	31,436
Finished and semi-finished goods	167,108	130,328
Inventories	**204,868**	**161,764**

Raw materials increased by €6,324 thousand, rising from €31,436 thousand at 31st December 2018 to €37,760 thousand at 31st December 2019. The increase of raw materials represents the desire to be more than ready for the production launches to ensure a swift and complete delivery of products given the expected rise in volumes. In addition, please note the relevant purchases made in the second half of the year due to the increase in the Spring-Summer 2020 and Fall-Winter 2020 collections, with an increase in the costs for raw materials in the second half of 2019 compared to the same period in 2018 (€10.1 million, equal to +21.7%).
Finished and semi-finished goods rose from €130,328 thousand at 31st December 2018 to €167,108 thousand at 31st December 2019 (+ €36,780 thousand), mostly due to the growth of the directly operated sales point network (6 DOS and 5 sales points under concession), to the enlargement of some existing boutiques, the development of the new "Kids Project – the natural extension of the ready-to-wear offer, with dedicated collections arriving in the stores in the second half of the year and to the development of the digital channel with new technological platforms on foreign markets, the major "Man's Suits" project at the Group's boutiques and to the general organic growth of volumes for the Spring-Summer 2020 collection. The costs for outsourced work additionally increased in the second half of 2019 compared to the same period in 2018 by €12.3 million equal to +25.1%.

– Trade payables increased from €76,585 thousand at 31st December 2018 to €89,453 thousand at 31st December 2019, equal to €12,868 thousand. The balance at 31st December 2019 is mainly affected by the physiological increase in all the main costs arising from the rise in business in 2019, with special reference to the second half of the year. In the details, compared to the second half of 2018 the cost of raw materials and consumables increased by €10,061 thousand, outsourced work grew by €12,292 thousand and advertising and other marketing costs posted an increase by €1,706 thousand.

– The balance of "Other current assets/(liabilities), net" which amounted to €17,166 thousand at 31st December 2018, amounted to €21,513 thousand at 31st December 2019, thus reporting an increase equal to €4,347 thousand. Further details can be found in the comments included in the notes to the financial statements in this financial report.
Applying the new accounting standard IFRS 16 led to an increasing variation of €2,580 thousand in the balance in question, following the decrease in the prepayments included in other receivables and other current assets and in the liability for deferred lease income included in other current liabilities.

FIXED ASSETS

The following table provides an analysis of fixed assets and other non-current assets/(liabilities) at 31st December 2019, at 31st December 2019 excluding IFRS 16, and at 31st December 2018:

(In thousands of euro)	**31st December 2019**	**31st December 2019 (excluding IFRS 16)**	**31st December 2018**
Intangible assets	18,508	42,210	38,583
Rights-of-use assets	433,621	-	-
Property, plant and equipment	142,705	142,893	125,652
Financial assets for leasing – non-current	676	-	-
Other non-current financial assets	8,767	8,767	7,675
Investment property	2,814	2,814	919
Other non-current assets/(liabilities), net	18,376	(1,449)	(368)
Fixed assets and other non-current assets/ (liabilities)	**625,467**	**195,235**	**172,461**

Net fixed assets and other non-current assets/liabilities amounted to €195,235 thousand at 31st December 2019 compared to €172,461 thousand at 31st December 2018, representing a net increase of €22,774 thousand or 13.2%. Reference should be made to the specific note for details of the changes in the individual items in the above table.

In this particular section note is made of the significant effect of the depreciation and amortization charge for the period, which increased by €3,640 thousand as a result of the investments made and rose as a proportion of revenues from sales and services from 4.8% last year to 4.6%.

The effect at 31st December 2019of applying the new accounting standard IFRS 16 was the recognition of the following:

– "right-of-use assets", amounting to €433,621 thousand, representing the right to use the asset underlying the leasing contracts based on which the intangible assets were reclassified as regards the Key money item, since the new accounting principle considers them as initial direct costs incurred for the contract;
– "financial assets for leasing – non-current" amounting to €676 thousand, representing the investment assets generated by the sub-leasing arrangements classified as "finance leases";
– increase in the assets under the "other non-current assets/(liabilities), net item, equal to €19,825 thousand, following the cancellation of accrued liabilities on deferred contracts, included under the "Other non-current liabilities" item, and the posting of active deferred taxes generated by the new standard.

CAPITAL EXPENDITURE

In the year ended 31st December 2019, the Group made investments of €11,442 thousand in intangible assets, €38,629 thousand in tangible assets, €1,895 thousand in real-estate and the net balance of financial assets (guarantee deposits) amounted to €625 thousand.

The following table provides an analysis of capital expenditure by type and category made by the Group in the years ended 31st December 2019 and 31st December 2018:

(In thousands of euro)	**31st December 2019 excluding IFRS16**	**31st December 2018**
Capex in intangible assets(*)	11,442	15,781
Capex in property, plant and equipment	38,629	27,372
Capex in non-current financial assets	625	1,190
Investment property	1,895	678
Total capital expenditure	**52,591**	**45,021**

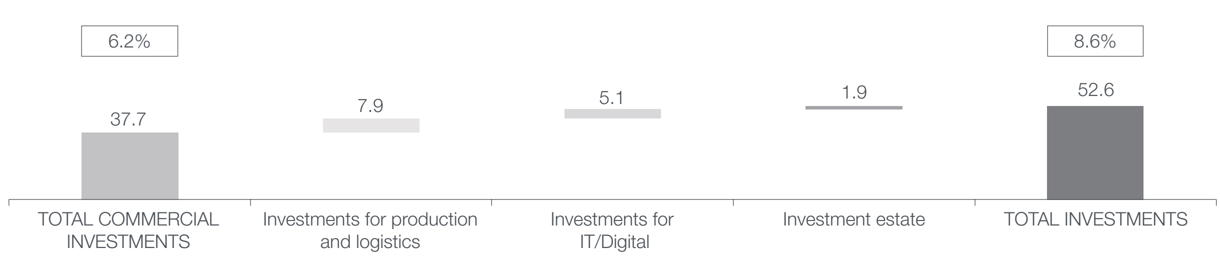
(*) At 31st December 2019, the item included also the key money paid in throughout the year and the related ancillary costs incurred, which have been classified – as of 1st January 2019 – under the "Right of use" item in the financial statements as provided for by the new accounting standard IFRS 16.

As can be seen from the table, capital expenditure in 2019 amounted to €52,591 thousand, including about €37.7 million of investments in the commercial channel, about €13.0 million of investments for production, logistics and the IT/Digital sector, and about €1.9 million of investment property.

Commercial investments relate to exclusive openings, the enlargement of some prestigious boutiques, an increase in the selling spaces in the Luxury Department Stores and the extension and renovation of showrooms, in addition to supporting some development initiatives in the wholesale channel.
The investments in production, logistics and the IT/digital sector were made to support the development of IT infrastructures, our digital presence and the constant renovation of our production plants and logistics structures. We believe that a consistent level of investments is strategic to keep our company up-to-date on the long run: in fact, we know that the related proportion on sales has structurally increased throughout the years thanks to the higher and higher relevance that the brand's image has gained and to the resources required to keep the business modern.

Investments in production and logistics (€7,900 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 process innovation with superb handiwork and making suitable logistic structures available for managing the related activities. IT/Digital investments (also through special platforms on evolving markets) are of particular importance and they amounted to €5,048 thousand at 31st December 2019.
Worthy of note are additional property investments totaling €1,895 in three distinct properties, not for instrumental use, and to building lands located in the hamlet of Solomeo operated with the goal to be restored and later rented out.

The following is a graphical representation of the investments made by the Group in 2019, analyzed by business 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 migliaia di Euro)	**31st December 2019**	**31st December 2019** ***(excluding IFRS 16)***	**31st December 2018**
A. Cash and checks	(535)	(535)	(507)
B. Other liquid assets	(68,397)	(68,397)	(56,099)
C. Held-for-trading financial instruments	(9,120)	(9,120)	(8,996)
D. Cash and cash equivalents (A)+(B)+(C)	**(78,052)**	**(78,052)**	**(65,602)**
E1. Current financial receivables for leasing	**(315)**	**-**	**-**
E2. Current financial receivables	**(10)**	**(10)**	**(17)**
F. Current bank debt	53,914	53,914	27,014
G. Current portion of non-current debt	18,072	18,072	24,067
H1. Other current financial payables for leasing	62,661	-	-
H2. Other current financial payables	5,522	5,522	3,048
I. Current debt (F) + (G) + (H)	**140.169**	**77.508**	**54.129**
J. Net current debt (I) + (E) + (D)	61,792	(554)	(11,490)
K. Non-current bank debt	30,474	30,474	25,934
L. Bonds issued	-	-	-
M1. Other non-current payables for leasing	388,816	-	-
M2. Other non-current payables	**150**	**150**	**92**
N. Non-current debt (K)+(L)+(M)	**419,440**	**30,624**	**26,026**
O. Net debt (J)+(N)	**481,232**	**30,070**	**14,536**

At 31st December 2019, the Brunello Cucinelli Group's debt amounted to €30,070 thousand, an increase of €15,534 thousand compared to the corresponding value at 31st December 2018, in line with the seasonal dynamics of net debt trend, which is always higher at the end of the second and third quarter and it falls again in the fourth quarter (31st December).

During 2019, the Group took out new medium/long-term loans for a total of €27.0 million and repaid loans amounting to €28.4 million.

Changes in the net financial position in 2019 were positively affected by capital expenditure totaling €52.6 million, by the payment of €20.5 million for dividends distributed out of 2018 profits and by the performance of the net working capital.

It should be noted that:
– Line item "H2. Other current financial payables" refers to the put options for the purchase of minority interests in controlled companies and to the current liabilities for derivative instruments hedging interest rate risk;
– Line item "M2. Other non-current payables" relates to the non-current liability balance for derivative instruments hedging interest rate risk.

In conclusion, it is also noted that applying the new accounting standard IFRS 16 led to the recognition of the following items at 31st December 2019:
– Line item "E1. Current financial receivables for leasing", equal to €315 thousand, representing the investment activities generated by active sub-rental contracts classified as short-term "financial leasing";
– Line item "H1. Other current financial payables for leasing", equal to €62,661 thousand, representing the short-term financial liabilities generated by the actualization of future payments for rental charges as provided for by leasing contracts;
– Line item "M1. Other non-current payables for leasing", equal to €388,816 thousand, representing the long-term financial liability generated by the actualization of future payments for rental charges as provided for by the leasing contracts.

EQUITY

The following table provides details of shareholders' equity at 31st December 2019, 31st December 2019 excluding IFRS 16 and at 31st December 2018:

(In thousands of euro)	**31st December 2019**	**31st December 2019 (excluding IFRS 16)**	**31st December 2018**
Share capital	13,600	13,600	13,600
Reserves	231,496	247,714	220,381
Net profit attributable to shareholders of the parent company	52,553	54,302	50,692
Equity attributable to shareholders of the parent company	**297,649**	**315,616**	**284,673**
Equity attributable to non-controlling interests	1,690	2,073	2,709
Total equity	**299,339**	**317,689**	**287,382**

The parent company's share capital amounted to €13,600 thousand at 31st December 2019 and consisted of 68,000,000 fully paid ordinary shares.

The shareholding structure of Brunello Cucinelli S.p.A at 31st December 2019 as compiled from the communications sent to the Company and Consob and from other communications to the market is set out below:

Shareholder	% of ordinary share capital
Fedone S.r.l.	51.0%
FMR LLC	10.0%
Invesco	4.2%
Other shareholders	34.8%
Total	**100.0%**

A comprehensive description of changes in equity may be found in the specific schedule and in note 15 to the financial statements.

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 2019:

(In thousands of euro)	31st December 2019	
	Equity	Net profit
Financial statements of the parent company	**335,560**	**57,216**
Difference between the equity of consolidated shareholdings and their carrying amount	(4,480)	5,808
Elimination of intercompany transactions	(48,202)	(12,447)
Elimination of dividends	-	(512)
Net investments in foreign operations	-	425
Tax effect of consolidation adjustments	14,771	2,063
Total attributable to shareholders of the parent company	**297,649**	**52,553**
Equity and net profit attributable to non-controlling interests	1,690	530
Consolidated financial statements	**299,339**	**53,083**

OPERATING AND FINANCIAL RATIOS

The main operating and financial ratios for the Brunello Cucinelli Group for the years in question are set out below. Please note that the figures at 31st December 2019 have been normalized to highlight the effect of the application of the new accounting standard IFRS 16. In addition, the figures at both 31st December 2019 and 31st of December 2018 have also been normalized to reflect the effect of the estimated tax benefit from the "Patent Box" scheme.

PROFITABILITY RATIOS

The following table sets out trends in the main profitability ratios at 31st December 2019 and 2018.

	31st December 2019	31st December 2018
ROE – Net profit for the year/Average equity in the year	16.59%	17.20%
ROI – Operating profit/Average net invested capital in the year	24.04%	24.60%
ROS – Operating profit/Revenues from sales and services	12.62%	12.54%

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 2019	31st December 2018
Equity/Total assets	53.90%	56.96%
Total current assets/Total current liabilities	168.47%	179.85%

TURNOVER RATIOS

	31st December 2019	31st December 2018
Receivables turnover - *Revenues from sales and services/Average trade receivables*	10.1 times	10.4 times
Average collection period for trade receivables - (*Average trade receivables/ Revenues from sales and services*) * 360	35.5	34.6
Payables turnover - (*Costs for raw materials and consumables + Costs for services*)/Average trade payables	4.6 times	5.0 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	70.5	70.2
Average days of inventory - *((Average inventories – average advances)/ Revenues from sales and services) * 360*	108.6	102.1

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 11th March 2020, 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 5, paragraph 3, letter b of Legislative Decree no. 254/2016, the Brunello Cucinelli Group has prepared the consolidated non-financial statement, which is a separate report. The 2019 consolidated nonfinancial statement, prepared in accordance with GRI Standards, is available for consultation on the Company's website **www.brunellocucinelli.it**.

