Brunello Cucinelli Group S.p.A.

BRUNELLO CUCINELLI

Report on Operations
for Financial Years 2010 and 2009

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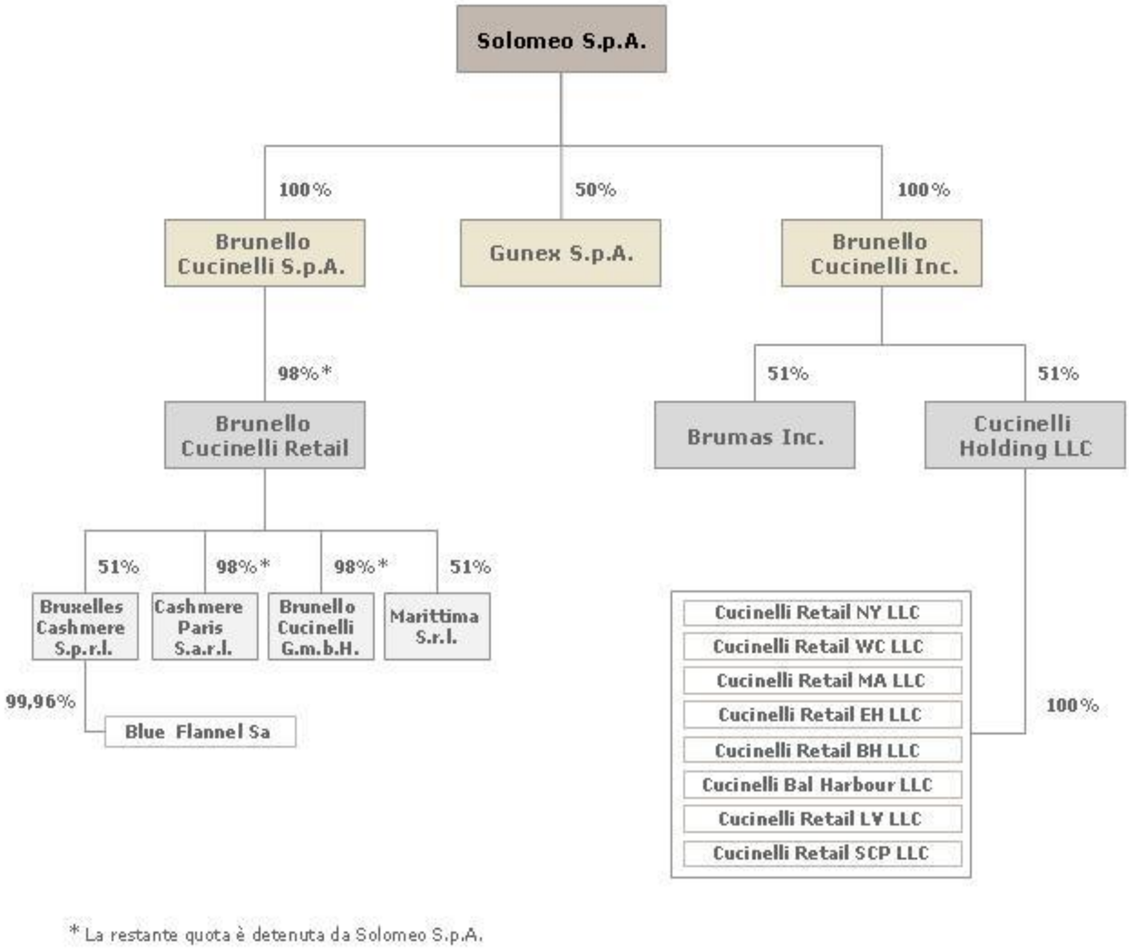
BRUNELLO CUCINELLI GROUP STRUCTURE AS OF 31 DECEMBER 2010



[* The residual quota is held by Solomeo S.p.A.]

The written word has taught me to listen to the human voice, just as the grandiose and flinty sculptures have taught me to appreciate human gestures.
On the other hand, as time goes by, I learned to appreciate the books I read through the lessons of life.

Marguerite Yourcenar, Memoirs of Adriano

In these contemporary times, the conflicts of mankind are exacerbated in our day and age, betraying their intentions as violent racial and religious tensions arise which appear to overshadow us in their dark mood and preclude a brighter future.
But the History of Mankind has demonstrated without exception that negative and worrisome circumstances such as present ones always give rise to the positive and vital forces of a new world, yearned and longed for by us all.
What is happening in the world today, and which is a rapidly growing trend, is right under everyone's nose.
The Western world casts worried glances at the Eastern Islamic world and China.
And while the old continent ponders about adopting political, economic and social strategies, among the skyscrapers of Shanghai and Beijing there is an underlying impetus towards modernity that the West is no longer able to fully understand.
Beijing, with all its charm, is the city I foresee as the future economic and cultural "capital" of the world. As in a game of mirrors, constantly reflecting and changing perspective, which may, actually, force its roots into an age-old civilization such as the Chinese , or look forward to a rapidly changing future.
Everything is moving and evolving so instantaneously that Westerners and Europeans alike, struggle to keep up a pace that may already be lost forever.
To us 21st century Westerners a new world order based on economic and maybe also on cultural imperialism shifting towards the East may seem incredible, but it must just have felt the same for those civilizations who lived through the decline of the Roman Empire, not to mention the former colonies of the British Empire.

Anyone may read the history of mankind as a journey of constant renewal for ethnicities, lineages and nations, seeing integration as the vital force for mankind.
Two thousand years ago, at the far ends of the Eastern and of the Western Eurasian Continent, two great Empires were born, the Qin and Han Dynasty and the Roman Empire, which represented the highest peak of civilization in the ancient world.
In the 3rd century B.C., Rome began its territorial expansion which led to the birth of an empire which would dominate the Mediterranean for over four centuries. In addition to being the acme of the classical Western world, Roman civilization deeply shaped the evolution of the Western world as a whole.
Almost concurrently, in the same period of history in ancient China, the First Emperor unified the so-called fighting kingdoms and founded a unified empire with a centralized government. The successive Han Dynasty consolidated the political system and became a powerful and economically thriving empire. At that time, the Chinese civilization experienced significant growth, making a substantial contribution to the evolution of Eastern civilization.
The Silk Road, starting from the 2nd century B.C., connected two great empires whose civilizations could then interrelate, thereby greatly influencing the overall progress of mankind.

The convergence of diversities can only be implemented by an effort which draws strength from a people's myths. This is exactly what enabled Arab philosophers to become masters of knowledge in the Western World, or Eastern doctors to treat the wounds of their Crusader "enemies", Italian architects to build Saint Petersburg, Italian to become the language of great art and great music and French the language of court, and for scholars, philosophers, doctors and scientists everywhere to be free to move about and express themselves.
Following in the footsteps of history, we are now moving forward on the path of human civilization. In ancient times, both the Qin-Han Dynasty and the Roman Empire achieved great things and they continue to exert a strong influence on contemporary civilization. While in ancient times the two great civilizations interacted closely, we trust that today, Eastern and Western cultures will be able to collaborate following the humanist principle of unity in diversity.

INTRODUCTION

The publication of the consolidated financial statements of the Brunello Cucinelli Group, for financial years ended on 31 December 2010 and 2009, was authorized by the Board of Directors on 20 June 2011.

IFRS COMPLIANCE

The consolidated financial statements of the Brunello Cucinelli Group was drafted according to IFRS criteria, exercising the right provided by Article 3, paragraph 2, of Italian Legislative Decree no. 38 of February 28, 2005. This report, provided with the consolidated financial statements ended on 31 December 2010 and 2009 provides information disclosure on the Group financial position, as well as the Group operating performance for financial years 2010-2009.

