Disclaimer

The consolidated and statutory financial statements at 31 December 2017 have been translated into English solely for the convenience of the International reader. In the event of conflict or inconsistency between the terms used in the Italian Version of the report and the English version, the Italian version shall prevail, as the Italian version constitutes the

CHAIRMAN'S LETTER

Italy's recovery has strengthened. Supported by the accommodative monetary policy stance of the European Central Bank (ECB) and buoyant external demand, Italy's real GDP growth is projected at 1.5 % in both 2017 and 2018. It is expected to slow to 1.2 % in 2019. Rising demand and favourable financing conditions have started to support investment again after the sharp fall it suffered during the global financial crisis.

According to the Commission's forecasts, the growth rates of the Eurozone and the EU 2017 have exceeded the expectations of the past year, and from a phase of economic recovery we will then move to an expansion phase in 2018/2019. It is estimated that the economy of the Euro Area and of the European Union as a whole grew by 2.4% in 2017, the best figure for ten years now. This good performance should be repeated in 2018 and 2019, with growth rates of 2.3% and 2.0% respectively, both in the Euro area and in the EU.

This improvement in prospects is a result of both stronger cyclical momentum in Europe, where labour markets continue to improve and economic sentiment is particularly high, and a stronger than expected pick-up in global economic activity and trade.

The Financial year 2017 for Aeffe Group was characterized by double-digit growth in revenues and a more than proportional increase in profitability, results achieved thanks to the good performance of our brands, especially the owned ones and to an effective business model. The Group's medium/long-term strategic goals are on the development of highly distinctive collections with a focus on a calibrated strengthening of our presence in high-potential markets, especially in the Greater China and Asia Pacific areas.

Considering the Group's vitality and the positive feedbacks on the ongoing Fall/Winter 2018-2019 collections sales campaign, we feel confident about the further development and consolidation of our brands in 2018.

The Chairman of the Board of Directors

Massimo Ferretti

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Corporate boards of the Parent Company

Board of Directors

Chairman
Massimo Ferretti

Deputy Chairman
Alberta Ferretti

Chief Executive Officer
Simone Badioli

Directors
Marcello Tassinari – Managing Director
Roberto Lugano
Daniela Saitta
Sabrina Borocci
Alessandro Bonfiglioli

Board of Statutory

President
Angelo Miglietta

Statutory Auditors
Fernando Ciotti
Carla Trotti

Alternate Auditors
Nevio Dalla Valle
Daniela Elvira Bruno

Board of Compensation Committee

President
Daniela Saitta

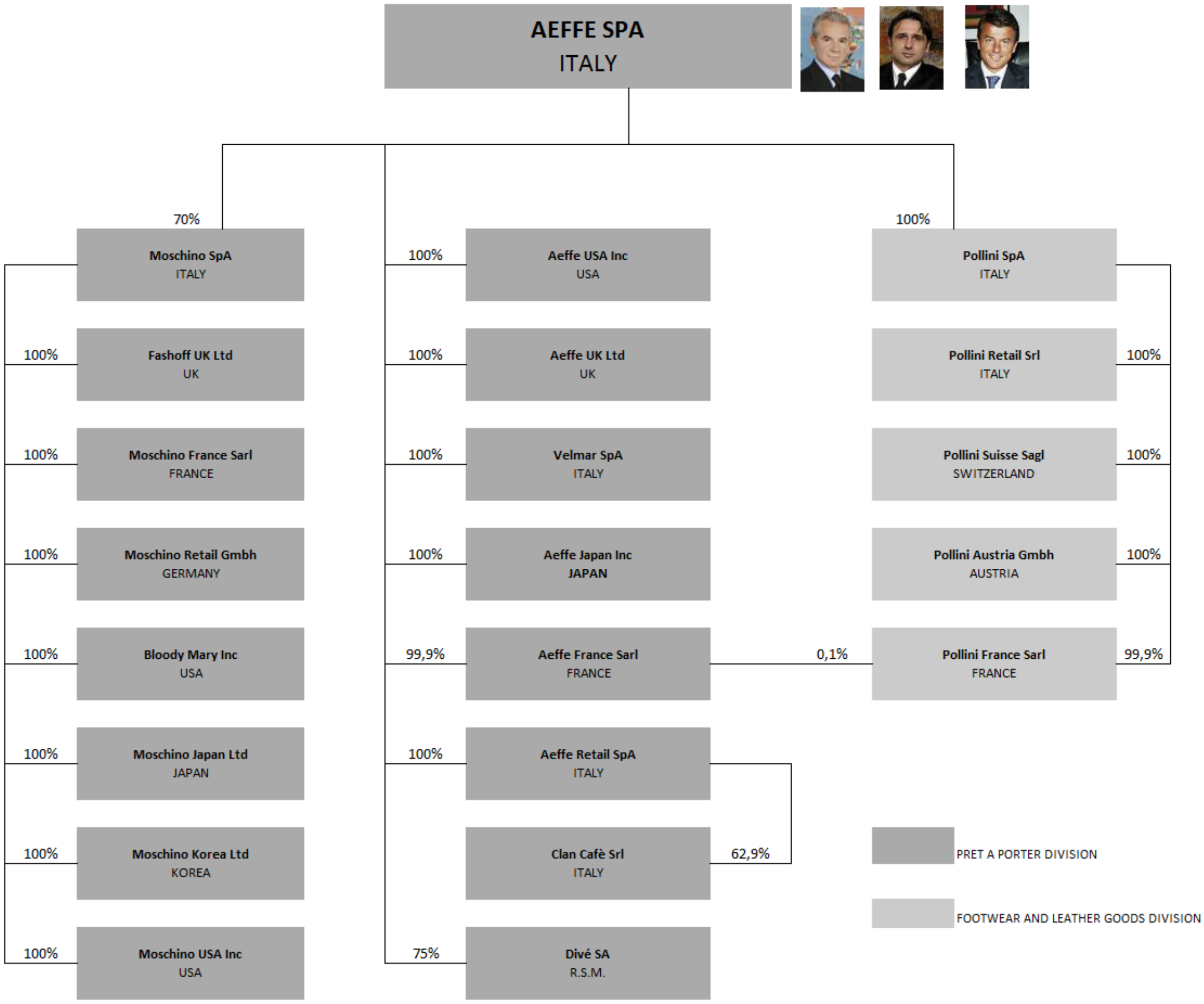
Members
Roberto Lugano
Sabrina Borocci

Board of Internal Control Committee

President
Roberto Lugano

Members
Daniela Saitta
Alessandro Bonfiglioli

Organisation chart



Brands portfolio

AEFFE
Clothing - Accessories

- ALBERTA FERRETTI
- PHILOSOPHY DI LORENZO SERAFINI
- MOSCHINO
- BOUTIQUE MOSCHINO
- JEREMY SCOTT
- CEDRIC CHARLIER

POLLINI
Footwear – Leather goods

- POLLINI
- MOSCHINO
- LOVE MOSCHINO

MOSCHINO
Licences – Design

- MOSCHINO
- BOUTIQUE MOSCHINO
- LOVE MOSCHINO

VELMAR
Beachwear - Lingerie

- MOSCHINO
- BLUGIRL Folies

Headquarters

AEFFE
Via Delle Querce, 51
47842 - San Giovanni in Marignano (RN)
Italy

MOSCHINO
Via San Gregorio, 28
20124 - Milan
Italy

POLLINI
Via Erbosa I° tratto, 92
47030 - Gatteo (FC)
Italy

VELMAR
Via Delle Querce, 51
47842 - San Giovanni in Marignano (RN)
Italy

Showrooms

MILAN
(FERRETTI – PHILOSOPHY – POLLINI – CEDRIC CHARLIER)
Via Donizetti, 48
20122 - Milan
Italy

LONDON
(FERRETTI – PHILOSOPHY – MOSCHINO)
28-29 Conduit Street
W1S 2YB - London
UK

PARIS
(FERRETTI – PHILOSOPHY – MOSCHINO)
43, Rue DU Faubourg Saint Honoré
75008 - Paris
France

NEW YORK
(GRUPPO)
30 West 56th Street
10019 - New York
USA

MILAN
(MOSCHINO)
Via San Gregorio, 28
20124 - Milan
Italy

MILAN
(LOVE MOSCHINO)
Via Settembrini, 1
20124 - Milan
Italy

PARIS
(CEDRIC CHARLIER)
28, Rue de Sevigne
75004 - Paris
France

Main flagshipstore locations under direct management

ALBERTA FERRETTI
Milan
Rome
Capri
Paris
London
Los Angeles
Shanghai

POLLINI
Milan
Venice
Bolzano
Varese

SPAZIO A
Florence
Venice

MOSCHINO
Milan
Rome
Capri
Paris
London
Los Angeles
New York
Seoul
Pusan
Daegu

Main economic-financial data

		Full Year 2016	Full Year 2017
Total revenues	(Values in millions of EUR)	287.5	316.5
Gross operating margin (EBITDA) *	(Values in millions of EUR)	25.2	36.6
Net operating profit (EBIT)	(Values in millions of EUR)	10.1	22.7
Profit before taxes	(Values in millions of EUR)	8.3	18.9
Net profit for the Group	(Values in millions of EUR)	3.6	11.5
Basic earnings per share	(Values in units of EUR)	0.036	0.113
Cash Flow (net profit + depreciation)	(Values in millions of EUR)	16.3	23.1
Cash Flow/Total revenues	(Values in percentage)	5.7	7.3

* EBITDA is represented by operating profit before provisions and depreciation. EBITDA thus defined is a measure used by management to monitor and evaluate the operational performance and is not identified as an accounting measure under both Italian Accounting Principles and IFRS and therefore should not be considered an alternative measure for evaluating the Group's results. Since EBITDA is not regulated by applicable accounting standards, the criteria used by the Group might not be consistent with that adopted by others and therefore may not be comparable.

		31 December 2016	31 December 2017
Net capital invested	(Values in millions of EUR)	227.6	229.0
Net financial indebtedness	(Values in millions of EUR)	59.5	50.6
Group net equity	(Values in millions of EUR)	135.8	146.1
Group net equity per share	(Values in units of EUR)	1.3	1.4
Current assets/ current liabilities	(Ratio)	1.8	1.9
Current assets less invent./ current liabilities (ACID test)	(Ratio)	0.8	0.8
Net financial indebtedness/ Net equity	(Ratio)	0.4	0.3
ROI: Net operating profit/ Net capital invested	(Values in percentage)	4.4	9.9

CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2017

AEFFE

Report on operations

1. ECONOMIC BACKGROUND

Shareholders,

We find it necessary to focus on the main macroeconomic variables in the sphere of which our Group has found itself operating.

INTERNATIONAL MACROECONOMIC SITUATION

Economic growth is strong across the main advanced and emerging economies. It is not, however, being accompanied by a recovery in inflation which remains weak. The short-term outlook remains favourable; there is still the risk that a downward adjustment of the prices of financial assets could slow economic activity.

In the third quarter of 2017 economic activity continued to expand in the main advanced economies, while cyclical conditions remained favourable in the final months of the year. For the United States, the latest data point to strong growth. In the United Kingdom, private consumption shows signs of recovery and leading indicators suggest for the last quarter of 2017 a rate of growth in line with the average for the first three. For Japan, the latest cyclical data indicate an acceleration in economic activity in the fourth quarter of 2017. In the emerging countries the recovery under way since the first half of 2017 is continuing. For China, growth was stable in the final months of the year after having exceeded expectations in the previous quarters. GDP growth accelerated during the summer months in India and Brazil.

In the third quarter of 2017, world trade grew by 3.5 per cent, with stronger imports in the euro area and in Asian emerging economies (excluding China).

The risks to the world economy continue to stem from a possible increase in volatility on the financial markets, connected to a sudden intensification of geopolitical tensions.

In the euro area the economy continued to grow at a fast pace, driven primarily by foreign demand. Inflation remains modest, reflecting weakness in the core component. The ECB Governing Council's decision to recalibrate its monetary policy instruments was taken to preserve the very favourable financing conditions that are still needed for a sustained return of inflation rates towards levels that are below, but close to, 2 per cent.

Based on the December Eurosystem staff projections, euro-area GDP is expected to grow by 2.3 per cent in 2018 (from 2.4 per cent in 2017).

The new projections for the Italian economy for the three years 2018-20 estimate that GDP expanded by 1.5 per cent in 2017, by 1.4 per cent in the current year and by 1.2 per cent in 2019-20. Economic activity is expected to be mainly driven by domestic demand.

In each of the three years 2018-20 exports are forecast to expand by more than 3 per cent on average, reflecting both the assumptions regarding the favourable performance of international trade and the effects of the appreciation of the euro in recent quarters. The growth of imports, which was especially strong in 2017 before gradually slowing, is expected to mirror developments in productive investment and exports, the two components of demand with the highest imported goods content.

The forecasting scenario assumes that financial conditions continue to be accommodating, with a very gradual adjustment in short- and long-term interest rates, orderly conditions on the government securities markets, and relatively relaxed credit supply conditions. Overall, GDP performance is expected to continue to depend on the support provided by economic policies, albeit to a lesser extent than in the past.

The main risks associated with these projections stem from global conditions and from the performance of the financial markets. An intensification of geopolitical tensions or greater uncertainty surrounding the future course of international economic policies could translate into higher volatility in the financial markets and in risk premiums, with adverse repercussions on the euro-area economy.

Among domestic risks, those connected with the weakness of the banking system and with the potential heightening of uncertainty on the part of households and firms over the strength of the recovery under way have abated compared with past quarters. This scenario, however, relies on the continuation of economic policies capable of fostering long-term economic growth by supporting investment and consumption choices, while also lending credibility to public debt reduction objectives by fully exploiting the upturn in the global economy.

MACROECONOMIC BACKGROUND TO THE CLOTHING SECTOR

The luxury market has bounced back from a stagnant 2016 caused by economic uncertainty and geopolitical crises and is now worth around €1,160 billion, with growth of 5% at constant exchange rates.

The recovery of the segment is partially down to a general increase in consumer confidence: this factor has driven local consumption among Europeans, Americans and Asians, as well as the purchases of Chinese travellers. Another crucial aspect is the return of tourists to Europe with numbers 11% up on last year. In addition to this, there is the constant growth in the online channel, a market now worth the same as the Japanese market.

Growing by 6% at current exchange rates, Europe continues to recover, reestablishing its reputation as the key region for luxury sales. In Japan we are seeing strong growth driven by the currency and the consequent increase in Chinese spending has led to 2% growth at current exchange rates. Chinese luxury customers are increasingly expert and have driven up sales in China by 15%. The rest of Asia (excluding continental China and Japan) has registered strong growth of 6% and the American market (North and South America) has also managed to close the year positively, growing by 2%. In other regions growth remains stable at 1% with the Middle East held back by economic uncertainty. There has been growth of 8% in the Retail channel and multi-brand stores have also performed strongly. However, the figures relating to department stores at global level have been disappointing. The evolving role of the store is reflected by the online channel, which has grown by 24% with the American market alone accounting for almost half of these types of sales (accessories, beauty and hard luxury are among the biggest-selling categories in this channel): this doesn’t mean that stores have lost their role but rather that they need to find a way of reinventing themselves.

Bain forecasts strong positive growth which will continue at a constant annual growth rate of between 4% and 5% in the next three years.

The forecasts for 2018 confirm a solid +5%: consistent growth for leather, footwear and accessories (+7%) and for Hard Luxury (5%). Growth also in the area of clothing, perfumes and cosmetics (+4%). All markets are expected to grow with Asia leading the way (+10%), followed by Japan (+5%), Europe and North America (+4%), the latter returning to growth after two difficult years.

2. SUMMARY OF THE GROUP’S KEY ACTIVITIES

Aeffe Group operates worldwide in the fashion and luxury goods sector and is active in the design, production and distribution of a wide range of products that includes prêt-a-porter, footwear and leather goods. The Group develops, produces and distributes, with a constant focus on the qualities of uniqueness and exclusivity, its own collections both under its own-label brands, including “Alberta Ferretti”, “Philosophy” “Moschino” and “Pollini”, and under licensed brands, which include “Blugirl Folies”, “Cedric Charlier” and “Jeremy Scott”. The Group has also licensed to key partners the production and distribution of other accessories and products with which it supplements its product range (perfumes, junior and children’s lines, watches, sunglasses and other).

The Group's business is divided, based on the various product lines and brands it sells, into two segments: (i) prêt-a-porter (which includes prêt-a-porter lines, lingerie and swimwear); and (ii) footwear and leather goods.

Prêt-a-porter Division

The Prêt-a-porter Division, which is composed of the companies Aeffe, Moschino and Velmar, is mainly involved in the design, production and distribution of luxury prêt-a-porter garments and lingerie, beachwear and loungewear.

In terms of the prêt-a-porter collections, the activity is carried out by Aeffe, both for the production of the Group's proprietary brands ("Alberta Ferretti", "Philosophy", "Moschino", "Boutique Moschino" and "Love Moschino") and brands licensed from other companies (such as "Blugirl Folies", "Cedric Charlier" and "Jeremy Scott"). Aeffe also handles the distribution of all Division products both through the retail channel (via subsidiaries) and through the wholesale channel.

Velmar manufactures and distributes lingerie and swimwear collections, and specifically men's/women's lingerie, underwear and beachwear, and loungewear. Collections are produced and distributed under the Group's proprietary brands, such as "Moschino", and under third-party licensed brands such as "Blugirl Folies".

The Prêt-a-porter Division also manages licensing agreements granted to other companies to manufacture Aeffe and Moschino branded product lines such as the Moschino brand licensing agreement relating to the Love line, "Moschino" branded perfumes and "Moschino" branded sunglasses.

Aeffe

Aeffe is the brainchild of designer Alberta Ferretti, who set up her own business in 1972. The history of the parent company has developed in parallel with that of its founder, whose personal involvement in fashion has been a key factor in Aeffe's development.

The growth of the parent company as an industrial and creative entity has been distinguished from the start by a multi-brand approach, with Aeffe producing and distributing the prêt-a-porter collections of leading fashion houses utilising the know-how acquired in the production of luxury prêt-a-porter lines.

This provides the context for the partnership between Aeffe and designer Franco Moschino, whose brand "Moschino Couture!" it has produced and distributed under an exclusive licence since 1983.

Between 1995 and 2013, Aeffe worked with designer Jean Paul Gaultier producing and distributing the women prêt-à-porter collections branded "Jean Paul Gaultier".

In 2001, Aeffe gained control of Pollini, an established manufacturer of footwear and leather goods. This allowed Aeffe to supplement the collections produced in-house with an accessories line.

In 2002, Aeffe took over Velmar, a firm that had collaborated with Aeffe for some time on the production and distribution of lingerie, beachwear and loungewear lines.

In 2007, Aeffe, obtained the Consob Nulla Osta to public the offering memorandum relating to the Public Offering and the listing on the MTA – Star Segment – of Aeffe S.p.A. ordinary shares, closes successfully the Offer of shares and starts to be traded on the MTA – Star Segment – by Borsa Italiana.

Moschino

Moschino was founded in 1983 and grew during the 1990s to become an internationally renowned brand. Following the disappearance in 1994 of its founder, Franco Moschino, his family, staff and friends have kept the designer's legacy alive, respecting his creative identity and philosophy. Rossella Jardini, who has worked for Franco Moschino since 1981, succeeded him as artistic director and becoming in charge of brand image and styling.

The company provides design, marketing and agency services from the Milan showroom for Moschino collections in Italy and overseas.

The company also directly manages six single-brand Moschino stores, three in Milan, one in Rome, one in Capri and one on-line.

In 2013 Jeremy Scott was appointed as creative director of the "Moschino" brand.

Velmar

Velmar was created in 1983 in San Giovanni in Marignano and is active in the production and distribution of lingerie, underwear, beachwear and loungewear.

In 1990, a partnership began between Velmar and designer Anna Molinari to manufacture lingerie and beachwear lines. That same year, talks began with Aeffe and Genny.

Between 1990 and 1995, Velmar worked with Genny and Fendi, producing all of the swimwear lines designed by the two fashion houses. Between 1990 and 2001, Velmar worked with Itierre and Prada on the design and production of the active and sportswear lines sold under the "Extee" and "Prada" menswear labels.

Between 1995 and 1998, Velmar produced and distributed under licence the beachwear line for Byblos menswear and womenswear.

In 1998, Velmar signed a licensing agreement with Blufin for the production and distribution of "Blugirl" lines.

In 2001, Aeffe acquired 75% of Velmar. Again, this represented a natural progression of the existing partnership between the two companies.

In 2006, Velmar obtained a licence for the production and distribution of the men's beachwear and underwear lines and women's lingerie lines under the "Moschino" brand.

In 2010, Aeffe acquires the remaining 25% of Velmar's share capital.

In 2012 Velmar signed a licensing agreement with Blufin for the design, production and international distribution of "teen" women prêt-à-porter line branded Blugirl Folies.

Aeffe USA

Aeffe USA is 100% owned by Aeffe S.p.A. and was incorporated in May 1987 under the laws of the State of New York.

The company operates in the wholesale segment of the North American market (United States and Canada) distributing items of clothing and accessories produced by the parent company, Pollini S.p.A. and Velmar S.p.A. and other third-party licensed manufacturers, with different collections, of the brands produced by the parent company. The company also acts as agent for some of these lines. The company operates out of its showroom located in midtown Manhattan.

Aeffe Retail

Aeffe Retail operates in the retail segment of the Italian market and directly manages 12 stores, both single-brand and multi-brand, located in major Italian cities such as Milan, Rome, Venice, Florence and Capri, manages also an on-line single-brand store.

Clan Cafè

Clan Cafè S.r.l., incorporated in 2007, is 62.9% owned by Aeffe Retail. Since 2011 it entered into a lease of a business with the company Jader S.r.l. for the management of a store located in Milan Via Pontaccio 19, which distributes clothing and accessories produced by Aeffe Group and by third parties.

Aeffe UK

Aeffe UK is 100% owned by Aeffe S.p.A. and manages the store in London's Sloane Street, which sells clothing and accessories under the Alberta Ferretti and Philosophy di Lorenzo Serafini labels.

Aeffe France

Aeffe France is 99.9% owned by Aeffe S.p.A. and manages the store in Rue St. Honorè in Paris, selling apparel and accessories under the Alberta Ferretti. The company also acts as an agent for the French market for the brands Alberta Ferretti and Philosophy di Lorenzo Serafini.

Aeffe Japan

Aeffe Japan, company based in Tokyo and 100% owned by Aeffe S.p.A., has sold, starting from the 1st of January 2014, the distributing and franchising activities for the collections branded "Alberta Ferretti" and "Philosophy di Lorenzo Serafini" to Woollen Co., Ltd..

In 2014 the company, as owner of a new brand, has decided to develop it in the Japanese market and to that end has licensed it to a third party for the marketing of products in the country.

Moschino Japan

Moschino Japan, company based in Tokyo and 100% owned by Moschino S.p.A., has sold starting from the 1st of January 2014, the distributing and franchising activities for the collections branded Moschino to Woollen Co., Ltd..

In 2014 the company, as owner of a new brand, has decided to develop it in the Japanese market and to that end has licensed it to a third party for the marketing of products in the country.

Moschino Korea

Moschino Korea is 100% owned by Moschino S.p.A. and is based in Seoul. The company exclusively operates in the retail segment through flagship stores under direct management which sell Moschino-branded collections.

Fashoff UK

Fashoff UK operates by the showroom in London, acting as agent for the collections Moschino, Alberta Ferretti and Philosophy di Lorenzo Serafini.

The company also directly manages a single-brand Moschino store in London.

Moschino France

Moschino France is based in the Paris showroom and acts as agent for all Moschino collections except childrenswear, eyewear, perfumes and watches.

The company also manages a single-brand Moschino store in Paris.

Moschino Gmbh

Moschino Gmbh, company that managed directly a single-brand Moschino store in Berlin, starting from the 1st of January 2016, is liquidation.

Bloody Mary

Bloody Mary, company based in New York and 100% owned by Moschino S.p.A., has signed, starting from 2014, a sublease contract for the management of a store placed at 401 West 14th Street New York.

Moschino USA

Moschino USA, company founded in 2014 with base in New York and 100% owned by Moschino S.p.A., directly manage two single-brand Moschino stores, one in Los Angeles and one in New York.

Footwear and leather goods Division

The footwear and leather goods Division, which is composed of Pollini and its subsidiaries, mainly handles the design, production and distribution of footwear, small leather goods, bags and matching accessories made from exclusive materials.

The operating activity is mainly carried out by Pollini, which directly handles the design, production and distribution of own-label products, as well as the production and distribution of brands licensed by Group companies.

The footwear and leather goods division also manages licensing agreements granted to other companies to manufacture "Pollini"" products such as umbrellas, scarves and ties.

Pollini

Pollini was established in 1953 in the shoemaking district of San Mauro Pascoli, following in the Italian tradition of handmade leather goods and shoes. Italy is a leading producer of footwear: due to expertise required to make these products, nearly all production sites are located in areas with a long-standing shoemaking tradition, such as San Mauro Pascoli, Vigevano and Strà (PD). The company's philosophy is focused on promoting Pollini in other countries as an amalgam of traditional quality and Italian style, offering a range of products that include shoes, bags and matching accessories.

Between 1957 and 1961, Pollini produced the footwear collections of the designer Bruno Magli.

In the 1960s and early 1970s, Pollini began making shoes under its own label, presenting "themed" collections (such as the "Daytona" sports footwear collection, inspired by the world of motorbike racing).

In the 1970s, Pollini rose to international fame: at that point, its collections were shown in Düsseldorf, Paris and New York, as well as in Milan and Bologna. Around the same time, the first stores opened in Milan, Verona, Varese and Venice.

In 1989, Pollini moved into its new office in Gatteo, in the Italian province of Forlì-Cesena. The new site measures 50,000 sq. m., just over a third of it indoor, with a production workshop and seven-storey building housing the showroom and offices. The new site brought the footwear and leather goods divisions and sales and administration offices under one roof.

In 2001, Aeffe and Pollini reached an agreement whereby Aeffe would acquire a controlling stake in Pollini. The acquisition was a natural progression of the increasingly concentrated partnership between the two companies, enabling the growth of the footwear and leather goods lines designed by Alberta Ferretti.

Always in 2008, Pollini entered into new license agreements with Drops S.r.l., for the manufacturing of umbrellas, as well as Larioseta S.p.A., for the manufacturing and distribution of neckwear, including women's shawls, women's and men's scarves and ties.

In 2011 Aeffe S.p.A. has acquired the remaining 28% shareholding of Pollini S.p.A., becoming the sole shareholder.

Pollini Retail

Pollini Retail is active in the retail segment of the Italian market and directly manages 20 stores, between boutiques and outlets, in major Italian cities such as Milan and Rome.

Pollini Suisse

Pollini Suisse directly manages the single-brand Pollini store in Mendrisio, Switzerland.

Pollini Austria

Pollini Austria directly manages the single-brand Pollini store in Pandorf, Austria.

3. TREND OF THE GROUP MANAGEMENT

CONSOLIDATED INCOME STATEMENT

(Values in units of EUR)	Full Year 2017	% on revenues	Full Year 2016	% on revenues	Change	%
REVENUES FROM SALES AND SERVICES	**312,604,739**	**100.0%**	**280,690,885**	**100.0%**	**31,913,854**	**11.4%**
Other revenues and income	3,857,091	1.2%	6,816,595	2.4%	(2,959,504)	(43.4%)
TOTAL REVENUES	**316,461,830**	**101.2%**	**287,507,480**	**102.4%**	**28,954,350**	**10.1%**
Changes in inventory	10,243,168	3.3%	(913,774)	(0.3%)	11,156,942	(1,221.0%)
Costs of raw materials, cons. and goods for resale	(106,306,060)	(34.0%)	(89,794,049)	(32.0%)	(16,512,011)	18.4%
Costs of services	(91,038,590)	(29.1%)	(81,289,495)	(29.0%)	(9,749,095)	12.0%
Costs for use of third parties assets	(23,340,025)	(7.5%)	(22,847,255)	(8.1%)	(492,770)	2.2%
Labour costs	(65,376,702)	(20.9%)	(63,490,261)	(22.6%)	(1,886,441)	3.0%
Other operating expenses	(4,071,124)	(1.3%)	(3,978,106)	(1.4%)	(93,018)	2.3%
Total Operating Costs	(279,889,333)	(89.5%)	(262,312,940)	(93.5%)	(17,576,393)	6.7%
GROSS OPERATING MARGIN (EBITDA)	**36,572,497**	**11.7%**	**25,194,540**	**9.0%**	**11,377,957**	**45.2%**
Amortisation of intangible fixed assets	(6,555,292)	(2.1%)	(6,805,687)	(2.4%)	250,395	(3.7%)
Depreciation of tangible fixed assets	(5,004,115)	(1.6%)	(5,149,208)	(1.8%)	145,093	(2.8%)
Revaluations/(write-downs) and provisions	(2,316,749)	(0.7%)	(3,153,669)	(1.1%)	836,920	(26.5%)
Total Amortisation, write-downs and provisions	(13,876,156)	(4.4%)	(15,108,564)	(5.4%)	1,232,408	(8.2%)
NET OPERATING PROFIT / LOSS (EBIT)	**22,696,341**	**7.3%**	**10,085,976**	**3.6%**	**12,610,365**	**125.0%**
Financial income	1,418,353	0.5%	1,523,856	0.5%	(105,503)	(6.9%)
Financial expenses	(5,175,881)	(1.7%)	(3,278,335)	(1.2%)	(1,897,546)	57.9%
Total Financial Income / (expenses)	(3,757,528)	(1.2%)	(1,754,479)	(0.6%)	(2,003,049)	114.2%
PROFIT / LOSS BEFORE TAXES	**18,938,813**	**6.1%**	**8,331,497**	**3.0%**	**10,607,316**	**127.3%**
Taxes	(7,436,754)	(2.4%)	(3,955,128)	(1.4%)	(3,481,626)	88.0%
NET PROFIT / LOSS	**11,502,059**	**3.7%**	**4,376,369**	**1.6%**	**7,125,690**	**162.8%**
(Profit) / loss attributable to minority shareholders	(11,716)	(0.0%)	(735,125)	(0.3%)	723,409	(98.4%)
NET PROFIT / LOSS FOR THE GROUP	**11,490,343**	**3.7%**	**3,641,244**	**1.3%**	**7,849,099**	**215.6%**

Sales

In 2017 consolidated revenues amount to EUR 312,605 thousand compared to EUR 280,691 thousand of the year 2016, showing an increase of 11.4% (+11.6% at constant exchange rates).

Revenues of the prêt-à-porter division amount to EUR 239,815 thousand with an increase of 11.1% at current exchange rates (+11.4% at constant exchange rates) compared to 2016. The revenues of the footwear and leather goods division increase by 12.8% to EUR 108,216 thousand.

Sales by brand

(Values in thousands of EUR)	Full Year 2017	%	Full Year 2016	%	Change Δ	%
Alberta Ferretti	30,864	9.9%	23,964	8.5%	6,900	28.8%
Philosophy	16,324	5.2%	13,140	4.7%	3,184	24.2%
Moschino	220,739	70.6%	197,647	70.4%	23,092	11.7%
Pollini	34,363	11.0%	29,604	10.5%	4,759	16.1%
Other	10,315	3.3%	16,336	5.9%	(6,021)	(36.9%)
Total	**312,605**	**100.0%**	**280,691**	**100.0%**	**31,914**	**11.4%**

In 2017, the Alberta Ferretti brand increases by 28.8% (+29.5% at constant exchange rates), contributing to 9.9% of consolidated sales, while Philosophy di Lorenzo Serafini brand increases by 24.2% (+24.8% at constant exchange rates), contributing to 5.2% of consolidated sales.

In the same period Moschino brand increases by 11.7% (+11.8% at constant exchange rates), contributing to 70.6% of consolidated sales.

Pollini brand records a growth of 16.1% (+16.2% at constant exchange rates), generating 11.0% of consolidated sales, while brands under license decreases by 36.9% (-36.6% at constant exchange rates), equal to 3.3% of consolidated sales.

Sales by geographical area

(Values in thousands of EUR)	Full Year		Full Year		Change	
	2017	%	2016	%	Δ	%
Italy	152,116	48.7%	126,079	44.9%	26,037	20.7%
Europe (Italy and Russia excluded)	67,759	21.7%	59,934	21.4%	7,825	13.1%
Russia	9,106	2.9%	9,107	3.2%	(1)	(0.0%)
United States	18,605	5.9%	22,941	8.2%	(4,336)	(18.9%)
Rest of the World	65,019	20.8%	62,630	22.3%	2,389	3.8%
Total	**312,605**	**100.0%**	**280,691**	**100.0%**	**31,914**	**11.4%**

In 2017, sales in Italy register a very positive trend posting a 20.7% increase to EUR 152,116 thousand, contributing to 48.7% of consolidated sales, thanks to organic growth both in wholesale and retail channel, which both benefited from local customers and high-end tourist flows.

Sales in Europe increase by 13.1% (+13.6% at constant exchange rates), contributing to 21.7% of consolidated sales, driven especially by the good performance in UK, Germany and France. Sales data were positive both for the directly operated stores channel and for the wholesale channel.

The Russian market, contributing to 2.9% of consolidated sales, reported a constant trend compared to last year, showing good signs of recovery in the last quarter of the year.

Sales in the United States post a decrease of 18.9% (-17.5% at constant exchange rates) contributing to 5.9% of consolidated sales. This change was mainly due to the slowdown in sales in the department stores.

In the Rest of the World, sales increase by 3.8% (+3.7% at constant exchange rates) to EUR 65,019 thousand, contributing to 20.8% of consolidated sales, especially driven by healthy trend in Greater China, which posted a 16.5% growth.

Sales by distribution channel

(Values in thousands of EUR)	Full Year		Full Year		Change	
	2017	%	2016	%	Δ	%
Wholesale	219,173	70.1%	201,271	71.7%	17,902	8.9%
Retail	83,310	26.7%	70,334	25.1%	12,976	18.4%
Royalties	10,122	3.2%	9,086	3.2%	1,036	11.4%
Total	**312,605**	**100.0%**	**280,691**	**100.0%**	**31,914**	**11.4%**

The revenues generated by the Group during 2017 are analysed below:

- 70.1% from the Group's sales organisation, showrooms, agents and importers, franchise outlets, corners and shop-in-shops (wholesale channel), which contributes EUR 201,271 thousand in 2016 and EUR 219,173 thousand in 2017, up 8.9% (+9.0% at constant exchange rates);

- 26.7% from sales outlets managed directly by the Group (retail channel), which contributes EUR 70,334 thousand in 2016 and EUR 83,310 thousand in 2017, +18.4% (+18.9% at constant exchange rates);

- 3.2% from royalties deriving from licenses granted to third parties for the production and distribution of product lines sold under the Group's brand names. Royalties increase from EUR 9,086 thousand in 2016 to EUR 10,122 thousand in 2017, by 11.4%.

Labour costs

Labour costs change from EUR 63,490 thousand in 2016 to EUR 65,377 thousand in 2017, recording an increase of EUR 1,887 thousand, and an incidence on revenues which changes from 22.6% in 2016 to 20.9% in 2017.

The workforce increases from an average of 1,301 units in 2016 to 1,307 units in 2017.

Average number of employees by category	Full Year	Full Year	Change	
	2017	2016	Δ	%
Workers	233	229	4	1.7%
Office staff-supervisors	1,051	1,049	2	0.2%
Executive and senior managers	23	23	-	0.0%
Total	**1,307**	**1,301**	**6**	**0.5%**

Gross Operating Margin (EBITDA)

In 2017 consolidated EBITDA is positive for EUR 36,572 thousand (with an incidence of 11.7% of consolidated sales), showing an increase of 45.2% compared to an EBITDA of EUR 25,195 thousand in 2016 (with an incidence of 9.0% of consolidated sales). This improvement was due to both sales growth and lower incidence of the operating costs, in turn closely linked to the Group's business model. In particular, thanks to full exploitation of economies of scale, an increase in sales corresponds to a more than proportional increase in margins.

The improvement in profitability was mainly driven by the prêt-à-porter division.

In particular, EBITDA of the *prêt-à-porter* division amounts to EUR 26,821 thousand (11.2% on sales), compared to an EBITDA of EUR 18,925 thousand in 2016 (8.8% on sales), with an increase of EUR 7,896 thousand.

In 2017 EBITDA of the footwear and leather goods division is EUR 9,751 thousand (9.0% on sales), compared to an EBITDA of EUR 6,270 thousand in 2016 (6.5% on sales), with a EUR 3,481 thousand increase.

Net operating result (EBIT)

Consolidated EBIT is equal to EUR 22,696 thousand (7.3% on sales), recording an improvement of EUR 12,610 thousand, compared to EUR 10,086 thousand of 2016 (3.6% on sales).