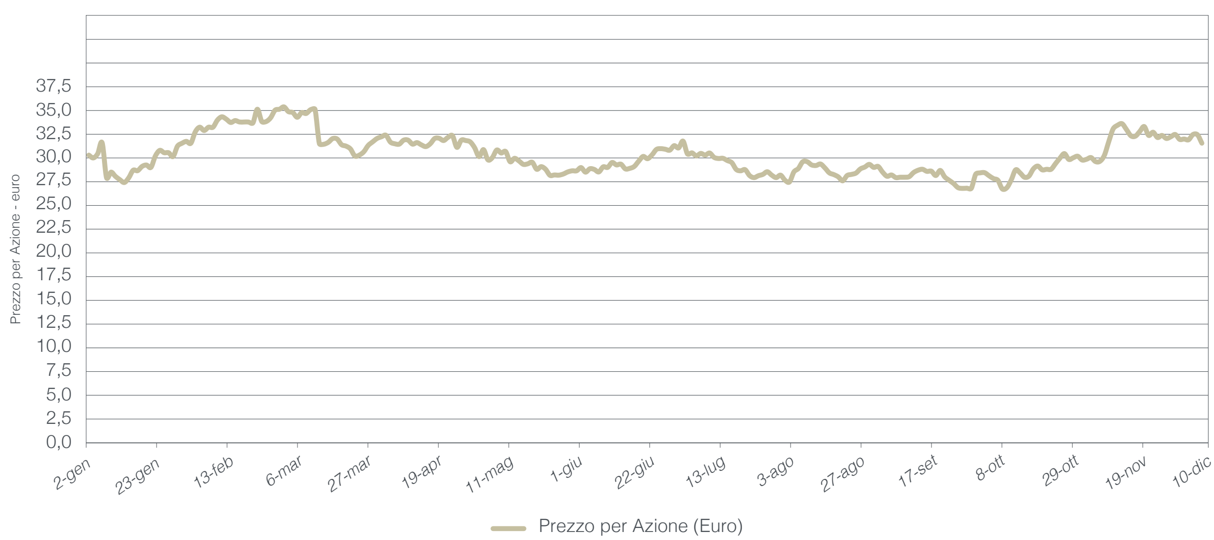
PERFORMANCE OF THE COMPANY'S SHARE LISTED ON THE BORSA ITALIANA S.P.A. ELECTRONIC STOCK EXCHANGE (MTA)

On 31st December 2019, the final trading day of the year, the official closing price of the Brunello Cucinelli share was €31.56 (+307.2% compared to €7.75 per share set for the IPO, +5.0% compared to the closing value of €30.05 at the end of the financial year 2018). Market capitalization on 31st December 2019 was €2,146,080 thousand.

The following table provides details of the Company's share price and performance between 1st January 2019 and 31st December 2019:

	Euros	Date
IPO price	7.75	-
Minimum price(1)	26.54	14-Oct-19
Maximum price(1)	35.70	14-Mar-19
Official price	31.56	31-Dec-19
Capitalization	2,146,080,000	31-Dec-19
Number of outstanding shares	33,320,000	31-Dec-19
Free Float	1,051,579,200	31-Dec-19

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



SIGNIFICANT EVENTS DURING 2019

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 29th April 2019. Shareholders approved the financial statements for the year ended 31st December 2018 and resolved to allocate net profit for the year as follows: €20,400,000 to be paid as a dividend of €0.30 per share to shareholders and €31,724,968 to be carried forward as retained earnings.

Acquisition of the minority interest in Brunello Cucinelli USA Retail, LLC
On 29th July 2019, the Group purchased, through its subsidiary Brunello Cucinelli USA Inc, 30% of the capital of its subsidiary Brunello Cucinelli USA Retail LLC. The purchase price of the minority interest was agreed to US$ 4,500 thousand paid on the signing of the agreement.
Following this transaction the parent company now holds 100% of the subsidiary.
The price paid for the purchase of the minority interest has been recognized in equity reserves in accordance with IFRSs.

Resolution to merge the subsidiary Brunello Cucinelli USA Retail, LLC into the subsidiary Brunello Cucinelli USA Inc.
IOn 26th September 2019, following the acquisition of the minority interest as here above, the shareholders approved the merger by incorporation of the subsidiary Brunello Cucinelli USA Retail, LLC into the subsidiary Brunello Cucinelli USA Inc..
The merger was resolved to streamline the corporate organization, thus concentrating the retail and wholesale activities in the United States of America under one single legal entity.
The merger is effective as of 1st January 2020.

Acquisition of the minority interest in Brunello Cucinelli Canada Limited
On 29th July 2019, the parent company purchased 30% of the capital of its subsidiary Brunello Cucinelli Canada Limited at a price of US$2,200 thousand paid on the signing of the agreement.
Following this transaction the parent company now holds 100% of the subsidiary.
The price paid for the purchase of the minority interest has been recognized in equity reserves in accordance with IFRSs.

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 2019.
Pursuant to Consob Resolution no. 17221 of 12th March 2010, it is hereby stated that in the year ended 31st December 2019 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, Brunello Cucinelli Suisse SA, 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 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 sociopolitical 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, lifestyles and customer purchasing habits, which may 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.

The Company incurred €10,582 thousand in 2019 for additional costs for personnel dedicated to research and development activities, fully expensed during the year.

PUBLIC CONTRIBUTIONS

During the 2019 financial year, the parent company Brunello Cucinelli S.p.A. and its subsidiary Max Vannucci S.r.l. cashed in €1,039 thousand (respectively €812 thousand and €227 thousand), related to their participation in the call for proposals supporting Complex Research & Development Projects issued by the Region of Umbria and funded by the European Union through the Regional Operational Programme – European Regional Development Fund (ROP-ERDF). The funds were posted in 2018.

The funds amounting to €1,039 thousand related to the "Contemporary Factory" project, with a total duration equal to 18 months, were posted in 2018 following its completion. It had generated research costs totaling €1.3 million, fully reported in the income statement in 2017 and in 2018, and development costs reported in 2018 and capitalized under non-current assets, totaling €1.7 million.

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 risk rate

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

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 currency risk for the currencies in which sales are made to affiliates and third-party customers. This risk exists in the eventuality that the countervalue of revenues in euro may decrease in the event of adverse 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 into derivative contracts (forward foreign exchange 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 with the expiry date of the derivative set as the expected collection date of the sales invoices. In particular, the Company sets its selling prices in euro and calculates the corresponding prices in foreign currency by applying the contracted 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, 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 established a consolidated relationship over time. It is the Company's policy to carry out checks on the relative credit class for customers requesting extended payment terms both by 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.

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 2019 and the date of this consolidated report.

BUSINESS OUTLOOK

We have defined the past year, 2019, as an excellent one because of the growth enjoyed by our company both from a financial point of view, with a sound increase in sales and margins, and in terms of brand positioning.

We are leading our company with balanced apprehension and collective commitment as we try to implement all of the indications provided by the World Health Organization and our Government, fully sharing their strategies and anxiously awaiting reassuring news from the scientists around the world. With the very same dedication, we are taking care of the relationship with our Italian external production chain that represents something special for us and for our beloved nation, fully aware that what is happening to the economy is something conjunctural that will soon be solved and does not resemble the deeply structural 2008 recession that weighed upon us for years.

Knowing that the trend in fashion has veered towards a taste more suited to our own, having completed the Spring Summer 2020 deliveries as well as the Fall Winter 2020 order collection with excellent results and with pleasing feedback from buyers and the trade press, we look towards 2020 with a positive attitude; we are fully aware that the coming year will call for a very careful reading and we will see it as separate not affecting our 2019-2022 plan and ten year one 2019- 2028, in which we expect to double our turnover and achieve healthy, balanced and sustainable profits.

We continue to support an important level of investments, always careful to seize the opportunities that the market offers us, to keep always very high the brand allure and modern the company, in the desire to be "prepared" at the time of the economic restart.

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

CONSOLIDATED FINANCIAL STATEMENTS AT 31ST DECEMBER 2019

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31ST DECEMBER 2019

(In thousands of euro)	NOTE	31st December 2019	*of which with related parties*	31st December 2018(*)	*of which with related parties*
Non-current assets					
Goodwill	1	7,045		7,045	
Rights of use	2	433,621	5,611	-	
Intangible assets	3	11,463		31,538	
Property, plant and equipment	4	142,705	19,013	125,652	16,804
Investment property	5	2,814		919	
Other financial assets for non-current leasing	6	676		-	
Other non-current financial assets	7	8,767	32	7,675	32
Deferred tax assets	26	25,436		16,777	
Total non-current assets		**632,527**		**189,606**	
Current assets					
Inventories	8	204,868		161,764	
Trade receivables	9	58,622	51	61,444	46
Tax receivables	10	978		828	
Other receivables and current assets	11	21,003		16,076	
Financial assets for current leasing	6	315		-	
Other current financial assets	12	9,130		9,013	
Cash and cash equivalents	13	68,932		56,606	
Derivative financial instruments – current assets	14	552		418	
Total current assets		**364,400**		**306,149**	
Total assets		**996,927**		**495,755**	

(In thousands of euro)	NOTE	31st December 2019	*of which with related parties*	31st December 2018(*)	*of which with related parties*
Equity					
Equity attributable to shareholders of the parent company					
Share capital	15	13,600		13,600	
Share premium reserve	15	57,915		57,915	
Other reserves	15	173,581		162,466	
Net profit (loss) attributable to shareholders of the parent company	15	52,553		50,692	
Total equity attributable to shareholders of the parent company		**297,649**		**284,673**	
Non-controlling interests					
Capital and reserves attributable to non-controlling interests	15	1,160		2,359	
Net profit (loss) attributable to non-controlling interests	15	530		350	
Total equity attributable to non-controlling interests		**1,690**		**2,709**	
Total equity		**299,339**		**287,382**	
Non-current liabilities					
Post-employment benefits	16	3,182		3,048	
Provisions for risks and charges	17	1,127		920	
Non-current bank debt	18	30,474		25,934	
Financial liabilities for non-current leasing	19	388,816	5,502	-	
Other non-current liabilities	20	247		11,921	
Deferred tax liabilities	26	2,504		1,256	
Derivative financial instruments - non-current liabilities	14	150		92	
Total non-current liabilities		**426,500**		**43,171**	
Current liabilities					
Trade payables	21	89,453	556	76,585	818
Current bank debt	22	71,987		51,081	
Financial liabilities for current leasing	19	62,661	509	-	
Current financial payables	23	5,329		2,842	
Tax payables	24	3,960		2,781	
Derivative financial instruments - current liabilities	14	3,871		5,401	
Other current liabilities	25	33,827	2,567	26,512	1,074
Total current liabilities		**271,088**		**165,202**	
Total liabilities		**697,588**		**208,373**	
Total equity and liabilities		**996,927**		**495,755**	

CONSOLIDATED INCOME STATEMENT AT 31ST DECEMBER 2019

(In thousands of euro)		Year ended 31st December			
	NOTE	2019	*of which with related parties*	2018(*)	*of which with related parties*
Net revenues	27	607,761	5	552,996	16
Other operating income	27	826	43	1,448	75
Revenues from sales and services		**608,587**		**554,444**	
Costs for raw materials and consumables	28	(72,279)	(3)	(88,056)	(50)
Costs for services	29	(248,067)	(2,753)	(268,328)	(2,937)
Payroll costs	30	(112,199)	(1,351)	(98,329)	(887)
Other operating costs	31	(7,530)		(5,916)	
Own work capitalized	32	2,382		2,470	
Depreciation and amortization	33	(86,250)		(25,605)	
Value adjustments to assets and other provisions	34	(1,268)		(1,142)	
Total operating costs		**(525,211)**		**(484,906)**	
Operating profit		**83,376**		**69,538**	
Financial expense	35	(41,401)		(26,330)	
Financial income	36	27,201		22,074	
Pre-tax profit		**69,176**		**65,282**	
Income taxes	26	(16,093)		(14,240)	
Net profit for the year		**53,083**		**51,042**	
Net profit attributable to shareholders of the parent company	15	52,553		50,692	
Net profit attributable to non-controlling interests	15	530		350	
Basic earnings per share	37	0.77284		0.74547	
Diluted earnings per share	37	0.77284		0.74547	

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME AT 31ST DECEMBER 2019

(In thousands of euro)		Year ended 31st December	
	NOTE	2019	2018(*)
Net profit for the year (A)		**53,083**	**51,042**
Other items of comprehensive income:			
Other items of comprehensive income that may be reclassified to profit or loss		**1,731**	**(1,653)**
Cash flow hedges	15	752	(3,266)
Tax effect	15	(181)	784
Change in cash flow hedge reserve	**15**	**571**	**(2,482)**
Exchange gains (losses) on translation of the financial statements of foreign operations		1,483	349
Exchange gains (losses) on net investments in foreign operations		(425)	632
Tax effect		102	(152)
Other items of comprehensive income that will not be reclassified to profit or loss:	**15**	**(113)**	**(35)**
Re-measurement of defined benefit plans (IAS 19)		(149)	(46)
Tax effect		36	11
Total other comprehensive income net of tax (B)		**1,618**	**(1,688)**
Total comprehensive income for the year (A) + (B)		**54,701**	**49,354**
Attributable to:			
Shareholders of the parent company		54,206	48,821
Non-controlling interests		495	533

CONSOLIDATED CASH FLOW STATEMENT AT 31ST DECEMBER 2019

(In thousands of euro	Year ended 31st December		
	NOTE	2019	2018(*)
Cash flows from operating activities			
Net profit for the year	15	53,083	51,042
Adjustments to reconcile net profit for the year to cash from operating activities:			
Income taxes		16,093	14,240
Depreciation and amortization	33	86,250	25,605
Allocation to provisions for employee benefits	16	95	97
Allocation to provisions for risks and charges/allowance for obsolescence/allowance for bad and doubtful debts		1,279	1,179
Change in other non-current liabilities		(11,900)	911
(Gains)/losses on disposal of non-current assets		126	52
Interest expense		1,566	1,082
Interests expense for lease liabilities		10,463	
Interest income		(108)	(100)
Interest income for lease assets		(22)	
Payments for employee termination indemnities	16	(114)	(283)
Net change in deferred tax assets and liabilities		(2,031)	(1,248)
Change in fair value of financial instruments		(855)	6,277
Change in operating assets and liabilities:			
Trade receivables		2,573	(16,614)
Inventories		(40,360)	(7,284)
Trade payables		9,611	7,836
Interests expense paid		(1,563)	(1,424)
Interest paid on lease liabilities		(10,463)	
Interests income received		108	100
Interest received on lease assets		22	
Income taxes paid		(16,401)	(10,784)
Other current assets and liabilities		17,644	(582)
Cash flows from operating activities (a)		**115,096**	**70,102**
Cash flows from investing activities			
Investments in property, plant and equipment		(38,629)	(27,327)
Investments in intangible assets (including key money)		(11,442)	(15,781)
Investments in financial assets		(625)	(1,190)
Investments in property		(1,895)	(678)
Investments/divestments in current financial assets		(124)	(8,996)
Disposal of property, plant and equipment and key money		708	563
Cash flows used in investing activities (b)		**(52,007)**	**(53,409)**

(In thousands of euro		Year ended 31st December	
	NOTE	2019	2018(*)
Cash flows from financing activities			
Drawdown of long-term loans	18	26,950	15,045
Repayment of long-term loans	18	(28,414)	(36,244)
Net change in short-term financial liabilities	18	29,396	22,650
Repayment of lease liabilities		(53,272)	-
Receipts from financial lease assets		288	-
Dividends paid		(20,483)	(18,471)
Changes in equity		(6,060)	(6,662)
Cash used in financing activities (c)		**(51,595)**	**(23,682)**
Effect of exchange rates on cash and cash equivalents (e)	**18**	**11,494**	**(6,989)**
Cash and cash equivalents at the beginning of the year (f)	**18**	**832**	**642**
Cash and cash equivalents at the end of the year (g=d+e+f)	**13**	**56,606**	**62,953**
Cash and cash equivalents at the end of the year (g=d+e+f)	**13**	**68,932**	**56,606**

As for the additional information (interests and income taxes) that used to be reported in a special table at the end of the same financial statement, it was added to the cash flow from operating activities after consistently aligning the comparative figures at 31st December 2018.

