BRUNELLO CUCINELLI

ANNUAL FINANCIAL REPORT - CONSOLIDATED FINANCIAL STATEMENTS AS AT 31ST DECEMBER 2020

(COURTESY TRANSLATION FOR THE CONVENIENCE OF INTERNATIONAL READERS)

CONTENTS

LETTER TO THE SHAREHOLDERS 4

CORPORATE DETAILS 7

CORPORATE GOVERNANCE BODIES AS AT 31 DECEMBER 2020 8

THE BRUNELLO CUCINELLI GROUP AS AT 31 DECEMBER 2020 9

GROUP STRUCTURE AS AT 31 DECEMBER 2020 10

DISTRIBUTION NETWORK 11

MANAGEMENT REPORT OF THE BOARD OF DIRECTORS

COMPANY INFORMATION 15

SUMMARY DATA AS AT 31 DECEMBER 2020 34

COVID-19 PANDEMIC UPDATE 36

THE GROUP'S RESULTS FOR THE YEAR 2020 37

ANALYSIS OF REVENUES 38

- REVENUES BY GEOGRAPHICAL AREA 39
- REVENUES BY DISTRIBUTION CHANNEL 41
- REVENUES BY PRODUCT LINE AND END CUSTOMER 42

ANALYSIS OF THE INCOME STATEMENT 43

- EBITDA AND OPERATING RESULTS 44
- OPERATING COSTS 45
- AMORTIZATION, DEPRECIATION, NET FINANCIAL EXPENSE, TAXATION AND NET PROFIT 47

ANALYSIS OF BALANCE SHEET AND FINANCIAL ITEMS 50

- NET WORKING CAPITAL 50
- FIXED ASSETS AND OTHER NON-CURRENT ASSETS/LIABILITIES 52
- CAPITAL EXPENDITURE 53
- NET FINANCIAL DEBT 54
- SHAREHOLDERS' EQUITY 55

RECONCILIATION BETWEEN SHAREHOLDERS' EQUITY AND NET PROFIT OF THE PARENT COMPANY AND CONSOLIDATED SHAREHOLDERS' EQUITY AND NET PROFIT 57

INFORMATION ON CORPORATE GOVERNANCE 57

INFORMATION ON THE CONSOLIDATED NON-FINANCIAL STATEMENT 57

PERFORMANCE OF THE COMPANY'S SHARE LISTED ON THE BORSA ITALIANA S.P.A. ELECTRONIC STOCK EXCHANGE (MTA) 58

SIGNIFICANT EVENTS DURING 2020 59

RELATED PARTY TRANSACTIONS 60

INFORMATION ON SIGNIFICANT COMPANIES OUTSIDE THE EU 60

CERTIFICATION AS PER ART. 16 PARAGRAPH 4 OF THE MARKET REGULATION ADOPTED WITH RESOLUTION NO. 20249 OF 28 DECEMBER 2017 60

MAIN RISKS AND UNCERTAINTIES 61

RESEARCH AND DEVELOPMENT 63

PUBLIC CONTRIBUTIONS 64

FINANCIAL RISK MANAGEMENT 64

SUBSEQUENT EVENTS AFTER 31 DECEMBER 2020 67

MANAGEMENT OUTLOOK 67

CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2020

FINANCIAL STATEMENTS AS AT 31 DECEMBER 2020

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2020 70

CONSOLIDATED INCOME STATEMENT AS AT 31 DECEMBER 2020 72

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME AS AT 31 DECEMBER 2020 73

CONSOLIDATED CASH FLOW STATEMENT AS AT 31 DECEMBER 2020 74

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AS AT 31 DECEMBER 2020 76

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2020

BASIS OF PREPARATION 78

SCOPE OF CONSOLIDATION 79

ACCOUNTING STANDARDS 82

CHANGES IN ACCOUNTING PRINCIPLES, NEW ACCOUNTING PRINCIPLES, CHANGES IN ESTIMATES AND RECLASSIFICATIONS..... 101

TRANSLATION OF FINANCIAL STATEMENTS IN A CURRENCY OTHER THAN THE EURO AND TRANSLATION OF FOREIGN CURRENCY ITEMS 103

COMMENTS ON THE MAIN ITEMS OF THE CONSOLIDATED STATEMENT

OF FINANCIAL POSITION..... 104

COMMENTS ON THE MAIN ITEMS OF THE CONSOLIDATED INCOME STATEMENT..... 133

FINANCIAL RISK MANAGEMENT 140

OTHER INFORMATION

RELATED PARTY TRANSACTIONS..... 155

SUBSEQUENT EVENTS AFTER 31 DECEMBER 2020 157

COMPENSATION OF THE BOARD OF DIRECTORS AND THE BOARD OF STATUTORY AUDITORS..... 157

DISCLOSURE PURSUANT TO ARTICLE 149-DUODECIES OF THE ISSUERS' REGULATION 159

BALANCES OR TRANSACTIONS DERIVING FROM ATYPICAL OR UNUSUAL OPERATIONS..... 159

CERTIFICATION AS PER ART. 154 BIS OF ITALIAN LEGISLATIVE DECREE NO. 58 OF 24 FEBRUARY 1998 (CONSOLIDATED LAW ON FINANCE) AND ART. 81-TER OF CONSOB REGULATION NO. 11971 OF 14 MAY 1999 AND SUBSEQUENT AMENDMENTS AND ADDITIONS 160

INDEPENDENT AUDITOR'S REPORT..... 161

LETTER TO THE SHAREHOLDERS

Dear Shareholders,

The ninth year of our journey together saw a special challenge that I firmly believe strengthened us, bolstering the solidity and vitality that the company has cultivated since its foundation. The principles of the Humanistic Enterprise that we have always based our philosophy and choices on now express the highest values and guide us steadily towards what we have defined as a **"New Time", an opportunity to build a new, richer balance between humanism and technology, spirit and nature, profit and giving back.** As I believe Confucius wisely and fascinatingly expresses, when he says "He who does not foresee things far away exposes himself to close-range misery", this moment represents an opportunity for the whole of humanity, which must look to the future as a single harmonious people, to face the present with equity, wisdom and a new sensitivity to neighbors and nature.

We shall not forget the apprehension that the pandemic brought into each of our lives. On the other hand, we look to the future with confidence, certainly thanks to the answers that science is offering with the new vaccines, but also reinforced by the precious teachings of humility, courage, seriousness and vitality with which we will face this new period of "rebalancing". The past year, which we have defined as one of "transition", did not interrupt the healthy, harmonious growth project that the company has undertaken. The obstacles we have encountered have further enhanced the value of the passionate work carried out in the creation and production of the collections, and underscored the importance of maintaining strong relationships and mutual trust with all our suppliers and customers.

We have always felt an **ethical and civic duty to conduct ourselves honorably**. There is an image that I always like to remember in moments of reflection and courage: it is that of the "**lightcarriers of humanity**", which performs the supreme task of opening the way and illuminating the way for those who follow. In the same way, we felt that we took on an important responsibility for those who look to our company as a point of reference. For this reason, since March we have seen it as a moral duty to **share our vision of the world and our actions with institutions and the financial community**.

From the beginning of the crisis, we decided to **guarantee employment and wage levels for all our human resources throughout the world**, those who, based on a relationship of mutual trust, have worked with courage and creativity, overcoming every difficulty. It was our firm conviction **not to ask for discounts from anyone**, aware that everyone has a duty to take responsibility and to be aware of the importance of **safeguarding the entire production chain**. **We confirmed all our objectives and investments**, convinced by the developments and information we receive from all over the world that this crisis is "short-term", and that the harmony of our project continues to support our growth, as already happened in the second half of the year.

Finally, we carried out one of the most intense projects in recent years: **"Brunello Cucinelli for Humanity", with the task of donating free of charge to associations and organizations dedicated to the less fortunate part of humanity clothing that had not been sold** due to the temporary interruption of sales caused by the health emergency. We believe that this choice has further enriched the value of our garments, which, crafted by the hands of artisans, are passed on with dignity intact to the people who perhaps have been hit hardest by this crisis.

Above all, we believe that this year has confirmed that the **principles the company is founded on are strong, healthy and valid values to face the future with peace of mind**. These are in fact the values that we have always cultivated in the Humanistic Enterprise, which have allowed us to build a harmonious, sustainable project over time. All the ideals that we have founded our identity on now acquire new light, which confirms and amplifies the founding principles: attention to the harmonious rhythms of nature and humanity, the blending of tradition and innovation, attentive respect for human dignity and daily care of creation.

We have tried to remain consistent with the principles that have made it possible to spread our corporate culture throughout the world: the **selection of the highest quality raw materials is the starting point for the production of unique handiworks, the result of the knowledge of traditional craftsmanship and contemporary creative research, which feeds on love for our land, for Italian culture and for the universal ideal of beauty**. Each garment expresses both a material and a symbolic value, and therefore we believe that the value of our garments does not diminish with the passage of time. Instead, we think that their value is further enriched thanks to the care of those who wear them, preserve them and pass them on. Precisely for this reason **we have always paid particular attention to the culture and ethics of repairing**. We believe that nowadays, where everything moves and changes continuously, the loving care of conservation and repair are added values of excellence. At Solomeo we have committed ourselves not only to preserving the technical knowledge that allows us to create, adjust, renew and requalify a garment, but we wanted to establish the conditions to hand down this knowledge to future generations, thanks to the **School of Arts and Crafts of Solomeo** dedicated to young enthusiasts of manual and refined crafts, which in history have formed the foundations of beautiful clothing Made in Italy.

While technology has allowed us to stay in touch, now that physical meetings have been hindered, we must not forget that **every human being expresses his or her best possibilities within a community that is united, passionate, rich in dialogue and emotions**. What we have managed to compensate for in terms of distance thanks to technology is not enough to care for the soul, it is not enough to sustain human ideals.

That is why we believe that now more than ever a gesture, a demonstration of trust, some concrete help are important, and above all we must look to the future to recapture, preserve and protect the importance of spending time with others, of conviviality, values that for humanity represent the fulcrum of progress and growth of the soul.

As has often happened in the course of history, **the most intense moments have brought new energy to creativity, to the rediscovery of timeless values and to the passion for research**. Comforted by the reviews of specialists and the number of orders received, it seems plausible to say that this year we have developed some of the most beautiful collections in our history: **we were very satisfied with the volume of orders received and the performance of the Spring/Summer 2021 Collection.** We are proud of the **excellent reception of the Fall/Winter 2021 Collections, and the many orders of the now-completed sales campaign confirms this renewed attention to quality apparel, supported by an ethical conscience that fully coincides with the principles of our company**.

We were truly overjoyed to see the great success that the **Collections dedicated to kids continue to have, a project born and raised under the sign of awareness, in continuity with traditional values and Brunello Cucinelli stylistic research.** Each element is the result of the combination of noble fibers, natural fabrics and accurate craftsmanship, and we are very pleased that our customers recognize and appreciate the passion and quality that we try to infuse into these special garments.

Our dream of a Humanistic Capitalism has not been eroded by the difficult moments we have gone through this year. We are increasingly convinced and firm in our ideals and our hopes, comforted by the results and responses that the company has been able to promptly and easily give as the crisis has evolved. Every day, in a carefully monitored context, we continue to cultivate our principles and place confidence in a radiant future for humanity and creation based on a new awareness and a new balance, so that the coming generations can fully appreciate the value and importance of enjoying the daily wonder of creation together.

Solomeo, 11 March 2021

Brunello Cucinelli
Chairman of the Board
of Directors

Brunello Cucinelli

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.

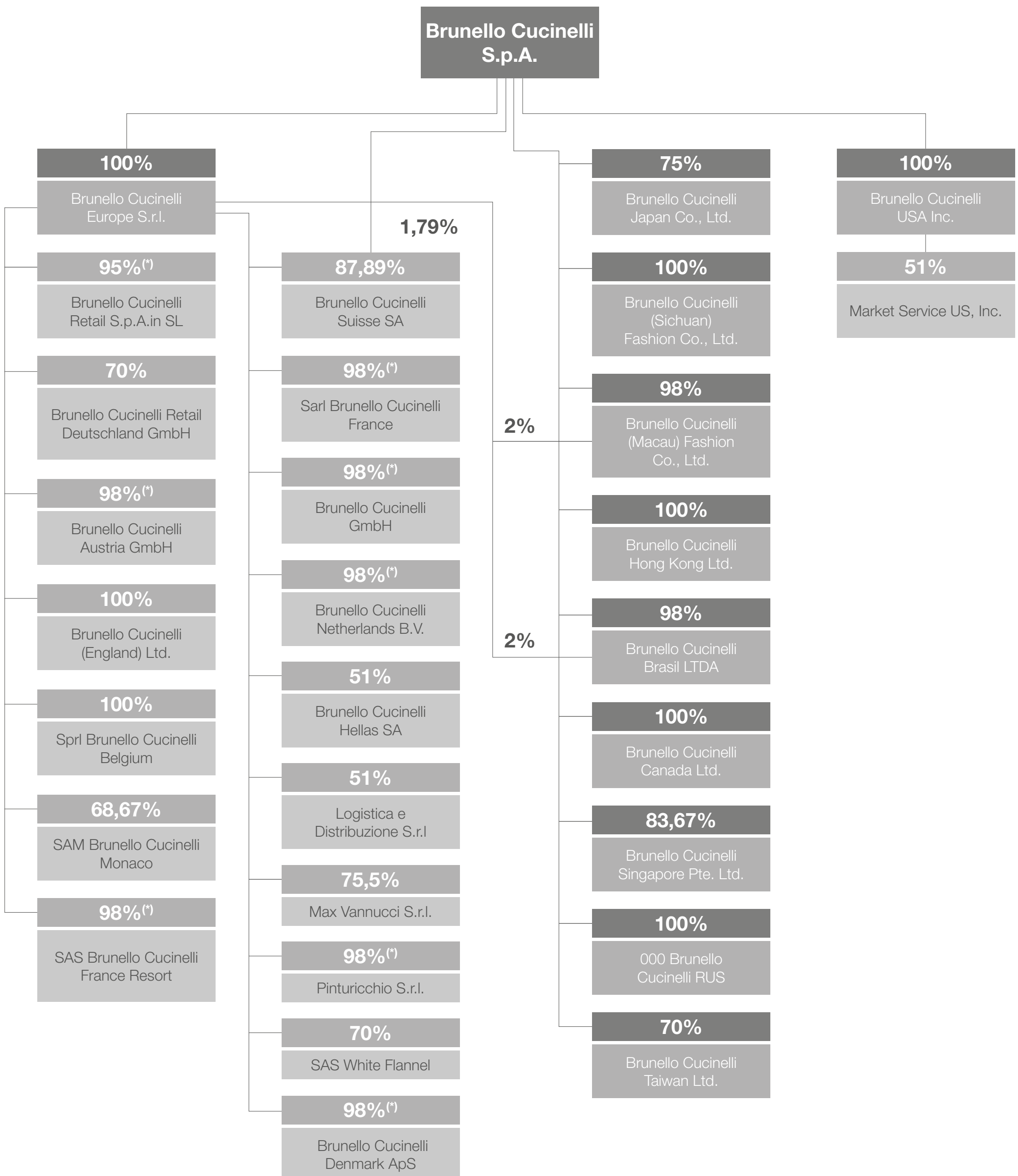
Company website http://investor.brunellocucinelli.com/en/

CORPORATE GOVERNANCE BODIES AS AT 31 DECEMBER 2020

Board of Directors(1)	Brunello Cucinelli	Executive Chairman
	Riccardo Stefanelli	Managing Director and CEO
	Luca Lisandroni	Managing Director and CEO
	Giovanna Manfredi	Director
	Camilla Cucinelli	Director
	Carolina Cucinelli	Director
	Stefano Domenicali	Independent Director
	Anna Chiara Svelto	Independent Director
	Andrea Pontremoli	Independent Director
	Ramin Arani	Independent Director
	Maria Cecilia La Manna	Independent Director
	Emanuela Bonadiman	Independent Director
Lead Independent Director	Anna Chiara Svelto	
Control and Risks Committee	Anna Chiara Svelto	Chairman
	Andrea Pontremoli	
	Maria Cecilia La Manna	
Remuneration Committee	Anna Chiara Svelto	Chairman
	Stefano Domenicali	
	Emanuela Bonadiman	
Board of Statutory Auditors(1)	Paolo Prandi	Chairman
	Alessandra Stabilini	Standing Auditor
	Gerardo Longobardi	Standing Auditor
	Guglielmo Castaldo	Substitute Auditor
	Myriam Amato	Substitute Auditor
Auditing Firm	EY S.p.A.	
Manager in charge of preparing the corporate accounting documents	Moreno Ciarapica	

(1) Appointed at the ordinary shareholders' meeting of 21 May 2017; will remain in office until the shareholders' meeting called to approve the financial statements for the year ending 31 December 2022.

THE BRUNELLO CUCINELLI GROUP AS AT 31 DECEMBER 2020



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

GROUP STRUCTURE AS AT 31 DECEMBER 2020

Company name	Location
Brunello Cucinelli S.p.A.	Corciano, frazione Solomeo (PG) – Italy
Brunello Cucinelli Europe S.r.l.	Corciano, frazione Solomeo (PG) – Italy
Max Vannucci S.r.l.	Corciano (PG) – Italy
Pinturicchio S.r.l.	Corciano, frazione Solomeo (PG) – Italy
Logistica e Distribuzione S.r.l.	Milan – 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 S.p.A.in SL	Madrid – S.p.A.in
Brunello Cucinelli Suisse SA	Lugano – Switzerland
SAS White Flannel	Cannes – France
Brunello Cucinelli Canada Ltd.	Vancouver – Canada
Brunello Cucinelli USA Inc.	New York – USA
Market Service US, Inc.	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	São Paulo – Brazil
Brunello Cucinelli Japan Co., Ltd.	Tokyo – Japan
Brunello Cucinelli Singapore Pte. Ltd.	Singapore
Brunello Cucinelli Taiwan Ltd.	Taiwan – China

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**, i.e. the distribution channel with which the Group sells directly to the end customer through directly operated stores, the so-called DOS (Directly Operated Stores) and hard shops, i.e. S.p.A.ces managed under the Group's responsibility and with direct employees located inside department stores.
  At 31 December 2020, the directly managed boutiques (DOS) totaled 107, with a number of hard shops within department stores equal to 31.

- The **wholesale distribution channel**, i.e. the distribution channel through which the Group sells to independent partners, with the result that in this case these resellers are the Group's customers (and not the end customer). This channel therefore includes both monobrand stores operated by third parties under commercial distribution agreements (Wholesale monobrand), independent multibrand stores and dedicated shop-in-shops in department stores (Wholesale multibrand). The Group uses a network of agents and distributors for sales to a number of wholesale monobrand and multibrand customers.
  At 31 December 2020 there were 31 wholesale monobrand boutiques.

A summary is provided below of the Brunello Cucinelli Group's monobrand sales network at 31 December 2020 compared to the situation at 31 December 2019:

Distribution channel	31 December 2020	31 December 2019
RETAIL	107	106
WHOLESALE MONOBRAND	31	30

The following table sets out existing sales points at 31 December 2020 by location:

	Italy	Europe	North America	China	Rest of the World (RoW)	Total
Total Brunello Cucinelli Monobrand network	14	49	32	24	19	**138**

MANAGEMENT REPORT OF THE BOARD OF DIRECTORS

COMPANY PHILOSOPHICAL AND STRATEGIC REPORT

Letter of gratitude to our workers

My esteemed friends,
my heart is with you for your courage and the patience you have so effectively demonstrated in this period of pain and uncertainty, which are the same ones I felt. If in our enterprise now economic and human positivity reigns, if we can imagine Italy enriched by the gracious reception of our creations, if all this has come about with special genius and craftsmanship, I certainly owe it to you.

So how can I thank you generous souls for the responsibility, dedication, creativity, understanding, closeness, and capacity to feel the pain as a teacher? For me it is a joy recognizing all of you as the most meritorious workers each in his or her own role. Particularly dear to me are the veterans, the first stewards of beauty and art that improve life. They are the ones who remind the newer ones of some universal golden rules, such as those pronounced by Confucius in the sixth century before Christ: “even simple things are worth doing well” and “work must be proportionate to a person’s age and strength”.

I am fascinated by rites that guide us back to natural laws and save us from uncertainty; they are the living source of human action. Artisanry also draws on rites, they are the source of its ever renewed creativity. The history of civilization goes hand in hand with the history of craft, harmoniously joining human and natural forces. For centuries it has been the fertile fruit of our nation, and for centuries it has based its genius on rules and discipline. Indeed, artisans appear to me as real poets, they know how to seamlessly unite technical skill, artistic vision, taste, finesse and quality in original products. I believe I owe it to you if, in this period, we may have created the most beautiful collections in our history, affirming a genius that unleashes its creativity precisely when things get difficult. During this intense period we have worked with the same courage as in more serene times and this is what has kept us united.

All these merits demonstrate your love for the work. You know that economic profit is a strong spring, but in our hearts we also know that it is not the only one: through our work, we take part in the marvel of Creation that we are called upon to care for with each any every one of our individual and collective actions; through our hard work performed in respect for the planet, we show our love for our community every day. It is true, and I am grateful to you; your actions have been and are for me proof and spur that we must never lose hope or wallow in fear. Many of our conversations have brought us close to tears, knowing we are faithful navigators, soldiers mustered for the painful challenge. They bring to mind history and the great stoic philosopher, my teacher, Marcus Aurelius. Before a decisive battle, he turned to his soldiers with these moving words: “my esteemed men, tomorrow Rome will need us, may God protect us”. In you I see special people who know that progress and economic development do not always go hand in hand.

In my opinion, there is a right way to live life, and it is ethically, because ethics allows us to discern the universal in daily details and makes us universal men and women. If you climb up to the Bosco della Spiritualità in Solomeo, you will find a phrase by Saint Benedict at the entrance:
HONOUR ALL PEOPLE

I now render to you, with sincere heart, this noble honor.

Thank you,

Brunello Cucinelli
Chairman of the Board
of Directors

Brunello Cucinelli

COMPANY INFORMATION

Brunello Cucinelli S.p.A. is a company incorporated under Italian law with registered office in Solomeo, Viale Parco dell'Industria 5, and listed on the Electronic Stock Exchange (MTA) of Borsa Italiana.

The company's business is focused on the production and sale of Brunello Cucinelli branded clothing, accessories and lifestyle. The brand is internationally recognized as a point of reference in the **luxury** goods sector, an expression of the best **Made in Italy** capable of interpreting new trends while always maintaining **excellent quality** and at the same time ensuring an **ethical** application of the concept of **work**.

Craftsmanship, **exclusivity** and **contemporaneity** within a more general vision of the world inspired by the values of **human dignity** and the **beauty of Creation** have always been distinguishing elements of the Brunello Cucinelli **women's, men's and children's total look collections**.

The company's collections "listen" to the evolution of traditional principles of elegance and interpret them in prêt-à-porter lines that are capable of harmoniously accommodating the needs of an international clientele in search of quality garments that maintain value over time.

The Brunello Cucinelli company is universally recognized as a leading example of "**humanistic capitalism**", capable of growing in a **healthy**, **balanced** and **sustainable** way, always maintaining as the cornerstone of its entrepreneurial philosophy an activity **in harmony with Creation** and an organization founded on "**human sustainability**".

A NEW TIME

Looking back at **2020**, the starting point for all of us can only be the recognition of having lived through a difficult time. A time that brought great suffering to humanity and required an **enormous commitment of energy** in every area of civil, social and economic life.

That is precisely why for all these months we have placed the highest priority on the **great moral and civil issues** over economic worries, trying to respond with great dignity to the pandemic, to difficulties and to the legitimate apprehensions that it has raised and continues to raise in every part of the world.

While it is true that all of our lives have undoubtedly changed because of the global health emergency, it is also true that we are all called upon to take advantage of the enormous resources that we have been able to exploit in the most delicate phases. Not only have we **approached the pandemic with extreme care and a great sense of responsibility**, but we have also **learned to live with it**.

While on the one hand we cannot forget the apprehension we all felt due to the pandemic, and unfortunately for some of us there was an even a greater pain that will be hard to forget, on the other hand we are **very pleased with the results achieved in 2020**, even more so because of the way we managed to deal and live with the pandemic.

Our primary objective all these months has always been to **devote ourselves with extreme focus to everything that we could change and address** without being overwhelmed by what the pandemic might bring.

We tried to maintain a hopeful outlook, imagining a "***New Time***" that could offer an opportunity to bring together **humanism** and **technology**, **spirit** and **harmony**, **profit** and **giving**.

"Creation has asked us for help, in the form of a dispute between biology and Earth. The great ideals will return to the forefront: good policy, good family, spirituality and art. We will go back to using what the earth offers us instead of just consuming it, paying close attention to every detail: where it was produced, how it was produced, and that its production did not harm creation.
We believe that we will return to harmonizing one of the great themes of life: the relationship between profit and giving. Perhaps we will not turn our backs on poverty, and we will consider any surplus as a kind of loving resource for the part of humanity that is in need.
The great feelings of humans are always the same. We will work with the same dedication, but remembering that when humans are frightened, grieved, they are prone to kindness and not arrogance. People will be more aware of their purchases and will therefore be even more special".

Having had to face such a delicate period for humanity has taught us that this "*New Time*" can only offer a renewed peace of mind only to the extent that we are able to decisively place a new and powerful trust in **human relations** and **loving relationships** between people.
The good of tomorrow grows out of today's suffering: this is the lesson of the moral reaction that will make the human beings better in the "*New Time*", as the great master Aristotle suggested when he said that disasters also have a soul and can become true teachers of a wise life.

We believe that during this pandemic every human being had the precious opportunity to experience a spiritual rebirth, in other words to reflect deeply on the importance of the great questions of life: the **balance between profit and giving**, **human sustainability**, **human dignity**, **integral** and **universal humanism** rooted in good **relations** between people and **with Creation**.

We believe that the difficulties associated with the pandemic were an important reminder to return our focus back to certain fundamental **social and environmental issues**.

All this, also thanks to an increasing involvement of public opinion, has led to a **renewed and more mature awareness** of the need for a **culture of respect for the environment** we live, work and produce in.

Work life itself has increasingly **focused** on the **needs** of **human sustainability**, which our company has always been particularly attentive to: a type of sustainability that does not simply involve compliance with regulations or the result of objectives achieved, nor is it ever artificial or rhetorical, but rather **authentic and substantive** because it fully represents a **fundamental and indispensable value of our work**.

Looking back at the analysis of 2020, our thoughts immediately turn to **three dates** of the first part of the year, which we considered **fundamental**:

– *9 January*, the date the virus was isolated in China, experienced as a "*moment of alert*".

– *30 January*, the "*moment of awareness*" when we realized the extremely concrete risk of a pandemic, and began preparing for a year that was very different from what we had imagined.

– *11 March*, the "*moment of clarity*" when, thanks to a video received from our Chinese contacts, visibly relieved and already getting back to work with masks, we better understood that the crisis we were going through was **short term** and **not structural**.

This renewed awareness led us to make **three great choices of ethical, moral and civic behavior**, which were then accompanied by **three other operational choices** that guided the activity of the following months.

The **three major principled decisions** that inspired our approach to the pandemic were:

- **Guaranteeing employment and maintaining wage levels** of all our human resources throughout the world, who have shown courage and creativity, allowing us to deal with all the challenges of 2020 with serenity and confidence, knowing that we are ready to continue along the growth path that we foresee in the coming years.

- **Choosing not to ask for discounts from anyone**, aware that during a pandemic everyone had a duty to take responsibility without seeking benefits that could harm others.

- **Launching the "Brunello Cucinelli for Humanity" project**, intending to donate to associations dedicated to the needy all the clothing left unsold in our direct stores due to the emergency and the temporary interruption of sales. This choice made it possible to make the most of these garments and transform a critical issue into an important resource for the less fortunate.

The **three main operational choices** of 2020 were:

- Expend the maximum creative effort to try to **develop complete collections with a high rate of creativity and originality**, very different from previous collections. The next step was to make these new collections **physically available** in the various showrooms around the world.

- **Not change the ambition and long-term objectives of the company** due to the turbulence of an "intense" yet "contingent" event. We therefore chose to **maintain** the **value of our investments** planned to support future growth, as well as investments in communications. Even though we imagined that at the end of the year we would report a slight decrease in turnover, we considered these investments to be sustainable and important to best prepare the company for expected future growth.

- Since March we felt a real moral and civic duty to **communicate our vision of the world and business to institutions and the financial community**. For us it was important to share our plans and our vision of the future, commenting on our financial and social expectations for 2020 and 2021.

We wanted to somehow represent that beautiful idea of being **“guiding lights” for humanity**, our task being to try to light the way for those who are behind us to make the path less difficult for them to travel, trying to offer some inspiration especially to the younger ones and to all those who look to our company as a point of reference for our local community, to which we are inextricably linked.

We sought to **replace fear with hope**, through a strong call for creativity in the development of new projects in many different operational and strategic areas.

For all these months we have therefore maintained open and direct communications **with all our stakeholders**: our human resources, our suppliers and third-party manufacturers, our business partners and customers, and our shareholders and the entire financial market.

Since February we have understood that it would be essential to maintain a work environment that is as tranquil as possible, and so we began to design a rigorous **system for constantly monitoring the health of our employees** through blood tests and swabs, extended if necessary to their family members and all the people close to our company.

This project is the result of an agreement between the company, the Department of Medicine of the University of Perugia, the Santa Maria della Misericordia Hospital of Perugia and the USL Umbria national health office, and makes use of the presence of a medical unit within our company staffed by two physicians and machines equipped with all the swabs necessary for the screening of our employees and visitors.

This initiative was introduced **with the resumption of work** after the lockdown and will continue **until the end of the pandemic**. It allows all company employees to undergo both nasopharyngeal swabs and blood tests on a regular basis, and immediately in the event of symptoms or contact with people who have tested positive.

Even today, all **external contractors** who visit our company are welcomed in a room where **they are tested**, waiting 20 minutes for the results. Guests can enter the company only once they have tested negative.

In November we were genuinely overjoyed to learn of the arrival of the vaccine, crowning a long, important effort by many esteemed medical researchers from all over the world, giving us the firm hope of soon seeing the end of this pandemic.

2020 was therefore a year where we tried to make the most of everything that such a particular period gave us. Indeed, creation asked us for help and we imagined that it was also up to us to respond to this important and urgent request, thinking of a **new social contract with creation**.

"*So I like to dream that future generations will be able to live where they feel they will recognize their homeland, and will have the whole world as a free choice; if they see the great migrations of people as an opportunity rather than a danger, if for them the desire to repair and reuse things will prevail over the temptation of waste, if the State and laws are not considered obligations forced upon them but means of civil life to be respected for a more just life; if they know how to develop technology and humanity as lovable sisters, if every corner of the planet will be considered the heritage of each and every one, and finally, if, as Hadrian the Emperor thought, they know how to consider books as the granaries of the soul, they will be happy. Such is the social contract that I would like to enter into with Creation, such is the help I feel I want to give as a loving response to such a caring guardian. Thank you, may Creation enlighten our path*".

OUR 2020

From a numerical point of view, it seems to us that a **decrease in turnover limited to just 10%** in a year like this fully reflects the work done on the organization of our processes, on the development and physical production of the collections, and on the relationships with our customers, both final and wholesale.

We managed to limit the violent effects of the pandemic to just the second quarter, after registering a first quarter that was substantially in line with the previous year and having returned to growth in the last two quarters of 2020, starting 2021 with a renewed enthusiasm and determination, with the clear perception that in many ways our company was stronger.

The achievement of this result is the result of the extraordinary commitment and great sense of responsibility of all the human resources who work with us, within the company, in artisanal workshops and in all companies that supply us with raw materials and services.

We believe that the achievement of these results is based on the characteristics that are unique to our company and that in our opinion were decisive for the performance achieved and for the sustainability of future growth.

The wholly Italian production chain

In 2020 we **protected our production chain**, our suppliers and artisanal workshops by not asking for discounts and maintaining a volume of artisanal work that was the same as the previous year.