Result before taxes

Thanks to improvement in operating profit, the Result before taxes posts a profit of EUR 18,939 thousand, showing a EUR 10,608 thousand growth compared to EUR 8,331 thousand in 2016.

Net result

Net result posts a profit of EUR 11,502 thousand in 2017 compared to EUR 4,376 thousand in 2016, with an increase in absolute value of EUR 7,126 thousand.

Net result for the Group

Consolidated net result for the Group increases from EUR 3,641 thousand in 2016 to EUR 11,490 thousand in 2017, with a growth of EUR 7,849 thousand.

CONSOLIDATED BALANCE SHEET

(Values in units of EUR)	31 December 2017	31 December 2016	Change Δ	%
Trade receivables	42,064,915	40,711,059	1,353,856	3.3%
Stock and inventories	97,817,891	89,389,833	8,428,058	9.4%
Trade payables	(68,618,776)	(61,880,670)	(6,738,106)	10.9%
Operating net working capital	**71,264,030**	**68,220,222**	**3,043,808**	**4.5%**
Other short term receivables	26,914,468	25,082,908	1,831,560	7.3%
Tax receivables	5,411,024	4,094,261	1,316,763	32.2%
Derivative assets	-	-	-	n.a.
Other short term liabilities	(17,642,193)	(16,958,605)	(683,588)	4.0%
Tax payables	(3,611,468)	(7,376,339)	3,764,871	(51.0%)
Derivative liabilities	(997,532)	-	(997,532)	n.a.
Net working capital	**81,338,329**	**73,062,447**	**8,275,882**	**11.3%**
Tangible fixed assets	59,104,297	61,376,021	(2,271,724)	(3.7%)
Intangible fixed assets	109,678,612	115,131,885	(5,453,273)	(4.7%)
Equity investments	131,558	131,558	-	n.a.
Other fixed assets	3,564,214	3,961,836	(397,622)	(10.0%)
Fixed assets	**172,478,681**	**180,601,300**	**(8,122,619)**	**(4.5%)**
Post employment benefits	(5,916,166)	(6,366,872)	450,706	(7.1%)
Provisions	(2,415,237)	(2,558,786)	143,549	(5.6%)
Assets available for sale	436,885	436,885	-	n.a.
Liabilities available for sale	-	-	-	n.a.
Long term not financial liabilities	(787,692)	(469,000)	(318,692)	68.0%
Deferred tax assets	14,335,779	13,856,302	479,477	3.5%
Deferred tax liabilities	(30,436,700)	(30,985,927)	549,227	(1.8%)
NET CAPITAL INVESTED	**229,033,879**	**227,576,349**	**1,457,530**	**0.6%**
Share capital	25,371,407	25,371,407	-	n.a.
Other reserves	116,229,168	115,641,684	587,484	0.5%
Profits / (Losses) carried-forward	(6,957,390)	(8,883,005)	1,925,615	(21.7%)
Profits / (Loss) for the period	11,490,343	3,641,244	7,849,099	215.6%
Group interest in shareholders' equity	**146,133,528**	**135,771,330**	**10,362,198**	**7.6%**
Minority interests in shareholders' equity	32,306,940	32,298,194	8,746	0.0%
Total shareholders' equity	**178,440,468**	**168,069,524**	**10,370,944**	**6.2%**
Short term financial receivables	(1,420,000)	(2,235,854)	815,854	(36.5%)
Cash	(22,808,913)	(14,521,334)	(8,287,579)	57.1%
Long term financial liabilities	22,079,795	23,840,201	(1,760,406)	(7.4%)
Long term financial receivables	(2,591,605)	(3,390,633)	799,028	(23.6%)
Short term financial liabilities	55,334,134	55,814,445	(480,311)	(0.9%)
NET FINANCIAL POSITION	**50,593,411**	**59,506,825**	**(8,913,414)**	**(15.0%)**
SHAREHOLDERS' EQUITY AND NET FINANCIAL INDEBTEDNESS	**229,033,879**	**227,576,349**	**1,457,530**	**0.6%**

NET INVESTED CAPITAL

Net invested capital increases by 0.6% compared with 31 December 2016.

Net working capital

Net working capital amounts to EUR 81,338 thousand (26.3% on sales) compared with EUR 73,062 thousand at 31 December 2016 (26.0% on sales).

Changes in the main items included in the net working capital are described below:

- the sum of trade receivables, inventories and trade payables increases in all by 4.5% (EUR +3,044 thousand) with a decrease of incidence on sales, from 24.3% in 2016 to 22.8% in 2017, thanks to the better management of the operating net working capital.
- the sum of other receivables and payables increases in all of EUR 1,148 thousand compared with the previous year mainly for higher receivables;
- the sum of tax receivables and tax payables increase in all of EUR 5,082 thousand. Such increase is mainly due to the increase of VAT receivable and to the decrease of the tax payable for IRES.

Fixed assets

At 31 December 2017, fixed assets decrease by EUR 8,123 thousand compared to 31 December 2016.

Changes in the main items are described below:

- the decrease in Tangible fixed assets of EUR 2,272 thousand is mainly due to the following affects:
  - increases related to investments for maintenance and stores' refurbishment, purchase of plant and specific equipment and purchase of electronic machines for EUR 3,227 thousand;
  - decreases for the depreciation of the year equal to EUR 5,004 thousand.
- the decrease in Intangible fixed assets of EUR 5,453 thousand is mainly due to the following effects:
  - increases for EUR 1,355 thousand, mainly related to key money and software;
  - decreases for sales and disposals equal to EUR 253 thousand;
  - decreases for the amortisation of the year equal to EUR 6,555 thousand.

NET FINANCIAL POSITION

The net financial position of the Group amounts to EUR 50,593 thousand as of 31 December 2017 compared with EUR 59,507 thousand as of 31 December 2016. The decrease is mainly due to a better management of net working capital.

SHAREHOLDERS' EQUITY

The shareholders' equity increases by EUR 10,370 thousand from EUR 168,070 thousand as of 31 December 2016 to EUR 178,440 thousand as of 31 December 2017. The reasons of such increase are illustrated in the explanatory notes. The number of shares is 107,362,504.

The following institutions hold more than 3% of the Aeffe's shares:

Main shareholders	%
Fratelli Ferretti Holding S.r.l.	37.387%
I.M. Fashion S.r.l.	24.410%
Tullio Badioli	6.000%
Other shareholders(*)	32.203%

(*) 5,5% of own shares held by Aeffe S.p.A.

RECONCILIATION BETWEEN SHAREHOLDERS' EQUITY AND NET PROFIT FOR THE PERIOD OF THE PARENT COMPANY AND THE CORRISPONDING CONSOLIDATED AMOUNTS

Pursuant to the Consob Communication of 28 July 2006, the following table provides reconciliation between the net result and equity of Aeffe S.p.A. for the year ended 31 December 2017 and the comparable items on a consolidated basis (portion attributable to owners of Aeffe S.p.A.):

(Values in thousand of EUR)	Shareholders' equity at 31 December 2017	Net profit /loss for the full year 2017
Taken from the corporate financial statements of the parent company	**143,477**	**6,818**
Share of the consolidated subsidiaries's equity and profit /loss attributable to the Group, net of the carrying amount of equity interests	(7,195)	6,055
Effect of business combination reopening	33,517	(1,303)
Reversal of the intercompany inventory margin	(963)	-
Transition to parent company accounting policies	2,397	108
Other adjustments	7,207	(176)
Total consolidation adjustments	**34,963**	**4,684**
Group interest in shareholders' equity	**146,133**	**11,490**
Minority interest	**32,307**	**12**
Total shareholders' equity	**178,440**	**11,502**

4. RESEARCH & DEVELOPMENT ACTIVITIES

Considering the particular nature of the Group's products, research & development activities consist in the continual technical/stylistic renewal of models and the constant improvement of the materials employed in production. These costs were charged in full to the Income Statement.

5. GROUP'S OBJECTIVES AND POLICIES ON FINANCIAL RISKS

Regarding the Group's objectives and policies on financial risks refer to the information reported in the Notes.

6. CORPORATE GOVERNANCE

Aeffe S.p.A. has aligned its system of corporate governance with the recommendations of the Code of Self-Regulation for stock-market listed companies approved in March 2006 (and amended in July 2015) by the Committee for Corporate Governance and Borsa Italiana S.p.A.. Unless specified otherwise, the references in this paragraph relate to the 2015 Code.

The Code of Self-Regulation provides an organisational and functional reference model for the companies listed on the markets organised and managed by Borsa Italiana; it is non-binding and offers the flexibility necessary for its adoption by listed companies.

Alignment of the system of governance adopted by listed companies with the recommendations contained in the Code of Self-Regulation is, in fact, not currently a legal requirement: adoption of the standards and organisational models proposed therein is therefore voluntary, and left to the discretion of the listed companies for which it is intended. Nevertheless, certain recommendations contained in the Code of Self-Regulation are reflected in current legislation and/or regulations including, more precisely, the Italian Civil Code, Decree 58 dated 24 February 1998 as subsequently amended (the "**Consolidated Finance Law**"), Consob Regulation 11971 dated 14 May 1999, as amended (the "**Issuers' Regulations**"), the Regulations for

Markets Organised and Managed by Borsa Italiana (the "**Market Regulations**") and the Market Instructions relating specifically to companies with shares admitted to trading in the STAR segment.

As required by the regulations, Aeffe prepares yearly the "Report on corporate governance and ownership structures", stating: (i) which recommendations contained in the Code of Self-Regulation have actually been adopted by the Issuer and how, and (ii) which recommendations have not been adopted, in whole or in part, together with adequate information on the reasons for such partial or non-application of them. This report, which also provides information on the ownership structure, is available from the governance section of the following *website:* www.aeffe.com.

7. TREASURY SHARES

As of 31 December 2017, the Parent Company holds 5,876,878 treasury shares, par value EUR 0.25 each, totalling 5.5% of its share capital. During the year, no transactions on treasury shares have been carried out by the Parent Company.

As of 31 December 2017 the Parent Company does not hold shares of any controlling company either directly or indirectly.

8. TRANSACTIONS BETWEEN GROUP COMPANIES AND WITH RELATED PARTIES

During the period, there were no transactions with related parties, including intragroup transactions, which qualified as unusual or atypical. Any related party transactions formed part of the normal business activities of companies in the Group. Such transactions are concluded at standard market terms for the nature of goods and/or services offered.

Information on transactions with related parties, including specific disclosures required by the Consob Communication of 28 July 2006, is provided in Note "Related party transactions".

9. INFORMATION RELATIVE TO PERSONNEL AND ENVIRONMENT

Regarding the information relative to personnel and environment, please refer to the indicated in the consolidated non-financial statement.

10. SIGNIFICANT EVENTS OF THE PERIOD

No significant events occurred during the year have to be reported.

11. SIGNIFICANT EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

Subsequent to the balance sheet date, no significant events regarding the Group's activities have to be reported.

12. OUTLOOK

The Financial year 2017 was characterized by double-digit growth in revenues and a more than proportional increase in profitability, results achieved thanks to the good performance of our brands, especially the proprietary ones and an effective business model. The Group's medium/long-term strategic goals are on the development of highly distinctive collections with a focus on a calibrated strengthening of our presence in high-potential markets, especially in the Greater China and Asia Pacific areas. Considering the Group's vitality and the positive feedbacks on the ongoing Fall/Winter 2018-2019 collections sales campaign, we feel confident about the further development and consolidation of our brands in 2018.

13. CONSOLIDATED NON FINANCIAL STATEMENT

The Group prepares the consolidated non financial Statement pursuant to Legislative Decree 254/2016 and Consob Resolution no. 20267 of 18 January 2018 in a separate document, published on the Internet site, in the Investor Relations, Financial Statements and Reports section.

Financial statements

CONSOLIDATED BALANCE SHEET ASSETS (*)

(Values in units of EUR)	Notes	31 December 2017	31 December 2016	Change
NON-CURRENT ASSETS				
Intangible fixed assets				
Key money		26,852,574	28,923,062	(2,070,488)
Trademarks		81,975,169	85,468,751	(3,493,582)
Other intangible fixed assets		850,869	740,072	110,797
Total intangible fixed assets	(1)	109,678,612	115,131,885	(5,453,273)
Tangible fixed assets				
Lands		17,118,773	17,118,773	-
Buildings		22,167,805	22,658,662	(490,857)
Leasehold improvements		12,597,761	14,465,641	(1,867,880)
Plant and machinary		2,863,830	2,665,840	197,990
Equipment		260,126	311,406	(51,280)
Other tangible fixed assets		4,096,002	4,155,699	(59,697)
Total tangible fixed assets	(2)	59,104,297	61,376,021	(2,271,724)
Other fixed assets				
Equity investments	(3)	131,558	131,558	-
Long term financial receivables	(4)	2,591,605	3,390,633	(799,028)
Other fixed assets	(5)	3,564,214	3,961,836	(397,622)
Deferred tax assets	(6)	14,335,779	13,856,302	479,477
Total other fixed assets		20,623,156	21,340,329	(717,173)
TOTAL NON-CURRENT ASSETS		**189,406,065**	**197,848,235**	**(8,442,170)**
CURRENT ASSETS				
Stocks and inventories	(7)	97,817,891	89,389,833	8,428,058
Trade receivables	(8)	42,064,915	40,711,059	1,353,856
Tax receivables	(9)	5,411,024	4,094,261	1,316,763
Derivate assets	(10)	-	-	-
Cash	(11)	22,808,913	14,521,334	8,287,579
Short term financial receivables	(12)	1,420,000	2,235,854	(815,854)
Other receivables	(13)	26,914,468	25,082,908	1,831,560
TOTAL CURRENT ASSETS		**196,437,211**	**176,035,249**	**20,401,962**
Assets available for sale	(14)	436,885	436,885	-
TOTAL ASSETS		**386,280,161**	**374,320,369**	**11,959,792**

(*) Pursuant to Consob Resolution N. 15519 of 27th July 2006, the effects of related party transactions on the Consolidated Balance Sheet are presented in the specific Balance Sheet schedule provided in the attachment I, and are further described in Note "Transactions with related parties".

CONSOLIDATED BALANCE SHEET LIABILITIES (*)

(Values in units of EUR)	Notes	31 December 2017	31 December 2016	Change
SHAREHOLDERS' EQUITY	**(15)**			
Group interest				
Share capital		25,371,407	25,371,407	-
Other reserves		116,229,168	115,641,684	587,484
Profits / (losses) carried-forward		(6,957,390)	(8,883,005)	1,925,615
Net profit / (loss) for the Group		11,490,343	3,641,244	7,849,099
Group interest in shareholders' equity		146,133,528	135,771,330	10,362,198
Minority interest				
Minority interests in share capital and reserves		32,295,224	31,563,069	732,155
Net profit / (loss) for the minority interests		11,716	735,125	(723,409)
Minority interests in shareholders' equity		32,306,940	32,298,194	8,746
TOTAL SHAREHOLDERS' EQUITY		**178,440,468**	**168,069,524**	**10,370,944**
NON-CURRENT LIABILITIES				
Provisions	(16)	2,415,237	2,558,786	(143,549)
Deferred tax liabilities	(6)	30,436,700	30,985,927	(549,227)
Post employment benefits	(17)	5,916,166	6,366,872	(450,706)
Long term financial liabilities	(18)	22,079,795	23,840,201	(1,760,406)
Long term not financial liabilities	(19)	787,692	469,000	318,692
TOTAL NON-CURRENT LIABILITIES		**61,635,590**	**64,220,786**	**(2,585,196)**
CURRENT LIABILITIES				
Trade payables	(20)	68,618,776	61,880,670	6,738,106
Tax payables	(21)	3,611,468	7,376,339	(3,764,871)
Derivate liabilities	(10)	997,532	-	997,532
Short term financial liabilities	(22)	55,334,134	55,814,445	(480,311)
Other liabilities	(23)	17,642,193	16,958,605	683,588
TOTAL CURRENT LIABILITIES		**146,204,103**	**142,030,059**	**4,174,044**
Liabilities available for sale		-	-	-
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**386,280,161**	**374,320,369**	**11,959,792**

(*) Pursuant to Consob Resolution N. 15519 of 27th July 2006, the effects of related party transactions on the Consolidated Balance Sheet are presented in the specific Balance Sheet schedule provided in the attachment II, and are further described in Note "Transactions with related parties ".

CONSOLIDATED INCOME STATEMENT (*)

(Values in units of EUR)	Notes	Full Year 2017	Full Year 2016
REVENUES FROM SALES AND SERVICES	**(24)**	**312,604,739**	**280,690,885**
Other revenues and income	(25)	3,857,091	6,816,595
TOTAL REVENUES		**316,461,830**	**287,507,480**
Changes in inventory		10,243,168	(913,774)
Costs of raw materials, cons. and goods for resale	(26)	(106,306,060)	(89,794,049)
Costs of services	(27)	(91,038,590)	(81,289,495)
Costs for use of third parties assets	(28)	(23,340,025)	(22,847,255)
Labour costs	(29)	(65,376,702)	(63,490,261)
Other operating expenses	(30)	(4,071,124)	(3,978,106)
Amortisation, write-downs and provisions	(31)	(13,876,156)	(15,108,564)
Financial Income / (expenses)	(32)	(3,757,528)	(1,754,479)
PROFIT / LOSS BEFORE TAXES		**18,938,813**	**8,331,497**
Taxes	(33)	(7,436,754)	(3,955,128)
NET PROFIT / LOSS		**11,502,059**	**4,376,369**
(Profit) / loss attributable to minority shareholders		(11,716)	(735,125)
NET PROFIT / LOSS FOR THE GROUP		**11,490,343**	**3,641,244**
Basic earnings per share	(34)	0.113	0.036
Dilutive earnings per share	(34)	0.113	0.036

(*) Pursuant to Consob Resolution N. 15519 of 27th July 2006, the effects of related party transactions on the Consolidated Income Statement are presented in the specific Income Statement schedule provided in the attachment III and are further described in Note "Transactions with related parties".

COMPREHENSIVE INCOME STATEMENT

(Values in units of EUR)	Notes	Full Year 2017	Full Year 2016
Profit/(loss) for the period (A)		**11,502,059**	**4,376,369**
Other comprehensive income that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit plans		(43,304)	(115,249)
Income tax relating to components of Other comprehensive income that will not be reclassified subsequently to profit or loss		-	-
Total other comprehensive income that will not be reclassified subsequently to profit or loss, net of tax (B1)		**(43,304)**	**(115,249)**
Other comprehensive income that will be reclassified subsequently to profit or loss:			
Gains/(losses) on cash flow hedges			
Gains/(losses) on exchange differences on translating foreign operations		(1,087,811)	135,260
Income tax relating to components of Other Comprehensive income / (loss)		-	-
Total other comprehensive income that will be reclassified subsequently to profit or loss, net of tax (B2)		**(1,087,811)**	**135,260**
Totale Other comprehensive income, net of tax(B1)+(B2)=(B)		**(1,131,115)**	**20,011**
Total Comprehensive income / (loss) (A) + (B)		**10,370,944**	**4,396,380**
Total Comprehensive income / (loss) attributable to:		**10,370,944**	**4,396,380**
Owners of the parent		10,362,198	4,027,466
Non-controlling interests		8,746	368,914

CONSOLIDATED CASH FLOW STATEMENT (*)

(Values in thousands of EUR)	Notes	Full Year 2017	Full Year 2016
OPENING BALANCE		**14,521**	**9,993**
Profit before taxes		18,939	8,331
Amortisation / write-downs		13,876	15,110
Accrual (+)/availment (-) of long term provisions and post employment benefits		(594)	1,305
Paid income taxes		(12,230)	(3,583)
Financial income (-) and financial charges (+)		3,757	1,754
Change in operating assets and liabilities		(6,509)	(12,195)
CASH FLOW (ABSORBED)/ GENERATED BY OPERATING ACTIVITY	**(33)**	**17,239**	**10,722**
Increase (-)/ decrease (+) in intangible fixed assets		(1,102)	883
Increase (-)/ decrease (+) in tangible fixed assets		(2,732)	(3,265)
Investments and write-downs (-)/ Disinvestments and revaluations (+)		-	77
CASH FLOW (ABSORBED)/ GENERATED BY INVESTING ACTIVITY	**(34)**	**(3,834)**	**(2,305)**
Other variations in reserves and profits carried-forward of shareholders' equity		(1,131)	20
Dividends paid		-	-
Proceeds (+)/ repayments (-) of financial payments		(2,241)	(679)
Increase (-)/ decrease (+) in long term financial receivables		2,013	(1,476)
Financial income (+) and financial charges (-)		(3,758)	(1,754)
CASH FLOW (ABSORBED)/GENERATED BY FINANCING ACTIVITY	**(35)**	**(5,117)**	**(3,889)**
CLOSING BALANCE		**22,809**	**14,521**

(*) Pursuant to Consob Resolution N. 15519 of 27th July 2006, the effects of related party transactions on the Consolidated Cash Flow are presented in the specific Cash Flow schedule provided in the attachment IV and are further described in Note "Transactions with related parties ".

STATEMENTS OF CHANGES IN CONSOLIDATED SHAREHOLDERS’ EQUITY

(Values in thousands of EUR)	Share capital	Share premium reserve	Other reserves	Fair Value reserve	IAS reserve	Profits/(losses) carried-forward	Remeasurement of defined benefit plans reserve	Net profit / loss for the Group	Translation reserve	Group interest in shareholders' equity	Minority interest in shareholders' equity	Total shareholders' equity
BALANCES AT 1 January 2016	**25,371**	**71,240**	**26,516**	**7,901**	**11,459**	**(9,486)**	**(1,017)**	**1,522**	**(1,762)**	**131,744**	**17,884**	**149,628**
Allocation of 2015 profit/(loss)	-	-	919	-	-	603	-	(1,522)	-	-	-	-
Dividends paid	-	-	-	-	-	-	-	-	-	-	-	-
Treasury stock (buyback)/sale	-	-	-	-	-	-	-	-	-	-	-	-
Total comprehensive income/(loss) of 2016	-	-	-	-	-	-	(113)	3,641	500	4,028	369	4,397
Other changes	-	-	-	-	-	-	-	-		-	14,045	14,045
BALANCES AT 31 December 2016	**25,371**	**71,240**	**27,435**	**7,901**	**11,459**	**(8,883)**	**(1,130)**	**3,641**	**(1,262)**	**135,772**	**32,298**	**168,070**

(Values in thousands of EUR)	Share capital	Share premium reserve	Other reserves	Fair Value reserve	IAS reserve	Profits/(losses) carried-forward	Remeasurement of defined benefit plans reserve	Net profit / loss for the Group	Translation reserve	Group interest in shareholders' equity	Minority interest in shareholders' equity	Total shareholders' equity
BALANCES AT 1 January 2017	**25,371**	**71,240**	**27,435**	**7,901**	**11,459**	**(8,883)**	**(1,130)**	**3,641**	**(1,262)**	**135,772**	**32,298**	**168,070**
Allocation of 2016 profit/(loss)	-	-	1,715	-	-	1,926	-	(3,641)	-	-	-	-
Dividends paid	-	-		-	-	-	-	-	-	-	-	-
Treasury stock (buyback)/sale	-	-	-	-	-	-	-	-	-	-	-	-
Total comprehensive income/(loss) of 2017	-	-		-	-		(43)	11,490	(1,086)	10,361	9	10,370
Other changes	-	-	-	-	-			-	-	-	-	-
BALANCES AT 31 December 2017	**25,371**	**71,240**	**29,150**	**7,901**	**11,459**	**(6,957)**	**(1,173)**	**11,490**	**(2,348)**	**146,133**	**32,307**	**178,440**

Ria Grant Thornton S.p.A.
San Donato, 197
40127 Bologna

T +39 051 6045911
F +39 051 6045999

Independent auditors' report
in accordance with at. 14 of Legislative Decree
n. 39 of January 27, 2010 and art. 10 of Regulation (EU) n. 537/2014

To the shareholders of
Aeffe S.p.A.

Report on the Audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Aeffe Group (the Group), which comprise the statement of financial position as at December 31, 2017, the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of changes in shareholders' equity, the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at December 31, 2017 and of its consolidated financial performance and its consolidated cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n.38 dated February 28, 2005.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical and independence requirements applicable in Italy to audit of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of intangible fixed assets

The consolidated financial statements include the followings fixed intangible assets with a finite useful life:

- BRANDS, including "Alberta Ferretti", ""Moschino" and "Pollini", equal to Euro 82 Million as of 31st December,2017, are recognized at cost and are amortized systematically on a straight-line basis during their estimated useful life of 40 years.

- KEY MONEY, equal to Euro 26,9 Million at 31st December,2017 are amounts paid by the Group to take over contracts relating to directly-managed stores or, in the case of business combinations, the fair value of these assets at the time of acquisition. The directors deemed it fitting to estimate a useful life corresponding to the residual term of the contract, and generally plan a renewal for another 6 years, considering a final end value equal to the amounts due by way of indemnity for taking over the lease if provided for by the national regulations.

Notwithstanding the fact that International Accounting Standards (IAS 36) only require goodwill and other indefinite-lived intangible assets to be subject to impairment tests on a yearly basis, the management has also tested the net book value of BRANDS and KEY MONEY, in order to compare their realizable values with their book values, as discussed in the following paragraphs.

BRANDS
For the purpose of verifying the recoverability of the brands subject to impairment test, the management applied the actualization of royalties' method. The method consists in measuring the sum of the net present values of the estimated cash flows from royalties, which the market will attribute to the owner of an intangible asset for its exclusive license.

The Group disclosed information regarding brands in Note 1 of the consolidated financial statements, as well as in note on the accounting principles adopted.

KEY MONEY
The recoverable value of key money was calculated by the management using the higher between the current value and the value determinable by use.

In particular, followings calculations are performed:

- in the equity method, current value was calculated by estimating both the cost of establishing the network of boutiques, subject to the impairment test at current values, and as the current transfer-value of the rental contract for each boutique (considered as "cash-generating units");
- in the economic method, current value was calculated using cash-flow analyses of the characteristic activity of each boutique ("cash generating unit"). The underlying cash flows of the "cash-generating units" attributable to each key money were derived from a budget simulation.

The Group disclosed information regarding key money in Note 1 of the consolidated financial statements, as well as in note on the accounting principles adopted.

Impairment tests are subject to complex estimates that require discretional assumptions. For this reason, we considered the valuation of brands and key money a key audit matter in the context of our audit of the consolidated financial statements as a whole.

Auditing procedures performed in response to key audit matter
As part of our audit of the consolidated financial statement as of 31st December 2017, we performed the followings procedures in response to key audit matters, for each of the two type of fixed intangible assets with a finite useful life.

BRANDS

- We evaluated the soundness of amortization rates adopted.
- We reviewed and understood the process underlying the preparation of the impairment test with respect to the brands, approved by the Board of Directors of Aeffe Group.
- We reviewed and understood the process underlying the preparation of the Budget Plan of Aeffe Group, staring in the 2018.

- We analyzed assumptions underlying the calculation of royalties and their correspondence with the consolidated financial statements.
- We evaluated the soundness of the hypothesis and estimates underlying the impairment test of the brands. These procedures were performed with the support of Grant Thornton network specialists experienced in valuation.

KEY MONEY

- We evaluated the soundness of amortization rates adopted.
- We reviewed and understood the process underlying the preparation of the impairment test regarding the key money, approved by the Board of Directors of Aeffe Group.
- We analyzed assumptions underlying the calculation of royalties and their correspondence with the lease contracts in force with the Group.
- We compared the lease contracts with respect to current conditions offered in the open market.
- We evaluated the soundness of the hypothesis and estimates underlying the impairment test of the key money. Specifically, we performed the calculation of the economic-recoverability taking into account the difference between the economic conditions of lease contracts (i.e instalments formalized in lease contracts) and the conditions currently offered in the open market. These procedures were performed with the support of Grant Thornton network specialists experienced in valuation.

Responsibilities of Directors and Board of statutory auditors for the Consolidated Financial Statements

The Directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n.38 dated February 28, 2005 and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Board of Statutory Auditors is responsible, within the terms provided by the law, for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standard on Auditing (ISA Italia), we have exercised professional judgment and maintain professional skepticism throughout the audit. We also:

- Identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; designed and performed audit procedures responsive to those risks and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We have communicated with those charged with governance, as properly identified in accordance with ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also have provided those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we have determined those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters.

Other information pursuant to article 10 of EU Regulation n.537/14

We were initially engaged by the shareholders of Aeffe S.p.A. on April,16,2016 to perform the audits of the financial statements and the consolidated financial statements of each fiscal year starting from December 31, 2016 to December 31, 2024.

We declare that we did not provide prohibited non-audit service, referred to article 5, par.1, of EU Regulation 537/2014, and that we remained independent of the Company in conducting the audit.

We confirm that the opinion on the financial statements included in this report is consistent with the content of the additional report, prepared in accordance with the article 11 of the EU Regulation 537/2014, submitted to the Board of Statutory Auditors.

Report on compliance with other Laws and Regulations

Opinion pursuant to article 14, par.2, subpar. e), of D. Lgs 39/10 and of article 123-bis, par.4, of D.Lgs 58/98

The Directors of Aeffe Group are responsible for the preparation of the Director's Report and of the Report on Corporate Governance and Ownership Structure Aeffe as at December 31, 2017, including their consistency with the related consolidated financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required by auditing standard (SA Italia) no. 720B in order to express an opinion on the consistency of the Director's Report and of the information set out in the Report on Corporate Governance and Ownership Structure referred to in art. 123-bis, paragraph 4 of Legislative Decree n. 58/98, with the consolidated financial statements of Aeffe Group as at December 31, 2017 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the Director's Report and the above mentioned specific information included in the Report on Corporate Governance and Ownership Structure are consistent with the consolidated financial statements of Aeffe Group as at December 31, 2017 and are compliant with the applicable laws and regulations.

With reference to the assessment pursuant to art.14, par.2, subpar. e), of Legislative Decree n.39, dated 27 January 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Statement in accordance with article 4 of Consob's Regulation implementing Legislative Decree n.254 of 30 December 2016

Management of Aeffe Group is responsible for the preparation of the non-financial statement pursuant to Legislative Decree n.254 of 30 December 2016. We have verified that management approved the non-financial statement.

Pursuant to article 3, paragraph 10, of Legislative Decree n.254 of 30 December 2016, the non-financial statement is the subject of a separate statement of compliance issued by another auditor.

Bologna, March 21, 2018

Ria Grant Thornton S.p.A.

Signed by
Sandro Gherardini
Partner

This report has been translated into the English language from the original, which was issued in Italian, solely for the convenience of international.

EXPLANATORY NOTES

GENERAL INFORMATION

Aeffe Group operates worldwide in the luxury goods sector and is active in the design, production and distribution of products of high quality and stylistic uniqueness.

The Group develops, produces and distributes, with a constant focus on the qualities of uniqueness and exclusivity, its own collections both under its own-label brands, including "Alberta Ferretti", "Philosophy", "Moschino" and "Pollini", and licensed brands, which include "Blugirl Folies", "Cedric Charlier" and "Jeremy Scott".

The Group also has licensed to key partners the production and distribution of other accessories and products with which it supplements its product range (perfumes, junior and children's lines, watches sunglasses and other).

The Group's business is divided, based on the various product lines and brands it sells, into two segments: prêt-a-porter (which includes prêt-a-porter, lingerie and swimwear) and footwear and leather goods.

The Parent Company Aeffe, an Italian legal entity incorporated as a public limited company (società per azioni) based in San Giovanni in Marignano (RN), is currently listed in the – STAR Segment – of the MTA, the Italian Stock Exchange operated by Borsa Italiana.

Aeffe is controlled by the company Fratelli Ferretti Holding S.r.l., of which in the attachment V are reported the data of the latest approved statutory financial statements. The company Fratelli Ferretti Holding also draws up the consolidated financial statement in accordance with the international accounting standards.

These consolidated financial statements include the financial statements of the Parent Company Aeffe and its subsidiaries and the Group's equity interests in affiliated companies. They consist of the balance sheet, income statement, comprehensive income statement, statement of changes in equity, cash flow statement and these notes.

The financial statements are expressed in euro, since this is the currency in which most of the Group's transactions are conducted. Foreign operations are included in the consolidated financial statements according to the principles stated in the notes that follow.

DECLARATION OF CONFORMITY AND REPORTING PRINCIPLES

Pursuant to art. 3 of Decree 38/2005 dated 28th February 2005, these financial statements have been prepared in accordance with International Accounting Standards (IAS/IFRS). The explanatory notes, also prepared in accordance with IAS/IFRS, have been supplemented by the additional information requested by CONSOB and by its instructions issued in accordance with art. 9 of Decree 38/2005 (resolutions 15519 and 15520 dated 27th July 2006 and communication DEM/6064293 dated 28th July 2006, pursuant to art. 114.5 of the Consolidated Finance Law), by art. 78 of the Issuers' Regulations, by the EC document issued in November 2003 and, where applicable, by the Italian Civil Code. Consistent with last year's annual report, some of the required information are presented in the Directors' Report (Report on operations).

Unless otherwise indicated in the measurement bases described below, these consolidated financial statements were prepared in accordance with the historic cost principle.

The measurement bases were applied uniformly by all Group companies.

CONSOLIDATION PRINCIPLES

The scope of consolidation at 31 December 2017 includes the financial statements of the Parent Company Aeffe and those of the Italian and foreign companies in which Aeffe holds control either directly or through its subsidiaries and associates or in which it exerts a dominant influence.

If necessary, adjustments were made to the financial statements of subsidiaries to bring their accounting polices into line with those adopted by the Group.

Companies are consolidated using the line-by-line method. The principles adopted for the application of this method are essentially as follows:

- the book value of equity investments held by the Parent Company or other consolidated companies is written-off against the corresponding net equity at 31 December 2017 in relation to assumption of the assets and liabilities of the subsidiaries;
- the difference between historical cost and fair value of the net equity of shareholdings on the acquisition date is allocated as much as possible to the assets and liabilities of the shareholdings. The remainder is allocated to goodwill. In accordance with the transitional provisions of IFRS 3, the Group, in case it was present, has ceased to depreciate goodwill, instead subjecting it to impairment tests;
- significant transactions between consolidated companies are written-off, as are receivables and payables and earnings not yet realised from third parties arising from transactions between Group companies, excluding any tax effect;
- minority interests in shareholders' equity and net profit are reported in the relevant items of the consolidated balance sheet and income statement;
- companies acquired during the period are consolidated from the date on which majority control was achieved.

Subsidiaries

Subsidiaries are enterprises controlled by the company. Control is the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are consolidated from the date on which the Group acquires control and until the date when such control ceases.

The acquisition of subsidiaries is accounted for using the historical method. Historical cost is determined by adding together the fair values of the assets contributed, the shares issued and the liabilities assumed on the acquisition date, plus the costs directly associated with the acquisition. Any surplus acquisition cost over the Group's percentage share of the fair value of the identifiable assets, liabilities and contingent liabilities of the associate is recognised as goodwill.

If the Group's percentage share of the fair value of the identifiable assets, liabilities and contingent liabilities of the associate exceeds historical cost, the difference is immediately recorded in the income statement.

Intercompany balances, transactions, revenue and costs are eliminated in the consolidated statements.

Furthermore, intercompany business combinations are recognised by maintaining the same book value of assets and liabilities as previously recorded in the consolidated financial statements.

Associates

An associate is an enterprise in which the Group has significant influence, but has neither sole or joint control, by taking part in decisions regarding the company's financial and operating strategy.

Trading results and the assets and liabilities of associates are accounted for in the consolidated financial statements based on the equity method, except where they are classified as held for sale.

According to this method, equity interests in associates are recorded in the balance sheet at cost, adjusted to take account of changes following the acquisition of their net assets, excluding any loss in value of individual investments. Losses of associates that exceed the Group's percentage interest in them (including long-term receivables that essentially form part of the Group's net investment in the associate) are not recognised unless the Group has an obligation to cover them. The surplus acquisition cost over the parent's percentage share of the present value of the identifiable assets, liabilities and contingent liabilities of the associate on the acquisition date is recognised as goodwill. Goodwill is included in the carrying amount of the investment and is subjected to impairment tests. The historical cost deficit compared with the Group's percentage share of the fair value of the identifiable assets, liabilities and contingent liabilities of associates on the acquisition date is credited to the income statement in the year of acquisition. With reference to operations between a Group company and an associate, unrealised gains and losses are eliminated in equal measure to the Group's percentage interest in the associate, except for cases where the unrealised losses constitute evidence of impairment of the asset transferred.

SCOPE OF CONSOLIDATION

In accordance with Article 126 of Consob Regulation 11971 of 14 May 1999, as subsequently amended, a complete list of Group companies and significant investments at 31 December 2017 is provided in the following table.