(*) The Group has applied IFRS 16 from 1st January 2019 using the modified retrospective approach, under which comparative figures are not restated and the cumulative effect of initially applying the new standard is recognized as an adjustment to retained earnings at the date of initial application. Reference should be made to note 3 4.1 for further details.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AT 31ST DECEMBER 2019

(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 2019	**15**	**13,600**	**2,720**	**57,915**	**-**	**(1,095)**	**160,841**	**50,692**	**284,673**	**2,709**	**287,382**
Net profit for the year								52,553	52,553	530	53,083
Other profits/(losses)						1,182	471		1,653	(35)	1,618
Total comprehensive income		**-**	**-**	**-**	**-**	**1,182**	**471**	**52,553**	**54,206**	**495**	**54,701**
Allocation of net profit for the year	15						50,692	(50,692)	-	-	-
Dividends paid	15						(20,400)		(20,400)	(83)	(20,483)
Effects before the application of IFRS16							(13,625)		(13,625)	(2,586)	(16,211)
Change in consolidation scope and operations under common control							(7,215)		(7,215)	1,155	(6,060)
Other changes							10		10	-	10
31st December 2019	**15**	**13,600**	**2,720**	**57,915**	**-**	**87**	**170,774**	**52,553**	**297,649**	**1,690**	**299,339**

(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	**15**	**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	15						51,117	(51,117)	-	-	-
Dividends paid	15						(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	**15**	**13,600**	**2,720**	**57,915**	**-**	**(1,095)**	**160,841**	**50,692**	**284,673**	**2,709**	**287,382**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31ST DECEMBER 2019

1. BASIS FOR 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 2019, approved by the Board of Directors on 11th March 2020, 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;
- 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 2019.

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 2019 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 2019, 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 Europe S.r.l.	Corciano (PG) - Italy	Euro	100,000	100.00%	
Max Vannucci S.r.l.	Perugia – Italy	Euro	118,000		75.50%
Pinturicchio S.r.l.	Corciano (PG) - Italy	Euro	100,000	2.00%	98.00%
Logistica e Distribuzione S.r.l.	Milan – Italy	Euro	100,000		51.00%
Brunello Cucinelli Austria GmbH	Vienna – Austria	Euro	35,000	2.00%	98.00%
Sprl Brunello Cucinelli Belgium	Brussels – Belgium	Euro	20,000		100.00%
Brunello Cucinelli Denmark ApS	Copenhagen - Denmark	Danish krone	750,000	2.00%	98.00%
Brunello Cucinelli Retail Deutschland GmbH	Munich – Germany	Euro	200,000		70.00%
Brunello Cucinelli (England) Ltd.	London – UK	British pound	700		100.00%
Sarl Brunello Cucinelli France	Paris – France	Euro	200,000	2.00%	98.00%
SAS Brunello Cucinelli France Resort	Courchevel - France	Euro	100,000	2.00%	98.00%
Brunello Cucinelli GmbH	Munich – Germany	Euro	200,000	2.00%	98.00%
Brunello Cucinelli Hellas SA	Athens – Greece	Euro	25,200		51.00%
SAM Brunello Cucinelli Monaco	Principality of Monaco	Euro	150,000		68.67%
Brunello Cucinelli Netherlands B.V.	Amsterdam – Holland	Euro	200,000	2.00%	98.00%
OOO Brunello Cucinelli RUS	Moscow - Russia	Ruble	15,000,000	100.00%	
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%
SAS White Flannel	Cannes – France	Euro	50,000		70.00%
Brunello Cucinelli Canada Ltd.	Vancouver - Canada	Canadian dollar	100	100.00%	
Brunello Cucinelli USA Inc.	Ardsley (NY) - USA	US dollar	1,500	100.00%	
Brunello Cucinelli USA Retail LLC	Ardsley (NY) – USA	US dollar	1,182,967		100.00%
Brunello Cucinelli (Sichuan) Fashion Co., Ltd.	Chengdu – China	RMB	200,000,000	100.00%	
Brunello Cucinelli Hong Kong Ltd.	Hong Kong – China	Hong Kong dollar	2,000,000	100.00%	
Brunello Cucinelli (Macau) Fashion Co., Ltd.	Macao – China	MOP/ Hong Kong dollar	22,847,312	98.00%	2.00%
Brunello Cucinelli Brasil LTDA	São Paolo - Brazil	Real	11,200,000	98.00%	2.00%
Brunello Cucinelli Japan Co., Ltd.	Tokyo – Japan	Japanese yen	330,000,000	75.00%	
Brunello Cucinelli Singapore Pte. Ltd.	Singapore	Singapore dollar	300,000	83.67%	

During 2019, the scope of consolidation grew to include the company Logistica e Distribuzione S.r.l., in which the controlled entity Brunello Cucinelli Europe S.r.l. holds a 51% interest.
The goal for the establishment of the new company was to manage directly some logistics and export processes from Milan, which were managed with the support of third-party entities before. The operations of the controlled company started in July 2019.

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.

Estimates resulting from the application of IFRS 16
As of 1st January 2019, following the initial application of IFRS 16, significant accounting estimates have been made in relation to:
– the identification of the lease term, with particular reference to the measurement of the effects of the renewal option at the end of the non-cancellable period and an assessment of commercial practice regarding the property leases existing in the various legislations. In fact, the Group considered the presence of extension and termination options for the lessee, the lessor or both to define the lease term. If both contractual parties can exercise the extension options, the Group considered the significant economic disincentives in case the extension request is rejected as required by paragraph B34 in the IFRS 16. If one of the two parties can exercise the options, the Group applied the provisions in paragraph B35 in the IFRS 16. After the contract is enforced, the Group reviews its term if a significant event or circumstantial change occurs that depend on the Group’s will and thus affects the lessee’s reasonable certainty to exercise an option not previously included in the determination of the lease term or not to exercise an option previously included in the determination of the lease term. In June 2019, the IFRS Interpretation Committee started the discussions on the lease term issue (project: Lease Term and Useful Life of Leasehold Improvements). In November 2019, a decision was published to clarify how the concept of non-cancellable period, lease term (to post the related payable) and enforceable period (to identify the moment when the contract does not produce enforceable rights and obligations) are to be read and related to apply the IFRS 16. The decision also specified that – to identify the enforceable period – the lessee must consider the contractual moment when both parties can exercise their right to terminate the contract with no more than an insignificant penalty. The concept of penalty must not bear a merely contractual meaning. It must consider all the contractual economic aspects. Once identified the enforceable period, the lessee must assess if extension or termination options exist and when the same is reasonably certain to control the right to use the asset and hence determines the lease term. Upon the date when these consolidated financial statements were prepared, the Group considered such discussions and conclusions and decided to keep monitoring their evolution in time.

- the determination of the discount rate for all leases not containing an implicit interest rate; in particular, the Group has calculated an incremental borrowing rate (IBR) to be used to discount future lease payments, identifying each country as a portfolio of lease agreements with similar features and determining the relative IBR as the rate of a risk-free instrument of the respective country in which the lease agreement is stipulated, based on the various contractual deadlines, increased by the Group's credit spread.

Please refer to paragraph 4.1 in the Notes "New accounting standards, interpretations and changes adopted by the Group" in this financial report for a comment on the impacts of the new IFRS 16 accounting standard.

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 from 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
Software	2-3
Licenses	5
Other intangible assets	3-12

Key money
As of 1st January 2019 when the accounting standard IFRS 16 was first enforced, this item has been reclassified inside the "Rights of use" item in the financial statements. It refers to the amounts paid by the Group to assume leases for commercial property in prestigious locations. Such costs also include the initial direct costs incurred for the negotiation and stipulation of lease agreements.

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;
– 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 the recognition criteria.

With reference to buildings, the historical 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 the 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 shown 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, recognized at historical cost of production, and are depreciated in 10 years.

The value increases of such assets are recognized in profit or loss as own work capitalized.

Impairment

At every balance sheet date, the Group considers whether there are any indicators of impairment of intangible assets, right of use, and 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

For an exhaustive description of the application of the new IFRS 16 accounting standard, please refer to paragraph 4.1 "New accounting standards, interpretations and amendments adopted by the Group" set out below in the notes to the financial statements.

FINANCIAL INSTRUMENTS

Recognition and valuation
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.

Financial assets

Initial recognition and valuation
On initial recognition, financial assets are classified, as appropriate, according to the subsequent measurement methods, i.e. amortized cost, fair value through comprehensive income OCI and fair value through profit or loss.
The classification of financial assets at the time of initial recognition depends on the characteristics of the contractual cash flow of the financial assets and the business model that the Group uses to manage them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined in accordance with IFRS 15.

Subsequent valuation
For the purposes of subsequent valuation, financial assets are classified into four categories:
- 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 without reversal of cumulative gains and losses at the time of derecognition (equity instruments);
- Financial assets at fair value through profit or loss.

Financial assets at amortized cost (debt instruments)
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, a loan to an associate company, a loan to a director included in other non-current financial assets.

Financial assets at fair value through OCI (debt instruments)
For assets from debt instruments measured at fair value recognized in OCI, interest income, exchange rate differences and impairment losses, together with recoveries, are recognized in the income statement and calculated in the same way as financial assets measured at amortized cost. The remaining changes in fair value are recognized in OCI. Upon elimination, the cumulative change in fair value recorded in OCI is reclassified to the income statement.
Assets from Group debt instruments measured at fair value through OCI include investments in listed debt instruments included in other non-current financial assets.

Investments in equity instruments

Upon initial recognition, the Group may irrevocably choose to classify its equity investments as equity instruments recognized at fair value through OCI when they meet the definition of equity instruments under IAS 32 "Financial Instruments: Presentation" and are not held for trading. The classification is determined for each individual instrument. Gains and losses on these financial assets are never reversed to the income statement. Dividends are recognized as other income in profit or loss when the right to payment has been resolved, except when the Group benefits from such income as recovery of part of the cost of the financial assets, in which case such gains are recognized through OCI. Equity instruments recognized at fair value through OCI are not subject to impairment testing.
The Group has chosen to irrevocably classify its unlisted shareholdings in this category.

Financial assets at fair value through profit or loss

Financial instruments at fair value with changes recognized in 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.
This category includes derivatives and listed equity investments that the Group has not irrevocably chosen to classify at fair value recognized in OCI. Dividends on listed equity investments are recognized as other income in profit or loss for the year when the right to payment has been established.
The embedded derivative contained in a non-derivative hybrid contract, a financial liability or a principal non-financial contract, is separated from the principal contract and accounted for as a separated derivative, if: its economic characteristics and associated risks are not closely related to those of the principal contract; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value, with changes in fair value recognized in the income statement. A revaluation occurs only if there is a change in the terms of the contract that significantly changes the otherwise expected cash flows or a reclassification of a financial asset to a category other than fair value through profit or loss.

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.

In cases where the Group has transferred the rights to receive cash flows from an asset or entered into an agreement under which it retains the contractual rights to receive the cash flows from the financial asset, but assumes a contractual obligation to pay the cash flows to one or more beneficiaries (pass-through), it will assess whether and to what extent it has retained the risks and rewards of ownership.
If the Group has neither transferred nor substantially retained all the risks and benefits nor lost control over it, the asset will continue to be recognized in the Group's financial statements to the extent of its residual involvement in the asset. In this case, the Group also recognizes an associated liability. The transferred asset and the associated liability are valued to reflect the rights and obligations that remain with the Group.
When the entity's continuing involvement is a guarantee on the transferred asset, involvement is measured at the lower value between the amount of the asset and the maximum amount of consideration received that the entity may have to repay.

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

Initial recognition and valuation

On initial recognition, financial liabilities are classified as financial liabilities at fair value through profit or loss, as mortgages and loans, or as derivatives designated as 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.

Subsequent valuation

For the purposes of subsequent valuation, financial liabilities are classified into two categories

- Financial liabilities at fair value through profit or loss
- Financial liabilities at amortized cost (loans and financing)

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value with changes recognized through profit or loss include liabilities held for trading and financial liabilities initially recognized at fair value with changes recognized through profit or loss.

Liabilities held for trading are all liabilities assumed with the intention of extinguishing or transferring them in the short term. This category also includes derivative financial instruments subscribed by the Group that are not designated as hedging instruments in a hedging relationship as defined by IFRS 9. Embedded derivatives, separated from the main contract, are classified as financial instruments held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognized in profit or loss.

Financial liabilities are designated at fair value with changes recognized in profit or loss from the date of initial recognition, only if the criteria of IFRS 9 are met. At the time of initial recognition, the Group did not designate financial liabilities at fair value with changes recognized in profit or loss.

Financial liabilities at amortized cost (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.

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 and Hedge Accounting

Initial recognition and subsequent valuation
The group uses derivative financial instruments including: forward foreign exchange contracts and interest rate swaps to hedge its currency exchange and interest rate risks, respectively. These derivative financial instruments are initially recognized at fair value on the date the derivative contract is signed and are subsequently remeasured at fair value. Derivatives are recorded as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

For hedge accounting purposes, there are three types of hedges:
– fair value hedges in case of hedge exposure against changes in the fair value of the recognized asset or liability or unrecognized irrevocable commitment;
– cash flow hedges in the case of hedge exposure to changes in the cash flows attributable to a particular risk associated with all the recognized assets or liabilities, to a highly probable planned transaction, or to the foreign currency risk on an unrecognized irrevocable commitment;
– hedging of a net investment in a foreign operation.

When initiating a hedging transaction, the Group formally designates and documents the hedging relationship to which it intends to apply hedge accounting, its risk management goals and the strategy it plans to pursue.

The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk and the way in which the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including analysis of the sources of hedge ineffectiveness and how the hedging relationship is determined).

