*GROUP*

*2016 HALF-YEAR REPORT*

**DIRECTORS' REPORT**

**BASICNET GROUP CONDENSED HALF-YEAR FINANCIAL STATEMENTS AND EXPLANATORY NOTES**

Capitale Sociale Euro 31.716.672,04 i.v.
R.E.A. 631153 della C.C.I.A.A. di Torino
Numero Registro Imprese Torino
Partita I.V.A. e Codice Fiscale 04413650013

# CORPORATE BOARDS of BasicNet S.p.A.

## Board of Directors

| | |
|---|---|
| Marco Daniele Boglione | **Chairman** |
| Daniela Ovazza<br>Franco Spalla | **Vice Chairmen** |
| Giovanni Crespi | **Chief Executive Officer** |
| Paola Bruschi<br>Paolo Cafasso<br>Elisa Corghi [1]<br>Alessandro Gabetti Davicini<br>Renate Marianne Hendlmeier [1]<br>Adriano Marconetto [1]<br>Carlo Pavesio<br>Elisabetta Rolando | **Directors** |

[1] Independent Directors

## Remuneration Committee

| | |
|---|---|
| Carlo Pavesio | **Chairman** |
| Adriano Marconetto<br>Daniela Ovazza<br>Renate Marianne Hendlmeier | |

## Control and Risks Committee

| | |
|---|---|
| Renate Marianne Hendlmeier | **Chairman** |
| Elisa Corghi<br>Adriano Marconetto | |

## Board of Statutory Auditors

| | |
|---|---|
| Maria Francesca Talamonti | **Chairman** |
| Massimo Boidi<br>Carola Alberti | **Standing Auditors** |
| Fabio Pasquini<br>Giulia De Martino | **Alternate Auditors** |

## Independent Audit Firm

**PricewaterhouseCoopers S.p.A.**

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## DIRECTORS' REPORT

The results in the first six months reflect the challenging general economic and geopolitical environment, featuring significant currency volatility and slowing consumption. Against this general backdrop – which to some extent was expected - communication and sponsorship spend was stepped up significantly both in Italy and overseas (+Euro 4.2 million on 2015, +53%), impacting the period result, while the related commercial benefits will only be apparent following presentation of the upcoming collections.

The Group in the second part of the period extended its technical-functional clothing range with the distribution of Briko® brand products following the signing of exclusive licensing agreements and a brand purchase option in March.

Key Performance Indicators:

- *aggregate sales* of Group products by the global licensee Network as follows:
  - commercial licensees of Euro 257.4 million, compared to Euro 260 million in H1 2015 (-1% at current exchange rates and -0.6% at like-for-like exchange rates), and
  - productive licensees of Euro 102.8 million, compared to Euro 112.4 million in H1 2015 (-8.6% at current exchange rates and -8.3% at like-for-like exchange rates);

  for a total of over Euro 360 million.

  In some countries, significant revenue growth in local currency terms was impacted by conversion to the US Dollar - the Group currency for non-Euro transactions;

- royalties and sourcing commissions of Euro 23.1 million (Euro 23.8 million in H1 2015). Royalties from aggregate sales of the commercial licensees of approx. Euro 17.9 million were in line with H1 2015 (+0.2% at current exchange rates and +0.3% at like-for-like exchange rates), while destocking by a number of major licensees impacted sourcing commissions in the half-year which totalled Euro 5.2 million (-11.9% at current exchange rates, -11.8% at like-for-like exchange rates);

- *consolidated direct sales* refer almost exclusively to the Italian licensee BasicItalia S.p.A. and its subsidiary BasicRetail S.r.l. totalling Euro 63.1 million, -1.3% compared to Euro 63.9 million in the previous year. Contribution margin on sales was approx. Euro 26 million (Euro 26.6 million in H1 2015). The margin on revenues was 41.2% (41.6% in 2015), having been impacted - particularly in Q1 - by Dollar movements against the Euro;

- *sponsorship and communication* spend in support of the Brands increasing Euro 4.2 million, from Euro 7.8 million in 2015 to Euro 12 million in 2016, in particular due to sponsorships beginning in the second half of 2015. These investments, although concerning collections to be launched in subsequent periods, were entirely expensed in the period;

- *EBITDA* of Euro 10 million (Euro 17 million in H1 2015);

- *EBIT* of Euro 7.1 million (Euro 14 million in H1 2015);

- *Earnings before taxes* (EBT) of Euro 6.8 million (Euro 14.2 million in H1 2015). H1 2015 included exchange gains of Euro 1.5 million following particularly effective hedging and the jump in the value of the US Dollar in the first quarter of 2015;

- significantly reduced tax charge in the half-year, in part due to a prudent and partial application of the "Patent Box" tax break;

- *Net profit* of Euro 5.1 million (Euro 9.1 million in 2015);

- *Net debt* of Euro 46 million and *debt/equity* ratio of 0.51 (in line with June 30, 2015), despite the acquisition in the period of treasury shares for Euro 1.6 million, investments of Euro 2.8 million and dividends paid of Euro 5.6 million.

In relation to the "alternative performance indicators", as defined by the ESMA/2015/1415 guidelines, we provide below a definition of the indicators used in the present Interim Directors' Report, as well as their reconciliation with the condensed half-year financial statement items:

- ***Commercial licensee aggregate sales:*** sales by commercial licensees, recognised by the BasicNet Group to the "royalties" account of the income statement;
- ***Sourcing centre aggregate sales:*** sales by productive licensees, recognised by the BasicNet Group to the "sourcing commissions" account of the income statement;
- ***EBITDA:*** "operating result" before "amortisation and depreciation" and "write-downs and other provisions";
- ***EBIT:*** "operating result";
- ***Contribution margin on direct sales:*** "gross profit";
- ***Net debt:*** total of current and medium/long-term financial payables, less cash and cash equivalents and other current financial assets.

## FIRST HALF OPERATIONAL OVERVIEW AND EVENTS

### Commercial operations

The actions taken to develop the international presence of the Brands in H1 2016 included:

- for the Kappa® and Robe di Kappa® brands, commercial operations focused on the renewal of expiring contracts, including Argentina, Cuba, Switzerland and the former Yugoslavia. New distribution agreements for the territories of Vietnam, Cambodia and Laos, Albania and the former Yugoslavia were signed and for the Italian market a new underwear distribution partner was identified;
- for the Superga® brand new licenses were signed for the territories of Costa Rica and Ukraine and agreements for the territories of Singapore, Great Britain, Croatia and the other countries of the former Yugoslavia renewed;
- for the K-Way® brand, operations focused on reaching agreements for the Chilean market. The distribution contract for the United Kingdom and Ireland was renewed for a further year.

### Group brand sales points

The development of the retail channel continued with new openings by licensees of K-Way® and Superga® mono-brand stores. In particular, for the K-Way® brand the French licensee opened in Toulouse the seventh flagship store and the Chilean market licensee opened the first K-Way® store at Casacostanera, the most spectacular and technologically advanced shopping centre in Santiago in Chile.

For the Superga® brand, new stores were opened in Jakarta (Indonesia), Johannesburg (South Africa) and Zagreb (Croatia).

Following the new openings, Kappa® and Robe di Kappa® mono-brand stores and shop in shops opened by licensees globally number 689 (of which 118 in Italy), with Superga® mono-brand stores and shop in shops totalling 174 (of which 74 in Italy), along with 29 K-Way® sales points (of which 24 in Italy).

### Sponsorship and communication

### Kappa® & Robe di Kappa® Brands

For the Kappa® brand, major sponsorship activity continued both domestically and internationally.

The Brazilian licensee signed a sponsorship agreement with Santos F.C.. The Brazilian team, which counts on its Facebook page alone nearly 3 and a half million fans, will wear the new Kombat™ jersey until 2018.

The English licensee signed a three-year agreement with the British Basketball League (BBL). From the beginning of the 2016-2017 season, Kappa® will become the official and exclusive sponsor of the professional basketball leagues and of the British national teams. This agreement is an absolute first for English basketball, covering all men's and women's teams of the three organisations BBL, WBBL (Women's BBL) and all men's, women's and junior British international teams.

The French licensee announced the sponsorship of Montpellier Hérault Rugby Club for the next five seasons (until 2021) and the renewal (until 2020) of the sponsorship of the Rugby Union team Bordeaux Bègles.

Peter Fill is the first athlete in the history of the Italian Winter Sport Federation, Kappa® sponsored for technical clothing and the Briko® brand, to win the World Men's downhill World Cup.

For the Robe di Kappa® brand, we highlight the Italian billboard campaign featuring Elio, histrionic musician, singer, DJ, showman, actor and leader of the Italian Group "Elio e le Storie Tese" and the trainer of Napoli Maurizio Sarri.

**Superga® Brand**

For the Superga® brand, co-branding operations continued:

- with the Parisian fashion house SANDRO. This collaboration produced a capsule collection for spring/summer 2016: Evelyne and Ilan Chétrite, respectively creative directors of Sandro Donna and Sandro Uomo, in fact launched three new interpretations of the iconic 2750;
- with the bloggers Lizzy van der Ligt, Esra Røise and Eleonora Carisi;
- with Scotch & Soda, a Dutch fashion label established in 1985 and famed throughout the world for its urban classic style.

40 years after his victory at Roland Garros in Paris, Adriano Panatta previewed the Superga® Sport Panatta: a replica of the shoes in which in 1976 he won the Parisian trophy.

Between April 15 and 17 in Indio, California, the Superga® brand played an important role at Coachella, the coolest electronic music festival in the world. Superga® sponsored the VIP area of Rachel Zoe, the most adored designer of the Hollywood stars, which included a sneakers personalisation laboratory.

Following on from the London actor and model Jack Guiness, the first male testimonial, the new male ambassador is the designer Charlie Casely-Hayford, known as one of the most elegant men in Great Britain.

**K-Way® Brand**

In April, at the Milan Triennial as part of the XXI "Design after design" International Exhibition, on the occasion of the "Mickey Mouse and Italy" show, Mickey Mouse, the Disney hero born in 1928, was personalised by the yellow-orange-blue tape - the symbol of K-Way® since 1965. The exhibition tours the major Italian cities: in November the works will be auctioned off for charity by Sotheby's.

At Milan Design Week, held in April, the company LAGO presented the Lastika armchair and a prototype with an elastic version of the K-Way® tape was created for the occasion. Lastika was shown for the duration of the Furniture Fair week (April 12-17) on the central podium of the K-Way® store in Milan.

For the 2017 Spring/Summer season a new No. 21 brand men's and women's collection will be available. The co-branding agreement was signed in June.

**Briko® Brand**

In March, BasicNet S.p.A and Briko S.p.A. concluded detailed agreements for the granting by Briko S.p.A. of an exclusive global distribution license to BasicNet for all products of the Italian brand Briko® - sold by BasicItalia S.p.A. since last April.
Briko S.p.A. sells helmets, glasses and clothing both for skiing and cycling and is distributed 60% in Italy, with the remainder in the USA, Northern Europe and Japan, and going forward can avail of the tried and trusted Basic Group licensee network to reach the major global markets.
The agreements also include a purchase option for BasicNet on the Brand, exercisable until June 30, 2019, at pre-established conditions, which also may be exercised in advance based on the Brand's commercial volumes. The maximum value of the option is approximately Euro 3 million.

## FINANCIAL PERFORMANCE OVERVIEW

The key financial highlights are reported below:

***BasicNet Group Key Financial Highlights***

| *(In Euro thousands)* | **H1 2016** | **H1 2015** | **Changes** | **%** |
|---|---|---|---|---|
| **Group Brand Aggregate Sales by the Network of commercial and productive licensees** (*) | **360,195** | **372,392** | **(12,197)** | **(3.28%)** |
| Royalties and sourcing commissions | 23,139 | 23,801 | (662) | (2.78%) |
| Consolidated direct sales | 63,107 | 63,924 | (817) | (1.28%) |
| Contribution margin on net sales | 25,977 | 26,598 | (621) | (2.33%) |
| EBITDA (**) | 10,059 | 17,040 | (6,981) | (40.97%) |
| EBIT (**) | 7,109 | 13,986 | (6,877) | (49.17%) |
| Net Profit | 5,081 | 9,090 | (4,009) | (44.10%) |
| Basic earnings per share in circulation | 0.0903 | 0.1598 | (0.069) | (43.49%) |

*(*) Data not audited*
*(**) For the definition of the performance indicators reference should be made to paragraph 2 of the present Report*

***Commercial and financial analysis***

The breakdown of sales and production revenues generated through the global Group licensees was as follows:

| *(In Euro thousands)* | **H1 2016** | **H1 2015** | **Changes** | |
|---|---|---|---|---|
| **Group Brand Licensee Aggregate Sales** (*) | **Total** | **Total** | **Total** | **%** |
| Commercial Licensees | 257,416 | 259,996 | (2,580) | *(0.99%)* |
| Productive Licensees (*sourcing centres*) | 102,779 | 112,396 | (9,617) | *(8.56%)* |
| **Total** | **360,195** | **372,392** | **(12,197)** | ***(3.28%)*** |

*(*) Data not audited*

The regional breakdown of commercial licensee aggregate sales was as follows:

| *(In Euro thousands)* **Group Commercial Licensees Aggregate Sales** (*) | **H1 2016** Total | **H1 2016** % | **H1 2015** Total | **H1 2015** % | **Changes** Total | **Changes** % |
|---|---|---|---|---|---|---|
| Europe | 161,057 | *62.57* | 163,403 | *62.85* | (2,346) | *(1.44)* |
| The Americas | 20,008 | *7.77* | 16,267 | *6.26* | 3,741 | *22.99* |
| Asia and Oceania | 48,544 | *18.86* | 51,165 | *19.68* | (2,621) | *(5.12)* |
| Middle East and Africa | 27,807 | *10.80* | 29,161 | *11.22* | (1,354) | *(4.64)* |
| **Total** | **257,416** | ***100.00%*** | **259,996** | ***100.00%*** | **(2,580)** | ***(0.99)*** |

*(*) Data not audited*

and of productive licensees:

| *(In Euro thousands)* **Group Production Licensee Aggregate Sales** (*) | **H1 2016** Total | **H1 2016** % | **H1 2015** Total | **H1 2015** % | **Changes** Total | **Changes** % |
|---|---|---|---|---|---|---|
| Europe | 11,202 | *10.90* | 11,572 | *10.30* | (370) | *(3.20)* |
| The Americas | 11,610 | *11.30* | 12,745 | *11.34* | (1,135) | *(8.91)* |
| Asia, and Oceania, Middle East and Africa | 79,967 | *77.80* | 88,079 | *78.36* | (8,112) | *(9.21)* |
| **Total** | **102,779** | ***100.00%*** | **112,396** | ***100.00%*** | **(9,617)** | ***(8.56)*** |

*(*) Data not audited*

The revenue breakdown of the principal Brands were as follows:

| *(In Euro thousands)* | **H1 2016** | **H1 2015** | **Changes** |
|---|---|---|---|
| Kappa & Robe di Kappa | 164,313 | 164,736 | (423) |
| Superga | 70,067 | 74,156 | (4,090) |
| K-Way | 21,981 | 20,807 | 1,174 |

Aggregate licensee sales in the period were impacted by the general political instability which hit consumption levels in the major western economies, in addition to major currency volatility, with a number of currencies weakening against the US Dollar.
In this context:

- Kappa® and Robe di Kappa® brand revenues, which overall were in line with the previous year, were impacted by slowing consumption on the European market, while the weakening of the Brazilian and Argentinian currencies on the South American market substantially wiped out improved business volumes. In Asia, the South Korean, Indian and Vietnamese markets performed well, although also in this case impacted by the conversion into US Dollars of the respective currencies. The Middle Eastern and African markets were affected most by the political instability;

- the Superga® brand grew in the Americas with the licenses for the territories of Argentina, Chile, Colombia and Panama becoming fully operational. In Europe, growth was seen in Germany, Northern Europe and the United Kingdom, while slowdowns were evident in Turkey and Greece due to political instability in the former case and economic difficulties in the latter. The Asian market however was hit by the interruption to the license held by the Indian licensee due to disagreements on commercial methods and the slowdown on the Chinese and Hong Kong and South Korean markets, with the latter's currency significantly depreciating against the Dollar. On the Italian market, brand distribution channels were restructured, with the sacrificing of some revenues in favour of better brand positioning;
- the K-Way® brand reports however commercial growth on the South American market, with the start-up of the Chilean market license, and in Asia with the Japanese license becoming fully operational and sales picking up on the South Korean market.

Consolidated ***royalties*** of Euro 17.9 million were in line with the previous year, with ***sourcing*** commissions reducing from Euro 5.8 million in 2015 to Euro 5.2 million in 2016 following destocking and inventory streamlining by a number of major licensees.

***Sales*** by the subsidiaries BasicItalia S.p.A. and BasicRetail S.r.l. totalled Euro 63.1 million, substantially stable compared to Euro 63.9 million in H1 2015; in addition, for the K-Way® and Superga® brands the distribution network was restructured, sacrificing a portion of revenues whose returns on certain distribution channels underperformed the relative brand positioning.

The ***contribution margin*** on sales of Euro 26 million contracted approx. 2.3% on H1 2015. The margin on revenues was 41.2% (41.6% in 2015), having been impacted - particularly in Q1 - by Dollar movements against the Euro.

***Other income*** of Euro 0.9 million includes indemnities and royalties concerning sales of promotional products. Other income in H1 2015 included Euro 1 million received as a commercial indemnity, of a non-recurring nature.

***Sponsorship and media*** spend of Euro 12 million increased 53.8% on Euro 7.8 million in H1 2015, due to new sponsorships and advertising campaigns, confirming the increased focus on brand support. The main sponsorships on the domestic market concern SSC Napoli, US Sassuolo and on the international market Leeds United FC, beginning in the second part of the previous year. Sales based on sponsorships present timing differences with the investment, also due to the significant quantity of products released by the previous sponsors, benefitting from a final sell-off right which is generally established under such contracts; a subsequent benefit from the sponsorship is however expected. Billboard and newspaper and magazine investment spend increased in support of the Kappa®, Superga® and K-Way® brands, while significant funding was allocated particularly on the overseas markets to communication and endorsement operations with an international impact (World Wide Strategic Advertising).