Company	Location	Currency	Share capital	Direct interest	Indirect interest
Companies included in the scope of consolidation					
Italian companies					
Aeffe Retail S.p.A.	S.G. in Marignano (RN) Italy	EUR	8,585,150	100%	
Clan Cafè S.r.l.	S.G. in Marignano (RN) Italy	EUR	100,000		62,9% (iii)
Moschino S.p.A.	S.G. in Marignano (RN) Italy	EUR	66,817,108	70%	
Pollini S.p.A.	Gatteo (FC) Italy	EUR	6,000,000	100%	
Pollini Retail S.r.l.	Gatteo (FC) Italy	EUR	5,000,000		100% (i)
Velmar S.p.A.	S.G. in Marignano (RN) Italy	EUR	120,000	100%	
Foreign companies					
Aeffe France S.a.r.l.	Paris (FR)	EUR	50,000	100%	
Aeffe UK Ltd.	London (GB)	GBP	310,000	100%	
Aeffe USA Inc.	New York (USA)	USD	600,000	100%	
Divè S.a.	Galazzano (RSM)	EUR	260,000	75%	
Fashoff UK Ltd.	London (GB)	GBP	1,550,000		70% (ii)
Moschino Japan Inc.	Tokyo (J)	JPY	120,000,000		70% (ii)
Moschino Korea Ltd.	Seoul (ROK)	KRW	6,192,940,000		70% (ii)
Moschino France S.a.r.l.	Paris (FR)	EUR	1,612,000		70% (ii)
Moschino Retail G.m.b.h.	Berlin (D)	EUR	395,500		70% (ii)
Moschino USA Inc.	New York (USA)	USD	10,000		70% (ii)
Aeffe Japan Inc.	Tokyo (J)	JPY	3,600,000	100%	
Bloody Mary Inc.	New York (USA)	USD	100,000		70% (ii)
Pollini Suisse S.a.g.l.	Chiasso (CH)	CHF	20,000		100% (i)
Pollini Austria G.m.b.h.	Vienna (A)	EUR	35,000		100% (i)

Notes (details of in direct shareholdings):

(i) 100% owned by Pollini S.p.A.;

(ii) 100% owned by Moschino S.p.A.;

(iii) 62,893% owned by Aeffe Retail.

FOREIGN CURRENCIES

Functional and reporting currency

The amounts in the financial statements of each Group enterprise are measured using the operating currency or the currency of the economic area in which the enterprise operates. These consolidated financial statements are presented in EUR, which is the operating and reporting currency of the parent company.

Foreign currency transactions

Foreign currency transactions are converted into the operating currency at the exchange rate in force on the transaction date. Cash assets and liabilities denominated in foreign currencies are converted at the exchange rate in force on the balance sheet date. Any exchange rate differences arising from the elimination of these transactions or from the conversion of cash assets and liabilities are posted to the income statement. Non-cash assets and liabilities in foreign currencies that are measured at fair value are converted at the exchange rates in force on the date on which the fair value was determined.

Financial statements of foreign companies

The financial statements of companies outside the EUR zone are translated into EUR based on the following procedures:

(i) assets and liabilities, including goodwill and fair value adjustments arising from consolidation are converted at the exchange rate in force on the balance sheet date;

(ii) revenue and costs are converted at the average rate for the period, which must be close to the exchange rate in force on the transaction date;

(iii) exchange rate differences are recognised in a separate account in shareholders' equity. When a foreign company is sold, the total amount of accumulated exchange rate differences relating to that company are recorded in the income statement.

The exchange rates used for the conversion into euro of the financial and equity statements of companies included in the scope of consolidation are listed in the following table:

Currency description	Actual exchange rate 31 December 2017	Average exchange rate 2017	Actual exchange rate 31 December 2016	Average exchange rate 2016
United States Dollars	1.1993	1.1293	1.0541	1.1069
United Kingdom Pounds	0.8872	0.8762	0.8562	0.8195
Japanese Yen	135.0100	126.6545	123.4000	120.1967
South Korean Won	1,279.6100	1,275.8300	1,269.3600	1,284.1811
Swiss franc	1.1702	1.1115	1.0739	1.0902

FINANCIAL STATEMENT FORMATS

As part of the options available under IAS 1 for the presentation of its economic and financial position, the Group has elected to adopt a balance sheet format that distinguishes between current and non-current assets and liabilities, and an income statement that classifies costs by type of expenditure, since this is deemed to reflect more closely its business activities. Within the income statement, as intermediate results, they are exposed EBITDA and EBIT, considered representative indicators of company performance. The cash flow statement is presented using the "indirect" format.

With reference to Consob Resolution no. 15519 dated 27th July 2006 regarding the format of the financial statements, additional schedules have also been presented for the income statement, the balance sheet and the cash flow statement in order to identify any significant transactions with related parties. This has been done to avoid compromising the overall legibility of the main financial statements.

ACCOUNTING PRINCIPLES, AMENDMENTS AND INTERPRETATIONS NOT YET APPLICABLE AND NOT YET EARLY ADOPTED BY THE GROUP

On July 24, 2014 the IASB issued the final version of IFRS 9 - Financial Instruments.

There follows the main aspects of the new international accounting principle:

- Classification and Measurement

Classification determines how financial assets and financial liabilities are accounted for in financial statements and, in particular, how they are measured on an ongoing basis. IFRS 9 introduces a logical approach for the classification of financial assets, which is driven by cash flow characteristics and the business model in which an asset is held. This single, principle-based approach replaces existing rule-based requirements that are generally considered to be overly complex and difficult to apply. The new model also results in a single impairment model being applied to all financial instruments, thereby removing a source of complexity associated with previous accounting requirements.

- Impairment

During the financial crisis, the delayed recognition of credit losses on loans (and other financial instruments) was identified as a weakness in existing accounting standards. As part of IFRS 9, the IASB has introduced a new, expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis. The IASB has already announced its intention to create a transition resource group to support stakeholders in the transition to the new impairment requirements.

- Hedge accounting

IFRS 9 introduces a substantially-reformed model for hedge accounting, with enhanced disclosures about risk management activity. The new model represents a significant overhaul of hedge accounting that aligns the accounting treatment with risk management activities, enabling entities to better reflect these activities in their financial statements. In addition, as a result of these changes, users of the financial statements will be provided with better information about risk management and the effect of hedge accounting on the financial statements.

- Own credit

IFRS 9 also removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. This change in accounting means that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognised in profit or loss. Early application of this improvement to financial reporting, prior to any other changes in the accounting for financial instruments, is permitted by IFRS 9.

The amendments will apply for annual periods beginning on or after January 1, 2018. Earlier application is permitted.

The group decided to adopt the hedge accounting instructions relating to the forward excange contracts envisaged by IFRS 9. These transactions were not designated as hedges for IAS 39 as they did not meet the efficacy ratio of 80-125%. The change in policy due to the adoption of the new IFRS 9 will be applied prospectively from 1 January 2018. The losses recognized in the Income Statement for the period ended 31/12/2017 for approximately EUR 998 thousand, will be reclassified to other components of shareholders' equity from 01/01/2018, in particular in the cash flow hedge reserve.

On September 11, 2015 the IASB published the document Effective Date of IFRS 15, in which it has been deferred by one year, from the January 1, 2017 to the January 1, 2018, the effective date of the IFRS 15 "Revenue from Contracts with Customers".

On January 13, 2016 the IASB published the new accounting Standard, IFRS 16 Leases that will replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases—Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

It sets out the principles for the recognition, measurement, presentation and disclosure of leases. IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17 Leases. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15. it is yet to be endorsed for application in the European Union.

The group decided not to opt for the early application of IFRS 16 therefore the effects of this principle will be reflected starting from 01/01/2019.

It was therefore decided to use a retrospective application, without restatement of the comparative information. The cumulative effect will be recognized as a reduction in the new opening of profits carried-forward. The incremental borrowing rate will be the one on the application date of the principle excluding the initial direct costs from the valuation of the right to use the asset.

At 31/12/2017, operating lease commitments amounted to around EUR 114 million. Assuming that these remain substantially in line with 31/12/2017 the effect that will be reflected at 01/01/2019 (opening balance sheet subject to transition) will concern:

- Leasing liabilities with an estimated increase of approximately EUR 90 million (Financial liabilities);

- Assets deriving from the right to use the asset with an estimated increase of approximately EUR 85 million (Fixed assets);

The application of the new principle will also lead to the cancellation of operating lease fees, recognized as costs for services, which will be reparameterized betwenn amortization of "Right of use Assets" and financial charges linked to the amortized cost valuation of the financial debt for leasing. This will therefore result in an increase in EBITDA, which is expected to be approximately EUR 15 million for 31/12/2017.

Since this is a first estimate, this calculation will be refined in the first application of the principle to 01/01/2019.

On 12 April 2016 the IASB published Clarifications to IFRS 15 'Revenue from Contracts with Customers”. The amendments include additional reliefs to reduce cost and complexity for a company when it first applies the new Standard. The amendments are effective for periods beginning on or after 1 January 2018. Earlier application is permitted.

On 20 June 2016 the IASB published some amendments to IFRS 2 “Share-based Payment” clarifying the classification and measurement of share-based payment transactions and the accounting of some types of share-based paymentss. It also introduces an exception to IFRS 2 requesting to be treated entirely share-based payment the awards for which the Tax legislation provides for a deduction and therefore a subsequent payment to the Treasury. The amendments are effective for periods beginning on or after 1 January 2018. Earlier application is permitted.

On 8 December 2016, the IASB published the 'Transfers of Investment Property (Amendments to IAS 40)' to clarify transfers of property to, or from, investment property, stating that the transfer occurred when, and only when, there is evidence of a change in use. The amendments are effective for periods beginning on or after 1 January 2018. Earlier application is permitted.

On 8 December 2016, the IASB published Annual Improvements to IFRSs 2014 – 2016 Cycle. The document introduces amendments to the following principles: (i) Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards: Deletion of short-term exemptions for first-time adopters The IASB proposes to delete the short-term exemptions in IFRS 7, IAS 19 and IFRS 10 because they have now served their intended purpose; (ii) amendments to IFRS 12 Disclosure of Interests in Other Entities: amendments to IAS 28 Investments in Associates and Joint Ventures related to the measurement at fair value of an investment in an associate or a joint venture. The application is effective for annual reporting periods beginning on or after 1 January 2018.

On 8 December 2016 the IASB published IFRIC Interpretation 22 “Foreign Currency Transactions and Advance

Consideration”. The document clarify the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The application is effective for annual reporting periods beginning on or after 1 January 2018. Earlier application is permitted.

In December 2017, the IASB published Annual Improvements to IFRS Standards 2015-2017 Cycle, containing the following amendments to the IFRS:

IFRS 3 Business Combinations and IFRS 11 Joint Arrangements - The amendments to IFRS 3 clarify that when an entity obtains control of a business that is registered as a joint operation, it must re-measure the investments previously held in that activity.

The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is registered as a joint operation, it must not re-measure the investments previously held in that activity.

IAS 12 Income taxes - The amendments clarify that all income taxes related to dividends (E.S. distribution of profits) must be recognized in the income statement, regardless of how they arose.

IAS 23 Financial charges - The amendments clarify that if a specific loan remains after the asset is ready for use or intended for sale, this loan becomes an integral part for the calculation of the rate of capitalization of generic loans.

The Group will adopt these new standards, amendments and interpretations, based on the data of scheduled Application, and assess potential impacts, when these will be approved by the European Union.

ACCOUNTING POLICIES

The accounting policies and valuation criteria adopted for the preparation of the financial statements as of 31 December 2017 are presented below:

Intangible fixed assets

Intangible fixed assets are identifiable non-monetary assets, without physical substance, that are controlled by the company and able to generate future economic benefits for the Group. Intangible fixed assets are initially recorded at purchase cost (being their fair value in the case of business combinations), as represented by the acquisition price paid including any charges directly attributable to the preparatory or production phase, if the conditions are met for the capitalisation of costs incurred on the internal generation of assets. Following initial recognition, intangible fixed assets are carried at cost, net of accumulated amortisation and any impairment recorded in accordance with IAS 36 (*Impairment of Assets*). Subsequent expenditure on intangible fixed assets is capitalised only if it increases the future economic benefits embodied in the specific asset to which it relates. All other costs are charged to the income statement as incurred.

Of intangible fixed assets, a distinction can be made between: a) those with an "infinite" useful life, such as goodwill, which are not amortised but subjected to an annual impairment test (or whenever there is reason to believe that the asset may have been impaired) in accordance with IAS 36; b) those with a finite useful life or other intangible fixed assets, the valuation criteria for which are reported in the following paragraphs.

Goodwill

Goodwill arising from the acquisition of a subsidiary or joint venture represents the surplus acquisition cost over the Group's percentage share of the fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or joint venture on the acquisition date. Goodwill is recognised as an asset and reviewed annually to make sure that there is no impairment. Impairment losses are recognised in the income statement and are not restated.

In case of the disposal of a subsidiary or joint venture, the amount of goodwill not yet amortised is included in the calculation of the capital gain or loss on disposal.

If the net fair value of the identifiable assets, liabilities and contingent liabilities of the shareholding exceeds the acquisition cost, the difference is immediately recorded in the income statement.

When the acquisition contract allows the adjustment of the acquisition price based on future events, the estimated adjustment must be included in the acquisition cost if the adjustment seems probable and the amount can be reliably estimated. Any future adjustments to the estimate are recorded as a goodwill adjustment.

At 31 December 2017, the company has not recorded values related to goodwill in the financial statements.

Key money

Intangible fixed assets also include key money, or amounts paid by the Group to take over contracts relating to directly managed stores or, in the case of business combinations, the fair value of these assets at the time of acquisition. These assets are treated, as intangible fixed assets with a definite useful life. Based on the experience of the renewals obtained from the lessors in past financial years, the directors deemed it fitting to estimate a useful life corresponding to the residual term of the contract, and generally plan a renewal for another 6 years, considering a final end value equal to the amounts due by way of indemnity for taking over the lease if provided for by the national regulations.

Brands

Brands are recognised at cost and are amortised systematically on a straight-line basis during their estimated useful life (40 years) from when the asset is available for use. By applying IFRS 3, all business combinations since 31 December 2001 have been restated, with an indication, based on an independent estimate, of the new value of intangible fixed assets that were not reported when the shareholdings were acquired.

The Group has seen fit to give brands a finite life of 40 years in view of the policies adopted by other market operators. Prudently, it has adopted an extremely long – although not infinite and thus unidentifiable – useful life for its own brands (reflecting the prolonged benefits derived from these). This decision is in line with intangible fixed assets typical of the fashion industry, based on previous experience of other international operators in the sector (market comparables).

Other intangible fixed assets

This caption comprises the costs incurred to acquire software, which is amortised over a period not exceeding 3 years.

The principal amortisation rates applied are summarised below:

Category	%
Royalties from patents and intellectua property	33%
Brands	2,5%

Research costs are charged to the income statement as incurred.

At 31 December 2017, the company has not recorded intangible fixed assets with an "infinite" useful life in the financial statements.

Tangible fixed assets

Tangible fixed assets, stated net of accumulated depreciation, are recorded at purchase or production cost except for those assets which have been revalued in accordance with specific laws. Cost includes related charges and directly-attributable expenses.

Tangible fixed assets are depreciated systematically each year on a straight-line basis using economic-technical rates that reflect the residual useful lives of each asset. Tangible fixed assets are written down in the event of permanent impairment, regardless of the depreciation already accumulated.

Ordinary maintenance expenses are charged in full to the income statement. Improvement expenditure is allocated to the fixed assets concerned and depreciated over their residual useful lives.

Construction in progress and advances to suppliers are recorded at the cost incurred, including directly-related charges.

As an exception to the general principle, the carrying amount of land and buildings has been adjusted to reflect the value determined by reference to an independent appraisal. This was performed to identify the separate value of land that was previously included in the "land and buildings" caption and consequently depreciated. The depreciation rates are applied on a straight-line basis over the new estimated useful lives of the buildings: 50 years (2%).

The depreciation rates applied are summarised below:

Category	%
Industrial buildings	2% - 2,56%
Plant and machinery	10% - 12,5%
Industrial and commercial equipment	25%
Electronic machines	20%
Motor vehicles	20%
Cars	25%

Land is not depreciated.

Leasehold improvements, including the costs of fitting and modernising directly-managed shops and all other property used for business purposes but not owned by the Group, are depreciated over the shorter of the duration of the lease, including any renewal periods, or their useful lives.

Improvement expenditure is added to the carrying amount of the assets concerned if the future economic benefits for the Group are likely to exceed those determined originally. Such expenditure is depreciated over the residual useful lives of the assets concerned. All other maintenance costs are charged to the income statement as incurred.

Leasing

Financial leases

Assets held under finance leases, which transfer to the Group substantially all the risks and benefits of ownership, are recognised as part of property, plant and equipment at their fair value or, if lower, at the present value of the minimum lease payments, and stated net of accumulated depreciation. The corresponding liability to the lessor is classified among financial payables in the balance sheet. These assets are depreciated using the rates set out above.

On disposal, or when no further economic benefits are expected from use of the asset, leased assets are eliminated from the balance sheet and any gains or losses (difference between disposal proceeds and carrying amount) are reflected in the income statement for the year.

Operating leases

Leases that do not transfer to the Group substantially all the risks and benefits of ownership are recognised as operating leases. Payments under operating leases are recognised as a cost on a straight-line basis over the duration of the related lease contracts.

Impairment

Key money, brands and other intangible fixed assets are subjected to impairment testing each year, or more frequently if there is evidence of a possible loss of value.

Tangible fixed assets and other non-current assets are subjected to impairment testing whenever events or a change of circumstances suggest that their value may be impaired.

Impairment losses arise and are recognised when the carrying amount of an asset or a cash generating unit exceeds its recoverable value. The carrying amount of such assets is aligned with their recoverable value and the impairment loss is charged to the income statement.

The comparison between the value of the Group shareholders' equity per share and the share list value at year-end and during the period until the date these financial statements were drawn up shows a book value higher than the market value. The directors believe that this evidence is basically attributable to the particular situation of the financial markets happened in the aftermath of the actual difficult situation of the world markets. Therefore, the market value is not considered representative of the Group value.

Determination of recoverable value

Under IAS 36, intangible and tangible fixed assets must be subjected to impairment testing if there is evidence (events, change of circumstances) to suggest a possible loss of value. The purpose of this is to ensure that assets are not recorded in the balance sheet at an amount that exceeds their recoverable value. As already mentioned, this test is performed annually, or more frequently, in relation to assets with an indefinite useful life.

The recoverable value of these assets is the higher between their fair value, net of disposal costs, and their value in use. In order to determine value in use, the estimated future cash flows, including those deriving from the disposal of the asset at the end of its useful life, are discounted using a post-tax rate that reflects the current market assessment of the value of money and the risks associated with the Group's activities. If separate cash flows cannot be estimated for an individual asset, the separate cash generating unit to which the asset belongs is identified.

Reinstatement of value

The value of financial assets recorded at amortised cost is reinstated when a subsequent increase in their recoverable value can, objectively, be attributed to an event that took place subsequent to recognition of the impairment loss.

The value of other non-financial assets is reinstated if the reasons for impairment no longer apply and the basis for determining their recoverable value has changed.

Write-backs are credited immediately to the income statement and the carrying amount of the asset concerned is adjusted to reflect its recoverable value. Recoverable value cannot exceed the carrying amount that would have been recognised, net of depreciation, had the value of the asset not been written down due to impairment in prior years.

The written down value of goodwill is never reinstated.

Equity investments

Equity investments in non-consolidated subsidiaries, associates and joint ventures are recognised according to the equity method. The surplus cost over shareholders' equity on the acquisition date is treated in the same way as described in the section on consolidation principles. Other equity investments are recognised using the cost method, which is reduced for impairment losses. The original value is restated in subsequent years if the reasons for the write-down no longer apply.

Assets held for sale

This item includes assets where the book value will be recovered mainly through sale rather than continuous use. For this to happen, the asset (or group) must be available for sale in its current condition, subject to standard conditions applicable to the sale of such assets (or groups), and the sale must be highly probable. An asset classified as held for sale is recognised at the lesser of its book value and fair value, excluding selling costs, as stipulated in IFRS 5.

Trade and other receivables

Receivables are stated at their estimated realisable value, being their nominal value less the allowance for collection losses on doubtful accounts. They are review regularly in terms of ageing and seasonality in order to avoid adjustments for unexpected losses. Non-current receivables that include an element of embedded interest are discounted using a suitable market rate. This caption also includes the accrued income and prepaid expenses recorded to match income and costs relating to more than one year in the accounting periods to which they relate.

Inventories

Inventories are recorded at purchase or production cost or, if lower, at their estimated net realisable value. Net realisable value is the estimated selling price under normal operating conditions, net of completion costs and all other selling-related expenses.

The cost of production of finished products includes the cost of raw materials, outsourced materials and processing, and all other direct and indirect manufacturing costs reasonably attributable to them, with the exclusion of financing costs.

Obsolete and slow-moving inventories are written down to reflect their likely use or realisability.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, demand deposits and all highly liquid investments with an original maturity of three months or less. Securities included in cash and cash equivalents are measured at their fair value.

Provisions

The provisions for risks and charges cover known or likely losses or charges, the timing and extent of which cannot be determined at period end. Provisions are recorded only when there is a legal or implicit obligation that, to be settled, requires the consumption of resources capable of generating economic benefits, and the amount concerned can be estimated reliably. If the effect is significant, provisions are calculated by discounting expected future cash flows using a pre-tax rate that reflects the current market assessment of the present value of money and the specific risks associated with the liability.

Employee benefits

Employee severance indemnities are covered by IAS 19 ("Employee Benefits") since they are deemed to be a form of defined benefit plan. Group contributions to defined benefit plans are charged to the income statement on an accruals basis.

The Group's net liability for defined benefit plans is determined on an actuarial basis, using the projected unit credit method. All actuarial gains and losses determined as of 1 January 2005, the IFRS transition date, have been recognised.

Financial payables

Financial payables, excepting derivates, are recorded at their fair value, after transactions costs directly attributable.

Bank overdrafts and loans

Loans are initially measured at cost, which approximates their fair value, net of any transaction-related expenses. Subsequently, they are measured at amortised cost. Any difference between cost and the redemption value is recorded in the income statement over the duration of the loan, using the effective interest method.

Loans are classified as current liabilities unless the Group has an unconditional right to defer their settlement for at least twelve months subsequent to the accounting reference date.

Trade and other payables

Payables are stated at the nominal value. The financial element embedded in non-current payables is separated using a market rate of interest.

Treasury shares

Treasury shares are presented as a deduction from capital for the part of their nominal value, and from a specific reserve for the part in excess to their nominal value.

Contributions to the capital account and for overheads

Any public contributions are reported when there is a reasonable certainty that the company will meet all the conditions foreseen to receive the contributions and actually receives them. The Group has opted to present any contributions to the capital account in the financial statement as items in adjustment of the book value of the property to which they refer, and any contributions to overhead as a direct deduction from the relative cost.

Revenue

Revenues are stated net of returns, discounts, allowances and rebates, as well as the taxes associated with the sale of goods and the provision of services. Revenues from sales are recognised when the seller has transferred the principal risks and benefits of ownership to the purchaser. The principal types of revenue realised by the Company are recognised on the following basis:

- retail sales – on delivery of the goods;
- wholesale sales – on shipment of the goods;
- royalties and commissions – on an accrual basis.

Costs

Costs and expenses are recognised on an accrual basis.

Design and production costs for sample collections incurred during the period are correlated to the turnover from sales of collection and are thus carried in the income statement in proportion to the revenue generated. The remaining portion to be carried in the income statement during the period in which the corresponding revenue is generated is posted to other current assets.

Financial income and expenses

These include all items of a financial nature written to the income statement for the period, including interest payable on financial debts calculated using the effective interest method (mainly current account overdrafts and medium and long-term loans), foreign currency gains and losses, dividends received, and the portion of interest payable deriving from the accounting treatment of assets under finance leases (IAS 17).

Interest income and expenses are reported in the income statement for the period in which they are realised/incurred.

Dividends are recognised in the period when the Group's right to a dividend payment matures, subject to ratification.

The amount of interest payable on finance leases is booked to the income statement using the effective interest method.

Taxes

Income taxes for the period include all taxes calculated on taxable income. Income taxes for the period are recorded in the income statement.

Taxes other than income taxes, such as property tax, are reported under operating expenses or, if the necessary conditions are fulfilled, are capitalized in the related real estate.

Current taxes on income taxable in the period represent the tax burden calculated using current rates of taxation in force on the balance sheet date.

Deferred taxes are recognised for all temporary differences existing on the balance sheet date between the book value of assets and liabilities and the corresponding values used to determine taxable income for tax purposes.

Payables for deferred taxes relate to:

- positive components of income for the current period but taxable in future periods;

- negative components of income deductible in excess compared to the amount recorded in the income statement as a result of the application of the International Accounting Standards.

Receivables for deferred taxes are recognised:

- for all negative components of income non-deductible in the period under examination but that could be deducted in future periods;
- for the carryover of unused tax losses, if it is probable that taxable income, for which the tax loss may be used, will be generated.

Credits for deferred tax assets and debits for deferred tax liabilities are calculated based on the rates of taxation applicable to tax calculation on income in periods in which temporary differences are reversed, based on the rate of taxation and tax regulations in force on the balance sheet date.

The impact on these taxes of any change in rates of taxation is posted to the income statement in the period in which the change occurs.

Earnings per share

Basic earnings per share is calculated by dividing the profit or loss attributable to the Company's shareholders by the weighted average number of ordinary shares outstanding during the year. Diluted earnings per share is calculated by dividing the profit or loss attributable to the Company's shareholders by the weighted average number of ordinary shares outstanding.

Main estimates used by the Management

Hereafter we report the main estimates and assumptions used by the Management to draft the consolidated financial statement, whose variations, not foreseeable at the moment, could affect the economic and equity situation of the Group.

- Estimates used to evaluate value impairment of assets other than financial assets

For the purposes of ascertaining any impairment of value of assets other than current assets entered in the financial statement, the company applied the method described above in the paragraph entitled "Impairment of value of assets".

Key money

The Group carried out an analysis aimed at assessing the existence of impairment indicators relating to the recoverability of the intangible and tangible fixed assets attributable to the single directly managed stores ("DOS"). For these types of assets, the recoverable amount was defined as the higher amount between the fair value net of disposal costs and the value in use.

The evaluation focuses both on the value of the stores' assets (replacement cost and market goodwill that can be determined for each store), and on the economic value obtainable from each point of sale.

The method of the goodwill expresses the "fair value" based on current market values in the event of sale to third parties of the lease contract (surveys of the first half of 2017 of the Agency of the Territory of the Revenue Agency).

The value of the goodwill is calculated on the basis of the sale to third parties of the lease with respect to market conditions, valuing the sum of:

- discounting of the lease installments with existing terms and conditions;
- comparison between the current and the market conditions recorded in Italy by the real estate osservatory of the Agenzia del Territorio of the Revenue Agency (I semester 2017).

The estimates used to calculate the values as indicated above are illustrated below:

- annual value of the rental contracts from the total spent in 2017;
- annual hypothetical increase in rents for about 2.5%;
- possible renewal on expiration of each contract for a period equal to that foreseen by the contract in existence as of 31 December 2017;
- Risk-free rate for established contracts, 2%;
- Hypothetical renewal rate after the first expiration, 5%;

The financial method expresses the value in use of the individual points of sale. The evaluation derives from the analysis of the cash flows generated by the characteristic activity of the single points of sale.

These cash flows are calculated using a projection up to the Terminal Value starting from the income statements of the individual locations and are discounted at a discount rate (Weighted Average Cost of Capital - WACC) that considers corporate risk and corporate indebtedness.

The value thus found represents the actual capacity of the analyzed network of shops to generate financial flows.

Economic forecasts for each sales point for the financial year 2018 prepared by the Management of the Aeffe Group. For this year, turnover trends were considered, which, depending on the case, envisage a variation with respect to the 2017 final figures between 4.6% and + 47%;

Forecast for financial years 2019, 2020 and forward hypothesis for each local according to the following criteria:

- a 5% increase in turnover for the previous year;

- percentage of the cost of goods sold on the basis of the previous years' history;

- growth in fixed costs equal to the estimate of programmed inflation (estimated at 2%);

- substantially flat working capital (CCN);

- WACC equal to 5.63%;

Brands

The management assesses at least once a year the intangible assets with a finite useful life (near the closing of the financial statements), in a stringent manner with respect to the requirements of the IAS 36 international accounting standard and equating them to the assets with an indefinite useful life.

To calculate the recoverable value of the brands entered in the financial statement, we estimated the current value, discounting the hypothetical value of the royalties deriving from the transfer in use to others of these intangible assets, for a period equal to the residual useful life. To calculate the values, the management has used the Group budget starting from the year 2018. For the remaining periods the management has used an increase in turnover with a compound annual growth rate ("CAGR") variable from 1.4% to 4.2%. As royalty rates we used the averages for the sector (10%) and as discount rate we used the average cost of capital (WACC) which is 5.63%.

- These estimates used for actuarial calculation serve to calculate the benefit plans in the sphere of future benefits of the working relationship:

- The inflation rate foreseen is 1.50%;
- The discount rate used is 1.11%;
- The annual rate in increase of the severance indemnity fund foreseen is 2.625%;
- The expected turn-over of employees is 6% for Aeffe S.p.A., 10% for Aeffe Retail S.p.A, 8% for Moschino S.p.A. and Pollini Retail and 5% for Pollini S.p.A and Velmar S.p.A.

- Estimates used in the actuarial calculations to determine the supplementary clientele severance indemnity fund:
- The voluntary turnover rate foreseen is 0.00%;
- The corporate turnover rate foreseen is 5.00% for all the Group's companies;
- The discount rate used is 1.11%.

OTHER INFORMATION

Segment information

Within a group, various segments are distinguishable providing a series of homogeneous products or services (business segment) or providing products and services in a specific geographical area (geographical segment). Specifically, in Aeffe Group, two areas of activity are identified:

(i) Prêt-a-porter Division;

(ii) Footwear and leather goods Division.

In accordance with IFRS 8, segment information can be found in the section entitled "Comments on the income statement and segment information".

Management of financial risk

The financial risks to which the Group is exposed in the performance of its business are as follows:

- risk of liquidity
- market risk (inclusive the currency risk, rate risk, price risk);
- credit risk;

Liquidity and market risk

Management of the financial needs and relative risks (mainly rate and exchange risks) is handled at the level of the central treasury and, except in a few cases (Pollini Group) it is managed by the individual companies that, however, are coordinated by the treasury on the basis of the guidelines established by the Managing Director of the Group and approved by the Chief Executive Officer.

The main goal of these guidelines consists of:

(i) **Liquidity risk**

The Group manages the liquidity risk with a view to guarantee, at the consolidated level, the presence of a liability structure in balance with the asset composition of the financial statement, in order to maintain an elevated solid equity.

The credit lines, though negotiated at the Group level, are granted to the individual companies.

As of the date of this financial statement, the companies in the Group with the main short and medium/long-term loans from banks are the parent company, Pollini, Moschino and Velmar.

(ii) **Exchange risk:**

The Group operates internationally and is therefore exposed to the exchange risk. The exchange risk arises when assets and liabilities are reported in a currency other than that in which the company operates.

The mode of management of this risk consists of minimizing the risk connected with exchange rates by using for the main companies of the Group exposed to the exchange risk, the opening of loans in foreign currency and the subscription of forward foreign exchange contracts..

(iii) **Rate risk:**

The interest rate risk to which the companies in the Group are exposed originates mainly from the medium and long-term financial payables in existence, that are almost all at variable rates and expose the Group to the risk of variation in cash flows as the interest rates vary.

The average cost of indebtedness tends to be parametrized with the status of the EURIBOR rate at 3/6 months, plus a spread that depends mainly on the type of financial instrument used. In general, the margins applied are in line with the best market standards. As of 31 December 2017 a hypothetical upward variation of 10% in the interest rate, all other variables being equal, would have produced a higher cost before taxes (and thus a corresponding reduction in the shareholders' equity) of about EUR 108 thousand annually (EUR 223 thousand as of 31 December 2016).

The *cash flow risk* on interest rates has never been managed in the past with recourse to derivative contracts - *interest rate swaps* - that would transform the variable rate into a fixed rate. As of 31 December 2017 there are no instruments that hedge interest-rate risk.

(iv) **Price risk**

The Group makes its purchases and sales worldwide and is therefore exposed to the normal risk of variations in price, typical of the sector.

Credit risk

With reference to receivables in Italy, the Group deals only with known and reliable clients. It is a policy of the Group that clients requesting extended payment terms are subject to procedures of audit of the class of merit. Moreover, the balance of receivables is monitored during the year to ensure that the doubtful positions are not significant.

The credit quality of unexpired financial assets and those that have not undergone value impairment can be valued with reference to the internal credit management procedure.

Customer monitoring activity consists mainly of a preliminary stage, in which we gather data and information about new clients, and a subsequent activation stage in which a credit is recognized and the development of the credit position is supervised.

The preliminary stage consists of collecting the administrative and fiscal data necessary to make a complete and correct assessment of the risks connected with the new client. Activation of the client is subject to the completeness of the data and approval, after any further clarification by the Customer Office.

Every new customer has a credit line: its concession is linked to further information (years in business, payment terms, customer's reputation) all of which are essential to make an evaluation of the level of solvency. After gathering this information, the documentation on the potential customer is submitted for approval by the company organizations.

Management of overdue receivable is differentiated depending on the seniority of the client (overdue payment group).

For overdue payments up to 60 days, reminders are sent through the branch or directly by the Customer Office; clearly, if an overdue payment exceeds 15 days or the amount of the credit granted, all further supplied to the client are suspended. For overdue credits “exceeding 90 days”, where necessary, legal steps are taken.

As regards foreign receivables, the Group proceeds as follows:

a) Part of the foreign credits are guaranteed by primary credit insurance companies;
b) The residual uninsured part of the receivable is managed:
   a. Most of it by request of letter of credit and 30% advances within two weeks of the order confirmation;
   b. The residual receivables not covered by insurance, by letter of credit or by advances, are specifically authorized and managed as settled by the Italian receivable procedure.

The unexpired receivables, amounting to a total of EUR 30,207 thousand as of 31 December 2017, represent 72% of the receivables entered in the financial statements. This percentage strongly increases compared to the 62% of the previous year.
This procedure serves to define the rules and operating mechanisms that guarantee a flow of payments sufficient to ensure the solvency of the client and guarantee the company an income from the relationship.
As of the reference date of the financial statement, the maximum credit risk exposure is equal to the value of each category of receivable indicated here below:

(Values in thousands of EUR)	31 December	31 December	Change	
	2017	2016	Δ	%
Trade receivables	42,065	40,711	1,354	3.3%
Other current receivables	26,914	25,083	1,831	7.3%
Other fixed assets	3,564	3,962	(398)	(10.0%)
Total	**72,543**	**69,756**	**2,787**	**4.0%**

See note 5 for the comment and breakdown of the item “other fixed assets” note 8 “trade receivables” and note 13 for “other current receivables”.
The fair value of the above categories has not been indicated, as the book value is a reasonable approximation.
As of 31 December 2017, overdue but not written-down trade receivables amount to EUR 11,858 thousand (EUR 15,586 thousand in 2016). The breakdown by due date is as follows:

(Values in thousands of EUR)	31 December	31 December	Change	
	2017	2016	Δ	%
By 30 days	7,343	7,036	307	4.4%
31 - 60 days	2,918	3,662	(744)	(20.3%)
61 - 90 days	697	913	(216)	(23.7%)
Exceeding 90 days	900	3,975	(3,075)	(77.4%)
Total	**11,858**	**15,586**	**(3,728)**	**(23.9%)**

No significant risk of default with respect to such overdue receivables.

Cash flow statement

The cash flow statement presented by the Group in accordance with IAS 7 has been prepared using the indirect method. The cash and cash equivalents included in the cash flow statement represent the amounts reported in the balance sheet at the accounting reference date. Cash equivalents comprise short term and highly liquid applications of funds that can be readily converted into cash; the risk of changes in their value is minimal. Accordingly, a financial investment is usually classified as a cash equivalent if it matures rapidly, i.e. within three months or less of the acquisition date.

Bank overdrafts are generally part of financing activities, except when they are repayable on demand and are an integral part of the management of a company's cash and cash equivalents, in which case they are classified as a reduction of its cash equivalents.

Foreign currency cash flows have been translated using the average exchange rate for the year. Income and expenses deriving from interest, dividends received and income taxes are included in the cash flows from operating activities.