1 January 2008 was the IFRS transition date and IFRS first complete financial statement, is the balance sheet for financial year ended on 31 December 2010 taking advantage of the right allowed by Legislative Decree 38/2005.

With reference to each period, the purpose of numerical information provided in this Report and accompanying comments , is to provide the Group economic and financial picture of the relevant changes between the periods of reference, as well as any significant periodic occurrence, which affected period results.

OPERATING CONDITIONS AND DEVELOPMENT ACTIVITIES

The Brunello Cucinelli Group is actively involved in the creation, production and retail sale of luxury clothing and accessories, and is more specifically positioned in the segment of absolute luxury. The Brunello Cucinelli Group started its activity by the production of cashmere knitwear and currently offers a casual-chic total-look luxury collection. Through to 31 December2010 the Brunello Cucinelli Group offered its own line with the Brunello Cucinelli brand, Gunex (trousers and skirts for womenswear) and Rivamonti (wool and cotton knitwear, t-shirts and shirts). During the first semester of financial year 2011, the Group started offering its full product line under the Brunello Cucinelli unified brand.

The Brunello Cucinelli Group markets its product lines via single-brand stores managed directly or as franchises, at prestige locations and also at selected department stores for the wholesale multibrand channel. The Group is also present in over 50 countries with a network of 18 DOS, 33 single-brand franchise stores and a network of over 1,000 multibrand stores, comprising 170 own areas within stores.

Products Offered

The total-look clothing offer comprises knitwear, leather, t-shirt, shirts, pants and skirts, dresses, outerwear and sport clothing for menswear and womenswear.
Revenue percentage from the sale of womenswear clothing and accessories on Net Revenue is respectively for 70% and 69% for financial years 2010 and 2009.

Furthermore, the offer comprises clothing accessories such as bags, shoes, belts, hats and wallets. During the two-year period, we observe a percentage increase of revenue from the sales of accessories on Brunello Cucinelli Group Net Revenue, consistent with the development strategy for the accessories line (10% for financial year 2010 and 7% for financial year 2009).

Revenue Seasonality

The market for the Brunello Cucinelli Group is characterized by seasonal phenomena, which impact on the Group's financial performance.

The seasonality phenomena is linked to sales criteria for the overall sales of wholesale single-brand and wholesale multibrand, with a concentration of revenue in the first and third quarter of each financial year; sales are indeed concentrated in the months of January-March for the Spring/Summer collection and June-September for the Fall/Winter collection.

As regards the retail channel, in the second year-half for each financial year, Group sales produce a revenue concentration, mainly in sales of products with a higher unit retail value.

In light of the above, the Group half-year performance may not be consistent with the economic and financial performance for each financial year.

With reference to the above trends, note that the value of inventory stock is higher in the months of June and December on account of the production cycle of Fall/Winter and Spring/Summer collections respectively.

Exchange Rate Differences

Despite its substantive international markets operations, also via companies located in countries with currencies other than the Euro, the Brunello Cucinelli Group revenue is primarily in Euros . Sales in currencies other than Euro are primarily sales from the United States in US Dollars, and as such the Group is exposed to currency exchange risk.

In order to contain currency exchange risk exposure arising from its sales activities, the Brunello Cucinelli Group stipulates derivatives contracts (foreign currency forward contracts) in order to define the conversion rate in advance, or a predefined conversion rates range for future dates.

Term cover, with a term life in line with the business cycle, is taken out in order to cover projected future sales in relation to the listed currency exchange rate established for the different sales seasons.

The purpose of the above financial cover policy for Brunello Cucinelli is that company operating income be unaffected by currency exchange rates fluctuations for the period between the time of term contracts stipulation and the time of invoicing a and payment .

The Brunello Cucinelli Group Net Revenue increased from € 158,135 thousand for financial year 2009 to € 203,599 thousand for financial year 2010, the EBITDA increased from € 14,740 thousand, equal to 9.3% of net revenue for financial year 2009, to € 23,967 thousand, equal to 11.7% of net revenue for financial year 2010. Financial year net revenue increased from € 5,526 thousand, equal to 3.5% of net revenue for financial year 2009, to € 11,436 thousand, equal to 5.6% of net revenue for financial year 2010.

During financial year 2010, the Brunello Cucinelli Group maintained its consolidation strategy in the national and international markets.

In this connection, 5 DOS were opened in Italy, Europe and in the USA. In particular, the combined effect of the launching of new stores and increased Net Revenue from already consolidated stores resulted in a 73.0% revenue increase from stores managed directly for financial year 2010, a net revenue increase of € 19,494 thousand to €33,721 thousand.

Regarding the wholesale single-brand channel, the Brunello Cucinelli Group launched 8 DOS in Europe, in the Greater China area and worldwide. Financial year 2010 revenue generated from the sector increased by 54.2% in relation to the previous financial year, from €12,904 thousand to €19,899 thousand.

The development of the wholesale multibrand channel, which in 2010 had a net revenue increase of 19.3% (from €125,737 thousand to €149,979 thousand), came about through an increased number of distribution portals, while still keeping a close eye on their selections and via larger and better located sales display area within the stores with which they are already affiliated as clients because of greater brand recognition by the clientele.

The key drivers behind improved net revenue and EBITDA in 2010, are as follows: (*i*) higher percentage incidence on total Net Revenue of sales revenue from the retail channel (16.6% in 2010; 12.3% in 2009) and (*ii*) increased turnover from the higher incidence of Brunello Cucinelli brand name products sold.

STRATEGIC PLAN FOR 2011

At the end of 2009, after a two-year transition and restructuring period of the economic, ethical and civil world stage, a five-year plan was outlined: 2010-2014.

2010 was the actual year of new inception; 2011 will be the second year of implementation and consolidation of established strategies.

The business system of fashion and luxury has changed over these last years, becoming the engine for the global industry articulated between worlds, markets and brands that are very different from one another. This scenario has progressively widened in scope with the coming into play of new markets such as China and India.

It is true that emerging markets are becoming some of our main consumers of luxury products, but times do not seem to be ripe yet for their becoming manufacturers of them as well.

Whereas fashion generally is contingent on seasons and changes every year , luxury stands alone in time and is grounded on a solid tradition. The process of turning a brand into a luxury brand is complex and requires years and years of experience, history and tradition.

The brand is therefore the most precious asset of any company operating in the luxury industry, but owning a brand is just the start.

The product

First and foremost, a luxury brand must never compromise on quality: quality, high craftsmanship and creativity are unique and inextricable features of a product that may be defined as “high end”. Our production, only made in Italy since the beginning, relies heavily on the skilled craftsmanship of its workforce.

Today, just as in our early days nothing is left to chance. However, our most important feature is probably our capacity for innovation.

The most difficult part is maybe the part that depends least on programming: creativity. In our company, creativity is in the hands of a dedicated team who work on the collection together and whose numbers have been expanded this last year.

The range of products comprising the Brunello Cucinelli total look, is clearly identified as a sport-chic line, which is now basically fully complete except for an eyewear line and a perfume line. The accessories division is of great relevance to the brand, and complete bag, shoe and jewellery collections have been created and are highly appreciated by our clients.

In these last years, the company has dedicated much effort to visual merchandising to reinforce the idea of a Cucinelli brand flavour at single-brand and multibrand sales points, exporting a true lifestyle globally. Major investments have been and are still made in this sector where growth is expected to continue for the next few years.