***Personnel costs*** increased from Euro 9.4 million in H1 2015 to Euro 9.9 million in 2016 due to new hires (47 employees more than June 2015), principally in the retail area and partially undertaken in the second half of the previous year.

***Overhead costs***, i.e. ***Selling*** **and** ***general*** *and* ***administrative costs*** and ***royalty expenses*** amounted to Euro 17.9 million, reducing 1.5% on H1 2015.

On the basis of the components outlined above, ***EBITDA*** in the half-year was Euro 10 million (Euro 17 million in H1 2015).

***EBIT***, after ***amortisation and depreciation*** of Euro 2.9 million, totalled approx. Euro 7.1 million, compared to Euro 14 million in H1 2015.

***Consolidated net financial charges/income***, including exchange gains and losses, reported a charge of Euro 277 thousand, compared to income of Euro 345 thousand in the same period of the previous year which, due to the significant strengthening of the US Dollar in Q1 2015, benefitted from currency hedges undertaken in the second half of the previous year: exchange gains of Euro 0.5 million were reported in H1 2016, compared to Euro 1.5 million in H1 2015. Financial charges in service of the debt of Euro 812 thousand reduced Euro 351 thousand on 2015 following the reduction of the debt, together with more competitive funding costs.

The ***consolidated pre-tax profit*** was Euro 6.8 million, compared to Euro 14.2 million in H1 2015.

The H1 2016 tax rate reduced on H1 2015 with the entry into force of the "Patent Box" intellectual property tax break which the Group company brand licensees applied for at the end of the previous year. The rule, as applicable to Group companies, establishes that a part of the potential tax benefit is subject to Tax Agency authorisation through a ruling for which an application has been presented. The benefits from this tax break are not yet apparent as the application is currently under consideration by the Tax Agency. The portion of the benefit not subject to the ruling however has been recognised, also relating to 2015, improving the half-year tax charge by approx. Euro 0.8 million.

The ***net profit*** of Euro 5.1 million compares to Euro 9.1 million in H1 2015.

## ***Balance sheet overview***

The changes in the balance sheet are reported below:

*BasicNet Group Condensed Balance Sheet*

| *(In Euro thousands)* | June 30, 2016 | December 31, 2015 | June 30, 2015 |
|---|---|---|---|
| Property | 21,548 | 21,951 | 22,410 |
| Brands | 34,123 | 34,208 | 34,193 |
| Non-current assets | 25,153 | 25,015 | 25,534 |
| Current assets | 122,166 | 123,998 | 121,979 |
| **Total assets** | **202,990** | **205,172** | **204,116** |
| Group shareholders' equity | 89,310 | 92,511 | 86,124 |
| Non-current liabilities | 21,912 | 26,449 | 30,491 |
| Current liabilities | 91,768 | 86,212 | 87,502 |
| **Total liabilities and shareholders' equity** | **202,990** | **205,172** | **204,116** |

*BasicNet Group Summary Net Financial Position*

| *(In Euro thousands)* | June 30, 2016 | December 31, 2015 | June 30, 2015 | Changes 30/6/2016 31/12/2015 | Changes 30/6/2016 30/6/2015 |
|---|---|---|---|---|---|
| Net financial position – Short-term | (28,109) | (24,796) | (18,732) | (3,313) | (9,377) |
| Financial payables – Medium-term | (16,342) | (19,021) | (23,306) | 2,678 | 6,964 |
| Finance leases | (1,531) | (1,545) | (1,666) | 14 | 135 |
| **Consolidated Net Financial Position** | **(45,982)** | **(45,362)** | **(43,704)** | **(620)** | **(2,278)** |
| Net Debt/Equity ratio (Net financial position/Shareholders' equity) | 0.51 | 0.49 | 0.51 | 0.02 | 0.001 |

Capital expenditure in H1 2016 amounted to Euro 2.8 million, following IT programme investment (Euro 1.2 million), EDP and furniture and fitting spending (Euro 1.5 million) and leasehold improvements and expenses incurred for the management of own brands (Euro 140 thousand).

***Consolidated net debt***, including medium-term loans and finance leases (Euro 12.8 million) and mortgages (Euro 10.4 million), increased from Euro 45.4 million at December 31, 2015 to approx. Euro 46 million at June 30, 2016.

Cash flow from operating activities amounted to Euro 9.2 million. Medium-term loan and finance lease repayments totalled Euro 5.4 million, dividends were paid of Euro 5.6 million and treasury shares acquired of approx. Euro 1.6 million.

The Explanatory Notes report a breakdown of the Group net financial position as per Consob requirements.

## THE BASICNET SHARE PRICE

The share capital of BasicNet S.p.A. consists of 60,993,602 ordinary shares of a nominal value of Euro 0.52 each.

| | 30/06/2016 | 31/12/2015 | 30/06/2015 |
|---|---|---|---|
| **SHARE PRICE INFORMATION** | | | |
| Net equity per share | 1.464 | 1.517 | 1.412 |
| Price at period end | 2.8000 | 4.850 | 3.900 |
| Maximum price in the period | 4.8200 | 4.940 | 4.090 |
| Minimum price in the period | 2.6000 | 2.220 | 2.220 |
| Total number of shares | 60,993,602 | 60,993,602 | 60,993,602 |
| Weighted average number of shares outstanding in the period | 56,285,803 | 56,751,534 | 56,901,718 |

The list of parties holding, directly or indirectly, more than 5% of the share capital (the significance threshold established by Article 120, paragraph 2 of Legs. Decree No. 58 of 1998 for BasicNet which is classified as a "Small-Medium sized enterprise" as per Article 1, letter w-quater 1) of Legs. Decree No. 58 of 1998), represented by shares with voting rights, according to the shareholders' register, supplemented by the communications received in accordance with Article 120 of Legislative Decree No. 58 of 1998 and other information held by the company, is as follows:

| Shareholder | Holding |
|---|---|
| Marco Daniele Boglione (*) | 36.994% |
| Wellington Management Group LLP | 6.148% |
| BasicNet S.p.A. | 8.184% |

(*) held indirectly through BasicWorld S.r.l. for 36.483% and for the residual 0.511% directly.

## TREASURY SHARES

The Shareholders' AGM of April 27, 2016 authorised the purchase, on one or more occasions, of a maximum number of ordinary shares at a nominal Euro 0.52 each, which, taking account of those already held by the company, does not exceed the legal limits, for a total amount of not more than Euro 3,500,000.

At June 30, 2016, the Company held 4,961,500 treasury shares (8.135% of the share capital), for a total investment of Euro 10.4 million.

At the present date, 4,991,500 treasury shares are held, comprising 8.184% of the share capital, for a total investment of Euro 10.5 million and a value, at current stock market prices, of over Euro 15 million.

## THE GROUP AT A GLANCE

The BasicNet Group operates in the causal and sportswear leisurewear, footwear and accessories sector principally through the brands Kappa®, Robe di Kappa®, K-Way®, Superga®, Briko®, AnziBesson®, Lanzera®, Jesus®Jeans and Sabelt®.

Group activities involve driving brand enhancement and product distribution through a global network of licensees. This business network is defined as the "*Network*". And from which the name BasicNet derives. The *Network* of licensees encompasses all key markets worldwide.

The Basic Group brands form part of the informal and casual clothing sector, which has experienced significant growth since the 1960's and continues to develop with the "liberalisation" of clothing trends.

## HUMAN RESOURCES

At June 30, 2016, the Group headcount was 519, as follows:

| | Human resources at June 30, 2016 | | | | Human resources at December 31, 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| Category | Number | | Average age | | Number | | Average age | |
| | Men/Women | Total | Men/Women | Average | Men/Women | Total | Men/Women | Average |
| Executives | 16 / 10 | 26 | 48 / 49 | 48 | 17 / 9 | 26 | 47 / 48 | 47 |
| Managers | 1 / - | 1 | 54 / - | 54 | 1 / - | 1 | 53 / - | 53 |
| White-collar | 135 / 334 | 469 | 36 / 36 | 36 | 134 / 323 | 457 | 35 / 36 | 36 |
| Blue-collar | 13 / 10 | 23 | 46 / 43 | 45 | 14 / 10 | 24 | 45 / 42 | 43 |
| Total | 165 / 354 | 519 | 37 / 36 | 37 | 166 / 342 | 508 | 36 / 36 | 36 |

Source: BasicGuys.com

## PRINCIPAL RISKS AND UNCERTAINTIES

The BasicNet Group is subject to a variety of strategic, market and financial risks, as well as general business operational risks.

**Strategic risks**
These risks arise from factors that may comprise the value of the trademarks that the Group implements through its Business System. The Group requires the capacity to identify new business opportunities and markets and appropriate licensees for each market. The Group monitors the activities of its licensees and detects any problems on-line in the management of the brands in the various regions. However, as the commercial license contracts usually establish the advance payment of guaranteed minimum royalties, economic conditions on certain markets may impact the financial capacity of certain licensees, temporarily reducing royalties, particularly where such licensees had previously exceeded the guaranteed minimums.

**Risks associated with economic conditions**
The Group retains that its Business System has the flexibility needed to swiftly respond to changes in customers' tastes and to limited and localised consumer slowdown. However, the Group may be exposed to economic crisis and social and general unrest, which may impact on consumer trends and the general economic outlook.

**Currency risk**
The Group is exposed to currency risk on merchandise purchases or royalty income from commercial licensees and sourcing centre commissions not within the Eurozone. These transactions are mainly in US Dollars and marginally in UK Sterling and Japanese Yen.
The risks on fluctuations of the US Dollar on purchases are measured, preliminary, in the preparation of the budgets and finished products price lists, so as to adequately cover the impact of these fluctuations on sales margins.
Subsequently, royalty income and sourcing commissions from sales are utilised to cover purchases in foreign currencies, within the normal activities of the Group centralised treasury management.

For the foreign currency purchases not covered by foreign currency receipts, or in the case of significant time differences between receipts and payments, forward purchase and sales contracts (flexi-term) are underwritten.
The Group does not undertake financial instruments for speculative purposes.

**Credit risk**
Group trade receivables derive from licensee royalty income, Sourcing Centre commissions billed and sales of finished products.
Royalty trade receivables are largely secured by bank guarantees, secured or corporate sureties, letters of credit, guarantee deposits, or advance payment, provided by licensees.
Souring commission receivables are covered by the payables of the subsidiary company BasicItalia S.p.A. to the Sourcing Centres.
Receivables from Italian footwear and apparel retailers within the subsidiary BasicItalia S.p.A. are monitored continually by the credit department of the company alongside specialised legal recovery firms and regional credit bodies throughout the country, commencing from the customer order. Receivables from franchising brand stores are settled weekly in line with sales and do not present substantial insolvency risk.

**Liquidity risk**
The sector in which the Group operates is exposed to seasonal factors, which impact upon the timing of goods procurement compared to sales, in particular where the products are acquired on markets with favourable production costs and where the lead times are however much longer. These seasonal factors also impact upon the Group's financial cycle of the commercial operations on the domestic market.
Short-term debt to finance working capital needs comprises "import financing" and "self-liquidating bank advances" secured by the order backlog and the export account.
The Group manages the liquidity risk through close control on operating working capital with specific attention on inventories, receivables, trade payables and treasury management, with real-time operational reporting indicators or, for some information, at least on a monthly basis, reporting to Senior Management.

**Interest rate risk**
The interest fluctuation risks of some medium-term loans were hedged with conversion of the variable rate into fixed rates (swaps).

**Risks relating to legal and tax disputes**
The Group may be involved in legal and tax disputes, concerning specific issues and in various jurisdictions. Considering the uncertainties relating to these issues, it is difficult to predict with precision any future payments required. In addition, the Group has instigated legal action for the protection of its Trademarks, and of its products, against counterfeit products. The cases and disputes against the Group often derive from complex legal issues, which are often subject to varying degrees of uncertainty, including the facts and circumstances relating to each case, jurisprudence and different applicable laws.
In the normal course of business, management consults with its legal consultants and experts in fiscal matters. The Group accrues a liability against disputes when it considers it is probable that there will be a financial payment made and when the amount of the losses arising can be reasonably estimated.

The principal disputes involving the Group are described in Explanatory Note 44 of the Condensed Half-Year Consolidated Financial Statements and are summarised below.

– *A.S. Roma contract termination*
The dispute was taken by BasicItalia S.p.A. against A.S. Roma S.p.A. and Soccer S.a.s. Brand Manager S.r.l., which on November 23, 2012 communicated the unilateral advance resolution of the team sponsorship, agreed with duration until June 30, 2017, for presumed non-compliance and, in particular, defects in the materials supplied. BasicItalia S.p.A., considering the reasons for the resolution unfounded, instigated an ordinary court procedure requesting compensation for significant damage incurred. A.S. Roma S.p.A. and Soccer S.a.s. appealed against the request of BasicItalia S.p.A. and counterclaimed requesting compensation for presumed damage. The proceedings are currently in the preliminary stages.

In addition, following the above termination of the contract, A.S. Roma sought to enforce payment of the surety granted by BNL S.p.A. in favour of BasicItalia S.p.A. for a maximum amount of Euro 5.5 million which guaranteed commitments undertaken by BasicItalia S.p.A. under the sponsorship agreement.

Following the non-payment by BNL S.p.A., A.S. Roma petitioned the Rome Court to enforce a payment order against BNL for the full guaranteed amount. As a result of this procedure, in which BasicItalia S.p.A. (together with the parent company BasicNet S.p.A.) was joined as a party by BNL, the Rome Court, with judgement of December 7, 2013, rejected all applications by A.S. Roma, considering the enforcement illegitimate. This sentence was not challenged by A.S. Roma and the sentence is final.

On December 20, 2013, A.S. Roma again requested payment of the above-mentioned surety and, following the refusal of BNL to meet this new request, presented an appeal before the Rome Court on February 20, 2014. With judgement of December 15, 2014, the Rome Court rejected all requests made by A.S. Roma. A.S. Roma appealed against this decision before the Rome Appeals Court with subpoena dated February 10, 2015. The hearing, fixed for June 8, 2015, was postponed to June 10, 2015. On June 8, 2015, both BasicItalia S.p.A. and BNL put forward the rejection of the appeal and the confirmation of the first level judgment. The hearing held on June 10, 2015 sent the case for the establishment of conclusions on July 4, 2018.

Finally, we report that BasicItalia S.p.A. presented, also to the Rome Court, an injunction decree in order to attain from Soccer S.a.s. di Brand Manager S.r.l. (an A.S. Roma S.p.A. Group company) the payment of invoices issued for the supply of technical material delivered during 2013. Following the granting of the injunction decree, Soccer S.a.s. di Brand Manager S.r.l. appealed the decision and the relative procedure, to which BasicItalia is also party and which is currently in the preliminary phase.

## INTERCOMPANY TRANSACTIONS AND TRANSACTIONS WITH RELATED COMPANIES

The transactions with related parties, including inter-company transactions, are not atypical or unusual and form part of the ordinary business activities of the companies of the Group. These operations are regulated at market conditions and take account of the characteristics of the goods and services provided.
The information on transactions with related parties, including that required by Consob communication of July 28, 2006, is reported at Note 45 of the Condensed 2016 Half-Year Financial Statements.

## SUBSEQUENT EVENTS TO THE END OF THE HALF-YEAR AND OUTLOOK

The available indicators remain subject to continued unstable economic and political conditions, in addition to exchange rate movements, both in terms of fluctuations to some of the major currencies and the impact that such changes may have on purchase prices for the Italian commercial companies and on Group core revenue streams. In this environment however a strong 2016 is expected - although the earnings gap emerging in the first part of the year, due to the significant communication and sponsorship investments, will not be recovered in the second half.

Turin, July 29, 2016

for the Board of Directors

**The Chairman**

Marco Daniele Boglione

# CONDENSED HALF-YEAR FINANCIAL STATEMENTS AND EXPLANATORY NOTES

*In accordance with Consob Resolution No. 15519 of July 27, 2006, the transactions with related parties are described at Note 45.*

## BASICNET GROUP - IFRS INCOME STATEMENT COMPARED WITH H1 2015

*(In Euro thousands)*

| | *Note* | **H1 2016** | % | **H1 2015** | % | **Changes** | % |
|---|---|---|---|---|---|---|---|
| Consolidated direct sales | *(7)* | 63,107 | *100.00* | 63,924 | *100.00* | (817) | *(1.28)* |
| Cost of sales | *(8)* | (37,130) | *(58.84)* | (37,326) | *(58.39)* | 196 | *0.53* |
| **GROSS MARGIN** | | **25,977** | ***41.16*** | **26,598** | ***41.61*** | **(621)** | ***(2.33)*** |
| Royalties and sourcing commissions | *(9)* | 23,139 | *36.67* | 23,801 | *37.23* | (662) | *(2.78)* |
| Other income | *(10)* | 888 | *1.41* | 2,132 | *3.34* | (1,244) | *(58.35)* |
| Sponsorship and media costs | *(11)* | (12,032) | *(19.07)* | (7,824) | *(12.24)* | (4,208) | *(53.78)* |
| Personnel costs | *(12)* | (9,922) | *(15.72)* | (9,401) | *(14.71)* | (521) | *(5.54)* |
| Selling, general and administrative costs, royalties expenses | *(13)* | (17,991) | *(28.51)* | (18,265) | *(28.57)* | 274 | *1.50* |
| Amortisation & Depreciation | *(14)* | (2,950) | *(4.67)* | (3,055) | *(4.78)* | 105 | *3.45* |
| **EBIT** | | **7,109** | ***11.27*** | **13,986** | ***21.88*** | **(6,877)** | ***(49.17)*** |
| Net financial income (charges) | *(15)* | (277) | *(0.44)* | 345 | *0.54* | (622) | *(180.29)* |
| Share of profit/ (loss) of investments valued at equity | *(16)* | (17) | *(0.03)* | (138) | *(0.22)* | 121 | *87.69* |
| **PROFIT BEFORE TAXES** | | **6,815** | ***10.80*** | **14,193** | ***22.20*** | **(7,378)** | ***(51.98)*** |
| Income taxes | *(17)* | (1,734) | *(2.75)* | (5,103) | *(7.98)* | 3,369 | *66.03* |
| **NET PROFIT** | | **5,081** | ***8.05*** | **9,090** | ***14.22*** | **(4,009)** | ***(44.10)*** |
| of which: | | | | | | | |
| – Shareholders of BasicNet S.p.A. | | **5,081** | ***8.05*** | **9,090** | ***14.22*** | **(4,009)** | ***(44.10)*** |
| - Minority interests | | - | - | - | - | - | - |
| **Earnings per share** | *(18)* | | | | | | |
| Basic | | 0.0903 | | 0.1598 | | (0.069) | *(43.49)* |
| Diluted | | 0.0903 | | 0.1598 | | (0.069) | *(43.49)* |

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## CONSOLIDATED COMPREHENSIVE INCOME STATEMENT

The “Comprehensive Income Statement” is reported below. The statement shows the effects that would occur on the consolidated net result if the accounts that are recorded directly under equity, as required and permitted by IFRS, were instead recorded through the income statement.