Under IAS 7, the cash flow statement must identify separately the cash flow deriving from operating, investing and financing activities:

- cash flow from operating activities: the cash flow deriving from operating activities mainly relates to income-generating activities and is presented by the Group using the indirect method; on this basis, net profit is adjusted for the effects of items that did not give rise to payments or cash inflows during the year (non-monetary transactions);
- cash flow from investing activities: investing activities are presented separately since, among other factors, they reflect the investment/disposals made in order to obtain future revenues and cash inflows;
- cash flow from financing activities: financing activities comprise the cash flows that modify the size and composition of shareholders' equity and financial payables.

COMMENTS ON THE CONSOLIDATED BALANCE SHEET

NON-CURRENT ASSETS

1. *Intangible fixed assets*

The table below illustrates the breakdown and the changes of this item:

(Values in thousands of EUR)	Brands	Key money	Other	Total
Net book value as of 01.01.16	**88,962**	**33,209**	**650**	**122,821**
Increases	-	938	482	1,420
- increases externally acquired	-	*938*	*482*	*1,420*
- increases from business aggregations	-	-	-	-
Disposals	-	(2,278)	-	(2,278)
Translation differences and other variations	-	-	(25)	(25)
Amortisation	(3,493)	(2,946)	*(367)*	(6,806)
Net book value as of 31.12.16	**85,469**	**28,923**	**740**	**115,132**
Increases	-	865	490	1,355
- increases externally acquired	-	*865*	*490*	*1,355*
- increases from business aggregations	-	-	-	-
Disposals	-	(253)	-	(253)
Translation differences and other variations	-	-	-	-
Amortisation	(3,494)	(2,682)	*(379)*	(6,555)
Net book value as of 31.12.17	**81,975**	**26,853**	**851**	**109,679**

The intangible fixed assets highlight the following variations:

- increases, equal to EUR 1,355 thousand, mainly related to key money and software;
- decreases, equal to EUR 253 thousand;
- amortisation of the period is EUR 6,555 thousand.

Brands

This item includes the Group's own-label brands ("Alberta Ferretti", "Philosophy", "Moschino", "Boutique Moschino", "Love Moschino", "Pollini", "Studio Pollini"). A breakdown of brands is given below:

(Values in thousands of EUR)	Brand residual life	31 December 2017	31 December 2016
Alberta Ferretti	25	3,149	3,275
Moschino	27	45,696	47,623
Pollini	23	33,130	34,571
Total		**81,975**	**85,469**

The decrease between the two periods refers exclusively to the amortisation of the period.

Key money

Key money refers to the amounts paid by the Group to take over leases relating to directly managed stores or, in the case of business combinations, the fair value of these assets at the time of acquisition.

The directors prudentially deemed correct to change the estimate of useful life of key money switching from an indefinite useful life to a finite useful life. Based on the experience of the renewals obtained from the lessors in past financial years, the directors deemed it fitting to estimate a useful life corresponding to the residual term of the contract, and generally plan a renewal for another 6 years, considering a final end value equal to the amounts due by way of indemnity for taking over the lease if provided for by the national regulations.

Other

The item other mainly includes software licences.

2. *Tangible fixed assets*

The table below illustrates the breakdown and the changes of this item:

(Values in thousands of EUR)	Lands	Buildings	Leasehold improvements	Plant and machinery	Industrial and commercial equipment	Other tangible assets	Total
Net book value as of 01.01.16	**16,958**	**23,135**	**15,979**	**2,584**	**358**	**4,247**	**63,261**
Increases	161	86	1,796	791	95	1,055	3,984
Disposals	-	-	(357)	(10)	(7)	(133)	(507)
Translation differences and other variations	-	-	(277)	(3)	2	65	(213)
Depreciation	-	(562)	(2,676)	(696)	(137)	(1,078)	(5,149)
Net book value as of 31.12.16	**17,119**	**22,659**	**14,465**	**2,666**	**311**	**4,156**	**61,376**
Increases	-	72	1,046	871	78	1,160	3,227
Disposals	-	-	(126)	(22)	(6)	(67)	(221)
Translation differences and other variations	-	-	(199)	-	(9)	(66)	(274)
Depreciation	-	(563)	(2,589)	(651)	(114)	(1,087)	(5,004)
Net book value as of 31.12.17	**17,119**	**22,168**	**12,597**	**2,864**	**260**	**4,096**	**59,104**

Tangible fixed assets have changed as follows:

- Increases for new investments of EUR 3,227 thousand. These mainly refer to new investments in the renovation and modernisation of shops, the purchase of plant and equipment and the purchase of electronic machines.
- Disposals, net of the accumulated depreciation, of EUR 221 thousand;
- Decrease for differences arising on translation and other variation of EUR 274 thousand which mainly relates to the translation differences of the foreign subsidiaries.
- Depreciation of EUR 5004 thousand charged in relation to all tangible fixed assets, except for land, using the rates applicable to each category (see the accounting policies relating to tangible fixed assets for further details).

Other non-current assets

3. *Equity Investments*

This item includes shareholdings measured at the cost.

4. *Long term financial receivables*

Long term financial receivables decrease from EUR 3,391 thousand at December 31, 2016 to EUR 2,592 thousand at December 31, 2017. The variation is mainly determined by amount accrued during the year and reclassified in current receivables.

5. *Other fixed assets*

This item mainly includes a long-term receivable related to the income recognized by Woollen Co., Ltd. to Aeffe Group as a result of the reorganization of the Japanese Distribution Network and receivables for security deposits related to commercial leases.

6. *Deferred tax assets and liabilities*

The table below illustrates the breakdown of this item at 31 December 2017 and at 31 December 2016:

(Values in thousands of EUR)	Receivables		Liabilities	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Tangible fixed assets	49	35	(17)	(26)
Intangible fixed assets	3	3	(144)	(144)
Provisions	2,926	2,425	(2)	-
Costs deductible in future periods	6,224	5,958	(35)	-
Income taxable in future periods	360	399	(1,565)	(1,638)
Tax losses carried forward	3,684	4,174	-	-
Other	5	5	(84)	(156)
Tax assets (liabilities) from transition to IAS	1,085	857	(28,590)	(29,022)
Total	**14,336**	**13,856**	**(30,437)**	**(30,986)**

Changes in temporary differences during the period are illustrated in the following table:

(Values in thousands of EUR)	Opening balance	Differences arising on translation	Recorded in the income statement	Other	Closing balance
Tangible fixed assets	9	(6)	29	-	32
Intangible fixed assets	(141)	-	-	-	(141)
Provisions	2,425	(40)	608	(69)	2,924
Costs deductible in future periods	5,958	(21)	252	-	6,189
Income taxable in future periods	(1,239)	-	31	3	(1,205)
Tax losses carried forward	4,174	(168)	4	(326)	3,684
Other	(151)	16	62	(6)	(79)
Tax assets (liabilities) from transition to IAS	(28,165)	-	646	14	(27,505)
Total	**(17,130)**	**(219)**	**1,632**	**(384)**	**(16,101)**

The negative variation of EUR 384 thousand in the column "Other" refers mainly to the partial compensation of the tax payable for IRES of the period generated in Aeffe Spa as a consequence of the adhesion of the subsidiaries to the fiscal consolidation with the receivable for deferred tax generated in some of the Group's subsidiaries.

Deferred tax assets related to costs deductible in future periods mainly relate to the deferred taxation on provisions for doubtful investments and for future risks and charges.

Deferred tax assets have been determined estimating the future recoverability of such activities.

CURRENT ASSETS

7. Stocks and inventories

This item comprises:

(Values in thousands of EUR)	31 December 2017	31 December 2016	Change Δ	%
Raw, ancillary and consumable materials	14,563	15,887	(1,324)	(8.3%)
Work in progress	8,901	6,696	2,205	32.9%
Finished products and goods for resale	74,328	66,787	7,541	11.3%
Advance payments	26	20	6	30.0%
Total	**97,818**	**89,390**	**8,428**	**9.4%**

The entry stocks and inventories increases of EUR 8,428 thousand mainly due to the increase in turnover.

Inventories of raw materials and work in progress mainly relate to the production of the Spring/Summer 2018 collections, while finished products mainly concern the Autumn/Winter 2017 and the Spring/Summer 2018 collections and the Autumn/Winter 2018 sample collections.

Inventories are valued at the lower of cost and net realizable value and therefore, to account for any physical obsolescence and slow moving of the materials in stock, the following write-downs have been recorded:

(Values in thousands of EUR)	31 December 2017	31 December 2016	Change Δ	%
Raw material write-down provision	2,500	1,000	1,500	150.0%
Finished goods write-down provision	10,182	7,886	2,296	29.1%
Total	**12,682**	**8,886**	**3,796**	**42.7%**

8. Trade receivables

This item is illustrated in the following table:

(Values in thousands of EUR)	31 December 2017	31 December 2016	Change Δ	%
Trade receivables	45,796	43,499	2,297	5.3%
(Allowance for doubtful account)	(3,731)	(2,788)	(943)	33.8%
Total	**42,065**	**40,711**	**1,354**	**3.3%**

Trade receivables amount to EUR 45,796 thousand at 31 December 2017, up 5.3% since 31 December 2016.

Management considers that the fair value of amounts due from customers approximates their book value.

The allowance for doubtful accounts is determined by reference to a detailed analysis of the available information and, in general, is based on historical trends.

9. Tax receivables

This item is illustrated in details in the following table:

(Values in thousands of EUR)	31 December 2017	31 December 2016	Change Δ	%
VAT	2,972	1,917	1,055	55.0%
Corporate income tax (IRES)	846	844	2	0.2%
Local business tax (IRAP)	292	150	142	94.7%
Amounts due to tax authority for withheld taxes	4	17	(13)	(76.5%)
Other tax receivables	1,297	1,166	131	11.2%
Total	**5,411**	**4,094**	**1,317**	**32.2%**

As of 31 December 2017, the Group's tax receivables amount to EUR 5,411 thousand. The variation of EUR 1,317 thousand compared with the value at 31 December 2016 is mainly due to the increase of VAT receivable.

10. Derivate assets and liabilities

During 2017, the company Pollini Spa has signed contracts with forward currency purchase obligation, identified as non-hedging, for an equivalent amount in USD equal to EUR 20,832 thousand. The evaluation of the contracts that have not yet expired on 31 December 2017 shows a negative effect of Euro 998 thousand, the notional underlying the contracts still outstanding at year end amounts to USD 24,000 thousand.

11. Cash

This item includes:

(Values in thousands of EUR)	31 December 2017	31 December 2016	Change Δ	%
Bank and post office deposits	22,057	13,489	8,568	63.5%
Cheques	24	34	(10)	(29.4%)
Cash in hand	728	998	(270)	(27.1%)
Total	**22,809**	**14,521**	**8,288**	**57.1%**

Bank and postal deposits represent the nominal value of the current account balances with credit institutions, including interest accrued on the balance sheet date. Cash in hand represents the nominal value of the cash held on the balance sheet date.

The increase in cash and cash equivalents, recorded at 31 December 2017 compared with the amount recorded at 31 December 2016, is EUR 8,288 thousand. About the reason of this variation see the Cash Flow Statement.

12. Short term financial receivables

This item includes:

(Values in thousands of EUR)	31 December 2017	31 December 2016	Change Δ	%
Financial receivables	1,420	2,236	(816)	(36.5%)
Total	**1,420**	**2,236**	**(816)**	**(36.5%)**

The reduction relates mainly to the collection of a receivable by the company Aeffe Retail.

13. *Other receivables*

This caption comprimes:

(Values in thousands of EUR)	31 December 2017	31 December 2016	Change Δ	%
Credits for prepaid costs	20,549	18,506	2,043	11.0%
Advances for royalties and commissions	235	774	(539)	(69.6%)
Advances to suppliers	186	79	107	135.4%
Accrued income and prepaid expenses	2,748	2,646	102	3.9%
Other	3,196	3,078	118	3.8%
Total	**26,914**	**25,083**	**1,831**	**7.3%**

Other short term receivables increase of EUR 1,831 thousand mainly for the increase in credits for prepaid costs.

Credits for prepaid costs relate to the costs incurred to design and make samples for the Spring/Summer 2018 and Autumn/Winter 2018 collections for which the corresponding revenues from sales have not been realised yet.

14. *Assets and liabilities available for sale*

This item is not changed during the period.

(Values in thousands of EUR)	31 December 2017	31 December 2016
Other fixed assets	437	437
Total Assets	**437**	**437**

15. *Shareholders' equity*

Described below are main categories of shareholders' equity at 31 December 2017, while the corresponding variations are described in the prospect of shareholders' equity.

(Values in thousands of EUR)	31 December 2017	31 December 2016	Change
Share capital	25,371	25,371	-
Share premium reserve	71,240	71,240	-
Other reserves	29,150	27,435	1,715
Fair value reserve	7,901	7,901	-
IAS reserve	11,459	11,459	-
Profits / (losses) carried-forward	(6,957)	(8,883)	1,926
Remeasurement of defined benefit plans reserve	(1,173)	(1,130)	(43)
Net profit / (loss) for the Group	11,490	3,641	7,849
Translation reserve	(2,348)	(1,262)	(1,086)
Minority interests	32,307	32,298	9
Total	**178,440**	**168,070**	**10,370**

Share capital

Share capital as of 31 December 2017, totally subscribed and paid, (gross of treasury shares) totals EUR 26,841 thousand, and is represented by 107,362,504 shares, par value EUR 0.25 each. At 31 December 2017 the Parent Company holds 5,876,878 treasury shares, representing the 5.5% of its share capital.

There are no shares with restricted voting rights, without voting rights or with preferential rights. The number of outstanding shares is not changed during the period.

Share premium reserve

The share premium reserve amounts to EUR 71,240 thousand and it remains unchanged since 31 December 2016.

Other reserves

The changes in these reserves reflect the allocation of prior-year profit of the Parent Company.

Fair value reserve

The fair value reserve derives from the application of IAS 16 in order to measure the land and buildings owned by the Company at their fair value, as determined with reference to an independent appraisal.

IAS reserve

The IAS reserve, formed on the first-time adoption of IFRS, reflects the differences in value that emerged on the transition from ITA GAAP to IFRS. The differences reflected in this equity reserve are stated net of tax effect, as required by IFRS 1. Each difference is allocated on a pro rata basis to minority interests.

Profits/(losses) carried-forward

The caption profits/(losses) carried forward records a positive variation as a consequence of the consolidated result at 31 December 2016.

Remeasurement of defined benefit plans reserve

The remeasurement of defined benefit plans reserve, formed as a result of the application, from 1st January 2013 (retrospectively), of the amendment to IAS 19, changes of EUR 43 thousand compared to the value at 31 December 2016.

Translation reserve

The decrease of EUR 1,086 thousand related to such reserve is mainly due to the conversion of companies' financial statements in other currency than EUR.

Minority interests

The variation in minority interests is mainly due to the portion of profit/loss attributable to the minority shareholders.

Minority interests represent the shareholders' equity of consolidated companies owned by other shareholders and include the corresponding IAS reserve.

NON-CURRENT LIABILITIES

16. Provisions

Provisions are illustrated in the following statement:

(Values in thousands of EUR)	31 December 2016	Increases	Decreases	31 December 2017
Pensions and similar obligations	732	23	(295)	460
Other	1,827	205	(77)	1,955
Total	**2,559**	**228**	**(372)**	**2,415**

The additional client expenses reserve is determined based on an estimate of the liability relating to the severance of agency contracts, taking account of statutory provisions and any other relevant factor, such as statistical data, average duration of agency contracts and their rate of turnover. The item is calculated based on the actual value of the outflow necessary to extinguish the obligation.

The other provisions mainly relate to provisions for future charges and risks linked to organizational changes.

Potential tax liabilities for which no reserves have been established, since it is not considered probable that they will give rise to a liability for the Group, are described in the paragraph "Potential liabilities".

17. Post employment benefits

The severance indemnities payable on a deferred basis to all employees of the Group are deemed to represent a defined benefits plan (IAS 19), since the employer's obligation does not cease on payment of the contributions due on the remuneration paid, but continue until termination of the employment relationship.

For plans of this type, the standard requires the amount accrued to be projected forward in order to determine the amount that will be paid on the termination of employment, based on an actuarial valuation that takes account of employee turnover, likely future pay increases and any other applicable factors. This methodology does not apply to those employees whose severance indemnities are paid into approved supplementary pension funds, which, in the circumstances, are deemed to represent defined contributions plans.

Changes in the provision are illustrated in the following statement:

(Values in thousands of EUR)	31 December 2016	Increases	Decreases / Other changes	31 December 2017
Post employment benefits	6,367	202	(653)	5,916
Total	**6,367**	**202**	**(653)**	**5,916**

Increases include the share of post employment benefits matured in the year and the related revaluation, while the entry decreases/other changes includes the decrease for the liquidation of the post employment benefits for EUR 638 thousand and the actuarial loss of EUR 15 thousand.

18. Long-term financial liabilities

The following table contains details of long-term borrowings:

(Values in thousands of EUR)	31 December 2017	31 December 2016	Change Δ	%
Loans from financial institutions	22,008	23,768	(1,760)	(7.4%)
Amounts due to other creditors	72	72	-	n.a.
Total	**22,080**	**23,840**	**(1,760)**	**(7.4%)**

The entry "Loans from financial institutions" relates to the portion of bank loans due beyond 12 months. This entry is mainly due to a ten-year mortgage loan to the Parent company Aeffe Spa for an amount of EUR 11.5 million on a real estate based in Gatteo, headquarter of the subsidiary Pollini Spa. All other operations are unsecured loans and bank finance not assisted by any form of security and they are not subject to special clauses, except for the early repayment clauses normally envisaged in commercial practice. Furthermore, there are no covenants to comply with specific financial terms or negative pledges.

The following table contains details of bank loans as of 31 December 2017, including the current portion and the long term portion:

(Values in thousands of EUR)	Total amount	Current portion	Long term portion
Bank borrowings	32,855	10,847	22,008
Total	**32,855**	**10,847**	**22,008**

The total due beyond five years amount to EUR 1,096 thousand.

19. Long-term not financial liabilities

The caption changed during the period from EUR 469 thousand in 2016 to EUR 788 thousand in 2017 mainly due to a debt to a commercial partner.

CURRENT LIABILITIES

20. Trade payables

Tax payables are analysed in comparison with the related balances as of 31 December 2016:

(Values in thousands of EUR)	31 December 2017	31 December 2016	Change Δ	%
Trade payables	68,619	61,881	6,738	10.9%
Total	**68,619**	**61,881**	**6,738**	**10.9%**

Trade payables are due within 12 months and concern the debts for supplying goods and services.

The value at 31 December 2017 increase of 10.9% compared to the previous year as a result of the sales growth.

21. *Tax payables*

Tax payables are analysed in comparison with the related balances as of 31 December 2016 in the following table:

(Values in thousands of EUR)	31 December 2017	31 December 2016	Change Δ	%
Local business tax (IRAP)	382	271	111	41.0%
Corporate income tax (IRES)	332	4,235	(3,903)	(92.2%)
Amounts due to tax authority for withheld taxes	2,397	2,556	(159)	(6.2%)
VAT due to tax authority	390	287	103	35.9%
Other	110	27	83	307.4%
Total	**3,611**	**7,376**	**(3,765)**	**(51.0%)**

At December 31, 2017, the Group's payables to tax institutions amounted to EUR 3,611 thousand. The change of EUR 3,765 thousand compared to 31 December 2016 is mainly due to the decrease of IRES payable.

22. *Short term financial liabilities*

A breakdown of this item is given below:

(Values in thousands of EUR)	31 December 2017	31 December 2016	Change Δ	%
Due to banks	55,334	55,814	(480)	(0.9%)
Total	**55,334**	**55,814**	**(480)**	**(0.9%)**

Current bank debts include advances granted by credit institutions, current loans and the current portion of long-term financing commitments. Advances mainly consist of withdrawals from short-term credit facilities to finance the working capital requirement. Current loans (due within 12 months) are loans granted by banks to the Parent Company and to other Group companies.

23. *Other liabilities*

Other current liabilities are analysed on a comparative basis in the following table:

(Values in thousands of EUR)	31 December 2017	31 December 2016	Change Δ	%
Due to total security organization	4,221	3,993	228	5.7%
Due to employees	5,810	5,501	309	5.6%
Trade debtors - credit balances	1,608	1,921	(313)	(16.3%)
Accrued expenses and deferred income	2,221	2,052	169	8.2%
Other	3,782	3,492	290	8.3%
Total	**17,642**	**16,959**	**683**	**4.0%**

The other short term liabilities amount to EUR 17,642 thousand at 31 December 2017 increasing of EUR 683 thousand compared with the previous year.

SEGMENT INFORMATION REGARDING PROFIT OR LOSS, ASSETS AND LIABILITIES

In order to apply the IFRS 8 the Group has considered to delineate as operative sectors the same used by IAS 14 Segment reporting: *Prêt-à porter* Division and footwear and leather goods Division. Such decision has been taken because they represent business activities from which the entity may earn revenues and incur expenses, whose operating result are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Prêt-à porter Division is mainly represented by the companies Aeffe, Moschino and Velmar, operating in the design, production and distribution of luxury prêt-à porter and lingerie, beachwear and loungewear collections. The distribution of the collections takes place both via the retail channel and via the wholesale channel. Aeffe also handles the distribution of all Division products, which takes place via the retail channel through subsidiaries and via the wholesale channel.

In terms of prêt-à porter collections, the activity is carried out by Aeffe, both for the production of the Group's own-label brands ("Alberta Ferretti", "Philosophy", "Moschino", "Boutique Moschino" and "Love Moschino") and brands licensed from other companies (such as "Blugirl Folies", "Cedric Charlier" and "Jeremy Scott"). Aeffe also handles the distribution of all Division products, which takes place via the retail channel through subsidiaries and via the wholesale channel.

Velmar manufactures and distributes lingerie and swimwear collections, and specifically men's/women's lingerie, underwear, beachwear and loungewear. Collections are produced and distributes under the Group's own-label brands such as "Moschino" and under third-party licensed brands such as "Blugirl Folies".

The Prêt-a-porter Division also manages licensing agreements granted to other companies to manufacture Aeffe and Moschino branded product lines such as the "Moschino" brand licensing agreement relating to the *love* line, "Moschino" branded perfumes and "Moschino" branded sunglasses.

The footwear and leather goods Division, which is composed of Pollini and its subsidiaries, mainly handles the design, production and distribution of footwear, small leather goods, bags and matching accessories made from exclusive materials. The operating activity is mainly carried out by Pollini, which directly handles the design, production and distribution of own-label products, as well as the production and distribution of brands licensed by Group companies.

The footwear and leather goods division also manages licensing agreements granted to other companies to manufacture "Pollini" products such as umbrellas, foulards and ties.

The following table indicates the main economic data for the full year 2017 and 2016 of the *Prêt-à porter* and Footwear and leather goods Divisions:

(Values in thousands of EUR) 2017	Prêt-à porter Division	Footwear and leather goods Division	Elimination of intercompany transactions	Total
SECTOR REVENUES	**239,815**	**108,216**	**(35,426)**	**312,605**
Intercompany revenues	(7,785)	(27,641)	35,426	-
Revenues with third parties	**232,030**	**80,575**	-	**312,605**
Gross operating margin (EBITDA)	**26,821**	**9,751**	-	**36,572**
Amortisation	(8,746)	(2,813)	-	(11,559)
Other non monetary items:				
Write-downs	(2,055)	(262)	-	(2,317)
Net operating profit / loss (EBIT)	**16,020**	**6,676**	-	**22,696**
Financial income	884	945	(411)	1,418
Financial expenses	(1,714)	(3,872)	411	(5,175)
Profit / loss before taxes	**15,190**	**3,749**	**-**	**18,939**
Income taxes	(6,086)	(1,351)	-	(7,437)
Net profit / loss	**9,104**	**2,398**	**-**	**11,502**

(Values in thousands of EUR) 2016	Prêt-à porter Division	Footwear and leather goods Division	Elimination of intercompany transactions	Total
SECTOR REVENUES	**215,855**	**95,962**	**(31,126)**	**280,691**
Intercompany revenues	(7,258)	(23,868)	31,126	-
Revenues with third parties	**208,597**	**72,094**	-	**280,691**
Gross operating margin (EBITDA)	**18,925**	**6,270**	-	**25,195**
Amortisation	(9,090)	(2,865)	-	(11,955)
Other non monetary items:				
Write-downs	(2,873)	(281)	-	(3,154)
Net operating profit / loss (EBIT)	**6,962**	**3,124**	-	**10,086**
Financial income	529	1,425	(431)	1,523
Financial expenses	(2,505)	(1,204)	431	(3,278)
Profit / loss before taxes	**4,986**	**3,345**	**-**	**8,331**
Income taxes	(2,626)	(1,329)	-	(3,955)
Net profit / loss	**2,360**	**2,016**	**-**	**4,376**

The following tables indicate the main patrimonial and financial data at 31 December 2017 and 2016 of the *Prêt-à porter* and Footwear and leather goods Divisions:

(Values in thousands of EUR) 31 December 2017	Prêt-à porter Division	Footwear and leather goods Division	Elimination of intercompany transactions	Total
SECTOR ASSETS	*300,470*	*118,309*	*(52,246)*	366,533
of which non-current assets (*)				
Intangible fixed assets	*71,743*	*37,936*	-	*109,679*
Tangible fixed assets	*55,289*	*3,815*	-	*59,104*
Other non-current assets	*6,080*	*597*	*(390)*	*6,287*
OTHER ASSETS	*17,132*	*2,615*	-	19,747
CONSOLIDATED ASSETS	**317,602**	**120,924**	**(52,246)**	**386,280**

(*) Non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets and rights arising under insurance contracts

(Values in thousands of EUR) 31 December 2017	Prêt-à porter Division	Footwear and leather goods Division	Elimination of intercompany transactions	Total
SECTOR LIABILITIES	*150,189*	*75,849*	*(52,246)*	173,792
OTHER LIABILITIES	23,851	10,197	-	34,048
CONSOLIDATED LIABILITIES	**174,040**	**86,046**	**(52,246)**	**207,840**

(Values in thousands of EUR) 31 December 2016	Prêt-à porter Division	Footwear and leather goods Division	Elimination of intercompany transactions	Total
SECTOR ASSETS	*296,856*	*117,117*	*(57,604)*	356,369
of which non-current assets (*)				
Intangible fixed assets	*74,990*	*40,142*	*-*	*115,132*
Tangible fixed assets	*58,308*	*3,068*	*-*	*61,376*
Other non-current assets	*11,260*	*666*	*(4,442)*	*7,484*
OTHER ASSETS	*15,322*	*2,629*	*-*	17,951
CONSOLIDATED ASSETS	**312,178**	**119,746**	**(57,604)**	**374,320**

(*) Non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets and rights arising under insurance contracts

(Values in thousands of EUR) 31 December 2016	Prêt-à porter Division	Footwear and leather goods Division	Elimination of intercompany transactions	Total
SECTOR LIABILITIES	148,916	76,577	*(57,604)*	167,889
OTHER LIABILITIES	27,609	10,753	-	38,362
CONSOLIDATED LIABILITIES	**176,525**	**87,330**	**(57,604)**	**206,251**

Segment information by geographical area

The following table indicates the revenues for the full year 2017 and 2016 divided by geographical area:

(Values in thousands of EUR)	Full Year		Full Year		Change	
	2017	%	2016	%	Δ	%
Italy	152,116	48.7%	126,079	44.9%	26,037	20.7%
Europe (Italy and Russia excluded)	67,759	21.7%	59,934	21.4%	7,825	13.1%
Russia	9,106	2.9%	9,107	3.2%	(1)	(0.0%)
United States	18,605	5.9%	22,941	8.2%	(4,336)	(18.9%)
Rest of the World	65,019	20.8%	62,630	22.3%	2,389	3.8%
Total	**312,605**	**100.0%**	**280,691**	**100.0%**	**31,914**	**11.4%**

COMMENTS ON THE CONSOLIDATED INCOME STATEMENT

24. Revenues from sales and services

In 2017 consolidated revenues amount to EUR 312,605 thousand compared to EUR 280,691 thousand of the year 2016, showing an increase of 11.4% (+11.6% at constant exchange rates).

Revenues of the prêt-à-porter division amount to EUR 239,815 thousand with an increase of 11.1% at current exchange rates (+11.4% at constant exchange rates) compared to 2016. The revenues of the footwear and leather goods division increase by 12.8% to EUR 108,216 thousand.

25. Other revenues and income

This item comprises:

(Values in thousands of EUR)	Full Year 2017	Full Year 2016	Change Δ	Change %
Extraordinary income	45	867	(822)	(94.8%)
Other income	3,812	5,950	(2,138)	(35.9%)
Total	**3,857**	**6,817**	**(2,960)**	**(43.4%)**

The caption extraordinary income, composed mainly by recovery of receivables from bankrupt customers, time expiry of receivables and payables that arose in prior years, decreases of EUR 822 thousand compared to the previous year.

The caption other income, that amounts to EUR 3,812 thousand in 2017, mainly includes exchange gains on commercial transaction, rental income sales of raw materials and packaging.

26. Costs of raw materials

(Values in thousands of EUR)	Full Year 2017	Full Year 2016	Change Δ	Change %
Raw, ancillary and consumable materials and goods for resale	106,306	89,794	16,512	18.4%
Total	**106,306**	**89,794**	**16,512**	**18.4%**

The entry purchase of raw materials increase of EUR 16,512 thousand.

This item mainly includes costs for the acquisition of raw materials such as fabrics, threads, skins and accessories, purchases of finished products for resale (products sold) and packaging.

27. Costs of services

This item comprises:

(Values in thousands of EUR)	Full Year 2017	Full Year 2016	Change Δ	%
Subcontracted work	30,046	25,369	4,677	18.4%
Consultancy fees	16,623	14,896	1,727	11.6%
Advertising	14,113	12,883	1,230	9.5%
Commission	7,099	6,787	312	4.6%
Transport	5,987	5,358	629	11.7%
Utilities	1,985	1,967	18	0.9%
Directors' and auditors' fees	3,399	2,958	441	14.9%
Insurance	618	569	49	8.6%
Bank charges	1,913	1,717	196	11.4%
Travelling expenses	2,061	2,048	13	0.6%
Other services	7,195	6,737	458	6.8%
Total	**91,039**	**81,289**	**9,750**	**12.0%**

Costs of services increase from EUR 81,289 thousand in the year 2016 to EUR 91,039 thousand in the year 2017, by 12.0%. The increase is mainly due to:

- the increase of costs for subcontracted work linked to the growth of sales;
- the increase in "consultancy fees" and "adverting" related to both the increase of marketing and advertising activities aimed at further enhancing Moschino, Alberta Ferretti and Philosophy di Lorenzo Serafini brands.

28. Costs for use of third parties assets

This item comprises:

(Values in thousands of EUR)	Full Year 2017	Full Year 2016	Change Δ	%
Rental expenses	21,202	20,028	1,174	5.9%
Royalties	1,256	1,960	(704)	(35.9%)
Hire charges and similar	882	859	23	2.7%
Total	**23,340**	**22,847**	**493**	**2.2%**

The costs for use of third parties assets increases by EUR 493 thousand from EUR 22,847 thousand in 2016 to EUR 23,340 thousand in 2017.

29. Labour costs

Labour costs increase by EUR 1,887 thousand from EUR 63,490 thousand in 2016 to EUR 65,377 thousand in 2017, recording an incidence on revenues which changes from 22.6% in 2016 to 20.9% in 2017.

In 2017 the Group invested mainly in Research and Development, in commercial and communication/marketing department.

This item comprises:

(Values in thousands of EUR)	Full Year 2017	Full Year 2016	Change Δ	%
Labour costs	65,377	63,490	1,887	3.0%
Total	**65,377**	**63,490**	**1,887**	**3.0%**

In 2017 the average number of employees of the Group is:

Average number of employees by category	Full Year 2017	Full Year 2016	Change Δ	%
Workers	233	229	4	1.7%
Office staff-supervisors	1,051	1,049	2	0.2%
Executive and senior managers	23	23	-	0.0%
Total	**1,307**	**1,301**	**6**	**0.5%**

30. *Other operating expenses*

This item includes:

(Values in thousands of EUR)	Full Year 2017	Full Year 2016	Change Δ	%
Taxes	816	773	43	5.6%
Gifts	272	313	(41)	(13.1%)
Contingent liabilities	100	573	(473)	(82.5%)
Write-down of current receivables	506	180	326	181.1%
Foreign exchange losses	1,550	1,583	(33)	(2.1%)
Other operating expenses	827	556	271	48.7%
Total	**4,071**	**3,978**	**93**	**2.3%**

The caption other operating expenses amounts to EUR 4,071 thousand is substantially in line with the value of the previous year.

31. *Amortisation, write-downs and provisons*

This item includes:

(Values in thousands of EUR)	Full Year 2017	Full Year 2016	Change Δ	%
Amortisation of intangible fixed assets	6,555	6,806	(251)	(3.7%)
Depreciation of tangible fixed assets	5,004	5,149	(145)	(2.8%)
Write-downs and provisions	2,317	3,154	(837)	(26.5%)
Total	**13,876**	**15,109**	**(1,233)**	**(8.2%)**

The decrease of this caption from EUR 15,109 thousand in 2016 to EUR 13,876 thousand in 2017 is substantially generated by lower provisions for future risks and charges recorded in 2017 linked to organizational changes that will occur within the Group.

32. *Financial income/expenses*

This item include:

(Values in thousands of EUR)	Full Year 2017	Full Year 2016	Change Δ	%
Interest income	152	173	(21)	(12.1%)
Foreign exchange gains	1,245	1,291	(46)	(3.6%)
Financial discounts	21	60	(39)	(65.0%)
Financial income	**1,418**	**1,524**	**(106)**	**(7.0%)**
Bank interest expenses	1,045	2,033	(988)	(48.6%)
Other interest expenses	288	241	47	19.5%
Foreign exchange losses	3,025	473	2,552	539.5%
Other expenses	818	531	287	54.0%
Financial expenses	**5,176**	**3,278**	**1,898**	**57.9%**
Total	**3,758**	**1,754**	**2,004**	**114.3%**

The increase in financial income/expenses amounts to EUR 2,004 thousand. Such effect is substantially linked to higher foreign exchange losses partially counterbalanced by lower financial expenses as a result of the better banking conditions applied by banks.

During 2017, the company Pollini Spa has signed contracts with forward currency purchase obligation for an equivalent amount in USD equal to EUR 20,832 thousand. The contracts do not have the coverage characteristics and therefore it has been decided to measure them at fair value. The evaluation of the contracts that have not yet expired on 31 December 2017 shows a negative effect of Euro 998 thousand, the notional underlying the contracts still outstanding at year end amounts to USD 24,000 thousand.

33. Income taxes

This item includes:

(Values in thousands of EUR)	Full Year 2017	Full Year 2016	Change Δ	%
Current income taxes	9,213	8,532	681	8.0%
Deferred income (expenses) taxes	(1,632)	(4,430)	2,798	(63.2%)
Taxes related to previous years	(144)	(147)	3	(2.0%)
Total taxes	**7,437**	**3,955**	**3,482**	**88.1%**

Details of deferred tax assets and liabilities and changes in this item are described in the paragraph on deferred tax assets and liabilities. The reconciliation between actual and theoretical taxation for 2017 and 2016 is illustrated in the following table:

(Values in thousands of EUR)	Full Year 2017	Full Year 2016
Profit / loss before taxes	18,939	8,331
Theoretical tax rate	24.0%	27.5%
Theoretical income taxes (IRES)	**4,545**	**2,291**
Fiscal effect	1,891	(828)
Effect of foreign tax rates	1,667	1,239
Total income taxes excluding IRAP (current and deferred)	**8,103**	**2,702**
IRAP (current and deferred)	**(666)**	**1,253**
Total income taxes (current and deferred)	**7,437**	**3,955**

This reconciliation of the theoretical and effective tax rates does not take account of IRAP, given that it does not use profit before taxes to calculate the taxable amount. Accordingly, the inclusion of IRAP in the reconciliation would generate distorting effects between years.

34. Earnings per share

Reference earnings

The calculation of basic and dilutive earnings per share is based on the following elements:

(Values in thousands of EUR) From continuing and discontinued activities	Full Year 2017	Full Year 2016
Earnings for determining basic earnings per share	11,490	3,641
Dilutive effects	-	-
Earnings for determing dilutive earnings per share	**11,490**	**3,641**

(Values in thousands of EUR) From continuing activities	Full Year 2017	Full Year 2016
Earnings for the period	11,490	3,641
Earnings from discontinued operations	-	-
Earnings for determining basic earnings per share	**11,490**	**3,641**
Dilutive effects	-	-
Earnings for determing dilutive earnings per share	**11,490**	**3,641**

In both periods, September 2017 and September 2016, there is no evidence of dilution of consolidated net earnings.