Communication

If we were to take a snapshot of our company today, we might very well say that we have consolidated our brand position at the international level, not only in the world of fashion, but also in the overall entrepreneurial world.

Between the end of 2009 and early 2010, the Brunello Cucinelli Group received important awards, both national and international: following the Leonardo Italian Quality Award and the Entrepreneur of the Year Award in May 2010, the Italian President made Brunello Cucinelli a Cavaliere del Lavoro, a highly prestigious recognition; in November, the Department of Literature and Philosophy at the University of Perugia awarded Brunello Cucinelli an Honorary Degree (laurea honoris causa) in the Philosophy and Ethics of Human Relations.

The world press also showed us a great deal of attention, giving pride of place not just to our collections, but also our “authentic” way of doing business.

In 2010, we felt it appropriate to internalize press office services, establishing a suitable internal company staff with registered offices at our new showroom in Milan, interfacing with the staff of our New York subsidiary and directing press office management worldwide: Germany, France, Russia, Japan, Korea, Hong Kong, Mexico and most recently China.

The introduction of a new agency in the United Kingdom had already been scheduled for 2011. And so there will be 11 press agencies whose role is to transmit some of the traditions and the "Solomeo culture" in a somewhat "special" way, so that our message will stand out from the crowd.

Distribution

According to recent studies, the luxury pyramid is divided into three segments:

- the top, namely, the smallest yet higher level of "Absolute" Luxury;
- the centre segment of Aspirational Luxury;
- the base (namely, the widest segment) of Accessible Luxury.

Leading industry experts recently placed Brunello Cucinelli precisely in this small, yet prestigious, segment of absolute luxury.

As such the attention to product quality and innovation and to a correct and targeted distribution policy is increasingly significant, via the best multibrand stores in the world and the most prestigious department stores, which often designate prominent and important areas to our brand.

The growth of our single-brand stores is proceeding according to schedule, for a total of 40 stores at the end of 2010 which will become more than 60 by the end of 2011. Our growth is now focused on these areas able to narrate our collections as well as the Solomeo philosophy.

Major investment is anticipated for the acquisition of showroom space in the most exclusive shopping streets worldwide and many of these areas will be directly managed. The door to the East door was already opened in 2010, with the launch of the first three stores in China, which will be followed by many other store openings.

Training

The Brunello Cucinelli Group comprises about 600 creative spirits, each contributing its own share of genius. Our role is to organize available genius so as to optimize the characteristics and abilities of each single individual.
Today the Brunello Cucinelli Group has 600 employees, more than double its 2008 workforce. Sustaining growth primarily means having the human resources available. Young men and women to be trained in the same exact manner and along the lines of our original founding unchanged since we first started our small business back in 1978.

ANALYSIS OF OPERATING INCOME AS OF 31 DECEMBER 2010 AND 2009

The table below provides a comparative analysis of economic data for financial years ended on 31 December 2010 and 2009.
The table below itemizes the main company income data:

(In thousands of Euro)	**Financial Year Ended on 31 December**	
	2010	**2009**
Net Revenue	203,599	158,135
of which related parties	*24*	*12*
Other operating income	819	509
of which related parties	*67*	*66*
Revenue from Sales and Services	**204,418**	**158,644**
Costs of raw materials, auxiliaries and consumables	(49,277)	(35,103)
of which related parties	*(46)*	
Costs for services	(103,349)	(87,536)
of which related parties	*(2,667)*	*(3,005)*
Personnel Costs	(25,590)	(20,057)
of which related parties	*(102)*	*(71)*
Other net operating (costs)/revenue	(1,809)	(1,171)
Increases in fixed assets for own work	191	177
Amortizations and Depreciations	(3,840)	(3,250)
Assets value adjustments and other provisions	(617)	(214)
Total Operating Costs	**(184,291)**	**(147,154)**
Operating Income	**20,127**	**11,490**
Financial Charges	(4,004)	(4,098)
Financial proceeds	1,746	1,503
Profits before taxes	**17,869**	**8,895**
Income Taxes	(6,433)	(3,369)
Net Financial Year Profits	**11,436**	**5,526**
Third-party Profits	**1,860**	**630**
Group Profits	**9,576**	**4,896**
Basic and Diluted Earnings per share (in Euro)	**208.17**	**106.43**

Total Consolidated Income Statement for financial years ended on 31 December 2010 and 2009.

(In thousands of Euro)	**Financial Year Ended on 31 December**	
	2010	**2009**
FINANCIAL YEAR NET REVENUE	**11,436**	**5,526**
Other Overall Income Statement Components:		
Cash flow Edge Reserve	(20)	(23)
Income Taxes	6	6
Cash flow edge reserve variation effect	**(14)**	**(17)**
Foreign Balance Sheets Conversion Difference	24	(25)
Total Other Profits/(Loss) Net of Taxes	**10**	**(42)**
Total Overall Profit (Loss) Net of Taxes	**11,446**	**5,484**
Ascribable to:		
Holding Company Shareholders	9,570	4,846
Minority Shareholders	1,876	638

The table below contains a restatement of economic data showing the performance of the operating profitability indicator EBITDA.

	Financial Year Ended on 31 December				Change over the year	
(In thousands of Euro)	**2010**	**% on revenue**	**2009**	**% on revenue**	**2010 vs 2009**	**2010 vs. 2009 %**
Operating Income	20,127	9.8%	11,490	7.2%	8,637	75.2%
+ Depr. + Amort.	3,840	1.9%	3,250	2.0%	590	18.2%
EBITDA (*)	**23,967**	**11.7%**	**14,740**	**9.3%**	**9,227**	**62.6%**

(*****) EBITDA comprises operating income gross of amortisations. EBITDA defined above represents a measurement method applied by the Company management to monitor and assess the Company operating performance. EBITDA is not identified as an accounting measurement within the scope of IFRS and, therefore, is not considered an alternative measurement for the assessment of the Group operating income. Since the EBITDA composition is not governed by reference accounting principles, the assessment criteria applied by the Group could be at variance from the criteria adopted by other companies and as such may not be comparable.

Profits analysis of operating costs and of the Group operating results, for financial years ended on 31 December 2010 and 2009

Below is a comparative synthesis of economic data for financial years ended on 31 December 2010 and 2009.

2010 vs 2009

Revenue from Sales and Services increase from €158,644 thousand in 2009 and €204,418 thousand in 2010, for a total increase of €45,774 thousand, corresponding to 28.9%. In particular, the above increase is primarily the result of Net Revenue, meaning billings for the sales of items of clothing and accessories, increasing from €158,135 thousand in 2009 and €203,599 thousand in 2010, for a total increase of €45,464 thousand, corresponding to 28.8%.

The factors determining sales performance Revenue growth in relation to the previous financial year are as follows:

- increased Net Revenue from the retail channel (+ €14,227 thousand, equal to + 73.0% compared to the previous financial year), the direct result of the opening of 5 new DOS, which contributed about €9,541 thousand to Net Revenue for the financial year and for the development of prior financial years;

- increased Net Revenue from the wholesale single-brand channel (+ €6,995 thousand, equal to a 54.2% increase from the prior financial year), on the one hand, because of improved performance of existing stores and, on the other hand, because 8 new stores were opened;

- increased Net Revenue from the wholesale multibrand channel (+ €24,242 thousand, equal to a 19.3% increase from 2009), on account of: (i) new location expansion in the European, North American and Asian markets; (ii) increased department stores portals through which the Group was already distributing its own products; (iii) wider and better located showroom space in store thanks to clients brand consolidation.