The flexibility and responsiveness of our network of highly specialised artisanal workshops allowed us to offer **punctual, complete deliveries** to all stores, with the objective of keeping them constantly “fresh” and “inviting”.

We have been able to guarantee **rapid restocking**, which in our opinion has been even more important than usual in recent months as the availability of collections in boutiques and multibrand sales S.p.A.ces was reduced both due to cancellations made by many customers to other producers and by the cancellations made by the suppliers themselves as a result of production choices.

The value of creativity and the product

We believe that in painful, intense moments genius unleashes its maximum **creativity**. So it is no coincidence that this year we seem to have developed **our most beautiful collections ever**, collections that fully express our interpretation of what it means to experience clothing Made in Italy, in line with the latest trends that closely match our own tastes.

The **Spring/Summer 2021 collections for men and women** came out in July and August, physically available in the most important showrooms in the world, thus ensuring a **large number of orders**.

The **Fall/Winter 2021** collections enjoyed more excellent results, the first part of the **women's collection** being physically presented in November 2020 and the second part at the end of January 2021.

The **men's collections** also saw **excellent results** and were presented physically at **Pitti Uomo Fall Winter 2021**, an event that we managed by setting up our booth in the company, streaming it to customers and journalists all over the world given the impossibility of holding the trade show in its traditional form.

The **kids' collections** also S.p.A.rked great interest and very positive comments, premièring in 2019 as a natural extension of our ready-to-wear range, and within which we seem to have managed to transfer the look that distinguishes our adult ranges.

The value of the multibrand

The partnership developed over the years with about **500 great wholesale customers** (about **ten Department Stores** and **490 Specialty Stores**, most of which have a long-standing relationship with our company) is based on a very clear principle that we try to put into practice every day: dedicate the same attention and care to third-party stores as if they were our own directly-managed boutiques.

In our opinion, the search for **synergy** and **complementarity** between the **monobrand** and **multibrand channels** is based on the consistency of the brand image in the different S.p.A.ces it is present in and on the ability to offer the same personalised and attentive service to different customers.

In fact, we have the impression that **multibrands' desire for clear positioning** is even stronger than in the past, presenting a smaller number of brands selected on the basis of the principles of desirability and reliability, dedicating greater depth and exposure to them.

We believe that we have benefited from this "selection" made by multibrand customers on at least three occasions: the first in March/April when we did not receive any cancellations of orders for the Fall/Winter 2020 collection, the second when we received a large number of new orders for Spring/Summer 2021, and the third with the results of the Fall/Winter 2021 collections.

We believe that these results were also possible thanks to **fashion trends** moving towards a **"cleaner" taste** in line with our collections, and the choice to **physically present the collections** in the showrooms around the globe, trying to stay as close to customers as possible.

It therefore seems to us that in 2020 we managed to further strengthen the relationship **with all our multibrands**, also thanks to the **two complete road shows** that we held during the year, connecting with all the owners and managers of our 500 multibrand customers, divided into groups of 15 to 20 people.

During these conferences we discussed both strategic and operational issues, reiterating how important the multibrand stores are for us, giving clarity on the dates of the presentation and delivery of the collections and planning together for the long term.

Casa Cucinelli

2020 was characterized by a **constant dialogue with our end customers**.

Here in Solomeo we staged a S.p.A.ce rich in all the elements that reflect our concept of lifestyle, and which we therefore decided to call **Casa Cucinelli**.

This physical S.p.A.ce immediately became a “virtual square”, initially used for extensive conversations with groups of our customers who seem to have appreciated the time spent with them, seeing it as a sign of respect and closeness.

We have tried to physically reproduce this familiar environment also in Milan, Paris, London and soon New York, and we expect to animate these S.p.A.ces through multiple initiatives developed to bring the end customer closer to our lifestyle concept.

Physical and digital presence

2020 was a very important year for **strengthening our retail network**, with the design of a series of extensions that in 2020 and 2021 further reinforced the perception of our brand's exclusivity in the structural backbone of the capitals of luxury.

The continuous development of S.p.A.ces takes place in all the main geographic markets, as part of a constant search for balance that inspires our multi-annual investment plans.

In mid-September we opened our new boutique on Avenue Montaigne in **Paris** where, in harmony with history, aesthetics and the spirit of the place, we hope to have created a tranquil, familiar venue for rediscovering the value of a gentle age.

This opening followed the equally important inauguration in June on Bond Street in **London**, both underscoring our complete confidence in the value of physical retail.

In September we expanded our **Shanghai** boutique in China located in the prestigious Plaza 66 mall. In Russia we opened the **new, bigger St. Petersburg** boutique in Nevsky Prospekt at the end of 2020. In Japan we began work on the **Omotesando** boutique, which opened in 2021.

In America we doubled the footage of our Madison Avenue flagship store in **New York** and our **Las Vegas** boutique between the end of 2020 and the year 2021, in addition to planning the expansion of the boutique in San Francisco next October.
While we continue to consider the **physical experience** of the sale to be essential, creating a strong sensory memory, giving us the chance to cultivate a "personal" relationship of "mutual knowledge and esteem" with the end customer, we believe it is equally important to invest in the enrichment of our customers' **experience** in the **digital** channel.

We have dedicated significant resources to this channel in order to keep our way of presenting the collections on our website contemporary and effective, always working to remain consistent with the brand's philosophy and image.
As per our traditional approach to the digital world, entrusted to experts we have called "**Humanistic Craftsmen of the Web**", the website represents the two souls that make up the "mind and body" of the brand in harmonious balance.

Part of the website is dedicated to the philosophy, cultural heritage and bond with the distinctive territory of the Brunello Cucinelli brand, where new ideas and reflections on the contemporary world are periodically added.

The second part hosts the e-commerce boutique, featuring images and products in harmony with the management of the real boutiques.

E-commerce is conceived as a global digital flagship store with a vast inventory, which also acts as a fundamental tool for the digital presentation of both the collections and the company's image and creativity.

All the processes of the online shopping experience were carefully designed and refined to recreate the comfort and security that distinguish the relationships within the boutiques, and great importance is attributed to active Customer Service offered from Solomeo, a true digital counterpart of our sales assistants around the world that over time has been able to establish personal, human and friendly relationships with customers.

With the goal of continuing to keep the company up to date online as well, in 2020 we completed the project to **update the technology** behind our e-commerce website and **redesign the user experience**, incorporating new technologies and taking into consideration user behavior, including the enormous popularity of mobile use and the importance of having excellent technical performance in mainland China.

The value of communication

The decision at the beginning of 2020 to maintain our **investments in communications** substantially unchanged was a natural consequence of our objective to **support the brand and its desirability**, convinced that the crisis we were going through was short-term.

It seems to us that this choice also allowed us to **support sales**, increasing visibility at a time when customers had time to read and search, **strengthening relations** with physical and digital publishers around the world.

We were impressed by how many journalists from around the world commented favorably on **"Brunello Cucinelli for Humanity"** and the other **great choices of ethical, civic** and **moral conduct**.

The solidity of our presence in Europe and North America

2020 highlighted the **strength of our traditional markets** such as **Europe** and **North America** where demand for luxury goods has demonstrated resilience and great flexibility in channels and purchasing methods.

The desire to be "domestic" in all markets, which has always inspired our business, was particularly rewarding in 2020.
Local coverage – guaranteed by a dual presence in monobrand and multibrand channels – has allowed us to remain very close to our customers while only partially suffering from the lack of international mobility.

This objective is supported by the **presence of strong local organizations** complete with all functions and with greater autonomy at a governance level, which bring decisions closer to the markets in an effort to reduce response times and increase effectiveness.

Opportunities in China

2020 underscored the strong potential of **Mainland China** for our long-term growth, with a performance that has already shown double-digit increases in the last 12 months in both the monobrand and multibrand channels, with a growing number of new customers embracing the brand philosophy and taste of the collections.

Over the long term **China** is destined to have an increasing weight, currently accounting for 11% of turnover. In fact we believe that the Chinese market has **ample S.p.A.ce for growth** both in the **monobrand** and the **multi-brand channels**, and consequently our plans include the opening of a selected number of boutiques, the expansion of important locations where we are already present and the entry into new specialty stores in the wholesale channel.

A key element for development in this region is a **strong local presence** through our Shanghai hub, where we decided to double the S.p.A.ce (offices and showrooms) currently available to our team in early 2021.

We believe that success in this part of the world depends on the **knowledge and willingness to learn the local uses and culture**, entrusted to our team in the region and completed by deep relationships with journalists, authorities, entrepreneurs and customers.

Brunello Cucinelli for Humanity

We consider the Brunello Cucinelli for Humanity initiative to be an important resource for humanity and our company, **trying to improve the conditions of the people who are most in need**, to whom we donated unsold garments following the lockdown.

We re-labelled these garments, starting to give them as a gift to non-profit organizations, being able to reach small associations in all the countries we operate in, aided by our local partners and a multitude of "friends" who took the initiative to heart, acting personally to point out any people in need.

It seems to us that the whole world has appreciated our "**great moral decisions**", and we believe that the Brunello Cucinelli for Humanity project and the decision to not dismiss anyone and maintain wage levels have had a significant impact on customers' perceptions of our way of being and doing business.

COLLECTIONS

As has often happened in history, the human response to the most delicate moments has generated a **renewed attention to daily vitality, a reinvigorated desire to enjoy beauty through authentic yet new elements**. We believe that the latest collections are the result of this vital ferment that, channeled by a conscious assessment of the evolution of contemporary taste, has blended innovative research, the selection of precious materials, artisanal quality and Brunello Cucinelli's essential values.

Over the course of the year we noticed that, thanks to the new importance that "suspended" time has attributed to in-depth analysis and discussion, customers and the trade press are devoting **increasing attention to the ethical nature of brands and to the quality, history and philosophy of their products**. **It seems to us that this attention vindicates the principles that have always inspired the Brunello Cucinelli company.** In this delicate moment when respect for human well-being, the safeguarding of creation and the search for a greater good acquire a new, higher meaning, the consistency between the philosophy and structure of the Humanistic Enterprise over the years can be a fundamental element for evaluating the collections as well as the individual garments.

Even **at a stylistic level, we have observed that the search for simplicity and balance on the part of the market perfectly matches the orientation of the brand, based on a ready-to-wear that combines elegance and comfort, innovation and timeless taste**. These brand guidelines are all the more valid if framed in the context of contemporary needs that establish a strong continuity between shared S.p.A.ces and personal environments, between professional time and private life. In this perspective, the fresh image that has always distinguished the brand stands out: the search for a casual, versatile and comfortable elegance that responds fully and consistently to the needs of working and leisure life.

The new **Fall/Winter 2021 collections** have elicited very positive feedback from customers and trade professionals. From the time spent researching and analyzing the evolution of taste, it seems to us that **the essential values of the brand have emerged, which have focused creativity on garments with a high level of craftsmanship, capable of immediately conveying a fresh, distinctive appeal**. Thanks to this approach, the combination of design, tradition and craftsmanship naturally tends to transcend the seasons, giving an exclusive character even to the most essential looks.

Given the restrictions on travel that have been put in place in some geographical areas and the logistical obstacles related to the COVID-19 pandemic, we have further bolstered the "physical" presence of the collections in the various showrooms around the world in order to be as close as possible to our customers. We have tried to allow our partners to visit our S.p.A.ces more easily, with the possibility of touching the collections and fully appreciating the **selection of materials, which reflects the pursuit of the highest standards of luxury** and the **value of refined craftsmanship**, which places the emphasis on timeless quality, to be preserved and handed down.

Never before have **nature and well-being emerged as fundamental inspirations behind the collections**, elevated to everyday ideals by a conscious sensitivity. All categories of the collections are designed to renew the style in a simple and expert manner, to best express the **synthesis of heritage and continuous innovation**. The atmosphere of well-being blurs the boundaries between formality and leisure to make room for a new spontaneous elegance: the real protagonists are authenticity, uniqueness and distinctive values that express a comfortable feeling without mediation. The spontaneous character of the collection can also be clearly perceived from the selection of colors: the use of calm, restful shades – especially in the palette of beiges and light greys that distinguish the brand's identity – convey both intensity and lightness at the same time. The feeling of purity and rebirth flows through the lightest shades, balancing the metropolitan taste of the dark and grey tones.

The celebration of vegetable fibers evokes a charming natural mood, based on the harmonious contrast between raw and polished surfaces. Rustic dialogues with couture, dense and opaque materials alternate with translucent and featherweight effects.

The new Fall/Winter 2021 Womenswear Collection responds to new habits and needs that mark the rhythm of life. The main inspiration is nature, an inspiring life force that conveys well-being thanks to its regenerating power. The clothing is no longer just a functional or aesthetic element, but also takes on the task of expressing a feel-good style that combines pleasure and balance.

Indoor and outdoor, private and public align in a continuous flow that blurs the boundaries and gives life to new versatile and spontaneous daywear with a minimalist and refined style that revels in the details and boldly blends comfort and elegance. The inimitable qualities of knitwear pleasantly influence every category of the collection to create an enveloping knitted season. Not just flowing, light coats, blazers, down jackets and suits, but also dresses, total looks and twin sets, and even the bags and footwear incorporate this reassuring common thread, which spreads precious, modern comfort everywhere.

Cashmere, wool, silk, alpaca and mohair – all noble fibers that satisfy the need for a natural feeling – envelop with a sense of protection, well-being and beauty. Now more than ever they are a priority, preserving an intrinsic value to be defended and preserved, conveying the principle of *doing good, being better*.

The uniqueness of the workmanship, the pleasantness of the surfaces and the soft volumes are the cornerstones of a flexible, proportionate "cozy wear". Noble fibers are enhanced by timeless textures, combined with fascinating organic effects and delicate brilliant reflections, always with a refined, minimalist taste. Malfilé, tweed and checks in timeless shades suggest outdoor S.p.A.ces that are closer to nature than to the city.

The new Fall/Winter 2021 Menswear Collection is inspired by charm that endures through the ages, gathering formulas refined from years of research to create an essential style capable of exciting and lasting beyond the seasons. The men's wardrobe acquires a perfect balance in the evolution of taste, balanced between the inspirations that have shaped today's style and creativity oriented towards a timeless elegance.

The study of classics and elements that have risen above the fashions of the day has brought out fundamental values, qualities and harmony, which the contemporary eye has updated while leaving the core spirit intact. Simple and constant codes of taste, soft silhouettes and refined details make the formulas of elegance accessible and dynamic.

The combinations revolve around the sense of well-being and softness conveyed by the volumes, the quality of the materials and especially the enveloping and alluring comfort of knitwear. Contemporary casual style assumes an elegant, orderly appeal thanks to the jacket, the main element that ennobles the look, a synthesis of the sartorial world and the new stimuli transmitted by modern, refined fabrics.

In the search for a timeless taste, comfort and quality, knitwear plays a leading role: the richness of the range is reflected in the looks, emphasizing the feeling of comfort and refining the dialogue between neutrals and the colors of the season. The value and appeal of classic workmanship are renewed through a modern key that respects its timeless style. Moreover, the enveloping surfaces of the knitwear also elevate the style of the down jackets to create new special garments that combine the protection of padded outerwear with the quality of soft yarns.

Noble fibers and modern fabrics are at the service of comfort, softness and above all lightness. Suits and jackets incorporate precious materials with a modern taste, where classic patterns are interpreted in a fresh, discreet key. Even in accessories, fine leathers and new materials are enhanced by manual craftsmanship, always at the service of comfort and lightness. Indeed, footwear is a very important element of the collection, not only an accessory but a crucial element in creating the look.

The proposal for masculine elegance is also supported by the "**Sartoria Solomeo**" project, inspired by the image of a contemporary, fresh suit that is especially appealing for young men. Using digital and physical channels we seek to convey a modern taste that does not end with the simple creation of a tailored suit, but rather, as per Brunello Cucinelli's distinctive approach, is part of an overall styling support offered by a young, competent staff who can help interpret the suit and combinations according to the new vision that the brand proposes.

The **new Boys' and Girls' Collections** continue a project based on awareness, on an extensive search for the best materials and a sensitivity to the harmony between all the components. The tangible quality in each element is the result of the combination of noble fibers, natural fabrics and accurate craftsmanship – a blend that intends to impart a sense of continuity with traditional Brunello Cucinelli values and seeks to express a feeling of calm and serenity in this special moment. The range of special creations reflects the brand's distinctive character and offers a consistent response to a contemporary mentality that is increasingly interested in quality, value and longevity.

INVESTMENTS

The company has always **focused** strongly both on the management of the **current year** and on its **future** and on the strategies to be developed and put into practice for the coming months, aspiring to the great values that represent the foundations of **Humanistic Capitalism** in its way of doing business, knowing that tomorrow's success depends on careful sowing today.

This is why in 2020 we devoted a great deal of attention to commercial, digital and production investments, believing that continuous innovation is a decisive factor in keeping the **company modern** and **sustainable over the long term**.

Believing also that the impacts of the pandemic were short-term and not structural, we wanted to keep our company's organization **very solid**, continuing with the investments that we had planned before the pandemic.

In the "**physical**" world we have always considered it essential that each of our boutiques and sales S.p.A.ces follow the same process of innovation that guides the evolution and modernization that energizes the **showrooms**, thus meeting the increasingly evident propensity of the end customer to seek "lifestyle" inspirations with an authentic Italian taste.

This is the inspiration that has guided us in our pursuit of a friendly relationship with our customers, leading us to make **our boutiques and all our sales areas** even more welcoming, constantly making the exhibition S.p.A.ces innovative.

We devote this same amount of attention to the "**digital**" world by paying great attention to every detail, employing the same style and grace and working to establish an "intimate" relationship with our customers on the web.

We remain convinced that the continuous updating of the **online boutique**, both from a technological and a "visual merchandising" point of view, is essential to maintaining the contemporary nature of the brand.

We are therefore very pleased to have completed the global roll-out of the technological update of our e-commerce in November, involving both the "engine" of our websites and the "heart" of the user experience. This project allowed us to offer an even richer and more user-friendly experience, especially on mobile devices and in Asian markets.

Investments as at 31 December 2020 were equal to approximately **€51.6 million**, in line with the €52.6 million spent last year.

In detail, **commercial investments** amounted to €39.6 million, which was spent primarily for the opening of exclusive boutiques, prestigious expansions, the renewal of our showrooms and an increase in sales S.p.A.ce, also supporting development initiatives in the wholesale channel and the growth of dedicated areas in Luxury Department Stores.

Other investments amounting to €12.0 million include those related to **IT, digital, production and logistics services** that support our presence in the digital world and the continuous renewal of production facilities, essential for upgrading the relative structures and developing the logistical systems needed to manage the business.

INTRODUCTION

This Financial Report as at 31 December 2020 has been prepared pursuant to Italian Legislative Decree no. 58/1998 as amended, and the Issuers' Regulations issued by Consob. This Report was prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and endorsed by the European Union.

SUMMARY DATA AS AT 31 DECEMBER 2020

The following tables show (i) the summary consolidated income statement at 31 December 2020 compared with the corresponding previous financial year; (ii) the balance sheet reclassified by sources and applications at 31 December 2020 compared with 31 December 2019; and (iii) the figure for investments and operating cash flows for 2020 compared with the same figures for 31 December 2019.

Summary consolidated income statement

(In thousands of euros)	Year ended 31 December				Change	
	2020	% of sales	2019	% of sales	2020 v 2019	2020 v 2019%
Net Revenues	544,013	99.5%	607,761	99.9%	(63,748)	-10.5%
EBITDA	89,466	16.4%	169,626	27.9%	(80,160)	-47.3%
Operating profit	(14,818)	-2.7%	83,376	13.7%	(98,194)	<-100.0%
Income before taxes	(33,782)	-6.2%	69,176	11.4%	(102,958)	<-100.0%
Profit for the period	(32,069)	-5.9%	53,083	8.7%	(85,152)	<-100.0%
Normalized EBITDA	41,759(1)	7.7%	106,058(2)	17.4%	(64,299)	-60.6%
Normalized operating profit	6,927(1)	1.3%	76,813(2)	12.6%	(69,886)	-91.0%
Normalized income before taxes	1,108(1)	0.2%	71,402(2)	11.7%	(70,294)	-98.4%
Normalized result for the year	2,661(1)	0.5%	49,306(2)	8.1%	(46,645)	-94.6%

(1) The normalization of the data as at 31 December 2020 refers to the elimination of the accounting effects relating to the application of IFRS 16 and the extraordinary appropriation of €31,727 thousand relating to Inventories (for more details, see Note 8 of the Explanatory Notes and what is specified later in this Management Report).

(2) The normalization of data as at 31 December 2019 refers to the elimination of the accounting effects relating to the application of IFRS 16 and the tax benefit deriving from the so-called Patent Box.

Reclassified equity position by sources and uses:

(In thousands of euros)	Situation at		Change	
	31 December 2020	31 December 2019	2020 v 2019	2020 v 2019%
Net working capital	186,735	155,104	31,631	+20.4%
Fixed assets	655,252	607,091	48,161	+7.9%
Other non-current assets/(liabilities)	24,861	18,376	6,485	+35.3%
Net Invested Capital	**866,848**	**780,571**	**86,277**	**+11.1%**
Net Financial Debt	93,549	30,070	63,479	>+100.0%
Financial lease liabilities	512,195	451,162	61,033	+13.5%
Shareholders' Equity	261,104	299,339	(38,235)	-12.8%
Sources of financing	**866,848**	**780,571**	**86,277**	**+11.1%**

Other summary data:

(In thousands of euros)	Situation at		Change	
	31 December 2020	31 December 2019	2020 v 2019	2020 v 2019%
Cash flows generated/(used) in operating activities	36,462	115,096	(78,634)	-68.3%
Cash flows used in investing activities	(41,060)	(52,007)	10,947	-21.0%
Cash flows generated/(used) in financing activities	11,268	(51,595)	62,863	<-100.0%
Total cash flows	**6,670**	**11,494**	**(4,824)**	**-42.0%**
Investments	**51,602**	**52,591**	**(989)**	**-1.9%**

COVID-19 PANDEMIC UPDATE

Significant accounting aspects

In accordance with Consob Notice no. 8/20 of 16 July 2020 ("Covid 19 – Financial Disclosure Notice"), and the recommendations of 20 May 2020 provided by ESMA ("Implications of the COVID-19 outbreak on the half-yearly financial Reports") and Consob notice no. 1/21 of 16 February 2021, a description of the accounting impacts of the COVID-19 epidemic is presented below in this Financial Report.

– The meeting of the Board of Directors approved the inclusion of an **extraordinary provision for the write-down of the inventory** for an amount equal to €31,727 thousand – reflected in this Management Report under the item "Value adjustments to assets"– against the intention during the current year and subsequent years to donate free of charge to associations and organizations dedicated to the needy the excess clothing that was left over due to the COVID-19 emergency situation and the consequent temporary interruption of sales. The extraordinary provision for write-downs reflects the estimate prepared by the directors of the value of the garments of the collections involved in the project, called "Brunello Cucinelli for Humanity".

– The COVID-19 epidemic created the need to source unplanned financial sources and consequently **new additional funding has been acquired**. Starting in March, the new loans amounted to €116.5 million. The transactions, carried out by the Parent Company with leading Italian banks, provide for 5-year repayment terms for €32.0 million and for 18-24 months for €84.5 million. All transactions were contracted at competitive market rates, with a balanced impact on the income statement.

– On 9 April 2020, in consideration of the COVID-19 health emergency, the Board of Directors resolved to **revoke** the proposed **distribution of the dividend** and to allocate the profit for the 2019 financial year of €57,216,429 to the profit reserve. The proposal made by the Board of Directors was approved by the Shareholders' Meeting of Brunello Cucinelli S.p.A. on 21 May 2020.

– In accordance with paragraphs 9 and 12 of IAS 36, appropriate assessments were made of the existence of indications that an asset may have been impaired, carefully considering the effects of the COVID-19 epidemic. The determination of recoverable value in the current context of uncertainty required a careful assessment of the cash flow projections and was prepared on the basis of reasonable estimates and sustainable and realistic assumptions. This activity produced the following accounting transactions:
  • reduction in the value of property, plant and equipment by €267 thousand;
  • reduction in the value of the CGU ("Cash Generating Unit") for a total of €583 thousand;
  • provision for bad debts of €1,308 thousand, amounting to an equity balance of €2,278 thousand compared to €1,311 thousand as at 31 December 2019.

– With regard to the existing lease contracts, in close and positive collaboration with the lessors and in the spirit of strengthening relations with them also with a view to future developments (new openings, upcoming contractual renewals, etc.) we accepted their proposal for some reductions in rents for the periods most affected by the pandemic, mainly concentrated in Asia and Russia by virtue of a custom that appeared to us to be fairly consolidated in those areas following Covid-19. We also report a significant reduction for the English market due to a decrease in the "guaranteed minimum" share. Taken as a whole, these reductions amounted to €6,007 thousand, representing a cost containment of 5.9% on the total cost of the year for rents (normalized by the effect of applying the IFRS 16 accounting standard).

- During 2020, despite the effects of the pandemic, the Group decided to maintain and guarantee the employment and salaries of all its employees as well as confirming its main development projects, both of the expansion of the Retail Network and of the most important consolidations of its activities (channels, product lines, areas of intervention). Finally, we note that to the extent that the various governments sought to support employment and salaries, the Group benefited from their relative contributions, which amounted to a total of €4,370 thousand, representing a cost containment of 3.7% on the total payroll costs of the year.

- During 2020, costs were incurred for the purchase of personal protection equipment (PPE) and other devices necessary to contain and combat the COVID-19 epidemiological emergency for all employees and external contractors who work on the premises. Costs at 31 December 2020 amounted to €2,018 thousand.

SEASONALITY OF SALES

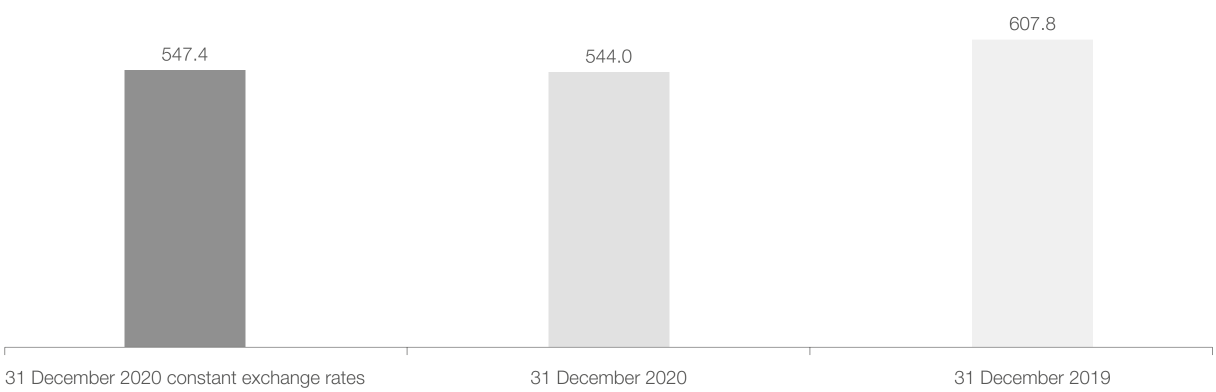
Following the pandemic, 2020 saw structural changes both in the timing of product shipments and in the temporal distribution of retail sales following mandatory closures that varied across the globe, mainly affected by the evolution of the health emergency over the course of the year.

The main dynamics related to the seasonality of sales under normal pre-pandemic operating conditions are outlined below.
While not subject to significant seasonal or cyclical changes in total annual sales, during the various quarters of the year, the Group's activities suffer from a lack of perfect uniformity in the flow of revenues and costs deriving mainly from its businesses.
Furthermore, the luxury market which the Group operates in is characterized at the level of sales channels by seasonal factors that have an impact on economic results.
First of all, seasonality is linked to the sales methods of wholesale distribution channels, which see a concentration of revenues in the first and third quarters of each financial year. In fact, sales turnover is concentrated in the months of January-March for the spring/summer collection and in the months of July-September for the fall/winter collection, although international customers usually require shipments of the latter during the second quarter as well.
With regard to the retail channel, Group sales saw a concentration of revenues mainly in the last quarter of each year, a period characterized by the sale of those products having the highest unit value.
Consequently, it is evident that the Group's interim results may not contribute in a uniform manner to the formation of the economic and financial results for each year.

THE GROUP'S RESULTS FOR THE YEAR 2020

ANALYSIS OF REVENUES

The Group's consolidated turnover for the year 2020 amounted to €544,013 thousand, a decrease of -10.5% compared to the 2019 financial year. We note a significant increase of +7.1% at current exchange rates in the second half of the year. At constant exchange rates, meaning using the same average exchange rates as those used in 2019, revenues would have been €547,387 thousand, equal to -9.9%.

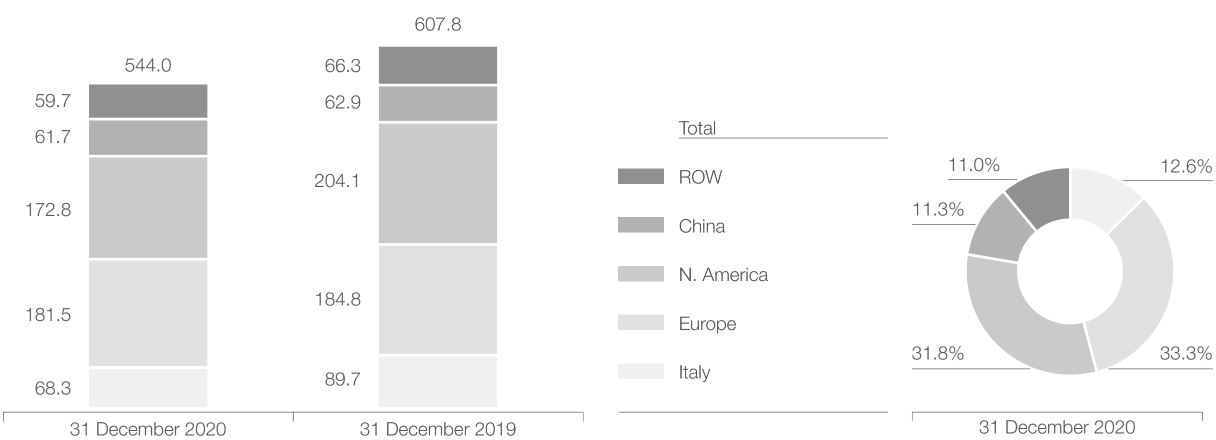


International markets accounted for 87.4% of total net revenues, a decrease of -8.2%, which was accompanied by the results of the Italian market (12.6% of net revenues), where sales decreased by -23.8%. The European market, including Italy, accounted for 45.9% of the total.

REVENUES BY GEOGRAPHICAL AREA

The following table provides details of revenues at 31 December 2020 compared with the previous year, analyzed by geographical area.

(In thousands of euros)	Year ended 31 December				Change	
	2020	**Incid. %**	**2019**	**Incid. %**	**2020 v 2019**	**2020 v 2019 %**
Italy	68,323	12.6%	89,720	14.8%	(21,397)	-23.8%
Europe	181,472	33.3%	184,751	30.4%	(3,279)	-1.8%
North America	172,778	31.8%	204,109	33.6%	(31,331)	-15.4%
China	61,726	11.3%	62,898	10.3%	(1,172)	-1.9%
Rest of the World (RoW)	59,714	11.0%	66,283	10.9%	(6,569)	-9.9%
Total	**544,013**	**100.0%**	**607,761**	**100.0%**	**(63,748)**	**-10.5%**



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

Italy

Italy's net revenues accounted for 12.6% of total revenues (14.8% in the previous year) and posted a decrease in absolute terms of €21,397 thousand compared to 31 December 2019, corresponding to -23.8% (€68,323 thousand in 2020; €89,720 thousand in 2019). The second part of the year saw a performance of -13.3%.