*(In Euro thousands)*

| | *Note* | **H1 2016** | **H1 2015** |
|---|---|---|---|
| ***Profit for the period (A)*** | | ***5,081*** | ***9,090*** |
| Effective portion of the Gains/(losses) on cash flow hedges | | (1,090) | 919 |
| Re-measurement of post-employment benefits (IAS 19) (*) | | (124) | 116 |
| Gains/(losses) from translation of accounts of foreign subsidiaries | | (139) | 457 |
| Tax effect on other profits/(losses) | | 293 | (285) |
| ***Total other gains/(losses), net of tax effect (B)*** | *(30)* | ***(1,060)*** | ***1,207*** |
| **Total Comprehensive Profit (A)+(B)** | | **4,021** | **10,297** |
| **Total Comprehensive Profit attributable to:** | | | |
| – Shareholders of BasicNet S.p.A. | | 4,021 | 10,297 |
| - Minority interests | | - | - |

*(*) items which may not be reclassified to the profit and loss account*

## CONSOLIDATED IFRS BALANCE SHEET AT JUNE 30, 2016 COMPARED WITH JUNE 30, 2015

*(In Euro thousands)*

| ASSETS | *Note* | June 30, 2016 | December 31, 2015 | June 30, 2015 |
|---|---|---|---|---|
| Intangible assets | *(19)* | 41,580 | 41,513 | 41,760 |
| Goodwill | *(20)* | 10,072 | 10,245 | 10,341 |
| Property, plant and equipment | *(21)* | 28,502 | 28,769 | 29,551 |
| Equity invest. & other financial assets | *(22)* | 347 | 307 | 225 |
| Interests in joint ventures | *(23)* | 323 | 340 | 260 |
| Deferred tax assets | | - | - | - |
| **Total non-current assets** | | **80,824** | **81,174** | **82,137** |
| Net inventories | *(24)* | 50,543 | 49,025 | 51,887 |
| Trade receivables | *(25)* | 47,693 | 46,701 | 44,448 |
| Other current assets | *(26)* | 10,833 | 12,178 | 13,336 |
| Prepayments | *(27)* | 8,280 | 7,756 | 5,822 |
| Cash and cash equivalents | *(28)* | 4,370 | 6,971 | 4,437 |
| Derivative financial instruments | *(29)* | 446 | 1,367 | 2,049 |
| **Total current assets** | | **122,166** | **123,998** | **121,979** |
| **TOTAL ASSETS** | | **202,990** | **205,172** | **204,116** |

| LIABILITIES | *Note* | June 30, 2016 | December 31, 2015 | June 30, 2015 |
|---|---|---|---|---|
| Share capital | | 31,717 | 31,717 | 31,717 |
| Reserve for treasury shares in portfolio | | (10,423) | (8,823) | (7,776) |
| Other reserves | | 62,935 | 52,857 | 53,093 |
| Net Profit | | 5,081 | 16,760 | 9,090 |
| Minority interests | | - | - | - |
| **Total Shareholders' Equity** | *(30)* | **89,310** | **92,511** | **86,124** |
| Provisions for risks and charges | *(31)* | 28 | 45 | 28 |
| Loans | *(32)* | 17,873 | 20,566 | 24,972 |
| Employee and Director benefits | *(33)* | 2,740 | 4,108 | 3,732 |
| Deferred tax liabilities | *(34)* | 367 | 717 | 706 |
| Other non-current liabilities | *(35)* | 904 | 1,013 | 1,053 |
| **Total non-current liabilities** | | **21,912** | **26,449** | **30,491** |
| Bank payables | *(36)* | 32,479 | 31,767 | 23,169 |
| Trade payables | *(37)* | 30,698 | 25,151 | 32,995 |
| Tax payables | *(38)* | 16,958 | 17,421 | 20,963 |
| Other current liabilities | *(39)* | 8,414 | 7,738 | 8,387 |
| Accrued expenses | *(40)* | 1,551 | 2,637 | 394 |
| Derivative financial instruments | *(41)* | 1,667 | 1,498 | 1,593 |
| **Total current liabilities** | | **91,768** | **86,212** | **87,501** |
| **TOTAL LIABILITIES** | | **113,680** | **112,661** | **117,992** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | **202,990** | **205,172** | **204,116** |

## BASICNET GROUP CASH FLOW STATEMENT AT JUNE 30, 2016 COMPARED WITH JUNE 30, 2015

*(In Euro thousands)*

| | June 30, 2016 | December 31, 2015 | June 30, 2015 |
|---|---|---|---|
| **A) OPENING SHORT-TERM BANK DEBT (*)** | **(16,761)** | **(24,349)** | **(24,349)** |
| **B) CASH FLOW FROM OPERATING ACTIVITIES** | | | |
| Net Profit | 5,081 | 16,760 | 9,090 |
| Amortisation & Depreciation | 2,950 | 6,340 | 3,055 |
| Result of companies valued under the equity method | 17 | 59 | 138 |
| Changes in working capital: | | | |
| . (Increase) decrease in receivables | (991) | (2,772) | (519) |
| . (Increase) decrease in inventories | (1,518) | (2,728) | (5,590) |
| . (Increase) decrease in other receivables | (479) | 1,015 | 1,192 |
| . Increase (decrease) in trade payables | 5,548 | (4,991) | 2,853 |
| . Increase (decrease) in other payables | (1,349) | (3,123) | (1,162) |
| Net change in post-employment benefit | (65) | (188) | 159 |
| Others, net | (14) | 747 | 355 |
| | **9,180** | **11,119** | **9,571** |
| **C) CASH FLOW FROM INVESTING ACTIVITIES** | | | |
| Investments in fixed assets: | | | |
| - tangible assets | (1,203) | (1,683) | (926) |
| - intangible assets | (1,421) | (3,375) | (1,984) |
| - financial assets | - | - | - |
| Realisable value for fixed asset disposals: | | | |
| - tangible assets | 44 | 75 | 86 |
| - intangible assets | 2 | - | - |
| - financial assets | - | - | - |
| | **(2,578)** | **(4,983)** | **(2,824)** |
| **D) CASH FLOW FROM FINANCING ACTIVITIES** | | | |
| Lease contracts (repayments) | (14) | (215) | (95) |
| Undertaking of medium/long-term loans | - | 15,000 | 15,000 |
| Loan repayments | (5,357) | (7,406) | (3,062) |
| Conversion of short-term credit lines | - | - | - |
| Acquisition of treasury shares | (1,600) | (1,948) | (901) |
| Dividend payments | (5,622) | (3,979) | (3,979) |
| | **(12,593)** | **1,452** | **6,963** |
| **E) CASH FLOW IN THE PERIOD** | **(5,991)** | **7,588** | **13,710** |
| **F) CLOSING SHORT-TERM BANK DEBT** | **(22,752)** | **(16,761)** | **(10,639)** |

(*) Balance at January 1

# STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY

*(In Euro thousands)*

| | Share capital | Treasury shares | Retained earnings | Translation reserve | IAS 19 remeas. reserve | Cash Flow Hedge reserve | Net result | Total Group Net Equity |
|---|---|---|---|---|---|---|---|---|
| **Balance at January 1, 2015** | **31,717** | **(6,875)** | **43,001** | **1,026** | **(263)** | **(332)** | **12,437** | **80,711** |
| Allocation of 2014 result as per Shareholders' AGM resolution of April 27, 2015: | | | | | | | | |
| - Retained earnings | | - | 8,454 | - | - | - | (8,454) | - |
| - Distribution of dividends | | - | - | - | - | - | (3,983) | **(3,983)** |
| Acquisition of treasury shares | | (901) | - | - | - | - | - | **(901)** |
| H1 2015 Result | | - | - | - | - | - | 9,090 | **9,090** |
| Other comprehensive income statement items: | | | | | | | | |
| - Gains/(losses) recorded directly to translation reserve | | - | - | 457 | - | - | - | **457** |
| - Gains/(losses) recorded<br>- directly to equity for IAS 19 remeasurement | | - | - | - | 84 | - | - | **84** |
| - Gains recorded directly to cash flow hedge reserve | | - | - | - | - | 666 | - | **666** |
| *Total comprehensive income statement* | | - | - | *457* | *84* | *666* | *9,090* | ***10,297*** |
| **Balance at June 30, 2015** | **31,717** | **(7,776)** | **51,455** | **1,483** | **(179)** | **334** | **9,090** | **86,124** |

| | Share capital | Treasury shares | Retained earnings | Translation reserve | IAS 19 remeas. reserve | Cash Flow Hedge reserve | Net result | Total Group Net Equity |
|---|---|---|---|---|---|---|---|---|
| **Balance at January 1, 2016** | **31,717** | **(8,823)** | **51,459** | **1,693** | **(202)** | **(93)** | **16,760** | **92,511** |
| Allocation of 2015 result as per Shareholders' AGM resolution of April 28, 2016: | | | | | | | | |
| - Retained earnings | | - | 11,138 | - | - | - | (11,138) | - |
| - Distribution of dividends | | - | - | - | - | - | (5,622) | **(5,622)** |
| Acquisition of treasury shares | | (1,600) | - | - | - | - | - | **(1,600)** |
| H1 2016 Result | | - | - | - | - | - | 5,081 | **5,081** |
| Other comprehensive income statement items: | | | | | | | | |
| - Gains/(losses) recorded directly to translation reserve | | - | - | (139) | - | - | - | **(139)** |
| - Gains/(losses) recorded directly to equity for IAS 19 remeasurement | | - | - | - | (90) | - | - | **(90)** |
| - Gains recorded directly to cash flow hedge reserve | | - | - | - | - | (831) | - | **(831)** |
| *Total comprehensive income* | | - | - | *(139)* | *(90)* | *(831)* | *5,081* | ***4,021*** |
| **Balance at June 30, 2016** | **31,717** | **(10,423)** | **62,597** | **1,554** | **(292)** | **(924)** | **5,081** | **89,310** |

# CONSOLIDATED NET FINANCIAL POSITION

*(In Euro thousands)*

| | June 30, 2016 | December 31, 2015 | June 30, 2015 |
|---|---|---|---|
| Cash and cash equivalents | 4,370 | 6,971 | 4,437 |
| Bank overdrafts and bills | (13,594) | (4,266) | (7,159) |
| Import advances | (13,528) | (19,466) | (7,917) |
| *Sub-total net liquidity available* | *(22,752)* | *(16,761)* | *(10,639)* |
| Short-term portion of medium/long-term loans | (5,357) | (8,035) | (8,093) |
| **Short-term net financial position** | **(28,109)** | **(24,796)** | **(18,732)** |
| Intesa Sanpaolo loan | (7,500) | (9,375) | (11,250) |
| Basic Village property loan | (6,300) | (6,900) | (7,500) |
| BasicItalia property loan | (2,542) | (2,746) | (2,949) |
| UBI Banca loan | - | - | (1,607) |
| Leasing payables | (1,531) | (1,545) | (1,666) |
| *Sub-total loans and leasing* | *(17,873)* | *(20,566)* | *(24,972)* |
| **Consolidated Net Financial Position** | **(45,982)** | **(45,362)** | **(43,704)** |

The statement required by Consob Communication No. 6064293 of July 28, 2006 is reported below.

| | | June 30, 2016 | December 31, 2015 | June 30, 2015 |
|---|---|---|---|---|
| A. | Cash | 59 | 68 | 57 |
| B. | Other cash equivalents | 4,311 | 6,903 | 4,380 |
| C. | Securities held for trading | - | - | - |
| **D.** | **Cash & cash equivalents (A)+(B)+(C)** | **4,370** | **6,971** | **4,437** |
| **E.** | **Current financial receivables** | - | - | **-** |
| F. | Current bank payables | (27,122) | (23,732) | (15,076) |
| G. | Current portion of non-current debt | (5,357) | (8,035) | (8,093) |
| H. | Other current financial payables | - | - | - |
| **I.** | **Current financial debt (F)+(G)+(H)** | **(32,479)** | **(31,767)** | **(23,169)** |
| **J.** | **Net current financial debt (I)-(E)-(D)** | **(28,109)** | **(24,796)** | **(18,732)** |
| K. | Non-current bank payables | (17,873) | (20,566) | (24,972) |
| L. | Bonds issued | - | - | - |
| M. | Derivatives fair value | (1,221) | (131) | 456 |
| **N.** | **Non-current financial debt (K)+(L)+(M)** | **(19,094)** | **(20,697)** | **(24,516)** |
| **O.** | **Net financial debt (J)+(N)** | **(47,203)** | **(45,493)** | **(43,248)** |

The net financial debt differs from the consolidated net financial position for the fair value of the interest and currency hedging operations - cash flow hedges (Notes 29 and 41).

# EXPLANATORY NOTES

## 1. GENERAL INFORMATION

BasicNet S.p.A. – with registered office in Turin, listed on the Italian Stock Exchange since November 17, 1999 and its subsidiaries, operate in the sports and casual clothing, footwear and accessories sector through the brands Kappa, Robe di Kappa, Jesus Jeans, Lanzera, K-Way, Superga, AnziBesson and Sabelt. Group activities involve the development of the value of the brands and the distribution of their products through a global network of independent licensees.

The consolidated financial statements in this document were approved by the Board of Directors of BasicNet S.p.A. on July 29, 2016. The present document is subject to limited audit.

## 2. FORM AND CONTENT

The main accounting principles adopted in the preparation of the consolidated financial statements and Group financial reporting are described below.

This document has been prepared in accordance with IFRS issued by the International Accounting Standards Board (IASB) and approved by the European Union. IFRS refers to all the revised International Accounting Standards (IAS) and all of the interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") - previously known as the Standing Interpretations Committee ("SIC") and in particular *IAS 34- Interim Financial Reporting*, in addition to the enacting provisions of Article 9 of Legs. Decree No. 38/2005. Under the options presented by IAS 34, the Group chose to publish a summary disclosure in the Half-Year Consolidated Financial Statements.

The Group consolidated interim financial statements include the financial statements at June 30, 2016 of BasicNet S.p.A. and all the Italian and foreign companies in which the Parent Company holds control - directly or indirectly. For the financial statements of the US and Dutch subsidiaries, which utilise local accounting standards, as not obliged to adopt IAS/IFRS, the appropriate adjustments were made for the preparation of the consolidated financial statements in accordance with international accounting standards.

The financial statements are prepared under the historical cost convention (modified where applicable for the valuation of certain financial instruments), as well as on the going concern assumption.

The accounting principles utilised for the preparation of the Condensed Consolidated Half-Year Financial Statements at June 30, 2016 are the same as those used for the Consolidated Financial Statements at December 31, 2015. The Condensed Consolidated Half-Year Financial Statements must be read together with the Consolidated Financial Statements at December 31, 2015, prepared in accordance with IFRS, to which reference should be made.

The preparation of the Interim Financial Statements requires that Company Management make estimates and assumptions on the values of the revenues, costs, assets and liabilities in the financial statements and on the disclosures relating to the assets and contingent liabilities at the interim balance sheet date. The actual results may differ from such estimates.

In addition, some valuation processes, in particular the most complex such as the determination of any loss in value of non-current assets, are generally made on a complete basis on the preparation of the annual accounts, when all the necessary information is available. However, where indications of potential losses are evident, an impairment test is also carried out on the preparation of the interim financial statements and any loss is reflected in the individual accounts.

Income taxes are recognised on the basis of the best estimate of the expected tax rates for the entire year.

## Accounting standards, amendments and interpretations applied from January 1, 2016

As per IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors), the IFRS in effect from January 1, 2016 are indicated and briefly illustrated below.

Amendments to IFRS 11 *(Joint Arrangements): Accounting for the acquisition of investments in Joint arrangements*
On November 24, 2015, EU Regulation No. 2015/2173 was issued, enacting at European level some limited modifications to IFRS 11. The amendments add new guidelines on the calculation of the acquisition of an investment in a joint operation, whose activities constitute a business (as defined by IFRS 3 - *Business Combinations*).

Amendments to *IAS 16 (Property, plant and equipment)* and *IAS 38 - (Intangible Assets)*
On December 2, 2015, EU Regulation No. 2015/2231 was issued, enacting at European level some limited modifications to IAS 16 and IAS 38. The amendments to both standards establishes that an asset should not be depreciated based on the revenues to be generated over a set period; the IASB clarified that revenues generated from an activity which includes the use of an asset generally reflect factors other than the consumption of economic benefit of the asset.