The hedging relationship shall be considered to meet the eligibility criteria for hedge accounting if it meets all the following requirements for hedge effectiveness:
– there is an economic relationship between the hedged item and the hedging instrument;
– the effect of credit risk does not outweigh the changes in value resulting from the aforementioned economic relationship;

the hedging ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Transactions that meet all qualifying criteria for hedge accounting are accounted for as follows:

Fair value hedge
The change in the fair value of hedging derivatives is recognized in profit/(loss) for the year under other costs. The change in the fair value of the hedged item attributable to the hedged risk is recognized as part of the carrying amount of the hedged item and is also recognized in profit or loss under other costs.
With regard to fair value hedges relating to items accounted for under the amortized cost method, any adjustment to the carrying amount is amortized in the statement of profit/(loss) for the year over the remaining period of the hedge using the effective interest rate method (EER). Depreciation thus determined may begin as soon as an adjustment exists but may not extend beyond the date on which the hedged item ceases to be adjusted due to changes in fair value attributable to the hedged risk.
If the hedged item is derecognized, the unamortized fair value is recognized immediately in profit/(loss) for the year.

When an unrecognized irrevocable commitment is designated as a hedged item, subsequent cumulative changes in its fair value attributable to the hedged risk are recognized as assets or liabilities and the corresponding gains or losses recognized in profit or loss.

Cash flow hedge
The portion of profit or loss on the hedged instrument relating to the effective portion of the hedge is recognized in other comprehensive income in the cash flow hedge reserve, while the ineffective portion is recognized directly in profit or loss. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in the fair value of the hedged item.
The Group uses forward currency contracts to hedge its exposure to exchange rate risk relating both to planned transactions and to already established commitments. The ineffective part of forward currency contracts is recorded under other costs.
The Group only designates the spot component of forward contracts as a hedging instrument. The forward component is cumulatively recognized in OCI under a separate item.
Amounts accumulated in other comprehensive income are accounted for, depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently involves the recognition of a non-financial component, the amount accumulated in shareholders' equity is removed from the separate component of shareholders' equity and included in the cost or other carrying amount of the hedged asset or liability. This is not considered a reclassification of the items recognized in OCI for the period. This also applies in the case of a planned hedged transaction of a non-financial asset or non-financial liability that subsequently becomes an irrevocable commitment to which fair value hedge accounting is applied.

For any other cash flow hedge, the amount accumulated in OCI is reclassified to the income statement as a reclassification adjustment in the same period or periods during which the hedged cash flows impact the income statement.

If the cash flow hedge accounting is discontinued, the amount accumulated in OCI shall remain so if the hedged future cash flows are expected to occur. Otherwise, the amount shall be reclassified immediately to profit or loss for the period as a reclassification adjustment. After suspension, once the hedged cash flow occurs, any accumulated amount remaining in OCI shall be accounted for depending on the nature of the underlying transaction as described above.

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
Since 1st January 2018, the Group has been applying the provisions of IFRS 15 to revenues deriving from contracts with customers, which introduced a new five-stage model and replaced all the previous requirements of the IFRS on the recognition of revenues (IAS 18, IAS 11, IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31).

IFRS 15 requires the recognition of revenue in an amount that reflects the consideration to which the entity believes it is entitled in exchange for the transfer of goods or services to the customer.

The Group has applied the new standard from the mandatory effective date, using the full retrospective application method. In applying IFRS 15, the Group has considered the following points:

a. 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).

In some geographical areas, the Group sells its products through department stores that act as agents and charge the fees for their services back to the Group (rental of premises, advertising, marketing events, etc.) in relation to the value of the goods sold to the end customer. In these contracts, in fact, the department store is not considered to be primarily responsible for fulfilling the promise to supply the goods to the end customer.
In addition, the department store does not have the discretionary power to define the price of the goods sold to customers.
Consequently, the application of IFRS 15 has provided for the presentation of gross sales revenues for these types of contracts and the separate indication of the costs of services rendered by the department store, the latter services being separate from sales of products to end customers.
The Group has noted that the recognition of revenues occurs when control of the asset has been transferred to the customer, generally at the time of delivery of the goods, similar to what already happens according to the standards currently applicable (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. 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, as required by accounting standard IFRS 15.

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

I Proventi e gli Oneri finanziari sono rilevati per competenza sulla base degli interessi maturati sul valore netto delle relative attività e passività finanziarie, utilizzando il tasso di interesse effettivo.

INCOME TAXES

Current assets
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 SEGMENT

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

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

For the first time, the Group has applied the IFRS 16 standard on "Leases", starting 1st January 2019. The nature and effects of the changes are shown below.

IFRS 16 Leases
IFRS 16 was published in January 2016 and replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement Contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions in the Legal Form of a Lease.

IFRS 16 establishes the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize all lease arrangements in their financial statements on the basis of a single model similar to that used to account for finance leases under IAS 17. The principle allows two exceptions for this form of recognition by lessees – leases where the underlying asset has a "low value" (individual assets underlying the lease arrangement having a value not exceeding €5,000, for example personal computers) and short-term leases (for example where the lease term is 12 months or less). At the initial date of the lease, the lessee recognizes a liability for the lease payments (the lease liability) and an asset that represents the right to use the underlying asset for the lease term (the right-of-use asset). Lessees must then separately recognize the interest expense on the lease liability and the amortization of the right-of-use asset. On the other hand the standard does not introduce significant changes for lessors.

Lessees must also remeasure the lease liability on the occurrence of certain events (for example a change in the conditions of the lease arrangement, a change in future lease payments resulting from the change in an index or a rate used to determine those payments). The lessee will generally recognize the remeasurement of the lease liability as an adjustment to the right-of-use asset.

The Group has applied IFRS 16 from 1st January 2019, completing the project for implementing the new business information system supporting accounting management during the first few months of 2019 as required by the introduction of the new accounting standard.
The Group has applied IFRS 16 from 1st January 2019 using the modified retrospective approach. As a result, the cumulative effect of initially applying the new standard is recognized as an adjustment to retained earnings at 1st January 2019 without restating comparative information (as provided by paragraphs C7-C13 of IFRS 16). More specifically, for leases previously classified as operating leases, the Group has recognized:
– a financial liability, equal to the present value of the remaining lease payments at the transition date, discounted by using at the incremental borrowing rate applicable at the transition date for each lease;
– a right-of-use asset with the net carrying amount that it would have had if the standard had been applied from the start of the lease term, but using a discount rate determined at the transition date.
– For measurement purposes the Group recognizes right-of-use assets at cost, less accumulated amortization, impairment losses and adjustments arising from the remeasurement of lease liabilities.

In addition, key money classified as an intangible asset has been reclassified at 1st January 2019 and recognized as an increase in the carrying amount of right-of-use assets as it is considered to be an initial direct cost under the new standard.
The initial application of IFRS 16 at 1st January 2019 had very significant effects on the Group's consolidated statement of financial position at that date which are summarized in the following table:

(In thousands of euro)	**1st January 2019**
Right-of-use	357,276
Intangible assets	(20,530)
Non-current financial assets for leases	994
Deferred tax assets	5,313
Total non-current assets	**343,053**
Current financial assets for leases	285
Other receivables and other current assets	(969)
TOTAL CURRENT ASSETS	**(684)**
TOTAL ASSETS	**342,369**
Other reserves	(13,625)
Total equity attributable to the shareholders of the parent company	**(13,625)**
Capital and reserves attributable to non-controlling interests	(2,586)
Total equity attributable to non-controlling interests	**(2,586)**
TOTAL EQUITY	**(16,211)**
Non-current financial liabilities for leases	327,574
Other non-current liabilities	(14,746)
TOTAL NON-CURRENT LIABILITIES	**312,828**
Current financial liabilities for leases	46,180
Other current liabilities	(428)
TOTAL CURRENT LIABILITIES	**45,752**
TOTAL LIABILITIES	**358,580**
TOTAL EQUITY AND LIABILITIES	**342,369**

On the initial application of IFRS 16, at 1st January 2019 the Group recognized right-of-use assets of €357,276 thousand (of which €20,530 arising from the reclassification of key money previously recognized as intangible assets), non-current financial assets arising from subleases of €1,279 thousand and lease liabilities of €373,754 thousand (of which €327,574 thousand non-current and €46,180 current).
The difference between assets and liabilities, amounting to €16,211 thousand, was recognized in retained earnings, net of the deferred tax effect of €5,313 and the reversal of prepayments and deferred income/expense amounting in total to €14,205 thousand recognized at 31st December 2018 under IAS 17 for the leases falling within the scope of IFRS 16.

The main effects on the consolidated financial statements as at 31st December 2019, for which reference should be made to the following notes for details, can be summarized as follows:

- statement of financial position: an increase in non-current assets for the recognition of the leased "right-of-use" asset with counter-entry to an increase in financial liabilities (lease liabilities);
- income statement: a different qualification and classification of the costs, with the recognition of the depreciation of the right-of-use asset and interest payable on financial debts, instead of lease expense;
- classification of the repayment of lease liabilities in the cash flow generated by financing activities and of interest expense on lease liabilities in the cash flow generated by operating activities;
- the different qualification and classification of the costs has had an effect on EBITDA, on net invested capital and net financial debt and on the other economic and financial ratios. Therefore, alternative performance measures have been presented in the Report on Operations to this financial report with the indication "including IFRS 16".

The Group subleases out certain property acquired under lease arrangements. On transition to IFRS 16, these subleases are classified as "finance leases" and accounted for as financial assets for investment, while the subleases classified as "operating leases" follow the same means of classification and accounting used previously under IAS 17.

Almost all the effects arising from the adoption of IFRS 16 relate to agreements for leasing property (for spaces for sales points/DOS, for showrooms, for logistics and for administrative and commercial offices).

In adopting IFRS 16, the Group has used the following practical expedients:

- Leases expiring within 12 months from the transition date have been classified as short-term leases; in these cases the lease payments are recognized in profit or loss on a straight line basis;
- The information available at the transition date has been used to determine the lease term, with particular reference to options to be exercised for extension or early termination.

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. The main ones are summarized below:

- *Lease term*: for estimates relating to the identification of the duration of the lease contract, please refer to the section "Discretional assessments and significant accounting estimates" in the Notes to these Consolidated Financial Statements.
- *Definition of the discount rate*: for estimates relating to the discount rate used to discount future lease payments, please refer to the paragraph "Discretional assessments and significant accounting estimates" in the Notes to these Consolidated Financial Statements.
- *Right-of-use assets*: The Group recognizes right-of-use assets at the date on which the lease commences (meaning the date on which the underlying asset is available for use). Right-of-use assets are measured at cost less accumulated amortization and impairment losses and are adjusted for the remeasurement of the lease liability. A right-of-use asset is initially measured at the amount of the lease liability plus any initial direct costs and lease payments at or prior to commencement less any incentives received. Unless the Group has the reasonable certainty that it will acquire title to the leased asset at the end of the lease term, right-of-use assets are amortized on a straight line basis over the lesser of the estimated useful life and the lease term. The value of the right-of-use assets is tested for impairment.
- *Lease liabilities*: At the date of commencement of the lease, the lease liability is initially measured at the present value of the lease payments due for the lease but not yet paid at that date. Payments consist of fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or rate and amounts expected to be payable by the lessee under residual value guarantees. Lease payments also include the exercise price of a purchase option that the lessee is reasonably certain to

exercise and payments for terminating the lease if the lease term assumes that the Group will exercise the lease termination option. Variable lease payments that do not depend on an index or rate are recognized as costs in the period in which the event or condition that gave rise to the payment occurs. To calculate the present value of future payments, the Group uses the Incremental Borrowing Rate (IBR) at the contract start date. Subsequently, the lease liability is increased for interest and decreased for payments made. In addition, the lease liability is remeasured to take account of changes in the terms of the contract.

– *Short-term leases and leases where the underlying asset has a low value*: The Group has elected the recognition exemption for short-term leases for machinery and equipment (that is leases with a term of 12 months or less from the date of commencement and not containing a purchase option). The Group has additionally elected the recognition exemption for low-value leases where the underlying asset is office equipment with a value of less than €5,000. Lease payments for short-term leases and low-value leases are recognized on a straight line basis in profit or loss over the lease term.

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

There are no accounting standards, amendments and interpretations that have been issued but are not yet effective which could have a significant effect on these consolidated financial statements.

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

The consolidated financial statements are presented in euro, the functional and presentation currency adopted by the Company. As permitted by IAS 1, 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 2019	31st December 2018	31st December 2019	31st December 2018
US dollar	1.1195	1.18100	1.1234	1.14500
Swiss franc	1.1124	1.15500	1.0854	1.12690
Japanese Yen	122.0058	130.39590	121.94	125.85000
RMB	7.7355	7.80810	7.8205	7.87510
British pound	0.87777	0.88471	0.8508	0.894530
Hong Kong dollar	8.7715	9.25590	8.7473	8.96750
Real	4.4134	4.30850	4.5157	4.44400
Canadian dollar	1.4855	1.52940	1.4598	1.56050
Ruble	72.4553	74.04160	69.9563	79.71530
Singapore dollar	1.5273	1.57920	1.5111	1.55910
Danish kroner	7.4661	7.45890	7.4715	7.46730

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

NOTE 1. Goodwill

The composition of goodwill at 31st December 2019 with comparative figures at 31st December 2018 is as follows:

(In thousands of euro)	31st December 2019	31st December 2018	Change
Goodwill	7,045	7,045	-
Total goodwill	**7,045**	**7,045**	**-**

Goodwill at 31st December 2019 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 2019 and there were no indications of impairment. Please refer to note 3.1 for further details on impairment testing.

NOTE 2. Right-of-use assets

The composition of the right-of-use assets at 31st December 2019 with comparative figures at 31st December 2018 is as follows:

(In thousands of euro)	31st December 2019	31st December 2018	Change
Right to use property	433,449	-	433,449
Right to use other tangible assets	172	-	172
Total right-of-use assets	**433,621**	**-**	**433,621**

Details of the historical cost, accumulated amortization and net book value of the right-of-use assets at 31st December 2019, with comparative figures at 31st December 2018, are as follows:

(In thousands of euro)	31st December 2019			31st December 2018		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Right to use property	682,089	(248,640)	433,449	-	-	-
Right to use other tangible fixed assets	245	(73)	172	-	-	-
Total right-of-use assets	**682,334**	**(248,713)**	**433,621**	**-**	**-**	**-**

Right-of-use assets at 31st December 2019 amounted to €433,621 thousand and is mainly made up of activities relating to rental contracts for the Group's boutiques and showrooms and, to a residual extent, to rental contracts for offices or logistics. As already mentioned, at 1st January 2019, the balance of intangible assets relating to Key money outstanding at 31st December 2018, amounting to €20,530 thousand, has been reclassified and recognized as an increase in the value of right-of-use as they were classified, according to the new standard, as the initial direct cost of a lease.