The lack of tourists was partially compensated by the stability of Specialty Stores in the suburbs.

At 31 December 2020, the monobrand network (direct and wholesale monobrand) consisted of 14 boutiques.

Europe

Net revenues in Europe accounted for 33.3% of the total (30.4% in the previous year) and decreased by -1.8%, from €184,751 thousand to €181,472 thousand, with a decrease in absolute terms of €3,279 thousand. The second half of 2020 saw significant growth of +20.6%.

The very positive result was driven by the multibrand channel. Sales in the areas with local customers were very interesting, especially in central-northern Europe and the entire area of the former USSR, while tourist areas suffered more from the effects of the pandemic.

At 31 December 2020, the monobrand network (direct and wholesale monobrand) consisted of 49 boutiques.

North America

Net revenues in North America accounted for 31.8% of total revenues (33.6% in the previous year) and went from €204,109 thousand to €172,778 thousand, with a decrease of €31,331 thousand, equal to -15.4%. The second half of 2020 saw growth of +4.8% at current exchange rates, more marked at constant exchange rates.

The North American market returned to growth in the second half of the year, demonstrating a great resilience in demand. Positive wholesale orders were a key component of the performance and gave us great confidence in 2021.

At 31 December 2020, the monobrand network (direct and wholesale monobrand) consisted of 32 boutiques.

China

Net revenues for China accounted for 11.3% of the total (10.3% in the previous year) and decreased by €1,172 thousand (-1.9%), from €62,898 thousand to €61,726 thousand. The second half of 2020 saw growth of +14.0%.

Mainland China reported a positive result for the whole year, with a marked acceleration in H2, showing significant double-digit growth. The weakness of Hong Kong and Macao persisted over the 12 months, with some positive signs of recovery in the latter part of the year.

At 31 December 2020, the monobrand network (direct and wholesale monobrand) consisted of 24 boutiques.

Rest of the world

Net revenues for the Rest of the World decreased by -9.9% in 2020 compared to the previous year, from €66,283 thousand to €59,714 thousand. The second part of 2020 saw a performance of -1.5%.

Progressive recovery of sales in H2, characterized by solid results in South Korea and normalization of sales in the Japanese market.

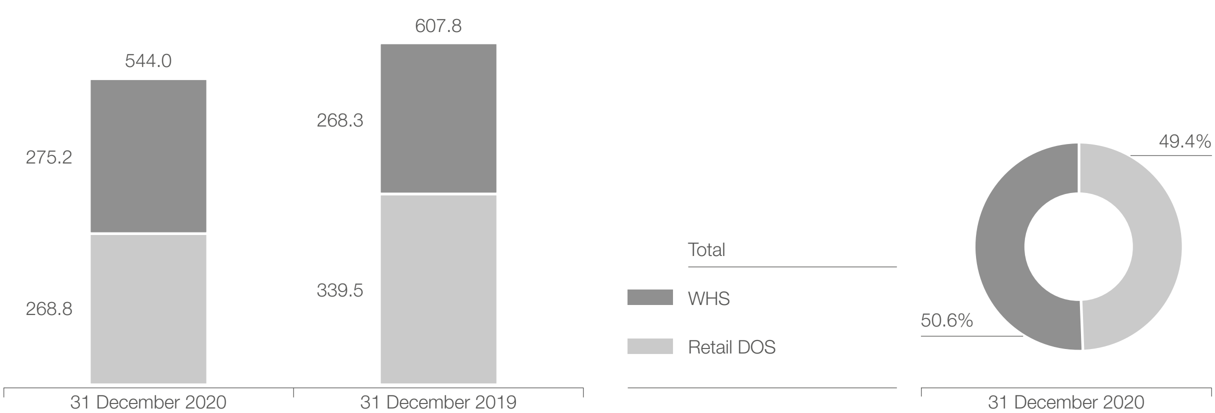
At 31 December 2020, the monobrand network (direct and wholesale monobrand) consisted of 19 boutiques.

REVENUES BY DISTRIBUTION CHANNEL

The following table sets out the net revenues earned by the Group in 2020 compared with the previous year, analyzed by distribution channel.

(In thousands of euros)	Year ended 31 December				Change	
	2020	Incid. %	2019	Incid. %	2020 v 2019	2020 v 2019 %
Retail	268,773	49.4%	339,435	55.8%	(70,662)	-20.8%
Wholesale(1)	275,240	50.6%	268,326	44.2%	6,914	+2.6%
Total	**544,013**	**100.0%**	**607,761**	**100.0%**	**(63,748)**	**-10.5%**

(1) The wholesale channel combines the wholesale multibrand channel and the wholesale monobrand channel. Revenues of the multibrand wholesale channel at 31 December 2020 amounted to €239,664 thousand compared to €235,709 thousand at 31 December 2019. The monobrand wholesale channel had a turnover of €35,576 thousand at 31 December 2020 compared to €32,617 thousand at 31 December 2019. The network of monobrand wholesale stores consisted of 31 boutiques as at 31 December 2020 (compared to 30 boutiques as at 31 December 2019).



RETAIL

Net revenues generated by the retail channel amounted to €268,773 thousand, recording a decrease of €70,662 thousand, equal to -20.8% compared to the previous year. The second half of 2020 saw a slight decrease of -12.3%. At 31 December 2020 the retail channel accounted for 49.4 % of the Group's total net revenues.

The year opened with very positive sales in the retail channel, but the spread of the pandemic produced a sharp drop in traffic in boutiques around the world.
We managed to limit this effect through several actions: the significant growth in sales in our online boutique, which doubled its relative weight to around 5%, the launch of "Casa Cucinelli" as a new channel for interacting with customers, the great work done on the visual merchandising of physical and digital boutiques.

In 2020 we were also able to rely on the high level of loyalty to our brand and the skill of our dealers, which we like to call “friendly advisors”, able to achieve excellent sales even during the lockdown thanks to their relationships of trust with customers.

As at 31 December 2020 the network consisted of 107 boutiques (106 boutiques as at 31 December 2019).

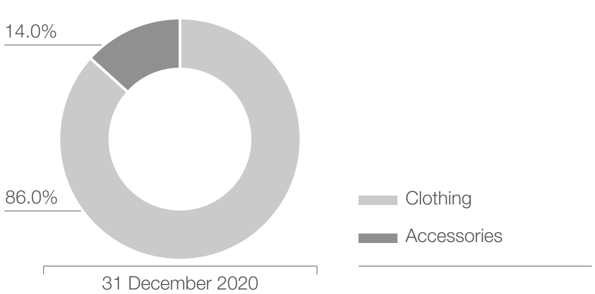
WHOLESALE

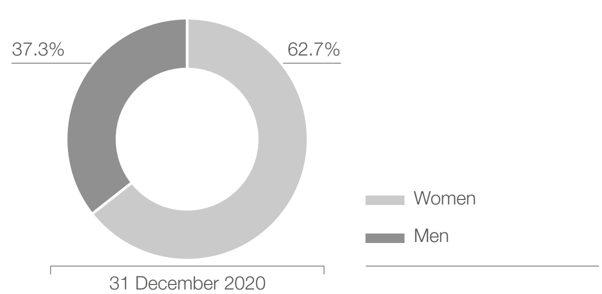
Net revenues generated by sales through the wholesale channel amounted to 50.6% of total net revenues, up from 44.2% in 2019. In absolute terms, sales amounted to €275,240 thousand, an increase of €6,914 thousand compared to 31 December 2019, corresponding to +2.6%. The second part of the year saw very strong growth of +36.1%.

These results, which we believe to be excellent in a year that was as particular as 2020, confirms the strategic importance that we have always attached to multibrand customers, which are able to adapt the characteristics and taste of the brand to the needs of the local customer.
The initiatives implemented in 2020 have contributed to achieving these results. Particularly worthy of note are the precision of production and delivery times, the very important assistance in restocking orders, especially this season, the possibility of physically touching the collections during the presentation, the contemporary nature of the apparel, without re-proposing garments from past seasons.
Finally, the numerous connections with multibrand customers from the Casa Cucinelli S.p.A.ce in Solomeo were also very important, offering opportunities for discussions and long-term planning.

REVENUES BY PRODUCT LINE AND END CUSTOMER

The following is a graphical representation of the Brunello Cucinelli Group’s revenues at 31 December 2020, analyzed by product line and end customer:





ANALYSIS OF THE INCOME STATEMENT

The following table provides a summary of the financial data as at 31 December 2020 and 31 December 2019.

(In thousands of euros)	Year ended 31 December				Change	
	2020	**% of sales**	**2019**	**% of sales**	**2020 v 2019**	**2020 v 2019%**
Net Revenues	544,013	99.5%	607,761	99.9%	(63,748)	-10.5%
Other operating income	2,772	0.5%	826	0.1%	1,946	>+100.0%
Raw and consumable materials	(53,725)	-9.8%	(72,279)	-11.9%	18,554	-25.7%
Services	(243,296)	-44.5%	(248,067)	-40.8%	4,771	-1.9%
Personnel	(119,569)	-21.9%	(112,199)	-18.4%	(7,370)	+6.6%
Other operating costs	(8,902)	-1.6%	(7,530)	-1.2%	(1,372)	+18.2%
Increases for internal costs	3,258	0.6%	2,382	0.4%	876	+36.8%
Value adjustments to assets	(35,085)	-6.4%	(1,268)	-0.2%	(33,817)	>+100.0%
EBITDA	**89,466**	**16.4%**	**169,626**	**27.9%**	**(80,160)**	**-47.3%**
Depreciation/amortization	(104,284)	-19.1%	(86,250)	-14.2%	(18,034)	+20.9%
Operating profit	**(14,818)**	**-2.7%**	**83,376**	**13.7%**	**(98,194)**	**<-100.0%**
Net financial expense	(18,964)	-3.5%	(14,200)	-2.3%	(4,764)	+33.5%
Income before taxes	**(33,782)**	**-6.2%**	**69,176**	**11.4%**	**(102,958)**	**<-100.0%**
Taxes	1,713	0.3%	(16,093)	-2.6%	17,806	<-100.0%
Tax rate	-5.1%		-23.3%			
Profit for the period	**(32,069)**	**-5.9%**	**53,083**	**8.7%**	**(85,152)**	**<-100.0%**
Normalized EBITDA	41,759(1)	7.7%	106,058(2)	17.4%	(64,299)	-60.6%
Normalized operating profit	6,927(1)	1.3%	76,813(2)	12.6%	(69,886)	-91.0%
Normalized income before taxes	1,108(1)	0.2%	71,402(2)	11.7%	(70,294)	-98.4%
Normalized result for the year	2,661(1)	0.5%	49,306(2)	8.1%	(46,645)	-94.6%

(1) The normalization of the data as at 31 December 2020 refers to the elimination of the accounting effects relating to the application of IFRS 16 and the extraordinary appropriation of €31,727 thousand relating to Inventories (for more details, see Note 8 of the Explanatory Notes and what is specified later in this Management Report).

(2) The normalization of data as at 31 December 2019 refers to the elimination of the accounting effects relating to the application of IFRS 16 and the tax benefit deriving from the so-called Patent Box.

EBITDA AND OPERATING RESULTS

EBITDA at 31 December 2020 amounted to a positive €89,466 thousand, a decrease of €80,160 thousand compared to the figure at 31 December 2019.

The meeting of the Board of Directors decided to establish an extraordinary provision for the write-down of the inventory for an amount equal to €31,727 thousand reflected in this Management Report under the item "Value adjustments to assets", against the intention during the current year and subsequent years to donate free of charge to associations and organizations dedicated to the needy the excess clothing that was left over due to the COVID-19 emergency situation and the consequent temporary interruption of sales.

The **normalized EBITDA**, which eliminates the accounting effects of the extraordinary provision mentioned above (€31,727 thousand) and the accounting effects relating to the application of IFRS 16 (equal to €78,487 thousand for the item "Lease expense" and equal to €947 thousand for the item "Other revenues"), stands at a positive value for an amount equal to €41,759 thousand, a decrease of €64,299 thousand compared to the normalized data of the previous year.

(In thousands of euros)

EBITDA as at 31 December 2020	Allocation Extraordinary Inventories	IFRS 16 effect: Cost for leases	IFRS 16 effect: Other operating income	EBITDA as at 31 December 2020 normalized
89,466	31,727	(78,487)	(947)	**41,759**

Operating income at 31 December 2020 amounted to a negative value of -€14,818 thousand, a decrease of €98,194 thousand compared to the figure for the previous year.

The **normalized Operating Income**, which in addition to the accounting effects specified for the normalization of EBITDA eliminates the effects of the application of IFRS 16 on the item "Amortization and Depreciation" for an amount equal to €69,452 thousand, stands at a positive value for an amount equal to €6,927 thousand, a decrease of €69,886 thousand compared to the figure for the previous year.

OPERATING COSTS

The percentage of **production costs** (cost for raw materials and consumables and cost for external processing) increased slightly to 32.0% at 31 December 2020 compared to 31.5% at 31 December 2019.

(In thousands of euros)	at 31 December				Change	
	2020	% of sales	2019	% of sales	2020 v 2019	2020 v 2019 %
Costs for raw materials and consumables	98,025	17.9%	112,403	18.5%	(14,378)	-12.8%
Change in inventories	(44,300)	-8.1%	(40,124)	-6.6%	(4,176)	+10.4%
Outsourced work	121,008	22.2%	119,363	19.6%	1,645	+1.4%
Total	**174,733**	**32.0%**	**191,642**	**31.5%**	**(16,909)**	**-8.8%**

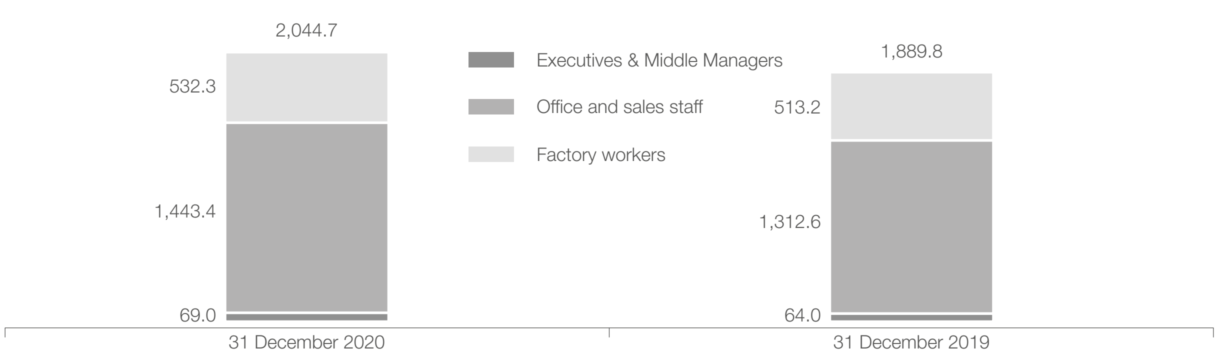
Payroll costs at 31 December 2020 amounted to €119,569 thousand, an increase in value as compared to the figure for the previous year of €7,370 thousand.

During 2020, despite the effects of the pandemic, the Group decided to maintain and guarantee the employment and salaries of all its employees as well as confirming its main development projects, both of the expansion of the Retail Network and of the most important consolidations of its activities (channels, product lines, areas of intervention).

Finally, we note that to the extent that the various governments sought to support employment and salaries, the Group benefited from their relative contributions, which amounted to a total of €4,370 thousand, representing a cost containment of 3.7% on the total payroll costs of 2020.

(In thousands of euros)	at 31 December				Change	
	2020	% of sales	2019	% of sales	2020 v 2019	2020 v 2019 %
Payroll costs	119,569	21.9%	112,199	18.4%	7,370	+6.6%

The FTE (Full Time Equivalent) figure was 2,044.7 at 31 December 2020 compared to 1,889.8 at 31 December 2019 (+154.9) as follows:



The following table provides a summary of the main income statement items for 2020 and 2019 together with the percentage of sales and services they represent.

(In thousands of euros)	at 31 December				Change	
	2020	% of sales	2019	% of sales	2020 v 2019	2020 v 2019 %
Lease expense	17,912	3.3%	21,810	3.6%	(3,898)	-17.9%
Advertising and other marketing costs	32,069	5.9%	35,470	5.8%	(3,401)	-9.6%
Transport and duties	23,405	4.3%	22,150	3.6%	1,255	+5.7%
Commissions and accessory charges	10,635	1.9%	9,256	1.5%	1,379	+14.9%
Credit card charges	4,971	0.9%	6,361	1.0%	(1,390)	-21.9%

Below is a brief commentary on the dynamics that characterized the operating costs described above:

– **Costs for leases** amounted to €17,912 thousand at 31 December 2020 compared to €21,810 thousand at 31 December 2019.
This item mainly refers to lease contracts with variable consideration (and as such not included in the scope of IFRS 16), whose decrease in absolute value is mainly related to the trend in turnover in 2020.
Finally, it should be noted that the cost of rents relating to leases included in the scope of IFRS 16 amounted to €78,487 thousand compared to €63,761 thousand as at 31 December 2019. Therefore, **excluding** the aforementioned effects, the balance of the cost of rents at 31 December 2020 amounted to €96,399 thousand compared to €85,571 thousand in 2019. The increase is related to new openings and significant extensions of some of the existing areas.

– **Advertising and other commercial expenses** amounted to €32,069 thousand at 31 December 2020 compared to €35,470 thousand at 31 December 2019.
These costs relate to the communication and promotional activities carried out by the Group to disseminate its image and philosophy throughout the world. More specifically, they are mainly incurred for the production of physical and digital catalogues, advertising campaigns and fairs and exhibitions organized in Italy and abroad, the latter clearly decreasing compared to last year. Conversely, we report an increase in digital communications this year, given that this channel represents an increasingly important and strategic communications vehicle.

– **Transport and Duties** amounted to €23,405 thousand at 31 December 2020 compared to €22,150 thousand at 31 December 2019.
The increase in absolute terms notwithstanding lower Group sales volumes is strictly attributable to the increase in rates applied by international carriers in the period under review, mainly due to the pandemic.

– **Commissions and ancillary charges** amounted to €10,635 thousand at 31 December 2020 compared to €9,256 thousand at 31 December 2019.
These refer to the fees paid to the agent network, which increased in absolute value by an amount equal to €1,379 thousand, due both to new relationships and new areas of intervention.

– **Credit card charges** amounted to €4,971 thousand at 31 December 2020 compared to €6,361 thousand at 31 December 2019.
The decrease in absolute value is strictly attributable to the reduction in turnover due to the lockdown.

With regard to the remaining cost items that make up the income statement, it should be noted that as at 31 December 2020 there was a total increase of €2,225 thousand compared to the figure of 31 December 2019. Some of the main changes worthy of note are the higher provisions for doubtful accounts and the agents' supplementary termination indemnity provision for approximately €1,079 thousand, higher write-downs of fixed assets for €1,012 thousand as well as costs for the purchase of personal protective equipment (PPE) and other devices to contain and combat the COVID-19 epidemiological emergency.

AMORTIZATION, DEPRECIATION, NET FINANCIAL EXPENSE, TAXATION AND NET PROFIT

Amortization and depreciation at 31 December 2020 amounted to €104,284 thousand, up €18,034 thousand compared to €86,250 thousand at 31 December 2019.
Amortization of Rights of Use, which include amortization of Key Money paid by the Group, amounted to €74,278 thousand compared to €60,827 thousand at 31 December 2019.

Excluding the effects relating to the application of IFRS 16 for leases, amortization and depreciation amounted to €34,832 thousand compared to €29,245 thousand at 31 December 2019.

Details of the investments as at 31 December 2020 can be found in the "Investments" section of this Financial Report.

Net financial charges at 31 December 2020 amounted to €18,964 thousand compared to €14,200 thousand at 31 December 2019, up €4,764 thousand.

The impact of financial charges relating to lease contracts pursuant to IFRS 16 increased by €4,356 thousand to a total of €13,145 thousand at 31 December 2020 (including foreign exchange losses of €2,457 thousand) compared to €8,789 thousand at 31 December 2019 (net of exchange gains of €1,652 thousand).

Excluding the aforementioned effects relating to the application of IFRS 16 for leases, the balance of financial charges at 31 December 2020 amounted to €5,819 thousand compared to €5,411 thousand in the previous year, thus registering a slight increase of €408 thousand.

Note also that 2020 was negatively impacted by the accounting for a write-down in the value of the CGU ("Cash Generating Unit") for a total of €583 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 euros)	at 31 December				Change	
	2020	% of sales	2019	% of sales	2020 vs 2019	2020 vs 2019 %
Loan interest	840	0.1%	401	0.1%	439	>+100.0%
Other net (income)/expense	1,391	0.3%	1,455	0.2%	(64)	-4.4%
Financial charges/(income)	**2,231**	**0.4%**	**1,856**	**0.3%**	**375**	**+20.2%**
Lease financial charges/(income)	10,688	2.0%	10,441	1.7%	247	+2.4%
Foreign exchange losses/(gains) on leases	2,457	0.4%	(1,652)	-0.3%	4,109	<-100.0%
Foreign exchange losses/(gains)	435	0.1%	(1,689)	-0.3%	2,124	<-100.0%
Impairment of CGU ("Cash Generating Unit")	583	0.1%	-	0.0%	583	+100.0%
Financial charges/(income) for adjustment to the fair value of the derivatives	2,570	0.5%	5,244	0.9%	(2,674)	-51.0%
Total net financial expense	**18,964**	**3.5%**	**14,200**	**2.3%**	**4,764**	**+33.5%**

As shown in the table, interest expense on loans in 2020 increased compared to last year (€840 thousand compared to €401 thousand in the previous year). The higher charges are attributable to new loans contracted to meet the Group's financial needs following the pandemic caused by COVID-19.

In this respect, it is also worth noting the effect of hedging transactions on interest rates and exchange rates, amounting to €2,570 thousand in 2020 compared to €5,244 thousand last year. These 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.

In light of the above, **Pre-tax income** at 31 December 2020 amounted to a negative value equal to -€33,782 thousand, a decrease of €102,958 thousand compared to the previous year. The **normalized Pre-Tax Income**, which eliminates the accounting effects of the extraordinary provision for inventories and the accounting effects relating to the application of IFRS 16, stands at a positive value for an amount equal to €1,108 thousand.

Income taxes for 2020 amounted to -5.1% of the consolidated pre-tax result compared to -23.3% of the previous year (-30.9% normalizing the calculation of taxes in consideration of the so-called Patent Box, not present this year). Note that the tax rate of the 2020 financial statements was affected by the payment of previously unpaid taxes by the Parent Company for the amount relating to the extraordinary write-down of inventories for the "Brunello Cucinelli for Humanity" project, on which prudently no deferred tax assets were recorded. Reference should be made to Note 26 of the Explanatory Notes for further details.

Consequently, **Net profit** in 2020 was negative for an amount equal to -€32,069 thousand, corresponding to -5.9% of revenues from sales and services. The **normalized Net profit**, which eliminates the accounting effects of the extraordinary provision for inventories and the accounting effects relating to the application of IFRS 16, stands at a positive value for an amount equal to €2,661 thousand.

The breakdown of the net result between the Group's share and that of Minority Interests compared to the figure for the previous year is as follows:

(In thousands of euros)	**31 December 2020**	**31 December 2019**
Net profit of the Group	(33,216)	52,553
Net profit of Minority Interests	1,147	530
Net Profit	**(32,069)**	**53,083**

ANALYSIS OF BALANCE SHEET AND FINANCIAL ITEMS

Provided below are comments on the main items of the Group's statement of financial position at 31 December 2020 reclassified by sources and applications, with comparative figures at 31 December 2019.

NET WORKING CAPITAL

The following table provides an analysis of the net working capital of the Brunello Cucinelli Group at 31 December 2020 and at 31 December 2019:

(In thousands of euros)	**31 December 2020**	**31 December 2019**
Trade receivables	78,871	58,622
Inventories	208,347	204,868
Trade payables	(91,412)	(89,453)
Other current assets/(liabilities), net	(9,071)	(18,933)
Net working capital	**186,735**	**155,104**

There was an increase of €31,631 thousand in net working capital at 31 December 2020 over the balance at 31 December 2019. The change was essentially due to the combined effect generated by:

– Balance of "Trade receivables", which saw an increase of €20,249 thousand. The increase is mainly due to two factors:
  - The increase in shipments in the wholesale channel in Q4 2020, equal to approximately €27.5 million compared to Q4 2019.
  - The increase in the balance of overdue receivables: at 31 December 2020 they amounted to €17,086 thousand compared to €10,116 thousand at 31 December 2019, but already lower than the figure at 30 June 2020 when they amounted to €24,710 thousand.
    Our commercial policy has always been to stay very close to and collaborative with a loyal, high quality clientele. Following emergencies and high tensions, we have always sought a relationship of extreme cooperation and mutual willingness to find solutions with our customers, including in the management of trade receivables. In fact, both in 2001 and 2008 we managed receivables with flexibility and positivity, and within a couple of half years we had returned to normal conditions, without affecting business opportunities. Once again, we are confident that our willingness to find solutions and flexibility will allow us to further solidify good business relationships and current and future business opportunities (for further details see Note 9 to these Explanatory Notes).

We consider our receivables to be sound and payable without particular problems and have prudently set aside a provision for write-downs of €1,308 thousand despite having recorded very low losses (€336 thousand) during the year, representing 0.07% of Net Revenues for the year. As at 31 December 2020 the provision for bad debts therefore amounted to €2,278 thousand, an amount that we consider appropriate in order to bring the value of receivables back to their estimated realizable value.

– A slight increase in the balance of “Inventories”, equal to €3,479 thousand, the composition of which at 31 December 2020 compared with the previous year is as follows:

(In thousands of euros)	as at 31 December 2020	as at 31 December 2019
Raw materials	34,032	37,760
Finished and semi-finished goods	174,315	167,108
Inventories	**208,347**	**204,868**

At 31 December 2020, the balance of the “Inventories” was impacted by the establishment of an extraordinary provision for the write-down of the inventory for an amount of €31,727 thousand, intended for the “**Brunello Cucinelli for Humanity” project**, against the intention to donate free of charge to associations and organizations dedicated to the needy the clothing left over from the emergency situation and the consequent temporary interruption of sales in our direct stores. This choice made it possible to make the most of these garments and transform a critical issue into an important resource for the less fortunate.
Note that the very first donations were made in the last months of 2020, while the project will continue to develop over the course of the coming years.

In addition to the effects of the pandemic, the increase in Inventories was also caused by the organic growth of the business, including the following aspects:

- Expansion of the network of directly managed stores during the year, with one new net opening and two new hard-shops, and major extensions of some boutiques.
- Development of new initiatives related to the “Kids” collection and the “Solomeo Tailor” project, in addition to the development of activities in the digital channel.

– Slight increase in the balance of “Trade payables” by €1,959 thousand, from €89,453 thousand at 31 December 2019 to €91,412 thousand at 31 December 2020. Note that during 2020 the Group did not change the timing of payments to its suppliers, contractors and consultants.

– Decrease in the debit balance of the item “Other net current assets/(liabilities)”, which at 31 December 2019 was €18,933 thousand and at 31 December 2020 was €9,071 thousand, decreasing by €9,862 thousand mainly due to the balances of tax receivables and payables and the fair value of derivative instruments hedging the exchange rate risk. Further details can be found in the comments included in the notes to the financial statements in this Financial Report.

FIXED ASSETS AND OTHER NON-CURRENT ASSETS/LIABILITIES

The following table provides an analysis of fixed assets and other non-current assets/liabilities at 31 December 2020 and at 31 December 2019:

(In thousands of euros)	**31 December 2020**	**31 December 2019**
Intangible fixed assets	19,181	18,508
Right-of-use	470,197	433,621
Tangible fixed assets	150,254	142,705
Financial assets for leases – non-current	402	676
Other non-current financial assets	11,039	8,767
Investments in non-current financial assets	4,179	2,814
Other net non-current assets/(liabilities)	24,861	18,376
Net fixed assets and other assets/(liabilities)	**680,113**	**625,467**

Net fixed assets and other non-current assets/(liabilities) amounted to €680,113 thousand at 31 December 2020 compared to €625,467 thousand at 31 December 2019, representing a net increase of €54,646 thousand or 8.7%. Reference should be made to the specific note for details of the changes in the individual items in the above table.

The main changes are noted here:

– Increase in "Right-of-use", up €36,576 thousand compared to 31 December 2019, amounting to €470,197 thousand at 31 December 2020.
  Note that this item represents the right to use the assets underlying the respective leases, to which the intangible assets for key money have been reclassified as the international standard considers these to form part of the initial direct costs of the lease arrangement.

– Increase in "Tangible fixed assets", up €7,549 thousand compared to 31 December 2019, amounting to €150,254 thousand at 31 December 2020. The main increases are due to works related to the openings and expansion of both direct and wholesale stores and improvements to existing boutiques and showrooms throughout the world, as well as expansions and upgrades carried out at the industrial hub of Solomeo.

– Increase of €6,485 thousand compared to 31 December 2019 under "Other net non-current assets/(liabilities)", mainly attributable to the recognition of receivables for deferred tax assets.

INVESTMENTS

During 2020, the Group made investments in intangible fixed assets amounting to €7,432 thousand, in tangible fixed assets amounting to €39,924, in real estate investments amounting to €1,432 while the net balance of financial fixed assets (security deposits) amounted to €2,814 thousand.

We continue to imagine that a robust investment program is the prerequisite for keeping the company current over the long term, and, believing that the impacts of the pandemic were short-term and not structural, we wanted to keep our company's structure very solid.

The following table shows the investments made by type and category by the Group at 31 December 2020 and at 31 December 2019:

(In thousands of euros)	**as at 31 December 2020**	**as at 31 December 2019**
Investments in Intangible fixed assets(*)	7,432	11,442
Investments in property plant and equipment	39,924	38,629
Investments in Financial fixed assets(**)	2,814	625
Investments in non-current financial assets	1,432	1,895
Total Investments	**51,602**	**52,591**

(*) This item also includes investments for key money paid, which as of 1 January 2019 are classified under the item "Right-of-use" in accordance with IFRS 16.
(**) Net financial fixed assets (balance of payments made net of refunds received).

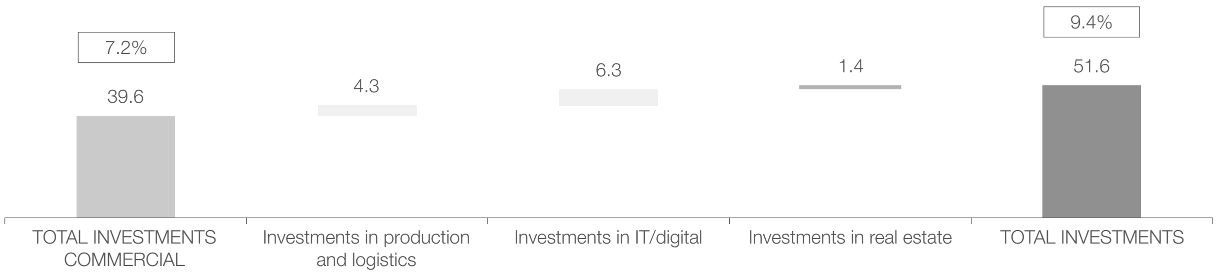
As shown in the table, investments in 2020 amounted to €51,602 thousand, attributable for about 39.6 million to investments of a commercial nature, for about 10.6 million to investments for production, logistics and IT/Digital and for about 1.4 million to real estate investments.

Commercial investments support selected openings and some major expansions of prestigious bouquets, contributing to the growth of sales areas in the network of monobrand stores, dedicated S.p.A.ces in Luxury Department Stores and the renewal and expansion of our showrooms, in addition to supporting development initiatives in multibrand stores.

Investments in production and logistics support the top quality craftsmanship of our products thanks to the constant renewal of production equipment which is kept constantly up-to-date by combining innovation in processes with superb handiwork, and make suitable logistical structures available for managing the related activities. The investments in IT and Digital (also with specific platforms in evolving markets) are assuming increasing importance and at 31 December 2020 amounted to €6,297 thousand.