Improvements to IFRS (2012–2014 cycle): on December 15, 2015 EU Regulation 2015/2343 was issued and enacted at EU level a number of improvements to IFRS for the period 2012-2014; with regard to these amendments we highlight:

- IFRS 5 - *Non-current assets held for sale and discontinued operations*; the amendments clarify that where a non-current asset (or disposal group) is reclassified from "held for sale" to "held for distribution" or vice versa, this reclassification does not constitute an amendment to a sales or distribution plan and therefore should not be recognised as such;
- IFRS 7 - *Financial instruments: additional disclosure*; these amendments concern service contracts: if an entity transfers a financial asset to third parties and the conditions of IAS 39 are complied with for the elimination of the asset, the amendment to IFRS 7 requires that disclosure of any residual involvement which the entity may still have in relation to the transferred asset is reported.
- IAS 19 - *Employee Benefits*; the standard requires that the discount rate used for post-employment benefit obligations must be calculated on the basis of the market yields of leading corporate bonds and in Countries in which there is no "deep market" for such bonds, the market yields of government securities must be used. The amendment establishes that in evaluating the existence of a "deep market" for leading company bonds, the market must be considered at currency level and not at individual Country level;
- IAS 34 - *Interim financial statements*; the amendment clarifies how information in the interim financial statements may be supplemented by other information available in other sections of the Interim Financial Statements (e.g. Directors' Report) through referencing.

Amendments to IAS 1 *(Presentation of financial statements)* - Disclosure initiatives
On December 18, 2015, EU Regulation No. 2015/2406 was issued, enacting at European level some limited modifications to IAS 1. In particular, the amendments, which are part of a wider improvement initiative for the presentation and disclosure of financial statements, include updates in the following areas:

- *materiality*: it is established that this concept applies to financial statements in their totality and that the inclusion of immaterial information may affect the utility of financial disclosure;
- *de-aggregation and subtotals*: it is established that separate income statement, comprehensive income statement and balance sheet accounts may be de-aggregated;
- *structure of the notes*: entities are granted a certain degree of flexibility in setting the order of presentation of the notes, while not affecting the comprehensibility or comparability of financial statements;

- *investments valued at equity;* in the comprehensive income statement it is necessary to divide the parts that may be reclassified to the separate income statement from those that may not.

The adoption of these amendments had no impact on the condensed half-year consolidated financial statements at June 30, 2016.

**New Standards and Interpretations adopted by the EU, but not yet effective**

There are no IFRS standards adopted by the EU, but not yet in force.

**New standards and interpretations issued by IASB and not yet enacted by the EU**

At the date of the present condensed half-year consolidated financial statements, the following new Standards/Interpretations were issued by IASB, although still not approved by the EU:

- IFRS 9 - *Financial instruments* - applicable from January 1, 2018;
- IFRS 15 - *Revenue from contracts with customers*, applicable from January 2018;
- *IFRS 16 - Leases*, applicable from January 2019;
- Amendments to IFRS 10 – *Consolidated financial statements* and IAS 28 - *Investments in associates and joint ventures*, sales and conferment of assets between an investor and an associate/joint venture, applicable deferred to be determined;
- Amendments to IAS 12 - *Income taxes,* recognition of deferred tax assets on losses not realised, applicable from January 1, 2017;
- Amendments to IAS 7 - *Cash flow statement, disclosure initiatives*, applicable from January 1, 2017;
- Amendments to IFRS 2 – *Classification and measurement of share-based payments,* applicable from January 1, 2018;

The Group will adopt these new standards, amendments and interpretations, according to the scheduled application date; any impacts on the financial statements are currently being assessed.

## 3. FORMAT OF THE FINANCIAL STATEMENTS

The BasicNet Group presents its income statement by nature of cost items; the assets and liabilities are classified as current or non-current. The cash flow statement was prepared applying the indirect method. The format of the consolidated financial statements applied the provisions of Consob Resolution No. 15519 of July 27, 2006 and Notice No. 6064293 of July 28, 2006 on financial disclosure requirements. With reference to the afore-mentioned Consob Resolution No. 15519, in consideration of the insignificance of the overall amounts, transactions with related parties are described in Note 45 of the Consolidated Half-Year Financial Statements.

## 4. CONSOLIDATION PRINCIPLES

The Consolidated Half-Year Financial Statements were prepared including the Financial Statements at June 30, 2016 of the Group companies included in the consolidation scope, appropriately adjusted in accordance with the accounting principles adopted by the Parent Company.

The condensed consolidated half-year financial statements of the BasicNet Group are presented in Euro thousands, where not otherwise stated; the Euro is the functional currency of the Parent Company and the majority of the consolidated companies.

Financial statements in currencies other than the Euro are translated into the Euro applying the average exchange rate for the year for the income statement. The balance sheet accounts are translated at the year-end exchange rate. The differences arising from the translation into Euro of the financial statements prepared in currencies other than the Euro are recorded in a specific reserve in the Comprehensive Income Statement.

The exchange rates applied are as follows (for 1 Euro):

| **Currency** | **June 30, 2016** | | **December 31, 2015** | | **June 30, 2015** | |
|---|---|---|---|---|---|---|
| | **Average** | **At period end** | **Average** | **At period end** | **Average** | **At period end** |
| US Dollar | 1.1138 | 1.1102 | 1.1041 | 1.0887 | 1.1110 | 1.1189 |
| HK Dollar | 8.6522 | 8.6135 | 8.5590 | 8.4376 | 8.6132 | 8.6740 |
| Japanese Yen | 123.6642 | 114.0500 | 133.5853 | 131.0700 | 133.6671 | 137.0100 |
| UK Sterling | 0.7844 | 0.8265 | 0.7240 | 0.7340 | 0.7270 | 0.7114 |

The criteria adopted for the consolidation were as follows:

a) the assets and liabilities, as well as the income and charges of the financial statements consolidated under the line-by-line method are included in the financial statements of the Group, without consideration of the holding in the subsidiary. The carrying value of the investments are eliminated against the relative net equity of the subsidiaries. As all companies included in the consolidation scope are wholly-owned, minority interest equity was not allocated or minority interest share of profit/(loss);

b) the positive differences resulting from the elimination of the investments against the book net equity at the acquisition date is allocated to the higher values attributed to the assets and liabilities acquired, and the residual part to goodwill. On the first-time adoption of IFRS, the Group has chosen not to apply *IFRS 3 - Business combinations* in retrospective manner for the acquisitions made prior to January 1, 2004;

c) the payables/receivables, costs/revenues between consolidated companies and the gains/losses resulting from inter-company operations are eliminated, as are the effects of mergers and the sale of business units between companies in the consolidation scope.

As illustrated in Attachment 1, at June 30, 2016 the Group is comprised solely of subsidiaries owned directly or indirectly by the Parent Company BasicNet S.p.A., or jointly controlled; there are no associated companies or investments in structured entities or joint arrangements in the Group.

Control exists where the Parent Company BasicNet S.p.A. simultaneously:

- exercises decision-making power over the investee, i.e. has the capacity to manage its main activities, therefore those activities which have a significant impact on the investee's results;
- has the right to variable profits or losses from its investment in the entity;
- has the capacity to utilise its decision-making power to establish the amount of profits devolving from its investment in the entity.

The existence of control is verified where events or circumstances indicate an alteration to one or more of the three factors determining control.
Investments in associates and joint ventures are consolidated at equity, as established respectively by IAS 28 - *Investments in associates and joint ventures* and by IFRS 11 – *Joint arrangements*.

An associate is a company in which the Group holds at least 20% of voting rights or exercises significant influence - however not control or joint control - on the financial and operational policies. A joint venture is a joint control agreement, in which the parties who jointly hold control maintain rights on the net assets of the entity. Joint control concerns the sharing, under an agreement, of the control of economic activities, which exists only where the decisions regarding such activities requires unanimity by all parties sharing control.
Associates and joint ventures are consolidated from the date in which significant influence or joint control begins and until the discontinuation of such. Under the equity method, the investment in an associated company or a joint venture is initially recognised at cost and the carrying amount is increased or decreased to recognise the associated company's share of the profit or loss after the date of acquisition. The share of profits (losses) of the investment is recognised to the consolidated income statements. Dividends received from the investee reduce the book value of the investment.

If the share of losses of an entity in an associate or a joint venture is equal to or greater than its interest in the associate or joint venture the entity discontinues the recognition of its share of further losses. After the investor's interest is reduced to zero, additional losses are provisioned and a liability is recognised, only to the extent that the investor has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture. If the associate or the joint venture subsequently reports profits, the investor resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

### Consolidation Scope

The consolidation scope includes the Parent company BasicNet S.p.A. and the Italian and foreign subsidiaries in which BasicNet S.p.A. exercises direct, or indirect, control. Attachment 1 contains a list of consolidated companies under the line-by-line method, as well as the complete list of Group companies, registered office, corporate purpose, share capital and direct and indirect holdings.

### Information by business segment and geographic area

Three operating segments were identified within the BasicNet Group: i) licenses and brands, (ii) proprietary licensees and (iii) property. The relevant information is reported in Note 6.

The information by geographic area has significance for the Group in relation to royalty income and consolidated sales, and therefore was included for the two respective items. The breakdown of licensee aggregate sales by geographic area, from which the royalties derive, is reported in the Directors' Report.

## 5. OTHER INFORMATION

The subsequent events to the end of the period and the outlook for the current year are reported in the Directors' Report.

# EXPLANATORY NOTES TO THE INCOME STATEMENT

(IN EURO THOUSANDS UNLESS OTHERWISE STATED)

## 6. DISCLOSURE BY OPERATING SEGMENT

The BasicNet Group identifies three operating segments:

- "Licenses and Brands", which involves the management of overseas licensees and "sourcing centres" by the following Group companies: BasicNet S.p.A., Basic Properties B.V., Basic Properties America, Inc., BasicNet Asia Ltd., Basic Trademark S.A., Superga Trademark S.A., Jesus Jeans S.r.l., AnziBesson Trademark S.r.l. and Fashion S.r.l.;

- "Proprietary licensees", which involves the direct management of the sales channels through BasicItalia S.p.A. (proprietary licensor) for wholesale and BasicRetail S.r.l. for retail;

- "Property", which involves the management of the building at Turin – Largo Maurizio Vitale 1, known as "Basic Village".

| *H1 2016* | Licenses and brands | Prop. licensee | Property | Inter-seg. eliminations | Consolidated |
|---|---|---|---|---|---|
| Consolidated direct sales - third parties | 382 | 62,725 | - | - | 63,107 |
| *Consolidated direct sales - inter-segment* | *768* | *151* | - | *(919)* | - |
| (Cost of sales – third parties) | (998) | (36,132) | - | - | (37,130) |
| *(Cost of sales – inter-segment)* | *(29)* | *(733)* | - | *762* | - |
| **GROSS MARGIN** | **123** | **26,011** | **-** | **(157)** | **25,977** |
| Royalties and sourcing commissions – third parties | 23,139 | - | - | - | 23,139 |
| *Royalties and sourcing commissions – inter-segment* | *5,589* | - | - | *(5,589)* | - |
| Other income - third parties | 361 | 217 | 310 | - | 888 |
| *Other income – inter-segment* | *152* | *6,124* | *1,346* | *(7,622)* | - |
| (Sponsorship and media costs – third parties) | (2,294) | (9,738) | - | - | (12,032) |
| *(Sponsorship and media costs – inter-segment)* | *(6,152)* | *(4)* | - | *6,156* | - |
| (Personnel costs – third parties) | (4,534) | (5,376) | (12) | - | (9,922) |
| *(Personnel costs – inter-segment)* | - | - | - | - | - |
| (Selling, general and administrative costs, royalties expenses – third parties) | (6,425) | (10,793) | (773) | - | (17,991) |
| *(Selling, general and administrative costs, royalties expenses – inter-segment)* | *(1,058)* | *(6,128)* | *(25)* | *7,211* | - |
| Amortisation & Depreciation | (1,079) | (1,446) | (425) | - | (2,950) |
| **EBIT** | **7,822** | **(1,133)** | **421** | **(1)** | **7,109** |
| Financial income – third parties | 293 | 820 | - | - | 1,113 |
| *Financial income – inter-segment* | *120* | - | - | *(120)* | - |
| (Financial charges – third parties) | (577) | (571) | (242) | - | (1,390) |
| *(Financial charges – inter-segment)* | - | *(120)* | - | *120* | - |
| Profit/(loss) of investments valued at equity - third parties | (17) | - | - | - | (17) |
| *Profit/(loss) investments valued at equity - inter-segment* | - | - | - | - | - |
| **PROFIT/(LOSS) BEFORE TAXES** | **7,641** | **(1,004)** | **179** | **(1)** | **6,815** |
| Income taxes | (1,993) | 360 | (101) | - | (1,734) |
| **NET PROFIT/(LOSS)** | **5,648** | **(644)** | **78** | **(1)** | **5,081** |
| *Significant non-cash items:* | | | | | |
| Amortisation & Depreciation | (1,079) | (1,446) | (425) | - | (2,950) |
| Write-downs | - | - | - | - | - |
| **Total non-cash items** | **(1,079)** | **(1,446)** | **(425)** | **-** | **(2,950)** |
| **Investments in non-current assets** | **(3,008)** | **(2,222)** | **(95)** | **-** | **(5,325)** |
| *Segment assets and liabilities:* | | | | | |
| **Assets** | **181,780** | **110,896** | **16,653** | **(106,340)** | **202,990** |
| **Liabilities** | **76,683** | **99,141** | **12,033** | **(74,178)** | **113,680** |

| *H1 2015* | Licenses and brands | Prop. licensees | Property | Inter-seg. eliminations | Consolidated |
|---|---|---|---|---|---|
| Consolidated direct sales - third parties | 349 | 63,575 | - | - | 63,924 |
| *Consolidated direct sales - inter-segment* | *589* | *175* | - | *(764)* | - |
| (Cost of sales – third parties) | (756) | (36,570) | - | - | (37,326) |
| *(Cost of sales – inter-segment)* | *(19)* | *(585)* | - | *604* | - |
| **GROSS MARGIN** | **163** | **26,595** | **-** | **(160)** | **26,598** |
| Royalties and sourcing commissions – third parties | 23,799 | 2 | - | - | 23,801 |
| *Royalties and sourcing commissions – inter-segment* | *5,742* | - | - | *(5,742)* | - |
| Other income - third parties | 1,310 | 527 | 295 | - | 2,132 |
| *Other income – inter-segment* | *226* | *3,257* | *1,390* | *(4,873)* | - |
| (Sponsorship and media costs – third parties) | (2,444) | (5,380) | - | - | (7,824) |
| *(Sponsorship and media costs – inter-segment)* | *(3,278)* | *(2)* | - | *3,280* | - |
| (Personnel costs – third parties) | (4,428) | (4,973) | - | - | (9,401) |
| *(Personnel costs – inter-segment)* | - | - | - | - | - |
| (Selling, general and administrative costs, royalties expenses – third parties) | (5,941) | (11,548) | (776) | - | (18,265) |
| *(Selling, general and administrative costs, royalties expenses – inter-segment)* | *(1,146)* | *(6,324)* | *(25)* | *7,495* | - |
| Amortisation & Depreciation | (1,065) | (1,555) | (435) | - | (3,055) |
| **EBIT** | **12,938** | **599** | **449** | **-** | **13,986** |
| Financial income – third parties | 1,707 | 2,728 | - | - | 4,435 |
| *Financial income – inter-segment* | *48* | - | - | *(48)* | - |
| (Financial charges – third parties) | (801) | (3,013) | (276) | - | (4,090) |
| *(Financial charges – inter-segment)* | - | *(48)* | - | *48* | - |
| Profit/(loss) of investments valued at equity - third parties | (138) | - | - | - | (138) |
| *Profit/(loss) investments valued at equity - inter-segment* | - | - | - | - | - |
| **PROFIT BEFORE TAXES** | **13,754** | **266** | **173** | **-** | **14,193** |
| Income taxes | (4,813) | (202) | (88) | - | (5,103) |
| **NET PROFIT** | **8,941** | **64** | **85** | **-** | **9,090** |
| *Significant non-cash items:* | | | | | |
| Amortisation & Depreciation | (1,065) | (1,555) | (435) | - | (3,055) |
| Write-downs | - | - | - | - | - |
| **Total non-cash items** | **(1,065)** | **(1,555)** | **(435)** | **-** | **(3,055)** |
| **Investments in non-current assets** | **(1,455)** | **(1,405)** | **(39)** | **-** | **(2,899)** |
| *Segment assets and liabilities:* | | | | | |
| **Assets** | **181,076** | **104,500** | **16,724** | **(98,184)** | **204,116** |
| **Liabilities** | **77,784** | **92,392** | **12,451** | **(64,635)** | **117,992** |