Changes in the net book value of the right-of-use assets as at 31st December 2019 are shown below:

(In thousands of euro)	**Right of use on real estate**	**Right of use on other tangible fixed assets**	**Total right of use**
1st January 2019	**-**	**-**	**-**
Effect of application of IFRS 16 at 1st January 2019	357,212	64	**357,276**
Increases	130,670	179	**130,849**
Net decreases	(2,353)	(8)	**(2,361)**
Translation differences	8,684	-	**8,684**
Amortization	(60,764)	(63)	**(60,827)**
31st December 2019	**433,449**	**172**	**433,621**

The main increases recorded in 2019 relate to new lease contracts signed during the year for the opening of new boutiques.

There were no indications during the year of a possible impairment regarding the item right of use.

NOTE 3. Intangible assets

The composition of intangible assets at 31st December 2019 with comparative figures at 31st December 2018 is as follows:

(In thousands of euro)	**31st December 2019**	**31st December 2018**	**Change**
Concessions, licenses, trademarks and similar rights	6,962	5,894	1,068
Key money	-(*)	20,530	(20,530)
Other intangible assets	1,309	1,643	(334)
Assets under formation and advances	3,192	3,471	(279)
Total intangible assets	**11,463**	**31,538**	**(20,075)**

(*) The balance referring to the item Key money outstanding at 31st December 2018, equal to €20,530 thousand, was reclassified at 1st January 2019 and recorded as an increase in right-of-use assets.

Details of historical cost, accumulated amortization and the net book value of intangible assets at 31st December 2019 with comparative figures at 31st December 2018 are as follows:

(In thousands of euro)	**31st December 2019**			**31st December 2019**		
	Cost	**Accumulated amortization**	**Net book value**	**Cost**	**Accumulated amortization**	**Net book value**
Concessions, licenses, trademarks and similar rights	22,961	(15,999)	6,962	18,377	(12,483)	5,894
Key money	-	-	-	46,034	(25,504)	20,530
Other intangible assets	1,721	(412)	1,309	1,721	(78)	1,643
Assets under formation and advances	3,192	-	3,192	3,471	-	3,471
Total intangible assets	**27,874**	**(16,411)**	**11,463**	**69,603**	**(38,065)**	**31,538**

Intangible assets at 31st December, 2019 amounted to €11,463 thousand and consisted principally of "Concessions, licenses, trademarks and similar rights" and "Assets under construction and advances", both mainly relating to investments in software related to IT and digital activities aimed at supporting the business, through the continuous renewal and modernization of the Group's technological platforms and the e-commerce site for digital sales.

The following table sets out the changes in the net book value of intangible assets for the years ended 31st December 2019 and 31st December 2018:

(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 2019	**5,894**	**20,530**	**1,643**	**3,471**	**31,538**
Effect of application of IFRS 16 at 1st January 2019	-	(20,530)	-	-	**(20,530)**
Increases	1,894	-	-	2,361	**4,255**
Net decreases	-	-	-	-	**-**
Translation differences	17	-	-	-	**17**
Value adjustments	-	-	-	-	**-**
Reclassifications	2,640	-	-	(2,640)	**-**
Changes in scope of consolidation	-	-	-	-	**-**
Amortization	(3,483)	-	(334)	-	**(3,817)**
31st December 2019	**6,962**	**-**	**1,309**	**3,192**	**11,463**

(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 2019	**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	-	-	-	-	-
Depreciation	(3,116)	(5,137)	(38)	-	(8,291)
31st December 2018	**5,894**	**20,530**	**1,643**	**3,471**	**31,538**

Investments for the year amounted to €4,255 thousand, of which €3,942 thousand relate to the project to upgrade the information technology and IT/digital systems, which has been capitalized under the items “Concessions, licenses, trademarks and similar rights” (as to €1,611 thousand) and “Assets under formation and advances” (as to €2,331 thousand) for projects to be completed over the next few months.

The remainder of the increases, amounting to €313 thousand, relate to investments in production and logistics.

There were no further indications during the year of a possible impairment of intangible assets.

NOTE 3.1 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 (€7.0 million at 31st December 2019)
– Right of use (€433.6 million at 31st December 2019), which includes compensation paid to the tenant in accordance with industry practice in order to take over the lease of a strategically located shop (Key Money)
– Other intangible assets (€11.5 million at 31st December 2019).

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

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 (2019-2021) 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	10.5%
Brazil	11.3%
Hong Kong	7.9%

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 3.8%, 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 2019, 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 4. Property, plant and equipment

The composition of property, plant and equipment at 31st December 2019 with comparative figures at 31st December 2018 is as follows:

(In thousands of euro)	31st December 2019	31st December 2018	Change
Land	7,280	4,648	2,632
Buildings	42,641	43,386	(745)
Leasehold improvements	61,259	53,150	8,109
Plant and machinery	3,676	3,718	(42)
Industrial and commercial equipment	3,552	2,004	1,548
Other assets	22,680	16,777	5,903
Assets under construction and advances	1,617	1,969	(352)
Total property, plant and equipment	**142,705**	**125,652**	**17,053**

Details of historical cost, accumulated depreciation and the net book value of property, plant and equipment at 31st December 2019, with comparative figures at 31st December 2018, are as follows:

(In migliaia di Euro)	31st December 2019			31st December 2018		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Land	7,280	-	7,280	4,648	-	4,648
Buildings	53,378	(10,737)	42,641	52,552	(9,166)	43,386
Leasehold improvements	117,401	(56,142)	61,259	97,538	(44,388)	53,150
Plant and machinery	12,971	(9,295)	3,676	12,081	(8,363)	3,718
Industrial and commercial equipment	11,568	(8,016)	3,552	7,668	(5,664)	2,004
Other assets	40,580	(17,900)	22,680	30,738	(13,961)	16,777
Assets under construction and advances	1,617	-	1,617	1,969	-	1,969
Total property, plant and equipment	**244,795**	**(102,090)**	**142,705**	**207,194**	**(81,542)**	**125,652**

Property, plant and equipment at 31st December 2019 amounted to €142,705 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 2019 and 31st December 2018 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 2019	**4,648**	**43,386**	**53,150**	**3,718**	**2,004**	**16,777**	**1,969**	**125,652**
Increases	2,632	826	18,901	920	3,776	10,221	1,353	**38,629**
Net decreases	-	-	(160)	(11)	-	(348)	-	**(519)**
Translation differences	-	-	709	12	3	252	1	**977**
Value adjustments	-	-	(428)	-	-	-	-	**(428)**
Reclassifications	-	-	1.503	-	119	84	(1.706)	**-**
Changes in scope of consolidation	-	-	-	-	-	-	-	**-**
Depreciation	-	(1,571)	(12,416)	(963)	(2,350)	(4,306)	-	**(21,606)**
31st December 2019	**7,280**	**42,641**	**61,259**	**3,676**	**3,552**	**22,680**	**1,617**	**142,705**

(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
Value adjustments	-	-	(244)	(15)	(18)	(83)	-	(360)
Reclassifications	(70)	45	600	11	-	167	(994)	(241)
Changes in scope of consolidation	-	-	-	-	-	-	-	-
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**

The Brunello Cucinelli Group made investments in property, plant and equipment in 2019 of €38,799 thousand consisting mainly of the following

- investments for a total of €2,632 thousand in "Land", relating to the purchase of a plot of buildable land adjacent to the industrial complex of Solomeo;
- investments for a total of €826 thousand in "Buildings", mainly dedicated to restructuring and modernizing the industrial complex in Solomeo;
- investments of €18,901 thousand in "Leasehold improvements", principally due to the openings, expansion and improvements made on DOS, wholesale monobrand and showrooms throughout the world;
- investments totaling €14,917 thousand, of which €920 thousand recognized under "Plant and machinery" (mainly referring to new machinery for production), €3,776 thousand under "Industrial and commercial

equipment" (mainly for investments made at sales points and at Solomeo headquarters), €10,221 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 and the "historical collection" at the headquarters in Solomeo);

– additional investments recognized in "Assets under construction and advances" totaling €1,353 thousand, mainly relating to the work carried out in setting up foreign DOS and to the renovation of the industrial complex in Solomeo.

Investments in IT/Digital relating to tangible fixed assets amounted to €1,106 thousand in 2019.

"Value adjustments" of €428 thousand regard a write-down of tangible assets to their recoverable amount at 31st December 2019.

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

NOTE 5. Investment property

The composition of investment property at 31st December 2019 with comparative figures at 31st December 2018 is as follows:

(In thousands of euro)	**31st December 2019**	**31st December 2018**	**Change**
Investment property	2,814	919	1,895
Total investment property	**2,814**	**919**	**1,895**

This item, which is equal to €2,814 thousand, refers to three separate property complexes, not for business use, as well as to plots of buildable land located in Solomeo and managed by the Group in view of restoring them for subsequent lease. As required by the IAS 40 standard, these assets were separated from the other property owned by the Group.
Investments of €1,895 thousand were made in these properties during the year.

NOTE 6. Current and non-current financial assets for leasing

As previously mentioned, during the transition to IFRS16 the active sublease contracts identified as "finance leases" were classified and recorded as financial assets for investments and represented by the item "Financial assets for leasing".

The item at 31st December 2019 is shown below:

(In thousands of euro)	non-current	current	Total at 31st December 2019
Financial assets for leasing	676	315	991
Total financial assets for leasing	**676**	**315**	**991**

Changes during 2019 were as follows:

(In thousands of euro)	Total Financial Assets for leasing
Balance at 1st January 2019	**-**
Effect of application of IFRS 16 at 1st January 2019	1,279
Increases for new leases	-
Decreases for early termination of leases	-
Interest income increases	22
Decreases for cash received	(310)
Exchange gains/(losses)	-
Translation differences	-
Balance at 31st December 2019	**991**

NOTE 7. Other non-current financial assets

The composition of other non-current financial assets at 31st December 2019 with comparative figures at 31st December 2018 is as follows:

(In thousands of euro)	31st December 2019	31st December 2018	Change
Guarantee deposits	8,767	7,675	1,092
Total other non-current financial assets	**8,767**	**7,675**	**1,092**

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 €763 thousand for the increase arising from new payments made by the Group, €138 thousand for the decrease from reimbursements obtained during the period, €194 thousand due to the positive change in the balance arising from exchange rate effects on deposits held in foreign currency and €273 thousand from the increase generated by discounting balances at the balance sheet date.

NOTE 8. Inventories

The composition of inventories at 31st December 2019 with comparative figures at 31st December 2018 is as follows:

(In thousands of euro)	31st December 2019	31st December 2018	Change
Raw materials and consumables	37,760	31,436	6,324
Work in progress and semi-finished goods	9,323	9,652	(329)
Finished goods and merchandise	157,785	120,676	37,109
Total inventories	**204,868**	**161,764**	**43,104**

At 31st December 2019 inventories amounted to €204,868 thousand compared to €161,764 thousand at 31st December 2018. The increase in absolute value equal to €43,104 thousand refers to "Raw materials and consumables" in the amount of €6,324 thousand and to "Finished goods and merchandise" and "Work in progress and semi-finished goods" amounting to €36,780 thousand.
With regard to raw materials, important purchases were made in the second half of the year due to the growth of the Spring-Summer 2020 and Fall-Winter 2020 collections, with an increase in the costs for the purchase of materials in the second half of 2019 equal to € 10.1 million (+21.7%) compared to the second half of 2018.

Concerning finished and semi-finished goods, we would like to stress:
– the increase of directly operated stores (6 DOS and 5 sales points under concession)
– the development of the new "Kids Project", a natural extension of the ready to wear offer with dedicated collections which arrived in the stores during the second half of the year
– the development of the digital channel, with new technological platforms also in foreign markets
– the important 'Men's suits' projects in the Group's boutiques
– the general organic growth of volumes in the Spring-Summer 2020 collection, with a consequent increase in costs for external production process, which in the second half of 2019 increased by €12.3 million (+25,1%) compared to the second half of 2018.

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 9. Trade receivables

Trade receivables at 31st December 2019 amounted to €58,622 thousand compared with €61,444 thousand at 31st December 2018. 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 2019, compared with the year ended 31st December 2018, are as follows:

(In thousands of euro)	**2019**	**2018**
1st January	**1,867**	**1,770**
Allocations	811	802
Utilizations	(1,367)	(705)
31st December	**1,311**	**1,867**

Allocations and utilizations are included under the item "Value adjustments to assets and other provisions" in the income statement. No losses were recognized in profit and loss in 2019 as the existing allowance for bad and doubtful debts was sufficient. Losses and utilizations taken as a whole amounted to 0.22% of net revenues in 2019 (0.13% in 2018).

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

	31st December	
Overdue by:	**2019**	**2018**
0-90 days	4,231	5,336
91-180 days	3,820	3,078
Over 180 days	2,065	2,950
Total	**10,116**	**11,364**

NOTE 10. Tax receivables

The composition of tax receivables at 31st December 2019 with comparative figures at 31st December 2018 is as follows:

(In thousands of euro)	**31st December 2019**	**31st December 2018**	**Change**
IRES corporate income tax receivables	59	52	7
IRAP regional production tax receivables	5	6	(1)
Other tax receivables	914	770	144
Total tax receivables	**978**	**828**	**150**

Tax receivables amounted to €978 thousand at 31st December 2019. The item "Other tax receivables" amounted to €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") and €555 thousand in tax credits relating to advances for income taxes recognized by certain foreign subsidiaries.

NOTE 11. Other receivables and other current assets

The composition of other receivables and other current assets at 31st December 2019 with comparative figures at 31st December 2018 is as follows:

(In thousands of euro)	**31st December 2019**	**31st December 2018**	**Change**
Receivables from the tax authorities	5,583	3,419	2,164
Receivables from credit cards	4,163	2,611	1,552
Prepayments and accrued income	7,286	4,959	2,327
Advances to suppliers	1,738	969	769
Due from agents	272	233	39
Receivables from others	1,961	3,885	(1,924)
Total other receivables and other current assets	**21,003**	**16,076**	**4,927**

Receivables from the tax authorities amount to €5,583 thousand at 31st December 2019 compared to €3,419 thousand at 31st December 2018. The amount refers mainly to the VAT credit recorded by the Parent Company and its subsidiaries.

Receivables from credit cards at 31st December 2019 amounted to €4,163 thousand, against €2,611 thousand at 31st December 2018. The amount refers to collections received through credit cards, which occurred before the end of the year but had not yet been credited to current accounts.

Prepayments and accrued income mostly arise from the dynamics of rental payments for shops and showrooms that are growing significantly, to advance payments for the creation of catalogues for the fall/winter collection, which will be delivered in the following half year, to advance payments for utilities, insurance premiums and digital management fees. It should be noted that in the first-time adoption of IFRS 16, prepayments for rents relating to contracts covered by the new accounting standard were considered in the restatement of assets by right of use, as required by the standard.