The real estate investments relate to three property complexes as well as building land in Solomeo being managed with the aim of being restored, structured and subsequently leased.

The following is a graphical representation of the investments made by the Group in 2020, broken down by type of destination, as described above:



NET DEBT

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

(In thousands of euros)	**31 December 2020**	**31 December 2019**
A. Cash and cheques	(472)	(535)
B. Other cash and cash equivalents	(72,362)	(68,397)
C. Securities held for trading	-	(9,120)
D. Cash and cash equivalents (A)+(B)+(C)	**(72,834)**	**(78,052)**
E1. Current financial receivables for leases(*)	**(173)**	**(315)**
E2. Current financial receivables	**(11)**	**(10)**
F. Current bank payables	1,372	53,914
G. Current portion of non-current debt	103,635	18,072
H1. Other current financial payables for leases(*)	75,412	62,661
H2. Other current financial payables	1,037	5,522
I. Current debt (F) + (G) + (H)	**181,456**	**140,169**
J. Net current debt (I) + (E) + (D)	**108,438**	**61,792**
K. Non-current bank payables	60,133	30,474
L. Bonds issued	-	-
M1. Other non-current payables for leases(*)	436,956	388,816
M2. Other non-current payables	217	150
N. Non-current debt (K)+(L)+(M)	**497,306**	**419,440**
O. Net debt (J)+(N)	**605,744**	**481,232**
of which:		
Net financial debt for the core business	*93,549*	*30,070*
Payables for leases(*)	*512,195*	*451,162*

(*) Item recorded in accordance with IFRS 16.

At 31 December 2020, the financial debt of the Brunello Cucinelli Group amounted to €605,744 thousand, of which €512,195 thousand related to debt generated by the accounting of lease contracts pursuant to IFRS 16.
At 31 December 2019 financial debt amounted to €481,232 thousand (of which €451,162 thousand for leases).

Excluding the balances attributable to the application of IFRS 16, the Net Financial Position as at 31 December 2020 was equal to €93,549 thousand, impacted by the effects of the pandemic on 2020 results but already a marked improvement compared to the €136,542 thousand as at 30 June 2020.

The effects of the pandemic can be summarized in three main strands:
– The growth in net working capital.
– The extraordinary write-down of the inventory.
– The lower contribution margin produced by the decrease in turnover at 31 December 2020.

The aforementioned dynamics led to the need for additional sources of financing and the consequent taking out of new loans: during 2020 disbursements were obtained for a total of €151,729 thousand compared to repayments made in 2020 for €36,456 thousand.

It should be noted that the new loans were all granted by the banking system on a fiduciary basis, i.e. without making use of the subsidies and measures put in place by the Italian government to support enterprises.

It should be noted that:
– "H2. Other current financial payables" mainly arises from the measurement of put options for the purchase of minority interests in subsidiaries and current liabilities for derivative instruments hedging interest rate risk.
– "M2. Other non-current payables" relates to the non-current liability balance for derivative instruments hedging interest rate risk.

SHAREHOLDERS' EQUITY

The following table provides details of shareholders' equity at 31 December 2020 and at 31 December 2019:

(In thousands of euros)	**31 December 2020**	**31 December 2019**
Share Capital	13,600	13,600
Reserves	278,585	231,496
Net profit of the Group	(33,216)	52,553
Equity attributable to the shareholders of the parent company	**258,969**	**297,649**
Equity attributable to non-controlling interests	2,135	1,690
Shareholders' Equity	**261,104**	**299,339**

The share capital of the Parent Company at 31 December 2020 amounted to €13,600 thousand, fully paid, consisting of 68,000,000 ordinary shares.

The shareholding structure of Brunello Cucinelli S.p.A. at 31 December 2020 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 capital**
Fedone S.r.l.	51.00%
FMR LLC	9.48%
Invesco	4.16%
Other shareholders	35.36%
Total	**100.00%**

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

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

The following is a reconciliation of the shareholders' equity and net profit of the parent company and consolidated shareholders' equity and net profit as of and for the year ended 31 December 2020:

(In thousands of euros)	31 December 2020	
	Shareholders' Equity	Net profit
Financial statements of the Parent	**312,462**	**(25,867)**
Difference between shareholders' equity of consolidated equity investments and the book value of the equity investments	(16,402)	(5,782)
Elimination of the effects of intercompany transactions	(55,361)	(7,155)
Elimination of dividends	-	(548)
Net investments in foreign operations	-	2,636
Tax effects of consolidation adjustments	18,270	3,500
Other	-	-
Group total	**258,969**	**(33,216)**
Minority shareholders' equity and result	2,135	1,147
Total consolidated financial statements	**261,104**	**(32,069)**

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 11 March 2021, 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 provisions of article 5, paragraph 3, letter b of Italian Legislative Decree no. 254/2016, the Brunello Cucinelli Group has prepared a consolidated non-financial report which constitutes a separate report. The 2020 consolidated non-financial statement, prepared in accordance with the "GRI Standards", is available on the Company's website at **www.brunellocucinelli.it**.

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

On 31 December 2020, the final trading day of the year, the closing price of the Brunello Cucinelli share was €35.70 (+360.65% compared to the €7.75 per share set for the IPO, +13.12% compared to its closing value of €31.56 at the end of the 2019 financial year). Market capitalization on 31 December 2020 was €2,427,600 thousand.

The following table provides details of the Company's share price and performance between 1 January 2020 and 31 December 2020:

	Euro	Date
IPO price	7.75	-
Minimum price(1)	23.70	28/07/2020
Maximum price(1)	38.74	20/01/2020
Closing price	35.70	31/12/2020
Capitalization	2,427,600,000	31/12/2020
Number of outstanding shares	33,320,000	31/12/2020
Free float	1,189,524,000	31/12/2020

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

SIGNIFICANT EVENTS DURING 2020

Shareholders' Meeting of Brunello Cucinelli S.p.A.
The ordinary and extraordinary general meeting of the shareholders of the parent company Brunello Cucinelli S.p.A. was held in a single session on 21 May 2020.

At the ordinary meeting, the Shareholders resolved to approve the financial statements for the year ended 31 December 2019 and to carry forward the profit for the year of €57,216,429 by allocating it to the profit reserve.
At the extraordinary meeting, the Shareholders:

– appointed Directors for the three-year period 2020-2022 (and therefore until the Shareholders' Meeting that will be called to approve the financial statements for the year ended 31 December 2022): Brunello Cucinelli, Riccardo Stefanelli, Luca Lisandroni, Camilla Cucinelli, Carolina Cucinelli, Giovanna Manfredi, Stefano Domenicali (independent), Annachiara Svelto (independent), Andrea Pontremoli (independent), Ramin Arani (independent), Maria Cecilia La Manna (independent) and Emanuela Bonadiman (independent);

– appointed Cav. Lav. Brunello Cucinelli Chairman of the Board of Directors;

– appointed the new Board of Statutory Auditors for the three-year period 2020-2022: Paolo Prandi, Chairman of the Board of Statutory Auditors, Gerardo Longobardi and Alessandra Stabilini, standing auditors, Guglielmo Castaldo and Myriam Amato, alternate auditors.

Board of Directors of Brunello Cucinelli S.p.A.
At the first meeting, held on 21 May 2020, the newly elected Board of Directors conferred on Chairman Cav. Lav. Brunello Cucinelli powers regarding style, creativity and communications, confirming his role as Creative Director, and appointed Luca Lisandroni and Riccardo Stefanelli as new Managing Directors and CEOs, giving Luca Lisandroni responsibility for the Markets area and Riccardo Stefanelli responsibility for the Product and Operations area.

Merger of Brunello Cucinelli USA Retail LLC into Brunello Cucinelli USA Inc.
The merger by incorporation of the subsidiary Brunello Cucinelli USA Retail LLC into the subsidiary Brunello Cucinelli USA Inc. is effective as of 1 January 2020. The merger was decided in 2019 for reasons of organizational simplification, concentrating retail and wholesale activities in the United States of America into a single legal entity.

RELATED PARTY TRANSACTIONS

Reference should be made to the Notes to the consolidated financial statements for a detailed description of related party transactions conducted in 2020.
Pursuant to Consob Resolution no. 17221 of 12 March 2010, it is acknowledged that during 2020 the Group did not enter into major or material transactions with related parties that significantly affected the Group's capital or profit or loss.

INFORMATION ON SIGNIFICANT COMPANIES OUTSIDE THE EU

Brunello Cucinelli S.p.A., the parent company, directly or indirectly controls four companies (Brunello Cucinelli USA Inc., Brunello Cucinelli (Sichuan) Fashion Co. Ltd., Brunello Cucinelli Japan Co. Ltd., 000 Brunello Cucinelli RUS) established and regulated by the law of states outside the European Union ("Significant Companies outside the EU" as defined by Consob Resolution no. 16191/2007, as amended).
As regards these companies, it should be noted that:

- Each company prepares a statement of account for the purpose of preparing the consolidated financial statements. The balance sheet and income statement of these 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 regulations.
- Brunello Cucinelli S.p.A. has acquired the by-laws and the composition and powers of the corporate bodies.
- The Significant Companies outside the EU: i) provide the auditor of the parent company with the information necessary to audit the annual and interim accounts of said parent company; ii) have a suitable administrative-accounting system to regularly provide management, the controlling body and the auditor of the parent company with the economic, equity and financial data necessary for the preparation of the consolidated financial statements.

In order to comply with its regulatory obligations, the board of statutory auditors of Brunello Cucinelli S.p.A. verified the suitability of the administrative-accounting system to regularly provide management and the auditor of Brunello Cucinelli S.p.A. with the economic, equity and financial data necessary for the preparation of the consolidated financial statements and the effectiveness of the flow of information through meetings both with the auditor and with the Financial Reporting Officer.

CERTIFICATION AS PER ART. 16, PARAGRAPH 4 OF THE MARKET REGULATION ADOPTED WITH RESOLUTION NO. 20249 OF 28 DECEMBER 2017

Brunello Cucinelli S.p.A. is controlled by right by Fedone S.r.l. More specifically, Fedone S.r.l. owns the ordinary shares and has a voting right in the Issuer equal to 51% of the share capital thereof.

The Issuer is not subject to the direction and coordination of the parent company Fedone S.r.l.. For information on this subject, please refer to the report on corporate governance and ownership structure approved by the Board of Directors on 11 March 2021, which may be consulted in the Governance section of the Company's website at **www.brunellocucinelli.it**.

MAIN RISKS AND UNCERTAINTIES

Market risks

Risks related to high level of competition in the market that Brunello Cucinelli Group operates in
The luxury market – and in particular the absolute luxury sector – which the Brunello Cucinelli Group operates in, is highly competitive and therefore it cannot be excluded that in the coming years new brands or brands currently located in other segments of the luxury market might position themselves in the same segment, thus becoming direct competitors of the Company.

Risks related to the international sale of Brunello Cucinelli Group products
The Group sells its products all over the world, and in particular in Europe, North America, Japan and China. The Group's presence in various international markets exposes it to risks associated among other things with the geopolitical and macroeconomic conditions of the countries that it operates in and their possible changes. Sales could be affected by various events such as market instability, the occurrence of natural disasters or socio-political upheavals (e.g. terrorist attacks, coups d'état and wars). The occurrence of these events could negatively affect the demand for luxury goods in a given country or cause a contraction in tourism, with possible negative effects on the Group's business and growth prospects.

Risks related to changes in the national and international regulatory framework that Brunello Cucinelli Group operates in
In the various jurisdictions that it operates in, the Group is subject to the regulations applicable to products it manufactures and/or sells. Of particular importance among these are regulations on consumer protection, industrial and intellectual property rights and competition, the health and safety of workers and the environment.
The issuance of new regulations or amendments to current legislation could force the Brunello Cucinelli Group to adopt stricter standards, and this could entail costs of adapting production or product characteristics, or limit the Brunello Cucinelli Group's operations with a consequent negative effect on its growth prospects. More specifically, with regard to commercial distribution in countries other than Italy, Brunello Cucinelli Group products could be subject to the application of duties and other protectionist rules governing the importation of products into those nations.

Operating risks

Risks related to the continuity of craftsmanship and artisanal skills
One of the distinctive characteristics of Brunello Cucinelli brand products is the high level of craftsmanship inherent in the production, made possible also thanks to the constant internal training performed by the Company and the years of experience it has acquired. While the Brunello Cucinelli Group promotes the development of artisanal production techniques at a regional level, it is possible that in the future the number of specialised people engaged in this type of production could diminish.

Risks related to the availability of raw materials (cashmere, in particular) and the increase in its price
The main raw materials used by the Brunello Cucinelli Group are yarns (particularly cashmere yarns), fabrics and leather. The availability of cashmere is subject to several factors that do not fall within the Brunello Cucinelli Group's sphere of control and some of which are not easily predictable. For example, the climatic conditions in the regions (mainly Mongolia) where the raw cashmere comes from, changes in goat farming policies in producing

countries or goat diseases and epidemics could affect the availability of cashmere and consequently its price. Should there be a decrease in the availability of cashmere (or other raw materials) or an increase in demand and a consequent increase in price, the Brunello Cucinelli Group may encounter supply difficulties in the medium term and be forced to bear an increase in the costs incurred for the purchase of raw materials.

Risks related to the retail sale of Group products

The risks associated with the management of the currently existing DOS (directly operated stores) are mainly related to possible difficulties in renewing existing lease agreements, greater costs for rent, revocation or non-renewal of commercial licenses (where necessary) and decreases in sales.

With regard to the opening of new DOS, it should be noted that the increase in costs associated with new openings may not be accompanied by adequate revenue growth. In the competitive landscape that the Company operates in, the possibility of expanding the DOS network depends on the ability to obtain the availability – under economically sustainable conditions – of S.p.A.ces located in positions deemed to be strategic by the Group. Among retail operators there is strong competition to secure commercial S.p.A.ces located in the most prestigious locations of the most important cities in the world. For this reason, when searching for new S.p.A.ces the Group may have to compete with other retail operators, including those belonging to its same sector, having similar or greater economic and financial capacities than its own.

Risks related to relationships with façonisti

Brunello Cucinelli Group products are produced using third-party manufacturers with respect to Brunello Cucinelli Group, in Italy known as *façonisti*. The relations between the Company and most of the third-party manufacturers with which it maintains long-term commercial relationships are not governed by multi-year agreements, but are based on orders entrusted to them for the collections of the individual seasons, in line with industry practice. Any termination of relations (in a short period of time) with a significant number of these *façonisti* or their repeated failure to comply with the production calendar, however shared, could have negative effects on the Brunello Cucinelli Group's business. Furthermore, it cannot be excluded that some third-party manufacturers may in the future default or terminate the collaboration relationship with the Company without notice.

Risks related to the defense of industrial and intellectual property rights

The protection of the Brunello Cucinelli brand and other intellectual property rights is fundamental for its positioning in the luxury market, especially in the absolute luxury sector that the Group competes in. The value of the brand could be compromised if its protection or the protection of the design of Brunello Cucinelli Group products was impracticable or particularly difficult.

While the Company invests significantly to ensure the protection of its trademark and intellectual property rights as well as the design of some of its most successful products worldwide, it cannot be excluded that the actions taken may prove ineffective in preventing imitations of the Group's trademark and products. Moreover, if the Group wishes to expand its business in countries where the Brunello Cucinelli trademark has not yet been registered, any previous use and/or registration of the trademark (or trademarks that can be confused with it) by third parties could result in a limitation (or an impediment) to the Group's business in these countries. Finally, the laws of many foreign countries do not protect intellectual property rights with the same intensity as Italian law or the laws of other EU countries.

Risks related to the perception of new trends

The sector that Brunello Cucinelli Group operates in is characterized by changes – sometimes even sudden ones – in customer trends, tastes and lifestyles and purchasing.

Therefore, the Company is subject to the risk of not always being able to perceive such fashion trends or adequately interpreting them during the styling, design and development phases of the final product. This circumstance could therefore compromise the success of the collections.

Cyber risks
Brunello Cucinelli Group's business, also in view of the growing organizational complexity and technological innovation in the sector, is exposed to risks of cyber-attacks aimed at compromising business continuity and the improper collection of confidential data.
In order to strengthen the actions implemented to mitigate these risks, and in order to continuously align management with IT experts, an internal committee called the "IT Security Committee" has been established for years with the aim of supervising the business processes most at risk of cyber-attacks and identifying the appropriate mitigation tools.
In addition to the consolidation of business continuity in the ICT field, continuous monitoring services and tools have been introduced, supported by the most modern technologies and with the assistance of highly specialised technological partners.
Technological activities such as the VAPT (Vulnerability Assessment Penetration Test) are accompanied by continuous training plans for personnel, aimed at increasing awareness on the subject of cybersecurity.
The ultimate objective is to standardize and extend the level of monitoring and control to all Group companies and all employees.

For a description of the overall Risk Management System implemented to manage and monitor these risks, please refer to the specific description in the Annual Report on Corporate Governance and Ownership.

RESEARCH AND DEVELOPMENT

Investing in research and development is crucial for the Company in order to create new products that meet the needs of customers, but also to consolidate the know-how developed over the years. Also important is the search for and testing of materials and the creation of prototypes.

PUBLIC CONTRIBUTIONS

During the year, the parent company Brunello Cucinelli S.p.A. and the Italian subsidiaries benefited from exceptional levels of financial support due to the COVID health emergency in the form of state aid, for a total of €323 thousand, broken down as follows:
– Tax credits equal to €110 thousand.
– Grants amounting to €39 thousand.
– Exemptions from payments amounting to €174 thousand.

The parent company Brunello Cucinelli S.p.A. also benefited from the Research and Development Credit, Italian Law 190/14, relating to 2015, for a total of €544 thousand, and the Tax Credit for investments in capital goods, Italian Law 160/19 (former "super-amortization") for a total of €75 thousand.

FINANCIAL RISK MANAGEMENT

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

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

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will change due to changes in market interest rates.
Market interest rate fluctuations influence the level of net finance expense and the market value of financial assets and liabilities. The Group is exposed to the risk of an increase in financial costs in the income statement as a result of an unfavorable change in interest rates. Changes in market interest rates affect the cost of loans and the return on forms of use and therefore the level of the Group's financial income and expense, and also their fair value.
It is the Company's policy to hedge its exposure on the medium and long-term portion of debt for market risk arising from interest rate changes. To manage such risk the Company uses derivative instruments such as interest rate swaps.

Currency risk

Exchange risk is the risk that the fair value or future cash flows of an exposure will change due to changes in exchange rates.
The Group operates internationally and is therefore exposed to risks arising from exchange rate fluctuations, which have an impact on profits and the value of equity.
Furthermore, due to the fact that the Company prepares its consolidated financial statements in euros, fluctuations in the exchange rates used to convert the financial statements of the subsidiaries originally expressed in foreign currency could significantly influence the results, net financial debt and consolidated shareholders' equity as expressed in euros in the Group's financial statements and in financial 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 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 defined on the basis of 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 related to the unavailability of financial resources necessary to meet the commitments assumed by the Group and its financial needs in the short term. The main factors that determine the Group's level of liquidity are the resources generated or absorbed by operating and investment activities, and the maturity and renewal status of payables or the liquidity of financial commitments and market conditions.
The Company manages liquidity risk by strictly controlling the items making up working capital and, in particular, receivables from customers and payables to suppliers.
The Company strives to obtain good cash generation in order to settle trade payables without jeopardizing its short-term cash requirements and to avoid critical issues and strains on available cash.

Credit risks

Credit risk is the risk that a counterparty will not fulfil its obligations under a financial instrument or a commercial contract, thus leading to a financial loss.
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 commercial credit risk refers to sales to the wholesale channel. For sales to the retail channel, the risk is limited only to sales managed by the landlord, owner of the walls of the mall and direct manager of receipts within the boutiques. The remaining turnover comes from the pure retail sales channel, with payment in cash or by credit or debit card. The Company generally prefers to do business with customers with whom 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.

Tax risk

At 31 December 2020 the Group consisted of 30 companies located in 22 countries around the world. The parent company Brunello Cucinelli S.p.A. has opted to implement national tax consolidation only with its direct subsidiary Brunello Cucinelli Europe S.r.l., thus determining a single taxable income with such subsidiary. The other Group companies, Italian and foreign, are subject to audits of tax returns and tax obligations by the tax authorities of the various countries. The tax risk limitation measures put in place by management to verify the adequacy and correctness of tax obligations obviously cannot completely exclude the risk of tax assessments.

For Transfer Pricing the Group has adopted the Transactional Net Margin Method. The Group has centralized its risks and assets in the Principal (Brunello Cucinelli S.p.A.), while the other Group companies, carrying out distribution (mainly retail, with the exception of some companies that also operate in the wholesale trade), are considered entities performing “routine” functions and thus they are consequently entitled to receive a remuneration for their activities in line with that of independent companies engaged in similar functions. This remuneration, which must be aligned with the functions they perform and the risks incurred, is measured periodically through a benchmark analysis.

For a detailed analysis and representation of the financial risk management, as well as for the other information required by IFRS 7, please also refer to what is detailed in the notes to these financial statements.

SUBSEQUENT EVENTS AFTER 31 DECEMBER 2020

Advance Pricing Agreement between Italy and the United States

Note that on 26 February 2021, following a similar request submitted by Brunello Cucinelli S.p.A. on 29 December 2020, Brunello Cucinelli USA Inc. submitted the request for a bilateral “Advance Pricing Agreement” between Italy and the United States of America. Thus were completed the formal requests necessary to activate this important tool for the preventive management of transfer pricing issues, put in place to regulate commercial transactions relating to the most important foreign market for the Group.
In the coming months the competent tax authorities will begin the investigation necessary to reach the signing of the agreement.

Establishment of a Joint Ventures with the Al Tayer Group

A joint venture has been established between the Brunello Cucinelli Group and the Al Tayer Group with effect from 1 March 2021. Brunello Cucinelli Middle East LLC will manage the prestigious “Brunello Cucinelli” stores in the United Arab Emirates, until now managed as wholesale shops by the Al Tayer group.

MANAGEMENT OUTLOOK

We approach 2021 in the belief that **2020**, which we consider a “**year of transition**”, has made us **even stronger** and **better prepared** to face all the challenges of the coming years.
We believe that our planning and growth expectations are based on **solid foundations**, which make our development project healthy, sustainable and balanced.
We are aware that we can embark on this path of growth accompanied by the strength of our **organization** and the characteristics of our **business model**, starting from the important choices that guided our action in 2020.
We are convinced that the desire to continue devoting a **great deal of attention to investments** is a decisive factor in keeping the company contemporary, a prerequisite for the long-term development that lies ahead.
The 2021 that we are building is based on the values that we have always aspired to and that in recent times have guided us: the **right growth**, the **right profit** and the right **balance between profit and giving**. A prerequisite of our development plans remains the search for a **work life** that is even more **focused** on the **needs** of **human sustainability**, which we have always tried to be particularly attentive to: a type of **authentic, substantive** sustainability that fully represents a **fundamental and indispensable value of our work**.

We look very positively to **2021**, which we consider a “**year of rebalancing**”, and we expect **great growth** in sales – **between +15%** and **+20% compared to 2020 and between 3% and 7% compared to 2019** – knowing that the end of the pandemic is near.

We believe that our estimate is very solid, and is well supported by:

– Current trends in orders for the **Spring/Summer 2021** and **Fall/Winter 2021** collections, both concluded with very positive results, thanks also to an overall trend in fashion towards a taste more suited to our own.
– The **great interest** of **buyers and the trade press** in the latest Fall/Winter 2021 collections, which leads us to imagine equally positive feedback from the end customer and positive sell-outs in the direct channel.
– development of the **network of boutiques and sales S.p.A.ces**, which also includes some prestigious expansions.
– The **significant investments** being made, which allow us to keep the brand's allure very high and the company modern.

The growth will continue in **2022**, with an increase in turnover that we forecast to be around **+9% and 10%**.
2022 will continue the strategic orientation of 2021, working to **develop fresh, contemporary collections** featuring high levels of creativity and craftsmanship thanks to our network of artisanal workshops that are fully ready to grow together with us.
We will continue the **plan to selectively develop sales S.p.A.ces**, both in the direct channel with boutique extensions and new openings, and in the multibrand channel with the **progressive development of beautiful Specialty Stores** in geographical areas like China where this channel is growing in importance.
The significant **investment project** will continue in 2022, maintaining a **solid balance sheet**. This fits well within our **2019-2028 ten-year plan**, which likely slowed sharply in 2020 but which will now regain its balance, and we continue to imagine doubling our turnover in 2028 to around €1.1 billion.

Luca Lisandroni Chief Executive Officer - Markets Area	**Cav. Lav. Brunello Cucinelli** Chairman of the Board of Directors	**Riccardo Stefanelli** Chief Executive Officer - Product and Operations Area

FINANCIAL STATEMENTS AS AT 31 DECEMBER 2020

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

(In thousands of euros)	NOTES	31 December 2020	*of which with related parties*	31 December 2019	*of which with related parties*
NON-CURRENT ASSETS					
Goodwill	1	7,045		7,045	
Right-of-use	2	470,197	5,193	433,621	5,611
Intangible assets	3	12,136		11,463	
Property, plant and equipment	4	150,254	17,487	142,705	19,013
Investments in non-current financial assets	5	4,179		2,814	
Non-current financial assets for leases	6	402		676	
Other non-current financial assets	7	11,039	32	8,767	32
Deferred tax assets	26	35,368		25,436	
TOTAL NON-CURRENT ASSETS		**690,620**		**632,527**	
CURRENT ASSETS					
Inventories	8	208,347		204,868	
Trade receivables	9	78,871	51	58,622	51
Tax receivables	10	3,871		978	
Other current receivables and assets	11	20,068		21,003	
Current financial assets for leases	6	173		315	
Other current financial assets	12	11		9,130	
Cash and cash equivalents	13	72,834		68,932	
Current derivative financial assets	14	4,935		552	
TOTAL CURRENT ASSETS		**389,110**		**364,400**	
TOTAL ASSETS		**1,079,730**		**996,927**	

(In thousands of euros)	NOTES	31 December 2020	*of which with related parties*	31 December 2019	*of which with related parties*
SHAREHOLDERS' EQUITY					
GROUP SHAREHOLDERS' EQUITY					
Share capital	15	13,600		13,600	
Share premium reserve	15	57,915		57,915	
Other reserves	15	220,670		173,581	
Net profit attributable to the Group	15	(33,216)		52,553	
TOTAL GROUP SHAREHOLDERS' EQUITY		**258,969**		**297,649**	
MINORITY SHAREHOLDERS' EQUITY					
Capital and reserves attributable to non-controlling interests	15	988		1,160	
Net profit pertaining to non-controlling interests	15	1,147		530	
TOTAL MINORITY SHAREHOLDERS' EQUITY		**2,135**		**1,690**	
TOTAL SHAREHOLDERS' EQUITY		**261,104**		**299,339**	
NON-CURRENT LIABILITIES					
Post-employment benefits	16	3,108		3,182	
Provisions for risks and charges	17	937		1,127	
Non-current bank debt	18	60,133		30,474	
Non-current financial liabilities for leases	19	436,956	5,115	388,816	5,502
Other non-current liabilities	20	60		247	
Deferred tax liabilities	26	6,402		2,504	
Non-current financial derivative liabilities	14	217		150	
TOTAL NON-CURRENT LIABILITIES		**507,813**		**426,500**	
CURRENT LIABILITIES					
Trade payables	21	91.412	550	89.453	556
Current bank debt	22	105,007		71,987	
Current financial liabilities for leases	19	75,412	516	62,661	509
Current financial payables	23	799		5,329	
Tax payables	24	2,621		3,960	
Current derivative financial liabilities	14	491		3,871	
Other current liabilities	25	35,071	2,552	33,827	2,567
TOTAL CURRENT LIABILITIES		**310,813**		**271,088**	
TOTAL LIABILITIES		**818,626**		**697,588**	
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**1,079,730**		**996,927**	

CONSOLIDATED INCOME STATEMENT AS AT 31 DECEMBER 2020

(In thousands of euros)	Year ended 31 December				
	NOTES	2020	*of which with related parties*	2019	*of which with related parties*
Net revenues	27	544,013	7	607,761	5
Other operating income	27	2,772	40	826	43
Revenue from sales and services		**546,785**		**608,587**	
Costs for raw materials and consumables	28	(53,725)	(56)	(72,279)	(3)
Cost of services	29	(243,296)	(2,202)	(248,067)	(2,753)
Payroll costs	30	(119,569)	(1,390)	(112,199)	(1,351)
Other operating costs	31	(8,902)		(7,530)	
Increases in fixed assets for internal costs	32	3,258		2,382	
Depreciation/amortization	33	(104,284)		(86,250)	
Value adjustments to assets and other provisions	34	(35,085)		(1,268)	
Total operating costs		**(561,603)**		**(525,211)**	
Operating profit		**(14,818)**		**83,376**	
Financial expense	35	(46,956)		(41,401)	
Financial income	36	27,992		27,201	
Income before taxes		**(33,782)**		**69,176**	
Income taxes	26	1,713		(16,093)	
Result of the year		**(32,069)**		**53,083**	
Net profit of the Group	15	(33,216)		52,553	
Net profit of Minority Interests	15	1,147		530	
Basic earnings per share	37	(0.48847)		0.77284	
Diluted earnings per share	37	(0.48847)		0.77284	

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME AS AT 31 DECEMBER 2020

(In thousands of euros)		Year ended 31 December	
	NOTES	2020	2019
Net profit for the year (A)		**(32,069)**	**53,083**
Other components of the comprehensive income statement:			
Other components of the comprehensive income statement that will be subsequently reclassified to profit/loss for the year		**(5,127)**	**1,731**
Cash flow hedge	15	3,626	752
Tax effect	15	(870)	(181)
Effect of change in the cash flow hedge reserve	**15**	**2,756**	**571**
Differences in foreign financial statement translation		(5,879)	1,483
Exchange gains (losses) on net investments in foreign operations		(2,637)	(425)
Tax effect		633	102
Other components of comprehensive income that will not be subsequently reclassified to profit/(loss) for the year:	**15**	**15**	**(113)**
Remeasurement of defined benefit plans (IAS 19)		20	(149)
Tax effect		(5)	36
Total other profit/(loss) net of tax effect (B)		**(5,112)**	**1,618**
Total comprehensive income for the period (A) + (B)		**(37,181)**	**54,701**
Attributable to:			
Group		(38,311)	54,206
Non-controlling interests		1,130	495

CONSOLIDATED CASH FLOW STATEMENT AS AT 31 DECEMBER 2020

(In thousands of euros)	Year ended 31 December		
	NOTES	2020	2019
Cash flows from operating activities			
Net profit for the year	15	(32,069)	53,083
Adjustments to reconcile net profit to cash flow generated/(used) by operating activities:			
Income taxes		(1,713)	16,093
Depreciation/amortization	33	104,284	86,250
Allocations to provisions for employee benefits		82	95
Allocations to provisions for risks and charges/allowance for obsolescence/allowance for bad doubtful debts		35,033	1,279
Change in other non-current liabilities		(183)	(11,900)
(Gains)/losses on disposal of non-current assets		41	126
Write-down of equity investments	35	583	-
Other Components without cash movements under IFRS 16		227	-
Interest expense	35	2,215	1,566
Interest expense for lease liabilities	35	10,705	10,463
Interest income	36	(28)	(108)
Lease interest income	36	(17)	(22)
Payments for employee termination indemnities	16	(133)	(114)
Payments from provisions for risks and charges	17	(927)	-
Net change in deferred tax assets and liabilities		(6,897)	(2,031)
Change in fair value of financial instruments		(4,070)	(855)
Changes in operating assets and liabilities:			
Trade receivables		(22,916)	2,573
Inventories		(44,477)	(40,360)
Trade payables		9,392	9,611
Interest expense paid		(2,118)	(1,563)
Interest paid on lease liabilities		(10,705)	(10,463)
Interest income received		28	108
Interest received on lease assets		17	22
Income tax paid		(9,107)	(16,401)
Other current assets and liabilities		9,215	17,644
Net cash flows generated/(used) by operating activities (a)		**36,462**	**115,096**
Cash flows from investing activities			
Investments in property plant and equipment	4	(39,754)	(38,629)
Investments in intangible assets (including key money)		(7,434)	(11,442)
Investments in financial assets		(2,814)	(625)

(In thousands of euros)	Year ended 31 December		
	NOTES	**2020**	**2019**
Investments in property	5	(1,432)	(1,895)
Investments in/divestments of current financial assets		9,120	(124)
Disposal of property, plant and equipment and key money		1,254	708
Cash flows generated/(used) in investing activities (b)		**(41,060)**	**(52,007)**
Cash flows from financing activities			
Drawdown of medium/long-term loans		151,729	26,950
Repayment of medium/long-term loans		(36,456)	(28,414)
Net change in short-term financial liabilities		(52,576)	29,396
Repayment of lease liabilities		(50,630)	(53,272)
Receipts from financial lease assets		255	288
Dividends paid		(1,076)	(20,483)
Changes in shareholders' equity		22	(6,060)
Cash used in financing activities (c)		**11,268**	**(51,595)**
Total cash flows (d=a+b+c)		**6,670**	**11,494**
Effect of exchange rates on cash and cash equivalents (e)		**(2,768)**	**832**
Cash and cash equivalents at the beginning of the year (f)	**13**	**68,932**	**56,606**
Cash and cash equivalents at the end of the year (g=d+e+f)	**13**	**72,834**	**68,932**

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AS AT 31 DECEMBER 2020

(In thousands of euros)	Notes	Share capital	Legal reserve	Share premium reserve	Additional paid-in capital	Translation reserve	Other reserves	Net profit for the year	Total equity attributable to the Group	Total equity attributable to Minority Interests	Total equity
Balance at 1 January 2020	**15**	**13,600**	**2,720**	**57,915**	**-**	**87**	**170,774**	**52,553**	**297,649**	**1,690**	**299,339**
Net profit for the year								(33,216)	(33,216)	1,147	(32,069)
Other profits/(losses)						(7,866)	2,771		(5,095)	(17)	(5,112)
Total comprehensive profit/ (loss)		**-**	**-**	**-**	**-**	**(7,866)**	**2,771**	**(33,216)**	**(38,311)**	**1,130**	**(37,181)**
Allocation of net profit for the year	15						52,553	(52,553)	-	-	-
Dividends paid	15								-	(1,076)	(1,076)
Change in the scope of consolidation and "under common control" transactions									-	22	22
Effect of dividend distribution							(369)		(369)	369	-
Other changes									-	-	-
Balance at 31 December 2020	**15**	**13,600**	**2,720**	**57,915**	**-**	**(7,779)**	**225,729**	**(33,216)**	**258,969**	**2,135**	**261,104**

(In thousands of euros)	Notes	Share capital	Legal reserve	Share premium reserve	Additional paid-in capital	Translation reserve	Other reserves	Net profit for the year	Total equity attributable to the Group	Total equity attributable to Minority Interests	Total equity
Balance at 1 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 profit/ (loss)		**-**	**-**	**-**	**-**	**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 of first application of IFRS 16							(13,625)		(13,625)	(2,586)	(16,211)
Change in the scope of consolidation and "under common control" transactions							(7,215)		(7,215)	1,155	(6,060)
Other changes							10		10	-	10
Balance at 31 December 2019	**15**	**13,600**	**2,720**	**57,915**	**-**	**87**	**170,774**	**52,553**	**297,649**	**1,690**	**299,339**

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2020

1. BASIS OF PREPARATION

1.1 CONTENT AND FORMAT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were prepared on a going concern basis and in compliance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Union and in force at the date of the Financial Statements. The notes to the consolidated financial statements have been supplemented with the additional information requested by CONSOB and the measures issued by it in implementation of art. 9 of Italian Legislative Decree no. 38/2005 (resolutions 15519 and 15520) of 27 July 2006 and communication DEM/6064293 of 28 July 2006, pursuant to art. 78 of the Issuers' Regulation, of the EC document of November 2003 and, where applicable, of the Italian Civil Code.