The H1 2016 segment results compared with the previous year are reported below:

| *"LICENSES AND BRANDS" SECTOR* | H1 2016 | H1 2015 | Changes |
|---|---|---|---|
| Consolidated direct sales - third parties | 382 | 349 | 33 |
| *Consolidated direct sales - inter-segment* | *768* | *589* | *179* |
| (Cost of sales – third parties) | (998) | (756) | (242) |
| *(Cost of sales – inter-segment)* | *(29)* | *(19)* | *(10)* |
| **GROSS MARGIN** | **123** | **163** | **(40)** |
| Royalties and sourcing commissions – third parties | 23,139 | 23,799 | (660) |
| *Royalties and sourcing commissions – inter-segment* | *5,589* | *5,742* | *(153)* |
| Other income - third parties | 361 | 1,310 | (949) |
| *Other income – inter-segment* | *152* | *226* | *(74)* |
| (Sponsorship and media costs – third parties) | (2,294) | (2,444) | 150 |
| *(Sponsorship and media costs – inter-segment)* | *(6,152)* | *(3,278)* | *(2,874)* |
| (Personnel costs – third parties) | (4,534) | (4,428) | (106) |
| *(Personnel costs – inter-segment)* | - | - | - |
| (Selling, general and administrative costs, royalties expenses – third parties) | (6,425) | (5,941) | (484) |
| *(Selling, general and administrative costs, royalties expenses – inter-segment)* | *(1,058)* | *(1,146)* | *88* |
| Amortisation & Depreciation | (1,079) | (1,065) | (14) |
| **EBIT** | **7,822** | **12,938** | **(5,116)** |
| Financial income – third parties | 293 | 1,707 | (1,414) |
| *Financial income – inter-segment* | *120* | *48* | *72* |
| (Financial charges – third parties) | (577) | (801) | 224 |
| *(Financial charges – inter-segment)* | - | - | - |
| Profit/(loss) of investments valued at equity - third parties | (17) | (138) | 121 |
| *Profit/(loss) investments valued at equity - inter-segment* | - | - | - |
| **PROFIT BEFORE TAXES** | **7,641** | **13,754** | **(6,113)** |
| Income taxes | (1,993) | (4,813) | 2,820 |
| **NET PROFIT** | **5,648** | **8,941** | **(3,293)** |
| *Significant non-cash items:* | | | |
| Amortisation & Depreciation | (1,079) | (1,065) | (14) |
| Write-downs | - | - | - |
| **Total non-cash items** | **(1,079)** | **(1,065)** | **(14)** |
| **Investments in non-current assets** | **(3,008)** | **(1,455)** | **(1,553)** |
| *Segment assets and liabilities:* | | | |
| **Assets** | **181,780** | **181,076** | **74** |
| **Liabilities** | **76,683** | **77,784** | **(1,101)** |

| *"PROPRIETARY LICENSES" SECTOR* | **H1 2016** | **H1 2015** | **Changes** |
|---|---|---|---|
| Consolidated direct sales - third parties | 62,725 | 63,575 | (850) |
| *Consolidated direct sales - inter-segment* | *151* | *175* | *(24)* |
| (Cost of sales – third parties) | (36,132) | (36,570) | 438 |
| *(Cost of sales – inter-segment)* | *(733)* | *(585)* | *(148)* |
| **GROSS MARGIN** | **26,011** | **26,595** | **(584)** |
| Royalties and sourcing commissions – third parties | - | 2 | (2) |
| *Royalties and sourcing commissions – inter-segment* | - | - | - |
| Other income - third parties | 217 | 527 | (310) |
| *Other income – inter-segment* | *6,124* | *3,257* | *2,867* |
| (Sponsorship and media costs – third parties) | (9,738) | (5,380) | (4,358) |
| *(Sponsorship and media costs – inter-segment)* | *(4)* | *(2)* | *(2)* |
| (Personnel costs – third parties) | (5,376) | (4,973) | (403) |
| *(Personnel costs – inter-segment)* | - | - | - |
| (Selling, general and administrative costs, royalties expenses – third parties) | (10,793) | (11,548) | 755 |
| *(Selling, general and administrative costs, royalties expenses – inter-segment)* | *(6,128)* | *(6,324)* | *196* |
| Amortisation & Depreciation | (1,446) | (1,555) | 109 |
| **EBIT** | **(1,133)** | **599** | **(1,732)** |
| Financial income – third parties | 820 | 2,728 | (1,908) |
| *Financial income – inter-segment* | - | - | - |
| (Financial charges – third parties) | (571) | (3,013) | 2,442 |
| *(Financial charges – inter-segment)* | *(120)* | *(48)* | *(72)* |
| Profit/(loss) of investments valued at equity - third parties | - | - | - |
| *Profit/(loss) investments valued at equity - inter-segment* | - | - | - |
| **PROFIT/(LOSS) BEFORE TAXES** | **(1,004)** | **266** | **(1,270)** |
| Income taxes | 360 | (202) | 562 |
| **NET PROFIT/(LOSS)** | **(644)** | **64** | **(708)** |
| *Significant non-cash items:* | | | |
| Amortisation & Depreciation | (1,446) | (1,555) | 109 |
| Write-downs | - | - | - |
| **Total non-cash items** | **(1,446)** | **(1,555)** | **109** |
| **Investments in non-current assets** | **(2,222)** | **(1,405)** | **(817)** |
| *Segment assets and liabilities:* | | | |
| **Assets** | **110,896** | **104,500** | **6,396** |
| **Liabilities** | **99,141** | **92,392** | **6,749** |

| *"PROPERTY" SECTOR* | H1 2016 | H1 2015 | Changes |
|---|---|---|---|
| Consolidated direct sales - third parties | - | - | - |
| *Consolidated direct sales - inter-segment* | - | - | - |
| (Cost of sales – third parties) | - | - | - |
| *(Cost of sales – inter-segment)* | - | - | - |
| **GROSS MARGIN** | - | - | - |
| Royalties and sourcing commissions – third parties | - | - | - |
| *Royalties and sourcing commissions – inter-segment* | - | - | - |
| Other income - third parties | 310 | 295 | 15 |
| *Other income – inter-segment* | *1,346* | *1,390* | *(44)* |
| (Sponsorship and media costs – third parties) | - | - | - |
| *(Sponsorship and media costs – inter-segment)* | - | - | - |
| (Personnel costs – third parties) | (12) | - | (12) |
| *(Personnel costs – inter-segment)* | - | - | - |
| (Selling, general and administrative costs, royalties expenses – third parties) | (773) | (776) | 3 |
| *(Selling, general and administrative costs, royalties expenses – inter-segment)* | *(25)* | *(25)* | - |
| Amortisation & Depreciation | (425) | (435) | 10 |
| **EBIT** | **421** | **449** | **(28)** |
| Financial income – third parties | - | - | - |
| *Financial income – inter-segment* | - | - | - |
| (Financial charges – third parties) | (242) | (276) | 34 |
| *(Financial charges – inter-segment)* | - | - | - |
| Profit/(loss) of investments valued at equity - third parties | - | - | - |
| *Profit/(loss) investments valued at equity - inter-segment* | - | - | - |
| **PROFIT BEFORE TAXES** | **179** | **173** | **6** |
| Income taxes | (101) | (88) | (13) |
| **NET PROFIT** | **78** | **85** | **(7)** |
| *Significant non-cash items:* | | | |
| Amortisation & Depreciation | (425) | (435) | 10 |
| Write-downs | - | - | - |
| **Total non-cash items** | **(425)** | **(435)** | **10** |
| **Investments in non-current assets** | **(95)** | **(39)** | **(56)** |
| *Segment assets and liabilities:* | | | |
| **Assets** | **16,653** | **16,724** | **(72)** |
| **Liabilities** | **12,033** | **12,451** | **(418)** |

- The "Licenses and brands" segment reports royalties and sourcing commissions decreasing from Euro 29.5 million in H1 2015 to Euro 28.7 million in H1 2016, due to the impact of the general political instability which saw a drop in consumption in the major western economies and significant currency tensions; sourcing commissions decreased due to the destocking activity and inventory rationalisation by some major licensees. The segment net profit totalled Euro 5.6 million, compared to Euro 8.9 million in H1 2015. The decrease is due to other income deriving from a non-recurring indemnity received in the previous year, but in particular from the major investment spend in marketing to support the campaigns and sponsorships concluded by major licensees, in particular in Italy, whose returns are expected with the launch of new collections;

- the "Proprietary Licensees" segment, comprising BasicItalia S.p.A. and its subsidiary BasicRetail S.r.l., reports a slight drop in revenues (-1.3%) compared to the first half of the previous year, having sacrificed a portion of revenues following a careful review of the distribution network. The contribution margin on sales of Euro 26 million is substantially in line with the previous year. Personnel costs increased compared to the previous year due to operational developments and the major communication spend, whose returns are subject to a time lapse as described in the Directors' Report. The segment reports a loss of Euro 643 thousand compared to a profit of Euro 64 thousand in the same period of the previous year;

- the "Property" segment, relating to the building at Largo Maurizio Vitale 1, Turin, reports a profit of Euro 79 thousand compared to a profit of Euro 84 thousand in 2015.

## 7. CONSOLIDATED DIRECT SALES

the breakdown of direct consolidated sales by geographic area is reported below:

| | H1 2016 | H1 2015 |
|---|---|---|
| Italy | 59,291 | 59,626 |
| EU countries other than Italy | 2,357 | 3,141 |
| Rest of the World | 1,459 | 1,157 |
| **Total consolidated direct sales** | **63,107** | **63,924** |

Direct sales revenues relate to merchandise sold by BasicItalia S.p.A. and BasicRetail S.r.l., both through National and Regional Servicing Centres and directly to the public (Euro 62.8 million) and by BasicNet S.p.A. for sample merchandise sales (Euro 0.2 million). Sales on the home market accounted for 93.9%, while approx. 3.7% of sales were in other EU countries, with the remaining approx. 2.4% outside the EU. Sales outside of Italy are related to commercial activities in countries not yet subject to specific licensing contracts, by the licensee companies of the Group.

### 8. *COST OF SALES*

| | H1 2016 | H1 2015 |
|---|---|---|
| Goods purchased – Overseas | 28,642 | 32,328 |
| Goods purchased – Italy | 2,687 | 2,766 |
| Samples purchased | 752 | 675 |
| Accessories purchased | 24 | 52 |
| Freight charges and accessory purchasing cost | 3,622 | 4,447 |
| Packaging | 205 | 188 |
| Changes in inventory of raw materials, ancillary, consumables and goods | (1,518) | (5,590) |
| Cost of outsourced logistics | 2,211 | 2,164 |
| Others | 505 | 296 |
| **Total cost of sales** | **37,130** | **37,326** |

The "goods purchased" refer to the finished products acquired by BasicItalia S.p.A.. Sample purchases were made by BasicNet S.p.A. for resale to the licensees.

The cost of sales, substantially in line with the first half of the previous year, resulted in an EBITDA of approx. Euro 26 million compared to Euro 26.6 million in the first half of the previous year.

### 9. ROYALTIES AND SOURCING COMMISSIONS

"Royalties and sourcing commissions" refer to royalty fees for the brand licenses in the countries where the licenses have been assigned, or recognised to authorised sourcing centres for the production and sale of group brand products by commercial licensees. As previously described, the optimisation of the management of merchandise available by some commercial licensees resulted in destocking, which impacted sourcing commissions in the period.

The changes in the period are commented upon in the Directors' Report.

The breakdown by region is reported below:

| | H1 2016 | H1 2015 |
|---|---|---|
| Europe (EU and non-EU) | 9,819 | 10,445 |
| The Americas | 2,631 | 2,430 |
| Asia and Oceania | 8,956 | 9,080 |
| Middle East, Africa | 1,733 | 1,846 |
| **Total** | **23,139** | **23,801** |

### 10. OTHER INCOME

| | H1 2016 | H1 2015 |
|---|---|---|
| Rental income | 196 | 191 |
| Recovery of condominium expenses | 95 | 102 |
| Income from promo sales and other income | 597 | 1,839 |
| **Total other income** | **888** | **2,132** |

The "recovery of condominium expenses" concerns the recharge to lessees of utility costs.

"Income from promo sales" refer to income from the right to use trademarks for commercialisation of products in promotion activities, which are of a non-recurring nature. Other income in H1 2015 included Euro 1 million received as a commercial indemnity, of a non-recurring nature.

"Other income" includes prior year accruals' reversals, the recharge of expenses to third parties and other indemnities against counterfeiting and unauthorised usage protection actions.

## 11. SPONSORSHIP AND MEDIA COSTS

| | H1 2016 | H1 2015 |
|---|---|---|
| Sponsorship and marketing | 10,153 | 6,602 |
| Advertising | 1,607 | 878 |
| Promotional expenses | 272 | 344 |
| **Total sponsorship and media costs** | **12,032** | **7,824** |

The account "sponsorship" refers to communication investments incurred directly to which the Group contributes, described in detail in the Directors' Report.

"Advertising" refers to billboard advertising and press communication campaigns. These costs increased in the half-year on the previous year, particularly in terms of Kappa, Superga and K-Way brand support costs.

Promotional expenses concern gifts of products and advertising material, not relating to specific sponsorship contracts.

## 12. PERSONNEL COSTS

| | H1 2016 | H1 2015 |
|---|---|---|
| Wages and salaries | 7,274 | 6,805 |
| Social security charges | 2,208 | 2,178 |
| Post-employment benefits | 440 | 418 |
| **Total personnel costs** | **9,922** | **9,401** |

The number of employees at the reporting date, by category, is reported in the table below:

| | Human resources at June 30, 2016 | | | | Human resources at December 31, 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| Category | Number | | Average age | | Number | | Average age | |
| | Men/Women | Total | Men/Women | Average | Men/Women | Total | Men/Women | Average |
| Executives | 16 / 10 | 26 | 48 / 49 | 48 | 17 / 9 | 26 | 47 / 48 | 47 |
| Managers | 1 / - | 1 | 54 / - | 54 | 1 / - | 1 | 53 / - | 53 |
| White-colla | 135 / 334 | 469 | 36 / 36 | 36 | 134 / 323 | 457 | 35 / 36 | 36 |
| Blue-collar | 13 / 10 | 23 | 46 / 43 | 45 | 14 / 10 | 24 | 45 / 42 | 43 |
| Total | 165 / 354 | 519 | 37 / 36 | 37 | 166 / 342 | 508 | 36 / 36 | 36 |

The average number of employees during the half-year was 509, broken down as 26 executives, 1 manager, 458 white-collar employees and 24 blue-collar employees.

The increase in personnel costs is due to new hires in the period and in the second half of the previous year, for an overall increase in 47 new employees, almost entirely in the retail area.

## 13. SELLING, GENERAL AND ADMINISTRATIVE COSTS AND ROYALTIES EXPENSES

| | H1 2016 | H1 2015 |
|---|---|---|
| Selling and royalty service expenses | 4,192 | 4,154 |
| Rental, accessory and utility expenses | 4,781 | 4,955 |
| Commercial expenses | 2,170 | 1,666 |
| Directors and Statutory Auditors emoluments | 1,686 | 1,488 |
| Doubtful debt provision | 1,375 | 1,594 |
| Other general expenses | 3,787 | 4,408 |
| **Total selling, general and administrative costs, and royalties expenses** | **17,991** | **18,265** |

"Selling and royalty service expenses" principally include commissions to agents of the subsidiary BasicItalia S.p.A. and royalties on sports team merchandising contracts and co-branding operations.

"Commercial expenses" include costs relating to selling activities, comprising trade fairs and exhibitions, communication costs for advertising campaigns, stylists, graphics and commercial and travel expenses. The increase is related to the higher investment in communications in the first half year.

"Directors and Statutory Auditors emoluments", for offices held at the date of the present Report, approved by the Shareholders' AGM and the Board of Directors' meetings of April 28, 2016, are in line with the company remuneration policy, pursuant to Article 78 of Consob Regulation No. 11971/97 and subsequent amendments and integrations, and are reported in the Remuneration Report pursuant to Article 123-*ter* of the CFA, which is available on the company's website www.basicnet.com Shareholder' Meeting 2016 section, to which reference should be made.

The account "other general expenses" includes legal and professional fees, bank charges, other taxes, consumption materials, hire charges, and corporate and other minor expenses. The reduction is mainly due to lower legal and professional consultant costs in the year.

## 14. AMORTISATION & DEPRECIATION

| | H1 2016 | H1 2015 |
|---|---|---|
| Amortisation | 1,524 | 1,583 |
| Depreciation | 1,426 | 1,472 |
| **Total amortisation & depreciation** | **2,950** | **3,055** |

Amortisation on intangible assets includes Euro 147 thousand of key-money write-down relating to some sales points closed in the period or for which the decision to close has been made, within a normal rotation of less profitable sales point in favour of the opening of new locations or more appropriate operational strategies.

## 15. NET FINANCIAL INCOME (CHARGES)

| | H1 2016 | H1 2015 |
|---|---|---|
| Interest income | 3 | 1 |
| Bank interest charges | (264) | (421) |
| Commercial interest expenses | (14) | (17) |
| Interest on medium/long term loans | (408) | (484) |
| Property lease interest | (36) | (34) |
| Others | (92) | (208) |
| ***Total financial income and charges*** | ***(812)*** | ***(1,163)*** |
| Exchange gains | 1,110 | 4,431 |
| Exchange losses | (576) | (2,923) |
| ***Net exchange gains/(losses)*** | ***535*** | ***1,508*** |
| **Total financial income/(charges)** | **(277)** | **345** |

Financial charges reduced following the general reduction in interest rates, in addition to the reduction of the debt. Net exchange gains of Euro 0.5 million are reported, particularly due to hedges (flexi-term) on the US Dollar undertaken in the previous year.

## 16. SHARE OF PROFIT/(LOSS) OF INVESTMENTS VALUED AT EQUITY

The account, introduced following the application of *IFRS 11 – Joint arrangements*, reflects the effect on the consolidated result for the period of the valuation at equity of the joint ventures AnziBesson Trademark S.r.l. and Fashion S.r.l.. (Note 23)

## 17. INCOME TAXES

Income taxes comprise current taxes of Euro 2.5 million, the reversal of deferred tax liabilities of Euro 59 thousand and tax income of Euro 763 thousand related to the application of the "Patent Box".

It should be noted that the benefit attributable to the application of the recent "Patent Box" regulation was limited to the part not subject to review by the Tax Agency and for which an application was presented within the terms established by the relative notices; it should also be noted that the Tax Agency undertook the *"review activities in which it was established that BasicNet S.p.A., Basic Trademark S.A. and Superga Trademark S.A. are within the scope of the subsidy, with the formal substance verified of the obligatory elements for access to the optional system and the applications therefore declared admissible"*.

## 18. EARNINGS PER SHARE

The basic earnings per share, for H1 2016, is calculated dividing the net result attributable to the shareholders of the Group by the weighted average number of ordinary shares outstanding during the period:

| *(in Euro)* | H1 2016 | H1 2015 |
|---|---|---|
| Net profit attributable to owners of the Parent | 5,081,495 | 9,090,379 |
| Weighted average number of ordinary shares | 56,285,803 | 56,901,718 |
| Basic earnings per ordinary share | 0.0903 | 0.1598 |

At June 30, 2016 there were no "potentially diluting" shares outstanding, therefore the diluted earnings per share coincides with the earnings per share.
The change in the weighted average number of ordinary shares outstanding between the periods relates to the number of treasury shares acquired in the period.