Percentage incidence of Brunello Cucinelli Group Net Revenue in 2010 via the retail channel on total Net Consolidated Revenue increased by 12.3% of financial year 2009 at 16.6% of financial year 2010; on the basis of higher retail channel margins in relation to the wholesale channel, contributed to improved EBITDA and Operating Income (in 2010 respectively for 11.7% and for 9.8% of Net Revenue against 9.3% and 7.2% of prior financial year).

Net Revenue quota created by the Brunello Cucinelli Group via its North America sales, originated in US Dollars, was 23.8% of Net Revenue for financial year 2010 (19.0% for financial year 2009); in 2010 the US Dollar appreciated by 5.1% against the Euro compared to the prior financial year, with a positive effect on the Brunello Cucinelli Group revenue. Registered variation for net revenue collected in US Dollars for financial year ended on 31 December 2010 in relation to financial year ended on 31 December 2009 at current exchange rates and at constant exchange rates of +61.2% and +52.9%.

Operating Costs for financial year 2010 came to €184,291 thousand with a 90.2% incidence on Revenue from Sales and Services (€147,154 thousand for financial year 2009, equal to 92.8% of Revenue from Sales and Services).

For a correct interpretation of the Operating Costs data, the percentage incidence of the Cost of raw materials, consumables and of costs incurred for external manufacturing in relation to Revenue from Sales and Services, should be duly taken into account. It will be noted that the effect of fashion trends for certain years and/or seasons, requires the production of garments using a high volume of raw materials but fewer production stages and, therefore, lower labour cost incidence, whereas for other financial years and/or seasons the product range needs lower amounts of raw material and the lower cost is offset by a higher proportional cost of manufacturing because of the use of finer yarns.

The table below outlines the combined analysis of Costs by raw materials and consumables of costs for outsourcing, for financial years 2010 and 2009 in relation to revenue from sales and services.

	Financial Year Ended on 31 December				**Change over the year**	
(In thousands of Euro)	**2010**	**% on revenue**	**2009**	**% on revenue**	**2010 vs. 2009**	**2010 vs. 2009 %**
Costs for raw materials and consumables	49,277	24.1%	35,103	22.1%	14,174	40.4%
Outsourcing	59,219	29.0%	52,817	33.3%	6,402	12.1%
Total	**108.496**	**53.1 %**	**87,920**	**55.4%**	**20,576**	**23.4%**

Taking the trend of these cost items together, note that the combined incidence of these two cost components on Revenue from Sales and Services appears to be decreasing in relation to the prior financial year (53.1% in 2010 and 55.4% for 2009). The decrease is primarily due, as stated above, to changing fashion trends requiring the production of garments using different raw materials and production stages, as well as gradual assimilation of the Rivamonti brand (featuring lower margins in relation to Group average and constant turnover over the different periods) for the Brunello Cucinelli brand since financial year 2010.

Operating Income increases from €11,490 thousand in 2009, to €20,127 thousand in 2010, with an increase of €8,637 thousand, equal to 75.2%; in terms of percentage incidence on Revenue from Sales and Services, Operating Income indicates a significant improvement increased from 7.2% for financial year 2009, to 9.8% for financial year 2010.

Depreciation and amortization (€3,840 thousand in 2010 and €3,250 thousand in 2009) is respectively equal to 1.9% and to 2.0% of Revenue from Sales and Services of reference; the increase in this item is allocated to Key Money paid for the taking over of contractual positions pertaining to new single-brand stores (for a total of €1,740 thousand) and to investments made for the opening of new directly-managed stores in the United States and Europe.

EBITDA increases from €14,740 thousand in 2009, to €23,967 thousand in 2010, with an increase of €9,227 thousand, equal to 62.6%; in terms of percentage incidence on Revenue from Sales and Services, EBITDA increased from 9.3% for financial year 2009, to 11.7% for financial year 2010.

ANALYSIS OF THE COMPANY ECONOMIC AND FINANCIAL REPORT AS OF 31 DECEMBER 2010 AND 2009

Analysis of Company Economic and Financial Report as of 31 December 2010 and 2009

Please find below the reclassified "Sources and Uses" table of the company economic and financial status as of 31 December 2010 and 2009:

	As of 31 December	
(In thousands of Euro)	**2010**	**2009**
USAGE		
Net Working Capital (1)	43,114	46,522
Fixed assets and other long-term activities	44,745	41,078
Long-term liabilities	(2,588)	(2,621)
Net Invested Capital (2)	**85,271**	**84,979**
SOURCES		
Net Financial Debt (3)	52,825	60,793
Net Equity	32,446	24,186
Total Financing Source	**85,271**	**84,979**

(1) Net Working Capital is calculated as working capital net of current liabilities, except for financial assets and liabilities. IFRS does not specify net working capital as the accounting measure. Please note that it was established in compliance with provisions set forth in CESR Recommendation 05-054/b of 10 February 2005 "Recommendations for the consistent implementation of the EU Regulation on Prospectus". Brunello Cucinelli assessment criteria may not be consistent with the criteria adopted by other groups and, therefore, Brunello Cucinelli may not produce a balance similar to the balance produced by said groups.
(2) Net Invested Capital is calculated as net working capital, fixed assets and other activities, long-term and net of long-term liabilities. IFRS does not specify net working capital as the accounting measure. Brunello Cucinelli assessment criteria may not be consistent with the criteria adopted by other groups and, therefore, Brunello Cucinelli may produce a balance different to the balance produced by said groups.
(3) Pursuant to CONSOB communication no. DEM/6064293, of 28 July 2006, note that net financial debt is calculated as the sum of available liquidity and equivalent means, of current financial assets, of non-current financial liabilities, for a fair value of coverage financial instruments and of other non-current financial assets, was established in compliance with CESR Recommendation 05-054/b of 10 February 2005 "Recommendations for the consistent implementation of the EU Regulation on Prospectuses".

<u>Net Working Capital</u>

The table below itemizes net working Capital for financial year ended on 31 December 2010 and 2009.

	As of 31 December	
(In thousands of Euro)	**2010**	**2009**

Trade Receivables	47,624	41,788
Unsold Stock	48,271	47,044
Trade Payables	(43,981)	(37,140)
Other working assets/(liabilities)	(8,800)	(5,170)
Net Working Capital [1]	**43,114**	**46,522**

[1] Net Working Capital is calculated as current assets net of current liabilities, excluding financial assets and liabilities. IFRS does not specify net working capital as the accounting measure Please note that it was established in compliance with the provisions of CESR Recommendation 05-054/b of 10 February 2005 "Recommendations for the consistent implementation of EU Regulation on Prospectuses". Brunello Cucinelli's assessment criteria may not be consistent with the criteria adopted by other groups and, therefore, Brunello Cucinelli may produce a balance different to the balance produced by said groups.

During the two-year period 2010-2009, the Brunello Cucinelli Group succeeded in keeping net working Capital constant or lower, with constant growth of revenue from sales and services, based on the capacity to increase financial flows generated by operating activities in respect to increased turnover.

31 December 2010 vs 31 December 2009

Net working capital As of 31 December 2010 presents a decrease of €3,408 thousand with respect to the prior financial year (€43,114 thousand as of 31 December 2010; €46,522,000 thousand as of 31 December 2009). Compared to 31 December 2009 increased trade receivables (€5,836 thousand) and unsold items (€1,227 thousand), which appears to only have been partially offset by increased Trade payables (€6,841 thousand) and net balance of other working assets and liabilities (€3,630 thousand). The main factors contributing to this trend are summarized below:

- Trade receivables (+14.0%) are up on the previous financial year by a ratio lower the increase in turnover (+28.9%), highlighting improved average collection days, decreasing from 93.8 in 2009 to 78.7 in 2010. Therefore, commercial Credits incidence as of 31 December 2009 and as of 31 December 2010 on revenue from sales and services for financial years ended on the same date respectively was down from 26.3% to 23.3%, confirming Group capacity to increase cash flow with increased revenue. Contractual conditions agreed with main clients and distributors usually provide for a 30 to 60 payment period, up to 90 to 120 days for some European countries including: Italy, Spain and France.