The consolidated financial statements at 31 December 2020 approved by the Board of Directors on 11 March 2021 comprise the consolidated statement of financial position, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated cash flow statement, the consolidated statement of changes in equity and these explanatory notes.

The items in the consolidated statement of financial position are presented in order of liquidity, where:
- non-current assets comprise assets that are expected to be recovered after more than 12 months and include intangible assets, property, plant and equipment and financial assets;
- current assets consist of items that are expected to be recovered after no more than twelve months;
- non-current liabilities consist of items that are expected to be settled after more than twelve months, including loans, provisions and the employees' termination indemnity (TFR);
- current liabilities consist of items falling due after no more than twelve months, including the short-term portion of long-term loans, provisions and the employees' termination indemnity (TFR).

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

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

The consolidated financial statements were prepared on a historical cost basis, except for financial derivatives, other financial assets and assets available for sale that are recognized at fair value.

Note that with reference to Consob Resolution no. 15519 of 27 July 2006 and Communication no. DEM6064293 of 28 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, are 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 31 December 2020.

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 that control ceases. 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 period.

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 31 December 2020, 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 31 December 2020, consisting of the company's name and registered office and the 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 - United Kingdom	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 S.p.A.in SL	Madrid - S.p.A.in	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	10,445,100	100.00%	
Brunello Cucinelli USA Inc.	Ardsley (NY) - USA	US dollar	1,500	100.00%	
Market Service US, Inc.	New York - USA	US dollar	50,000		51.00%
Brunello Cucinelli (Sichuan) Fashion Co., Ltd.	Chengdu - China	Renminbi	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 Paulo - 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%	
Brunello Cucinelli Taiwan Ltd.	Taiwan – China	Taiwan dollar	100,000	70.00%	
Brunello Cucinelli Taiwan Ltd.	Taiwan – Cina	Dollaro Taiwan	100.000	70,00%	

During 2020, the scope of consolidation saw the following changes:
- entry of Market Service US, Inc., 51% owned by the subsidiary Brunello Cucinelli USA Inc. The company was established on 16 January 2020 with the aim of directly managing some logistics and distribution in the American market;
- entry of Brunello Cucinelli Taiwan Ltd., 70% owned by Brunello Cucinelli S.p.A. The company was established on 16 January 2020 and directly manages two boutiques in the prestigious locations of Taipei and Taichung.

3. ACCOUNTING STANDARDS

INTRODUCTION

The consolidated financial statements were prepared on a historical cost basis, except for financial derivatives and financial assets held for sale that have been measured at fair value.

The consolidated financial statements are presented in euros and all amounts are rounded to thousands of euros unless otherwise stated.

DISCRETIONAL ASSESSMENTS AND SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of the Brunello Cucinelli Group consolidated financial statements requires the directors of the Company to make subjective measurements, estimates and assumptions that affect the amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities at the reporting date. The actual results could differ from these estimates. The main processes used in making such discretionary estimates and measurements relate to the recognition and measurement of the following items. Regarding the assessments and estimates made following the COVID-19 pandemic, please refer to the specific section ("COVID-19 Pandemic Update") in the Report on Operations.

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. The directors are required to make a discretionary assessment to determine the amount of deferred tax assets that can be recognized, 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 wage increases (for severance pay only), 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. 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 past experience of the individual Group companies with respect to losses on receivables, 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.

Value adjustments to inventories

On 31 December 2020 an extraordinary provision was set up for the write-down of the inventory for an amount equal to €31,727 thousand against the intention to donate free of charge to associations and organizations dedicated to the needy, during the current year and subsequent years, the excess clothing that was left over due to the COVID-19 emergency situation and the consequent temporary interruption of sales.

The extraordinary provision for write-downs reflects the estimate prepared by the directors of the value of the garments of the collections involved in the project, called "Brunello Cucinelli for Humanity".

Useful lives of tangible and intangible fixed assets and impairment testing

The depreciation and amortization of tangible assets, rights of use 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. See the paragraph "Impairment" in the notes below for a discussion of impairment testing.

Derivative financial instruments

The measurement of derivative instruments recognized as assets and liabilities requires the use of estimates and assumptions. The way in which fair value is determined and the risk inherent in derivative contracts to hedge currency risk and interest rate risk is managed are illustrated in the specific paragraph on "Derivatives" in the notes that follow. The estimates and assumptions considered are reviewed constantly 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 professionals, and are reviewed on a periodic basis.

Estimates resulting from the application of IFRS 16

Following the initial application of IFRS 16, significant accounting estimates are made with respect 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.
- Definition of the discount rate, for all contracts without an implicit interest rate.
  More specifically, 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.

BUSINESS COMBINATIONS AND GOODWILL

Business combinations are accounted for using the purchase method. This requires the recognition at fair value of the identifiable assets (including previously unregistered intangible assets) and the identifiable liabilities (including potential liabilities) of the acquired company.

Goodwill acquired in a business combination is initially measured at the cost represented by the excess of all the consideration paid and the amount recorded for minority interests with respect to the identifiable net assets acquired and liabilities assumed by the Group.
For the purpose of the consistency analysis, at the acquisition date goodwill acquired in a business combination is allocated to the individual cash-generating units of the Group, or groups of cash-generating units that should benefit from the synergies of the combination, regardless of whether other assets or liabilities of the Group are assigned to such units or groupings of units. Each unit or group of units to which goodwill is allocated:

a) Represents the lowest level within the Group at which goodwill is monitored for internal management purposes.
b) Is no broader than the segments identified on the basis of the Group's sector reporting format, determined on the basis of IFRS 8 - Operating Sectors.

When goodwill is part of a cash-generating unit (so-called group of cash-generating units) and part of the internal business of that unit is sold, the goodwill associated with the asset sold is included in the carrying amount of the asset to determine the gain or loss arising from the sale. The goodwill sold in such circumstances is measured on the basis of the relative values of the asset sold and the portion of the unit held.

When the sale concerns a subsidiary, the difference between the sale price and the net assets plus the accumulated translation differences and goodwill is recognized the income statement.

OPERATIONS UNDER COMMON CONTROL

In the case of mergers involving entities subject to joint control, considering that, in light of the statutory accounting standards, the contents of IFRS 3 - "Business combinations" are not applicable as per specific causes of exclusion contained in the principle itself. In consideration of the purely reorganizing purpose of these transactions and in application of the Group's accounting policy on the subject, they were therefore recognized in continuity of book values in the financial statements of the companies involved, without recognizing economic effects.

INTANGIBLE ASSETS

Intangible assets are capitalized at acquisition cost when it is probable that use of the asset will generate future economic benefits and its cost can be measured reliably.

Intangible assets acquired through business combinations are recorded at the fair value defined on the acquisition date, if this value can be reliably determined. Internally generated intangibles are not capitalized and the related expenditure is reflected in the income statement in the period that the expenditure is incurred in.

Intangible assets with a finite useful life are amortized on a straight-line basis over their estimated useful life and are subject to impairment tests whenever there are indications of a possible impairment, following the rules described below.

The residual useful life is reviewed at the end of each year or more frequently if necessary. Changes in the expected useful life or the manner in which the future economic benefits related to the intangible asset are achieved by the Group are recognized by modifying the period and/or the amortization method and treated as changes in accounting estimates. The amounts of amortization of intangible assets with a defined life are recognized on the income statement in the cost category consistent with the function of the intangible asset.

An intangible asset is eliminated at the time of disposal (i.e. on the date on which the buyer gains control of it) or when no future economic benefit is expected to flow from its use or disposal. Any profit or loss deriving from the elimination of the asset (calculated as the difference between the net consideration of the disposal and the book value of the asset) is included in the income statement.

The estimate of the useful life of intangible assets with a finite useful life is as follows:

	Years
Trademarks	18
Software	2-3
Licenses	5
Other intangible fixed assets	3-12

Authorizations, licenses and trademarks
The item, classified under Intangible assets, includes the costs incurred for the registration of the Group's trademarks.

Research and development costs

Research costs are allocated in the year they are incurred in. Development costs incurred for a given project are recognized as intangible assets when the Group can demonstrate:

– The technical possibility of completing the intangible asset so that it is available for use or sale.
– The intention to complete the asset and the capacity and intention to use or sell it.
– The manner in which the asset will generate future economic benefits (income from the sale of products or services, cost savings or other benefits deriving from the use of the asset).
– The availability of resources to complete the asset.
– The ability to reliably measure the cost attributable to the asset during development.

After initial recognition, developed assets are measured at the decreased cost of accumulated amortization or impairment losses. The amortization of assets begins when development is complete and the asset is available for use. Developed assets are amortized with regard to the period of expected benefits. During the development period, the asset is audited annually for impairment.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment acquired separately are recognized at historical cost, including ancillary costs directly attributable and necessary for putting the asset into service for the use it was purchased for. This cost includes the costs of replacing part of the machinery and systems when they are incurred, if they comply with the recognition criteria.

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

Property, plant and equipment acquired through business combinations are recognized at the fair value determined on the acquisition date.

Maintenance and repair costs that are not likely to enhance and/or prolong the residual life of the assets are recognized in the year they are incurred, otherwise they are capitalized.

Property, plant and equipment are shown net of accumulated depreciation and any impairment losses determined as described below. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset for the company, which is reviewed annually, and any changes deemed necessary are applied in future years.

The estimate of the useful life of the main classes of tangible assets is as follows:

	Years
Buildings	33
(of which Leasehold improvements)	Based on the duration of the lease agreement Plant and machinery
Impianti e macchinari	8
Industrial and commercial equipment	4
Other assets	4-8

If components of the property, plant and equipment have different useful lives, these components are accounted for separately. Land, whether free of or annexed to buildings, is recognized separately and is not depreciated as it has an indefinite useful life.

The book value of property, plant and equipment is subjected to verification, in order to detect any possible impairment if events or changes in the situation indicate that the carrying amount cannot be recovered, following the rules described below.

The book value of an item of property, plant and equipment and any significant component initially recognized is eliminated at the time of disposal (i.e. on the date on which the buyer gains control of it) or when no future economic benefit is expected to flow from its use or disposal. The profit/loss that emerges at the time of the accounting elimination of the asset (calculated as the difference between the net book value of the asset and the consideration received) is recognized in the income statement when the item is eliminated from the accounting.

Collection archive

For each collection, the Company holds on to one garment for each item that is considered significant and saleable. These products are used as a source of inspiration by the style office when creating new collections.

These assets are classified under Property, plant and equipment, recorded at historical production cost and depreciated over 10 years.

Increases in the value of these assets are recorded in the income statement under the item Increases in fixed assets for internal works.

Impairment

On each financial closing date the Group assesses whether there are any indications of loss of value of intangible assets, right of use and property, plant and equipment. If such indicators do emerge, an impairment test is performed.

If the carrying value of the assets exceeds the recoverable value, they will be written down to reflect the recoverable value. The recoverable value is the higher of the fair value of an asset or cash generating unit net of the cost of sale or value in use, and is determined for each individual asset, except where that asset generates cash flows that are not largely independent of those generated by other assets or asset groups, in which case the Group will estimate the recoverable value of the CGU that the asset belongs to.

In determining the value in use, the Group discounts the estimated future cash flows using the pre-tax discount rate that reflects the market valuations of the cost of money and the specific risks of the business.

For the purposes of estimating the value in use, the future cash flows are taken from the business plans approved by the Board of Directors, which represent the Group's best possible estimate based on the financial conditions in the Plan period. The Plan projections usually cover a period of three years. The long-term growth rate used to estimate the terminal value of the asset or unit is normally below the average long-term growth rate for the sector, country or market of reference. Future cash flows are estimated by referring to current conditions. The estimates do not therefore take into account the benefits of future restructuring operations that the Company has not yet implemented, or future investments or the optimization of the business or its units.

If the book value of an asset or CGU is higher than its recoverable value, the asset has suffered a value impairment and will therefore be written down to the recoverable value.

Value impairments for operational assets are recognized on the income statement in the cost category consistent with the function of the impaired asset. On each closing date the Group will also assess whether there are any indications that the previous value impairments have been reduced. If such indicators exist, it will re-estimate the recoverable value. The value of a previously written-down asset may only be restored if there have been changes to the estimates used to determine the recoverable value of the asset after the final recognition of a loss in value. In such a case the book value of the asset will be changed to the recoverable value, but the value thus increased may not exceed the book value which would have been determined net of the depreciation if no loss in value had been recorded in previous years. Any recovery in value is recorded as income on the income statement. After a recovery of value has been recognized, the depreciation of the asset will be adjusted in future years in order to distribute the modified book value net of any residual values, on a straight line basis for its remaining useful life. Impairment of goodwill may not be recovered for any reason.

INVESTMENT PROPERTY

According to IAS 40, tangible assets held for income and not for operations are classified in a special class called Investment property and are accounted for at cost. The assets included in this category consist of land and/or buildings (or parts of buildings) held by the owner or lessee under a financial or operating lease agreement for the purpose of leasing them.
These types of properties are classified separately from the other properties owned. Investment properties are shown net of accumulated depreciation and any impairment losses. The useful life of the Group's investment properties is 33 years.
The book value of investment property is subjected to audit in order to detect any possible impairment if events or changes in the situation indicate that the carrying amount cannot be recovered. Losses are accounted for in the income statement under the item "Value adjustments to assets and other provisions". Such losses of value are restored if the reasons that generated them cease to exist.
Investment properties are eliminated from the financial statements when they are sold (i.e. on the date on which the buyer gains control of them) or when the investment is permanently unusable and no future economic benefits are expected to flow from its sale. The amount of consideration to be taken into account in determining the gain or loss arising from the cancellation of an investment property is determined in accordance with the requirements for determining the price of the transaction in IFRS 15.

NON-CURRENT ASSETS HELD FOR SALE

Non-current assets held for sale are classified as such if the book value of the asset itself will be recovered mainly through a sale rather than through its continuous use. For this to occur, the asset must be available for immediate sale in its current condition or subject to conditions that are customary for the sale of such assets, and the sale must be highly likely. Non-current assets held for sale are initially recognized at the lower of their carrying amount – if not classified as held for sale – and their fair value net of selling costs.

LEASES

When signing a contract, the Group evaluates whether it is, or contains, a lease. In other words, if the contract grants the right to use an identified asset for a period of time in exchange for consideration.

The Group as lessee

The Group adopts a single recognition and measurement model for all leases, except for short-term leases and leases of low-value assets. The Group recognizes lease payment liabilities and right-of-use assets that represent the right to use the asset underlying the contract.

i) 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 depreciation and impairment losses and are adjusted for any 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. Right-of-use assets are depreciated on a straight-line basis from the effective date to the end of the useful life of the right-of-use asset.
If the lease transfers ownership of the underlying asset to the lessee at the end of the lease term or if the cost of the right-of-use asset reflects the fact that the lessee will exercise a purchase option, the lessee must depreciate the right-of-use asset from the effective date until the end of the useful life of the underlying asset.

On each financial closing date the Group assesses whether there are any indications of loss of value of the Rights of Use, and if such indications do emerge an impairment test is performed.

ii) 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 (unless they were incurred for the production of inventories) in which the event or condition that generated the payment occurs.
When calculating the present value of payments due, the Group uses the marginal rate of financing at the start date if the implicit interest rate is not easily determinable. After the effective date, the amount of the lease liability

is increased to take into account interest on the lease liability and decreases to take into account payments made. Moreover, the carrying amount of lease payables is redetermined in the event of any changes in the lease or revision of the contractual terms for the modification of payments. It is also redetermined in the event of changes in the valuation of the purchase option of the underlying asset or for changes in future payments resulting from a change in the index or rate used to determine such payments.

iii) 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 low value. 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.

The Group as lessor

Those leasing contracts that substantially leave all risks and rewards linked to ownership of the asset to the Group are classified as operating leases. Lease income from operating leases must be recognized on a straight-line basis throughout the lease term, and is included among revenues in the income statement due to their operational nature. Initial negotiating costs are added to the book value of the leased asset and recognized on the basis of the duration of the contract on the same basis as rental income. Unexpected rents are recognized as revenues during the period in which they accrue.

FINANCIAL INSTRUMENTS

Recognition and valuation

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

Financial assets

Initial recognition and valuation
Upon initial recognition, financial assets are classified as appropriate according to the subsequent measurement method, namely amortized cost, fair value recognized in the OCI comprehensive income statement and fair value recognized in the income statement.
The classification of financial assets on initial recognition depends on the characteristics of the contractual cash flows of the financial assets and the business model that the Group uses for their management. 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 transaction costs in the case of a financial asset not at fair value in the income statement. 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 in four categories:
- Financial assets at amortized cost (debt instruments).
- Financial assets at fair value recognized in the comprehensive income statement with reclassification of accumulated gains and losses (debt instruments).
- Financial assets at fair value recognized in the comprehensive income statement without reversal of accumulated gains and losses at the time of elimination (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 subject to impairment. Gains and losses are recognized in the income statement when the asset is eliminated, modified or revalued.
Group financial assets at amortized cost include trade receivables, a loan to an associate, a loan to a director included in other non-current financial assets.

Financial assets at fair value in OCI (debt instruments)
For debt instrument assets measured at fair value in OCI, interest income, changes due to exchange differences and impairment losses, together with adjustments, are recognized in the income statement and are 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 recognized in OCI is reclassified in the income statement.

Group debt instrument assets measured at fair value in OCI include investments in listed debt instruments included in other non-current financial assets.

Investments in equity instruments

On initial recognition, the Group may irrevocably choose to classify its equity investments as equity instruments recognized at fair value in OCI when they meet the definition of equity instruments in accordance with IAS 32 - "Financial instruments: Presentation" and are not held for trading. The classification is determined for each individual instrument.

Gains and losses achieved on these financial assets are never reversed in the income statement. Dividends are recognized as other revenues in the income statement when the right to payment has been approved, except when the Group benefits from such revenues as recovery of part of the cost of the financial asset, in which case such gains are recognized in OCI. Equity instruments recorded at fair value in OCI are not subject to impairment tests. The Group has chosen to irrevocably classify its unlisted investments in this category.

Financial assets at fair value through profit or loss

Financial instruments at fair value with changes recognized in the income statement are recognized in the balance sheet at fair value and net changes in fair value are recognized in the income statement.

This category includes derivative instruments and listed investments that the Group has not irrevocably chosen to classify at fair value in OCI. Dividends on listed investments are recognized as other income in the income statement for the year when the right to payment has been established.

The embedded derivative contained in a non-derivative hybrid contract, in a financial liability or in a main non-financial contract is separate from the main contract and accounted for as a separate derivative if: its economic characteristics and the risks associated with it are not closely correlated to those of the main 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 recognized in the income statement. Embedded derivatives are measured at fair value in the income statement. A restatement occurs only if there is a change in the terms of the contract that significantly changes the cash flows otherwise expected, or a reclassification of a financial asset to a category other than fair value in the income statement.

Derecognition

A financial asset (or, where applicable, part of a financial asset or part of a group of similar financial assets) is first derecognized (e.g. removed from the Group's balance sheet) when:

– the rights to receive cash flows from the asset are extinguished, or
– the Group has transferred the right to receive cash flows from the asset to a third party or has assumed the contractual obligation to pay them in full and without delay and (a) it has substantially transferred all risks and rewards of ownership of the financial asset, or (b) it has not substantially transferred or retained all risks and rewards of the asset, but it has transferred control over it.

In cases where the Group has transferred the rights to receive cash flows from an asset or has entered into an agreement under which it maintains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more beneficiaries (pass-throughs), it shall assess whether and to what extent it has retained the risks and rewards inherent in possession.
If it has not substantially transferred or retained all risks and benefits or it has not lost control over it, the asset continues to be recognized in the Group's financial statements to the extent of its residual involvement in the asset itself. In this case, the Group also recognizes an associated liability. The transferred assets and associated liabilities are valued to reflect the rights and obligations that remain attributable to the Group.
Where the entity's residual involvement is a guarantee on the transferred asset, the involvement is measured on the basis of the lesser of the amount of the asset and the maximum amount of consideration received that the entity may have to repay.

Impairment
The Group records a write-down for expected losses for all financial assets represented by debt instruments not held at fair value through profit or loss. Specifically, impairment provisions apply to all financial assets measured at amortized cost and at fair value through comprehensive income, while financial assets measured 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

Recognition and initial valuation
Financial liabilities are classified upon initial recognition 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 plus directly attributable transaction costs in the case of mortgages, loans and payables.

The Group's financial liabilities include trade payables and other payables, mortgages and loans, including bank overdrafts and financial derivatives.

Subsequent valuation
For the purposes of subsequent valuation, financial liabilities are classified in two categories:
– Financial liabilities at fair value through profit or loss.
– Financial liabilities at amortized cost (financing and loans).

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 those assumed with the aim of extinguishing or transferring them in the short term. This category also includes derivatives entered into 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 the income statement. Financial liabilities are recognized at fair value through profit or loss from the date of first recognition only if the criteria of IFRS 9 are met. At initial recognition, the Group did not designate financial liabilities at fair value through profit or loss.

Financial liabilities at amortized cost (financing and loans)
After initial recognition, loans are measured at amortized cost using the effective interest method. Gains and losses are recognized in the income statement when the liability is extinguished, as well as through the amortization process.

The amortized cost is calculated by taking into account the discount or premium on the acquisition and the fees or costs that form an integral part of the effective interest rate. Amortization at the effective interest rate is included among the financial charges in the profit/(loss) for the year.
This category generally includes receivables and interest-bearing loans.

Derecognition
A financial liability is derecognized when the obligation underlying the liability is extinguished, cancelled or fulfilled. If an existing financial liability is replaced by another of the same provider under substantially different conditions, or if the conditions of an existing liability are substantially modified, this exchange or modification is treated as a derecognition of the original liability accompanied by the recognition of a new liability, with any differences between the accounting values recorded in the profit/(loss) for the year.

Offsetting of financial instruments
A financial asset and financial liability can be offset and the net balance shown in the balance sheet if there is a current legal right to offset the recognized amounts and there is an intention to settle the net residual, or realize the asset and at the same time settle the liability.

Derivatives and Hedge Accounting

Initial recognition and subsequent valuation
The Group uses derivative financial instruments including foreign currency forward contracts, interest rate swaps and commodity forward purchase contracts to hedge its currency exchange risks, interest rate risks and commodity price risks, respectively. Such derivative financial instruments are initially recognized at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried 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 hedge when hedging against exposure to changes in the fair value of the asset or recognized liability or unrecognized irrevocable commitment.
– Cash flow hedge when hedging against exposure to variability in cash flows attributable to a particular risk associated with all recognized assets or liabilities or with a highly probable planned transaction or foreign currency risk on an unrecognized irrevocable commitment.
– Hedges of a net investment in a foreign operation.

At the inception of a hedging transaction, the Group formally designates and documents the hedging relationship to which it intends to apply hedge accounting, its risk management objectives and the strategy pursued.

The documentation includes the identification of the hedging instrument, the hedged item, the nature of the risk and how the Group will assess whether the hedging relationship meets the requirements for hedge effectiveness (including an analysis of the sources of hedge ineffectiveness and how the hedging relationship is determined). The hedging relationship meets the eligibility criteria for accounting for hedging transactions if it meets all the following hedging effectiveness requirements:
– There is an economic relationship between the hedged item and the hedging instrument.
– The effect of the credit risk does not prevail over 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 amount of the hedged item that the Group actually hedges and the amount of the hedging instrument that the Group actually uses to hedge that amount of hedged item.

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

Fair value hedges
The change in the fair value of hedging derivatives is recognized in the profit/(loss) for the year among 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 the profit/(loss) for the year in other costs.
With regard to fair value hedges related to items accounted for at amortized cost, each adjustment to the book value is amortized in the income statement for the year over the residual period of the hedge using the effective interest method. The amortization 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 as a result of changes in fair value attributable to the risk being hedged.
If the hedged item is derecognized, the unamortized fair value is recognized immediately in the profit/(loss) for the year.

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

Cash flow hedging
The portion of profit or loss on the hedged instrument relating to the effective hedging portion is recognized in the other components of the comprehensive income statement in the Cash flow hedge reserve, while the ineffective portion is recognized directly in the profit/(loss) for the year. The Cash flow hedge reserve is adjusted to the lesser of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

The Group uses forward contracts on currencies to hedge its exposure to exchange rate risk relating to both planned transactions and commitments already established. The ineffective portion of forward contracts on currencies is recognized in Other costs and the ineffective portion of forward contracts on commodities is recognized among Other operating costs or income.

The Group designates only the spot component of forward contracts as a hedging instrument. The forward component is cumulatively recognized in OCI in a separate item.

Amounts accumulated among other components of comprehensive income are accounted for, depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a non-financial component, the amount accumulated in shareholders' equity is removed from the separate component of the 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 hedged planned transaction of a non-financial asset or a non-financial liability that subsequently becomes an irrevocable commitment to which fair value hedge accounting applies.

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 must remain so if the future cash flows hedged are expected to occur. Otherwise, the amount must be immediately reclassified in the income statement for the year as a reclassification adjustment. After suspension, once the hedged cash flow occurs, any accumulated amounts remaining in OCI must be accounted for depending on the nature of the underlying transaction as described above.

Hedges of a net investment in a foreign operation
Hedges of a net investment in a foreign operation, including hedges of a monetary item accounted for as part of a net investment, are accounted for in a manner similar to cash flow hedges. Gains or losses on the hedging instrument are recognized among other components of the comprehensive income statement for the effective portion of the hedge, while the remaining (ineffective) portion are recognized in the profit/(loss) for the year. Upon disposal of the foreign asset, the cumulative value of these comprehensive gains or losses is transferred to the profit/(loss) for the year.

INVENTORIES

Inventories are measured at the lower of purchase and/or production cost, determined using the weighted average cost method, and their net realizable value. The purchase cost is inclusive of the ancillary costs related to purchases of the period; the production cost includes the costs of direct allocation and a portion of the indirect costs reasonably attributable to the products. The net realizable value is estimated sales price less estimated costs for completion and estimated costs to execute the sale.

Where necessary, provision is made for materials or products, taking into account their expected use and realizable value.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on hand and short-term demand deposits, in the latter case with an original term no longer than three months. Cash and cash equivalents are recorded in the financial statements at nominal value and at the spot exchange rate at the end of the year if in foreign currency.

PROVISIONS FOR RISKS AND CHARGES

Provisions for risks and charges are made when the Group has to meet a current obligation (legal or implicit) resulting from a past event, it is probable that an outflow of resources will be required to meet this obligation and it is possible to make a reliable estimate of its amount.

When the Group considers that a provision for risks and charges will be partially or completely reimbursed, for example in the case of risks covered by insurance policies, compensation is recognized distinctly and separately in the assets if and only if it is practically certain. In this case, the cost of any provision is presented in the income statement net of the amount recognized as compensation.

If the effect of discounting the value of the money is significant, the provisions are discounted using a pre-tax discount rate that, where appropriate, reflects the specific risks of the liabilities. After discounting, the increase in the provision due to the passage of time is recognized as a financial expense.

POST-EMPLOYMENT BENEFITS

Post-employment benefit plans, whether formal or not, are classified as “defined benefit plans” and “defined contribution plans”, depending on their characteristics.

Italian legislation (article 2120 of the Italian civil code) provides that on the date on which an employee terminates the employment contract with the company, he/she receives a severance indemnity called TFR. The calculation of this indemnity is based on certain items that form the annual remuneration of the employee for each year of work (appropriately revalued) and on the length of the employment relationship. According to Italian civil law, this indemnity is reflected in the financial statements according to a calculation method based on the indemnity accrued by each employee at the financial statement date, hypothesizing that all employees terminated their employment contracts on that date.

The International Financial Reporting Interpretations Committee (IFRIC) of the International Accounting Standards Board (IASB) addressed the issue of the Italian TFR and concluded that, in application of IAS 19, it must be calculated according to a methodology called the Projected Unit Credit Method (“PUCM”), according to which the amount of the acquired benefit liability must reflect the expected date of resignation and must be discounted.