# EXPLANATORY NOTES TO THE BALANCE SHEET

## ASSETS

### 19. INTANGIBLE ASSETS

| | June 30, 2016 | December 31, 2015 | June 30, 2015 |
|---|---|---|---|
| Concessions, brands and similar rights | 34,457 | 34,521 | 34,539 |
| Software programmes | 4,766 | 4,509 | 4,540 |
| Other intangible assets | 2,323 | 2,450 | 2,649 |
| Industrial patents | 34 | 33 | 32 |
| **Total intangible assets** | **41,580** | **41,513** | **41,760** |

The changes in the original costs of the intangible assets were as follows:

| | Concessions, brands and similar rights | Software programmes | Other intangible assets | Industrial patents | Total |
|---|---|---|---|---|---|
| **Historic cost at 1.1.2016** | **47,032** | **38,053** | **8,825** | **81** | **93,991** |
| *Additions* | *103* | *1,193* | *121* | *4* | *1,421* |
| *Disposals and other changes* | - | - | *(2)* | - | *(2)* |
| *Write-downs* | - | - | - | - | - |
| **Historic cost at 30.06.2016** | **47,135** | **39,246** | **8,944** | **85** | **95,410** |

The changes in the relative accumulated amortisation provisions were as follows:

| | Concessions, brands and similar rights | Software programmes | Other intangible assets | Industrial patents | Total |
|---|---|---|---|---|---|
| **Acc. Amort. at 1.1.2016** | **(12,511)** | **(33,544)** | **(6,375)** | **(48)** | **(52,478)** |
| *Amortisation* | *(167)* | *(936)* | *(246)* | *(3)* | *(1,352)* |
| *Disposals and other changes* | - | - | - | - | - |
| *Write-downs* | - | - | - | - | - |
| **Acc. Amort. at 30.06.2016** | **(12,678)** | **(34,480)** | **(6,621)** | **(51)** | **(53,830)** |

The net book value of intangible assets is reported below:

| | Concessions, brands and similar rights | Software programmes | Other intangible assets | Industrial patents | Total |
|---|---|---|---|---|---|
| **Opening net book value at January 1, 2016** | **34,521** | **4,509** | **2,450** | **33** | **41,513** |
| *Additions* | *103* | *1,193* | *121* | *4* | *1,421* |
| *Disposals and other changes* | - | - | *(2)* | - | *(2)* |
| *Amortisation* | *(167)* | *(936)* | *(246)* | *(3)* | *(1,352)* |
| *Write-downs* | - | - | - | - | - |
| **Closing net book value at June 30, 2016** | **34,457** | **4,766** | **2,323** | **34** | **41,580** |

The increase in "concessions, brands and similar rights" is due to the capitalisation of costs incurred for the registration of trademarks in new European countries, for renewals and extensions and for the purchase of software licenses. The reduction relates to the amortisation in the period of the brands Lanzera and Jesus Jeans, amortised over 20 years, as they have not yet reached a market positioning equal to those of the principal brands.

At June 30, 2016 the Kappa and Robe di Kappa trademarks report a book value of Euro 4 million (Euro 2.2 million net of fiscal amortisation), with the Superga brand reporting a book value of Euro 21 million (Euro 16.2 million net of fiscal amortisation); the K-Way brand was valued at Euro 8.1 million (Euro 4.9 million net of fiscal amortisation) and the Lanzera brand at Euro 0.9 million. The Kappa, Robe di Kappa, Superga and K-Way brands are considered intangible assets with indefinite useful life and as such are subject to an impairment test at least annually, whose results are compared with the valuations made by an independent advisor, which have repeatedly reported values comfortably in excess of book value. At June 30, 2016, there were no impairment indicators and therefore the relative tests were not carried out.

The book value of the AnziBesson and Sabelt brands, for which the Group is worldwide licensee for the "fashion" classes, held through the two joint ventures, reflects the value of the investment.

The account "software programmes" increased approx. Euro 1.2 million for investments and decreased Euro 0.9 million for amortisation in the period.

The account "other intangible assets" principally includes improvements related to the franchising project and recorded investments of Euro 121 thousand and amortisation in the period of Euro 246 thousand.

## 20. GOODWILL

| | June 30, 2016 | December 31, 2015 | June 30, 2015 |
|---|---|---|---|
| Goodwill | 10,072 | 10,245 | 10,341 |
| **Total goodwill** | **10,072** | **10,245** | **10,341** |

The account "goodwill" includes the goodwill arising on the business combination with the overseas licensees (Euro 7.9 million), in addition to goodwill paid for the acquisition of retail outlets, known as key money (Euro 2.1 million).
The Group verifies the recovery of the goodwill at least on an annual basis or more frequently when there is an indication of a loss in value. For the purposes of the impairment test the goodwill is allocated to the lowest cash-generating unit.
In relation to the goodwill arising on the acquisition of the two European licensees, the rather strong results reported by the Kappa brand to which they relate, exceeding the expected cash flows, confirm the absence of impairment indicators.
Relating to the key money, the impairment test did not result in further write-downs than those allocated to some sales points closed or for which the decision to close has been made, within a normal rotation of less profitable sales point in favour of the opening of new locations or more appropriate operational strategies for Euro 147 thousand (Note 14).

## 21. PROPERTY, PLANT AND EQUIPMENT

| | **June 30, 2016** | **December 31, 2015** | **June 30, 2015** |
|---|---|---|---|
| Property | 21,548 | 21,951 | 22,410 |
| Furniture and other assets | 4,718 | 4,588 | 4,748 |
| Plant and machinery | 438 | 348 | 364 |
| EDP | 1,600 | 1,711 | 1,889 |
| Industrial and commercial equipment | 198 | 171 | 140 |
| **Total property, plant and equipment** | **28,502** | **28,769** | **29,551** |

The changes in the historical cost of property, plant and equipment were as follows:

| | **Property** | **Furniture and other assets** | **Plant and machinery** | **EDP** | **Industrial and commercial equipment** | **Total** |
|---|---|---|---|---|---|---|
| **Historic cost at 1.1.2016** | **34,693** | **14,148** | **1,334** | **12,744** | **909** | **63,828** |
| *Additions* | *59* | *670* | *177* | *245* | *52* | *1,203* |
| *Disposals and other changes* | - | *(22)* | *(17)* | *(5)* | - | *(44)* |
| **Historic cost at 30.06.2016** | **34,752** | **14,796** | **1,494** | **12,984** | **961** | **64,987** |

The changes in the relative accumulated depreciation provisions were as follows:

| | **Property** | **Furniture and other assets** | **Plant and machinery** | **EDP** | **Industrial and commercial equipment** | **Total** |
|---|---|---|---|---|---|---|
| **Acc. Deprec. at 1.1.2016** | **(12,742)** | **(9,560)** | **(986)** | **(11,033)** | **(738)** | **(35,059)** |
| *Depreciation* | *(462)* | *(518)* | *(70)* | *(351)* | *(25)* | *(1,426)* |
| *Disposals and other changes* | - | - | - | - | - | - |
| **Acc. Deprec. at 30.06.2016** | **(13,204)** | **(10,078)** | **(1,056)** | **(11,384)** | **(763)** | **(36,485)** |

The net book value of property, plant and equipment was as follow:

| | Property | Furniture and other assets | Plant and machinery | EDP | Industrial and commercial equipment | Total |
|---|---|---|---|---|---|---|
| **Opening net book value at January 1, 2016** | **21,951** | **4,588** | **348** | **1,711** | **171** | **28,769** |
| *Additions* | *59* | *670* | *177* | *245* | *52* | *1,203* |
| *Depreciation* | *(462)* | *(518)* | *(70)* | *(351)* | *(25)* | *(1,426)* |
| *Disposals and other changes* | - | *(22)* | *(17)* | *(5)* | - | *(44)* |
| **Closing net book value at June 30, 2016** | **21,548** | **4,718** | **438** | **1,600** | **198** | **28,502** |

"Property" includes the value of the buildings at Strada della Cebrosa 106, Turin, headquarters of BasicItalia S.p.A. and at Largo Maurizio Vitale 1, Turin, headquarters of the Parent Company. The increase in the property account is due to improvements undertaken during the year.

Total gross investments in the period amounted to Euro 1.2 million, principally relating to the acquisition of furniture and EDP for the opening of new stores.

## 22. EQUITY INVESTMENTS AND OTHER FINANCIAL ASSETS

| | June 30, 2016 | December 31, 2015 | June 30, 2015 |
|---|---|---|---|
| Investments in other companies | - | - | - |
| ***Total investments*** | - | - | - |
| Other receivables, guarantees | 347 | 307 | 225 |
| ***Total financial receivables*** | ***347*** | ***307*** | ***225*** |
| **Total investments and other financial assets** | **347** | **307** | **225** |

"Other receivables" principally refer to deposits on real estate property.

## 23. INTERESTS IN JOINT VENTURES

| | June 30, 2016 | December 31, 2015 | June 30, 2015 |
|---|---|---|---|
| Investments in: | | | |
| - Joint ventures | 323 | 340 | 260 |
| **Total investments in joint ventures** | **323** | **340** | **260** |

Investments in joint ventures concern the value of the investment in AnziBesson Trademark S.r.l. and in Fashion S.r.l., both held 50%. These investments were valued at equity from January 1, 2014 as per IFRS 11.

## 24. NET INVENTORIES

| | June 30, 2016 | December 31, 2015 | June 30, 2015 |
|---|---|---|---|
| Finished products and goods | 53,975 | 52,039 | 54,796 |
| Inventory obsolescence provision | (3,432) | (3,014) | (2,909) |
| **Total net inventories** | **50,543** | **49,025** | **51,887** |

Finished inventories include goods in transit at the balance sheet date which at June 30, 2016 amount to approx. Euro 4 million compared to Euro 7.2 million at June 30, 2015, goods held at Group brand stores for Euro 8.6 million, compared to Euro 8.8 million at June 30, 2015 and goods to be shipped against orders, to be delivered at the beginning of the following period, for Euro 11.2 million compared to Euro 9.9 million at June 30, 2015.

Inventories are valued under the weighted average cost method and net of the obsolescence provision considered reasonable for their prudent valuation, which recorded the following changes during the period:

| | June 30, 2016 | June 30, 2015 |
|---|---|---|
| **Inventory obsolescence provision at 1.1** | **3,014** | **3,213** |
| Provisions in the period | 765 | 100 |
| Utilisations | (347) | (404) |
| **Inventory obsolescence provision at 30.06** | **3,432** | **2,909** |

## 25. TRADE RECEIVABLES

| | June 30, 2016 | December 31, 2015 | June 30, 2015 |
|---|---|---|---|
| Gross value | 53,860 | 52,390 | 50,422 |
| Doubtful debt provision | (6,167) | (5,689) | (5,974) |
| **Total trade receivables** | **47,693** | **46,701** | **44,448** |

All amounts are due within 12 months. The receivables are recorded at their realisable value through a doubtful debt provision based on estimated losses on disputes and/or overdue receivables as well as a general provision.

The movements during the period were as follows:

| | June 30, 2016 | June 30, 2015 |
|---|---|---|
| **Doubtful debt provision at 1.1** | **5,689** | **5,687** |
| Provisions in the period | 1,375 | 1,594 |
| Utilisations | (897) | (1,307) |
| **Doubtful debt provision at 30.06** | **6,167** | **5,974** |

The provision in the period is calculated based on specific needs which may arise, integrated by provisions made on a statistical basis. Utilisations in the period concern provisions made in previous periods on specific positions for which losses were verified in the period; the utilisation is therefore not related to the performance in the period.

## 26. OTHER CURRENT ASSETS

| | June 30, 2016 | December 31, 2015 | June 30, 2015 |
|---|---|---|---|
| Tax receivables | 9,581 | 9,599 | 11,412 |
| Other receivables | 1,252 | 2,579 | 1,924 |
| **Total other current assets** | **10,833** | **12,178** | **13,336** |

"Tax receivables" principally include VAT receivables of Euro 1.4 million, corporate income taxes paid on account of Euro 2.8 million and withholding taxes on royalties of Euro 5.4 million.

The account "other receivables" principally includes payments to suppliers (Euro 84 thousand) and the premium paid to the insurance company against Directors Termination Indemnities for Euro 0.5 million and other minor receivables.

## 27. PREPAYMENTS

| | June 30, 2016 | December 31, 2015 | June 30, 2015 |
|---|---|---|---|
| Expenses pertaining to future Collections | 3,734 | 3,849 | 3,690 |
| Sponsorship and media | 3,097 | 3,154 | 997 |
| Others | 1,449 | 753 | 1,135 |
| **Total prepayments** | **8,280** | **7,756** | **5,822** |

The "expenses pertaining to future collections" concern part of the design and manufacturing costs of collections to be sold subsequently, for which the corresponding revenues have not yet accrued.

The "sponsorship costs" relate to the annual amount contractually defined by the parties, which is partially invoiced in advance during the sports season, compared to the timing of the services.

The "other prepayments" include various costs for samples, services, utilities, insurance and other minor amounts incurred by the companies of the Group, which are recorded on an accruals basis.

## 28. CASH AND CASH EQUIVALENTS

| | June 30, 2016 | December 31, 2015 | June 30, 2015 |
|---|---|---|---|
| Bank and postal deposits | 4,311 | 6,903 | 4,380 |
| Cash in hand and similar | 59 | 68 | 57 |
| **Total cash and cash equivalents** | **4,370** | **6,971** | **4,437** |

"Bank deposits" refer to temporary current account balances principally due to receipts from clients. In particular, they are held at: BasicNet S.p.A. (Euro 0.8 million), BasicItalia S.p.A. (Euro 2 million), BasicRetail S.r.l. (Euro 0.3 million) and, for the difference, the other Group companies (Euro 1.2 million).

## 29. DERIVATIVE INANCIAL INSTRUMENTS

| | June 30, 2016 | December 31, 2015 | June 30, 2015 |
|---|---|---|---|
| Derivative financial instruments | 446 | 1,367 | 2,049 |
| **Derivative financial instruments** | **446** | **1,367** | **2,049** |

The account includes the market value at June 30, 2016 of the currency hedge instruments on US Dollars (cash flow hedge), subscribed with primary credit institutions; the instrument utilised, called flexi term, operates in the form of forward currency purchases on a portion of the estimated currency needs for the purchase of goods on foreign markets, to be made in 2016 and 2017, on the basis of the goods orders already sent to suppliers, or still to be made but included in the budget for the year. At June 30, 2016, commitments were in place on estimated future purchases, for USD 45 million, divided into 18 operations with variable maturities in the second half of 2016 (for USD 26 million) and in 2017 (for USD 19 million), at fixed exchange rates between USD/Euro 1.15 and USD/Euro 1.089. During H1 2016, forward purchase operations were utilised for approx. USD 20.95 million and the relative effects were recognised to the income statement.

# SHAREHOLDERS' EQUITY & LIABILITIES

## 30. SHAREHOLDERS' EQUITY

| | June 30, 2016 | December 31, 2015 | June 30, 2015 |
|---|---|---|---|
| Share capital | 31,717 | 31,717 | 31,717 |
| Treasury shares | (10,423) | (8,823) | (7,776) |
| Other reserves | 62,935 | 52,857 | 53,093 |
| Net Profit | 5,081 | 16,760 | 9,090 |
| Minority interests | - | - | - |
| **Total Equity** | **89,310** | **92,511** | **86,124** |

The "share capital" of the Parent Company, amounting to Euro 31,716,673.04, is divided into 60,993,602 ordinary shares of Euro 0.52 each, fully paid-in.

During H1 2016, 461,500 treasury shares were acquired in accordance with Shareholders' Meetings motions, as illustrated in the Directors' Report, which together with the 4,500,000 shares held at the end of the previous year, totalled 4,961,500 at June 30, 2016 (6.94% of the Share Capital).

The other gains and losses recorded directly to equity in accordance with *IAS 1 – Presentation of financial statements* are reported below.

| | June 30, 2016 | June 30, 2015 | Changes |
|---|---|---|---|
| Effective part of the Gains/(losses) on cash flow instruments generated in the period (currency hedges) | (1,129) | 644 | (1,773) |
| Effective part of the Gains/(losses) on cash flow instruments generated in the period (interest rate hedges) | 39 | 275 | (236) |
| ***Effective part of the Gains/losses on cash flow hedge instruments*** | ***(1,090)*** | ***919*** | ***(2,009)*** |
| Re-measurement of defined benefit plans (IAS 19) | (124) | 116 | (240) |
| Gains/(losses) from translation of accounts of foreign subsidiaries | (139) | 457 | (596) |
| Tax effect relating to the Other items of the comprehensive income statement | 293 | (285) | 578 |
| **Total other gains/(losses), net of tax effect** | **(1,060)** | **1,207** | **(2,267)** |

The tax effect relating to Other gains/(losses) is as follows:

| | June 30, 2016 | | | June 30, 2015 | | |
|---|---|---|---|---|---|---|
| | Gross value | Tax Charge/ Benefit | Net value | Gross value | Tax Charge/ Benefit | Net value |
| Effective part of Gains/losses on cash flow hedge instruments | (1,090) | 259 | (831) | 919 | (253) | 666 |
| Gains/losses for re-measurement of defined benefit plans (IAS 19) | (124) | 34 | (90) | 116 | (32) | 84 |
| Gains/(losses) from translation of accounts of foreign subsidiaries | (139) | - | (139) | 457 | - | 457 |
| **Total other gains/(losses), net of tax effect** | **(1,353)** | **293** | **(1,060)** | **1,492** | **(285)** | **1,207** |

## 31. PROVISIONS FOR RISKS AND CHARGES

| | June 30, 2016 | December 31, 2015 | June 30, 2015 |
|---|---|---|---|
| Provisions for risks and charges | 28 | 45 | 28 |
| **Total provisions for risks and charges** | **28** | **45** | **28** |

The provision for risks and charges relates to the Agents Termination Indemnity Provision (FIRR) in BasicItalia S.p.A.. The reduction follows the settlement of a number of positions in the period.