Number of reference share

	Full Year 2017	Full Year 2016
Average number of shares for determing earnings per share	**101,486**	**101,486**
Share options	-	-
Average number of shares for determing diluted earnings per	**101,486**	**101,486**

Basic earnings per share

Group net earnings attributable to holders of ordinary shares of parent company AEFFE S.p.A., amounts to EUR 11,490 thousand (December 2016: EUR 3,641 thousand).

Dilutive earnings per share

The calculation of diluted earnings per share for the period January - December 2017, matches with the calculation of basic earnings per share, as there are no tools with potential dilutive effects.

COMMENTS ON THE CONSOLIDATED CASH FLOW STATEMENT

The cash flow generated during 2017 is EUR 22,809 thousand.

(Values in thousands of EUR)	Full Year 2017	Full Year 2016
OPENING BALANCE (A)	**14,521**	**9,993**
Cash flow (absorbed)/ generated by operating activity (B)	17,239	10,722
Cash flow (absorbed)/ generated by investing activity (C)	(3,834)	(2,305)
Cash flow (absorbed)/ generated by financing activity (D)	(5,117)	(3,889)
Increase (decrease) in cash flow (E)=(B)+(C)+(D)	**8,288**	**4,528**
CLOSING BALANCE (F)=(A)+(E)	**22,809**	**14,521**

35. Cash flow (absorbed)/ generated by operating activity

The cash flow generated by operating activity during 2017 amounts to EUR 17,239 thousand.

The cash flow from operating activity is analysed below:

(Values in thousands of EUR)	Full Year 2017	Full Year 2016
Profit before taxes	18,939	8,331
Amortisation / write-downs	13,876	15,110
Accrual (+)/availment (-) of long term provisions and post employment benefits	(594)	1,305
Paid income taxes	(12,230)	(3,583)
Financial income (-) and financial charges (+)	3,757	1,754
Change in operating assets and liabilities	(6,509)	(12,195)
CASH FLOW (ABSORBED)/ GENERATED BY OPERATING ACTIVITY	**17,239**	**10,722**

36. Cash flow (absorbed)/ generated by investing activity

The cash flow absorbed by investing activity during 2017 amounts to EUR 3,834 thousand.

The factors comprising this use of funds are analysed below:

(Values in thousands of EUR)	Full Year 2017	Full Year 2016
Increase (-)/ decrease (+) in intangible fixed assets	(1,102)	883
Increase (-)/ decrease (+) in tangible fixed assets	(2,732)	(3,265)
Investments ans write-downs (-)/ Disinvestments and revaluations (+)	-	77
CASH FLOW (ABSORBED)/ GENERATED BY INVESTING ACTIVITY	**(3,834)**	**(2,305)**

37. Cash flow (absorbed)/ generated by financing activity

The cash flow absorbed by financing activity during 2017 amounts to EUR 5,117 thousand.

The factors comprising this use of funds are analysed below:

(Values in thousands of EUR)	Full Year 2017	Full Year 2016
Other variations in reserves and profits carried-forward of shareholders' equity	(1,131)	20
Dividends paid	-	-
Proceeds (+)/ repayments (-) of financial payments	(2,241)	(679)
Increase (-)/ decrease (+) in long term financial receivables	2,013	(1,476)
Financial income (+) and financial charges (-)	(3,758)	(1,754)
CASH FLOW (ABSORBED)/GENERATED BY FINANCING ACTIVITY	**(5,117)**	**(3,889)**

OTHER INFORMATION

38. *Incentive plans*

Regarding the long term incentive plans reserved to executive directors of Aeffe S.p.A., please refer to the indicated in the Report on remuneration available from the governance section of the following *website:* www.aeffe.com.

39. *Net financial position*

As required by Consob communication DEM/6264293 dated 28th July 2006 and in compliance with the CESR's "Recommendations for the consistent implementation of the European Commission's Regulation on Prospectuses" dated 10th February 2005, the Group's net financial position as of 31 December 2017 is analysed below:

(Values in thousands of EUR)	31 December 2017	31 December 2016
A - Cash in hand	752	1,032
B - Other available funds	22,057	13,489
C - Securities held for trading	-	-
D - Cash and cash equivalents (A) + (B) + (C)	*22,809*	*14,521*
E - Short term financial receivables	1,420	2,236
F - Current bank loans	(44,487)	(47,205)
G - Current portion of long-term bank borrowings	(10,847)	(8,610)
H - Current portion of loans from other financial istitutions	-	-
I - Current financial indebtedness (F) + (G) + (H)	*(55,334)*	*(55,815)*
J - Net current financial indebtedness (I) + (E) + (D)	*(31,105)*	*(39,058)*
K - Non current bank loans	(22,008)	(23,768)
L - Issued obbligations	2,592	3,391
M - Other non current loans	(72)	(72)
N - Non current financial indebtedness (K) + (L) + (M)	*(19,488)*	*(20,449)*
O - Net financial indebtedness (J) + (N)	**(50,593)**	**(59,507)**

The net financial position of the Group amounts to EUR 50,593 thousand as of 31 December 2017 compared with EUR 59,507 thousand as of 31 December 2016.

40. *Related party transactions*

Reciprocal transactions and balances between Group companies included within the scope of consolidation are eliminated from the consolidated financial statements and as such will not be described here. Operations carried out with related parties mainly concern the exchange of goods, the performance of services and the provision of financial resources. All transactions arise in the ordinary course of business and are settled on market terms i.e. on the terms that are or would be applied between two independent parties.

The Group's business dealing with other related parties are summarised below:

(Values in thousands of EUR)	Full Year 2017	Full Year 2016	Nature of the transactions
Shareholder Alberta Ferretti with Aeffe S.p.a.			
Contract for the sale of artistic assets and design	751	300	Cost
Commercial	205	-	Payable
Commerciale Valconca with Aeffe S.p.a.			
Commercial	1,350	1,247	Revenue
Property rental	50	50	Cost
Cost of services	73	74	Cost
Commercial	735	763	Receivable
Ferrim with Aeffe S.p.a.			
Property rental	1,789	1,779	Cost
Aeffe USA with Ferrim USA			
Property rental	714	723	Cost
Financial income	123	126	Financial income
Commercial	304	468	Receivable
Commercial	-	253	Payable
Non current financial	1,752	2,131	Receivable
Current financial	1,000	1,000	Receivable

The following table indicates the data related on the incidence of related party transactions on the income statement, balance sheet, cash flow and indebtedness as of 31 December 2017 and 31 December 2016.

(Values in thousands of EUR)	Balance Full Year	Value rel. party 2017	%	Balance Full Year	Value rel. party 2016	%
Incidence of related party transactions on the income statement						
Revenues from sales and services	312,605	1,350	0.4%	280,691	1,247	0.4%
Costs of services	91,039	824	0.9%	81,289	374	0.5%
Costs for use of third party assets	23,340	2,553	10.9%	22,847	2,552	11.2%
Financial Income / expenses	3,758	123	3.3%	1,754	126	7.2%
Incidence of related party transactions on the balance sheet						
Non current financial receivables	2,592	1,752	67.6%	3,391	2,131	62.8%
Trade receivables	42,065	1,039	2.5%	40,711	1,231	3.0%
Current financial receivables	1,420	1,000	70.4%	2,236	1,000	44.7%
Trade payables	68,619	205	0.3%	61,881	253	0.4%
Incidence of related party transactions on the cash flow						
Cash flow (absorbed) / generated by operating activities	17,239	(1,760)	n.a.	10,722	(1,788)	n.a.
Cash flow (absorbed) / generated by financing activities	(5,117)	379	n.a.	(3,889)	(100)	2.6%
Incidence of related party transactions on the indebtedness						
Net financial indebtedness	(50,593)	(1,381)	2.7%	(59,507)	(1,888)	3.2%

41. Atypical and/or unusual transactions

Pursuant to Consob communication DEM/6064293 dated 28th July 2006, it is confirmed that in 2017 the Group did not enter into any atypical and/or unusual transactions, as defined in that communication.

42. Significant non-recurring events and transactions pursuant to Consob regulation of 28th July 2006

No significant non-recurring events, occurred during the year, have to be reported.

43. Guarantees and commitments

As of 31 December 2017, the Group has given performance guarantees to third parties totaling EUR 9,774 thousand (EUR 6,944 thousand as of 31 December 2016).

44. Contingent liabilities

Fiscal disputes

The Group's fiscal disputes refer to the following companies:

Aeffe S.p.A.: the Rimini Provincial Tax Commission with ruling no. 101/2/06 filed on 16 December 2006 cancelled notices of assessment 81203T100562 (RG no. 43/05) and 81203T100570 (RG no. 69/05) issued by the Rimini Tax Authorities in November 2004. The issues raised related to the 1999 and 2000 tax years concern costs deemed not allowable and the write-down of the investment in Moschino. The Rimini tax office has appealed against the sentence handed down by the Rimini Provincial Tax Commissioners. The Company presented its counter analysis within the legally-prescribed time period. The Bologna Regional Tax Commission, as set during the hearing of 27 September 2010, has rejected the appeal, confirming the first level ruling.

On 12 January 2012, the State Legal Bar disputed the validity of the judgment of the Bologna regional tax commission, by bringing an appeal before the Court of Cassation. The company, presented its counter-submission within the time limit established by the law.

The positive outcome at the first two levels of judgment means that the further development of this dispute can be considered in a positive light.

The Rimini Provincial Tax Commission with ruling no. 37/02/08 of 28 January 2008, filed on 9 April 2008, cancelled notices of assessment no. 81203T300390/06 and no. 81203T300393/06 issued by the Rimini Tax Authorities in June 2006. The assessments concern tax years 2001 and 2002, and are connected with non-recognition of utilisation of the tax loss achieved during tax period 2000. The Rimini Tax Office has appealed against the sentence handed down by the Rimini Provincial Tax Commissioners with notification sent to the company on 29 May 2009. The appeal presented its counter analysis to the Regional Tax Commission of Bologna within the legally-prescribed time period. The Bologna Regional Tax Commission ordered on 14 April 2011 the suspension of this judgment pending resolution of the dispute ruling related to the notice of assessment 81203T100570/20042 (tax year 2000). The judgment was summarized by Section 1 of the Regional Tax Commission of Bologna with the hearing on the merits on 26 May 2016, after postponed to 12 December 2016 and again postponed to 15 December 2016.

It was again placed the suspension of the trial pending a ruling of the Supreme Court.

On 1 October 2008 the Rimini Tax Office notified the company of inspection minutes in relation to direct taxes and IRAP for FY 2005. The audits also concerned VAT and were mainly focused on relations with group companies and costs for services. Specifically, the Tax Office raised issues on non-pertinent costs totaling EUR 130 thousand and non-pertinent advertising costs amounting to roughly EUR 580 thousand tied to the disbursement of contributions to subsidiary companies. On 30 August 2010, the Major Taxpayers Office of the Emilia Romagna Regional Tax Department notified assessments TGB03B500172/2010 (IRAP), TGB08B500181/2010 (theoretical IRES) and TGB09B500185/2010 (actual IRES), containing the matters indicated above. The company challenged these assessments before the Bologna Provincial Tax Commissioners ahead of the legal deadline, trusting that the valid defensive reasoning will be accepted. On

13 July 2011, with tax return n. 137 2011 00031537 15 the company has been ordered to pay the amount registered in the roll by the Tax Office, provisionally awaiting trial, equal to half of the taxes in dispute, besides interests, for a total amount of EUR 161 thousand. This tax dispute has been disputed in December 2012 before the Bologna Provincial Tax Commission, who, with sentence no. 40/13/13, filed on 14 March 2013, has accepted the request of the company, annulling the contested measures with reference to the matter relating to intra-group costs for advertising contributions and confirming the contested measures related to the reliefs for costs to be incurred and intra-group costs for lease payments. The Office, with act of appeal notified to the company on 28 October 2013, appealed against the sentence of the Bologna Provincial Tax Commission requesting the reform in relation to the matter relating to intra-group costs for advertising contributions. The Company, on 23 December 2013, filed a timely notice of cross-appeal counterclaims and contextual interlocutory appeal. On 13 September 2016, the Company has formulated a proposed conciliation agreement aimed at achieving a settlement agreement that, if reached would not involve any outlay for the Company.

On 30 May 2014, following a general tax audit for IRES, IRAP and VAT for the tax years 2009, 2010 and 2011, by the Emilia Romagna Regional Management, Large Taxpayers Office, was issued a formal notice of assessment, with which the Tax Office has formulated remarks with recoveries of total taxes (IRES and IRAP) of EUR 210 thousand for 2009, EUR 350 thousand for 2010 and EUR 299 thousand for 2011. The complaints mainly concern the recovery of costs for commissions and advertising contributions granted to certain foreign subsidiaries and the failure to account for interest income on loans to foreign subsidiaries.

The company, on 29 July 2014, submitted comments pursuant to Article 12, paragraph 7, of Law 212 of 2000.

On 3 December 2014 the Large Taxpayers Office of Emilia Romagna Regional Management has notified, for 2009, the assessment notices n. TGB0EC700238/2014 (IRES) and n. TGB03C700239/2014 (IRAP), with a total recovery of taxes of EUR 210 thousand.

Both assessment notices were challenged before the competent Provincial Tax Commission of Bologna.

On 25 September 2015 the Large Taxpayers Office of Emilia Romagna Regional Management has notified, for 2010, the assessment notices n. TGB0EC700149/2015 (IRES) and n. TGB03C700150/2015 (IRAP), with a total recovery of taxes of EUR 350 thousand.

Both assessment notices were challenged before the competent Provincial Tax Commission of Bologna.

On 6 June 2016, the Large Taxpayers Office of Emilia Romagna Regional Management has notified, for 2011, the assessment notices n. TGB0EC700080/2016 (IRES) and n. TGB0CC700083/2016 (IRAP), with total tax recoveries of Euro 299 thousand. Both assessment notices have been challenged before the competent Provincial Tax Commission of Bologna.

It is noted that regarding the deductibility of advertising contributions to foreign subsidiaries (which constitute the bulk of disputes) the company has already received feedback from the Provincial Tax Commission of Bologna that, with judgment 40/13/13 filed on 14 March 2013 on the litigation referred to in paragraph above, has already rejected this type of dispute.

No provisions have been recorded in relation to the above disputes, since the defensive arguments put forward by the companies and its professional advisors are fully sustainable.

The directors, in receipt of the opinion of their fiscal and legal consultants, do not deem it likely that any liabilities will derive from the above-mentioned.

45. Information requested by art. 149-duodecies of the "Regolamento Emittenti" issued by Consob

The following table, prepared in accordance with art. 149-duodecies of the "Regolamento Emittenti" issued by Consob, reports the amount of fees charged in 2017 for the audit and audit related services provided by the Audit Firm.

(Values in thousand of EUR)	Service provider	2017 fees
Audit	RIA GRANT THORNTON	118
Audit	BDO ITALIA	52
Audit	WARD DIVECHA	8
Audit	ARI AUDIT	4
Audit non-financial statement (DNF)	BDO ITALIA	10
Stamp of approval of VAT declaration	BDO ITALIA	2
Non-financial statement (DNF)	BDO ITALIA	15
Total		**208**

ATTACHMENTS TO THE EXPLANATORY NOTES

ATTACHMENT I	Consolidated Assets Balance Sheet with related parties.
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ATTACHMENT I

Consolidated Assets Balance Sheet with related parties

Pursuant to Consob Resolution n. 15519 of 27 July 2006

(Values in units of EUR)	Notes	31 December 2017	of which Related parties	31 December 2016	of which Related parties
NON-CURRENT ASSETS					
Intangible fixed assets					
Key money		26,852,574		28,923,062	
Trademarks		81,975,169		85,468,751	
Other intangible fixed assets		850,869		740,072	
Total intangible fixed assets	(1)	109,678,612		115,131,885	
Tangible fixed assets					
Lands		17,118,773		17,118,773	
Buildings		22,167,805		22,658,662	
Leasehold improvements		12,597,761		14,465,641	
Plant and machinary		2,863,830		2,665,840	
Equipment		260,126		311,406	
Other tangible fixed assets		4,096,002		4,155,699	
Total tangible fixed assets	(2)	59,104,297		61,376,021	
Other fixed assets					
Equity investments	(3)	131,558		131,558	
Long term financial receivables	(4)	2,591,605	1,751,605	3,390,633	2,130,633
Other fixed assets	(5)	3,564,214		3,961,836	
Deferred tax assets	(6)	14,335,779		13,856,302	
Total other fixed assets		20,623,156		21,340,329	
TOTAL NON-CURRENT ASSETS		**189,406,065**		**197,848,235**	
CURRENT ASSETS					
Stocks and inventories	(7)	97,817,891		89,389,833	
Trade receivables	(8)	42,064,915	1,039,292	40,711,059	1,230,887
Tax receivables	(9)	5,411,024		4,094,261	
Derivative assets	(10)	-		-	
Cash	(11)	22,808,913		14,521,334	
Short term financial receivables	(12)	1,420,000	1,000,000	2,235,854	1,000,000
Other receivables	(13)	26,914,468		25,082,908	
TOTAL CURRENT ASSETS		**196,437,211**		**176,035,249**	
Assets available for sale	(14)	436,885		436,885	
TOTAL ASSETS		**386,280,161**		**374,320,369**	

ATTACHMENT II

Consolidated Liabilities Balance Sheet with related parties

Pursuant to Consob Resolution N. 15519 of 27 July 2006

(Values in units of EUR)	Notes	31 December 2017	of which Related parties	31 December 2016	of which Related parties
SHAREHOLDERS' EQUITY	**(15)**				
Group interest					
Share capital		25,371,407		25,371,407	
Other reserves		116,229,168		115,641,684	
Profits / (losses) carried-forward		(6,957,390)		(8,883,005)	
Net profit / (loss) for the Group		11,490,343		3,641,244	
Group interest in shareholders' equity		146,133,528		135,771,330	
Minority interest					
Minority interests in share capital and reserves		32,295,224		31,563,069	
Net profit / (loss) for the minority interests		11,716		735,125	
Minority interests in shareholders' equity		32,306,940		32,298,194	
TOTAL SHAREHOLDERS' EQUITY		**178,440,468**		**168,069,524**	
NON-CURRENT LIABILITIES					
Provisions	(16)	2,415,237		2,558,786	
Deferred tax liabilities	(6)	30,436,700		30,985,927	
Post employment benefits	(17)	5,916,166		6,366,872	
Long term financial liabilities	(18)	22,079,795		23,840,201	
Long term not financial liabilities	(19)	787,692		469,000	
TOTAL NON-CURRENT LIABILITIES		**61,635,590**		**64,220,786**	
CURRENT LIABILITIES					
Trade payables	(20)	68,618,776	204,906	61,880,670	252,981
Tax payables	(10)	3,611,468		7,376,339	
Derivative liabilities	(21)	997,532		-	
Short term financial liabilities	(22)	55,334,134		55,814,445	
Other liabilities	(23)	17,642,193		16,958,605	
TOTAL CURRENT LIABILITIES		**146,204,103**		**142,030,059**	
Liabilities available for sale		-		-	
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**386,280,161**		**374,320,369**	

ATTACHMENT III

Consolidated Income Statement with related parties

Pursuant to Consob Resolution N. 15519 of 27 July 2006

(Values in units of EUR)	Notes	Full Year 2017	of which Related parties	Full Year 2016	of which Related parties
REVENUES FROM SALES AND SERVICES	**(24)**	**312,604,739**	**1,349,985**	**280,690,885**	**1,246,673**
Other revenues and income	(25)	3,857,091		6,816,595	
TOTAL REVENUES		**316,461,830**		**287,507,480**	
Changes in inventory		10,243,168		(913,774)	
Costs of raw materials, cons. and goods for resale	(26)	(106,306,060)		(89,794,049)	
Costs of services	(27)	(91,038,590)	(823,840)	(81,289,495)	(373,703)
Costs for use of third parties assets	(28)	(23,340,025)	(2,552,334)	(22,847,255)	(2,552,042)
Labour costs	(29)	(65,376,702)		(63,490,261)	
Other operating expenses	(30)	(4,071,124)		(3,978,106)	
Amortisation, write-downs and provisions	(31)	(13,876,156)		(15,108,564)	
Financial Income / (expenses)	(32)	(3,757,528)	122,731	(1,754,479)	125,558
PROFIT / LOSS BEFORE TAXES		**18,938,813**		**8,331,497**	
Taxes	(33)	(7,436,754)		(3,955,128)	
NET PROFIT / LOSS		**11,502,059**		**4,376,369**	
(Profit) / loss attributable to minority shareholders		(11,716)		(735,125)	
NET PROFIT / LOSS FOR THE GROUP		**11,490,343**		**3,641,244**	

ATTACHMENT IV

Consolidated Cash Flow Statement with related parties

Pursuant to Consob Resolution N. 15519 of 27 July 2006

(Values in thousands of EUR)	Notes	Full Year 2017	of which Related parties	Full Year 2016	of which Related parties
OPENING BALANCE		**14,521**		**9,993**	
Profit before taxes		18,939	(1,904)	8,331	(1,553)
Amortisation / write-downs		13,876		15,110	
Accrual (+)/availment (-) of long term provisions and post employment benefits		(594)		1,305	
Paid income taxes		(12,230)		(3,583)	
Financial income (-) and financial charges (+)		3,757		1,754	
Change in operating assets and liabilities		(6,509)	144	(12,195)	(234)
CASH FLOW (ABSORBED)/ GENERATED BY OPERATING ACTIVITY	**(35)**	**17,239**		**10,722**	
Increase (-)/ decrease (+) in intangible fixed assets		(1,102)		883	
Increase (-)/ decrease (+) in tangible fixed assets		(2,732)	-	(3,265)	-
Investments and write-downs (-)/ Disinvestments and revaluations (+)		-		77	
CASH FLOW (ABSORBED)/ GENERATED BY INVESTING ACTIVITY	**(36)**	**(3,834)**		**(2,305)**	
Other variations in reserves and profits carried-forward of shareholders' equity		(1,131)		20	
Dividends paid		-		-	
Proceeds (+)/ repayments (-) of financial payments		(2,241)		(679)	
Increase (-)/ decrease (+) in long term financial receivables		2,013	379	(1,476)	(100)
Financial income (+) and financial charges (-)		(3,758)		(1,754)	
CASH FLOW (ABSORBED)/GENERATED BY FINANCING ACTIVITY	**(37)**	**(5,117)**		**(3,889)**	
CLOSING BALANCE		**22,809**		**14,521**	

ATTACHMENT V

Prospect of crucial data from the statutory financial statements of Fratelli Ferretti Holding at 31 December 2016

(Values in units of EUR)	STATUTORY FINANCIAL STATEMENTS 2016	STATUTORY FINANCIAL STATEMENTS 2015
BALANCE SHEET		
ASSETS		
Intangible fixed assets	127,574	162,405
Tangible fixed assets	2,248,163	1,547,778
Equity investments	63,397,878	60,695,372
Non current assets	**65,773,616**	**62,405,555**
Trade receivables	1,391,856	1,381,624
Tax receivables	-	341,690
Cash	21,753	83,161
Other receivables	3,308	87,280
Current assets	**1,416,917**	**1,893,755**
Total assets	**67,190,533**	**64,299,310**
LIABILITIES		
Share capital	100,000	100,000
Share premium reserve	62,529,081	63,195,446
Other reserves	15,038	15,038
Profits / (losses) carried-forward	-	-
Net profit / loss	(934,416)	(666,366)
Shareholders' equity	**61,709,703**	**62,644,118**
Provisions	184,132	195,885
Long term financial liabilities	-	-
Non-current liabilities	**184,132**	**195,885**
Trade payables	5,296,697	1,459,307
Current liabilities	**5,296,697**	**1,459,307**
Total shareholders' equity and liabilities	**67,190,532**	**64,299,310**

INCOME STATEMENT		
Revenues from sales and services		
Other revenues and income	366,894	343,594
Total revenues	**366,894**	**343,594**
Operating expenses	(305,149)	(393,855)
Costs for use of third parties assets	(215,672)	(489,341)
Amortisation and write-downs	(165,803)	(76,175)
Other operating expenses	(15,112)	(24,894)
Financial income / (expenses)	47,040	213,695
Financial assets adjustments	(717,550)	(290,916)
Profit / (loss) before taxes	**(1,005,352)**	**(717,892)**
Income taxes	70,936	51,526
Net profit / (loss)	**(934,416)**	**(666,366)**

Certification of the Consolidated Financial Statements pursuant to art.81-ter of Consob Regulation N. 11971 of 14 May 1999, as amended

The undersigned Massimo Ferretti as President of the Board of Directors, and Marcello Tassinari as manager responsible for preparing Aeffe S.p.A.'s financial reports, pursuant to the provisions of art. 154 bis, clauses 3 and 4, of Legislative Decree n. 58 of 1998, hereby attest:

- the adequacy with respect to the Company structure and
- the effective application;

of the administrative and accounting procedures applied in the preparation of the consolidated financial statements at 31 December 2017.

The undersigned moreover attest that the consolidated financial statements:

a) have been prepared in accordance with International Financial Reporting Standards, as endorsed by the European Union through Regulation (EC) 1606/2002 of the European Parliament and Council, dated 19 July 2002;

b) correspond to the amounts shown in Company's accounts, books and records;

c) provide a fair and correct representation of the financial conditions, results of operations and cash flows of the Company and its consolidated subsidiaries.

The report on operations includes a reliable operating and financial review of the Company and of the Group as well as a description of the main risks and uncertainties to which they are exposed.

8 March 2018

President of the board of directors

Massimo Ferretti

Manager responsible for preparing Aeffe S.p.A. financial reports

Marcello Tassinari

CONSOLIDATED NON-FINANCIAL DECLARATION

1. METHODOLOGY

The Aeffe Group (hereinafter also referred to as Aeffe) falls within the scope of application of Decree 254/2016 - issued pursuant to Directive 2014/95/EU of the European Parliament and of the Council of 22nd October 2014 - which requires the Report on Operations during the year ended 31st December 2017 to contain a non-financial communication.

Accordingly, this Declaration fulfills the commitment made by Aeffe to report on the social and environmental impact of its activities, its respect for human rights and its policies in these fields and on diversity and the fight against corruption, in compliance with the provisions of Decree 254/2016.

In order to comply with the criteria for reporting non-financial information envisaged in Decree 254/2016, Aeffe has adopted the GRI Standards as guidelines. This reference model, issued in 2016 by the Global Reporting Initiative, is the most widely adopted at an international level for reporting on sustainability.

Chapter 7 of this Declaration presents, in summary form, a table that correlates the information reported by the Group with the relevant GRI indicators, at the Referenced level of application.

1.1. <u>**Analysis of materiality**</u>

With a view to determining the significant topics to be discussed in this Declaration, Aeffe reached the following conclusions after analyzing art. 3 of Decree 254/2016:

- use of energy resources, distinguishing between those generated from renewable and non-renewable sources: this topic is not deemed material in terms of properly presenting the nature of Aeffe, since energy sources are only used in the offices of the Group and not for production purposes;
- use of water resources: this topic is not deemed material in terms of properly presenting the nature of Aeffe, since water is only used in washrooms;
- greenhouse gas emissions and atmospheric pollution: this topic is not deemed material in terms of properly presenting the nature of Aeffe, since the Group does not have any installations that release these types of emission. Additionally, the indirect emissions generated by vehicle transportation are not considered to be significant;
- other environmental impacts: the topic of waste is deemed to be material and is reported specifically in chapter 4 of this Declaration;
- social aspects and personnel management: this topic is deemed to be material and is reported specifically in chapter 3 of this Declaration;
- non-discrimination and equal opportunities: this topic is deemed to be material and is reported specifically in chapter 2 of this Declaration;
- respect for human rights: this topic is deemed to be material and is reported specifically in chapter 5 of this Declaration;
- fight against corruption: this topic is deemed to be material and is also reported specifically in chapter 5 of this Declaration.

Following this preliminary analysis, the Aeffe Group performed another process to identify any other material topics. This involved the completion of a questionnaire (the materiality questionnaire) and a benchmarking activity.

The contact persons at each Company included within the scope of this Non-Financial Declaration participated directly in this analysis of materiality. In particular, a questionnaire was distributed to them and, working individually, each person assigned a score from 1 to 5 to each topic based on their perception and

awareness of the matter examined. This activity helped to identify the topics that are significant for the Group and, indirectly, for its stakeholders.
The following internal functions were involved in the process of determining which topics are significant:

- General Management;
- Operational Management (Aeffe and Pollini);
- Administration, Finance and Control Department;
- Commercial Department;
- Marketing/Communications Department;
- Human Resources Department.

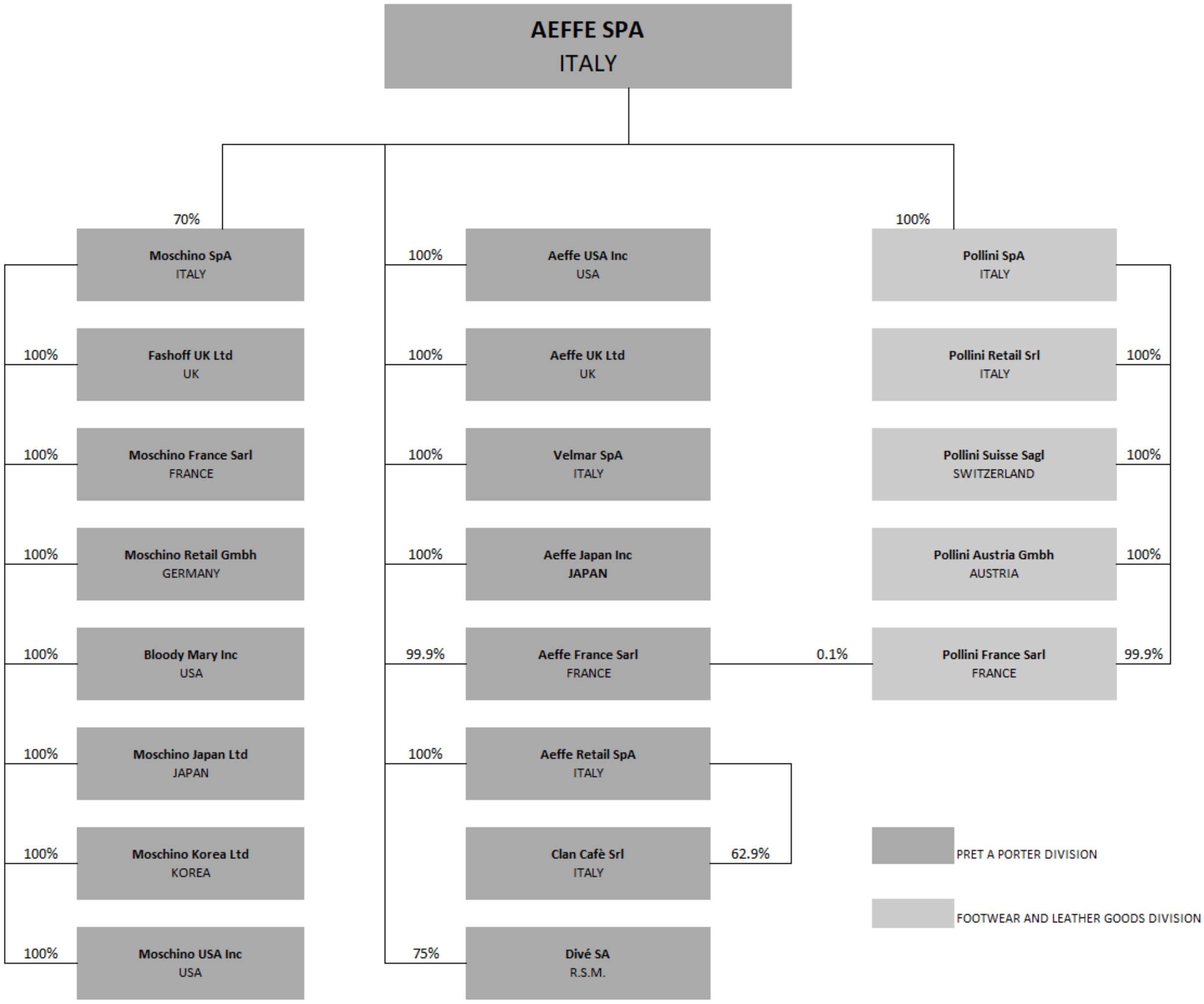
The Group identified and selected its stakeholders having regard for its social role and strong territorial presence, establishing the following categories: employees, shareholders, investors, distributors, vendors, customers, schools and universities, public administration, community and local bodies, non-governmental organizations (NGOs), media and the environment.
The above analysis identified the following:

- compliance with laws, regulations and standards, even on a voluntary basis: this topic is deemed to be material and is reported specifically in chapter 2 of this Declaration;
- responsible management of the supply chain and sustainable procurement: this topic is deemed to be material and is reported specifically in chapter 6 of this Declaration;
- responsible product management: this topic is deemed to be material and is reported specifically in chapter 6 of this Declaration.

The topics relating to economic aspects (financial performance, distribution of value added, market presence) are discussed in chapter 6 of this Consolidated Non-Financial Declaration (Other significant topics) and in other sections of the Annual Report.

1.2. **Scope of non-financial declaration**

The following figure presents the corporate structure of the Group, including the controlling interests at 31st December 2017.



Aeffe has included the following Group companies within the reporting scope of this Non-Financial Declaration (NFD):

- Aeffe S.p.A.;
- Aeffe Retail S.p.A.;
- Aeffe USA Inc;
- Velmar S.p.A.;
- Pollini S.p.A.;
- Pollini Retail Srl;
- Moschino S.p.A.;
- Moschino Korea Ltd.

The following Group companies have been excluded from the reporting scope: Aeffe France Sarl; Aeffe UK Ltd; Aeffe Japan Inc; Clan cafè Srl; Divè SA; Pollini Suisse Sagl; Pollini Austria Gmbh; Pollini France Sarl; Moschino France Sarl; Moschino USA Inc; Bloody Mary Inc; Moschino Japan Ltd; Moschino Retail Gmbh; Fashoff UK Ltd.

These exclusions are explained by the fact that the socio-economic and environmental impacts of the above companies are not deemed to be significant, considering their percentage incidence in terms of consolidated sales and employment. This possibility in envisaged in art. 4 of Decree 254/2016, pursuant to which the Consolidated Declaration may exclude subsidiaries that, despite inclusion in the consolidated financial statements, are not needed in order to understand the activities of the Group, its performance, its results and the impact of its activities.

The following table indicates the reporting scope adopted for the provision of information on each material topic. In this NFD, “Group” means the above-mentioned companies included within the reporting scope.

TOPIC	REPORTING SCOPE	NOTES
Compliance with laws, regulations and standards, even on a voluntary basis:	Group	
Non-discrimination and equal opportunities	Group	
Human resources, training and development of professional skills	Group	
Health and safety	Aeffe S.p.A. and Pollini S.p.A.	This limitation is justified by the fact that the activities of the other companies within the reporting scope are commercial rather than production related.
Freedom of association and dialog with the social partners	Group	
Production and management of waste	Aeffe S.p.A. and Pollini S.p.A.	This limitation is justified by the fact that the activities of the other companies within the reporting scope are commercial rather than production related.
Anti-corruption commitment	Group	
Safeguarding of human rights	Group	
Responsible management of the supply chain and sustainable procurement	Aeffe S.p.A. and Pollini S.p.A.	This limitation is justified by the fact that the activities of the other companies within the reporting scope are commercial rather than production related.
Responsible product management	Aeffe S.p.A. and Pollini S.p.A.	This limitation is justified by the fact that the activities of the other companies within the reporting scope are commercial rather than production related.
Financial performance	Group	

1.3. **Reporting process**

The contents of this Consolidated Non-Financial Declaration have been checked and approved in the following manner:

- A small working party was identified within the General Management team of the Aeffe Group, representing the following functions:
  - General Management;
  - Operational Management (Aeffe and Pollini);
  - Administration, Finance and Control Department;
  - Commercial Department;
  - Marketing/Communications Department;

- Human Resources Department.

- Each company within the reporting scope contributed the information requested (both qualitative and numeric), identifying a data owner and requiring the contents of each data collection form to be validated by the manager of the branch concerned.
- The consolidated information and data was then collected and aggregated by the managers of the above functions, each to the extent of their own responsibilities.
- Lastly, the final contents were approved by the General Management of the Group and, on 8th March 2018, by the Board of Directors of Aeffe S.p.A.
- The content of this Declaration was examined and checked by the designated auditing firm, applying the methodologies envisaged in ISAE 3000 (Limited Assurance).

This Declaration is published, together with the report on the 2017 financial statements of the Aeffe Group, in the Investor Relations - Financial Statements and Report section of the website http://www.aeffe.com.