The actuarial assumptions and their effects take into account the regulatory changes introduced by the Italian legislature, which have provided for the option for the employee to allocate the TFR accrued from 1 July 2007 to INPS or to supplementary pension funds.

The net obligation of the Group deriving from defined benefit plans is calculated by estimating the amount of future benefit that employees have accrued in exchange for the work done in the current and previous years. This benefit is discounted to calculate the present value. Actuarial gains and losses related to defined benefit plans, accumulated up to the previous year and reflecting the effects deriving from changes in the actuarial assumptions used, are recognized in full in the comprehensive income statement.

The actuarial valuation of the liability was entrusted to 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 or to an asset manager or a legally separate entity (so-called fund), and is determined on the basis of the contributions due.

REVENUES AND COSTS

Revenue from contracts with customers
From 1 January 2018, the Group applied the provisions of IFRS 15 to revenue deriving from contracts with customers, which introduced a new five-step model and replaced the previous IFRS requirements regarding the recognition of revenues (IAS 18, IAS 11, IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31).

IFRS 15 requires revenues to be recognized for an amount that reflects the consideration to which the entity expects to be entitled in exchange for the transfer of goods or services to the customer.
The Group applied the new standard from the mandatory effective date, using the method of full retrospective application. In applying IFRS 15, the Group considered the following points:

a. Sale of goods
Revenues from the sale of goods are recognized when control of the goods passes to the customer, generally upon shipment.
The Group considers whether there are other promises in the contract that represent obligations which a part of the consideration of the transaction must be allocated to (e.g. warranties). In determining the price of the sale transaction of the asset, the Group considers the effects deriving from the presence of variable consideration, significant financing components, non-monetary consideration and fees payable to the customer (if any).

In some geographical areas, the Group sells its products through department stores that act as agents and charge back to the Group the fees for the services rendered (rental of the premises, promotional events, marketing, etc.) in relation to the value of the goods sold to the end customer. In fact, in these contracts the department store is not considered as the main party responsible for fulfilling the promise to supply the goods to the end customer.
Moreover, the department store does not have the discretionary power to define the price of the goods sold to customers. Consequently, for these types of contracts the application of IFRS 15 provided for the presentation of the actual revenues from sales and the separate indication of the costs of the services rendered by the department store, the latter being services distinct from those for the sale of products to the end customers.

The Group noted that the recognition of revenues occurs when control of the asset is transferred to the customer, generally upon delivery of the asset, similar to what already happens according to the currently applicable standards (revenue recognition at a point in time).

b. Variable consideration - right of return
The Group recognizes the right of return only in residual and ancillary cases with respect to the ordinary performance of the commercial relationship with its customers. When a contract with a customer provides for a right of return of the goods, the Group uses the expected value method to estimate the goods that will not be returned, in accordance with IFRS 15.

Public grants
Public grants are recognized when it is reasonably certain that they will be received and all conditions relating to them are met. Grants related to cost components are recognized as revenues, but are systematically distributed between financial years so as to be proportionate to the recognition of the costs they intend to offset. The grant related to an asset is recognized as revenue on a straight-line basis, over the expected useful life of the specific asset. Where the Group receives a non-monetary contribution, the asset and its grant are recorded at nominal value and released to the income statement on a straight-line basis over the expected useful life of the asset in question.

Costs
Costs are recognized when related to goods and services sold, consumed or allocated when their future useful lives cannot be determined.
In accordance with IAS 38, advertising and research costs are fully allocated to the income statement when the service was rendered and delivered to the Group.
Costs are recorded on the basis of their nature considering the principles applicable under IFRS.

FINANCIAL INCOME AND CHARGES

Income and charges are recognized on an accruals basis, on the basis of the interest accrued on the net value of the related financial assets and liabilities, using the effective interest rate.

INCOME TAXES

Current taxes
Current taxes reflect an estimate of the tax burden determined by applying the regulations in force in the countries that the Brunello Cucinelli Group operates in. The liability for current taxes is calculated using the rates in force or substantially approved at the reporting date.
Current tax payables are classified in the balance sheet net of any tax receivables paid.

Deferred taxes

Deferred taxes are calculated on the deductible temporary differences (deferred tax assets) and taxable (deferred tax liabilities) resulting at the reporting date between the tax values taken as reference for assets and liabilities and the values reported in the financial statements.

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.

The value of deferred tax assets to be reported in the balance sheet is reviewed at each closing date of the financial statements and reduced to the extent that it is no longer probable that sufficient taxable profits will be available in the future to allow all or part of this credit to be used.
Deferred tax assets not recognized are reviewed annually at the balance sheet date and are recognized to the extent that it has become probable that the taxable profit is sufficient to allow these deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured according to the tax rates expected to be applied in the year in which these assets are realized or these liabilities are extinguished, considering the rates in force and those already enacted or substantially enacted at the reporting date.

Deferred tax assets and liabilities are charged directly to the income statement, with the exception of those relating to items recognized directly in shareholders' equity, in which case the relevant deferred taxes are recognized consistently without being charged to the income statement.

Deferred tax assets and liabilities are offset if there is a legal right to offset current tax assets with current tax liabilities, and the deferred taxes refer to the same tax entity and the same tax authority.

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

EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the Group profit/(loss) of the Group by the weighted average number of shares in circulation during the period. To calculate diluted earnings per share, the weighted average number of shares in circulation is modified assuming the conversion of all potential shares having a dilutive effect. The net result is also adjusted to take into account the effects of the conversion net of taxes.

Basic earnings per share and diluted earnings per share coincide since there are no outstanding shares or options other than ordinary shares.

OPERATING SEGMENTS

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

4. CHANGES IN ACCOUNTING PRINCIPLES, NEW ACCOUNTING PRINCIPLES, CHANGES IN 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.

Some amendments and interpretations apply for the first time in 2020 but have not had an impact on the Group's consolidated financial statements. Among these we note:

– **Conceptual Framework for Financial Reporting issued on 29 March 2018**: the purpose of the Conceptual Framework is to support the IASB in the development of standards, to help editors develop uniform accounting policies where there are no applicable standards in the specific circumstances and to help all parties involved to understand and interpret the standards. The revised Conceptual Framework includes some new concepts and provides updated definitions and identification criteria.

– **Amendments to IFRS 3:** Definition of a "business".

– **Amendments to IFRS 7, IFRS 9 and IAS 39**: Interest rate benchmark reform.

– **Amendments to IAS 1 and IAS 8**: Definition of material; in particular, the amendments provide a new definition of materiality stating that *"information is material if it is reasonable to assume that its omission, incorrect indication or concealment could influence the decisions that the main users of financial statements prepared for general purposes make on the basis of these financial statements, which provide financial information about the specific entity that prepares the financial statements"*. Materiality depends on the nature or size of the information, or both. An entity assesses whether the information, individually or in combination with other information, is material in the context of the financial statements as a whole. The information is concealed if it is disclosed in such a way as to have, for the main users of the financial statements, an effect similar to that of the omission or incorrect indication of that information.

Conversely, it should be noted that the amendment to IFRS 16 had an impact on the Group's consolidated financial statements, as follows:

– **Amendment to IFRS 16 - COVID-19 Related Rent Concessions:** On 28 May 2020 the IASB published an amendment to IFRS 16. The amendment allows a lessee not to apply the requirements in IFRS 16 on the accounting effects of contractual changes for lease reductions granted by lessors that are a direct consequence of the COVID-19 pandemic. The amendment introduces a practical expedient whereby a lessee may choose not to assess whether the reduction in lease payments represents a contractual change. A lessee who chooses to use this expedient accounts for these reductions as if they were not contractual changes for the purpose of IFRS 16.

  With regard to the existing lease contracts, in close and positive collaboration with the lessors and in the spirit of strengthening relations with them also with a view to future developments (new openings, upcoming contractual renewals, etc.) we accepted their proposal for some reductions in rents for the lockdown period, mainly

concentrated in Asia and Russia by virtue of a common use that appeared to us to be fairly consolidated in those areas following COVID-19.
We also report a significant reduction for the English market due to a decrease in the “guaranteed minimum” share. Taken as a whole, these reductions amounted to €6,007 thousand, representing a cost containment of 5.9% on the total cost of the half-year for rents (normalized by the effect of applying the IFRS 16 accounting standard). These lease concessions by the lessors have been accounted for retrospectively in accordance with the aforementioned amendment.

4.2 ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS THAT HAVE BEEN ISSUED BUT ARE NOT YET EFFECTIVE

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

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

The consolidated financial statements are presented in euros, the functional and presentation currency adopted by the Company. As required by IAS 1, the amounts were represented in thousands of euros.
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 into the functional currency at the exchange rate ruling at the balance sheet date.
All exchange differences are recognized in the income statement. 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, under 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 period.
Translation differences are recognized directly in shareholders' equity and presented in a separate reserve. On the sale of a foreign company the cumulative exchange differences in shareholders' equity are recognized in the income statement.
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	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
US dollar	1.1422	1.1195	1.2271	1.1234
Swiss franc	1.0705	1.1124	1.0802	1.0854
Japanese yen	121.8458	122.0058	126.49	121.94
Renminbi	7.8747	7.7355	8.0225	7.8205
British pound	0.8897	0.87777	0.89903	0.8508
Hong Kong dollar	8.8587	8.7715	9.5142	8.7473
Real	5.8943	4.4134	6.3735	4.5157
Canadian dollar	1.5300	1.4855	1.5633	1.4598
Ruble	82.7248	72.4553	91.4671	69.9563
Singapore dollar	1.5742	1.5273	1.6218	1.5111
Danish krone	7.4542	7.4661	7.4409	7.4715
Taiwan dollar	33.6227	*	34.4807	*

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

6.1 IMPAIRMENT

On each financial closing date, as required by IAS 36 and internal procedures the Group assesses whether there are any indications of loss of value of non-current assets (€690.6 million at 31 December 2020), and in particular:
- Goodwill (€7.0 million as at 31 December 2020).
- Right-of-use (€470.2 million as at 31 December 2020), which also includes compensation paid to the lessee in accordance with industry practice in order to take over a lease contract for a store located in a strategic position (so-called Key Money).
- Intangible assets (€12.1 million as at 31 December 2020).

At 31 December 2020, Management identified the economic and financial effect caused by the COVID-19 epidemic as a trigger event and therefore appropriate assessments were made in order to identify possible impairments on the non-current assets highlighted above.

Impairment Test structure
The main assumptions used to calculate the recoverable value include:
- an estimation of future operating flows;
- the Weighted Average Cost of Capital (WACC);
- the nominal long-term growth rate "g";
- the terminal value.

The Group identified the Cash Flow Generating Units (or CGUs) at a national level within each geographical area, thus identified as the smallest group of assets that generates cash inflows.

This assessment is complex and requires the application of technical and professional judgement by Management. Specifically, in the forecast of the expected profitability of the stores operating in a given country (and monitored at this level), which in turn is influenced by the forecast of the traffic and spending of customers in local markets, as well as by the assumptions underlying the calculation of the discount rate and terminal value.

Management provided its conclusions regarding the estimate of the recoverable amount using the value in use determined by applying the valuation model of the Unlevered Discounted Cash Flow (UDCF).

For each CGU (Cash Generating Unit), the recoverable value was verified by comparing the value in use, determined with the aforementioned valuation model of the Unlevered Discounted Cash Flow (UDCF), with the book value of its Net Invested Capital (NIC or carrying amount).

This method was applied to the cash flow projections prepared on the basis of the most recent economic and financial forecasts available based on a three-year period (2021-2023) and on the Management's expectations regarding the performance of the markets that the subsidiaries operate in.

In this regard, please also refer to the paragraph “Management outlook” of this Financial Report.

The following table provides details of average discount rates by geographical area:
- Italy: 8.1%
- Europe: 7.1%
- North America: 8.3%
- China: 8.6%
- RoW: 6.3%

These discount rates, net of the tax effect, were considered adequate to reflect the cost of money and the specific risk related to operations, also taking into account the country risk. The discount rates were determined taking into account the market cost of the debt and the equity and financial structure of the CGUs.

The present value of cash flows for the years explained in the various plans was supplemented by the Terminal Value, calculated according to the perpetual income methodology, at a growth rate “g” that represents the present value at the last forecast year of all expected future cash flows. In this case, Management considered an average growth rate “g” equal to 3.3% corresponding to the expected nominal long-term growth rate.

Effects of the impairment test at the reporting date

The Group wrote down €583 thousand, substantially confirming the values of non-current assets tested for impairment recorded in its consolidated financial statements at 31 December 2020.

Sensitivity analysis of the impairment test

Sensitivity analyses were carried out on the impairment tests, simulating a change in the growth rate “g” equal to zero and a change in the WACC equal to +1%. These sensitivity tests did not reveal results that were significantly different from the recoverable value of the assets subject to impairment tests.

NOTE 1. Goodwill

The composition of goodwill at 31 December 2020 with comparative figures at 31 December 2019 is as follows:

(In thousands of euros)	31 December 2020	31 December 2019	Change
Goodwill	7,045	7,045	-
Total goodwill	**7,045**	**7,045**	**-**

Goodwill at 31 December 2020 amounted to €7,045 thousand and mainly arises from the business combination that took place in 2017 for the acquisition of 62% of OOO Brunello Cucinelli RUS.
At 31 December 2020, there were no changes. No indications of a possible loss in value emerged during the year.

NOTE 2. Right-of-use

The composition of right-of-use assets at 31 December 2020 with comparative figures at 31 December 2019 is as follows:

(In thousands of euros)	31 December 2020	31 December 2019	Change
Right to use property	470,040	433,449	36,591
Right to use other tangible fixed assets	157	172	(15)
Total right-of-use assets	**470,197**	**433,621**	**36,576**

Details of cost, accumulated amortization and net book value of right-of-use assets at 31 December 2020 with comparative figures at 31 December 2019 are as follows:

(In thousands of euros)	31 December 2020			31 December 2019		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Right to use property	744,268	(274,228)	470,040	682,089	(248,640)	433,449
Right to use other tangible fixed assets	303	(146)	157	245	(73)	172
Total right-of-use assets	**744,571**	**(274,374)**	**470,197**	**682,334**	**(248,713)**	**433,621**

Right-of-use assets at 31 December 2020 amounted to €470,197 thousand and mainly relate to leases for S.p.A.ces in the Group's boutiques and showrooms, and to a residual extent to leases for offices and logistics. This item also includes Key Money paid by the Group as it is classified as an initial direct cost of leases according to IFRS 16.

The following tables show changes in the net book value of right-of-use assets for the years ended 31 December 2020 and 31 December 2019:

(In thousands of euros)	Right to use property	Right to use other tangible fixed assets	Total right-of-use assets
Balance at 1 January 2020	**433,449**	**172**	**433,621**
Increases	175,237	106	175,343
Net decreases	(41,014)	(8)	(41,022)
Translation differences	(23,168)	-	(23,168)
Value adjustments	(299)	-	(299)
Depreciation/amortization	(74,165)	(113)	(74,278)
Balance at 31 December 2020	**470,040**	**157**	**470,197**

(In thousands of euros)	Right-to-use property	Right to use other tangible fixed assets	Total right-of-use ssets
Balance at 01 January 2019	**-**	**-**	**-**
Effect of application of IFRS 16 at 1 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
Depreciation/amortization	(60,764)	(63)	(60,827)
Balance at 31 December 2019	**433,449**	**172**	**433,621**

The main increases during the year relate to new lease agreements entered into in the year for opening new boutiques.

No adjustments emerged from the impairment tests performed.

NOTE 3. Intangible assets

The composition of intangible assets at 31 December 2020 with comparative figures at 31 December 2019 is as follows:

(In thousands of euros)	31 December 2020	31 December 2019	Change
Concessions, licenses, trademarks and similar rights	8,549	6,962	1,587
Other intangible fixed assets	1,012	1,309	(297)
Assets under construction and advances	2,575	3,192	(617)
Total intangible assets	**12,136**	**11,463**	**673**

Details of historical cost, accumulated amortization and the net book value of intangible assets at 31 December 2020 with comparative figures at 31 December 2019 is as follows:

(In thousands of euros)	31 December 2020			31 December 2019		
	Cost	**Accumulated amortization**	**Net book value**	**Cost**	**Accumulated amortization**	**Net book value**
Concessions, licenses, trademarks and similar rights	28,622	(20,073)	8,549	22,961	(15,999)	6,962
Other intangible fixed assets	1,721	(709)	1,012	1,721	(412)	1,309
Assets under construction and advances	2,575	-	2,575	3,192	-	3,192
Total intangible assets	**32,918**	**(20,782)**	**12,136**	**27,874**	**(16,411)**	**11,463**

Intangible assets amounted to €12,136 thousand at 31 December 2020 and consisted principally of concessions, licenses, trademarks and similar rights and fixed assets under construction and advances for software used in IT and Digital activities to support the business through the renovation and constant modernization of technological platforms and the e-commerce website for digital sales.

Changes in intangible assets for the years ended 31 December 2020 and 31 December 2019 are as follows:

(In thousands of euros)	**Concessions, licenses, trademarks and similar rights**	**Other intangible assets**	**Assets under construction and advances**	**Total intangible assets**
Balance at 1 January 2020	**6,962**	**1,309**	**3,192**	**11,463**
Increases	2,845	-	2,296	5,141
Net decreases	(12)	-	-	(12)
Translation differences	(56)	-	-	(56)
Value adjustments	-	-	-	-
Reclassifications	3,063	-	(2,913)	150
Change in scope of consolidation	-	-	-	-
Depreciation/amortization	(4,253)	(297)	-	(4,550)
Balance at 31 December 2020	**8,549**	**1,012**	**2,575**	**12,136**

(In thousands of euros)	Concessions, licenses, trademarks and similar rights	Key money	Other intangible assets	Assets under construction and advances	Total intangible assets
Balance at 01 January 2019	**5,894**	**20,530**	**1,643**	**3,471**	**31,538**
Effect of application of IFRS 16 at 1 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)	-
Change in scope of consolidation	-	-	-	-	-
Depreciation/amortization	(3,483)	-	(334)	-	(3,817)
Balance at 31 December 2019	**6,962**	**-**	**1,309**	**3,192**	**11,463**

Investments for 2020 amounted to €5,141 thousand, of which €5,002 thousand relating 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 €2,706 thousand) and “Assets under construction and advances” (as to €2,296 thousand).

No adjustments emerged from the impairment tests performed.

NOTE 4. Property, plant and equipment

The composition of Property, plant and equipment at 31 December 2020 with comparative figures at 31 December 2019 is as follows:

(In thousands of euros)	31 December 2020	31 December 2019	Change
Land	7,280	7,280	-
Buildings	42,071	42,641	(570)
Leasehold improvements	66,136	61,259	4,877
Plant and machinery	3,412	3,676	(264)
Industrial and commercial equipment	2,941	3,552	(611)
Other assets	24,849	22,680	2,169
Assets under construction and advances	3,565	1,617	1,948
Total property, plant and equipment	**150,254**	**142,705**	**7,549**

Details of historical cost, accumulated depreciation and the net book value of property, plant and equipment at 31 December 2020 with comparative figures at 31 December 2019 are as follows:

(In thousands of euros)	31 December 2020			31 December 2019		
	Cost	**Accumulated amortization**	**Net book value**	**Cost**	**Accumulated amortization**	**Net book alue**
Land	7,280	-	7,280	7,280	-	7,280
Buildings	54,407	(12,336)	42,071	53,378	(10,737)	42,641
Leasehold improvements	131,967	(65,831)	66,136	117,401	(56,142)	61,259
Plant and machinery	13,645	(10,233)	3,412	12,971	(9,295)	3,676
Industrial and commercial equipment	13,268	(10,327)	2,941	11,568	(8,016)	3,552
Other assets	46,418	(21,569)	24,849	40,580	(17,900)	22,680
Assets under construction and advances	3,565	-	3,565	1,617	-	1,617
Total property, plant and equipment	**270,550**	**(120,296)**	**150,254**	**244,795**	**(102,090)**	**142,705**

Property, plant and equipment at 31 December 2020 amounted to €150,254 thousand and consisted mainly of the value of buildings used for the production and logistics of the main headquarters, the improvements made to leased stores, as well as equipment, plant and equipment used for production and logistics.

The following table sets out the changes in the net book value of property, plant and equipment for the year ended 31 December 2020 and 31 December 2019:

(In thousands of euros)	**Land**	**Buildings**	**Leasehold improvements**	**Plant and machinery**	**Industrial and commercial equipment**	**Other assets**	**Assets under construction and advances**	**Total property, plant and equipment**
Balance at 1 January 2020	**7,280**	**42,641**	**61,259**	**3,676**	**3,552**	**22,680**	**1,617**	**142,705**
Increases	-	1,029	24,257	704	1,916	8,927	2,921	39,754
Net decreases	-	-	(935)	-	(2)	(326)	-	(1,263)
Translation differences	-	-	(3,063)	(51)	(26)	(1,031)	(70)	(4,241)
Value adjustments	-	-	(999)	-	(43)	(100)	-	(1,142)
Reclassifications	-	-	432	81	142	145	(903)	(103)
Change in scope of consolidation	-	-	-	-	-	-	-	-
Depreciation/amortization	-	(1,599)	(14,815)	(998)	(2,598)	(5,446)	-	(25,456)
Balance at 31 December 2020	**7,280**	**42,071**	**66,136**	**3,412**	**2,941**	**24,849**	**3,565**	**150,254**

(In thousands of euros)	Land	Buildings	Leasehold improvements	Plant and machinery	Industrial and commercial equipment	Other assets	Assets under construction and advances	Total property, plant and equipment
Balance at 01 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)	-
Change in scope of consolidation	-	-	-	-	-	-	-	-
Depreciation/amortization	-	(1,571)	(12,416)	(963)	(2,350)	(4,306)	-	(21,606)
Balance at 31 December 2019	**7,280**	**42,641**	**61,259**	**3,676**	**3,552**	**22,680**	**1,617**	**142,705**

In 2020 the Brunello Cucinelli Group made investments in property, plant and equipment of €39,754 thousand consisting mainly of the following:

– investments totaling €1,029 thousand under "Buildings", mainly related to the expansion and functionality of the industrial hub of Solomeo;
– investments of €24,257 thousand in "Leasehold improvements", principally due to the openings and expansion of DOS and wholesale stores and improvements to existing boutiques and showrooms throughout the world;
– investments totaling €11,547 thousand, of which €704 thousand recognized under "Plant and machinery" (mainly referring to new machinery for production), €1,916 thousand under "Industrial and commercial equipment" (mainly for investments made at sales points and at Solomeo headquarters), €8,927 thousand under "Other assets" (mainly referring to investments in furniture and furnishings at sales points as well as for ordinary development and upgrading activities for new machinery, furniture and furnishings, vehicles and equipment and the "historic collection" at the headquarters in Solomeo);
– additional investments recognized in "Assets under construction and advances" totaling €2,921 thousand, mainly relating to the work carried out in setting up Retail shops.

Investments in IT/Digital amounted to €1,295 thousand in 2020 and refer to tangible fixed assets.

"Value adjustments" amounting to €1,142 thousand refer to write-downs recorded in order to reflect the recoverable amount of tangible assets at 31 December 2020.

An impairment test resulted in a loss in value of €267 thousand, previously recorded under "Leasehold improvements".

NOTE 5. Investments in non-current financial assets

The composition of investment property at 31 December 2020 with comparative figures at 31 December 2019 is as follows:

(In thousands of euros)	31 December 2020	31 December 2019	Change
Investments in non-current financial assets	4,179	2,814	1,365
Total investment property	**4,179**	**2,814**	**1,365**

This item, amounting to €4,179 thousand, relates to three property complexes as well as building land in Solomeo being managed with the aim of being restored, structured and subsequently leased. As required by IAS 40, investment property is classified separately from the other properties owned by the Group.

The table below shows changes in the net book value of investment properties for the year ended 31 December 2020:

(In thousands of euros)	Total investment property
Balance at 1 January 2020	**2,814**
Increases	1,432
Net decreases	(20)
Reclassifications	(47)
Depreciation/amortization	-
Balance at 31 December 2020	**4,179**

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

As discussed above, during the transition to IFRS 16 subleases identified as "finance leases" have been classified and accounted for as financial assets for investment and are reported as "Financial assets for leases".

This item was as follows at 31 December 2020:

(In thousands of euros)	Non-current	Current	Total at 31 December 2020
Financial assets for leases	402	173	575
Total financial assets for leases	**402**	**173**	**575**

Changes for the years ended 31 December 2020 and 31 December 2019 are as follows:

(In thousands of euros)	**Total financial assets for leases**
Balance at 1 January 2020	**991**
Increases for new leases	-
Decreases for early termination of leases	(161)
Increases for interest income	17
Decreases for payments received	(272)
Foreign exchange gains/(losses)	-
Translation differences	-
Balance at 31 December 2020	**575**

(In thousands of euros)	**Total financial assets for leases**
Balance at 1 January 2019	**-**
Effect of application of IFRS 16 at 1 January 2019	1,279
Increases for new leases	-
Decreases for early termination of leases	-
Increases for interest income	22
Decreases for payments received	(310)
Foreign exchange gains/(losses)	-
Translation differences	-
Balance at 31 December 2019	**991**

NOTE 7. Other non-current financial assets

The composition of other non-current financial assets at 31 December 2020 with comparative figures at 31 December 2019 is as follows:

(In thousands of euros)	**31 December 2020**	**31 December 2019**	**Change**
Security deposits	11,039	8,767	2,272
Total other non-current financial assets	**11,039**	**8,767**	**2,272**

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 and showrooms.
The change includes amounts of €3,512 thousand for the increase arising from new payments made by the Group, €698 thousand for the decrease from reimbursements obtained during the year and €560 thousand due to the negative change in the balance arising from exchange rate effects on deposits held in foreign currency and €18 thousand for the increase generated by the accounting effect of discounting the balances.

NOTE 8. Inventories

The composition of inventories at 31 December 2020 with comparative figures at 31 December 2019 is as follows:

(In thousands of euros)	31 December 2020	31 December 2019	Change
Raw, ancillary and consumable materials	34,032	37,760	(3,728)
Work in progress and semi-finished goods	5,670	9,323	(3,653)
Finished goods and merchandise	200,372	157,785	42,587
Extraordinary write-down provision	(31,727)	-	(31,727)
Total inventories	**208,347**	**204,868**	**3,479**

A comprehensive comment on this item can be found in the Report on Operations. Note that the meeting of the Board of Directors approved the inclusion of an **extraordinary provision for the write-down of the inventory** for an amount equal to €31,727 thousand – reflected in this Report on Operations under the item "Value adjustments to assets"– against the intention during the current year and subsequent years to donate free of charge to associations and organizations dedicated to the needy the excess clothing that was left over due to the COVID-19 emergency situation and the consequent temporary interruption of sales. The extraordinary provision for write-downs reflects the estimate prepared by the directors of the value of the garments of the collections involved in the project, called "Brunello Cucinelli for Humanity".

The changes in the extraordinary provision as of 31 December 2020 are as follows:

(In thousands of euros)	2020	2019	Change
Value at 1 January	**-**	**-**	**-**
Increases	31,727	-	31,727
Uses	-	-	-
Value at year end	**31,727**	**-**	**31,727**

Detailed comments on changes in balances of inventories can be found in the Report on Operations.

NOTE 9. Trade receivables

Trade receivables at 31 December 2020 amounted to €78,871 thousand compared with €58,622 thousand at 31 December 2019. Detailed comments on changes in net 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 31 December 2020 compared with the previous year are as follows:

(In thousands of euros)	2020	2019
Value at 1 January	**1,311**	**1,867**
Allocations	1,308	811
Uses	(336)	(1,367)
Exchange differences	(5)	-
Value at 31 December	**2,278**	**1,311**

Allocations and utilizations are included under the item “Value adjustments to assets and other provisions” in the income statement.
In 2020, losses were recorded on receivables in the income statement for a total of €66 thousand, which together with the uses of the provision for bad debts represented 0.07% of Net Revenues for the year (0.22% in the previous year).

With regard to the ageing of overdue trade receivables, the breakdown by expiry is shown below:

	Situation at 31 December	
Overdue by:	**2020**	**2019**
0-90 days	9,397	4,231
91-180 days	3,555	3,820
More than 180 days	4,134	2,065
TOTAL	**17,086**	**10,116**

The change in balances relating to overdue receivables, attributable to the COVID-19 pandemic, is explained in detail in the comments in the Report on Operations, to which reference should be made.

NOTE 10. Tax receivables

The composition of tax receivables at 31 December 2020 with comparative figures at 31 December 2019 is as follows:

(In thousands of euros)	**31 December 2020**	**31 December 2019**	**Change**
IRES corporate income tax receivables	1,468	59	1,409
IRAP regional production tax receivables	4	5	(1)
Other tax receivables	2,399	914	1,485
Total tax receivables	**3,871**	**978**	**2,893**

Tax receivables amounted to €3,871 thousand at 31 December 2020.
The item “IRES corporate income tax receivables” is attributable to advances paid during the year by the parent company and Italian subsidiaries. The item “Other tax receivables” refers instead to tax receivables recorded by foreign companies. Among these, note that the main amount refers to the American subsidiary Brunello Cucinelli USA Inc., which in 2020 benefited from the tax benefits deriving from the “Cares Act” applied retroactively on the 2019 tax period and whose collection is expected by 2021.

NOTE 11. Other current receivables and assets

The composition of other receivables and other current assets at 31 December 2020 with comparative figures at 31 December 2019 is as follows:

(In thousands of euros)	**31 December 2020**	**31 December 2019**	**Change**
Tax receivables	4,534	5,583	(1,049)
Credit card receivables	3,362	4,163	(801)
Prepayments and accrued income	3,307	7,286	(3,979)
Advances to suppliers	5,571	1,738	3,833
Receivables from agents	266	272	(6)
Other receivables	3,028	1,961	1,067
Total other receivables and current assets	**20,068**	**21,003**	**(935)**

Tax receivables amounted to €4,534 thousand at 31 December 2020 compared to €5,583 thousand at 31 December 2019. The amount mainly refers to VAT receivables recognized by the parent company and subsidiaries. The decrease compared to last year is due to the possibility of using the credit to offset other taxes and contributions (so-called “horizontal” offset) allowed by COVID legislation.

Credit cards receivables amounted to €3,362 thousand at 31 December 2020 compared to €4,163 thousand at 31 December 2019. The amount refers to payments received through credit cards, which occurred before the end of the period but have not yet been credited to current accounts.

Accrued income and prepaid expenses mostly arise from advance payments for the production of catalogues for the spring/summer 2021 collection which will be delivered for use in the following half year and prepayments for utilities and insurance premiums and for charges relating to the digital sphere.

Advances to suppliers are mainly paid to suppliers and third-party manufacturers for the production of Brunello Cucinelli Group products.

NOTE 12. Other current financial assets

The composition of Other current financial assets at 31 December 2020 with comparative figures at 31 December 2019 is as follows:

(In thousands of euros)	31 December 2020	31 December 2019	Change
Financial receivables	11	10	1
Short-term financial instruments	-	9,120	(9,120)
Total other current financial assets	**11**	**9,130**	**(9,119)**

Other current financial assets amounted to €11 thousand at 31 December 2020. The amount refers entirely to deferred income from guarantee commissions. The short-term financial instruments relate to two life insurance contracts concluded in advance during the first half of 2020.

NOTE 13. Cash and cash equivalents

The composition of cash and cash equivalents at 31 December 2020 with comparative figures at 31 December 2019 is as follows:

(In thousands of euros)	31 December 2020	31 December 2019	Change
Bank and postal deposits	72,297	68,293	4,004
Cash in hand	472	535	(63)
Checks	65	104	(39)
Total cash and cash equivalents	**72,834**	**68,932**	**3,902**

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 mostly refers 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 31 December 2020 compared to those of the previous year.