- Unsold items, which as of 31 December 2010 should include down payments to suppliers for €285,000 (€1,373 thousand as of 31 December 2009), show a gain (+2.6%) which is less than the proportion of increased volume of activities and Net Revenue. Average turnaround days for unsold items decrease from 101.6 in 2009 to 84.0 in 2010. At 31 December 2009 and at 31 December 2010 the incidence on Revenue from Sales and Services for financial years ended on those dates, decreases respectively from 29.7% to 23.6%;

- Trade payables increase by 18.4% in line with the registered operating costs increase, following increased activity volume registered in 2010. The average payment days for financial year 2010 is down from 102.5 in 2009 to 95.7 in 2010.

- Other current net assets and liabilities increased from negative €5,170 thousand for financial year ended on 31 December 2009 to negative €8,800 thousand for financial year ended on 31 December 2010. Increased net liabilities in relation to 31 December2009, appears to be primarily ascribable to increased current liabilities (€3,394 thousand), as a result of increased turnover on the wholesale multibrand channel (+19.3%) and on the wholesale single-brand channel (+54.2%).

Fixed assets and other long-term assets

The table below itemizes fixed assets and other long-term assets for financial year ended on 31 December 2010 and 2009.

	As of 31 December	
(In thousands of Euro)	**2010**	**2009**
Intangible Assets	9,095	8,233
Property, Equipment and Machinery	34,537	32,102
Other non-current assets	1,113	743
Fixed Assets and other long-term assets	**44,745**	**41,078**

31 December 2010 vs 31 December 2009

Fixed assets and other long-term assets increased by €3,667 thousand from €41,078 thousand to €44,745 thousand. The main factors contributing to such growth are summarized below:

- increased Intangible Assets (€862 thousand) due to the combined effect of investments for that period, primarily comprising Key money paid by the Brunello Cucinelli Group for the contractual positions sub-lease relating to single-brand stores (for a total of €1,588 thousand), only partly offset by term depreciations and amortizations;

- increased Property, Equipment and Machinery (€2,435 thousand) as a result of term increases primarily pertaining to investments for improvements on third-party assets during the opening and expansion of new stores (5 directly managed stores, 8 franchise stores), as well as improvements to real estate property owned by the Group (factories in Solomeo);

- increased other non-current activities (€370 thousand) primarily pertaining to larger down-payments concurrently to lease contracts stipulation for single-brand stores opened during financial year 2010.

Long-term liabilities

The table below itemizes long-term liabilities for financial year ended on 31 December 2010 and 2009.

	As of 31 December	
(In thousands of Euro)	**2010**	**2009**
Liabilities for personnel benefits	2,404	2,511

Provision for risks and charges	930	739
Deferred Tax Liabilities/(assets)	(1,263)	(1,029)
Other non-current liabilities	517	400
Long-term liabilities	**2,588**	**2,621**

31 December 2010 vs 31 December 2009

The item Liabilities for personnel benefits decreases by €107 thousand (€2,404 thousand as of 31 December 2010 versus €2,511 thousand as of 31 December 2009), primarily due to the effect of benefits issued during financial year 2010 (€196 thousand).

The Provision for risks and charges increases by €191 thousand, from €739 thousand as of 31 December 2009 to €930 thousand as of 31 December 2010 due to the combined effect of reserves (€324 thousand) and usage (€133 thousand) registered for financial year 2010.

The net balance for deferred tax liabilities/(assets) increases from €1,029 thousand to €1,263 thousand, primarily due to the effect of increased taxation calculated on margin write-offs for unsold items transferred between the Group companies.

The item Other non-current liabilities increased from €400 thousand to €517 thousand, for a registered increase equal to €117 thousand for higher amounts due after 12 months, payable to Brunello Cucinelli single-brand stores lessees in the United States, by virtue of the standardization of lease instalments as per IAS 17 .

Net Financial Debt

The table below itemizes the Net Financial Debt item breakdown as of 31 December 2010 and 2009 in compliance with CESR recommendation of 10 February 2005 "Recommendations for the consistent implementation of the EU Regulation on Prospectus".

	Financial Year Ended on 31 December	
(In thousands of Euro)	**2010**	**2009**
A. Cash flow	(148)	(123)
B. Other liquid assets	(6,812)	(3,160)
C. Liquidity (A)+(B)	**(6,960)**	**(3,283)**
Derivatives – non-hedging component	-	-
Other financial assets	(1)	(105)
D. Current financial credits	**(1)**	**(105)**
E. Current bank debts	30,774	34,061
F. Derivatives – non-hedging component	-	-
G. Other current financial debts	434	182
H. Current Debts (E)+(F)+(G)	**31,208**	**34,243**
I. Current Net Financial Debt (H)-(D)-(C)	**24,246**	**30,855**
J. Non-current Financial Debt	28,304	29,683
K. Derivatives instruments – non-hedging component	-	-
M. Other non-current debt	275	255
N. Non-current Financial Debt (J)+(K)+(M)	**28,579**	**29,938**
O. Net Financial Debt (I)+(N)	**52,826**	**60,793**

As of 31 December 2010 the financial debt for the Brunello Cucinelli Group decreases by €7,967 thousand in relation to 31 December 2009 as a consequence of the cash flows generated by operating activities and decreased Net Working Capital.

Net Equity

The table below itemizes Net Equity for financial years ended on 31 December 2010 and 2009.

	As of 31 December	
(Thousands of Euro)	**2010**	**2009**
Share Capital	4,600	4,600
Reserves	13,221	10,776
Operating Income	9,576	4,896
Third-party equity and profit / (loss)	5,049	3,914
Net Assets	**32,446**	**24,186**

As of 31 December 2010 and 2009, Share Capital is €4,600 thousand, fully paid-up, and comprising 46,000 shares at a par value of €100 each.

Third-parties profits/(loss) pertain primarily to third-party equity share and shareholders' results, primarily pertaining to subsidiary companies. More specifically, Gunex S.p.A. third-party profits and assets amounts to €4,181 thousand in 2010 and €3,839 thousand in 2009; Cucinelli Holding Co. LLC third-party profits and assets amounts to €323 thousand in 2010, while the company had a deficit for €433 thousand in 2009. It is noted that the loss registered for financial year 2009 by Cucinelli Holding Co. LLC, is assignable to the start-up company.

The only significant net asset variation for the financial years under review, pertains to the activity connected to the exercise and distribution of dividends.

Economic and financial indicators for financial year ended on 31 December 2010 and 2009.

The table below itemizes the main economic and financial indicators for the Brunello Cucinelli Group for the terms under review.

Profitability Indexes

The table below outlined the main profitability indexes for financial years ended on 31 December 2010 and 2009.

	As of 31 December	
	2010	**2009**
ROE - *Return on Equity / Net average financial year assets*	40.4%	25.0%
ROI - *Return on Investment / Net average financial year invested capital*	23.7%	13.7%
ROS - *Return on Sales / Revenue from sales and services*	9.8%	7.2%
ROA – *Return on Assets net for the financial year / Total Assets*	7.3%	3.9%

Assets Turnover – *Revenue from sales and services / Financial year average net Capital invested*	2.4 times	1.9 times

2010 vs 2009

In 2010, the Brunello Cucinelli Group ROE improves due to increased Net Profits.