2. GOVERNANCE

Aeffe S.p.A., the parent company, has adopted the traditional administration and control model, with a Board of Directors and Board of Statutory Auditors appointed at the Shareholders' Meeting; in addition, the Code of Self-Regulation promoted by Borsa Italiana S.p.A. has been used as the point of reference for defining the system of corporate governance.

The Aeffe Group operates at an international level in the fashion and luxury sector, producing and distributing a wide range of products that include prêt-à-porter, footwear and leather goods, which are distributed via both the Retail channel and the Wholesale channel.

Subsidiaries are grouped into 3 geographical areas: Europa, North America and the Far East; accordingly, considering the entire distribution structure, the Aeffe Group is present in nearly 80 countries throughout the world.

In compliance with Decree 254/2016, the contents of the NFD for this topic are presented below.

TOPIC	REPORTING SCOPE	NOTES
- Compliance with laws, regulations and standards, even on a voluntary basis; - Non-discrimination and equal opportunities.	Aeffe management identifies and evaluates the related risk, determining suitable preventive actions. Risks include: - Risks deriving from non-compliance with or violation of the relevant regulations resulting, for example, in the payment of monetary fines and/or involvement in court cases; - Risk of court cases linked to racism or inequality, resulting in loss of reputation; - Risk of lower sales and reduced economic performance.	- Extend the internal auditing processes adopted by the parent company to all companies within the reporting scope; - Consider implementing suitable voluntary management systems (ISO standards) in order to manage more completely the risks identified.

POLICY AND MANAGEMENT MODEL
The Aeffe Group is committed to guaranteeing equal opportunities for all collaborators. All decisions made by the Group are based on merit, skill and ability. *The Group rejects all forms of direct or indirect discrimination based on age, state of health, gender, religion, race, political and cultural opinions, or personal or social status.* *Aeffe is committed to building awareness in every possible way, in order to spread as much knowledge as possible about these matters and help those persons most affected.* *The organization, management and control model pursuant to Decree 231/2001 is part of the broader system of control already adopted to provide reasonable assurance that corporate objectives are met in compliance with current laws and regulations.* *See the Report on Corporate Governance, available on the website www.aeffe.com, for information about the governance model adopted by the Group (including adoption of the 231 model by the Italian companies and its practical application in monitoring and control terms).*
RESULTS ACHIEVED
There were no incidents linked to discrimination of any kind within the reporting scope during 2017.

3. HUMAN RESOURSES

In compliance with Decree 254/2016, the contents of the NFD for this topic are presented below.

MATERIAL TOPICS	RELATED RISKS	IMPROVEMENT OBJECTIVES
- Training and development of professional skills; - Health, safety, freedom of association and dialog with the social partners.	Aeffe management identifies and evaluates the related risk, determining suitable preventive actions. Risks include: - Increase in employee turnover and loss of skilled personnel with important roles in key processes; - Strengthening of competitors; - Increase in the accident rate; - Increase in work-related stress.	- Work on the coordination and supervision of training activities by the parent company, in order to identify the training needs of each Department with a view to the professional development of all employees. - Continue the actions taken with regard to training and career development in order to facilitate professional growth; - Devise a corporate welfare plan that can sustain and improve employee satisfaction and the internal climate. - **Develop and introduce software covering the entire working population for the** management of HR processes on a **web/i-cloud basis. In this way, the HR Department would become a Virtual Workspace, accessible from any desktop or mobile device**, thus making information available and allowing

		transactions in real time using a single database. This would simplify daily activities and maximize efficiency by integrating HR activities with the other aspects of business management (accounting, budgeting, safety in the workplace).

POLITICIES AND MANAGEMENT MODEL

People are the true capital of Aeffe: in order to preserve and enrich this capital, our people are constantly stimulated and led down a personal and professional growth path, within which the potential and creativity of each individual are realized to the full.

Aeffe Group management seeks to provide its human capital with a comfortable and safe working environment: the risks to which workers and other interested parties are exposed are identified and evaluated, determining suitable preventive actions.

The Group guarantees respect for the right of all personnel to form, organize and participate in trade unions of their choice and to engage in collective bargaining, without this having any adverse consequences or resulting in reprisals.

The occupational health and safety systems of Aeffe S.p.A. and Pollini S.p.A. are organized in accordance with current domestic legislation (Decree 81/08 and subsequent amendments).

The health and safety of employees is organized and managed internally by a specific office that covers the entire working population of both companies. The interests of employees are addressed by their Workers' Safety Representatives (RLS).

Based on an assessment of business risks carried out in accordance with Decree 81/08, there are no professional activities or duties that expose the workers of Aeffe S.p.A. and Pollini S.p.A. to a high risk of contracting work-related diseases.

RESULTS ACHIEVED

a. Health & Safety *

** the following data relates only to Aeffe S.p.A. and Pollini S.p.A.*

- Employees

There were 17 accidents during 2017 (involving 5 men and 12 women), 6 more than in 2016. Of these, 8 occurred in the workplace and 9 while traveling between home and work.

No cases of occupational diseases arose.

The per capita average number of days lost (through accident or illness) by employees in 2017 was 5.96.

Number of days lost (employees)						
Number of days	**2017**			**2016**		
	Men	**Women**	**Total**	**Man**	**Women**	**Total**
Absences (excluding leave, vacation)	1.467	11.254	**12.721**	1.236	11.362	**12.598**
Lost days (illness and accidents)	972	3.648	**4.620**	757	4.010	**4.767**

Number of hours worked (employees)						
Hours	2017			2016		
	Men	Women	Total	Men	Women	Total
Budgeted/scheduled working hours	327.208	1.073.989	**1.401.197**	328.012	1.052.154	**1.380.166**
Hours worked	286.429	889.193	**1.175.622**	285.540	832.447	**1.117.987**

External personnel

While collaborating with Aeffe S.p.A. and Pollini S.p.A., external personnel are required to comply with the rules, internal procedures and current regulations applicable to these two companies.

b. Human resources

- Composition of the workforce

Total number of employees, analysed by contract type and gender						
Contract type	2017			2016		
	Men	Women	Total	Men	Women	Total
Permanent	250	845	1.095	236	846	**1.082**
Fixed term	14	115	129	18	92	**110**
Total	**264**	**960**	**1.224**	**254**	**938**	**1.192**

Total number of employees, analysed by contract type and gender						
Jobe type	2017			2016		
	Men	Women	Total	Men	Women	Total
Full-time	252	814	**1.066**	243	799	**1.042**
Part-time	12	146	**158**	11	139	**150**
Total	**264**	**960**	**1.224**	**254**	**938**	**1.192**

- Hiring rate and employee turnover

Hiring rate and employee turnover								
	Men	Women	Total	under 30	30-50	Over 50	Italy	Non-EU
Total empoyees	**264**	**960**	**1224**	**167**	**723**	**335**	**1137**	**87**
New hires	38	246	**284**	108	128	48	274	**10**
Total leavers	28	224	**252**	87	114	**51**	**242**	**10**
Hiring rate	14%	26%	**23%**	65%	18%	14%	24%	**11%**
Empoyee turnover	11%	23%	**21%**	52%	16%	15%	21%	**11%**

The Aeffe Group considers the attraction of new talent to be essential for the success of its brands: the Group looks increasingly to the future, giving preference to the recruitment of young people and women, with an overall hiring rate of 23%.

- Collective bargaining agreements

The policies and procedures followed by the Group for the management of working relationships are consistent with the various National Employment Contracts applied by the companies concerned.

All employees of the Italian companies within the Aeffe Group are covered by National Employment Contracts.

This indicator excludes the employees of the foreign companies based in America (Aeffe USA Inc) and Korea (Moschino Korea Ltd), since the relevant national legislation differs from that applicable in Italy.

c. Training*

**the following data does not include Aeffe USA Inc or Moschino Korea Ltd, which do not have formal training programs*

The Category clusters specified by Decree 254/2016 do not correspond to the clusters used to report data in the financial statements, which reflect the employment categories defined in the relevant National Employment Contracts.

Total annual number of training hours provided to employees, analyzed by job category and gender						
Category	**2017**			**2016**		
	Men	**Women**	**Total**	**Men**	**Women**	**Total**
Executive and senior managers	0	0	**0**	0	8	**8**
Supervisors	33	42	**75**	11	11	**22**
Office staff	634	3.455	**4.089**	958	2.155	**3.113**
Workers	38	338	**376**	48	80	**128**
Total	**705**	**3.835**	**4.540**	**1.017**	**2.254**	**3.271**

The Aeffe Group considers training to be necessary for the growth of talents and the development of key skills by each employee: in this regard, about 40% more hours of training were delivered in 2017 compared with 2016.

Average annual number of training hours provided to each employee, analyzed by job category and gender		
	2017	**2016**
Total number of training hours provided to employees	4.540	3.271
Total number of employees	1.224	1.192
Average hours of training hours provided to each employee	**3,7**	**2,7**
Total number of training hours provided to female employees	3.835	2.254
Total number of female employees	960	938
Average hours of training hours provided to female employees	**4,0**	**2,4**

Total number of training hours provided to male employees	705	1.017
Total number of male employees	264	254
Average hours of training hours provided to male employees	**2,7**	**4,0**
Total number of training hours provided to Executive and senior managers	-	8
Total number of Executive and senior managers	23	24
Average hours of training hours provided to each Executive and senior manager	**-**	**0,3**
Total number of training hours provided to Supervisors	75	22
Total number of Supervisors	59	64
Average hours of training hours provided to each Supervisor	**1,3**	**0,3**
Total number of training hours provided to Office staff	4.089	3.113
Total number of Office staff	849	824
Average hours of training hours provided to each Office staff	**4,8**	**3,8**
Total number of training hours provided to Workers	376	128
Total number of Workers	293	280
Average hours of training hours provided to each Worker	**1,3**	**0,5**

*The above tables were prepared with reference to the actual training provided applying, for the analyses by category and gender, the relevant percentages of the working populations at the companies within the reporting scope.

d. Diversity of employees and governance bodies

The Category clusters specified by Decree 254/2016 do not correspond to the clusters used to report data in the financial statements, which reflect the employment categories defined in the relevant National Employment Contracts.

Workforce						
Category	**2017**			**2016**		
	Men	**Women**	**Total**	**Men**	**Women**	**Total**
Executive and senior managers	15	8	**23**	16	8	**24**
Supervisors	26	33	**59**	25	39	**64**
Office staff	172	739	**911**	166	720	**886**
Workers	51	180	**231**	47	171	**218**
Total	**264**	**960**	**1.224**	**254**	**938**	**1.192**

Members of governance bodies, analysed by gender *						
Governance bodies	**2017**			**2016**		
	Men	**Women**	**Total**	**Men**	**Women**	**Total**
Board of Directors	5	3	8	6	2	**8**
Total	**5**	**3**	**8**	**6**	**2**	**8**

Workforce analysed by age band								
Staff	**2017**				**2016**			
	Under 30	**30-50**	**Over 50**	**Total**	**Under 30**	**30-50**	**Over 50**	**Total**
Executive and senior managers	-	7	16	**23**	-	5	19	**24**
Supervisors	2	35	22	**59**	2	38	24	**64**
Office staff	158	571	182	**911**	142	565	179	**886**
Workers	11	101	119	**231**	7	92	119	**218**
Total	**171**	**714**	**339**	**1.224**	**151**	**700**	**341**	**1.192**

Members of governance bodies, analysed by age band *								
Governance bodies	**2017**				**2016**			
	Under 30	**30-50**	**Over 50**	**Total**	**Under 30**	**30-50**	**Over 50**	**Total**
Board of Directors	-	2	6	**8**	-	2	6	**8**
Total	-	2	6	**8**	-	2	6	**8**

*****_The data for the members of governance bodies relates to the Board of Directors of Aeffe S.p.A._

4. ENVIRONMENT

In compliance with Decree 254/2016, the contents of the NFD for this topic are presented below.

MATERIAL TOPICS	RELATED RISKS	IMPROVEMENT OBJECTIVES
Production and management of waste (hazardous and non-hazardous).	Aeffe management identifies and evaluates the related risk, determining suitable preventive actions. Risks include: - Cause adverse environmental impacts, especially from the poor management of hazardous waste; - Incur monetary fines and penalties; - Loss of reputation.	Although the production and management of waste is a material topic (solely for Aeffe S.p.A. and Pollini S.p.A.), Management has not established any specific improvement objectives as the matter is governed by specific domestic legislation.

POLICY AND MANAGEMENT MODEL

Management is sensitive to the impact that the conduct of individuals might have on the natural environment in which the Group operates, with a view to passing on a more sustainable environment to future generations.

To achieve this, Aeffe strives to adopt solutions that minimize the adverse effects that its activities might have on the environment. In particular:

- *the rational consumption of energy resources over the entire product life cycle, not least via the installation of photovoltaic panels at certain Group locations deemed to have the greatest impact;*
- *the production of waste via the careful management of scrap and product waste;*
- *the reduction of quantities used, as well as the use and reuse of raw materials derived from sustainable sources.*

The factories of Aeffe S.p.A. and Pollini S.p.A. produce waste, classified as “special”, which is treated and disposed of in accordance with current legislation. All waste produced and stored at Group locations is transferred to authorized and appropriately selected waste managers, which arrange to process it, depending on type, in accordance with the environmental legislation currently in force.

RESULTS ACHIEVED*

About 125 tonnes of waste were produced during the year, down by 3.6% with respect to 2016.

The majority of this waste was non-hazardous (124t), while the “special” waste produced solely by Pollini S.p.A. represented just 1% of the total (1t).

** The data only relates to Aeffe S.p.A. and Pollini S.p.A., since the other companies do not produce waste, other than normal urban waste.*

5. HUMAN RIGHTS AND FIGHT AGAINST CORRUPTION

In compliance with Decree 254/2016, the contents of the NFD for this topic are presented below.

<table>
<tr><th>MATERIAL
TOPICS</th><th>RELATED
RISKS</th><th>IMPROVEMENT
OBJECTIVES</th></tr>
<tr><td>- Anti-corruption commitment;
- Safeguarding of human rights.</td><td>Aeffe management identifies and evaluates the related risk, determining suitable preventive actions.
Risks include:
- Risks deriving from non-compliance with or violation of the relevant regulations resulting, for example, in the payment of monetary fines and/or involvement in court cases;
- Risk of court cases linked to failure to safeguard human rights, resulting in loss of reputation;
Risk of lower sales and reduced economic performance.</td><td>- Implementation and verification of respect for all human rights and constant supervision to avoid all possibility of corruption;
- Inclusion of a clause in all types of contract with third parties regarding the commitment of the Aeffe Group to respect human rights and combat corruption.</td></tr>
<tr><th colspan="3">POLICY AND MANAGEMENT MODEL</th></tr>
<tr><td colspan="3">One of the key factors supporting the reputation of Aeffe is the ability of the Group to conduct business with integrity, transparency, legality, impartiality and prudence, in compliance with the law.
Aeffe is committed to tackling, combating and condemning corruption in all its forms, including extortion, bribery and racketeering: pursuit of the interests of or advantages for the Group cannot, under any circumstances, justify unethical, dishonest or illegal conduct. For this reason, the fight against corruption in all its forms, active or passive, is considered to be an unforsakable commitment.
Aeffe promotes respect for work and for workers, striving to abolish child labor and slavery and to assure all workers of the same opportunities to work and grow professionally, as well as fair economic treatment based on meritocratic criteria.
Aeffe S.p.A. and Pollini S.p.A. have adopted an organization, management and control model pursuant to Decree 231/2001 (to which reference is made for further details).
All other companies (Italian and foreign) within the reporting scope operate in compliance with the guidelines and Code of Ethics of Aeffe S.p.A., including those covering the fight against corruption and the safeguarding of human rights, the internal processes for which have all been evaluated.
All new hires are given the Code of Ethics issued by the parent company.</td></tr>
<tr><th colspan="3">RESULTS ACHIEVED</th></tr>
<tr><td colspan="3">No cases of corruption were identified within the reporting scope during 2017.
All members of the Board of Directors of the parent company and all employees have been informed about the policies and protocols in force regarding the fight against corruption.</td></tr>
</table>

6. OTHER MATERIAL TOPICS

In compliance with Decree 254/2016, the contents of the NFD for this topic are presented below.

MATERIAL TOPICS	RELATED RISKS	IMPROVEMENT OBJECTIVES
- Responsible management of the *Supply Chain*; - Responsible product management: o Recyclability of products and packaging o Use of ecological raw materials as defined by SMI; o Attention to quality and safety. o Brand reputation o Customer satisfaction - Financial performance.	Evaluation of related risks: - Loss of image and reputation due to entrusting the process to vendors that do not comply with the Code of Ethics of Aeffe S.p.A. or with current regulations; Contraction of economic results and failure to achieve objectives.	- Vendor selection based increasingly on meritocratic criteria, considering their professionalism, financial strength, code of ethics and compliance with all current regulations; - Constant monitoring and audit of the supply chain, including periodic inspections by Group personnel; - Constant updating of the framework contract that governs the supply relationship in accordance with the new international regulations.

POLICY AND MANAGEMENT MODEL

The Aeffe Group is committed to using raw materials that comply with ecological standards, striving constantly to ensure the quality of products sold and their safety.

This commitment also extends to ensuring compliance with international requirements, even by vendors, adopting a precautionary approach to current challenges and studying the environmental and social impact of products throughout their life cycles.

The industrial processes of the Aeffe Group are managed by the Operating Companies on a Divisional basis; accordingly, R&D, procurement, production and testing are coordinated by the Divisions that, in this way, optimize and supervise relations with each individual vendor.

One of the key characteristics of the procurement of raw materials is rigorous quality control: goods are always delivered to Group companies by their vendors and checked by dedicated internal functions, before being sent to the external workshops responsible for the different phases of the production process. Purchases are made on the basis of projections that take account of the progress made by the sales campaigns, the data for which is updated every week.

Selection depends on identifying the most suitable vendors for each type of raw material, with constant monitoring of their performance in terms of meeting delivery and quality specifications.

The Aeffe Group bases its business strategy on product quality, ensuring implementation by leveraging the skill and professionalism of its human resources to satisfy the differing requirements of stakeholders.

The safety, reliability and high-level performance of the products offered are all fundamental factors, based on constant evolution and innovation, in order to assure customers of the maximum quality and satisfaction.

The Group seeks to promote its business culture, founded on quality and an ethical approach, via constant dialog with its stakeholders. This constant dialog and close collaboration with vendors and customers is fundamental for mutual development and to meet market expectations.

Styling activities are developed via the creation of collections and definition of the key aspects relating to brand image and selection of the messages to be communicated to the public.

One of the principal strengths of the Group is the independence of each *maison* in defining the creative and stylistic aspects: research and experimentation are, in fact, essential parts of the *forma mentis* of each stylist; within the Group, these activities are carried out on a continuous basis and result in constant renewal, with a view to spotting and anticipating latent wishes and new market trends.

The creative development of each product is carried out by the stylist and the styling office, which devise each collection based on their intuition and experience, supported by the information about market trends identified by internal functions within the Group.

All products, whether garments or footwear, carry a label containing information about the composition of the fabrics used and the washing instructions to be followed by the end consumer in order to look after the product properly, as well as the "Made in" information.

RESULTS ACHIEVED

a. Responsible management of the supply chain and sustainable procurement *

** the data relates solely to Aeffe S.p.A. and Pollini S.p.A.*

Vendors analysed by geographical area				
Type of vendors	**2017**		**2016**	
	Number of vendors	**Volume €**	**Number of vendors**	**Volume €**
Other	5	483.597	5	565.258
America	1	28.488	2	106.627
Far East	38	22.709.541	53	24.253.425
India	16	997.443	18	1.085.611
Italy	1.077	82.112.824	948	69.090.986
Rest of Europe	79	9.815.522	81	5.961.658
Total goods	**1.216**	**116.147.414**	**1.107**	**101.063.564**
Other	5	549.510	4	453.600
India	8	828.662	7	839.637
Italy	155	13.643.549	160	13.195.806
Rest of Europe	20	3.205.721	15	2.629.286
Total services	**188**	**18.227.442**	**186**	**17.118.329**
Total vendors	**1.404**	**134.374.857**	**1.293**	**118.181.893**

Vendors analysed by category of product/service				
Type of vendors	2017		2016	
	Number of vendors	Volume €	Number of vendors	Volume €
Accessories and embroidery	284	26.227.541	281	26.718.531
RM purchases	579	26.134.738	494	24.586.535
Packaging	31	2.294.306	26	1.684.735
Finished and semi-finished products	148	53.170.726	139	40.950.246
Purchase of goods	**1.042**	**107.827.312**	**940**	**93.940.047**
Other processing	194	9.202.704	188	7.566.627
Complete cycle	17	4.750.833	12	3.792.867
Making	73	7.214.229	79	7.340.024
Washing	1	74.945	4	215.478
Cleaning	23	1.475.927	19	1.049.428
Printing and embroidery	26	1.886.107	23	1.339.761
Ironing	3	259.273	6	805.924
Cutting	25	1.683.525	22	2.131.737
Purchase of services	**362**	**26.547.543**	**353**	**24.241.846**
Total vendors	**1404**	**134.374.855**	**1293**	**118.181.893**

b. Responsible product management *

** The data relates solely to Aeffe S.p.A. and Pollini S.p.A.*

- Materials

Volume of materials used and percentages of recycled materials used in the production of goods in 2017				
Materials	Total volume (€)	Vol. of material from recycled sources (€)	% recycled materials	Vol. of materials from certified sources (OEKO-TEX) (€)
AEFFE S.P.A				
Cotton	3.152.423	N/A	N/A	N/A

Wool	4.145.008			
Synthetic fibers	3.950.740			
Artificial	4.027.068			
Silk	2.610.608			
Linen	168.430			
Cardboard	672.804	208.334	31,0%	93.854
Plastic	627.112	278.269	44,4%	N/A
POLLINI S.P.A.				
Leather	4.513.891	N/A	N/A	N/A
Metal	3.426.366			
Natural skins	1.088.354			
Cardboard	839.350			
Plastic	294.502			
Total (€)	**29.516.656**	**486.603**	**MEDIA: 37,7%**	**93.854**

- Product health and safety

During the two years examined no non-conformities were found regarding the impact on health and safety of the products offered by the Aeffe Group.

c. Financial performance

The Income Statement of the entire Aeffe Group is presented below, classified in terms of value added.

See the information presented elsewhere in the financial statements for further details.

Economic value generated and distributed		
	31.12.2017	**31.12.2016**
Revenues	312.604.739	280.690.885
Other income	2.627.363	5.748.703
Financial income	173.018	233.379
Total economic value generated by the Group	**315.405.120**	**286.672.966**
Operating costs	- 211.641.664	- 196.286.636

Remuneration of personnel	- 65.376.702	- 63.490.261
Remuneration of lenders	- 2.150.618	- 2.804.857
Remuneration of investors	-	-
Remuneration of the Public Administration*	- 8.252.515	- 4.727.541
Gifts	-	-
Total economic value distributed by the Group	**- 287.421.499**	**- 267.309.295**
Impairment of receivables	- 505.576	- 180.383
Unrealized exchange differences	- 2.099.831	301.644
Adjustments to tangible and intangible assets	-	-
Adjustments to financial assets	- 2.316.749	- 3.153.668
Depreciation and amortization	- 11.559.407	- 11.954.896
Provisions	-	-
Reserves	- 11.502.059	- 4.376.368
Economic value retained by the Group	**- 27.983.622**	**- 19.363.671**

**the remuneration of the Public Administration also includes the change in deferred taxation*

7. GRI STANDARD CORRELATION TABLE

GRI Standard Title	GRI Disclosure Number	GRI Disclosure Title	Page number
GRI 102: General Disclosures 2017 - Organizational profile	**102-1**	Name of the organization	p. 1
	102-2	Activities, brands, products and services.	pp. 6,13-17
	102-3	Location of headquarters	p. 7
	102-4	Locations of operations	pp. 7-9 e p.91
	102-5	Ownership and legal form	p. 91
	102-6	Markets served	p. 91
	102-7	Scale of the organization	p. 89
	102-8	Information on employees and other workers	p. 94

	102-9	Supply chain	p. 100
	102-10	Significant changes to the organization and its supply chain	There were no significant changes to the corporate structure in 2017 with respect to 2016.
	102-12	External initiatives	During 2017, the Group decided to allocate the majority of its charitable donations totaling about 45 thousand euro in favor of health, for the benefit in particular of children (il porto dei piccoli), oncological diseases (Fondazione IEO) and University education (Fondazione RUI). In addition, a contribution of 250 thousand euro was made to MET GALA, an annual fund-raising dinner.
	102-13	Membership of associations	Membership of Confindustria
GRI 102: General Disclosures 2017 - Strategy	**102-14**	Statement from senior decision-maker	p. 2
GRI 102: General Disclosures 2017 - Ethics and integrity	**102-16**	Values, principles, standards and norms of behavior	The Company pursues excellence in serving its customers, with a view to creating value for its shareholders and all other stakeholders, maintaining and developing relations based on the principles of integrity, transparency, legality, impartiality and prudence. These guidelines are included in the Code of Ethics, which is an integral part of the Organization, Management and Control Model pursuant to Decree 231/01, available on the website www.aeffe.com.
GRI 102: General Disclosures 2017 - Governance	**102-18**	Government structure	p. 4
GRI 102: General Disclosures 2017 - Stakeholder engagement	**102-40**	List of stakeholder groups	p. 88
	102-41	Collective bargaining agreements	p. 95
	102-42	Identifying and selecting stakeholders	p. 88
	102-43	Approach to stakeholder engagement	p. 88
GRI 102: General Disclosures 2017 – Reporting practice	**102-45**	Entities included in the consolidated financial statements	p. 89
	102-46	Defining report content and topic boundaries	pp. 87-88
	102-47	List of material topics	pp. 87-88
	102-48	Restatement of information	N.a.
	102-49	Changes in reporting	N.a.

	102-50	Reporting period	01.01.2017 - 31.12.2017
	102-51	Date of most recent report	N.a.
	102-52	Reporting cycle	Annual
	102-54	Claims of reporting in accordance with the GRI standards	p. 87
	102-55	GRI contents index	pp. 104-107
	102-56	External assurance	p.32
GRI 103: Management approach 2017	**103-1**	Explanation of the material topic and its boundary	p. 90
GRI 201: Economic performance 2017	**201-1**	Direct economic value generated and distributed	p. 103-104
GRI 204: Procurement practices 2017	**204-1**	Proportion of spending on local suppliers	pp. 101-103 Partial indicator, in the absence of definitions it was considered preferable to provide the number of suppliers rather than the percentage.
GRI 205: Anti-corruption 2017	**205-1**	Operations assessed for risks related to corruption	pp. 98-99
	205-3	Confirmed incidents of corruption and actions taken	p. 99
GRI 301: Materials 2017	**301-1**	Materials used by weight or volume	p. 101-102
	301-2	Recycled input materials used	pp. 101-102
GRI 306: Effluente and waste 2017	**306-2**	Waste by type and disposal method	p. 97-98 The classification of waste by disposal method has not been provided for this year. The Group will provide this detail in future.
GRI 401: Employment 2017	**401-1**	New employee hires and employee turnover	p.94-95
GRI 403: Occupational health and safety 2017	**403-1**	Workers' representation in formal joint management-worker health and safety committees	p. 93-94
	403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	p. 93-94
	403-3	Workers with high incidence or high risk of diseases related to their occupation	p. 93-94
GRI 404: Training and education 2017	**404-1**	Average hours of training per year per employee	p. 95-96

GRI 405: Diversity and equal opportunity 2017	**405-1**	Diversity of governance bodies and employees	pp. 96-97
GRI 406: Non-discrimination 2017	**406-1**	Incidents of discrimination and corrective actions taken	pp. 91-92, 99
GRI 412-1: Human rights assessments 2017	**412-1**	Operations that have been subject to human rights reviews or impact assessments	The risks relating to human rights have not been the subject of systematic assessment, since all activities are carried out in countries in which the safeguarding of human rights is guaranteed by current local regulations.
GRI 416: Customer health and safety 2017	**416-2**	Incidents of non-compliance concerning the health and safety impacts of products and services	p. 103
GRI 417: Marketing and labeling 2017	**417-1**	Requirements for product and service information and labeling	p. 100-101
GRI 419: Socio-economic compliance 2017	**419-1**	Non-compliance with laws and regulations in the social and economic area	No cases of non-compliance with laws and regulations in the social and economic area

*(in *accordance* with the Referenced level of application)

Independent Auditors' Report

on the consolidated non-financial statement pursuant to article 3, paragraph 10 of Legislative Decree no. 254 of December 30, 2016 and of art. 5 of CONSOB Regulation n. 20267

To the Board of Directors of
AEFFE S.p.A.

Pursuant to article 3, paragraph 10, of the Legislative Decree no. 254 of December 30, 2016 ("Decree") and to article 5 of the CONSOB Regulation n. 20267, we have carried out a limited assurance engagement on the Consolidated Non-Financial Statement of AEFFE S.p.A. and subsidiaries (the "Group") as of December 31, 2017 prepared on the basis of art. 4 of the Decree, and approved by the Board of Directors on March 08, 2018 (hereinafter the "NFS").

Directors' and Board of Statutory Auditors' responsibility on the Consolidated Non-Financial Statement

The Directors are responsible for the preparation of the NFS in accordance with articles 3 and 4 of the Decree and "Global Reporting Initiative Sustainability Reporting Standards" established by GRI - Global Reporting Initiative ("GRI Standards"), with reference to the selection of GRI Standards.
The Directors are also responsible, within the terms established by law, for such internal control as they determine is necessary to enable the preparation of NFS that is free from material misstatement, whether due to fraud or error.

The Directors are moreover responsible for defining the contents of the NFS, within the topics specified in article 3, paragraph 1, of the Decree, taking into account the activities and characteristics of the Group, and to the extent necessary in order to ensure the understanding of the Group's activities, Its trends, performance and the related impacts.

Finally, the Directors are responsible for defining the business management model and the organisation of the Group's activities as well as, with reference to the topics detected and reported in the NFS, for identifying and managing the risks generated or undertaken by the Group.
The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, compliance with the provisions set out in the Decree.

Auditors' Independence and quality check

Our independence is based on the principles of ethics and independence expressed within the Code of Ethics for Professional Accountants (the "Code"), which has been released by the International Ethics Standards Board for Accountants. The Code is based on the principles of integrity, objectivity competency, confidentiality and professional behaviour. Our auditing firm applies the International Standard on Quality Control 1 (ISQC Italia 1) and it maintains a system of quality control that includes directives and procedures concerning the compliance to ethics and professional principles and regulations of the applicable laws.

BDO Italia S.p.A. - Sede Legale: Viale Abruzzi, 94 - 20131 Milano - Capitale Sociale Euro 1.000.000 i.v.
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Auditors' responsibility

Our responsibility is to express our conclusion based on the procedures performed about the compliance of the NFS with the Decree and the GRI Standards. We conducted our work in accordance with the criteria established in the *International Standard on Assurance Engagements 3000 (Revised) ~ Assurance Engagements Other than Audits or Reviews of Historical Financial Information ("ISAE 3000 Revised")*, issued by the International Auditing and Assurance Standards Board (IAASB) for limited assurance engagements. The standard requires the compliance with ethical principles, including independence requirements, and that we plan and perform the engagement to obtain limited assurance whether the report is free from material misstatement. The procedures performed in a limited assurance engagement are less than those performed in a reasonable assurance engagement in accordance with *ISAE 3000 Revised*, and, therefore, do not enable us to obtain assurance that we would become aware of all significant matters and events that might be identified in a reasonable assurance engagement.

The procedures performed on NFS are based on our professional judgement and included inquiries, primarily with company personnel responsible for the preparation of NFS, analysis of documents, recalculations and other procedures aimed to obtain evidence as appropriate.

Specifically we carried out the following procedures:

1. Analysis of relevant topics with reference to the Group's activities and characteristics disclosed in the NFS, in order to assess the reasonableness of the process in place for the selection process in the light of the provisions of art. 3 of the Decree and taking into account the adopted reporting standard.
2. Analysis and assessment of the identification criteria of the consolidation area, in order to assess its compliance to the Decree.
3. If applicable: comparison of data and financial economic information included in the NFS with data and information included in the consolidated financial statements.
4. Understanding of the following matters:
   - Business management model of the Group's activity, with reference to the management of the topics specified by article 3 of the Decree;
   - Policies adopted by the entity in connection with the topics specified by article 3 of the Decree, achieved results and related fundamental performance indicators;
   - Main risks, generated and/or undertaken, in connection with the topics specified by article 3 of the Decree.

   With reference to these matters, we carried out a comparison with the information contained in the NFS and the verifications described in the subsequent point 5, letter a) of this report.
5. Understanding of the processes underlying the origination, recording and management of qualitative and quantitative material information included in the NFS.

   In particular, we carried out interviews and discussions with the management of AEFFE S.p.A. and with the employees of AEFFE S.p.A., Pollini S.p.A. and Moschino S.p.A. We therefore carried out limited documentary verifications, in order to gather information about the processes and procedures which support the collection, aggregation, elaboration and transmittal of non-financial data and information to the department responsible for the preparation of the NFS.

   In addition, for material information, taking into consideration the Group's activities and characteristics:

   - at parent company's level and subsidiaries:
     a) with regards to qualitative information included in the NFS, and specifically with reference to the business management model, policies applied and main risks, we carried out interviews and gathered supporting documentation in order to verify its consistency with the available evidence.
     b) with regards to quantitative information, we carried out both analytical procedures and limited verifications in to ensure, on a sample basis, the correct aggregation of data.

- for the following subsidiaries, divisions and sites (AEFFE S.p.A., Pollini S.p.A., Moschino S.p.A.), which we selected based on their activities, their contribution to the performance indicators at the consolidated level and their location, we carried out site visits, during which we have met their management and have gathered supporting documentation with reference to the correct application of procedures and calculation methods used for the indicators.

Conclusion

Based on the work performed, nothing has come to our attention that causes us to believe that the NFS of the AEFFE Group as of December 31, 2017 is not prepared, in all material respects, in accordance with article 3 and 4 of the Decree and the "Global Reporting Initiative Sustainability Reporting Standards" established by GRI - Global Reporting Initiative ("GRI Standards").

Other matters

The comparative information included in the non financial statement for the year ended December 31,2016 , was not examined by auditors.

Bologna, March 20, 2018

Signed by
BDO Italia S.p.A.

Gianmarco Collico
Partner

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

STATUTORY FINANCIAL STATEMENTS AT 31 DECEMBER 2017

Report on operations

1. ECONOMIC BACKGROUND

Shareholders,

We find it necessary to focus on the main macroeconomic variables in the sphere of which Aeffe S.p.A. has found itself operating.

INTERNATIONAL MACROECONOMIC SITUATION

Economic growth is strong across the main advanced and emerging economies. It is not, however, being accompanied by a recovery in inflation which remains weak. The short-term outlook remains favourable; there is still the risk that a downward adjustment of the prices of financial assets could slow economic activity.

In the third quarter of 2017 economic activity continued to expand in the main advanced economies, while cyclical conditions remained favourable in the final months of the year. For the United States, the latest data point to strong growth. In the United Kingdom, private consumption shows signs of recovery and leading indicators suggest for the last quarter of 2017 a rate of growth in line with the average for the first three. For Japan, the latest cyclical data indicate an acceleration in economic activity in the fourth quarter of 2017. In the emerging countries the recovery under way since the first half of 2017 is continuing. For China, growth was stable in the final months of the year after having exceeded expectations in the previous quarters. GDP growth accelerated during the summer months in India and Brazil.

In the third quarter of 2017, world trade grew by 3.5 per cent, with stronger imports in the euro area and in Asian emerging economies (excluding China).

The risks to the world economy continue to stem from a possible increase in volatility on the financial markets, connected to a sudden intensification of geopolitical tensions

In the euro area the economy continued to grow at a fast pace, driven primarily by foreign demand. Inflation remains modest, reflecting weakness in the core component. The ECB Governing Council's decision to recalibrate its monetary policy instruments was taken to preserve the very favourable financing conditions that are still needed for a sustained return of inflation rates towards levels that are below, but close to, 2 per cent.

Based on the December Eurosystem staff projections, euro-area GDP is expected to grow by 2.3 per cent in 2018 (from 2.4 per cent in 2017).

The new projections for the Italian economy for the three years 2018-20 estimate that GDP expanded by 1.5 per cent in 2017, by 1.4 per cent in the current year and by 1.2 per cent in 2019-20. Economic activity is expected to be mainly driven by domestic demand.

In each of the three years 2018-20 exports are forecast to expand by more than 3 per cent on average, reflecting both the assumptions regarding the favourable performance of international trade and the effects of the appreciation of the euro in recent quarters. The growth of imports, which was especially strong in 2017 before gradually slowing, is expected to mirror developments in productive investment and exports, the two components of demand with the highest imported goods content.