NOTE 14. Derivative financial instruments

The Brunello Cucinelli Group enters certain derivative contracts to hedge the interest rate risk on its bank debt and the exchange 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 the relative 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 envisaged by IFRS 7).

The following is noted for outstanding financial instruments at 31 December 2020:
– all financial instruments at fair value form part of Level 2 (the same situation existed in 2019);
– there have been no transfers from Level 1 to Level 2 or vice versa in 2020;
– there have been no transfers from Level 3 to other levels or vice versa in 2020.

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

Details of the composition of "Current derivative financial instruments - assets" and "Current derivative financial instruments – liabilities" at 31 December 2020 are set out below, with comparative figures at 31 December 2019:

(In thousands of euros)	31 December 2020	31 December 2019	Change
Current assets for derivative instruments hedging currency risk	4,935	552	4,383
Current assets for derivative instruments hedging interest rate risk:			
- Current assets for derivative instruments hedging interest rate risk accounted for using hedge accounting	-	-	-
- Current assets for derivative instruments hedging interest rate risk not accounted for using hedge accounting	-	-	-
Total derivative financial instruments - current assets	**4,935**	**552**	**4,383**
Current liabilities for derivative instruments hedging currency risk	(253)	(3,678)	3,425
Current liabilities for derivative instruments hedging interest rate risk:			
- Current liabilities for derivative instruments hedging interest rate risk accounted for using hedge accounting	(238)	(193)	(45)
- Current liabilities for derivative instruments hedging interest rate risk not accounted for using hedge accounting	-	-	-
Total derivative financial instruments - current liabilities	**(491)**	**(3,871)**	**3,380**
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	(217)	(150)	(67)
- Non-current liabilities for derivative instruments hedging interest rate risk not accounted for using hedge accounting	-	-	-
Total derivative financial instruments - non-current liabilities	**(217)**	**(150)**	**(67)**

The contractual characteristics of derivative financial instruments used to hedge interest risk and their relative fair values at 31 December 2020 and 31 December 2019 are as follows:

Derivatives on interest rate risk accounted for using hedge accounting

(In thousands of euros)	31 December 2020		31 December 2019	
	current portion	non-current portion	current portion	non-current portion
Derivative assets/(liabilities)	(238)	(217)	(193)	(150)
Total fair value of IRS	**(238)**	**(217)**	**(193)**	**(150)**

The contractual characteristics of derivative financial instruments used to hedge currency risk and their relative fair value at 31 December 2020 and 31 December 2019 are as follows:

(In thousands of euros)	Negative fair value		Positive fair value	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Derivative assets/(liabilities)	(253)	(3,678)	4,935	552
Total fair value foreign currency forward contracts	**(253)**	**(3,678)**	**4,935**	**552**

The following table shows the book value of the financial instruments in existence (current loans and non-current loans) shown in the balance sheet, comparing them with their fair value.

(In thousands of euros)	31 December 2020 Fair Value	31 December 2020 Book value
Current and non-current loans	163,283	163,768

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

NOTE 15. Capital and reserves

Share capital at 31 December 2020 amounted to €13,600 thousand, fully paid, consisting of 68,000,000 ordinary shares.

Shareholders' equity at 31 December 2020 amounted to €261,104 thousand, a decrease of €38,235 thousand compared to 31 December 2019.
The changes in shareholders' equity in 2020 are represented by the overall results of the financial year, the distribution of dividends of some subsidiaries made prior to the outbreak of the pandemic, as well as the changes made following the resolution of allocation of the reserve profits taken by the Shareholders' Meeting of the parent company Brunello Cucinelli S.p.A. on 21 May 2020.
In the previous year, dividends had been approved for an amount equal to €20,400 thousand.

Details of changes in equity for the periods ended 31 December 2020 and 31 December 2019 can be found in the statement "Changes in consolidated shareholders' equity".

The share premium reserve amounts to €57,915 thousand and is stated net of the listing costs incurred in 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 31 December 2020 with comparative figures at 31 December 2019 were as follows:

(In thousands of euros)	**31 December 2020**	**31 December 2019**	**Change**
Legal reserve	2,720	2,720	-
Extraordinary reserve	258,815	201,598	57,217
Revaluation reserve	3,060	3,060	-
Cash flow hedge reserve	2,484	(272)	2,756
IFRS first-time adoption reserve	(782)	(782)	-
Reserve for IAS 19 effects	(517)	(532)	15
Translation reserve	(7,779)	87	(7,866)
Consolidated retained profits/losses	(37,331)	(32,298)	(5,033)
Total other reserves	**220,670**	**173,581**	**47,089**

The change in the cash flow hedge reserve of €2,484 thousand reflects the items presented in the comprehensive income statement.

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 for which settlement is not planned nor likely to occur in the foreseeable future. As such it is classified and recognized initially in a separate component of equity in accordance with paragraph 15 of IAS 21 "Net Investment in a Foreign Operation".

Shareholders' equity attributable to non-controlling interests was €2,135 thousand at 31 December 2020 compared to €1,690 thousand in the previous 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 table below shows changes in employee benefits at 31 December 2020 compared with changes in the previous year:

(In thousands of euros)	2020	2019
Present value of the obligation at the beginning of the year	**3,182**	**3,048**
Revaluation of the severance indemnity pursuant to art. 2120 of the Italian Civil Code	114	121
Benefits paid	(133)	(114)
Financial (income)/expense	(32)	(26)
Exchange differences	(3)	4
Actuarial (gains)/losses	(20)	149
Present value of the obligation at year end	**3,108**	**3,182**

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

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

Financial assumptions

	31 December 2020	31 December 2019
Annual discount rate	0.14%	0.49%
Inflation rate	0.50%	1.00%
Expected staff turnover rate	8.80%	8.80%
Advances rate	1.00%	1.00%

Demographic assumptions

	31 December 2020	31 December 2019
Mortality	TABLE RG48	
Retirement age	65 years	

Turnover rate and advances on the employees' termination indemnity

	31 December 2020	31 December 2019
Advances rate %	1.00%	1.00%
Turnover rate %	8.80%	8.80%

Note that the Company performed a sensitivity analysis on the actuarial assumptions used to determine the liability at 31 December 2020. Specifically, under the same conditions, a change of +10% in the discount rate used would result in a decrease in the balance of the liability equal to €1 thousand, while a change of -10% would result in an increase in the balance of the liability equal to €1 thousand.

Workforce

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

	31 December 2020	31 December 2019
Executives and middle managers	69.0	64.0
Office and sales staff	1,443.4	1,312.6
Blue-collar workers	532.3	513.2
Total workforce	**2,044.7**	**1,889.8**

NOTE 17. Provisions for risks and charges

Provisions for risks and charges mainly relate 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 period ended 31 December 2020 with comparative figures for the year ended 31 December 2019:

(In thousands of euros)	2020	2019
Agents' supplementary termination indemnity – value at 1 January	**660**	**632**
Allocations	1,281	-
Uses	(825)	-
Actuarial losses/(gains)	(671)	28
Agents' severance indemnity – value at 31 December	**445**	**660**
Other provisions for risks - value at 1 January	**467**	**288**
Exchange differences	(41)	8
Allocations	168	171
Uses	(102)	-
Other provisions for risks - value at 31 December	**492**	**467**
Total provisions for risks and charges	**937**	**1,127**

Changes in uses during 2020 relate to early termination of the contractual relationship with some agents, and to the adjustment of the agents' supplementary termination indemnity provision of existing contractual relationships.

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

	31 December 2020	31 December 2019
Turnover rate – voluntary	6.00%	6.00%
Turnover rate – employer initiated	5.00%	5.00%
Discount rate	0.13%	0.49%

NOTE 18. Non-current bank debt

Non-current bank debt consists of floating-rate medium/long-term loans.

The following table provides details of the Brunello Cucinelli Group's outstanding loans at 31 December 2020, showing the portion due within 12 months, within 5 years and after 5 years:

Description *(In thousands of euros)*	Outstanding balance at 31 December 2020	Amount due within 12 months	Amount due within 5 years	Amount due after 5 years
Total medium/long-term loans	163,768	103,635	60,133	-
Total non-current bank debt	**60,133**			

Here we note that some of the existing loan agreements provide for compliance with financial covenants represented by the ratio Net financial position/Shareholders' equity and Net financial position/EBITDA. On this point, remember that:

– These are financial covenants contracted in years prior to the application of IFRS 16 and which in the past the Company has always easily respected.
– In 2019, in order to neutralize the effect of applying the new IFRS 16 accounting standard and in agreement with the banks concerned, the Company updated the contractual clauses for the determination thereof, which consequently are calculated on an annual basis using "standardized" financial data on the consolidated financial statements of Brunello Cucinelli S.p.A..
– As at 31 December 2020, due to the effects of the COVID-19 epidemic on the balance sheet, the financial covenant represented by the ratio Net financial position/EBITDA was not respected. For this reason, even before the balance sheet date Brunello Cucinelli S.p.A. formally requested a waiver of the financial commitment in question to the banks, with express reference to the Financial Statements for the year ended 31 December 2020. Please note that all the banks that received such request have formally agreed not to recognize the financial parameter on these loans, and consequently not to apply the consequences related to any failure to comply with the financial parameters established in the relevant contractual agreements.
  All other provisions envisaged in the loan agreements remain unaffected and Brunello Cucinelli S.p.A. remains committed to complying with the financial covenants in subsequent years, within the terms and with the consequences established by each contractual agreement.

NOTE 19. Current and non-current lease liabilities

The application of the new IFRS 16 standard has led to the recognition of a financial liability consisting of the present value of residual future payments. The balance at 31 December 2020 breaks down as follows:

(In thousands of euros)	**Non-current**	**Current**	**Total at 31 December 2020**
Financial liabilities for leases	436,956	75,412	512,368
Total financial liabilities for leases	**436,956**	**75,412**	**512,368**

Changes for the years ended 31 December 2020 and 31 December 2019 are as follows:

(In thousands of euros)	**Total financial liabilities for leases**
Balance at 1 January 2020	**451,477**
Reclassification from financial payables to others	4,500
Increases for new leases	174,983
Decreases for early termination of leases	(43,484)
Increases for interest expense	10,705
Decreases for payments made	(61,335)
Foreign exchange gains/(losses)	2,595
Translation differences	(27,073)
Balance at 31 December 2020	**512,368**

(In thousands of euros)	**Total financial liabilities for leases**
Balance at 01 January 2019	**-**
Effect of application of IFRS 16 at 1 January 2019	373,754
Increases for new leases	128,569
Decreases for early termination of leases	(5,404)
Increases for interest expense	10,463
Decreases for payments made	(63,735)
Foreign exchange gains/(losses)	(1,213)
Translation differences	9,043
Balance at 31 December 2019	**451,477**

Net debt

The following table provides details of the net debt of the Brunello Cucinelli Group at 31 December 2020 presented in accordance with the format of Consob Communication no. DEM/6064293 of 28 July 2006, together with comparative figures at 31 December 2019:

(In thousands of euros)	**as at 31 December 2020**	**as at 31 December 2019**
A. Cash	(472)	(535)
B. Other cash and cash equivalents	(72,362)	(68,397)
C. Securities held for trading	-	(9,120)
D. Cash and cash equivalents (A)+(B)+(C)	**(72,834)**	**(78,052)**
E1. Current financial receivables for leases(*)	**(173)**	**(315)**
E2. Current financial receivables	**(11)**	**(10)**
F. Current bank payables	1,372	53,914
G. Current portion of non-current debt	103,635	18,072
H1. Current financial payables for leases(*)	75,412	62,661
H2. Other current financial payables	1,037	5,522
I. Current debt (F) + (G) + (H)	**181,456**	**140,169**
J. Net current debt (I) + (E) + (D)	**108,438**	**61,792**
K. Non-current bank payables	60,133	30,474
L. Bonds issued	-	-
M1. Non-current financial payables for leases(*)	436,956	388,816
M2. Other non-current payables	217	150
N. Non-current debt (K)+(L)+(M)	**497,306**	**419,440**
O. Net debt (J)+(N)	**605,744**	**481,232**
Of which:		
Net financial debt for the core business	*93,549*	*30,070*
Financial payables for leases(*)	*512,195*	*451,162*

(*) Item recorded in accordance with IFRS 16.

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

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

(In thousands of euros)	31 December 2019	Monetary flows	Non-monetary flows			31 December 2020
			Exchange differences	Change in fair value	Other	
Non-current bank payables	30,474	115,273	-	-	(85,614)	60,133
Other non-current financial payables	150	-	-	67	-	217
Current portion of non-current debt	18,072	-	-	-	85,563	103,635
Current and non-current lease liabilities	451,477	(61,335)	(24,478)	-	146,704	512,368
Other current financial payables	59,436	(52,576)	(30)	45	(4,466)	2,409
Current financial assets	(9,130)	9,120	-	-	(1)	(11)
Current financial liabilities for leases	(315)	272	-	-	(130)	(173)
Cash and cash equivalents	(68,932)	(6,670)	2,768	-	-	(72,834)
Net debt	**481,232**	**4,084**	**(21,740)**	**112**	**142,056**	**605,744**

It should be noted that the column "Monetary flows" indicates the flows of the statement of consolidated financial statements, while the column "Other" mainly refers to the effects of reclassification from the "non-current" portion to the "current" portion of outstanding loans, as well as, with respect to the row "Current and non-current financial liabilities for leases", to the amount 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 amounted to €60 thousand at 31 December 2020 compared to €247 thousand at 31 December 2019. The balance is attributable to the deferred income recorded by the Parent Company on the tax credit for investments in capital goods, Italian Law no. 160/19 (former "super-amortization") for a total of €60 thousand.

(In thousands of euros)	31 December 2020	31 December 2019	Change
Non-current deferred income	60	247	(187)
Total other non-current liabilities	**60**	**247**	**(187)**

NOTE 21. Trade payables

The composition of trade payables at 31 December 2020 with comparative figures at 31 December 2019 is as follows:

(In thousands of euros)	31 December 2020	31 December 2019	Change
Trade payables to third-party suppliers	91,412	89,453	1,959
Total trade payables	**91,412**	**89,453**	**1,959**

Trade payables represent amounts due for the supply of goods and services. Note that during 2020 the Company did not change the timing of payments to its suppliers, contractors and consultants.

NOTE 22. Current bank debt

The composition of current bank debt at 31 December 2020 with comparative figures at 31 December 2019 is as follows:

(In thousands of euros)	31 December 2020	31 December 2019	Change
Current portion of medium/long-term loans	103,635	18,072	85,563
Bank advances received and invoices	1,261	53,914	(52,653)
Accrued interest liabilities	111	1	110
Total current bank debt	**105,007**	**71,987**	**33,020**

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

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

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

NOTE 23. Current financial payables

Current financial payables at 31 December 2020 amounted to €799 thousand and arose from the measurement of the put options on minority holdings in subsidiaries. It should be noted that the amount of €4,500 thousand, recorded under this item in the previous year, has been reclassified under the item "Current and non-current financial liabilities for leases" as of 31 December 2020 (see note 19).

(In thousands of euros)	31 December 2020	31 December 2019	Change
Current financial payables	799	5,329	(4,530)
Total current financial payables	**799**	**5,329**	**(4,530)**

NOTE 24. Tax payables

Tax payables at 31 December 2020 amounted to €2,621 thousand compared to €3,960 thousand at 31 December 2019.

This item mainly includes payables for taxes not yet paid by subsidiaries at 31 December 2020 and payables for IRAP taxes of the Parent Company.

(In thousands of euros)	31 December 2020	31 December 2019	Change
Current IRES corporate income tax payables	-	1,572	(1,572)
Current IRAP regional production tax payables	208	481	(273)
Other tax payables	2,413	1,907	506
Total tax payables	**2,621**	**3,960**	**(1,339)**

NOTE 25. Other current liabilities

The composition of other current liabilities at 31 December 2020 with comparative figures at 31 December 2019 is as follows:

(In thousands of euros)	31 December 2020	31 December 2019	Change
Payables to agents	2,860	2,955	(95)
Payables to employees	8,908	7,596	1,312
Social security payables	5,358	4,667	691
Payables of Italian companies as withholding tax (IRPEF, withholdings)	3,919	3,428	491
VAT payables	2,638	2,631	7
Payables for current taxes not on income	232	1,116	(884)
Accrued expenses and deferred income	812	1,168	(356)
Advances from customers	3,498	3,357	141
Other current payables to related parties	2,498	2,541	(43)
Other payables	4,348	4,368	(20)
Total other current liabilities	**35,071**	**33,827**	**1,244**

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 on wages and salaries accrued at the end of 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 in January.

VAT payables relate mainly to the balances of the Group's foreign companies.

Advances from customers refer to advances that Group companies receive before the shipment of goods from some customers, both retail and wholesale, mainly foreign.

Other current liabilities to related parties refer to payables to the company Solomeo S.r.l. following the operation carried out with the favorable opinion of the Control and Risks Committee relating to the purchase of building land adjacent to the industrial hub of Solomeo. As per the contract, the payable was paid on 21 January 2021.

NOTE 26. Taxes

DEFERRED TAX ASSETS AND LIABILITIES

The composition of deferred tax assets and liabilities at 31 December 2020 with comparative figures at 31 December 2019 is as follows:

(In thousands of euros)	**31 December 2020**	**31 December 2019**	**Change**
Deferred tax assets	35,368	25,436	9,932
Deferred tax liabilities	(6,402)	(2,504)	(3,898)

The balance of deferred tax assets is mainly attributable to the tax effect related to the elimination of intercompany margins on inventories (equal to €15,457 thousand) and deferred taxation recorded on temporary differences generated by the accounting of rents (equal to €13,849 thousand).

Deferred tax assets are recognized at 31 December 2020 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.

A breakdown of net deferred taxes as at 31 December 2020 and 2019 is as follows:

(In thousands of euros)	Year ended 31 December							
	Statement of financial position		Shareholders' equity		Income statement		Exchange differences, change in consolidation scope and other changes	
	2020	2019	2020	2019	2020	2019	2020	2019
Amortization of intangible assets	185	110	-	-	75	114	-	-
Depreciation of tangible assets	(3,778)	(681)	-	-	(3,441)	(398)	344	(6)
Provision for bad debts	419	254	-	-	165	(139)	-	-
Fair value of derivatives	(785)	85	(870)	(181)	-	-	-	-
IAS 17 - lease payment normalization	7,303	1,615	-	-	6,257	1,560	(569)	(4)
IAS 39 - Amortized cost	-	-	-	-	-	(1)	-	-
IAS 19 - Employee severance indemnity	112	119	(5)	36	(2)	(3)	-	-
IAS 37 - Agent severance indemnity	121	121	-	-	-	-	-	-
Elimination of intercompany margins on inventories	15,457	13,443	-	-	2,014	3,642	-	-
Elimination of the effects of intercompany capital gains	9	9	-	-	-	-	-	-
Prepaid taxes on tax losses	891	1,709	-	-	(818)	(1,251)	-	-
Unrealized exchange gains and losses	999	232	-	-	767	(34)	-	-
Unrealized gains and losses on changes in fair value of securities held for trading	-	(30)	-	-	30	(30)	-	-
Taxed cash transactions	243	-	-	-	255	(1)	(12)	1
Sale of Brunello Cucinelli Suisse S.A. shares to employees	49	49	-	-	-	-	-	2
Taxation of Brunello Cucinelli USA Retail LLC's interest in Brunello Cucinelli USA Inc.	-	(487)	-	-	479	(1,539)	8	25
Net investments in foreign operations	-	-	633	102	(633)	(102)	-	-
IFRS 16 - Leases	6,546	5,719	-	5,313	1,172	330	(345)	76
Others	1,195	665	-	-	577	(116)	(48)	15
Cost/(Revenue) for deferred taxes					**6,897**	**2,032**		
Deferred taxes recognized in shareholders' equity			**(242)**	**5,270**				
Exchange differences and changes in scope of consolidation							**(622)**	**109**
Net deferred tax assets/(liabilities)	**28,966**	**22,932**						
Represented in the balance sheet as follows:								
Deferred tax assets	35,368	25,436						
Deferred tax liabilities	(6,402)	(2,504)						
Net deferred tax assets	**28,966**	**22,932**						

INCOME TAXES

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

(In thousands of euros)	**31 December 2020**	**31 December 2019**	**Change**
Current taxes	7,356	17,727	(10,371)
Deferred taxes	(6,897)	(2,032)	(4,865)
Prior year taxes	(2,172)	398	(2,570)
Income taxes in the consolidated income statement	**(1,713)**	**16,093**	**(17,806)**
Income taxes in the comprehensive income statement	875	145	730
Total income taxes	**(838)**	**16,238**	**(17,076)**

The reconciliation between the nominal and actual rates of the Brunello Cucinelli Group for the years 31 December 2020 and 2019 is as follows:

(In thousands of euros)	**Year ended 31 December**	
	2020	**2019**
Pre-tax profit	**(33,782)**	**69,176**
IRES rate in force for the year	24.00%	24.00%
Theoretical tax charge	**8,108**	**(16,602)**
Income taxes with different rates (IRAP)	(1,261)	(2,810)
Effect of the different tax rates of foreign companies	(703)	(2,415)
Prior year taxes	2,172	398
Patent Box tax benefit	-	5,649
Extraordinary provision for the “Brunello Cucinelli for Humanity” project	(8,852)	-
Other changes	2,249	(313)
Total Taxes in the Income Statement	**1,713**	**(16,093)**
Actual tax rate	-5.07%	*-23.26%*

Note that the tax rate of the 2020 financial statements was affected by the payment of previously unpaid taxes for the amount relating to the extraordinary write-down of inventories for the “Brunello Cucinelli for Humanity” project amounting to €31,727 thousand, on which prudently no deferred tax assets were recorded.

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

NOTE 27. Revenue from sales and services

The composition of revenues from sales and services at 31 December 2020 compared to 31 December 2019 is as follows:

(In thousands of euros)	**31 December 2020**	**31 December 2019**	**Change**
Net revenues	544,013	607,761	(63,748)
Other operating income	2,772	826	1,946
Total revenue from sales and services	**546,785**	**608,587**	**(61,802)**

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

Other operating revenues, eliminating the accounting effect deriving from applying the IFRS 16 accounting standard, amounted to €1,825 thousand.

Revenues may be broken down by geographical area as follows:

(In thousands of euros)	**Year ended 31 December**				**Change**	
	2020	**%**	**2019**	**%**	**2020 v 2019**	**2020 v 2019 %**
Italy	68,323	12.6%	89,720	14.8%	(21,397)	-23.8%
Europe(1)	181,472	33.3%	184,751	30.4%	(3,279)	-1.8%
North America(2)	172,778	31.8%	204,109	33.6%	(31,331)	-15.4%
China(3)	61,726	11.3%	62,898	10.3%	(1,172)	-1.9%
Rest of the World (RoW)(4)	59,714	11.0%	66,283	10.9%	(6,569)	-9.9%
Total	**544,013**	**100.0%**	**607,761**	**100.0%**	**(63,748)**	**-10.5%**

(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, Macao 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 broken down by distribution channel as follows:

(In thousands of euros)	Year ended 31 December				Change	
	2020	**%**	**2019**	**%**	**2020 v 2019**	**2020 v 2019 %**
Retail	268,773	49.4%	339,435	55.8%	(70,662)	-20.8%
Wholesale	275,240	50.6%	268,326	44.2%	6,914	+2.6%
Total	**544,013**	**100.0%**	**607,761**	**100.0%**	**(63,748)**	**-10.5%**

In accordance with the accounting standard IFRS 15 the Group recognizes revenues for the sale of products 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 31 December 2020 with comparative figures at 31 December 2019 is as follows:

(In thousands of euros)	**31 December 2020**	**31 December 2019**	**Change**
Costs for raw materials and consumables	98,025	112,403	(14,378)
Change in inventories	(44,300)	(40,124)	(4,176)
Total costs for raw materials and consumables	**53,725**	**72,279**	**(18,554)**

A comment on this item can be found in the Report on Operations .

NOTE 29. Cost of services

The composition of the item Costs for services at 31 December 2020 with comparative figures at 31 December 2019 is as follows:

(In thousands of euros)	31 December 2020	31 December 2019	Change
Outsourced work	121,008	119,363	1,645
Advertising and other marketing costs	32,069	35,470	(3,401)
Transport and duties	23,405	22,150	1,255
Lease expense	17,912	21,810	(3,898)
Commissions and accessory charges	10,635	9,256	1,379
Credit card charges	4,971	6,361	(1,390)
Outsourced services, training and miscellaneous consultancy	7,264	7,578	(314)
Maintenance services	5,654	4,811	843
Electricity, telephone, gas, water and postal expenses	5,693	4,974	719
Directors’ and statutory auditors’ fees	3,458	2,413	1,045
Insurance	1,586	1,503	83
Website maintenance and support	1,693	1,820	(127)
Other general expenses	7,948	10,558	(2,610)
Total costs for services	**243,296**	**248,067**	**(4,771)**

The main “Costs for services” are discussed in the Report on Operations to which reference should be made.

With regard to the other items shown in the table and not commented on in the Report on Operations, note that outsourced services, training and miscellaneous consultancy, the cost for insurance, the cost for maintenance and digital support are substantially in line with the previous year, while there were increases in the items Directors’ and statutory auditors’ fees (increased by €1,045 thousand, mainly attributable to the appointment as new Managing Directors and CEO of Luca Lisandroni and Riccardo Stefanelli on 21 May 2020), Utilities (increased by €719 thousand) and Maintenance services (increased by €843 thousand).

The decrease in the item “Other general expenses” is largely attributable to the lower expenses for travel of personnel in 2020, as a result of the health situation and the regulatory and prudential limits on international travel.

In conclusion it should be noted that costs for services also include an amount of €5,074 thousand relating to expenses of an IT/Digital nature.

NOTE 30. Payroll costs

The composition of Payroll costs for the year ended 31 December 2020 with comparative figures for the situation at 31 December 2019 is as follows:

(In thousands of euros)	31 December 2020	31 December 2019	Change
Wages and salaries	94,084	87,226	6,858
Social security contributions	20,403	19,308	1,095
Employee severance indemnity	3,309	2,964	345
Other payroll costs	1,773	2,701	(928)
Total payroll costs	**119,569**	**112,199**	**7,370**

Reference should be made to the Report on Operations for further details on payroll costs.

NOTE 31. Other operating costs

The composition of Other operating costs at 31 December 2020 with comparative figures at 31 December 2019 is as follows:

(In thousands of euros)	31 December 2020	31 December 2019	Change
Taxes and duties	3,479	4,059	(580)
Losses on bad debts	66	-	66
Other operating costs	5,357	3,471	1,886
Total other operating costs	**8,902**	**7,530**	**1,372**

"Other operating costs" mainly refer to costs for the purchase of personal protective equipment (PPE) and other devices to contain and combat the COVID-19 epidemiological emergency.

NOTE 32. Increases in fixed assets for internal costs

The increase of €3,258 thousand in 2020 and €2,382 thousand in 2019 relates mainly to production costs incurred to develop the historical collection, costs for the internal implementation of the Group's boutiques and costs for the development of new IT procedures.

NOTE 33. Depreciation/amortisation

The composition of the item Depreciation/amortization at 31 December 2020 with comparative figures at 31 December 2019 is as follows:

(In thousands of euros)	**31 December 2020**	**31 December 2019**	**Change**
Amortization of right-of-use assets	74,278	60,827	13,451
Amortization of intangible assets	4,550	3,817	733
Depreciation of property, plant and equipment	25,456	21,606	3,850
Total depreciation and amortization	**104,284**	**86,250**	**18,034**

The increase in the depreciation and amortization charge is linked to the investments made by the Group.
"Amortization of right-of-use assets", amounting to €74,278 thousand, arises from applying the IFRS 16 accounting standard.

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

NOTE 34. Value adjustments to assets and other provisions

Value adjustments to assets and other provisions (€35,085 thousand in 2020 and €1,268 thousand in 2019) relate to allocations to the extraordinary write-down of inventories, provision for doubtful accounts, provisions for the agents' supplementary termination indemnity provision and adjustments to the residual net book value of tangible and intangible assets recognized on enlarging the Group's boutiques.

NOTE 35. Financial expense

The composition of Financial expenses at 31 December 2020 with comparative figures at 31 December 2019 is as follows:

(In thousands of euros)	31 December 2020	31 December 2019	Change
Lease interest expense	10,705	10,463	242
Mortgage loan interest	840	401	439
Interest payable on advances	1,342	1,141	201
Bank interest expense	33	24	9
Realized exchange losses	24,040	20,894	3,146
Unrealized exchange losses	4,043	2,612	1,431
Lease exchange losses	2,457	-	2,457
Financial expense on derivatives	2,763	5,268	(2,505)
Impairment of CGU (“Cash Generating Unit”)	583	-	583
Miscellaneous financial expense	150	598	(448)
Total financial expense	**46,956**	**41,401**	**5,555**

For a comment on the differences reference should be made to the Report on Operations, where for completeness a description is given of financial expense and financial income taken together.

NOTE 36. Financial income

The composition of Financial income at 31 December 2020 with comparative figures at 31 December 2019 is as follows:

(In thousands of euros)	31 December 2020	31 December 2019	Change
Lease interest income	17	22	(5)
Bank interest income	28	108	(80)
Realized exchange gains	26,533	23,053	3,480
Unrealized exchange gains	1,115	2,142	(1,027)
Lease exchange gains	-	1,652	(1,652)
Financial income on derivatives	193	24	169
Different income	106	200	(94)
Total financial income	**27,992**	**27,201**	**791**

For a comment on the differences reference should be made to the Report on Operations, where for completeness a description is given of financial expense and financial income taken together.

NOTE 37. Basic and diluted earnings/(loss) per share

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

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

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

	31 December 2020	31 December 2019
Net profit/(loss) attributable to shareholders of the parent *(in thousands of euros)*	(33,216)	52,553
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 euros)*	(0.48847)	0.77284
Diluted earnings per share *(in euros)*	(0.48847)	0.77284

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 31 December 2020 with comparative figures at 31 December 2019 is as follows:

(In thousands of euros)	31 December 2020	31 December 2019	Change
Assets with third parties	193	190	3
Total commitments and risks	**193**	**190**	**3**

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

FINANCIAL RISK MANAGEMENT

The Brunello Cucinelli Group is exposed to various types of financial risks 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.
Financial risks are managed on the basis of guidelines established 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 most widely used financing instruments are:
– Medium/long-term loans with a multi-year amortisation plan, to cover investments in fixed assets.
– Short-term loans and bank overdrafts to finance working capital.

Furthermore, the Brunello Cucinelli Group subscribes to financial instruments to hedge the risks of fluctuations in interest rates, which could affect the burden of medium-long term financial debt, and of exchange rates that could influence the Group's economic performance.

The average cost of borrowing is linked to the trend of the 3-month and 6-month Euribor rates, plus a spread that depends on the financing instrument used and the Company's rating.
The Brunello Cucinelli Group uses derivative financial instruments to hedge interest rate risk and exchange risk. Trading in derivatives for speculative purposes is not envisaged.

INTEREST RATE RISK

Brunello Cucinelli Group's sensitivity to interest rate risk is managed with due regard to its overall exposure: as part of its general policy of optimizing financial resources, the Group seeks a balance by resorting to less expensive forms of financing.

It is the company's policy to hedge its exposure on the medium and long-term portion of debt for market risk arising from interest rate changes. To manage such risk the Company uses derivative instruments such as interest rate swaps.

As at 31 December 2020, there were 17 positions relating to interest rate swap derivative instruments hedging the risk associated with the potential increase in the cost to service payables to banks due to the fluctuation of market rates. The notional value of these positions amounted to €58.3 million with a negative equivalent value of approximately €455 thousand.
As at 31 December 2019, there were 18 positions relating to interest rate swap derivative instruments hedging the risk associated with the potential increase in the cost to service payables to banks due to the fluctuation of market rates. The notional value of these positions amounted to €49.0 million with a negative equivalent value of approximately €343 thousand.

The short-term portion of the Payables to banks, which mainly serves to finance the need for working capital, is not subject to hedging of interest risk.