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

NOTE 12. Other current financial assets

The composition of other current assets financial at 31st December 2019 with comparative figures at 31st December 2018 is as follows:

(In thousands of euro)	31st December 2019	31st December 2018	Change
Financial receivables	10	17	(7)
Short-term financial instruments	9,120	8,996	124
Total other current financial assets	**9,130**	**9,013**	**117**

At 31st December 2019 other current financial assets amounted to €9.130 thousand.
Of the total, €9,120 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 €10 thousand relates to prepayments of loans outstanding at the year end.

NOTE 13. Cash and cash equivalents

The composition of cash and cash equivalents at 31st December 2019 with comparative figures at 31st December 2018 is as follows:

(In thousands of euro)	31st December 2019	31st December 2018	Change
Bank and post office deposits	68,293	55,951	12,342
Cash and other valuables	535	507	28
Cheques	104	148	(44)
Total cash and cash equivalents	**68,932**	**56,606**	**12,326**

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 2019 compared to 2018.

NOTE 14. 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 2019:
– all financial instruments at fair value form part of Level 2 (the same situation existed in 2018);
– there have been no transfers from Level 1 to Level 2 or vice versa in 2019;
– there have been no transfers from Level 3 to other levels or vice versa in 2019.

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 2019 are set out below, with comparative figures at 31st December 2018.

(In thousands of euro)	**31st December 2019**	**31st December 2018**	**Change**
Current assets for derivative instruments hedging currency risk	552	418	134
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	**552**	**418**	**134**
Current liabilities for derivative instruments hedging currency risk	(3,678)	(5,195)	1,517
Current liabilities for derivative instruments hedging interest rate risk:			
- Current liabilities for derivative instruments hedging interest rate risk accounted for using hedge accounting	(193)	(206)	13
- Current liabilities for derivative instruments hedging interest rate risk not accounted for using hedge accounting	-	-	-
Total derivative financial instruments - current liabilities	**(3,871)**	**(5,401)**	**1,530**
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	(150)	(92)	(58)
- Non-current liabilities for derivative instruments hedging interest rate risk not accounted for using hedge accounting	-	-	-
Totale Passività non correnti per strumenti derivati	**(150)**	**(92)**	**(58)**

The contractual features and the relative fair value of derivative financial instruments hedging interest rate risk at 31st December 2019 and 31st December 2018 are as follows:

Derivatives on interest rate risk accounted for using hedge accounting

(In thousands of euro)	31st December 2019		31st December 2018	
	current portion	non-current portion	current portion	non-current portion
Derivative assets/(liabilities)	(193)	(150)	(206)	(92)
Total Fair Value of IRS	**(193)**	**(150)**	**(206)**	**(92)**

The contractual features and the relative fair value of derivative financial instruments hedging currency risk at 31st December 2019 and 31st December 2018 are as follows:

(In thousands of euro)	Negative fair value		Positive fair value	
	31st December 2019	31st December 2018	31st December 2019	31st December 2018
Derivative assets/(liabilities)	(3,678)	(5,195)	552	418
Total fair value of forward foreign exchange contracts	**(3,678)**	**(5,195)**	**552**	**418**

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 2019 Fair Value	31st December 2019 Book value
Current and non-current loans	48,597	48,546

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 15. Capital and reserves

Share capital at 31st December 2019 amounted to €13,600 thousand and consisted of 68,000,000 fully paid ordinary shares.

Equity at 31st December 2019 totaled €299,339 thousand, an increase of €11,957 thousand over 31st December 2018.
Changes in equity in 2019 arose from the net profit for the year and the distribution of a dividend of €20,400 thousand approved by the general meeting of the shareholders of the parent Brunello Cucinelli S.p.A. on 29th April 2019.
A dividend of €18,360 thousand was approved in the previous year.

Details of changes in equity for the years ended 31st December 2019 and 31st December 2018 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 2019 with comparative figures at 31st December 2018 were as follows:

(In thousands of euro)	**31st December 2019**	**31st December 2018**	**Change**
Legal reserve	2,720	2,720	-
Extraordinary reserve	201,598	169,873	31,725
Revaluation reserve	3,060	3,060	-
Cash flow hedge reserve	(272)	(843)	571
IFRS first-time adoption reserve	(782)	(770)	(12)
Reserve for IAS 19 effects	(532)	(429)	(103)
Translation reserve	87	(1,095)	1,182
Consolidated retained gains/losses	(32,298)	(10,050)	(22,248)
Total other reserves	**173,581**	**162,466**	**11,115**

The change of €571 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 intercompany loans (which at 31st December 2019 amounted to €33,104 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 2019 was €1,690 thousand compared to €2,709 thousand in the prior year and represents minority interests in the Group's subsidiaries.

NOTE 16. 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 2019 with comparative figures for the year ended 31st December 2018:

(In thousands of euro)	**31st December 2019**	**31st December 2018**
Present value of the obligation at the beginning of the year	**3,048**	**3,184**
Revaluation pursuant to article 2120 of the Italian civil code	121	127
Benefits paid	(114)	(283)
Change in scope of consolidation	-	-
Financial (income)/expense	(26)	(30)
Exchange differences	4	4
Actuarial (gains)/losses	149	46
Present value of the obligation at the end of the year	**3,182**	**3,048**

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 2019	**31st December 2018**
Annual discount rate	0.49%	1.15%
Inflation rate	1.00%	1.00%
Expected staff turnover rate	8.80%	8.80%
Advances rate	1.00%	1.00%

Demographic assumptions

	31st December 2019	**31st December 2018**
Mortality	TABLE RG48	
Retirement age	65 years	

Turnover rate and advances on the employees' termination indemnity

	31st December 2019	31st December 2018
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 2019. In particular, all other things being equal, a change of +10% in the discount rate used would have resulted in a decrease of €5 thousand in the liability while a change of -10% would have resulted in an increase of €5 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 2019	31st December 2018
Managers and middle managers	64.0	60.6
Office and sales staff	1,312.6	1,186.1
Factory workers	513.2	489.2
Total workforce	**1,889.8**	**1,735.9**

NOTE 17. 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 2019 with comparative figures for the year ended 31st December 2018:

(In thousands of euro)	**31st December 2019**	**31st December 2018**
Agents' supplementary termination indemnity at 1st January	**632**	**656**
Allocations	-	-
Utilizations	-	-
Actuarial (gains)/losses	28	(24)
Agents' supplementary termination indemnity at 31st December	**660**	**632**
Other provisions for risks at 1st January	**288**	**235**
Exchange differences	8	11
Allocations	171	42
Utilizations	-	-
Other provisions for risks at 31st December	**467**	**288**
Total provisions for risks and charges	**1.127**	**920**

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

	31st December 2019	**31st December 2018**
Turnover rate – voluntary	6.00%	6.00%
Turnover rate – employer initiated	5.00%	5.00%
Discount rate	0.49%	1.15%

NOTE 18. Non-current bank debt

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

The following table provides details of the Brunello Cucinelli Group's outstanding loans at 31st December 2019, showing the portion due within 12 months, within 5 years and after 5 years:

Description *(In thousands of euro)*	**Outstanding balance at 31st December 2019**	**Amount due within 12 months**	**Amount due within 5 years**	**Amount due after 5 years**
Total medium/long-term loans	**48,546**	**18,072**	**30,474**	**-**
Current portion of medium/long-term loans	18,072			
Total non-current bank debt	**30,474**			

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 2019. It should be noted that at 31st December 2019 the Parent Company, in agreement with the interested banks, updated the contractual clauses for the determination of covenants in order to neutralize the effect of the application of the new accounting standard IFRS 16.
As at 31st December 2019, all financial covenants were complied with.

Parameter	Limit
Net financial position / Net equity (or shareholders' funds)	<0.75 oppure <1.00
Net financial position / EBITDA	<1.00 oppure <1.50

NOTE 19. CURRENT AND NON-CURRENT FINANCIAL LIABILITIES FOR LEASES

The application of the new IFRS 16 standard has generated the recognition of a financial liability, equal to the present value of the remaining future payments. At 31st December 2019 this item is broken down as follows:

(In thousands of euro)	non-current	current	Total at 31st December 2019
Financial liabilities for leases	388,816	62,661	451,477
Total financial liabilities for leases	**388,816**	**62,661**	**451,477**

The following table shows changes during 2019:

(In thousands of euro)	Total financial liability for leases
Balance at 1st January 2019	**-**
Effect of application of IFRS 16 at 1st January 2019	373,754
Increase for new contracts	128,569
Decreases for early termination of contracts	(5,404)
Interest expense increases	10,463
Decreases for payments made	(63,735)
Gains/(Losses) on exchange rates	(1,213)
Translation differences	9,043
Balance at 31st December 2019	**451,477**

Net debt

The following table provides details of the net debt of the Brunello Cucinelli Group at 31st December 2019 with comparative figures at 31st December 2018 and restated in accordance with Consob Communication no. DEM/6064293 of 28 July 2006:

(In thousands of euro)	**31st December 2019**	**31st December 2018**
A. Cash	(535)	(507)
B. Other cash and cash equivalents	(68,397)	(56,099)
C. Held-for-trading financial instruments	(9,120)	(8,996)
D. Cash and cash equivalents (A)+(B)+(C)	**(78,052)**	**(65,602)**
E1. Current financial receivables for leasing	**(315)**	**-**
E2. Current financial receivables	**(10)**	**(17)**
F. Current bank debt	53,914	27,014
G. Current portion of non-current debt	18,072	24,067
H1. Current financial liabilities for leases	62,661	-
H2. Other current financial liabilities	5,522	3,048
I. Current financial debt (F) + (G) + (H)	**140,169**	**54,129**
J. Net current debt (I) + (E) + (D)	**61,792**	**(11,490)**
K. Non-current bank debt	30,474	25,934
L. Bonds issued	-	-
M1. Non-current financial liabilities for leases	388,816	-
M2. Other non-current liabilities	150	92
N. Non-current financial debt (K)+(L)+(M)	**419,440**	**26,026**
O. Net debt (J)+(N)	**481,232**	**14,536**

For detailed comments on this table please refer 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 2018	**Cash flows**	**Effect of first application of IFRS 16**	**Exchange differences**	**Change in fair value**	**Other**	**31st December 2018**
Non-current bank debt	25,934	(1,464)	-	-	-	6,004	30,474
Other non-current financial liabilities	92	-	-	-	58	-	150
Bonds	-	-	-	-	-	-	-
Current portion of non-current debt	24,067	-	-	-	-	(5,995)	18,072
Current and non-current financial liabilities for leases	-	(63,733)	373,754	7,830	-	133,626	451,477
Other current financial liabilities	30,062	29,027	-	15	332	-	59,436
Current financial assets	(9,013)	(124)	-	-	-	7	(9,130)
Current financial assets for leasing	-	310	(285)		-	(340)	(315)
Cash and cash equivalents	(56,606)	(11,494)	-	(832)	-		(68,932)
Net debt	**14,536**	**(47,478)**	**373,469**	**7,013**	**390**	**133,302**	**481,232**

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", and, with reference to the "Current and non-current financial liabilities for leases", it relates to the balance generated by the effects of increases, decreases and discounted interest relating to contracts falling within the scope of IFRS 16.

NOTE 20. Other non-current liabilities

Other non-current liabilities at 31st December 2019 amounted to €247 thousand compared with €11,921 thousand at 31st December 2018. This decrease is essentially attributable to the application of the new IFRS16 standard, with the reversal of deferred liabilities on lease contracts recognized at 31st December 2018 in accordance with IAS17 and subsequently included in the scope of application of IFRS16.

(In thousands of euro)	**31st December 2019**	**31st December 2018**	**Change**
Liabilities on lease contracts	247	11,921	(11,674)
Total other non-current liabilities	**247**	**11,921**	**(11,674)**

NOTE 21. Trade payables

The composition of trade payables at 31st December 2019 with comparative figures at 31st December 2018 is as follows:

(In thousands of euro)	31st December 2019	31st December 2018	Change
Trade payables to third party suppliers	89,453	76,585	12,868
Total trade payables	**89,453**	**76,585**	**12,868**

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 22. Current bank debt

The composition of current bank debt at 31st December 2019 with comparative figures at 31st December 2018 is as follows:

(In thousands of euro)	31st December 2019	31st December 2018	Change
Bank advances on bills and invoices	53,914	27,014	26,900
Current portion of medium/long-term loans	18,072	24,067	(5,995)
Accrued interest expense	1	-	1
Total current bank debt	**71,987**	**51,081**	**20,906**

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 23. Current financial payables

Current financial payables at 31st December 2019 amounted to €5,329 thousand, of which €4,500 thousand refers to a bank charge to be received recorded by the bank in the first few days of January 2020 and the remainder to the valuation of put options on minority interests in subsidiaries.

It should be noted that the balance of the previous year referred to approximately €2.4 million in financial debt for the purchase of minority interests in subsidiaries, paid by the Parent Company during the first half of 2019.

(In thousands of euro)	31st December 2019	31st December 2018	Change
Current financial payables	5,329	2,833	2,496
Accrued loan interest	-	9	(9)
Total current financial payables	**5,329**	**2,842**	**2,487**

NOTE 24. Tax payables

Tax payables at 31st December 2019 amount to €3.960 thousand compared to €2.781 thousand at 31st December 2018.

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 2019	31st December 2018	Change
Current IRES corporate income tax payables	1,572	1,389	183
Current IRAP regional production tax payables	481	298	183
Other tax payables	1,907	1,094	813
Total tax payables	**3,960**	**2,781**	**1,179**

NOTE 25. Other current liabilities

The composition of other current liabilities at 31st December 2019 with comparative figures at 31st December 2018 is as follows:

(In thousands of euro)	31st December 2019	31st December 2018	Change
Due to agents	2,955	2,447	508
Due to employees	7,596	6,511	1,085
Social security payables	4,667	4,251	416
Taxes withheld by the Italian companies (IRPEF and other withholdings)	3,428	3,154	274
VAT payables	2,631	1,715	916
Payables for current taxes not on income	1,116	871	245
Accrued expenses and deferred income	1,168	1,530	(362)
Advances from customers	3,357	2,065	1,292
Other current payables to related parties	2,541	1,074	1,467
Other payables	4,368	2,894	1,474
Total other current liabilities	**33,827**	**26,512**	**7,315**

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 2019.

Advances from customers refer to advances that Group companies receive prior to shipment of goods to certain, mainly international, customers, both retail and wholesale.

Other current payables to related parties include a debt towards the company Solomeo S.r.l. following the purchase of building land adjacent to the Solomeo industrial complex, which was carried out with the favorable opinion of the Control and Risks Committee.