The forecasting scenario assumes that financial conditions continue to be accommodating, with a very gradual adjustment in short- and long-term interest rates, orderly conditions on the government securities markets, and relatively relaxed credit supply conditions. Overall, GDP performance is expected to continue to depend on the support provided by economic policies, albeit to a lesser extent than in the past.

The main risks associated with these projections stem from global conditions and from the performance of the financial markets. An intensification of geopolitical tensions or greater uncertainty surrounding the future course of international economic policies could translate into higher volatility in the financial markets and in risk premiums, with adverse repercussions on the euro-area economy.

Among domestic risks, those connected with the weakness of the banking system and with the potential heightening of uncertainty on the part of households and firms over the strength of the recovery under way have abated compared with past quarters. This scenario, however, relies on the continuation of economic policies capable of fostering long-term economic growth by supporting investment and consumption choices, while also lending credibility to public debt reduction objectives by fully exploiting the upturn in the global economy.

MACROECONOMIC BACKGROUND TO THE CLOTHING SECTOR

The recovery of the segment is partially down to a general increase in consumer confidence: this factor has driven local consumption among Europeans, Americans and Asians, as well as the purchases of Chinese travellers. Another crucial aspect is the return of tourists to Europe with numbers 11% up on last year. In addition to this, there is the constant growth in the online channel, a market now worth the same as the Japanese market.

Growing by 6% at current exchange rates, Europe continues to recover, reestablishing its reputation as the key region for luxury sales. In Japan we are seeing strong growth driven by the currency and the consequent increase in Chinese spending has led to 2% growth at current exchange rates. Chinese luxury customers are increasingly expert and have driven up sales in China by 15%. The rest of Asia (excluding continental China and Japan) has registered strong growth of 6% and the American market (North and South America) has also managed to close the year positively, growing by 2%. In other regions growth remains stable at 1% with the Middle East held back by economic uncertainty. There has been growth of 8% in the Retail channel and multi-brand stores have also performed strongly. However, the figures relating to department stores at global level have been disappointing. The evolving role of the store is reflected by the online channel, which has grown by 24% with the American market alone accounting for almost half of these types of sales (accessories, beauty and hard luxury are among the biggest-selling categories in this channel): this doesn't mean that stores have lost their role but rather that they need to find a way of reinventing themselves.

Bain forecasts strong positive growth which will continue at a constant annual growth rate of between 4% and 5% in the next three years.

The forecasts for 2018 confirm a solid +5%: consistent growth for leather, footwear and accessories (+7%) and for Hard Luxury (5%). Growth also in the area of clothing, perfumes and cosmetics (+4%). All markets are expected to grow with Asia leading the way (+10%), followed by Japan (+5%), Europe and North America (+4%), the latter returning to growth after two difficult years.

2. TREND OF THE COMPANY MANAGEMENT

INCOME STATEMENT

	Esercizio 2017	% on revenues	Esercizio 2016	% on revenues	Change 2017/16	%
REVENUES FROM SALES AND SERVICES	**157,527,014**	**100.0%**	**145,903,311**	**100.0%**	**11,623,703**	**8.0%**
Other revenues and income	5,623,268	3.6%	5,244,463	3.6%	378,805	7.2%
TOTAL REVENUES	**163,150,282**	**103.6%**	**151,147,774**	**103.6%**	**12,002,508**	**7.9%**
Changes in inventory	4,934,794	3.1%	(2,421,624)	(1.7%)	7,356,418	(303.8%)
Costs of raw materials, cons. and goods for resale	(62,094,018)	(39.4%)	(52,763,256)	(36.2%)	(9,330,761)	17.7%
Costs of services	(47,770,721)	(30.3%)	(42,807,543)	(29.3%)	(4,963,178)	11.6%
Costs for use of third parties assets	(15,700,433)	(10.0%)	(16,350,282)	(11.2%)	649,849	(4.0%)
Labour costs	(27,363,982)	(17.4%)	(27,659,494)	(19.0%)	295,513	(1.1%)
Other operating expenses	(1,750,622)	(1.1%)	(1,680,642)	(1.2%)	(69,980)	4.2%
Total Operating Costs	(149,744,982)	(95.1%)	(143,682,842)	(98.5%)	(6,062,139)	4.2%
GROSS OPERATING MARGIN (EBITDA)	**13,405,300**	**8.5%**	**7,464,931**	**5.1%**	**5,940,369**	**79.6%**
Amortisation of intangible fixed assets	(404,459)	(0.3%)	(410,416)	(0.3%)	5,957	(1.5%)
Depreciation of tangible fixed assets	(1,456,414)	(0.9%)	(1,492,381)	(1.0%)	35,967	(2.4%)
Revaluations (write-downs)	(800,000)	(0.5%)	(300,000)	(0.2%)	(500,000)	166.7%
Total Amortisation and write-downs	(2,660,873)	(1.7%)	(2,202,797)	(1.5%)	(458,076)	20.8%
NET OPERATING PROFIT / LOSS (EBIT)	**10,744,427**	**6.8%**	**5,262,135**	**3.6%**	**5,482,293**	**104.2%**
Financial income	638,768	0.4%	395,773	0.3%	242,995	61.4%
Financial expenses	(1,523,221)	(1.0%)	(2,188,671)	(1.5%)	665,450	(30.4%)
Total Financial Income / (expenses)	(884,453)	(0.6%)	(1,792,898)	(1.2%)	908,445	(50.7%)
PROFIT / LOSS BEFORE TAXES	**9,859,974**	**6.3%**	**3,469,237**	**2.4%**	**6,390,738**	**184.2%**
Current income taxes	(3,388,387)	(2.2%)	(2,346,303)	(1.6%)	(1,042,084)	44.4%
Deferred income / (expenses) taxes	345,963	0.2%	591,613	0.4%	(245,650)	(41.5%)
Total Income Taxes	(3,042,424)	(1.9%)	(1,754,690)	(1.2%)	(1,287,734)	73.4%
NET PROFIT / LOSS	**6,817,550**	**4.3%**	**1,714,547**	**1.2%**	**5,103,003**	**297.6%**

Revenues from sales and services

In 2017 revenues amount to EUR 157,527 thousand compared to EUR 145,903 thousand of the year 2016, showing an increase of 8% (8.4% with constant exchange rates). Such increase has mainly interested the brand Moschino and the two owned brands Alberta Ferretti and Philosophy di Lorenzo Serafini.

46% of revenues are earned in Italy while 54% come from foreign markets.

Labour costs

Labour costs move from EUR 27,659 thousand in 2016 to EUR 27,363 thousand in 2017, decreasing by 1.1%.

Gross Operating Margin (EBITDA)

EBITDA moves from 7,465 thousand in 2016 to 13,405 thousand in 2017.

In percentage terms MOL changes from 5.1% in 2016 to 8.5% in 2017.

Net operating profit (EBIT)

Net operating profit moves from 5,262 thousand in 2016 to 10,744 thousand in 2017.

Profit / loss before taxes

Result before taxes rises from EUR 3,469 thousand in 2016 to EUR 9,860 thousand in 2017, showing a growth of EUR 6,391 thousand.

This improvement was due to both revenues growth and lower incidence of the operating costs and financial expenses, in turn closely linked to the Group's business model. In particular, thanks to full exploitation of economies of scale, an increase in sales corresponds to a more than proportional increase in margins.

Net profit / loss

Net result increases from EUR 1,715 thousand in 2016 to EUR 6,818 thousand in 2017, improving for EUR 5,103 thousand.

BALANCE SHEET

(Values in units of EUR)	31 December 2017	31 December 2016	Change 2017/2016	%
Trade receivables	56,076,722	63,925,587	(7,848,865)	(12.3%)
Stock and inventories	33,423,398	28,351,623	5,071,775	17.9%
Trade payables	(73,760,637)	(71,790,444)	(1,970,193)	2.7%
Operating net working capital	**15,739,483**	**20,486,766**	**(4,747,283)**	**(23.2%)**
Other short term receivables	12,973,798	11,699,317	1,274,481	10.9%
Tax receivables	3,571,420	2,425,764	1,145,656	47.2%
Other short term liabilities	(7,682,293)	(7,277,490)	(404,803)	5.6%
Tax payables	(1,824,903)	(5,871,625)	4,046,722	(68.9%)
Net working capital	**22,777,505**	**21,462,732**	**1,314,772**	**6.1%**
Tangible fixed assets	42,230,144	42,870,488	(640,344)	(1.5%)
Intangible fixed assets	3,734,072	3,758,530	(24,458)	(0.7%)
Equity investments	139,858,853	139,408,853	450,000	0.3%
Other fixed assets	2,356,080	6,889,259	(4,533,179)	(65.8%)
Fixed assets	**188,179,149**	**192,927,130**	**(4,747,981)**	**(2.5%)**
Post employment benefits	(3,942,800)	(4,284,423)	341,623	(8.0%)
Provisions	(122,521)	(281,528)	159,007	(56.5%)
Long term not financial liabilities	(694,674)	(761,303)	66,629	(8.8%)
Deferred tax assets	2,565,163	2,279,104	286,059	12.6%
Deferred tax liabilities	(7,483,304)	(7,325,777)	(157,527)	2.2%
NET CAPITAL INVESTED	**201,278,517**	**204,015,935**	**(2,737,418)**	**(1.3%)**
Share capital	25,371,407	25,371,407	-	0.0%
Other reserves	108,939,800	107,251,531	1,688,269	1.6%
Profits/(Losses) carried-forward	2,347,959	2,347,959	-	0.0%
Profits/(Loss) for the period	6,817,550	1,714,547	5,103,003	297.6%
Shareholders' equity	**143,476,716**	**136,685,444**	**6,791,272**	**5.0%**
Cash	(7,612,077)	(2,634,547)	(4,977,530)	188.9%
Long term financial liabilities	22,667,879	25,118,429	(2,450,550)	(9.8%)
Short term financial liabilities	42,745,999	44,846,608	(2,100,609)	(4.7%)
NET FINANCIAL POSITION	**57,801,801**	**67,330,491**	**(9,528,690)**	**(14.2%)**
SHAREHOLDERS' EQUITY AND NET FINANCIAL INDEBTEDNESS	**201,278,517**	**204,015,935**	**(2,737,418)**	**(1.3%)**

NET CAPITAL INVESTED

Net capital invested decreases by 1.3% since 31 December 2016.

Net working capital

Net working capital amounts to EUR 22,778 thousand at 31 December 2017 compared with EUR 21,463 thousand at 31 December 2016.

Changes in the main items included in the net working capital are described below:

- the operating net working capital decreases by 23.2%, 4,747 thousand in absolute terms. Such change is mainly due to the decrease of trade receivables, partially offset by the growth of inventories and payables with third parties as effect of the higher revenues occurred in 2017;
- the sum of other short term receivables and payables changes in all of EUR 1,679 thousand mainly due to higher deferral of sample and stylistic costs;

- the sum of tax receivables and tax payables changes in all of EUR 5,192 thousand. This change is mainly due to the decrease of tax payable for IRES generated in the period by Aeffe S.p.A. and as a consequence of the fiscal consolidation, mostly because of the reduction of the IRES rate, which has been moved from 27.5% in 2016 to 24% in 2017. Such reduction has been partially counterbalanced by the higher V.A.T. Group receivable.

Fixed assets

Fixed assets decrease by EUR 4,748 thousand since 31 December 2016. The changes in the main items are described below:

- tangible fixed assets decrease of EUR 640 thousand as a consequence of:
  - depreciations for EUR 1,457 thousand;
  - disposals for EUR 6 thousand in leasehold improvements;
  - investments for EUR 822 thousand for buildings, leasehold improvements, information tools and general and specific plant and machinery;
- intangible fixed assets decrease of EUR 24 thousand as a consequence of:
  - investments for EUR 419 thousand in software;
  - disposals for 39 thousand in software;
  - amortisations for EUR 405 thousand;
- equity investments increase of EUR 450 thousand after the increase of share capital, through the waiver of financial receivables, towards the subsidiary Aeffe France S.a.r.l.

NET FINANCIAL POSITION

The Company's net financial position moves from EUR 67,330 thousand as of 31 December 2016 to EUR 57,802 thousand as of 31 December 2017. The decrease of net financial position is mainly attributable to the improvement in operating cash flow.

SHAREHOLDERS' EQUITY

Total shareholders' equity increases by EUR 6,791 thousand. The reasons of this increase are widely illustrated in the Explanatory notes.

3. RESEARCH & DEVELOPMENT

Considering the particular nature of our products, research & development activities consist in the continual technical/stylistic renewal of our models and the constant improvement of the materials employed in production.

These costs, totalling EUR 17,869 thousand, have been charged to the 2017 Income Statement.

4. INFORMATION PURSUANT TO POINT 6-BIS OF ART. 2428.3 OF THE ITALIAN CIVIL CODE

Pursuant to point 6-bis of art. 2428.3 of the Italian Civil Code, it is confirmed that the Company does not use financial instruments.

Financing requirements and the related risks are managed by the central treasury.

The principal objective is to ensure that the composition of liabilities and assets remains balanced, so that a high degree of financial strength is maintained.

The average cost of borrowing is essentially linked to 3/6-month EURIBOR plus a spread that principally depends on the type of financial instrument used.

The exchange risk associated with commercial transactions not denominated in the functional currency is hedged by the opening of loans in foreign currency.

Regarding the Company’s objectives and policies on financial risks refer to the information reported in the Notes.

5. INFORMATION ABOUT SHARE CAPITAL

Information about the share capital is provided in the Report on Corporate Governance prepared pursuant to arts. 124 bis of the Consolidated Finance Law and 89 bis of the Consob's Issuers' Regulations, and art. IA2.6 of the related Market Instructions. This report was approved by the Board of Directors on 8 March 2018 and is available in the Governance section of the Company's website: www.aeffe.com.

The following parties hold each more than 3% of the Company's shares as of 31 December 2017:

Main shareholders	%
Fratelli Ferretti Holding S.r.l.	37.387%
I.M. Fashion S.r.l.	24.410%
Tullio Badioli	6.000%
Other shareholders(*)	32.203%

(*) 5.5% of own shares held by Aeffe S.p.A.

6. TREASURY SHARES

As of 31 December 2017, the Company holds 5,876,878 treasury shares, par value EUR 0.25 each, totalling 5.5% of its share capital. During the year no transactions on treasury shares have been carried out by the Company. As of 31 December 2017 the Company does not hold shares of any controlling company either directly or indirectly.

7. TRANSACTIONS BETWEEN GROUP COMPANIES AND WITH RELATED PARTIES

During the period, there were no transactions with related parties, including intragroup transactions, which qualified as unusual or atypical. Any related party transactions formed part of the normal business activities of companies in the Group. Such transactions are concluded at standard market terms for the nature of goods and/or services offered.

Information on transactions with related parties, including specific disclosures required by the Consob Communication of 28 July 2006, is provided in Notes 36 and 37 of the Financial Statements at 31 December 2017.

8. INFORMATION RELATIVE TO PERSONNEL AND THE ENVIRONMENT

Regarding the information relative to personnel and environment, please refer to the indicated in the consolidated non-financial statement.

9. SIGNIFICANT EVENTS OF THE PERIOD

No significant events have to be reported for the period.

10. SIGNIFICANT EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

Subsequent to the balance sheet date, no significant events regarding the Company's activities have to be reported.

11. OUTLOOK

The Financial year 2017 was characterized by double-digit growth in revenues and a more than proportional increase in profitability, results achieved thanks to the good performance of our brands, especially the proprietary ones and an effective business model. The Company's medium/long-term strategic goals are on the development of highly distinctive collections with a focus on a calibrated strengthening of our presence in high-potential markets, especially in the Greater China and Asia Pacific areas. Considering the Company's vitality and the positive feedbacks on the ongoing Fall/Winter 2018-2019 collections sales campaign, we feel confident about the further development and consolidation of our brands in 2018.

12. PROPOSALS TO APPROVE THE FINANCIAL STATEMENTS AND ALLOCATE THE RESULT FOR THE YEAR 2017

Shareholders,
In presenting the financial statements as of 31 December 2017 for your approval, we propose to allocate the profit of the year of EUR 6,817,550 as follows:

- legal reserve EUR 340,877
- extraordinary reserve EUR 6,476,673

08 March 2018

For the Board of Directors

Chairman Massimo Ferretti

Financial Statements

BALANCE SHEET ASSETS (*)

(Values in units of EUR)	Notes	31 December 2017	31 December 2016	Change 2017/16
NON-CURRENT ASSETS				
Intangible fixed assets				
Trademarks		3,148,672	3,274,434	(125,762)
Other intangible fixed assets		585,400	484,096	101,304
Total intangible fixed assets	(1)	3,734,072	3,758,530	(24,458)
Tangible fixed assets				
Lands		16,944,871	16,944,871	-
Buildings		21,871,389	22,370,366	(498,977)
Leasehold improvements		1,206,481	1,288,435	(81,954)
Plant and machinary		1,528,038	1,682,299	(154,261)
Equipment		62,959	46,406	16,553
Other tangible fixed assets		616,406	538,111	78,295
Total tangible fixed assets	(2)	42,230,144	42,870,488	(640,344)
Other fixed assets				
Equity investments	(3)	139,858,853	139,408,853	450,000
Other fixed assets	(4)	2,356,080	6,889,259	(4,533,179)
Deferred tax assets	(5)	2,565,163	2,279,104	286,059
Total other fixed assets		144,780,096	148,577,216	(3,797,120)
TOTAL NON-CURRENT ASSETS		**190,744,312**	**195,206,234**	**(4,461,922)**
CURRENT ASSETS				
Stocks and inventories	(6)	33,423,398	28,351,623	5,071,775
Trade receivables	(7)	56,076,722	63,925,587	(7,848,865)
Tax receivables	(8)	3,571,420	2,425,764	1,145,656
Cash	(9)	7,612,077	2,634,547	4,977,530
Other receivables	(10)	12,973,798	11,699,317	1,274,481
TOTAL CURRENT ASSETS		**113,657,415**	**109,036,839**	**4,620,576**
TOTAL ASSETS		**304,401,727**	**304,243,073**	**158,654**

(*) Pursuant to Consob Resolution no. 15519 dated 27 July 2006, the effects of transactions with related parties on the balance sheet of Aeffe S.p.A. are shown in Attachment IV and described in Notes 36 and 37.

BALANCE SHEET LIABILITIES (*)

(Values in units of EUR)	Notes	31 December 2017	31 December 2016	Change 2017/16
SHAREHOLDERS' EQUITY				
Share capital		25,371,407	25,371,407	-
Share premium reserve		71,240,251	71,240,251	-
Other reserves		26,558,081	24,929,262	1,628,819
Fair Value reserve		7,742,006	7,742,006	-
IAS reserve		1,085,602	1,085,602	-
Legal reserve		2,994,800	2,909,073	85,727
Remeasurement of defined benefit plans reserve		(680,940)	(654,663)	(26,277)
Profits / (Losses) carried-forward		2,347,959	2,347,959	-
Net profit / loss		6,817,550	1,714,547	5,103,003
TOTAL SHAREHOLDERS' EQUITY	**(11)**	**143,476,716**	**136,685,444**	**6,791,272**
NON-CURRENT LIABILITIES				
Provisions	(12)	122,521	281,528	(159,007)
Deferred tax liabilities	(5)	7,483,304	7,325,777	157,527
Post employment benefits	(13)	3,942,800	4,284,423	(341,623)
Long term financial liabilities	(14)	22,667,879	25,118,429	(2,450,550)
Long term not financial liabilities	(15)	694,674	761,303	(66,629)
TOTAL NON-CURRENT LIABILITIES		**34,911,178**	**37,771,461**	**(2,860,283)**
CURRENT LIABILITIES				
Trade payables	(16)	73,760,637	71,790,444	1,970,193
Tax payables	(17)	1,824,903	5,871,625	(4,046,722)
Short term financial liabilities	(18)	42,745,999	44,846,608	(2,100,609)
Other liabilities	(19)	7,682,293	7,277,490	404,803
TOTAL CURRENT LIABILITIES		**126,013,832**	**129,786,168**	**(3,772,335)**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**304,401,727**	**304,243,073**	**158,654**

(*) Pursuant to Consob Resolution no. 15519 dated 27 July 2006, the effects of transactions with related parties on the balance sheet of Aeffe S.p.A. are shown in Attachment V and described in Note 36 and 37.

INCOME STATEMENT (*)

(Values in units of EUR)	Notes	Full year 2017	Full year 2016
REVENUES FROM SALES AND SERVICES	**(20)**	**157,527,014**	**145,903,311**
Other revenues and income	(21)	5,623,268	5,244,463
TOTAL REVENUES		**163,150,282**	**151,147,774**
Changes in inventory		4,934,794	(2,421,624)
Costs of raw materials, cons. and goods for resale	(22)	(62,094,018)	(52,763,256)
Costs of services	(23)	(47,770,721)	(42,807,543)
Costs for use of third parties assets	(24)	(15,700,433)	(16,350,282)
Labour costs	(25)	(27,363,982)	(27,659,494)
Other operating expenses	(26)	(1,750,622)	(1,680,642)
Amortisation and write-downs	(27)	(2,660,873)	(2,202,797)
Financial Income / (expenses)	(28)	(884,453)	(1,792,898)
PROFIT / LOSS BEFORE TAXES		**9,859,974**	**3,469,237**
Income Taxes	(29)	(3,042,424)	(1,754,690)
NET PROFIT / LOSS		**6,817,550**	**1,714,547**

(*) Pursuant to Consob Resolution no. 15519 dated 27 July 2006, the effects of transactions with related parties on the income statement of Aeffe S.p.A. are shown in the income statement presented in Attachment VI and described in Notes 36 and 37.

COMPREHENSIVE INCOME STATEMENT

(Values in units of EUR)	Notes	Full Year 2017	Full Year 2016
Profit/(loss) for the period (A)		**6,817,550**	**1,714,547**
Other comprehensive income that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit plans		(26,277)	(69,520)
Income tax relating to components of Other comprehensive income that will not be reclassified subsequently to profit or loss		-	-
Total other comprehensive income that will not be reclassified subsequently to profit or loss, net of tax (B1)		**(26,277)**	**(69,520)**
Other comprehensive income that will be reclassified subsequently to profit or loss:			
Gains/(losses) on cash flow hedges		-	-
Gains/(losses) on exchange differences on translating foreign operations		-	-
Income tax relating to components of Other Comprehensive income / (loss)		-	-
Total other comprehensive income that will be reclassified subsequently to profit or loss, net of tax (B2)		**-**	**-**
Totale Other comprehensive income, net of tax(B1)+(B2)=(B)		**(26,277)**	**(69,520)**
Total Comprehensive income / (loss) (A) + (B)		**6,791,273**	**1,645,027**

CASH FLOW STATEMENT (*)

(Values in thousands of EUR)	Notes	Full Year 2017	Full Year 2016
OPENING BALANCE		**2,633**	**1,339**
Profit before taxes		9,860	3,469
Amortisation		2,661	2,203
Accrual (+)/availment (-) of long term provisions and post employment benefits		(501)	(38)
Paid income taxes		(7,435)	2,162
Financial income (-) and financial charges (+)		884	1,793
Change in operating assets and liabilities		2,083	2,506
CASH FLOW (ABSORBED)/ GENERATED BY OPERATING ACTIVITY	**(30)**	**7,552**	**12,095**
Increase (-)/ decrease (+) in intangible fixed assets		(380)	(282)
Increase (-)/ decrease (+) in tangible fixed assets		(816)	(1,072)
Investments (-)/ Disinvestments (+)		(450)	(400)
CASH FLOW (ABSORBED)/ GENERATED BY INVESTING ACTIVITY	**(31)**	**(1,646)**	**(1,754)**
Other variations in reserves and profits carried-forward of shareholders' equity		(26)	(70)
Proceeds (+)/repayments (-) of financial payments		(4,551)	(8,451)
Increase (-)/ decrease (+) in long term financial receivables		4,533	1,267
Financial income (+) and financial charges (-)		(884)	(1,793)
CASH FLOW (ABSORBED)/GENERATED BY FINANCING ACTIVITY	**(32)**	**(929)**	**(9,047)**
CLOSING BALANCE		**7,610**	**2,633**

(*) Pursuant to Consob Resolution no. 15519 dated 27 July 2006, the effects of transactions with related parties on the cash flows of Aeffe S.p.A. are shown in the cash flow statement presented in Attachment VII and described in Notes 36 and 37.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Values in thousands of EUR)	Share capital	Share premium reserve	Other reserves	Fair Value reserve	IAS reserve	Legal reserve	Remeasurement of defined benefit plans reserve	Profits / (Losses) carried-forward	Net profit / loss	Total shareholders' equity
BALANCES AT 1 January 2016	**25,371**	**71,240**	**24,057**	**7,742**	**1,086**	**2,863**	**(586)**	**2,348**	**919**	**135,040**
Allocation of 2015 profit			873			46			(919)	-
Total comprehensive income/(loss) of 2016							(70)			(70)
Profit/(loss) of 2016									1,715	1,715
BALANCES AT 31 December 2016	**25,371**	**71,240**	**24,930**	**7,742**	**1,086**	**2,909**	**(656)**	**2,348**	**1,715**	**136,685**

(Values in thousands of EUR)	Share capital	Share premium reserve	Other reserves	Fair Value reserve	IAS reserve	Legal reserve	Remeasurement of defined benefit plans reserve	Profits / (Losses) carried-forward	Net profit / loss	Total shareholders' equity
BALANCES AT 1 January 2017	**25,371**	**71,240**	**24,930**	**7,742**	**1,086**	**2,909**	**(656)**	**2,348**	**1,715**	**136,685**
Allocation of 2016 profit			1,629			86			(1,715)	-
Total comprehensive income/(loss) of 2017							(26)			(26)
Profit/(loss) of 2017									6,818	6,818
BALANCES AT 31 December 2017	**25,371**	**71,240**	**26,558**	**7,742**	**1,086**	**2,995**	**(681)**	**2,348**	**6,818**	**143,477**

Report of the Board of Statutory Auditors to the Shareholders' Meeting of AEFFE S.p.A. on the 2017 financial statements

issued pursuant to article 153 of Italian Legislative Decree 58/98 and art. 2429, paragraph 3 of the Italian Civil Code.

Shareholders,

Pursuant to art. 153 of Decree 58 dated 24th February 1988, and in compliance with current regulations, the Board of Statutory Auditors has prepared this report to the Shareholders' Meeting on the work performed and on any omissions and censurable facts that were identified.

This Control Body was appointed, with its current members, at the Shareholders' Meeting held on 12th April 2017.

During the year ended 31st December 2017, the Board of Statutory Auditors performed the supervisory activities required by law and, in particular, by art. 149 of Decree 58/1998, as well as by the rules of conduct issued by the Italian Accounting Profession and by the CO.N.SO.B recommendations on corporate governance and the verification work carried out by the Board of Statutory Auditors, as supplemented by the provisions of art. 8 of the Code of self-regulation issued by the Corporate Governance Commission.

* * *

The members of the Board of Statutory Auditors have complied with the limit on the number of appointments specified in art. 23.2 of the Company's articles of Association, art. 148 *bis* of Decree 58/98 and the Issuers' Regulation, as modified by CO.N.SO.B Decision 18671 dated 8th December 2013, and made the required disclosures during the year.

The Shareholders' Meeting held on 13th April 2016 appointed RIA Grant Thornton S.p.A. to perform the legal audit of the accounts pursuant to Decree 58/1998 "Consolidated Finance Law" and Decree 39/2010. Reference is made to the report issued by that auditing Firm.

This report was prepared in conformity with the current regulations applying to listed companies, in compliance with CO.N.SO.B Communication DEM/1025564 dated 6th April 2001, given that the shares of AEFFE S.p.A. are traded in the STAR segment of the market managed by Borsa Italiana.

The accounting policies adopted for the preparation of the 2017 financial statements reflect the established international standards (I.A.S./I.F.R.S.), pursuant to art. 2 of Decree 38/2005.

* * *

With regard to the performance of the supervisory activities required of the Board of Statutory Auditors, it confirms that, among other work, we:

- ✓ attended the Shareholders' Meetings and the meetings of the Board of Directors held during the year, obtaining from the Directors - in compliance with art. 150, para. 1, of Decree 58 dated 24th February 1998 and art. 19.2 of the articles of association - timely and appropriate information about the general results of operations and the outlook for the future, as well as about the principal transactions, having regard for their nature and size, carried out by the Company and its subsidiaries;
- ✓ obtained the information needed to perform our work regarding compliance with the law and the articles of Association, compliance with the principles of proper administration and the adequacy of the Company's organizational structure, by direct investigation, by gathering information from the managers of the functions concerned, by periodic exchanges of information both with the Firm appointed to perform the annual legal audit of the separate and consolidated financial statements, and with the Supervisory Body, and by attending the meetings of the Audit Committee;

- ✓ checked the functioning and effectiveness of the systems of internal control, holding regular meetings with the internal audit Manager and focusing attention on the adequacy of the administrative and accounting system with regard, in particular, to the reliability with which it presents fairly the results of operations, and extending our checks to several internal procedures;
- ✓ performed the functions attributed to the Board of Statutory Auditors by art. 19 of Decree 39/2010. In this context, we: *i)* noted the information provided to us regarding the quarterly checks on the proper keeping of the accounting records carried out by the Firm appointed to perform the legal audit of the accounts; *ii)* received from that auditing Firm the Report envisaged in arts. 14 of Decree 39/2010 and art. 10 of EU Regulation 537/2014; *iii)* received the "*Annual confirmation of independence*" from the auditing Firm pursuant to arts. 10 and 17 of Decree 39/2010; *vi)* read the 2017 transparency report published on the institutional website at: http://www.ria-grantthornton.it/globalassets/1.-member-firms/italy-ria/pdf/transparency-report/report-di-trasparenza-2017-def.pdf;
- ✓ monitored the functioning of the system of control over Group companies and the adequacy of the instructions given to them, not least pursuant to art. 114, para. 2, of Decree 58/1998;
- ✓ noted the preparation of the Compensation Report required by art. 123 *ter* of Decree 58 dated 24th February 1998 and art. 84 *quarter* of CO.N.SO.B Regulation 11971/1999 ("Issuers' Regulation"), without having any particular observations to make;
- ✓ checked the consistency of the amendments made to the articles of association with the requirements of the law and current regulations, including Law 120 dated 12th July 2011 that added arts. 147 *ter* and 148 to Decree 58 dated 24th February 1998 concerning gender balance on the Board of Directors and the Board of Statutory Auditors of listed companies, with which the Company complies;
- ✓ monitored actual implementation of the Code of self-regulation promoted by Borsa Italiana SpA that, as a result of the amendments made on 9th July 2015, incorporates EU Recommendation 208/2014 and CO.N.SO.B Communication DCG/DSR/0051400 dated 19th June 2014, essentially adopting the principles of and guidance on corporate social responsibility prevailing in Europe and internationally and, therefore, aligning the Code with the relevant international legal framework and strengthening the checks made on corporate functions to ensure greater application in practice of the principles of legality and transparency.
- ✓ monitored compliance by the internal procedure for transactions with related parties with the principles indicated in the Regulation approved by CO.N.SO.B Decision 17221 dated 12th March 2010 and subsequent amendments, as well as compliance with such procedure pursuant to art. 4, para. 6, of the above Regulation;
- ✓ checked compliance with the laws and regulations concerning the format and preparation of the Company's separate and consolidated financial statements, as well as the related accompanying documentation.
- ✓ checked that the separate and consolidated financial statements are accompanied by the required attestations of conformity signed by the Chief Executive Officer who is also the executive Responsible for preparing the Company's accounting documentation pursuant to Law 262 dated 28th December 2005;
- ✓ checked that the Directors' Report on operations during 2017 complies with current laws and regulations, and is consistent with the resolutions adopted by the Board of Directors and the facts reported in the separate and consolidated financial statements, noting that the consolidated half-year report did not require any particular comments from the Board of Statutory Auditors and confirming that the Quarterly Reports and the Half-year Report were published in accordance with current laws and regulations;
- ✓ supervised the process of preparing the Company's financial information, as well as the process of non-financial reporting, applied in the Report prepared by the Directors, in compliance with the provisions of Directive 2014/95 / EU implemented in Italian law by Legislative Decree no. n. 254/2016, and verified in content, with respect to the reference standards, by the BDO Italia S.p.A..

* * *

The specific information to be presented in this Report, pursuant to the CO.N.SO.B Communication DEM/1025564 dated 6th April 2001 and subsequent amendments, is provided below.

1. The information gathered and analyses carried out by the Board of Statutory Auditors did not identify any transactions approved by the Board of Directors of special economic and financial significance, whether carried out directly or via subsidiaries.

We refer to the Directors' Report for information about any transactions not related to the economic and financial context.

2. The Directors' Report highlights, pursuant to CO.N.SO.B Communication DEM/6064293, that the Company has not arranged any atypical and/or unusual transactions with third parties, group companies or related parties, and that there have not been any other significant economic or financial transactions.

3. The characteristics of the intercompany and related-party transactions carried out during 2017, the parties involved and the related economic effects are appropriately described in the section on "Intercompany transactions" contained in para. 40 of the Report on operations. Further information on intercompany transactions is contained in the 2017 Consolidated Financial Statements, to which this Board refers.

The incidence of related-party transactions is analyzed below in comparison with those carried out in the prior year.

(Values in thousands of EUR)	Balance Full Year	Value rel. party 2017	%	Balance Full Year	Value rel. party 2016	%
Incidence of related party transactions on the income statement						
Revenues from sales and services	312,605	1,350	0.4%	280,691	1,247	0.4%
Costs of services	91,039	824	0.9%	81,289	374	0.5%
Costs for use of third party assets	23,340	2,553	10.9%	22,847	2,552	11.2%
Financial Income / expenses	3,758	123	3.3%	1,754	126	7.2%
Incidence of related party transactions on the balance sheet						
Non current financial receivables	2,592	1,752	67.6%	3,391	2,131	62.8%
Trade receivables	42,065	1,039	2.5%	40,711	1,231	3.0%
Current financial receivables	1,420	1,000	70.4%	2,236	1,000	44.7%
Trade payables	68,619	205	0.3%	61,881	253	0.4%
Incidence of related party transactions on the cash flow						
Cash flow (absorbed) / generated by operating activities	17,239	(1,760)	n.a.	10,722	(1,788)	n.a.
Cash flow (absorbed) / generated by financing activities	(5,117)	379	n.a.	(3,889)	(100)	2.6%
Incidence of related party transactions on the indebtedness						
Net financial indebtedness	(50,593)	(1,381)	2.7%	(59,507)	(1,888)	3.2%

The routine intercompany and related-party transactions were mostly commercial transactions carried out on market terms, in compliance with the transfer pricing rules.

All parties involved were either affiliate companies or subsidiaries and their subsidiaries and/or affiliate companies.

In general, the related-party transactions examined by the Board of Statutory Auditors were deemed to be reasonable and in the interests of the Company.

Pursuant to art. 4, para. 6, of the CO.N.SO.B regulation approved by Decision 17221/2010, we confirm that the Board of Statutory Auditors has monitored the consistency of the procedure adopted by the Company with the principles indicated in the document entitled "*Settlement of transactions with related parties*", and its effective application.

4. Following completion of the verification and audit work performed, RIA Grant Thornton S.p.A. has today issued its auditors' Reports on the financial statements for the year ended 31st December 2017 pursuant to art. 14 of Decree 38 dated 27th January 2010 and art. 10 of EU Regulation 537/2014, certifying that: *i)* the separate and consolidated financial statements of the Company at 31st December 2017 have been prepared clearly and present a true and fair view of the financial position, the results of operations and the other components of comprehensive income, and the cash flows of the Company and the Group; *ii)* the Report on operations and the information required by art. 123 *bis*, para. 4, of Decree 58/1998, contained in the Report on Corporate Governance and the Ownership Structure, is consistent with the separate financial statements of the Company and the consolidated financial statements of the Group.

The report issued by the auditing Firm on the 2017 financial statements does not contain any observations and/or qualifications or, indeed, any emphasis of matter.

5. During 2017, the Board of Statutory Auditors did not receive any complaints pursuant to art. 2408 of the Italian Civil Code.

6. The Board of Statutory Auditors has not received any statements from third parties.

7. Other than the appointment to perform the legal audit of the accounts of certain group companies, the Company did not engage RIA Grant Thornton S.p.A. to carry out any additional activities during 2017.

8. The Board of Statutory Auditors has monitored the independence of the auditing Firm, pursuant to art. 19, letter e), of Decree 39/2010 and otherwise, checking compliance with the related regulations and compatibility with the legal restrictions placed on the provision of non-audit services to the Company and its subsidiaries, identifying that no work was given during the year to parties belonging to the same network as that of the auditing Firm.