In 2010, the ROI improves due to increased Group operating income, while net invested capital remains substantially stable.

In 2010, ROS increases primarily due to improved operating income.

In 2010, the Group ROA improves due to the Group's increased Net Profits.

In 2010, assets turnover reports an improvement ascribable to increased revenue from sales and services which is more than proportional to the increased average net capital invested for the financial year.

Capital Indexes

Solid Financial Position Index

Solidity analysis targets the assessment of the Brunello Cucinelli Group's capacity, for middle to long-term period, to maintain a constant balance between outbound cash flows for the repayment of sources, and inbound cash flows from cash recovery of usages, so that the economic balance of the operating results will not be compromised

	As of 31 December	
	2010	**2009**
Ratio – *Net Equity / Total Assets*	20.6%	17.3%
Ratio – *Total Current Assets / Total Current Liabilities*	120.4%	119.1%
Primary Capital Assets - *Net Equity / Fixed-assets and other long-term activities*	72.5%	58.9%
Secondary Capital Assets - *(Net Equity + Non-current Financial Debt) / Fixed-assets and other long-term assets*	136.4%	131.8%
Availability Index – *Total Current Assets / Total Current Liabilities*	1.2 times	1.2 times

The ratio between Net Assets and Net Liabilities improves in the two-year period as a result of increased Net Assets in a ratio that is more than proportional to Total Assets.

The ratio between Total Current Activities and Total Current Liabilities outlines improved Group capacity to generate cash flows from operating activities.

The primary capital assets margin improves in the two-year period as a result of increased Net Assets in a ratio that is more than proportional to Fixed Assets and other long-term assets.

The availability index appears to be tendentially stable in the two-year period.

Rotation Indexes

	As of 31 December	
	2010	**2009**
Credits Rotation Index – *revenue from sales and services / Average commercial credits*	4.6 times	3.8 times
Commercial Credits Average Days	71.3	93.8
Debts Rotation Index – *(Costs for raw materials and consumables + Costs for services) /Average Commercial Debts*	0.9 times	3.8 times
Commercial Debts Average Payment Days	95.7	100.0
Index of average warehouse deposits – *Unsold items-Down-payments/ Revenue from sales and performance*	84.0 times	101.6 times

The ratio between revenue from sales and services and average commercial credits is increased in the two-year period, highlighting a suitable Group management geared towards cash flow improvement.

Average collection days are shorter in the two-year period, due to reduced average payment times by the clients.

The ratio between the cost of raw materials and services and average commercial debts is shorter in the two-year period as the result of reduced payment times to suppliers.

Average collection days for debts are shorter in the two-year period, due to reduced average debt payment times to suppliers.

Average warehouse inventory for unsold items is reduced during the two-year period, thanks to a more efficient management of stocks.

STATEMENT OF RECONCILIATION BETWEEN NET EQUITY AND FINANCIAL YEAR OPERATING EARNINGS BY THE HOLDING COMPANY AND CONSOLIDATED NET EQUITY AND FINANCIAL YEAR OPERATING EARNINGS

The table below outlines the following Statement of Reconciliation between net equity and holding company operating earnings and consolidated net equity and holding company operating earnings for financial years ended on 31 December 2010 and 2009 (amounts in thousands of Euro):

Amounts in thousands of Euro	**31/12/2010**		**31/12/2009**	
	Result	Net Equity	Result	Net Equity
Holding Company Balance Sheet	1,294	6,963	1,167	8,153
Difference between book value of holdings and equity valuation	11,481	22,942	5,058	12,546
Amortization of consolidation differences	(16)	(48)	(16)	(32)

Holding Depreciation Adjustment	(1,055)	(945)	164	312
Clearance of intragroup transactions effects	(14)	(395)	(378)	(375)
Clearance of intragroup inventory margin	(722)	(1,133)	82	(411)
Dividends Clearance	(1,389)		(1,174)	
Other Transactions	(3)	13	(7)	79
Total accrued by the Group	**9,576**	**27,397**	**4,896**	**20,272**
Third-party Quota	1,860	5.049	630	3,914
Total Consolidated Financial Statement	**11,436**	**32,446**	**5,526**	**24,186**

RESEARCH AND DEVELOPMENT ACTIVITIES

Group research and development activity is an on-going investment at the core of group activities, in order to create new products meeting clients' needs, but also to consolidate the know-how developed overtime.
During the course of the two-year period, the company incurred substantial personnel costs for research and development activities and specifically for the following amounts:

- €2,452,452 for 2009;
- €2,787,693 for 2010.

MAIN RISKS AND UNCERTAINTIES FOR THE GROUP

The Brunello Cucinelli Group is exposed in varying degrees to financial risks connected to core business activity. More specifically, the Group is concurrently exposed to market risk (interest rate risk and currency exchange risk), liquidity risk and credit risk.
Management of financial risks (primarily of interest rate risks) is implemented based on guidelines established by company management. The goal is to guarantee a liability structure that is always balanced with the balance sheet assets composition to maintain suitable equity liquidity.

The financial instruments most used are the following:

- Medium to long-term loans with a multiyear amortization plan, to back fixed-asset investment.
- Short-term loans and bank overdrafts to finance working capital.

The average cost of debt appears to be based on Euribor rates performance at 3 months and at 6 months, plus a spread relying on the financial instrument used and the rating of Brunello Cucinelli.
The Brunello Cucinelli Group uses derivative financial instruments for the purpose of implementing interest and currency exchange rate risk cover transactions.
No derivative instruments negotiation is made for speculative purposes.

Bank Rate Risk

Rate risk sensitivity for the Brunello Cucinelli Group is duly managed in consideration of overall exposure: within the scope of the general policy to optimize financial resources, the Group searches for balance resorting to less burdensome financing.

With reference to market risk due to interest rate fluctuations, the company policy is to cover the exposure of the medium to long-term debt quota. In the management activity of exposure risk, derivative instruments such as interest rate swap are applied (in some cases with a cap limit).

As of 31 December 2010 there appeared to be 10 positions pertaining to bank rate derivatives such as interest rate swap (2 of which with a cap limit) for risk coverage in connection with potential service cost increase of Debts towards banks due to market rates fluctuations. The notional value of said positions was €25.7 million, with a negative counter value of about €432 thousand.

As of 31 December 2009 there appeared to be 6 positions pertaining to bank rate derivative instruments such as interest rate swap for risk coverage in connection to potential service cost increase of Debts towards banks, due to market rates fluctuations. The notional value of said positions was €2.9 million, with a negative counter value of about €35 thousand.

The short-end of the Debt towards banks, primarily used to finance working capital needs, is not subject to interest rate risk coverage.
Bank debt cost is based on Euribor term rate plus a spread contingent on the type of credit line applied. Margins applied are comparable to best market standards. The Brunello Cucinelli Group is exposed to interest rate risk primarily originating in current financial debt.

The Brunello Cucinelli Group's main sources of exposure to interest rate risk are connected to medium and long-term financing and to derivative instruments. In particular, the following could be of potential impact to the Income Statement for financial year 2011 (2010 and 2009 for comparison purposes) related to interest rate risk:

- potential variation of financial charges and differentials pertaining to current derivative instruments during financial year 2010;
- potential variation of current derivative instruments fair value.

Conversely, potential fair value variations of the effective component of current derivative coverage instruments affect Net Equity.

Credit Risk

Credit risk indicates the exposure of Brunello Cucinelli to potential loss arising from non-fulfilment of obligations undertaken by the counterparties.