NOTE 26. Taxation

DEFERRED TAX ASSETS AND LIABILITIES

The composition of deferred tax assets and liabilities at 31st December 2019 with comparative figures at 31st December 2018 is as follows:

(In thousands of euro)	**31st December 2019**	**31st December 2018**	**Change**
Deferred tax assets	25,436	16,777	8,659
Deferred tax liabilities	(2,504)	(1,256)	(1,248)

Deferred tax assets arise mainly from the tax effect of the elimination of intercompany margins in inventories (€13,594 thousand), the recognition of deferred tax assets for the tax losses of subsidiaries (€1,709 thousand) and the deferred tax assets (of €1,230 thousand) recognized by the parent company that arise mostly from unrealized currency transactions and currency hedging transactions.

It should be noted here that the application of the new accounting standard IFRS 16 also generated the recognition of deferred tax assets at 1st January 2019 for an amount of €5.313 thousand.

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 2019 and 2018 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	
	2019	2018	2019	2018	2019	2018	2019	2018
Amortization of intangible assets	110	(4)			114	452		
Depreciation of tangible fixed assets	(681)	(277)			(398)	8	(6)	(16)
Fixed asset value adjustments								
Allowance for bad debts	254	393			(139)	8		
IAS 39 - Arrangement fees						(9)		
Fair value of derivatives	85	266	(181)	784				
IAS 17 – lease payment normalization	1,615	59			1,560	(25)	(4)	2
IAS 39 – amortized cost		1			(1)	4		
Employee termination indemnity as per IAS 19	119	86	36	11	(3)	(1)		
Agents' indemnity as per IAS 37	121	121						
Listing costs								
Elimination of intragroup margins in inventories	13,594	9,952			3,642	1,864		
Elimination of intragroup gains	9	9						
Deferred taxation on tax losses	1,709	2,960			(1,251)	(802)		
Unrealized exchange gains and losses	232	266			(34)	(666)		
Unrealized gains and losses on changes in fair value of financial instruments held for trading	(30)				(30)			
Deferred capital gains						36		
Transactions taxed on a cash basis					(1)	(41)	1	1
Sale of Brunello Cucinelli Suisse S.A. shares to employees	49	47					2	2
Taxation of the investment of Brunello Cucinelli USA Retail LLC in Brunello Cucinelli USA Inc.	(487)	1.027			(1,539)	92	25	45
Net investments in foreign operations			102	(152)	(102)	152		
IFRS 16 - Lease	5.719		5.313		330		76	
Other	514	615			(116)	186	15	7
Deferred tax (income)/expense					**2,032**	**1,258**		
Deferred taxation recognized in equity			**5,270**	**643**				
Exchange rate differences and consolidation scope changes							**109**	**41**
Deferred tax assets (liabilities), net	**22,932**	**15,521**						
Presented in the statement of financial position as follows:								
Deferred tax assets	25,436	16,777						
Deferred tax liabilities	(2,504)	(1,256)						
Deferred tax assets, net	**22,932**	**15,521**						

INCOME TAX

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

(In thousands of euro)	**31st December 2019**	**31st December 2018**	**Change**
Current taxation	17,727	15,152	2,575
Deferred taxation	(2,032)	(1,258)	(774)
Prior year taxes	398	346	52
Total income tax charge in the consolidated income statement	**16,093**	**14,240**	**1,853**
Income taxes in comprehensive income	145	(643)	788
Total income taxes	**16,238**	**13,597**	**2,641**

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 2019 and 2018:

(In thousands of euro)	**Year ended 31st December**	
	2019	**2018**
Pre-tax profit	**69,175**	**65,282**
IRES rate in effect for the year	24.00%	24.00%
Theoretical tax charge	**(16,602)**	**(15,668)**
Income taxes charged at a different rate (IRAP)	(2,810)	(2,089)
Effect of the different tax rates of foreign companies	(2,415)	(1,257)
Prior year taxes	398	346
"Patent Box" tax benefit	5,649	5,023
Other changes	(313)	(595)
Total reported income tax	**(16,093)**	**(14,240)**
Effective tax rate	**-23.26%**	*-21.81%*

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

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

NOTE 27. Revenues from sales and services

The composition of revenues from sales and services for the year ended 31st December 2019 with comparative figures for the year ended 31st December 2018 is as follows:

(In thousands of euro)	31st December 2019	31st December 2018	Change
Ricavi netti	607,761	552,996	54,765
Altri ricavi operativi	826	1.448	(622)
Total revenues from sales and services	**608,587**	**554,444**	**54,143**

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 is equal to €826 thousand and mainly relates to rental income from premises used by commercial partners, which do not within the scope of IFRS 16 and some insurance reimbursements received during the year.

Revenues may be analyzed by geographical area as follows:

(In thousands of euro)	Year ended 31st December				Change	
	2019	%	2018	%	2019 vs. 2018	2019 vs. 2018 %
Italy	89,720	14.8%	88,220	15.9%	1,500	1.7%
Europe(1)	184,751	30.4%	163,707	29.6%	21,044	12.9%
North America(2)	204,109	33.6%	187,236	33.9%	16,873	9.0%
China(3)	62,898	10.3%	54,887	9.9%	8,011	14.6%
Rest of the World (RoW)(4)	66,283	10.9%	58,946	10.7%	7,337	12.4%
Total	**607,761**	**100.0%**	**552,996**	**100.0%**	**54,765**	**9.9%**

(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) “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	
	2019	%	2018	%	2019 vs. 2018	2019 vs. 2018 %
Retail	339,435	55.8%	296,265	53.6%	43,170	+14.6%
Wholesale Monobrand	32,617	5.4%	30,205	5.4%	2,412	+8.0%
Wholesale Multibrand	235,709	38.8%	226,526	41.0%	9,183	+4.1%
Total	**607,761**	**100.0%**	**552,996**	**100.0%**	**54,765**	**+9.9%**

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 28. Costs for raw materials and consumables

The composition of costs for raw materials and consumables for the year ended 31st December 2019 with comparative figures for the year ended 31st December 2018 is as follows

(In thousands of euro)	31st December 2019	31st December 2018	Change
Costs for raw materials and consumables	112,403	95,359	17,044
Change in inventories	(40,124)	(7,303)	(32,821)
Total costs for raw materials and consumables	**72,279**	**88,056**	**(15,777)**

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

NOTE 29. Costs for services

The composition of costs for services for the year ended 31st December 2019 with comparative figures for the year ended 31st December 2018 is as follows:

(In thousands of euro)	31st December 2019	31st December 2018	Change
Outsourced work	119,363	101,095	18,268
Commissions and accessory charges	9,256	12,107	(2,851)
Advertising and other marketing costs	35,470	32,273	3,197
Transport and duties	22,150	18,739	3,411
Lease expense	21,810	71,051	(49,241)
Credit card commissions	6,361	5,001	1,360
Outsourced services, training and miscellaneous consultancy	7,578	6,011	1,567
Directors' and statutory auditors' fees	2,413	2,588	(175)
Maintenance services	4,811	4,671	140
Insurance	1,503	1,435	68
Electricity, telephone, gas, water and postal expenses	4,974	4,518	456
Digital maintenance and assistance	1,820	1,056	764
Other general expenses	10,558	7,783	2,775
Total costs for services	**248,067**	**268,328**	**(20,261)**

The principal "Costs for services" are discussed in the Report on Operations to which reference should be made. We would like to point out the significant impact of the new IFRS 16 accounting standard on the item "Lease expense". Also in this case, reference should be made to the Report on Operations for exhaustive comments.

Among the other items shown in the table and not commented on in the Report on Operations, it should be noted that the remuneration of Directors and Statutory Auditors, maintenance services and insurance costs are substantially in line with the previous year, while increases have been recorded in the items outsourced services, training and consultancy costs (increased by €1,567 thousand), utilities (increased by €456 thousand) and in digital maintenance and assistance (increased by €764 thousand).

The item other costs mainly consist of staff travelling and transfer expenses for 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 €3,932 thousand relating to expenses of an IT/Digital nature.

NOTE 30. Payroll costs

The composition of payroll costs for the year ended 31st December 2019 with comparative figures for the year ended 31st December 2018 is as follows:

(In thousands of euro)	**31st December 2019**	**31st December 2018**	**Change**
Wages and salaries	87,226	76,162	11,064
Social charges	19,308	17,134	2,174
Employees' termination indemnity	2,964	2,751	213
Other payroll costs	2,701	2,282	419
Total payroll costs	**112,199**	**98,329**	**13,870**

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, the tailor-made suit proposal, and the 'kids' project.

NOTE 31. Other operating costs

The composition of other operating costs for the year ended 31st December 2019 with comparative figures for the year ended 31st December 2018 is as follows:

(In thousands of euro)	**31st December 2019**	**31st December 2018**	**Change**
Taxes and duties	4,059	2,790	1,269
Losses on bad debts	-	26	(26)
Miscellaneous operating costs	3,471	3,100	371
Total other operating costs	**7,530**	**5,916**	**1,614**

NOTE 32. Own work capitalized

The increase in own work capitalized (€2,382 thousand in 2019 and €2,470 thousand in 2018) mainly relates to production costs incurred to develop the historical collection, costs for the internal fit out of the Group's boutiques, and costs for the development of new IT procedures.

NOTE 33. Depreciation and amortization

The composition of depreciation and amortization for the year ended 31st December 2019 with comparative figures for the year ended 31st December 2018 is as follows:

(In thousands of euro)	31st December 2019	31st December 2018	Change
Amortization of right-of-use assets	60,827	-	60,827
Amortization of intangible assets	3,817	8,291	(4,474)
Depreciation of property, plant and equipment	21,606	17,314	4,292
Total depreciation and amortization	**86,250**	**25,605**	**60,645**

LThe increase in the depreciation and amortization charge is in line with the significant investments made by the Group.
As already mentioned, the item “Amortization of right-of-use assets”, equal to €60,748 thousand, is listed in reference to the new accounting standard IFRS 16. Similarly, the decrease in amortization of intangible assets (from €8,291 thousand at 31st December 2018 to €3,817 at 31st December 2019) can be referred to the reclassification of the item Key Money in the item Right of use.

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

NOTE 34. Value adjustments to assets and other provisions

Value adjustments to assets and other provisions (€1,268 thousand in 2019 and €1,142 thousand in 2018) 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 35. Financial expense

The composition of financial expense for the year ended 31st December 2019 with comparative figures for the year ended 31st December 2018 is as follows:

(In thousands of euro)	31st December 2019	31st December 2018	Change
Leasing interest	10,463	-	10,463
Mortgage loan interest	401	483	(82)
Interest payable on advances and discounted invoices	1,141	474	667
Bank interest	24	125	(101)
Realized exchange losses	20,894	15,783	5,111
Unrealized exchange losses	2,612	4,177	(1,565)
Financial expense on derivatives	5,268	4,637	631
Miscellaneous financial expense	598	651	(53)
Total financial expense	**41,401**	**26,330**	**15,071**

For a comment on the changes reference should be made to the Report on Operations where financial income and expenses are analyzed together.

It should be noted that the item "Leasing interest", equal to €10,463 thousand is listed in reference to the new accounting standard IFRS 16.

NOTE 36. Financial income

The composition of financial income for the year ended 31st December 2019 with comparative figures for the year ended 31st December 2018 is as follows:

(In thousands of euro)	31st December 2019	31st December 2018	Change
Interest earned on finance leases	22	-	22
Unrealized exchange gains on financial liabilities for leases	1,320	-	1,320
Bank interest	108	100	8
Realized exchange gains	23,385	18,953	4,432
Unrealized exchange gains	2,142	2,474	(332)
Financial income on derivatives	24	27	(3)
Miscellaneous financial income	200	520	(320)
Total financial income	**27,201**	**22,074**	**5,127**

For a comment on the changes reference should be made to the Report on Operations where financial income and expenses are analyzed together.

It should be noted that the item "Interest earned on finance leases", equal to €22 thousand, is listed in reference to the new accounting standard IFRS 16. Furthermore, we would like to point out the important impact of the new standard on financial liabilities for leases expressed in foreign currency, equal to €1,652 thousand in terms of exchange gains.

NOTE 37. 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 2019. The same situation held at 31st December 2018.

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

	31st December 2019	31st December 2018
Net profit attributable to owners of the parent (*thousands of euro*)	52,553	50,692
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*)	0.77284	0.74547
Diluted earnings per share (*in euro*)	0.77284	0.74547

NOTE 38. 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 2019 with comparative figures 31st December 2018 is as follows:

(In thousands of euro)	31st December 2019	31st December 2018	Change
Assets with third parties	190	20	170
Total commitments and risks	**190**	**20**	**170**

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:

– medium to 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 medium to 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 2019, there were 18 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 €49.0 million with a negative fair value of approximately €343 thousand.

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.

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 2019 results (2018 for comparative figures) deriving from interest rate risk are:
– potential change in financial expense and differential costs for outstanding derivatives in 2019;
– 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 2020 income statement and equity, calculated with reference to the situation at the end of 2019 (with effects on 2019 for comparative figures calculated with reference to the situation at the end of 2018), 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 2019 (2018 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 2019, a parallel shift of +100 basis points (+1%) in the yield curve would produce an increase in interest expense of €211 thousand in 2019, offset for €284 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 €63 thousand, offset by a reduction of €82 thousand in differentials collected from outstanding derivatives.

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 decrease of €107 thousand in differentials collected from outstanding derivatives.

	Interest 31st December 2019		
Loans	**Residual debt** *(Euro/000)*	**Effect on 2019 results +100 bps** *(Euro/000)*	**Effect on 2019 results -30 bps** *(Euro/000)*
Loans payable	48,622	(211)	63
Total loans	**48,622**	**(211)**	**63**
Derivative instruments	**Residual notional** *(Euro/000)*	**Effect on 2019 results +100 bps** *(Euro/000)*	**Effect on 2019 results -30 bps** *(Euro/000)*
Cash flow hedges	48,965	330	(96)
Other derivatives	-	-	-
Total derivative instruments	**48,965**	**330**	**(96)**
TOTAL		**119**	**(33)**

	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)**

For the situation at 31st December 2019, 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 €911 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 €265 thousand, with an effect solely on equity.

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.

	Sensitivity of the fair value of derivatives at 31st December 2019									
	Notional value *(Euro/000)*	**Fair value** *(Euro/000)*	**Net fair value +100 bps**	**Change in net fair value +100 bps**	**Effect on income statement +100 bps**	**Effect on equity +100 bps**	**Net fair value -30 bps**	**Change in net fair value -30bps**	**Effect on income statement -30bps**	**Effect on equity -30 bps**
	A	**b**	**c**	**d = c-b**	**e = d-f**	**f**	**g**	**h = g-b**	**i = h-j**	**J**
Cash flow hedges	48,965	(343)	568	911	-	911	(608)	(265)	-	(265)
Other derivatives	-	-	-	-	-	-	-	-	-	-
TOTAL	**48,965**	**(343)**	**568**	**911**	**-**	**911**	**(608)**	**(265)**	**-**	**(265)**

	Sensitivity of the fair value of derivatives at 31st December 2019									
	Notional value *(Euro/000)*	**Fair value** *(Euro/000)*	**Net fair value +100 bps**	**Change in net fair value +100 bps**	**Effect on income statement +100 bps**	**Effect on equity +100 bps**	**Net fair value -30 bps**	**Change in net fair value -30bps**	**Effect on income statement -30bps**	**Effect on equity -30 bps**
	A	**b**	**c**	**d = c-b**	**e = d-f**	**f**	**g**	**h = g-b**	**i = h-j**	**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)**

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 foreign 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 2019 the Group reclassified as a decrease in revenues €810 thousand previously recognized in the cash flow hedge reserve.
During 2018 the Group reclassified as an increase in revenues €2,520 thousand previously recognized in the cash flow hedge reserve

The potential effects on the 2019 income statement (2018 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 2020 income statement (2019 for comparative purposes) arising from currency risk are:
– change in fair value of the ineffective component of outstanding derivatives highly probable transactions in foreign currency.