The cost of bank borrowing is linked to the Euribor rate for the period plus a spread that depends on the type of credit line used. The margins applied are comparable to the best market standards. The interest rate risk that the Brunello Cucinelli Group is exposed to mainly derives from outstanding financial payables.

Brunello Cucinelli Group's main sources of exposure to interest rate risk are attributable to short-, medium- and long-term loans and derivative instruments. While the Group has adopted a precise hedging policy, the potential impacts on the Income Statement for 2020 (2019 for comparison) attributable to interest rate risk are as follows:
– Potential change in financial and differential charges related to derivative instruments outstanding in 2020.
– Potential change in the fair value of existing derivative instruments.

Potential changes in the fair value of the effective component of existing hedging derivatives produce impacts on Shareholders' Equity.

The Brunello Cucinelli Group has estimated the potential impacts on the Income Statement and Shareholders' Equity for the 2021 financial year calculated with respect to the situation at the end of the 2020 financial year (impacts on 2020 for comparison calculated with respect to the situation at the end of the 2019 financial year) produced by a simulation of the change in the yield curve of interest rates using internal valuation models based on generally accepted logic. Specifically:
– For loans, these impacts were estimated by simulating a parallel change of +100/-30 basis points (+1%/-0.3%) in the rate yield curve, applied only for cash flows to be settled in 2020 (2019 for comparison).
– For derivative instruments, simulating a parallel change of +100/-30 basis points (+1%/-0.3%) in the rate yield curve.

With regard to the situation at 31 December 2020, a parallel shift in the yield curve of interest rates equal to +100 basis points (+1%) would produce an increase in financial expenses for the 2020 financial year equal to approximately €373 thousand, offset for approximately €371 thousand by an increase in the differentials collected against existing derivatives. A parallel shift in the interest rate yield curve of -30 basis points (-0.3%) would result in a decrease in financial expenses of approximately €112 thousand, offset for approximately €88 thousand by a reduction in the differentials collected against outstanding derivatives.

With regard to the situation at 31 December 2019, a parallel shift in the yield curve of interest rates equal to +100 basis points (+1%) would produce an increase in financial expenses for the 2019 financial year equal to approximately €211 thousand, offset for approximately €330 thousand by an increase in the differentials collected against existing derivatives. A parallel shift in the yield curve of interest rates equal to -30 basis points (-0.3%) would produce a decrease in financial expenses equal to approximately €63 thousand, offset for approximately €96 thousand by a reduction in the differentials collected against existing derivatives.

	Interest 31 December 2020		
Loans	**Residual debt** *(Euro/000)*	**Impact on the Income Statement 2020 +100 bps** *(Euro/000)*	**Impact on the Income Statement 2020 -30 bps** *(Euro/000)*
Loans payable	163,895	(373)	112
Total Loans	**163,895**	**(373)**	**112**
Derivative instruments	**Residual notional (Euro/000)**	**Impact on the Income Statement 2020 +100 bps (Euro/000)**	**Impact on the Income Statement 2020 -30 bps (Euro/000)**
Cash flow hedging derivative instruments	58,292	371	(88)
Total derivatives	**58,292**	**371**	**(88)**
TOTAL		**(2)**	**24**

	Interest 31 December 2019		
Loans	**Residual debt** *(Euro/000)*	**Impact on the Income Statement 2019 +100 bps** *(Euro/000)*	**Impact on the Income Statement 2019 -30 bps** *(Euro/000)*
Loans payable	48,622	(211)	63
Total Loans	**48,622**	**(211)**	**63**
Derivative instruments	**Residual notional (Euro/000)**	**Impact on the Income Statement 2019 +100 bps (Euro/000)**	**Impact on the Income Statement 2019 -30 bps (Euro/000)**
Cash flow hedging derivative instruments	48,965	330	(96)
Total derivatives	**48,965**	**330**	**(96)**
TOTAL		**119**	**(33)**

With regard to the situation at 31 December 2020, a parallel shift in the yield curve of interest rates equal to +100 basis points (+1%) would produce an increase in the asset value of existing hedging derivative instruments equal to approximately €1,008 thousand, with an impact only on shareholders' equity. A parallel shift in the yield curve of interest rates equal to -30 basis points (-0.3%) would produce a decrease in the asset value of existing derivative instruments equal to approximately €235 thousand, with an impact solely on shareholders' equity.

With regard to the situation at 31 December 2019, a parallel shift in the yield curve of interest rates equal to +100 basis points (+1%) would produce an increase in the asset value of existing hedging derivative instruments equal to approximately €911 thousand, with an impact only on shareholders' equity. A parallel shift in the yield curve of interest rates equal to -30 basis points (-0.3%) would produce a decrease in the asset value of existing derivative instruments equal to approximately €265 thousand, with an impact only on shareholders' equity.

	Sensitivity of the fair value of derivatives at 31 December 2020									
	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	58,292	(455)	553	1,008	-	1,008	(690)	(235)	-	(235)
Other derivatives	-	-	-	-	-	-	-	-	-	-
TOTAL	**58,292**	**(455)**	**553**	**1,008**	**-**	**1,008**	**(690)**	**(235)**	**-**	**(235)**

	Sensitivity of the fair value of derivatives at 31 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)**

The assumptions regarding the extent of changes in market parameters used for the simulation of shocks were formulated on the basis of an analysis of the historical evolution of these parameters over a 12-month horizon.

EXCHANGE RATE RISK

The Brunello Cucinelli Group is exposed to currency risk for the currencies (primarily the US dollar) 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 Brunello Cucinelli Group enters into derivative contracts (forward 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 defined on the basis of estimated sales, with the expiry date of the derivative set as the expected collection date of the sales invoices. In particular, the Group sets its selling prices in euros and calculates the corresponding prices in foreign currency by applying the exchange rate of the average of the hedges made with forward contracts.

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 shareholders' 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 2020 the Group reclassified as a decrease in revenues €14 thousand previously recognized in the cash flow hedge reserve.
During 2019 the Group reclassified as a decrease in revenues €810 thousand previously recognized in the cash flow hedge reserve

The potential effects on the 2021 income statement (2020 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 2021 Shareholders' Equity (2020 for comparative purposes) arising from currency risk are:

– Change in fair value of the effective component of outstanding derivatives highly probable transactions in foreign currency.

The Brunello Cucinelli Group has estimated the potential effects on its 2021 income statement and shareholders' equity, calculated with reference to the situation at the end of 2020 (2019 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 2020			SENSITIVITY 2020	
	Assets	Liabilities	Net	Income Statement Euro/US dollar exchange rate	
	(US dollar/000)			+ 5% (Euro/000)	- 5% (Euro/000)
Trade balances	11,946	(7,021)	4,925	(200.7)	200.7
Total gross exposure of balance sheet items	**11,946**	**(7,021)**	**4,925**	**(200.7)**	**200.7**

Exposure arising from highly probable future transactions	Notional	Changes in equity Euro/US dollar exchange rate	
		+ 5% (Euro/000)	- 5% (Euro/000)
Forward sales (notional value)	(58,000)	2,363	(2,363)

Exposure of balance sheet items	Assets	Liabilities	Net	Income Statement Euro/Swiss franc exchange rate	
	(Swiss franc/000)			+ 5% (Euro/000)	- 5% (Euro/000)
Trade balances	129	(173)	(43)	2.0	(2.0)
Total gross exposure of balance sheet items	**129**	**(173)**	**(43)**	**2.0**	**(2.0)**

Exposure arising from highly probable future transactions	Notional	Changes in equity Euro/Swiss franc exchange rate	
		+ 5% (Euro/000)	- 5% (Euro/000)
Forward sales (notional value)	(1,900)	88	(88)

Exposure of balance sheet items	Assets	Liabilities	Net	Income Statement Euro/British pound exchange rate	
	(British pound/000)			+ 5% *(Euro/000)*	- 5% *(Euro/000)*
Trade balances	1,685	(521)	1,163	(64.7)	64.7
Total gross exposure of balance sheet items	**1,685**	**(521)**	**1,163**	**(64.7)**	**64.7**

Exposure arising from highly probable future transactions	Notional	Changes in equity Euro/ British pound exchange rate	
		+ 5% *(Euro/000)*	- 5% *(Euro/000)*
Forward sales (notional value)	(5,100)	284	(284)

Exposure of balance sheet items	Assets	Liabilities	Net	Income Statement Euro/Japanese yen exchange rate	
	(Japanese yen/000)			+ 5% *(Euro/000)*	- 5% *(Euro/000)*
Trade balances	471,344	(286,410)	184,933	(73.1)	73.1
Total gross exposure of balance sheet items	**471,344**	**(286,410)**	**184,933**	**(73.1)**	**73.1**

Exposure arising from highly probable future transactions	Notional	Changes in equity Euro/ Japanese yen exchange rate	
		+ 5% *(Euro/000)*	- 5% *(Euro/000)*
Forward sales (notional value)	(550,000)	217	(217)

Exposure of balance sheet items	Assets	Liabilities	Net	Income Statement Euro/Hong Kong dollar exchange rate	
	(Hong Kong dollar/000)			+ 5% *(Euro/000)*	- 5% *(Euro/000)*
Trade balances	2,985	(1,227)	1,759	(9.2)	9.2
Total gross exposure of balance sheet items	**2,985**	**(1,227)**	**1,759**	**(9.2)**	**9.2**

Exposure arising from highly probable future transactions	Notional	Changes in equity Euro/Hong Kong dollar exchange rate	
		+ 5% *(Euro/000)*	- 5% *(Euro/000)*
Forward sales (notional value)	(20,000)	105	(105)

Exposure of balance sheet items	Assets	Liabilities	Net	Income Statement Euro/Canadian dollar exchange rate	
	(Canadian dollar/000)			+ 5% (Euro/000)	- 5% (Euro/000)
Trade balances	3,937	(508)	3,428	(109.7)	109.7
Total gross exposure of balance sheet items	**3,937**	**(508)**	**3,428**	**(109.7)**	**109.7**

Exposure arising from highly probable future transactions	Notional	Changes in equity Euro/Canadian dollar exchange rate	
		+ 5% (Euro/000)	- 5% (Euro/000)
Forward sales (notional value)	(8,400)	269	(269)

Exposure of balance sheet items	Assets	Liabilities	Net	Income Statement Euro/Renminbi exchange rate	
	(Renminbi/000)			+ 5% (Euro/000)	- 5% (Euro/000)
Trade balances	56,840	(23,370)	33,470	(208.6)	208.6
Total gross exposure of balance sheet items	**56,840**	**(23,370)**	**33,470**	**(208.6)**	**208.6**

Exposure arising from highly probable future transactions	Notional	Changes in equity Euro/Renminbi exchange rate	
		+ 5% (Euro/000)	- 5% (Euro/000)
Forward sales (notional value)	(91,000)	567	(567)

Exposure of balance sheet items	Assets	Liabilities	Net	Income Statement Euro/Real exchange rate	
	(Real/000)			+ 5% (Euro/000)	- 5% (Euro/000)
Trade balances	-	(14)	(14)	0.1	(0.1)
Total gross exposure of balance sheet items	**-**	**(14)**	**(14)**	**0.1**	**(0.1)**

Exposure of balance sheet items	Assets	Liabilities	Net	Income Statement Euro/ Ruble exchange rate	
	(Ruble/000)			+ 5% (Euro/000)	- 5% (Euro/000)
Trade balances	-	(30,971)	(30,971)	16.9	(16.9)
Total gross exposure of balance sheet items	**-**	**(30,971)**	**(30,971)**	**16.9**	**(16.9)**

Exposure arising from highly probable future transactions	Notional	Changes in equity Euro/Ruble exchange rate	
		+ 5% (Euro/000)	- 5% (Euro/000)
Forward sales (notional value)	(240,000)	131	(131)

Exposure of balance sheet items	Assets	Liabilities	Net	Income Statement Euro/ Singapore dollar exchange rate	
	(Singapore dollar/000)			+ 5% (Euro/000)	- 5% (Euro/000)
Trade balances	1	(391)	(391)	12.0	(12.0)
Total gross exposure of balance sheet items	**1**	**(391)**	**(391)**	**12.0**	**(12.0)**

Exposure arising from highly probable future transactions	Notional	Changes in equity Euro/ Singapore dollar exchange rate	
		+ 5% (Euro/000)	- 5% (Euro/000)
Forward sales (notional value)	(860)	27	(27)

Exposure of balance sheet items	Assets	Liabilities	Net	Income Statement Euro/Danish krone exchange rate	
	(Danish krone/000)			+ 5% (Euro/000)	- 5% (Euro/000)
Trade balances	125	(144)	(19)	0.1	(0.1)
Total gross exposure of balance sheet items	**125**	**(144)**	**(19)**	**0.1**	**(0.1)**

Exposure of balance sheet items	Assets	Liabilities	Net	Income Statement Euro/ Taiwan dollar exchange rate	
	(Taiwan dollar/000)			+ 5% (Euro/000)	- 5% (Euro/000)
Trade balances	17,481	(2,287)	15,194	(22.0)	22.0
Total gross exposure of balance sheet items	**17,481**	**(2,287)**	**15,194**	**(22.0)**	**22.0**

Exposure arising from highly probable future transactions	Notional	Changes in equity Euro/Taiwan dollar exchange rate	
		+ 5% (Euro/000)	- 5% (Euro/000)
Forward sales (notional value)	(29,500)	43	(43)

Exposure of balance sheet items	FOREIGN CURRENCY EXPOSURE 2019			SENSITIVITY 2019	
	Assets	Liabilities	Net	Income Statement Euro/US dollar exchange rate	
	(US dollar/000)			+ 5% (Euro/000)	- 5% (Euro/000)
Trade balances	7,367	(4,690)	2,678	(119.2)	119.2
Total gross exposure of balance sheet items	**7,367**	**(4,690)**	**2,678**	**(119.2)**	**119.2**

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

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

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

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

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

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

Exposure arising from highly probable future transactions	Notional	Changes in equity Euro/ Japanese yen exchange rate	
		+ 5% (Euro/000)	- 5% (Euro/000)
Forward sales (notional value)	(1,660,000)	681	(681)

Exposure of balance sheet items	Assets	Liabilities	Net	Income Statement Euro/Hong Kong dollar exchange rate	
	(Hong Kong dollar/000)			+ 5% (Euro/000)	- 5% (Euro/000)
Trade balances	3,365	(1,504)	1,861	(10.6)	10.6
Total gross exposure of balance sheet items	**3,365**	**(1,504)**	**1,861**	**(10.6)**	**10.6**

Exposure arising from highly probable future transactions	Notional	Changes in equity Euro/Hong Kong dollar exchange rate	
		+ 5% (Euro/000)	- 5% (Euro/000)
Forward sales (notional value)	(35,600)	203	(203)

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

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

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

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

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

Exposure of balance sheet items	Assets	Liabilities	Net	Income Statement Euro/ Rouble exchange rate	
	(Rouble/000)			+ 5% (Euro/000)	- 5% (Euro/000)
Trade balances	-	(30,898)	(30,898)	22.1	(22.1)
Total gross 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 exchange rate + 5% (Euro/000)	- 5% (Euro/000)
	(Singapore dollar/000)				
Trade balances	4	(40)	(36)	1.2	(1.2)
Total gross exposure of balance sheet items	**4**	**(40)**	**(36)**	**1.2**	**(1.2)**

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

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

Exposure of balance sheet items	Assets	Liabilities	Net	Income Statement Euro/Taiwan dollar exchange rate + 5% (Euro/000)	- 5% (Euro/000)
	(Taiwan dollar/000)				
Trade balances	12,307	-	12,307	(18.3)	18.3
Total gross 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 exchange rate + 5% (Euro/000)	- 5% (Euro/000)
	(South Korean won/000)				
Trade balances	-	(195,040)	(195,040)	7.5	(7.5)
Total gross exposure of balance sheet items	**-**	**(195,040)**	**(195,040)**	**7.5**	**(7.5)**

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 strictly controlling the items making up working capital and, in particular, receivables from customers and payables to suppliers.

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

The following tables provide a stratification of outstanding liabilities for financial instruments at 31 December 2020 and 2019 by residual maturity:

	Situation at 31 December 2020				
	Financial Payables				
	Principal *(Euro/000)* **in**	**Interest** *(Euro/000)* **b**	**Trade payables** *(Euro/000)* **c**	**Derivative instruments** *(Euro/000)* **d**	**TOTAL** *(Euro/000)* **e = a+b+c+d**
Maturity:					
Within 12 months	103,552	829	91,412	241	196,034
Between 1 and 2 years	26,573	217	-	147	26,937
Between 2 and 3 years	18,749	128	-	59	18,936
Between 3 and 5 years	14,895	65	-	12	14,972
Between 5 and 7 years	(1)	-	-	-	(1)
More than 7 years	-	-	-	-	-
TOTAL	**163,768**	**1,239**	**91,412**	**459**	**256,878**

	Situation at 31 December 2019				
	Financial Payables				
	Principal *(Euro/000)* **in**	**Interest** *(Euro/000)* **b**	**Trade payables** *(Euro/000)* **c**	**Derivative instruments** *(Euro/000)* **d**	**TOTAL** *(Euro/000)* **e = a+b+c+d**
Maturity:					
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)
More than 7 years	-	-	-	-	-
TOTAL	**48,546**	**545**	**89,453**	**341**	**138,885**

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 (31 December 2020 and 31 December 2019).

CREDIT RISK

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

The Brunello Cucinelli Group's exposure to commercial credit risk refers only to sales made to the wholesale channel, which represents approximately 50.6% of net revenues at 31 December 2020: the remaining turnover refers to sales in 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 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. As confirmation of this policy, reference should be made to the changes in the provision for bad debts for the years ended 31 December 2020 and 2019 set out in note 9. Specifically, note that the percentage ratio of the sum of the utilizations of the provision for bad debts and bad debt losses as compared to net revenues (0.07% in 2020 and 0.22% in 2019) support a prudent and sound mindset in credit management.

The carrying amount of trade receivables in the financial statements is stated net of the provision 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 31 December 2020 and 2019:

	Situation at 31 December	
Overdue by:	**2020**	**2019**
0-90 days	9,397	4,231
91-180 days	3,555	3,820
More than 180 days	4,134	2,065
TOTAL	**17,086**	**10,116**

OTHER INFORMATION

RELATED PARTY TRANSACTIONS

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

Pursuant to Consob Resolution no. 17221 of 12 March 2010, it is acknowledged that during 2020 the Group did not enter into major or material transactions with related parties that significantly affected the Group's capital or profit or loss.

Details of the Brunello Cucinelli Group's transactions and balances with related parties as at 31 December 2020 are as follows:

(In thousands of euros)	**Ney revenues**	**Other operating revenues**	**Costs for raw materials and consumables**	**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	1	56	48	-	6,900	-	-	239	-
CMB Impianti Industriali S.r.l. (Cucinelli Giovannino)	-	-	-	42	-	5,442	-	-	95	-
AS.VI.P.I.M. Cucinelli Group	-	3	-	904	-	2	-	4	-	-
Solomeo S.r.l.	-	3	-	205	-	5,135	32	5	1	2,498
Verna S.r.l.	-	3	-	488	-	-	-	5	66	-
Brunello Cucinelli family	1	4	-	-	1,390	-	-	-	-	54
Prime Service Italia S.r.l.	-	3	-	280	-	-	-	4	55	-
Fedone S.r.l.	-	3	-	76	-	-	-	5	34	-
Brunello Cucinelli Foundation	5	9	-	10	-	-	-	16	3	-
Parco Agrario Solomeo	-	8	-	149	-	8	-	8	57	-
S.C.R.Oratorio Interreligioso S.S.D.A.r.l.	-	3	-	-	-	-	-	4	-	-
Total related parties	**7**	**40**	**56**	**2,202**	**1,390**	**17,487**	**32**	**51**	**550**	**2,552**
Total consolidated financial statements	**544,013**	**2,772**	**53,725**	**243,296**	**119,569**	**150,254**	**11,039**	**78,871**	**91,412**	**35,071**
%	*0.00%*	*1.44%*	*0.10%*	*0.91%*	*1.16%*	*11.64%*	*0.29%*	*0.06%*	*0.60%*	*7.28%*

The following table sets out the balances at 31 December 2020 arising from the application of the new standard IFRS 16 to related party transactions:

(In thousands of euros)	Right-of-use	Non-current financial liabilities for leases	Current financial liabilities for leases	Depreciation/ amortisation	Financial expense
Solomeo S.r.l.	5,193	5,115	516	550	165
Total related parties	**5,193**	**5,115**	**516**	**550**	**165**
Total consolidated financial statements	**470,197**	**436,956**	**75,412**	**104,284**	**46,956**
Proportion %	*1.10%*	*1.17%*	*0.68%*	*0.53%*	*0.35%*

Specifically:

- MO.AR.R. S.n.c.: commercial relations with the company MO.AR.R. S.n.c., of 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): company that refers to Mr. Giovannino Cucinelli, brother of Cav. Lav. Brunello Cucinelli. 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. It should be noted that 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 renting and making investments in property used by the Company for conducting operations in the area close to the Company's headquarters. The amounts involved and set out in the above table include the effects of applying 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 AFTER 31 DECEMBER 2020

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

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

The total compensation due to members of the Board of Directors of Brunello Cucinelli S.p.A. at 31 December 2020 amounted to €1,957 thousand.
The compensation accruing to the Board of Statutory Auditors of Brunello Cucinelli S.p.A. at 31 December 2020 amounted to €156 thousand.
The table below shows the compensation due to members of the Board of Directors for the year ended 31 December 2020 by Brunello Cucinelli S.p.A. and by direct or indirect subsidiaries:

Board of Directors

(In euros)		Year ended 31 December 2020								
Full name	**Office held**	**Term of office**	**Expiry**	**Remuneration**	**Remuneration for committee participation**	**Non-monetary benefits**	**Bonus and other incentives**	**Other remuneration**	**Other remuneration from subsidiaries**	**Total**
Brunello Cucinelli	Chairman and CEO	01-Jan / 31-Dec	a) b)	804,001	-	-	-	-	-	**804,001**
Moreno Ciarapica	Director	01-Jan / 21-May	b)	1,600	-	-	-	-	-	**1,600**
Riccardo Stefanelli	Director and CEO	01-Jan / 31-Dec	a) b)	156,397	-	-	300,000	-	-	**456,397**
Luca Lisandroni	Director and CEO	01-Jan / 31-Dec	a) b)	156,397	-	-	300,000	-	-	**456,397**
Giovanna Manfredi	Director	01-Jan / 31-Dec	a) b)	3,600	-	-	-	-	-	**3,600**
Camilla Cucinelli	Director	01-Jan / 31-Dec	a) b)	3,600	-	-	-	-	-	**3,600**
Carolina Cucinelli	Director	01-Jan / 31-Dec	a) b)	3,600	-	-	-	-	-	**3,600**
Massimo Bergami	Independent Director	01-Jan / 21-May	b)	11,353	1,951	-	-	-	-	**13,304**
Matteo Marzotto	Independent Director	01-Jan / 21-May	b)	10,553	3,901	-	-	-	-	**14,454**
Candice Koo	Independent Director	01-Jan / 21-May	b)	11,353	975	-	-	-	-	**12,328**
Stefano Domenicali	Independent Director	22-May / 31-Dec	a)	20,697	6,099	-	-	-	-	**26,796**
Anna Chiara Svelto	Independent Director	22-May / 31-Dec	a)	20,697	21,346	-	-	-	-	**42,043**

(In euros)		Year ended 31 December 2020								
Full name	**Office held**	**Term of office**	**Expiry**	**Remuneration**	**Remuneration for committee participation**	**Non-monetary benefits**	**Bonus and other incentives**	**Other remuneration**	**Other remuneration from subsidiaries**	**Total**
Andrea Pontremoli	Independent Director	01-Jan / 31-Dec	a) b)	32,049	12,926	-	-	-	-	**44,975**
Ramin Arani	Independent Director	22-May / 31-Dec	a)	20,697	-	-	-	-	-	**20,697**
Maria Cecilia La Manna	Independent Director	22-May / 31-Dec	a)	20,697	6,099	-	-	-	-	**26,796**
Emanuela Bonadiman	Independent Director	22-May / 31-Dec	a)	20,697	6,099	-	-	-	-	**26,796**

a) With the approval of the 2022 financial statements.
b) With the approval of the 2019 financial statements.
Note that the amounts stated above do not include salaries received as employee income.

The table below summarizes the remuneration paid to the members of the Board of Statutory Auditors for the year ended 31 December 2020.

Board of Statutory Auditors

(In euros)		Year ended 31 December 2020			
Full name	**Office held**	**Term of office**	**Expiry**	**Remuneration**	**Total**
Paolo Prandi	Chairman	01-Jan / 31-Dec	a) b)	61,456	**61,456**
Alessandra Stabilini	Standing Auditor	01-Jan / 31-Dec	a) b)	47,444	**47,444**
Gerardo Longobardi	Standing Auditor	01-Jan / 31-Dec	a) b)	47,444	**47,444**

a) With the approval of the 2022 financial statements.
b) With the approval of the 2019 financial statements.

DISCLOSURE PURSUANT TO ARTICLE 149-DUODECIES OF THE ISSUERS' REGULATION

Type of services *(In thousands of euros)*	**Service provided by**	**Recipient**	**Total fees 2020**
Audit	Auditor of the Parent Company	Parent company	465
Certification 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's auditor	Parent company	-
Sub total			**483**
Audit	i) Network of the parent's auditor	Subsidiary	96
	ii) Other auditors	Subsidiary	78
Sub total			**174**
Total			**657**

BALANCES OR TRANSACTIONS DERIVING FROM ATYPICAL OR UNUSUAL OPERATIONS

Pursuant to Consob Communication no. DEM/6064293 of 28 July 2006, it should be noted that there were no atypical and/or unusual transactions, as defined in said Communication.

Luca Lisandroni
Chief Executive Officer
Markets Area

Cav. Lav. Brunello Cucinelli
Chairman of the Board
of Directors

Riccardo Stefanelli
Chief Executive Officer
Product and Operations Area

CERTIFICATION PURSUANT TO ARTICLE 154-BIS OF LEGISLATIVE DECREE NO. 58 OF 24 FEBRUARY 1998 (CONSOLIDATED FINANCE LAW) AND ARTICLE 81-TER OF CONSOB REGULATION NO. 11971 OF 14 MAY 1999 AS AMENDED

1. Taking into account the provisions of art. 154-bis, paragraphs 3 and 4 of Italian Legislative Decree no. 58 of 24 February 1998, the undersigned Luca Lisandroni, in his capacity as Managing Director of the Markets Area, Riccardo Stefanelli, in his capacity as Managing Director of the Product and Operations Area, and Moreno Ciarapica, in his capacity as Financial Reporting Officer of Brunello Cucinelli S.p.A., hereby certify:
   - 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 1 January 2020 – 31 December 2020.
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 31 December 2020.

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 19 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.

11 March 2021

Luca Lisandroni
Chief Executive Officer
Markets Area

Riccardo Stefanelli
Chief Executive Officer
Product and Operations Area

Moreno Ciarapica
Manager in charge of preparing the
corporate accounting documents

INDEPENDENT AUDITOR'S REPORT

Building a better working world

Brunello Cucinelli S.p.A.

Consolidated financial statements as at December 31, 2020

Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010, and article 10 of EU Regulation n. 537/2014

EY S.p.A.
Via Bartolo, 10
06122 Perugia

Tel: +39 075 5750411
Fax: +39 075 5722888
ey.com

Building a better working world

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

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Brunello Cucinelli Group (the Group), which comprise the consolidated statement of financial position as at December 31, 2020, and the consolidated statement of income, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at December 31, 2020, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005.

Basis for Opinion

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

Key Audit Matters

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

EY S.p.A.
Sede Legale: Via Po, 32 - 00198 Roma
Capitale Sociale deliberato Euro 3.250.000,00, sottoscritto e versato Euro 3.100.000,00 i.v.
Iscritta alla S.O. del Registro delle Imprese presso la C.C.I.A.A. di Roma
Codice fiscale e numero di iscrizione 00434000584 - numero R.E.A. 250904
P.IVA 00891231003
Iscritta al Registro Revisori Legali al n. 70945 Pubblicato sulla G.U. Suppl. 13 - IV Serie Speciale del 17/2/1998
Iscritta all'Albo Speciale delle società di revisione
Consob al progressivo n. 2 delibera n.10831 del 16/7/1997

A member firm of Ernst & Young Global Limited

We identified the following key audit matters:

Key Audit Matter	Audit Response
Recoverability of right-of-use assets	
The Group sells its products via directly operated stores located in the most prestigious streets of the world's main cities. International Financial Reporting Standard 16 - Leasing ("IFRS 16") provides that, for lease agreements as lessee, the lessee records right-of-use assets for liabilities measured by the current value of future non-variable lease payments. Right-of-use assets are subsequently recorded at their cost minus amortisation and impairment. Right-of-use assets as at 31 December 2020 amounted to EUR 470.2 million. The Management monitors the performance trend in terms of individual stores and geographical area and assesses, at least annually, the presence of impairment indicators of right-of-use assets in line with its management strategy and, if any, subjects these assets to impairment tests. The assessment of the recoverability of right-of-use assets was considered a key aspect of the audit, given that it requires the application of a technical and professional judgement by the Management, especially in forecasting the expected profitability of the stores operating in a given country and monitored at this level, which, in turn, is influenced by the forecast of visits and customer spending in local markets, as well as by the assumptions underlying the calculation of the discount rate and final value. On the basis of the assessment carried out by the Management, as at 31 December 2020 no impairment of right-of-use assets was recorded. Note 6.1 ("Impairment") to the consolidated financial statements describes the process for determining the recoverable value of right-of-use assets, the assessment assumptions adopted and the analyses of the recoverable value's sensitivity to changes in the main assessment assumptions. Moreover, in the paragraphs "Updates on the COVID-19 pandemic" and "Foreseeable	In the light of the key aspect, our audit procedures concerned, among others: i) the analysis of the impairment procedure and of the key controls implemented by the Group, including the identification of the impairment indicators relative to stores with unsatisfactory performances and the management's analysis of the expected profitability of stores operating in a given country, as approved by the Board of Directors; ii) the verification of compliance with the IAS 36 "Impairment of assets" international accounting standard; iii) the analysis of the cash flow forecasts relative to the Group's CGUs for which impairment indicators emerged; iv) the verification relative to the determination of the long-term growth rates and of the discount rates; v) the comparison between the forecasts made by the management and the respective past performances; vi) the verification of the assessment assumptions made and of the calculation of the impairment tests defined by the management, also with the aid of our experts in assessment techniques who made an independent recalculation and conducted a sensitivity analysis on the key assumptions in order to determine which changes to the assumptions could significantly influence the assessment of the recoverable value. Lastly, we examined the disclosure included in the financial statements.

2

evolution of activities" of the Management Report, the directors illustrate the impacts relative to COVID-19 and the foreseeable evolution of the company's activities, which the Management took into account in assessing the recoverability of right-of-use assets.

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

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

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

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

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

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

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

- we have identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of

accounting estimates and related disclosures made by the Directors;

- we have concluded on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to consider this matter in forming our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- we have evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- we have obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

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

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

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

Report on compliance with other legal and regulatory requirements

EY
Building a better working world

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

The Directors of Brunello Cucinelli S.p.A. are responsible for the preparation of the Report on Operation and of the Report on Corporate Governance and Ownership Structure of Group Brunello Cucinelli as at December 31, 2020, including their consistency with the related consolidated financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations and of specific information included in the Report on Corporate Governance and Ownership Structure as provided for by article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998, with the consolidated financial statements of Brunello Cucinelli Group as at December 31, 2020 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the Report on Operation and the above mentioned specific information included in the Report on Corporate Governance and Ownership Structure are consistent with the consolidated financial statements of Brunello Cucinelli Group as at December 31, 2020 and comply with the applicable laws and regulations.

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

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

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

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

Perugia, 25th march 2021

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

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