## 32. LOANS

The changes in the loans during the year are shown below:

| | 31/12/2015 | Repayments | New loans | 30/06/2016 | Short-term portion | Medium/long term portion |
|---|---|---|---|---|---|---|
| Basic Village property loan | 8,100 | (600) | - | 7,500 | (1,200) | 6,300 |
| BasicItalia property loan | 3,153 | (204) | - | 2,949 | (407) | 2,542 |
| UBI Banca loan | 2,678 | (2,678) | - | - | - | - |
| Intesa loan | 13,125 | (1,875) | - | 11,250 | (3,750) | 7,500 |
| **Balance** | **27,056** | **(5,357)** | - | **21,699** | **(5,357)** | **16,342** |

The maturity of the long-term portion of loans is highlighted below:

| | June 30, 2016 | December 31, 2015 | June 30, 2015 |
|---|---|---|---|
| Medium/long term loans: | | | |
| - due within 5 years | 13,927 | 15,802 | 12,186 |
| - due beyond 5 years | 2,415 | 3,219 | 11,120 |
| ***Total medium/long loans*** | ***16,342*** | ***19,021*** | ***23,306*** |
| Leasing payables | 1,531 | 1,545 | 1,666 |
| ***Total leasing payables (maturity within 5 years)*** | ***1,531*** | ***1,545*** | ***1,666*** |
| **Total loans** | **17,873** | **20,566** | **24,972** |

The medium/long-term loans are comprised for Euro 6.3 million of the residual value of the loan provided by the Unicredit Group, for the purchase of the "Basic Village" building located at Largo Maurizio Vitale, 1, Turin ("Basic Village Property Loan"), for Euro 2.5 million the residual loan from Mediocredito Italiano S.p.A. (Group Intesa Sanpaolo S.p.A.) for the purchase of the building of BasicItalia S.p.A. located at Strada Cebrosa, 106 ("BasicItalia Property Loan") and for Euro 7.5 million the residual loan from Intesa SanPaolo in April 2015 ("Intesa Loan").

The "Basic Village property loan" granted by the Unicredit Group was for the acquisition of the building "Basic Village" at Largo M. Vitale 1, Turin. The loan was granted in September 2007 for Euro 18 million at a variable rate converted into a fixed rate (Note 41). Against this loan there is a mortgage on the property and a guarantee from the parent company BasicNet S.p.A. with maturity in September 2022.

The "BasicItalia Loan" granted by Banca Intesa Sanpaolo S.p.A. was for the purchase of the building "BasicItalia" at Strada Cebrosa 106, Turin. The loan was granted in October 2008 for Euro 6 million with repayment of the capital in fifty-nine quarterly constant instalments and maturity at September 2023. The loan is guaranteed by a mortgage on the property and by a guarantee from the parent company BasicNet S.p.A.

The "Intesa" loan was issued in April 2015 by Intesa Sanpaolo S.p.A. for Euro 15 million. The loan is for four years, repayable on a quarterly basis, at Euribor three months increased by 185 basis points and with the objective to support development investments, in addition to optimise the duration of the financing; collateral was provided of a lien on the shares of Superga Trademark S.A. In July 2015, the variable Euribor rate was converted (with an interest rate swap) into a fixed rate of 0.23% annually.
The contractual conditions do not include financial covenants. In addition, the "Intesa Loan" contract stipulates the maintenance of a number of ownership conditions concerning BasicWorld S.r.l., the majority shareholder of BasicNet S.p.A., and of BasicNet S.p.A.. In particular:

- the maintenance by Mr. Marco Daniele Boglione (either directly or indirectly) of at least 51% of the share capital of Basic World S.r.l., a company which holds 36.483% of BasicNet S.p.A. shares and is the largest shareholder;
- that the total shareholding, direct or indirect, of BasicWorld S.r.l. in the share capital of BasicNet S.p.A. does not reduce below 36.479%, the stake held at the date of the contract;
- the maintenance, either directly or indirectly, by BasicNet S.p.A. of full ownership of Superga Trademark S.A..

The "UBI Banca loan" was settled in advance in January 2016, following the undertaking of a short-term hot-money line granted by the same bank at more advantageous financial conditions. With the settlement of the Loan the related covenants are no longer applicable.

At June 30, 2016 the credit lines available from the banking system (bank overdrafts, commercial advances, medium/long-term loans, import financing, leasing and letters of credit), amounted to Euro 135.9 million, broken down as follows:

| *(in Euro millions)* | **June 30, 2016** | **June 30, 2015** |
|---|---|---|
| Cash facility | 106.0 | 81.2 |
| Factoring | 1.5 | 1.5 |
| Letters of credit and swaps | 23.8 | 18.2 |
| Medium/long term loans | 24.7 | 31.4 |
| Property leases | 3.6 | 3.6 |
| **Total** | **159.6** | **135.9** |

The average interest paid for the BasicNet Group in the year is reported in Note 36.

## 33. EMPLOYEE AND DIRECTOR BENEFITS

The account includes the post-employment benefits for employees of Euro 2.6 million and the termination indemnities of Directors of Euro 83 thousand.

The changes in the period of the post-employment benefit liability were as follows:

| | **June 30, 2016** | | | **June 30, 2015** | | |
|---|---|---|---|---|---|---|
| | **Defined benefit plans** | **Defined contrib. plans** | **Total** | **Defined benefit plans** | **Defined contrib. plans** | **Total** |
| **Change in the balance sheet:** | | | | | | |
| Net liabilities recognised at the beginning of the year | 2,508 | - | 2,508 | 2,573 | - | 2,573 |
| Interest | 28 | - | 28 | 24 | - | 24 |
| Pension cost, net of withholdings | 61 | 378 | 439 | 37 | 367 | 404 |
| Benefits paid | (64) | - | (64) | (86) | - | (86) |
| Payments to the INPS treasury fund | - | (186) | (186) | - | (310) | (310) |
| Payments to other supplementary pension fund | - | (192) | (192) | - | (57) | (57) |
| Actuarial gain/(loss) | 124 | - | 124 | (116) | - | (116) |
| **Net liabilities recognised in the accounts** | **2,657** | - | **2,657** | **2,432** | - | **2,432** |
| **Change in the income statement:** | | | | | | |
| Interest | 28 | - | 28 | 24 | - | 24 |
| Pension Cost | 61 | 378 | 439 | 41 | 367 | 408 |
| **Total charges/(income) for post-employment benefits** | **89** | **378** | **467** | **65** | **367** | **432** |

The account "defined benefit plans" includes the present value of the liabilities in the Italian companies of the Group towards employees in accordance with Article 2120 of the Civil Code. Based on the regulatory changes in 2007, the sums matured prior to January 1, 2007 to employees are recognised as defined benefit plans in accordance with *IAS 19 – Employee benefits*; those matured subsequent to this date are on the other hand recognised as defined contribution plans in accordance with the same standard.

Within the Group there are no other defined benefit plans.

The actuarial valuation of the Post-Employment Benefit is prepared based on the "matured benefits" method through the Projected Unit Credit Method in accordance with IAS 19. Under this method the valuation is based on the average present value of the pension obligations matured based on the employment service up to the time of the valuation, without projecting the remuneration of the employee in accordance with the regulatory modifications introduced by the Pension Reform.

The revaluations of the amounts at the option date for all of the companies and the benefits matured and not allocated to complementary pension schemes for businesses with less than 50 employees are recorded under post-employment benefit. In accordance with IAS 19, this provision was recorded as a "Defined benefit plans".

The actuarial model for the measurement of the post-employment benefit is based on various assumptions of a demographic and financial nature. The principal assumptions of the model concerning the actuarial valuations relating to personnel costs are:

| | **June 30, 2016** | **December 31, 2015** |
|---|---|---|
| discount rate | 1.40% | 2.25% |
| inflation rate: | | |
| | For 2016: 1.50%<br>For 2017; 1.80%<br>For 2018: 1.70%<br>For 2019: 1.60%<br>From 2020 onwards: 2.00% | For 2016: 1.50%<br>For 2017; 1.80%<br>For 2018: 1.70%<br>For 2019: 1.60%<br>From 2020 onwards: 2.00% |
| annual increase in post-employment benefit | | |
| | For 2016: 2.625%<br>For 2017: 2.850%<br>For 2018: 2.775%<br>For 2019: 2.700%<br>From 2020 onwards: 3.00% | For 2016: 2.625%<br>For 2017: 2, 850%<br>For 2018: 2.775%<br>For 2019: 2.700%<br>From 2020 onwards: 3.00% |
| annual increase in salaries: | 1.00% | 1.00% |

The change in the annual discount rate reflects the increase in the yields of the "corporate bonds" of the basket utilised (Iboxx Eurozone Corporate) at the balance sheet date.

## 34. DEFERRED TAX LIABILITIES

| | **June 30, 2016** | **December 31, 2015** | **June 30, 2015** |
|---|---|---|---|
| Deferred tax liabilities | 367 | 717 | 706 |
| **Total deferred tax liabilities** | **367** | **717** | **706** |

Deferred tax assets and liabilities are calculated on all the temporary differences arising between the book value in the consolidated financial statements and their assessable amount for tax purposes. The change in deferred tax liabilities, net of deferred tax assets, was a positive Euro 349 thousand and relates for Euro 214 thousand to the release of deferred tax assets provisioned in previous years, for Euro 178 thousand

deferred tax assets on non-deductible items principally relating to doubtful debt provisions and inventory obsolescence provisions, for Euro 261 thousand deferred tax assets on derivative financial instruments in addition to provisions and for Euro 304 thousand for deferred tax liabilities on the amortisation of brands.

The individual effects are reported in the table below:

| | June 30, 2016 | | | December 31, 2015 | | | |
|---|---|---|---|---|---|---|---|
| | **Amount of temporary differences** | **Rate % (*)** | **Tax effect** | **Amount of temporary differences** | **Rate %** | **Tax effect** | **Changes 2016/2015** |
| *Deferred tax assets:* | | | | | | | |
| - Excess doubtful debt provision not deductible | (5,398) | 27.50%-24,00% | (1,313) | (5,074) | 27.50%-24,00% | (1,235) | (78) |
| - Inventory obsolescence provision | (3,431) | 27.50%-24,00% | (877) | (3,014) | 27.50%-24,00% | (777) | (100) |
| - ROL surplus | (455) | 27.50%-24,00% | (125) | (455) | 27.50%-24,00% | (125) | - |
| - Other temporary charges non-deductible | (2,499) | 31.40%-27,90% | (754) | (2,681) | 31.40%-27,90% | (813) | 59 |
| - Effect IAS 19 – Employee Benefits | (238) | 27.50%-24,00% | (57) | (121) | 27.50%-24,00% | (29) | (28) |
| - Effect IAS 39 – financial instruments | (1,221) | 27.50%-24,00% | (292) | (131) | 27.50%-24,00% | (31) | (261) |
| **Total** | **(13,242)** | | **(3,418)** | **(11,476)** | | **(3,010)** | **(408)** |
| *Deferred tax liabilities:* | | | | | | | |
| - Prudent exchange differences, net | (63) | 27.50%-24,00% | (15) | 294 | 27.50%-24,00% | 81 | (96) |
| - Amortisation/Depreciation tax basis | 9,609 | 31.40%-27,90% | 2,681 | 8,518 | 31.40%-27,90% | 2,377 | 304 |
| - Effect IAS 38 – plant costs | 16 | 31.40%-27,90% | 4 | 7 | 31.40%-27,90% | 2 | 2 |
| - Effect of IAS 17 - finance leases & other tax differences on buildings | 2,404 | 31.40%-27,90% | 676 | 2,813 | 31.40%-27,90% | 793 | (117) |
| - Effect IFRS 3 – goodwill amortisation | 1,513 | 31.40%-27,90% | 439 | 1,624 | 31.40%-27,90% | 474 | (35) |
| **Total** | **13,479** | | **3,785** | **13,256** | | **3,727** | **58** |
| Net deferred tax liability (asset) | 237 | | 367 | 1,780 | | 717 | (350) |
| Deferred tax asset relating to fiscal losses | - | | - | - | | - | |
| **Deferred tax charge/(income) as per financial statements** | | | **367** | | | **717** | **(350)** |

(*) The differing rates concern the adjustment of the IRES rate applicable from 2017, on the temporary differences to be realised or settled subsequently to 2016.

The deferred tax assets and liabilities reported in the half-year financial statements were calculated considering the change to the IRES rate from 2017 from 27.5% to 24%, as per the 2016 Stability Law (Law 208/2015) and in accordance with paragraph 47 of IAS 12 which provides for the utilisation of the tax rates which will be applied in the year in which the underlying asset will be realised or underlying liability settled. However, the effects from the change in the rate on the calculation of deferred taxes did not have any material impact on the balance sheet or income statement.

The derivatives defined as cash flow hedges and valued at fair value result in the relative tax being recorded directly in the "comprehensive income statement" and not in the "income statement". The value totals Euro 0.3 million.

The same treatment is adopted for the tax effect relating to the actuarial gain/losses, recorded since January 1, 2013, in accordance with IAS 19 Revised.

## 35. OTHER NON-CURRENT LIABILITIES

| | June 30, 2016 | December 31, 2015 | June 30, 2015 |
|---|---|---|---|
| Guarantee deposits | 904 | 1,013 | 1,053 |
| **Total other non-current liabilities** | **904** | **1,013** | **1,053** |

The “guarantee deposits” include the guarantees received from licensees, to cover the minimum royalties guaranteed contractually.

## 36. BANK PAYABLES

| | June 30, 2016 | December 31, 2015 | June 30, 2015 |
|---|---|---|---|
| Bank payables due within one year: | | | |
| - short-term portion of medium/long-term loans | 5,357 | 8,035 | 8,093 |
| - bank overdrafts and bills | 13,594 | 4,266 | 7,159 |
| - import advances | 13,528 | 19,466 | 7,917 |
| **Total banks payables** | **32,479** | **31,767** | **23,169** |

The portion of medium/long-term loans due within one year is included under short-term bank debt as described in Note 32.

The changes in the financial position are commented upon in the Directors’ Report. Interest due matured at the end of the year on short and medium/long-term loans is reported in the account bank payables.

Cash advances refer to temporary utilisation by the Parent Company BasicNet S.p.A., for Group treasury needs.

The financial debt by interest rate at June 30, 2016 is as follows:

| | Interest Rate | | |
|---|---|---|---|
| | **Below 3.5%** | **Between 5% and 6.04%** | **Total** |
| Cash advances | 9,000 | - | 9,000 |
| Bill advances | 4,594 | - | 4,594 |
| Import advances | 13,528 | - | 13,528 |
| M/L loans | 14,199 | 7,500 | 21,699 |
| Leasing | 696 | 835 | 1,531 |
| **Total** | **42,017** | **8,335** | **50,352** |

There are no financial payables with interest rates between 3.5% and 5%.

## 37. TRADE PAYABLES

The “trade payables” are payable in the short-term and decreased by approx. Euro 2.3 million compared to June 30, 2015. At the date of the present report there are no initiatives for the suspension of supplies, payment injunctions or executive actions by creditors against BasicNet S.p.A. or other companies of the Group.

Trade payables are normally settled between 30 and 120 days. The book value of trade payables equates the relative fair value.

## 38. TAX PAYABLES

The breakdown of this account is shown in the following table:

| | June 30, 2016 | December 31, 2015 | June 30, 2015 |
|---|---|---|---|
| Tax payables: | | | |
| Income taxes | 5,026 | 6,043 | 10,293 |
| Withholding taxes | 41 | 48 | 86 |
| Employee contributions | 454 | 511 | 464 |
| Non-recurring tax charge | 1,702 | 2,850 | 5,486 |
| Group VAT | 9,736 | 7,969 | 4,634 |
| **Total tax payables** | **16,958** | **17,421** | **20,963** |

Current tax payables include provisions for IRES and IRAP to be settled at the reporting date. The balance at June 30 includes income taxes provisioned at the end of the previous year, to be settled in the second half of the subsequent year and the estimate of income taxes payable on assessable income in the half-year. The amount includes income taxes for the period of Euro 0.5 million and Euro 4.5 million as the 2015 balance.

The non-recurring tax charges concern the total payable to the Tax Agency, definitively established in May 2014 following the notification of the final tax assessments which the Group settled on appeal in 2012, against which a sufficient provision had been made. For the payable of Euro 1.7 million, a net payment was made of Euro 1.2 million, considering the VAT receivables of Euro 0.5 million, included in the Tax Receivables account (Note 26), whose recovery is correlated to the above-mentioned instalments.

## 39. OTHER CURRENT LIABILITIES

| | June 30, 2016 | December 31, 2015 | June 30, 2015 |
|---|---|---|---|
| Accrued expenses | 18 | 588 | 82 |
| Other payables | 8,396 | 7,150 | 8,305 |
| **Total other current liabilities** | **8,414** | **7,738** | **8,387** |

The account “accrued expenses” principally includes deferred employee remuneration.

The “other payables” at June 30, 2016 principally include employee and director remuneration and expenses (Euro 4.3 million), payable in the subsequent month, related social security charges (Euro 1 million), other related liabilities (Euro 0.2 million), royalty payment on accounts from licensees (Euro 0.2 million) and other miscellaneous amounts Euro (2.8 million).

## 40. DEFERRED INCOME

| | June 30, 2016 | December 31, 2015 | June 30, 2015 |
|---|---|---|---|
| Royalties | - | 829 | - |
| Sponsored goods revenues | 1,331 | 1,540 | 319 |
| Other deferred income | 220 | 268 | 75 |
| **Total deferred income** | **1,551** | **2,637** | **394** |

The “sponsored goods revenues” relates to the invoicing of sponsored merchandise, which contractually partially refers to the period after the reporting date, with corresponding prepayments recorded under assets for sponsoring costs.

## 41. DERIVATIVE INANCIAL INSTRUMENTS

| | June 30, 2016 | December 31, 2015 | June 30, 2015 |
|---|---|---|---|
| Derivative financial instruments | 1,667 | 1,498 | 1,593 |
| **Derivative financial instruments** | **1,667** | **1,498** | **1,593** |

The account includes the adjustments to market value of the interest rate hedging operations on the medium-long-term “Intesa loan” and on the Basic Village property loan (Note 32), signed with leading financial counterparties, which converted the variable interest rates into fixed interest rates, respectively at 2.08% and 6.04% (cash flow hedge).