The Brunello Cucinelli Group has estimated the potential effects on its 2020 income statement and equity, calculated with reference to the situation at the end of 2019 (2018 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 2019			SENSITIVITY 2019	
	Assets	Liabilities	Net	Income Statement Euro/US dollar	
	(US dollar/000)			+ 5% (Euro/000)	- 5% (Euro/000)
Trade balances	7,367	(4,690)	2,678	(119.2)	119.2
Total exposure of balance sheet items	**7,367**	**(4,690)**	**2,678**	**(119.2)**	**119.2**

Exposure arising from highly probable future transactions	Notional	Change in equity Euro/US dollar	
		+ 5% (Euro/000)	- 5% (Euro/000)
Forward sales (notional amount)	(124,200)	(5,528)	5,528

Exposure of balance sheet items	Assets	Liabilities	Net	Income Statement Euro/Swiss franc	
	(Swiss franc/000)			+ 5% (Euro/000)	- 5% (Euro/000)
Trade balances	204	(218)	(13)	0.6	(0.6)
Total exposure of balance sheet items	**204**	**(218)**	**(13)**	**0.6**	**(0.6)**

Exposure arising from highly probable future transactions	Notional	Change in equity Euro/ Swiss franc	
		+ 5% (Euro/000)	- 5% (Euro/000)
Forward sales (notional amount)	(6,100)	(281)	281

Exposure of balance sheet items	Assets	Liabilities	Net	Income Statement Euro/British pound	
	(British pound/000)			+ 5% (Euro/000)	- 5% (Euro/000)
Trade balances	1,065	(611)	453	(26.6)	26.6
	1,065	**(611)**	**453**	**(26.6)**	**26.6**

Total exposure of balance sheet items

Exposure arising from highly probable future transactions	Notional	Change in equity Euro/ British pound	
		+ 5% (Euro/000)	- 5% (Euro/000)
Forward sales (notional amount)	(9,300)	(547)	547

Exposure of balance sheet items	Assets	Liabilities	Net	Income Statement Euro/Japanese Yen	
	(Japanese Yen/000)			+ 5% *(Euro/000)*	- 5% *(Euro/000)*
Trade balances	463,673	(293,047)	170,626	(70.0)	70.0
Total exposure of balance sheet items	**463,673**	**(293,047)**	**170,626**	**(70.0)**	**70.0**

Exposure arising from highly probable future transactions	Notional	Change in equity Euro/Japanese Yen	
		+ 5% *(Euro/000)*	- 5% *(Euro/000)*
Forward sales (notional amount)	(1,660,000)	(681)	681

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	3,365	(1,504)	1,861	(10.6)	10.6
Total exposure of balance sheet items	**3,365**	**(1,504)**	**1,861**	**(10.6)**	**10.6**

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)	(35,600)	(203)	203

Exposure of balance sheet items	Assets	Liabilities	Net	Income Statement Euro/Canadian dollar	
	(Canadian dollar/000)			+ 5% *(Euro/000)*	- 5% *(Euro/000)*
Trade balances	4,318	(517)	3,801	(130.2)	130.2
Total exposure of balance sheet items	**4,318**	**(517)**	**3,801**	**(130.2)**	**130.2**

Exposure arising from highly probable future transactions	Notional	Change in equity Euro/ Canadian dollar	
		+ 5% *(Euro/000)*	- 5% *(Euro/000)*
Forward sales (notional amount)	(12,100)	(414)	414

Exposure of balance sheet items	Assets	Liabilities	Net	Income Statement Euro/Renminbi	
	(Renminbi/000)			+ 5% (Euro/000)	- 5% (Euro/000)
Trade balances	41,135	(10,163)	30,972	(198.0)	198.0
Total exposure of balance sheet items	**41,135**	**(10,163)**	**30,972**	**(198.0)**	**198.0**

Exposure arising from highly probable future transactions	Notional	Change in equity Euro/ Renminbi	
		+ 5% (Euro/000)	- 5% (Euro/000)
Forward sales (notional amount)	(51,000)	(326)	326

Exposure of balance sheet items	Assets	Liabilities	Net	Income Statement Euro/Real	
	(Real/000)			+ 5% (Euro/000)	- 5% (Euro/000)
Trade balances	-	(12)	(12)	0.1	(0.1)
Total exposure of balance sheet items	**-**	**(12)**	**(12)**	**0.1**	**(0.1)**

Exposure of balance sheet items	Assets	Liabilities	Net	Income Statement Euro/Ruble	
	(Ruble/000)			+ 5% (Euro/000)	- 5% (Euro/000)
Trade balances	-	(30,898)	(30,898)	22.1	(22.1)
Total exposure of balance sheet items	**-**	**(30,898)**	**(30,898)**	**22.1**	**(22.1)**

Exposure of balance sheet items	Assets	Liabilities	Net	Income Statement Euro/Singapore dollar	
	(Singapore dollar/000)			+ 5% (Euro/000)	- 5% (Euro/000)
Trade balances	4	(40)	(36)	1.2	(1.2)
Total exposure of balance sheet items	**4**	**(40)**	**(36)**	**1.2**	**(1.2)**

Exposure arising from highly probable future transactions	Notional	Change in equity Euro/ Singapore dollar	
		+ 5% (Euro/000)	- 5% (Euro/000)
Forward sales (notional amount)	(1,540)	(51)	51

Exposure of balance sheet items	Assets	Liabilities	Net	Income Statement Euro/Danish Kroner	
	(Danish Kroner /000)			+ 5% (Euro/000)	- 5% (Euro/000)
Trade balances	238	(463)	(225)	1.5	(1.5)
Total exposure of balance sheet items	**238**	**(463)**	**(225)**	**1.5**	**(1.5)**

Exposure of balance sheet items	Assets	Liabilities	Net	Income Statement Euro/Taiwanese dollar	
	(Taiwanese dollar/000)			+ 5% (Euro/000)	- 5% (Euro/000)
Trade balances	12,307	-	12,307	(18.3)	18.3
Total exposure of balance sheet items	**12,307**	**-**	**12,307**	**(18.3)**	**18.3**

Exposure of balance sheet items	Assets	Liabilities	Net	Income Statement Euro/South Korean Won	
	(South Korean Won /000)			+ 5% (Euro/000)	- 5% (Euro/000)
Trade balances	-	(195,040)	(195,040)	7.5	(7.5)
Total exposure of balance sheet items	**-**	**(195,040)**	**(195,040)**	**7.5**	**(7.5)**

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 Euro/US dollar	
		+ 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	Nozionale	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	
	(Renminbi/000)			+ 5% *(Euro/000)*	- 5% *(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% (Euro/000)	Change in equity Euro/ Renminbi - 5% (Euro/000)
Forward sales (notional amount)	(65,500)	416	(416)

Exposure of balance sheet items	Assets (Real/000)	Liabilities (Real/000)	Net (Real/000)	Income Statement Euro/Real + 5% (Euro/000)	Income Statement Euro/Real - 5% (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 (Ruble/000)	Liabilities (Ruble/000)	Net (Ruble/000)	Income Statement Euro/Ruble + 5% (Euro/000)	Income Statement Euro/Ruble - 5% (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 (Singapore dollar/000)	Liabilities (Singapore dollar/000)	Net (Singapore dollar/000)	Income Statement Euro/Singapore dollar + 5% (Euro/000)	Income Statement Euro/Singapore dollar - 5% (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% (Euro/000)	Change in equity Euro/ Singapore dollar - 5% (Euro/000)
Forward sales (notional amount)	(1,980)	63	(63)

Exposure of balance sheet items	Assets (Danish Kroner/000)	Liabilities (Danish Kroner/000)	Net (Danish Kroner/000)	Income Statement Euro/Danish Kroner + 5% (Euro/000)	Income Statement Euro/Danish Kroner - 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**

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 2019 and 2018 by due date:

	31st December 2019				
	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	18,049	258	89,453	192	107,952
Between 1 and 2 years	15,204	165	-	113	15,482
Between 2 and 3 years	9,551	86	-	41	9,678
Between 3 and 5 years	5,759	36	-	(4)	5,791
Between 5 and 7 years	-17	-	-	(1)	(18)
Over 7 years	-	-	-	-	-
TOTAL	**48,546**	**545**	**89,453**	**341**	**138,885**

	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**

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 2019 and 31st December 2018).

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 44.1% of net revenues for the year ended 31st December 2019, 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 2019 and 2018 set out in note 9. 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 (0.34% in 2019 and 0.13% in 2018) 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 2019 and 2018:

	31st December	
Overdue by:	**2019**	**2018**
0-90 days	4,231	5,336
91-180 days	3,820	3,078
over 180 days	2,065	2,950
TOTAL	**10,116**	**11,364**

OTHER INFORMATION

OTHER INFORMATION

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 2019 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 2019 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.	1	4	3	166		8,478		1	258	
CMB Impianti Industriali Srl (Cucinelli Giovannino)				14		5,336			25	
AS.VI.P.I.M. Gruppo Cucinelli		3		876		4		4	73	
Solomeo S.r.l.		3		226		5,186	32	5		2,503
Verna S.r.l.		3		492				5	9	
Brunello Cucinelli Family		4			1,351					64
Prime Service Italia S.r.l.		3		736				4	160	
Fedone S.r.l.		3		78				5	20	
Brunello Cucinelli Foundation	4	9		2				15		
Parco Agrario Solomeo		8		163		9		8	11	
S.C.R.Oratorio Interreligioso S.S.D. A.r.l.		3						4		
Total related parties	**5**	**43**	**3**	**2,753**	**1,351**	**19,013**	**32**	**51**	**556**	**2,567**
Total consolidated financial statements IFRS16	**607,761**	**826**	**72,279**	**248,067**	**112,199**	**142,705**	**8,767**	**58,622**	**89,453**	**33,827**
Proportion %	*0.00%*	*5.21%*	*0.00%*	*1.11%*	*1.20%*	*13.32%*	*0.37%*	*0.09%*	*0.62%*	*7.59%*

Below are the balances at 31st December 2019 generated by the application of the new IFRS 16 standard with regard to related party transactions:

(In thousands of euro)	**Right of use**	**Non-current financial liabilities for leases**	**Current financial liabilities for leases**	**Depreciations**	**Financial charges**
Solomeo S.r.l.	5,611	5,502	509	549	177
Total related parties	**5,611**	**5,502**	**509**	**549**	**177**
Total consolidated financial statements	**433,621**	**388,816**	**62,661**	**86,250**	**41,401**
Proportion %	*1.29%*	*1.42%*	*0.81%*	*0.64%*	*0.43%*

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; its balances are shown in a specific table relating to the effects of the application of the new accounting standard IFRS 16;
- 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;
- 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 date of the consolidated financial statements.

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 2019 amounted to €962 thousand.
The compensation accruing to the Board of Statutory Auditors of Brunello Cucinelli S.p.A. for the year ended 31st December 2019 amounted to €151 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 2019:

Board of Directors

(In euro)		Year ended 31st December 2019								
First and last name	**Office held**	**Term of office**	**Expiry date**	**Compensation**	**Compensation**	**Compensation for attendance at committees**	**Non-monetary benefits**	**Remuneration, benefits and other incentives**	**Other compensation**	**Total**
Brunelllo Cucinelli	Chairman and CEO	01-Jan/31- Dec	a)	802,400		-	-	-	-	**802,400**
Moreno Ciarapica	Director	01-Jan/31- Dec	a)	2,800		-	-	-	-	**2,800**
Riccardo Stefanelli	Director	01-Jan/31- Dec	a)	2,800		-	-	-	-	**2,800**
Giovanna Manfredi	Director	01-Jan/31- Dec	a)	2,400		-	-	-	-	**2,400**
Camilla Cucinelli	Director	01-Jan/31- Dec	a)	1,600		-	-	-	-	**1,600**
Carolina Cucinelli	Director	01-Jan/31- Dec	a)	2,000						**2,000**
Luca Lisandroni	Director	01-Jan/31- Dec	a)	2,400		-	-	-	-	**2,400**
Massimo Bergami	Independent Director	01-Jan/31- Dec	a)	27,800	5,000	-	-	-	-	**32,800**
Andrea Pontremoli	Independent Director	01-Jan/31- Dec	a)	27,800	17,500	-	-	-	-	**45,300**
Matteo Marzotto	Independent Director	01-Jan/31- Dec	a)	27,400	10,000	-	-	-	-	**37,400**
Candice Koo	Independent Director	01-Jan/31- Dec	a)	27,800	2,500	-	-	-	-	**30,300**
a) On the approval of the 2019 financial statements.				927,200		35,000				962,200

The following table sets out the compensation paid to members of the Board of Statutory Auditors for the year ended 31st December 2019.

Board of Statutory Auditors

(In Euro)		Year ended 31st december 2019			
First and last name	**Office held**	**Term of office**	**Expiry date**	**Emoluments**	**Total**
Paolo Prandi	Chairman	01-Jan/31-Dec	a)	59,530	**59,530**
Alessandra Stabilini	Statutory auditor	01-Jan/31-Dec	a)	45,553	**45,553**
Gerardo Longobardi	Statutory auditor	01- Jan/31-Dec	a)	45,553	**45,553**

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 2019**
Audit	Auditor of the parent company	Parent company	475
Attestation services on tax returns	Auditor of the parent company	Parent company	-
Other services	Auditor of the parent company	Parent company	18
	Network of the parent company's auditor	Parent company	-
Subtotal			**493**
Audit	i) Network of the parent company's auditor	Subsidiary	99
	ii) Other auditors	Subsidiary	80
Subtotal			**179**
Total			**672**

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 2019.
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 2019.
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.

11th March 2020

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

[● INSERIRE DOCUMENTO]

Report of the board of statutory auditors

[● INSERIRE DOCUMENTO]

DATI SOCIETARI
COMPOSIZIONE DEGLI ORGANI SOCIALI AL 31 DICEMBRE 2019