Brunello Cucinelli Group credit risk exposure pertains solely to sales designated to the wholesale multibrand channel and to the wholesale single-brand channel, which altogether represent about 83.5% of the revenue pool: the remaining business turnover may be referred to retail channel sales, with payment by cash, credit cards or debit cards.

The Brunello Cucinelli Group generally favours clients' business relations with whom the Group has matured a consolidated relationship in time. It is standard Group policy to subject clients requesting extended payment plans credit checks, using both information provided by specialist agencies and through analysis and assessment of data pertaining to established clients performance.

Furthermore, credit balance is constantly monitored during the financial year in order to ensure prompt intervention where necessary and to reduce the risk of potential loss.

Trade receivables are recorded on the balance sheet net of estimated depreciation based on the risk of default by the counterparty, on the basis of available information on client liquidity and historical data.

Liquidity Risk

The Brunello Cucinelli Group manages the liquidity risk via close monitoring of working capital components and, in particular, of credits towards clients and debts towards suppliers.
The Group is committed to generating a consistent cash flow, which may then be used for the necessary payments to suppliers, without compromising short-term treasury balance thereby warding off issues and tensions in current liquidity.

Currency Exchange Risk

The Brunello Cucinelli Group is exposed to exchange rate fluctuation for currencies whose sales to foreign clients (primarily in US Dollars) are regulated. This risk is expressed in the event that the revenue counter value in Euro decreases following unfavourable fluctuations of the currency exchange rate, preventing the achievement of the desired margin.

In order to contain currency-exchange risk exposure arising from its sales activities, the Brunello Cucinelli Group stipulates derivatives contracts (foreign currency forward contracts) so as to define in advance the conversion rate, or a predefined conversion rates range for future dates.

Term cover is taken out at the time of drafting of currencies lists for a season, based on orders received and considering as cover term deadline the date provided for the collection of the relevant sales invoices. In particular, the Group defines sales prices in Euros, setting corresponding prices in US Dollars by applying the exchange rate at term

As of financial year 2010, the Company has adopted a Hedge Accounting Cash Flow for the accounting of derivative contracts negotiated as currency exchange risk coverage related to foreign currency transactions deemed highly likely. Accordingly, the fair value fluctuation component, deemed effective for negotiated derivative instruments as coverage for highly probable foreign currency transactions, is assigned to a dedicated Net Equity reserve. At the time of statement of account of transactions referenced in the coverage herein, amounts set aside as reserve, are recorded on the Income Statement under Revenue. The inefficient component of said fair value change, is instead recorded to the Income Statement under Proceeds and Financial Charges. Fair value fluctuations subsequent to the statement of account of transactions referenced in the coverage herein, in compliance with procedures implemented for the reckoning of covered entries, are recorded in the Income Statement under Proceeds and Financial Charges.

The goal of the company financial policy is that management results are not affected by currency exchange rates fluctuations for the period between the time of term-contracts stipulation and the date of invoicing and collection.

Potential impact on the Income Statement for financial year 2010 (2009 for comparison purposes) related to currency exchange rate risk, are the following:

- Revaluation/depreciation of assets and liabilities entries expressed in foreign currency.
- Fair value change of current derivative instruments for the coverage of assets and liabilities entries expressed in foreign currency.
- Fair value change of the ineffective component of current derivative instruments for the coverage of highly probable transactions in foreign currency.

Potential impact on Net Equity for financial year 2011 (2010 and 2009 for comparison purposes) related to currency exchange rate risk, are the following:

- Fair value change of the effective component of current derivative instruments for the coverage of highly probable transactions in foreign currency.

MANAGEMENT AND COORDINATION ACTIVITIES

For financial years 2010 and 2009, Brunello Cucinelli SpA (the former Solomeo S.p.A.) was subject to management and coordination activity by Fedone S.r.l., holding company.
The Prospectus below provides vital data from the last balance sheet approved by Fedone S.r.l. (amounts in thousands of Euro), drafting according to Italian accounting principles (OIC/Official Italian Accounting Board):

	31/12/2009
STATEMENT OF ASSETS AND LIABILITIES	
ASSETS	
A) Credits towards/shareholders for payments currently due	
B) Fixed Assets	21,919
C) Current Assets	20
D) Accruals and Deferrals	
Total Assets	21,939
LIABILITIES	
A) Net Equity:	
Share Capital	10
Reserves	336
Profits (losses) carried forward	
Profits (losses) for the financial year	903
B) Provisions for risks and charges	
C) Reserve for personnel severance indemnity	
D) Debts	
Towards a single member company	20,678
Towards other entities	13
E) Accrued expenses and deferred income	
Total Liabilities	21,939

	31/12/2009
INCOME STATEMENT	

A) Value of production	
B) Cost of production	(6)
C) Revenue and charges	920
D) Value adjustments of financial assets	
E) Revenue and extraordinary expenses	
Financial year income taxes	(11)
Profit (loss) for the financial year	903

RELATIONSHIPS WITH SUBSIDIARY, AFFILIATED, PARENT AND RELATED COMPANIES

The Prospectuses below itemize the economic and financial relationships with related parties. The companies are shown as related parties because they are directly or indirectly connected to the Group referent shareholders.

The table below itemizes of the economic and financial relationships for the Brunello Cucinelli Group with related parties, as of 31 December 2010 and for financial year ended on that date:

	Financial year ended on 31 December 2010					31 December 2010		
(In thousands of Euro)	**Net Revenue**	**Other operating revenue**	**Charges for raw materials**	**Costs for services**	**Personnel costs**	**Property, Equipment and Machinery**	**Business Credits**	**Business Debts**
Fedone S.r.l.		3						
MO.AR.R. S.n.c.	8		(46)	(34)		1,536		262
AS.VI.P.I.M. Cucinelli Group		3		(432)			4	32
Cucinelli Giovannino				(20)		605		55
Castel Rigone A.S.D.	16	1		(236)			19	
Solomeo Farming Company		1		(6)				1
Max Vannucci S.r.l.		56		(1,889)			1	518
Fedro S.r.l.		3		(50)				
Family of Brunello Cucinelli					(102)			
Total Related Parties	**24**	**67**	**(46)**	**(2667)**	**(102)**	**2,141**	**24**	**868**
Total Consolidated Financial Statement	**203,599**	**819**	**(49,277)**	**(103,349)**	**(25,590)**	**34,537**	**47,624**	**43,981**
Incidence %	*0.01%*	*8.1%*	*0.09%*	*2.58%*	*0.40%*	*6.20%*	*0.05%*	*1.97%*

The table below itemizes of the economic and financial relationships for the Brunello Cucinelli Group with related parties, as of 31 December 2009 and for financial year ended on the same date:

	Financial year ended on 31 December 2009					31 December 2009		
(In thousands of Euro)	**Net Revenue**	**Other operating revenue**	**Charges for raw materials**	**Costs for services**	**Personnel costs**	**Property, systems and machinery**	**Business Credits**	**Business Debts**
Fedone S.r.l.		4						

MO.AR.R. S.n.c.	8		-	(147)		1,123		208
AS.VI.P.I.M. Cucinelli Group	4			(432)			4	81
Cucinelli Giovannino				(27)		551		54
Castel Rigone A.S.D.				(554)				14
Solomeo Farming Company								
Max Vannucci S.r.l.		56		(1,793)			1	542
Fedro S.r.l.		6		(52)				
Family of Brunello Cucinelli					(71)			
Total related parties	**12**	**66**	**-**	**(3,005)**	**(71)**	**1,674**	**5**	**899**
Total Consolidated Financial Statement	**158,135**	**509**	**(35,103)**	**(87,536)**	**(20,057)**	**32,102**	**41,788**	**37,140**
Incidence %	*0.01%*	*12.97%*	*0%*	*3.43%*	*0.35%*	*5.21%*	*0.01%*	*2.42%*

In particular:

- Fedone S.r.l.: the Brunello Cucinelli Group provides administrative services to Fedone S.r.l., holding company, whose recompense as of 31 December 2010 and 2009 amounts respectively to €3 thousand and €4 thousand.