A negative equity reserve was recorded of approx. Euro 831 thousand, net of the tax effect.

In the case of the Interest Rate Swap (IRS) agreed by the Group, the specific hedge of the variable cash flow realised at market conditions, through the signing of the fix/flo IRS perfectly hedges the item to which the original cash flows stem, as in this case, and continues to be effective.

## 42. GUARANTEES GIVEN

With reference to the guarantees and commitments of the Group with third parties reference should be made to Note 32.

In February 2010 the Intesa Sanpaolo S.p.A. Group and BasicItalia S.p.A. signed an agreement which would permit access to subsidised finance for the start-up of franchising stores of the Group, against which a portion of the loan is guaranteed and the purchase of assets in leasing in the case of non-compliant of the store owner. For its part, BasicItalia S.p.A. has the contractual right to sub-enter into the management of the stores, in the event that the store owner does not comply with the loan and leasing repayments. At June 30, 2016 the deposit amounted to Euro 259 thousand and leasing guarantees amount to Euro 1.5 million.

In accordance with that outlined above guarantees were granted of Euro 0.4 million by credit institutions in favour of the lessees of the stores of BasicRetail S.r.l. directly undertaking retail sales of the Group products.

Further commitments were undertaken by the subsidiary BasicItalia S.p.A. relating to the opening of import credit documentation (credit letters) for goods, through some Credit Institutions, totalling Euro 20.6 million (Euro 24.8 million at June 30, 2015), in addition to a surety issued by a leading bank in guarantee of the contractual commitments related to a sponsorship contract for Euro 6.5 million.

The future rental commitments to be honoured on contractual expiry indicatively amount to Euro 7.4 million, of which Euro 7.3 million concerning the rental of the outlets. The average duration of the rental contracts is 4 years.

## 43. CLASSIFICATION OF THE FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The principal risks and uncertainties of the Group activities are described in the Directors' Report.

The financial instruments of the BasicNet Group include:

- cash and cash equivalents and bank overdrafts;
- medium/long-term loans and lease financing;
- derivative financial instruments;
- trade payables and receivables.

It is recalled that the Group only subscribes to cash flow hedges, to hedge against interest and currency risks.

In accordance with the requirements of IFRS 7 in relation to financial risks, the types of financial instruments present in the financial statements, with indication of the valuation criteria applied, are reported below:

| | **Financial instruments at fair value recorded through:** | | **Financial instruments at amortised cost** | **Non-listed investments valued at cost** | **Book value at 30.06.2016** |
|---|---|---|---|---|---|
| | **P&L** | **Shareholders' Equity** | | | |
| **Assets:** | | | | | |
| Investments & other financial assets | - | - | - | 347 | **347** |
| Interests in joint ventures | - | - | - | 323 | **323** |
| Trade receivables | - | - | 47,693 | - | **47,693** |
| Other current assets | - | - | 10,833 | - | **10,833** |
| Derivative financial instruments | - | 446 | - | - | **446** |
| **Liabilities:** | | | | | |
| Bank payables | - | - | 32,479 | - | **32,479** |
| Medium/long-term loans | - | - | 17,873 | - | **17,873** |
| Trade payables | - | - | 30,698 | - | **30,698** |
| Other current liabilities | - | - | 8,414 | - | **8,414** |
| Derivative financial instruments | - | 1,667 | - | - | **1,667** |

The financial risk factors, identified in *IFRS 7 – Financial instruments*: *additional disclosures*, are described below:

- the risk that the fair value or the future cash flows of a financial instrument fluctuate following changes in market prices ("*market risk*"). The market risk includes the following risks: price, currency and interest rates:
  a. the risk that the fair value or the future cash flows of a financial instrument fluctuate following changes in market prices (other than changes determined from interest rate or currency risk), whether the changes are determined by specific factors related to the financial instrument or its issuer, or whether it is due to factors which influence all similar financial instruments traded on the market *("price risk");*
  b. the risk that the fair value or the future cash flows of a financial instrument fluctuate following changes in currency prices ("*currency risk*");

c. the risk that the fair value or the future cash flows of a financial instrument fluctuate following changes in market interest rates ("*interest rate risk*");

- the risk that one of the parties that signs a contract of a financial nature does not comply with an obligation ("*credit risk*");

- the risk that an entity has difficulty in complying with the obligations associated with the financial liabilities *("liquidity risk");*

- the risk that the loans within the companies of the Group contain clauses which allow the counterparties to request the creditor on the occurrence of certain events or circumstances the immediate repayment of the sums granted and not yet due, generating a liquidity risk *("default risk").*

**Price risk**

The Group is exposed to the risk of fluctuations of commodity prices relating to raw materials (wool, cotton, rubber, synthetic fibre etc.) incorporated in the finished products which BasicItalia S.p.A. acquires on international markets, as well as fluctuations in the cost of oil which influences transport costs.
The Group does not hedge these risks as not directly dealing with raw materials but only finished products and is exposed for the part of the increase which cannot be transferred to the final consumer if the market and competitive conditions do not permit such.

**Currency risk**

The BasicNet Group has subscribed the majority of its financial instruments in Euro which corresponds to its functional and presentation currency. Operating on the international market the group is also exposed to fluctuations in exchange rates, principally the US Dollar against the Euro.

At June 30, 2016, unrealised exchange gains were recorded of Euro 52 thousand, while unrealised exchange losses were recorded of Euro 109 thousand, for a net unrealised exchange loss of Euro 57 thousand.

At the interim reporting date, hedging operations on US Dollar fluctuations were in place, as described at Note 29.

Group Management considers that the management and containment polices adopted for this risk are adequate.

All medium/long-term loans and leasing contracts are in Euro, therefore they are not subject to any currency risk.

**Interest rate risk**

The composition of the gross financial debt between fixed and variable interest rates at June 30, 2016 is shown below:

| | **June 30, 2016** | **%** | **June 30, 2015** | **%** |
|---|---|---|---|---|
| Fixed rate | 18,825 | 37.4% | 9,419 | 19.6% |
| Variable rate | 31,553 | 62.6% | 38,722 | 80.4% |
| **Gross debt** | **50,378** | **100.0%** | **48,141** | **100.0%** |

The interest rate fluctuation risks of some medium/term loans were hedged with conversion of the variable rate into fixed rates, as described in Note 41.
On the remaining part of the debt, the Group is exposed to fluctuation risks.

Where at June 30, 2016 the interest rate on long/term loans at that date were 100 basis points higher (or lower) compared to the actual rates, there would be a higher financial charges (lower), before the tax effect, respectively of Euro +79 thousand and Euro -79 thousand.

### Credit Risk

The doubtful debt provision (Note 25) which includes provisions against specific credit positions and a general provision on an historical analysis of receivables, represents approx. 11.4% of trade receivables at June 30, 2016.

### Liquidity risk

Liquidity risk is mitigated in the short-term period by the significant generation of cash realised by the "licenses and trademarks" segment, by the significant positive net working capital, and by the overall credit lines provided by the banking system (Note 32).

The table below illustrates the cash flow timing of payments on medium/long-term debt.

| | Book value | Future interest income/ (expense) | Contractual cash flows | Within 1 year | From 1 to 5 years | Beyond 5 years |
|---|---|---|---|---|---|---|
| Medium/long-term portion of Intesa San Paolo loan | 11,250 | 385 | 11,635 | 3,957 | 7,678 | - |
| BasicVillage property loan | 7,500 | 1,493 | 8,993 | 1,632 | 5,793 | 1,568 |
| BasicItalia property loan | 2,949 | 241 | 3,190 | 468 | 1,782 | 940 |
| Lease payables | 1,531 | 96 | 1,627 | 816 | 811 | - |
| **Total financial liabilities** | **23,230** | **2,215** | **25,445** | **6,873** | **16,064** | **2,508** |

### Default risk and debt covenants

The risk that the loans within the companies of the Group contain clauses (covenants) which allow the counterparties to request the creditor on the occurrence of certain events or circumstances the immediate repayment of the sums granted and not yet due, generating a liquidity risk.

The loans in place at the reporting date are not subject to financial covenants.

## 44. CONTINGENT LIABILITIES/ASSETS

The BasicNet Group is involved in some legal disputes of a commercial nature which are not expected to give rise to significant liabilities.

*A.S. Roma contract termination*
The dispute was taken by BasicItalia S.p.A. against A.S. Roma S.p.A. and Soccer S.a.s. Brand Manager S.r.l., which on November 23, 2012 communicated the unilateral advance resolution of the team sponsorship, agreed with duration until June 30, 2017, for presumed non-compliance and, in particular, defects in the materials supplied. BasicItalia S.p.A., considering the reasons for the resolution unfounded, instigated an ordinary court procedure requesting compensation for significant damage incurred. A.S. Roma S.p.A. and Soccer S.a.s. appealed against the request of BasicItalia S.p.A. and counterclaimed requesting compensation for presumed damage. The proceedings are currently in the preliminary stages.

In addition, following the above termination of the contract, A.S. Roma sought to enforce payment of the surety granted by BNL S.p.A. in favour of BasicItalia S.p.A. for a maximum amount of Euro 5.5 million which guaranteed commitments undertaken by BasicItalia S.p.A. under the sponsorship agreement. Following the non-payment by BNL S.p.A., A.S. Roma petitioned the Rome Court to enforce a payment

order against BNL for the full guaranteed amount. As a result of this procedure, in which BasicItalia S.p.A. (together with the parent company BasicNet S.p.A.) was joined as a party by BNL, the Rome Court, with judgement of December 7, 2013, rejected all applications by A.S. Roma, considering the enforcement illegitimate. This sentence was not challenged by A.S. Roma and the sentence is final.

On December 20, 2013, A.S. Roma again requested payment of the above-mentioned surety and, following the refusal of BNL to meet this new request, presented an appeal before the Rome Court on February 20, 2014. With judgement of December 15, 2014, the Rome Court rejected all requests made by A.S. Roma. A.S. Roma appealed against this decision before the Rome Appeals Court with subpoena dated February 10, 2015. The hearing, fixed for June 8, 2015, was postponed to June 10, 2015. On June 8, 2015, both BasicItalia S.p.A. and BNL put forward the rejection of the appeal and the confirmation of the first level judgment. The hearing held on June 10, 2015 sent the case for the establishment of conclusions on July 4, 2018.

Finally, we report that BasicItalia S.p.A. presented, also to the Rome Court, an injunction decree in order to attain from Soccer S.a.s. di Brand Manager S.r.l. (an A.S. Roma S.p.A. Group company) the payment of invoices issued for the supply of technical material delivered during 2013. Following the granting of the injunction decree, Soccer S.a.s. di Brand Manager S.r.l. appealed the decision and the relative procedure, to which BasicItalia is also party and which is currently in the preliminary phase.

## 45. INTERCOMPANY TRANSACTIONS AND TRANSACTIONS WITH RELATED COMPANIES

The transactions between the Parent Company and its subsidiaries and between the subsidiaries were within the normal operating activities of the Group and were concluded at normal market conditions. The balance sheet and income statement effects of the transactions are eliminated in the consolidation process. Based on the information received from the companies of the Group there were no atypical or unusual operations.

BasicNet S.p.A., and, as consolidating companies, BasicItalia S.p.A., BasicRetail S.r.l., Basic Village S.p.A. and Jesus Jeans S.r.l. have adhered to the national fiscal regime as per Article 177/129 of the CFA.

The transactions with related parties for the period ended June 30, 2016 are reported below:

| | Investments | Trade receivables | Trade payables | Other income | Costs |
|---|---|---|---|---|---|
| Interests in joint ventures: | | | | | |
| - AnziBesson Trademark S.r.l. | 53 | 14 | - | - | - |
| - Fashion S.r.l. | 270 | 1 | 4 | 1 | - |
| Remuneration of Boards and Senior Executives and other related parties | - | - | - | - | 2,169 |

The remuneration concerns emoluments and all other payments, pension-related or social security deriving from the role of Director or Statutory Auditor in BasicNet S.p.A. and the other companies within the consolidation scope.
In relation to the other related parties, we highlight the legal consulting activities undertaken by Studio Professionale Pavesio e Associati and by Studio Legale Cappetti, of the Director Carlo Pavesio and the consultancy undertaken by Pantarei S.r.l. in which the Director Alessandro Gabetti Davicini is Sole Director and of Studio Boidi & Partners, of which the Statutory Auditor is Massimo Boidi and the rental contract for a property unit between BasicVillage S.p.A. and Mr. Alessandro Boglione (Director of BasicWorld S.r.l. and an Executive of BasicNet S.p.A.). These transactions, not material compared to the overall values, were at market conditions. The collections owned by BasicNet S.p.A., which are utilised for media events, shows, press gatherings together with the Brands and/or products of the Group, are subject to a renewable put and call agreement with BasicWorld S.r.l, at a price equal to the costs incurred for their acquisition, in addition to interest. This agreement was signed based on the eventual interest of BasicNet S.p.A. to sell this equipment to guarantee the complete recovery of the costs incurred, including financial charges, utilising in the meantime the benefits which derive from such communication

instruments for their brands and/or products and, by BasicWorld S.r.l., of the purchase, to avoid that such a collection which would be lost.

## 46. SUBSEQUENT EVENTS

They are described in the Directors' Report.

## 47. CONSOB NO. DEM/6064293 OF JULY 28, 2006

Pursuant to Consob Communication DEM/6064293 of July 28, 2006, we report that there were no non-recurring significant operations during the period, nor positions or transactions from atypical and/or unusual operations.

For the Board of Directors

**The Chairman**

Marco Daniele Boglione

**ATTACHMENT 1**
**Page 1 of 2**

## COMPANIES INCLUDED IN THE CONSOLIDATION UNDER THE LINE-BY-LINE METHOD

| | Registered office | Corporate purpose | Share capital | | Parent Holding (%) |
|---|---|---|---|---|---|
| **PARENT COMPANY** | | | | | |
| **BasicNet S.p.A**. | | | | | |
| **Directly held subsidiaries:** | | | | | |
| - Basic Properties B.V. | Amsterdam (NL) | Sub-license concession of patent rights to local licensees. | EURO | 18,160 | 100 |
| - Basic Village S.p.A. - single shareholder company | Turin (Italy) | Building mgt. at Largo M. Vitale, 1. | EURO | 412,800 | 100 |
| - BasicItalia S.p.A. single shareholder company | Turin (Italy) | Italian licensor, direct stores of BasicNet Group. | EURO | 7,650,000 | 100 |
| - BasicNet Asia Ltd. | Hong Kong (China) | Control activity of the licensees and sourcing centre in Asia. | HKD | 10,000 | 100 |
| - Jesus Jeans S.r.l. single shareholder company | Turin (Italy) | Owner of the Jesus Jeans brand. | EURO | 10,000 | 100 |
| **Indirectly held subsidiaries**: | | | | | |
| **– through Basic Properties B.V.** | | | | | |
| - Basic Trademark S.A. | Luxembourg | Owner of some brands of the BasicNet Group. | EURO | 1,250,000 | 100 |
| - Superga Trademark S.A. | Luxembourg | Owner of the brand Superga. | EURO | 500,000 | 100 (1) |
| - Basic Properties America, Inc. | Richmond (Virginia – USA) | Sub-license of the brands for the US, Canada and Mexico markets. | USD | 8,469,157.77 | 100 |
| **- through BasicItalia S.p.A.** | | | | | |
| - BasicRetail S.r.l. single shareholder company | Turin (Italy) | Management of outlets owned by the Group and a number of sales points. | EURO | 10,000 | 100 |

1) shares subject to pledges with voting rights at Extraordinary Shareholders' Meeting for Banca Intesa Sanpaolo S.p.A. in guarantee of the loan issued in April 2015.

**ATTACHMENT 1**
**Page 2 of 2**

## COMPANIES INCLUDED IN THE CONSOLIDATION UNDER THE EQUITY METHOD

| | Registered office | Corporate purpose | Share capital | | Holding (%) |
|---|---|---|---|---|---|
| **- through BasicNet S.p.A.** | | | | | |
| - AnziBesson Trademark S.r.l. | Turin (Italy) | Owner of the AnziBesson brand under a joint-venture | EURO | 50,000 | 50 (1) |
| - Fashion S.r.l. | Turin (Italy) | Owner of the Sabelt brand under a joint-venture | EURO | 100,000 | 50 (2) |

(1) The remaining 50% of the investment is held by Niccolò Besson.
(2) The remaining 50% of the investment is held by the Marsiaj family

## ATTACHMENT 2

# DECLARATION

## OF THE HALF-YEAR FINANCIAL STATEMENTS AS PER ARTICLE 81-TER OF CONSOB REGULATION NO. 81 OF MAY 14, 1999 AND SUBSEQUENT AMENDMENTS AND SUPPLEMENTS

The undersigned Marco Daniele Boglione as Executive Chairman, Giovanni Crespi as CEO, and Paolo Cafasso as Executive Officer for Financial Reporting of BasicNet S.p.A., affirm, and also in consideration of Article 154-bis, paragraphs 3 and 4, of Legislative Decree No. 58 of February 24, 1998:

- the adequacy in relation to the characteristics of the company and
- the effective application of the administrative and accounting procedures for the Condensed Consolidated Half-Year Financial Statements for the period from January 1 to June 30, 2016.

No significant aspects emerged concerning the above.

We also declare that:

- the condensed half-year financial statements:
  a) were prepared in accordance with international accounting standards, recognised in the European Union pursuant to EU regulation No. 1606/2002 of the European Parliament and Council, of July 19, 2002;
  b) correspond to the underlying accounting documents and records;
  c) provide a true and correct representation of the economic, balance sheet and financial situation of the Issuer and of the companies included in the consolidation;
- the Interim Directors' Report includes a reliable analysis of the significant events in the first six months of the year and their impact on the condensed half-year financial statements, with a description of the principal risks and uncertainties for the remaining six months. This Report also contains a reliable analysis of the significant operations with related parties.

Marco Daniele Boglione
**Chairman**

Giovanni Crespi
**Chief Executive Officer**

Paolo Cafasso
**Executive Officer Financial Reporting**