- MO.AR.R. S.n.c.: the item Costs for Services (on 31 December 2010 and 2009 respectively for €34 thousand and €147 thousand) pertains to the acquisition of furnishings materials used to set up exhibitions and trade shows. Furthermore, in 2010 and in 2009, the Group acquired from MO.AR.R. S.n.c. furnishings for the setting up of stores, respectively for a total amount of €1,536 thousand and €1,123 thousand.

- AS.VI.P.I.M. Gruppo Cucinelli: this company provides security surveillance services at the Solomeo premises. Costs incurred by the Group for financial years 2010 and 2009, amount respectively to €432 thousand and €432 thousand.

- Cucinelli Giovannino: the item Costs for services (on 31 December 2010 for €20 thousand and on 31 December 2009) comprises expenses related to ordinary maintenance and repair services for plumbing and air-conditioning works; the item Property, Equipment and Machinery are capitalized for an amount respectively of €605 thousand and 551 thousand as of 31 December 2010 and 2009, costs incurred extraordinary installation and maintenance of the above devices.

- Castel Rigone A.S.D.: the item Costs for Services (on 31 December 2010 and 2009 respectively for €236 thousand and €554 thousand) comprises the acquisition of advertising contributions that the Brunello Cucinelli Group granted to the Castel Rigone Sports Association.

- Max Vannucci S.r.l.: the Brunello Cucinelli Group grants the lease of a company-owned building in Taverne di Corciano (Perugia), for a lease of €56 thousand for each financial year of the two-year period 2009 - 2010; the item Costs for services pertains to expenses incurred by the Group for *façon* activity provided to the related party, which as of 31 December 2010 and 2009 amounts respectively to €1,889 thousand and €1,793;

- Fedro S.r.l.: the item Costs for services comprises costs incurred by the former Brunello Cucinelli S.p.A. the lease of the factory outlet located in Solomeo (€50 thousand on 31 December 2010 and €52 thousand on 31 December2009);

- The Brunello Cucinelli family: the item Personnel Costs comprises payments made to family members of entrepreneur Brunello Cucinelli in the amount of €102 thousand in 2010 and €71 thousand in 2009.

INFORMATION ON PERSONNEL

Workforce numbers

The table below outlines the average number of personnel per category, per year, expressed in terms of full-time workers:

	Financial year ended on 31 December	
	2010	**2009**
Senior and Middle Management	24	17
White-collar workers	228	192
Blue-collar workers	330	302
Total Workforce	**582**	**511**

Increased average number of personnel registered for each financial year of the two-year period 2009-2010 is directly related to the expansion programme undertaken by the Brunello Cucinelli Group.

INFORMATION ON THE ENVIRONMENT

No environmental damages occurred during this financial year.
No definitive sanctions or penalties for environmental offences or damage were imposed on the company during this financial year.

COMPANY-OWNED SHARES AND PARENT COMPANIES SHARES/QUOTA

As of 31 December 2010 Group companies do not own, either directly or via intermediaries, any individual shares, or parent company shares or holdings.

SAFETY IMPLEMENTATION PLAN

Pursuant to Enclosure B, point 26, of Italian Legislative Decree no. 196/2003 - the Code relating to personal data protection, the Board of Directors reports that the Company is in compliance personal data protection regulations as per Legislative Decree no. 196/2003, and the terms and procedures specified. More specifically, the Data Controller updated the Safety Implementation Plan, filed at the company registered office and available for consultation, in compliance with legal requirements (expires 31 March 2011).

KEY EVENTS OCCURRED AFTER THE END OF THE YEAR

In the month of January 2011, the new company “Cashmere Spagna S.L.” was incorporated (2% issued by Solomeo SpA, the holding company, and 98% issued by the new subsidiary company Brunello Cucinelli Retail).

On January 2011, a preliminary agreement was signed for the acquisition of a 51% quota of Max Vannucci S.r.l., operating as *façonista* of the subsidiary company Brunello Cucinelli SpA.

On 8 March 2011, la Fundita S.r.l., owned by Giovanna Manfredi and holder of 50% of share capital of the subsidiary Gunex S.p.A., and Fedone S.r.l., holding company of the Brunello Cucinelli Group, stipulated a sale and purchase agreement, by virtue of which Fundita S.r.l. transferred to Fedone S.r.l. 50% of its shares of Gunex S.p.A. remitting a fee of €13,500 thousand. After this transaction, Brunello Cucinelli owns 50% of Gunex S.p.A. share capital and Fedone S.r.l. owns the remaining 50%.

In June 2011, the former operating company Brunello Cucinelli S.p.A. (hereinafter “Former Brunello Cucinelli S.p.A.”) and of Gunex S.p.A., merged by incorporation into Solomeo SpA and contextual renaming of the latter as Brunello Cucinelli S.p.A..

In June 2011, within the scope of the Group restructuring process, the real estate complex denominated the Arts Forum (Foro delle Arti) was assigned, via a proportional spin-off of Brunello Cucinelli S.p.A. to Parmenide S.r.l., 100% subsidiary company of Fedone S.r.l.. The spin-off operation took place immediately after the merger of the Former Brunello Cucinelli S.p.A. and Gunex S.p.A.. Parmenide S.r.l. is therefore not a part of the Group. Alongside the Arts Forum, Parmenide S.r.l. was assigned the property in Solomeo where the Group activity is concentrated.
The Brunello Cucinelli Group continues to carry on its own activity at the Solomeo site as lessee for the same property.

The merger by incorporation of the operative company Former Brunello Cucinelli S.p.A. and Gunex of Brunello Cucinelli S.p.A., having occurred within the company perimeter for the Brunello Cucinelli Group, does not represent a company merger, pursuant to Revised IFRS3. As it is subject to the subject matter of so-called “under common control” operations, it was recognized in the accounts, as having seamless values in relation to Solomeo SpA consolidated financial statement for financial years ended on 31 December 2010 and 2009, therefore, it had no effect on the consolidated assets and financial structure and on the Group consolidated financial performance.

EXPECTED MANAGEMENT TREND

Data for balance sheet ended on 31 December 2010 outline a positive situation and is a source of great pride to us all.
The above data taken with other elements give us reason to be hopeful for the future of our Company, both in the near future as well as in the medium-term.

The turnover for the first four-months of the year outlines a significant increase in relation to the prior year turnover for the same period of the prior year.
Deliveries are right on time and earlier, as usual, than the industry average and product quality is always very high. On-time deliveries have always been a point of strength for our Company and we know that this topic is always more and more important to clients.
Clients' feedback on the SELLOUT is definitely encouraging. Considering that our multibrand clients worldwide are very high-end clients, they have never let us down through the years and we look to the near future with confidence and renewed hope, as we deem that our policy of close client collaboration and loyalty is rewarded also from a standpoint of credit management, resulting in very limited credit losses.
On the business front, we would furthermore like to point to the continued expansion, ever more consolidated relationships with our clients worldwide and high profile initiatives and great business and image potential.
In conclusion, our expectations for the future are positive and we believe that all the elements are in place for our Group's further consolidation and growth.