9. During 2017, the Board of Statutory Auditors did not release any opinions required by law.

10. In the performance of its functions and in order to obtain the information needed to carry out its supervisory duties, the Board of Statutory Auditors:

✓ met regularly and prepared 8 reports on the work performed, 6 of which were prepared by the current members of this Control Body;

✓ attended all 6 meetings of the Board of Directors, obtaining from the Directors a continuous flow of information about the activities performed and the principal economic, financial and equity transactions carried out by the Company and its Subsidiaries;

✓ attended, in the person of the Chairman of the Board of Statutory Auditors or another authorized Serving Auditor, all the meetings of the Audit Committee and the Remuneration Committee;

✓ attended the only Shareholders' Meeting, held on 12th April 2017;

✓ maintained relations with the equivalent Boards of the Subsidiary companies, pursuant to art. 151 of Decree 58/1998, via both periodic consultations and a joint meeting with them;

✓ attended, represented by one of the Serving Auditors as a permanent member, the meetings of the Supervisory Body established to monitor the Organizational Model envisaged by Law 231/2001, as discussed further below.

11. The Board of Statutory Auditors has obtained information about and monitored compliance with the law and the articles of Association, ensuring that the transactions decided and implemented by the Directors were in compliance with the law and the articles of Association, were founded on the principles of economic rationality and were not obviously imprudent or risky, in conflict with the interests of the Company, in contrast with the resolutions adopted at the Shareholders' Meeting, or likely to jeopardize the net assets of

the Company, concluding that the governance tools and procedures adopted by the Company represent a valid approach to ensuring operational compliance with the principles of proper administration.

12. With regard to the adequacy of the organizational structure of the Company and the Group, the monitoring work performed by the Board of Statutory Auditors involved obtaining a knowledge of the organizational structure and gathering information from the various responsibility centers concerned, as well as meetings with the Managers of the various business functions; meetings with the internal audit Manager, and periodic meetings with the auditing Firm for a mutual exchange of information.

In this regard, with reference to the powers and mandates granted, the Board of Statutory Auditors has determined that:

- ✓ the Board of Directors is responsible for managing the Company, directly and via the mandates granted to other Bodies;
- ✓ pursuant to the articles of Association, the Chairman and the Vice Chairman as deputy represent the Company legally in dealings with third parties and in judgment;
- ✓ the Chairman holds operational powers and performs institutional, directive and control duties;
- ✓ the Chief Executive Officer exercises wide powers for the management of the Company.

13. In terms of supervising the adequacy and effectiveness of the system of internal control, pursuant to art. 19 of Decree 39/2010 and otherwise, as previously mentioned, the Board of Statutory Auditors held periodic meetings with the internal audit manager and the managers of other business functions and also attended, via the presence of Serving Auditors, the meetings of the Audit Committee and the Supervisory Body for the Organizational Model envisaged by Decree 231/2001.

The Board of Statutory Auditors considers the system of internal control adopted by the Company to be adequate, comprising a structured and organic set of rules and organizational procedures that encompass the entire Company. Their purpose is to prevent or limit the consequences of unexpected results and allow the strategic and operational objectives to be achieved by ensuring the consistency of the activities with the objectives, the efficiency and effectiveness of the activities, and the safeguarding of the Company's net assets, and ensure compliance with the applicable laws and regulations, as well as proper and transparent reporting, both internally and to the market.

The Board of Directors is responsible, with support from the Audit Committee for: *i)* establishing guidelines for the system of internal control; *ii)* examining periodically the principal business risks identified by the Chief Executive Officer, who is also responsible for implementing the guidelines for the system of internal control, and *iii)* assessing the adequacy, effectiveness and practical functioning of the system of internal control.

The system of internal control includes an internal audit function whose role is to assist the Board of Directors and the Audit Committee, as well as the management of the Company. The Board of Directors has given the internal audit manager the task of assessing the adequacy and effectiveness of the overall system of internal controls. The activities of this function principally include implementing an annual audit and compliance-testing plan, as well as monitoring the actual adoption of the recommendations made by performing follow-up work.

The Group also uses other tools to monitor its operational and compliance objectives. These include a structured and periodic system of planning, management control and reporting, as well as a structure for the governance of financial risks.

The Company has approved the organizational model envisaged by Decree 231/2001 ("Model 231"), the purpose of which is to impede the commission of significant offenses, as defined in that Decree, and, consequently, to mitigate, if not eliminate, the administrative responsibility of the Company for such offenses. Commencing from an analysis of business activities designed to identify those potentially at risk, the Model 231 adopted comprises a set of general principles, rules of conduct, control tools, organizational procedures, training and information-providing activities, and disciplinary systems intended to ensure, to the extent possible, that the commission of criminally-significant offenses is prevented.

The Board of Directors has appointed a Supervisory Body tasked with monitoring the proper functioning of the Model 231 and keeping it updated.

The Board of Statutory Auditors has received and analyzed the periodic reports prepared for the Board of Directors by the Audit Committee and the Supervisory Body and has no observations to make.

14. As required by law and after obtaining the opinion from the Board of Statutory Auditors, the Board of Directors has appointed an Executive responsible for preparing the company's accounting documentation, who was granted the powers and functions envisaged by law and appropriate powers and resources to performed the related tasks.

The Company has adopted the "*Accounting control model*" envisaged by Law 262/2005, with a view to defining guidelines for application throughout Group concerning the obligations, arising under art. 154 *bis* of Decree 58/1998, to prepare corporate accounting documents and give the related attestations.

The Board of Statutory Auditors has taken note of the attestations given by the Chairman of the Board of Directors and the Executive responsible for preparing the company's accounting documentation regarding the adequacy in relation to the characteristics of the business and the effective application of the administrative and accounting procedures for preparing the separate and consolidated financial statements.

15. The Board of Statutory Auditors has monitored the adequacy, without identifying any exceptions, of the instructions given by the Company to its subsidiaries pursuant to art. 114, para. 2, of Decree 58/98, so that they provide the information needed to satisfy the disclosure requirements envisaged by law.

16. The periodic meetings between the Board of Statutory Auditors and the Firm appointed to perform the legal audit of the accounts, pursuant to art. 150, para. 3, of Decree 58/1998, did not identify any matters that are considered necessary to highlight in this Report.

17. In terms of checking the way the corporate governance rules are actually implemented, as envisaged by the current Code of self-regulation issued by Borsa Italiana, the Board of Statutory Auditors performed this work with assistance from the manager of the Corporate Governance Office.

The Board of Directors in office from 12th April 2017 comprises 8 members, including 4 non-executive Directors, of whom 3 were qualified as independent by the Board with reference to the declarations made by them and as monitored by the Board of Directors in accordance with the Code of self-regulation.

When co-opting both Directors and Members of the Board of Statutory Auditors, the requirement to maintain the "gender balance" of Corporate Bodies has been respected.

The Board of Statutory Auditors has made the assessments required of it, identifying proper application of the criteria and procedures adopted by the Board of Directors to verify the independence status of the individual directors and compliance with the requirements for the composition of the Board taken as a whole.

In addition, the Board of Statutory Auditors has checked that the Serving Auditors meet the same independence requirements expected of the directors and has adopted the recommendations of the Code and relevant regulations, which require a declaration to be made and sent to the Board about any personal interest or interest on behalf of third parties in specific transactions presented to the Board of Directors. In this regard, it is confirmed that no situations arose in 2017 for which the members of the Board of Statutory Auditors had to make such declarations.

Reference is made to the Report on Corporate Governance and the Ownership Structure for further information about the corporate governance of the Company. The Board of Statutory Auditors has no observations to make to the Shareholders' Meeting in this regard.

As stated, the Company has adopted the Code of self-regulation issued by the Committee for the corporate governance of companies listed in the STAR segment.

18. Lastly, the Board of Statutory Auditors has performed checks on compliance with the laws governing the preparation of the draft separate financial statements and the consolidated financial statements at 31st December 2017, the respective Explanatory Notes and the accompanying Directors' Report, both directly and with assistance from function Managers, as well as with reference to the information obtained from the auditing Firm.

No omissions, censurable facts or irregularities perpetrated by the Corporate Bodies were identified during the supervisory activities carried out by the Board of Statutory Auditors.

It is confirmed that the accounting policies adopted for the preparation of the separate and consolidated financial statements at 31st December 2017 reflect the IFRS (International Financial Reporting Standards) issued by the International Accounting Standards Board.

19. With regard to art. 153, para. 2, of Decree 58/98, the Board of Statutory Auditors has no particular proposals to present to the shareholders' meeting.

As described above, the supervision and control activities carried out by the Board of Statutory Auditors did not identify any significant matters worth mentioning in the Report to the Meeting, or reporting to the supervisory and control Bodies.

Based on all of the above, in conclusion to the supervisory activities performed during the year, the Board of Statutory Auditors has no observations to make pursuant to art. 153 of Decree 58/1998 concerning the matters for which it is responsible regarding the financial statements, the related Explanatory Notes and the adequacy of the information contained in the Report on operations, and concurs with the recommendation made by the Board of Directors to the Shareholders' Meeting concerning the allocation of the results for the year.

San Giovanni in Marignano, 21 March 2018

For the Board of Statutory Auditors
The President
Angelo MIGLIETTA

"Free translation from the original in Italian".

Ria
Grant Thornton

Independent auditors' report
in accordance with at. 14 of Legislative Decree
n. 39 of January 27, 2010 and art. 10 of Regulation (EU) n. 537/2014

Ria Grant Thornton S.p.A.
San Donato, 197
40127 Bologna

T +39 051 6045911
F +39 051 6045999

To the shareholders of
Aeffe S.p.A.

Report on the Audit of the financial statements

Opinion

We have audited the financial statements of Aeffe S.p.A. (the Company), which comprise the statement of financial position as at December 31, 2017, the statement of income, the statement of comprehensive income, the statement of changes in shareholders' equity, the statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at December 31, 2017 and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n.38 dated February 28, 2005.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical and independence requirements applicable in Italy to audit of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Equity investments

The statutory financial statements include equity investments of Euro 139,9 Millions as of 31st December 2017.

As described in Explanatory notes, investments in subsidiary and associated companies are recorded at historical cost, and subsequently written down by any impairment recognized pursuant to IAS 36. Their original value is reinstated in subsequent years if the reasons for write-downs cease to apply.

As for the previous periods, the Directors have performed an impairment test to estimate the recoverable amount of certain equity investments in subsidiaries that are deemed material, in order to verify the consistency of the book value. For the investments that have been tested, the recoverable amount has been determined using the Discounted Cash Flows' method.

The impairment test requires complex assumptions, with particular reference to the estimates of:

- cash flow projections expected from every individual entity, keeping into account past financial results, the general macroeconomic scenario, underlying sector trends, as well as the Group budgets prepared by Management;
- appropriate discount factors, applicable to the above-mentioned cash-flows.

Relevant information regarding equity investments has been disclosed by the Company in Note 3 of the financial statements, as well as in note on the accounting principles adopted by the Company.

Due to the complexity of such estimates, we considered the valuation of the equity investments a key audit matter in the context of our audit of the statutory financial statements as a whole.

Auditing procedures performed in response to key audit matter

As part of our audit of the financial statement as of 31st December 2017, we performed the followings procedures in response to key audit matters.

- We reviewed and understood the process underlying the preparation of the impairment test related to equity investments, approved by the Board of Directors of Aeffe S.p.A.

- We reviewed and understood the process underlying the preparation of the multi-year budget projections prepared by the Management.

- For the main subsidiaries, we verified the mathematical accuracy and the veracity of the data that flowed into the consolidated financial statements, as well as the correspondence of these data with those used for impairment test purposes.

- In our audit procedures we estimated recoverable values using the enterprise value (operative value, gross of financial debt) that was obtained using a multiple of EV/EBITDA on the main value of the components subjected to test. For conservative reasons, we used as reference the EBITDA achieved in 2017. The result obtained from this calculation has been adjusted for the net financial position at the date of the test. These procedures were performed with the support of Grant Thornton network specialists experienced in valuation.

Responsibilities of Directors and Board of statutory auditors for the Financial Statements

The Directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n.38 dated February 28, 2005 and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Board of Statutory Auditors is responsible, within the terms provided by the law, for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standard on Auditng (ISA Italia), we have exercised professional judgment and maintain professional skepticism throughout the audit. We have also:

- Identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error; designed and performed audit procedures responsive to those risks and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We have communicated with those charged with governance, as properly identified in accordance with ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also have provided those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we have determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters.

Other information pursuant to article 10 of EU Regulation n.537/14

We were initially engaged by the shareholders of Aeffe S.p.A. on April,16,2016 to perform the audits of the financial statements and the consolidated financial statements of each fiscal year starting from December 31, 2016 to December 31, 2024.

We declare that we did not provide prohibited non-audit service, referred to article 5, par.1, of EU Regulation 537/2014, and that we remained independent of the Company in conducting the audit.

We confirm that the opinion on the financial statements included in this report is consistent with the content of the additional report, prepared in accordance with the article 11 of the EU Regulation 537/2014, submitted to the Board of Statutory Auditors.

Report on compliance with other Laws and Regulations

Opinion pursuant to article 14, par.2, subpar. e), of D. Lgs 39/10 and of article 123-bis, par.4, of D.Lgs 58/98

The Directors of Aeffe S.p.A. are responsible for the preparation of the Director's Report and of the Report on Corporate Governance and Ownership Structure Aeffe S.p.A. as at December 31, 2017, including their consistency with the related financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required by auditing standard (SA Italia) no. 720B in order to express an opinion on the consistency of the Director's Report and of the information set out in the Report on Corporate Governance and Ownership Structure referred to in art. 123-bis, paragraph 4 of Legislative Decree n. 58/98, with the financial statements of Aeffe S.p.A. as at December 31, 2017 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the Director's Report and the above mentioned specific information included in the Report on Corporate Governance and Ownership Structure are consistent with the financial statements of Aeffe S.p.A. as at December 31, 2017 and are compliant with the applicable laws and regulations.

With reference to the assessment pursuant to art.14, par.2, subpar. e), of Legislative Decree n.39, dated 27 January 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Bologna, March 21, 2018

Ria Grant Thornton S.p.A.

Signed by
Sandro Gherardini
Partner

This report has been translated into the English language from the original, which was issued in Italian, solely for the convenience of international.

EXPLANATORY NOTES

GENERAL INFORMATION

Aeffe S.p.A. (the "Company") is an Italian legal entity and a Parent Company that holds, directly or indirectly, equity investments in the companies that lead the business sectors in which the Aeffe Group is active.

The Company is based in San Giovanni in Marignano (Rimini) and is currently listed in the – STAR Segment – of the MTA, the Italian Stock Exchange operated by Borsa Italiana.

The Company has the following branch offices and local units:

1) Office and showroom in Donizetti street n.48 – Milan (MI);
2) Storage in Olmi street – San Giovanni in Marignano (RN);
3) Office and showroom in Donizetti street n.47 – Milan (MI);
4) Storage in Chitarrara n. 910 – Monte Colombo (RN);
5) Storage in Tavollo snc street – San Giovanni in Marignano (RN);
6) Storage in Erbosa I street n. 92 – Gatteo (FC);
7) Storage in Raibano n. 55/A street – Coriano (RN):
8) Storage in Tamerici 9 street – San Giovanni in Marignano (RN);
9) Storage in Santarcangiolese 6 street – Poggio Torriana (RN).

These financial statements have been prepared in EUR, which is the functional currency of the economy in which the Company operates.

The financial statements are accompanied by notes that explain the Company's economic and financial position as of and for the year ended 31 December 2017. This information is presented on a comparative basis, after adjusting the prior year's financial statements for consistency.

Unless stated otherwise, all amounts have been rounded to thousands of EUR.

The financial statements comprise the balance sheet, the income statement, comprehensive income statement the statement of changes in shareholders' equity, the cash flow statement and these explanatory notes.

Unless stated otherwise in the accounting policies described below, these financial statements have been prepared on an historical cost basis.

The financial statements have been audited by BDO Italia S.p.A..

The Company is controlled by the company Fratelli Ferretti Holding S.r.l., of which in the attachment VI are reported the data of the latest approved statutory financial statements. The company Fratelli Ferretti Holding also draws up the consolidated financial statement in accordance with the international accounting standards.

DECLARATION OF CONFORMITY AND BASIS OF PRESENTATION

Pursuant to art. 3 of Decree 38/2005 dated 28 February 2005, these financial statements have been prepared in accordance with International Accounting Standards (IAS/IFRS). The explanatory notes, also prepared in accordance with IAS/IFRS, have been supplemented by the additional information requested by CO.N.SO.B and by its instructions issued in accordance with art. 9 of Decree 38/2005 (resolutions 15519 and 15520 dated 27 July 2006 and communication DEM/6064293 dated 28 July 2006, pursuant to art. 114.5 of the Consolidated Finance Law), by art. 78 of the Issuers' Regulations, by the EC document issued in November

2003 and, where applicable, by the Italian Civil Code. Consistent with last year's annual report, some of the required information is presented in the Directors' Report (Report on operations).

FINANCIAL STATEMENT FORMATS

As part of the options available under IAS 1 for the presentation of its economic and financial position, the Company has elected to adopt a balance sheet format that distinguishes between current and non-current assets and liabilities, and an income statement that classifies costs by type of expenditure, since this is deemed to reflect more closely its business activities. Within the income statement, as intermediate results, they are exposed EBITDA and EBIT, considered representative indicators of company performance. The cash flow statement is presented using the "indirect" format.

With reference to Co.N.So.B Resolution no. 15519 dated 27th July 2006 regarding the format of the financial statements, additional schedules have also been presented for the income statement, the balance sheet and the cash flow statement in order to identify any significant transactions with related parties. This has been done to avoid compromising the overall legibility of the main financial statements.

ACCOUNTING PRINCIPLES, AMENDMENTS AND INTERPRETATIONS NOT YET APPLICABLE AND NOT YET EARLY ADOPTED BY THE GROUP

On July 24, 2014 the IASB issued the final version of IFRS 9 - Financial Instruments.

There follows the main aspects of the new international accounting principle:

- Classification and Measurement

Classification determines how financial assets and financial liabilities are accounted for in financial statements and, in particular, how they are measured on an ongoing basis. IFRS 9 introduces a logical approach for the classification of financial assets, which is driven by cash flow characteristics and the business model in which an asset is held. This single, principle-based approach replaces existing rule-based requirements that are generally considered to be overly complex and difficult to apply. The new model also results in a single impairment model being applied to all financial instruments, thereby removing a source of complexity associated with previous accounting requirements.

- Impairment

During the financial crisis, the delayed recognition of credit losses on loans (and other financial instruments) was identified as a weakness in existing accounting standards. As part of IFRS 9, the IASB has introduced a new, expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis. The IASB has already announced its intention to create a transition resource group to support stakeholders in the transition to the new impairment requirements.

- Hedge accounting

IFRS 9 introduces a substantially-reformed model for hedge accounting, with enhanced disclosures about risk management activity. The new model represents a significant overhaul of hedge accounting that aligns the accounting treatment with risk management activities, enabling entities to better reflect these activities in their financial statements. In addition, as a result of these changes, users of the financial statements will be provided with better information about risk management and the effect of hedge accounting on the financial statements.

- Own credit

IFRS 9 also removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. This change in accounting means that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognised in profit or loss. Early application of this improvement to financial reporting, prior to any other changes in the accounting for financial instruments, is permitted by IFRS 9.

The amendments will apply for annual periods beginning on or after January 1, 2018. Earlier application is permitted.

On September 11, 2015 the IASB published the document Effective Date of IFRS 15, in which it has been deferred by one year, from the January 1, 2017 to the January 1, 2018, the effective date of the IFRS 15 "Revenue from Contracts with Customers".

On January 13, 2016 the IASB published the new accounting Standard, IFRS 16 Leases that will replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases—Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

It sets out the principles for the recognition, measurement, presentation and disclosure of leases. IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17 Leases. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15. it is yet to be endorsed for application in the European Union.

On 12 April 2016 the IASB published Clarifications to IFRS 15 'Revenue from Contracts with Customers". The amendments include additional reliefs to reduce cost and complexity for a company when it first applies the new Standard. The amendments are effective for periods beginning on or after 1 January 2018. Earlier application is permitted.

On 20 June 2016 the IASB published some amendments to IFRS 2 "Share-based Payment" clarifying the classification and measurement of share-based payment transactions and the accounting of some types of share-based paymentss. It also introduces an exception to IFRS 2 requesting to be treated entirely share-based payment the awards for which the Tax legislation provides for a deduction and therefore a subsequent payment to the Treasury. The amendments are effective for periods beginning on or after 1 January 2018. Earlier application is permitted.

On 8 December 2016, the IASB published the 'Transfers of Investment Property (Amendments to IAS 40)' to clarify transfers of property to, or from, investment property, stating that the transfer occurred when, and only when, there is evidence of a change in use. The amendments are effective for periods beginning on or after 1 January 2018. Earlier application is permitted.

On 8 December 2016, the IASB published Annual Improvements to IFRSs 2014 – 2016 Cycle. The document introduces amendments to the following principles: (i) Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards: Deletion of short-term exemptions for first-time adopters The IASB proposes to delete the short-term exemptions in IFRS 7, IAS 19 and IFRS 10 because they have now served their intended purpose; (ii) amendments to IFRS 12 Disclosure of Interests in Other Entities: amendments to IAS 28 Investments in Associates and Joint Ventures related to the measurement at fair value of an investment in an associate or a joint venture. The application is effective for annual reporting periods beginning on or after 1 January 2018.

On 8 December 2016 the IASB published IFRIC Interpretation 22 "Foreign Currency Transactions and Advance

Consideration". The document clarify the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The application is effective for annual reporting periods beginning on or after 1 January 2018. Earlier application is permitted.

The company will adopt these new standards, amendments and interpretations, based on the data of scheduled Application, and assess potential impacts, when these will be approved by the European Union.

In December 2017, the IASB published Annual Improvements to IFRS Standards 2015-2017 Cycle, containing the following amendments to the IFRS:

IFRS 3 Business Combinations and IFRS 11 Joint Arrangements - The amendments to IFRS 3 clarify that when an entity obtains control of a business that is registered as a joint operation, it must re-measure the investments previously held in that activity.

The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is registered as a joint operation, it must not re-measure the investments previously held in that activity.

IAS 12 Income taxes - The amendments clarify that all income taxes related to dividends (E.S. distribution of profits) must be recognized in the income statement, regardless of how they arose.

IAS 23 Financial charges - The amendments clarify that if a specific loan remains after the asset is ready for use or intended for sale, this loan becomes an integral part for the calculation of the rate of capitalization of generic loans.

ACCOUNTING POLICIES

The accounting policies and valuation criteria adopted for the preparation of the financial statements as of 31 December 2017 are presented below:

Intangible fixed assets

Intangible fixed assets are identifiable non-monetary assets, without physical substance, that are controlled by the company and able to generate future economic benefits for the Company. Intangible fixed assets are initially recorded at purchase cost (being their fair value in the case of business combinations), as represented by the acquisition price paid including any charges directly attributable to the preparatory or production phase, if the conditions are met for the capitalisation of costs incurred on the internal generation of assets. Following initial recognition, intangible fixed assets are carried at cost, net of accumulated amortisation and any impairment recorded in accordance with IAS 36 (*Impairment of Assets*). Subsequent expenditure on intangible fixed assets is capitalised only if it increases the future economic benefits embodied in the specific asset to which it relates. All other costs are charged to the income statement as incurred.

Of intangible fixed assets, a distinction can be made between: a) those with an "infinite" useful life, such as goodwill, which are not amortised but subjected to an annual impairment test (or whenever there is reason to believe that the asset may have been impaired) in accordance with IAS 36; b) those with a finite useful life or other intangible fixed assets, the valuation criteria for which are reported in the following paragraphs.

Brands

Brands are recorded at cost and amortised systematically on a straight-line basis over their estimated useful life (40 years), commencing from the time the asset becomes available for use.

The Company has deemed it fair to attribute a finite life of 40 years to its brands, having regard for the prudent approach taken by other operators in the sector that consider the useful lives of their brands to be very long (given the extended utility of such assets), but not eternal or indefinite (duration not identifiable). This approach is consistent with the type of intangibles found in the fashion industry and with the long-established practices of other firms in the sector (market comparables).

Regarding the brand Alberta Ferretti, the exclusivity of the business, their historical profitability and their future income allow to consider their value recoverable, even in presence of difficult market conditions.

In order to calculate the recoverable value of the brand registered in the balance sheet, we estimated the current value, discounting the hypothetical value of the royalties deriving from the transfer in use to others of this intangible asset, for a period equal to residual useful life. To calculate the value, the management has used the Group budget starting from the year 2018. For the remaining periods the management has used an increase in turnover with a compound annual growth rate ("CAGR") variable from 1.4% to 4.2%. As royalty rates we used the averages for the sector (10%) and as discount rate we used the average cost of capital (WACC) which is 5.63%.

Other intangible fixed assets

This caption comprises the costs incurred to acquire software, which is amortised over a period not exceeding 3 years.

The principal amortisation rates applied are summarised below:

Category	%
Royalties from patents and intellectual property	33%
Brands	2.5%

Research costs are charged to the income statement as incurred.

At 31 December 2017 the Company has not recorded intangible fixed assets with an "infinite" useful life in the intangible fixed assets.

Tangible fixed assets

Tangible fixed assets, stated net of accumulated depreciation, are recorded at purchase or production cost except for those assets which have been revalued in accordance with specific laws. Cost includes related charges and directly-attributable expenses.

Tangible fixed assets are depreciated systematically each year on a straight-line basis using economic-technical rates that reflect the residual useful lives of each asset. Tangible fixed assets are written down in the event of permanent impairment, regardless of the depreciation already accumulated.

Ordinary maintenance expenses are charged in full to the income statement. Improvement expenditure is allocated to the fixed assets concerned and depreciated over their residual useful lives.

Construction in progress and advances to suppliers are recorded at the cost incurred, including directly-related charges.

As an exception to the general principle, the carrying amount of land and buildings has been adjusted to reflect the value determined by reference to an independent appraisal. This was performed to identify the separate value of land that was previously included in the "land and buildings" caption and consequently depreciated. The depreciation rates are applied on a straight-line basis over the new estimated useful lives of the buildings: 50 years (2%).

The depreciation rates applied are summarised below:

Category	%
Industrial buildings	2%
Plant and machinery	12.5%
Industrial and commercial equipment	25%
Electronic machines	20%
Furniture and furnishings	12%
Motor vehicles	20%
Cars	25%

Land is not depreciated.

Leasehold improvements, including the costs of fitting and modernising directly-managed shops and all other property used for business purposes but not owned by the Company, are depreciated over the shorter of the duration of the lease, including any renewal periods, or their useful lives.

Improvement expenditure is added to the carrying amount of the assets concerned if the future economic benefits for the Company are likely to exceed those determined originally. Such expenditure is depreciated over the residual useful lives of the assets concerned. All other maintenance costs are charged to the income statement as incurred.

Leasing

Finance leases

Assets held under finance leases, which transfer to the Company substantially all the risks and benefits of ownership, are recognised as part of property, plant and equipment at their fair value or, if lower, at the present value of the minimum lease payments, and stated net of accumulated depreciation. The corresponding liability to the lessor is classified among financial payables in the balance sheet. These assets are depreciated using the rates set out above.

On disposal, or when no further economic benefits are expected from use of the asset, leased assets are eliminated from the balance sheet and any gains or losses (difference between disposal proceeds and carrying amount) are reflected in the income statement for the year.

Operating leases

Leases that do not transfer to the Company substantially all the risks and benefits of ownership are recognised as operating leases. Payments under operating leases are recognised as a cost on a straight-line basis over the duration of the related lease contracts.

Impairment

At 31 December 2017, the Company has not recorded intangible fixed assets with an "infinite" useful life in the intangible fixed assets.

Intangible fixed assets, equity investments, tangible fixed assets and other non-current assets are subjected to impairment testing whenever events or a change of circumstances suggest that their value may be impaired in order to determine if such activities may have been subject to a loss of value. If such evidence exists the activity's carrying amount is reduced to the related recoverable value.

Impairment losses arise and are recognised when the carrying amount of an asset or a cash generating unit exceeds its recoverable value. The carrying amount of such assets is aligned with their recoverable value and the impairment loss is charged to the income statement.

Determination of recoverable value

Under IAS 36, intangible and tangible fixed assets must be subjected to impairment testing if there is evidence (events, change of circumstances) to suggest a possible loss of value. The purpose of this is to ensure that assets are not recorded in the balance sheet at an amount that exceeds their recoverable value. As already mentioned, this test is performed annually, or more frequently, in relation to assets with an indefinite useful life.

The recoverable value of these assets is the higher between their fair value, net of disposal costs and their value in use. In order to determine value in use, the estimated future cash flows - including those deriving from the disposal of the asset at the end of its useful life - are discounted using a post-tax rate that reflects the current market assessment of the value of money and the risks associated with the Company's activities. If separate cash flows cannot be estimated for an individual asset, the separate cash generating unit to which the asset belongs is identified.

Reinstatement of value

The value of financial assets recorded at amortised cost is reinstated when a subsequent increase in their recoverable value can, objectively, be attributed to an event that took place subsequent to recognition of the impairment loss.

The value of other non-financial assets is reinstated if the reasons for impairment no longer apply and the basis for determining their recoverable value has changed.

Write-backs are credited immediately to the income statement and the carrying amount of the asset concerned is adjusted to reflect its recoverable value. Recoverable value cannot exceed the carrying amount that would have been recognised, net of depreciation, had the value of the asset not been written down due to impairment in prior years.

The written down value of goodwill is never reinstated.

Equity investments

Investments in subsidiary, associated companies and joint venture are recorded as historical cost, as written down by any impairment recognised pursuant to IAS 36. Their original value is reinstated in subsequent years if the reasons for write-downs cease to apply.

It is signalled that it proceeded with the estimation of the recoverable amount of some equity investments in subsidiaries of particular importance in order to verify the consistency of the book value.

The recoverable value is defined as the higher value between the fair value of the asset, less costs for its sale, and the value in use. In order to calculate the recoverable value correctly, Aeffe Spa uses the value in use defined as the value of the future cash flows expected to originate from the asset.

For the calculation of the value in use, the Company refers to the following elements:

- Economic plan drawn up by the management (budget 2018 + projection of the following 4 years) for the determination of cash flows;
- Use of a specific discounting rate of these flows that reflects the current valuations of the time value of money and the specific risks associated with the activity carried out by the company.

The method used is that of estimating the present value of cash flows in accordance with the principle established by IAS 36 to respect the consistency and homogeneity between the book value and the recoverable value.

The management uses the budget (2018) as the basis for calculation and prepares on the basis of the latter a further 4 forecast years (Economic Accounts and Balance Sheet). In relation to the plans, a schedule of post-tax operating cash flows is then prepared which, on the basis of an estimated post-tax discounting rate (WACC of 5.63%), is subsequently discounted.

In order to assess the value in use of the investment with the discounted cash flow method, the management proceeded to estimate the value of the terminal flow using the perpetuity formula, taking account of the cash flow of the last year of the plan.

Finally, to estimate the recoverable value of the investment, the management proceeded to add to the present value of the cash flows relating to the explicit forecast period of the plan, the terminal value discounted net of the net financial position. It was basically carried out an estimation to estimate the equity value.

For the companies subjected to impairment test, Aeffe Retail S.p.A., Pollini S.p.A., Velmar S.p.A., Aeffe France S.a.r.l. and Aeffe USA Inc. no impairment losses have been emerged.

Trade and other receivables

Receivables are stated at their estimated realisable value, being their nominal value less the allowance for collection losses on doubtful accounts. They are review regularly in terms of ageing and seasonality in order to avoid adjustments for unexpected losses. Non-current receivables that include an element of embedded interest are discounted using a suitable market rate. This caption also includes the accrued income and prepaid expenses recorded to match income and costs relating to more than one year in the accounting periods to which they relate.

Inventories

Inventories are recorded at purchase or production cost or, if lower, at their market or estimated realisable value. Net realisable value is the estimated selling price under normal operating conditions, net of completion costs and all other selling-related expenses.

The cost of production of finished products includes the cost of raw materials, outsourced materials and processing, and all other direct and indirect manufacturing costs reasonably attributable to them, with the exclusion of financing costs.

Obsolete and slow-moving inventories are written down to reflect their likely use or realization.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, demand deposits and all highly liquid investments with an original maturity of three months or less. Securities included in cash and cash equivalents are measured at their fair value.

Provisions

The provisions for risks and charges cover known or likely losses or charges, the timing and extent of which cannot be determined at period end. Provisions are recorded only when there is a legal or implicit obligation that, to be settled, requires the consumption of resources capable of generating economic benefits, and the amount concerned can be estimated reliably. If the effect is significant, provisions are calculated by discounting expected future cash flows using a pre-tax rate that reflects the current market assessment of the present value of money and the specific risks associated with the liability.

Employee benefits

Employee severance indemnities are covered by IAS 19 ("Employee Benefits") since they are deemed to be a form of defined benefit plan. Company contributions to defined benefit plans are charged to the income statement on an accruals basis.

The Company's net liability for defined benefit plans is determined on an actuarial basis, using the projected unit credit method. All actuarial gains and losses determined as of 1st January 2005, the IFRS transition date, have been recognised.

Financial payables

Financial payables, excepting derivates, are recorded at their fair value, after transactions costs directly attributable.

Bank overdrafts and loans

Loans are initially measured at cost, which approximates their fair value, net of any transaction-related expenses. Subsequently, they are measured at amortised cost. Any difference between cost and the redemption value is recorded in the income statement over the duration of the loan, using the effective interest method.

Loans are classified as current liabilities unless the Company has an unconditional right to defer their settlement for at least twelve months subsequent to the accounting reference date.

Trade and other payables

Payables are stated at the nominal value. The financial element embedded in non-current payables is separated using a market rate of interest.

Treasury shares

Treasury shares are presented as a deduction from capital for the part of their nominal value, and from a specific reserve for the part in excess to their nominal value.

Contributions to the capital account and for overheads

Any public contributions are reported when there is a reasonable certainty that the company will meet all the conditions foreseen to receive the contributions and actually receives them. The company has opted to present any contributions to the capital account in the financial statement as items in adjustment of the book value of the property to which they refer, and any contributions to overhead as a direct deduction from the relative cost.

Revenues

Revenues are stated net of returns, discounts, allowances and rebates, as well as the taxes associated with the sale of goods and the provision of services. Revenues from sales are recognised when the seller has transferred the principal risks and benefits of ownership to the purchaser. The principal types of revenue realised by the Company are recognised on the following basis:

(i) retail sales – on delivery of the goods;

(ii) wholesale sales – on shipment of the goods;

(*iii)* royalties and commissions – on an accruals basis.

Costs

Costs and expenses are recorded on an accruals basis.

The costs incurred during the year for the creation and production of samples are matched with revenues from the sales of the related collections; accordingly, they are charged to the income statement in proportion to the revenues earned. The residual costs to be expensed when the related revenues are earned are classified as other current assets.

Financial income and expense

This comprises all the financial items recorded in the income statement for the year, including the interest accrued on financial payables using the effective interest method (mainly bank overdrafts, long-term loans), exchange gains and losses, dividend income, and the lease interest identified using finance lease accounting (IAS 17).

Interest income and expense is recorded in the income statement in the year in which it is earned/incurred.

Dividends are recognised in the year in which the Company's right to collect them is established (when they are declared).

The interest embedded in finance lease payments is charged to the income statement using the effective interest method.

Taxes

Income taxes for the period include all taxes calculated on taxable income. Income taxes for the period are recorded in the income statement.

Taxes other than income taxes, such as property tax, are reported under operating expenses or, if the necessary conditions are fulfilled, are capitalized in the related real estate.

Current taxes on income taxable in the period represent the tax burden calculated using current rates of taxation in force on the balance sheet date.

Deferred taxes are recognised for all temporary differences existing on the balance sheet date between the book value of assets and liabilities and the corresponding values used to determine taxable income for tax purposes.

Payables for deferred taxes relate to:

- positive components of income for the current period but taxable in future periods;
- negative components of income deductible in excess compared to the amount recorded in the income

statement as a result of the application of the International Accounting Standards.

Receivables for deferred taxes are recognised:

- for all negative components of income non-deductible in the period under examination but that could be deducted in future periods;
- for the carryover of unused tax losses, if it is probable that taxable income, for which the tax loss may be used, will be generated.

Credits for deferred tax assets and debits for deferred tax liabilities are calculated based on the rates of taxation applicable to tax calculation on income in periods in which temporary differences are reversed, based on the rate of taxation and tax regulations in force on the balance sheet date.

The impact on these taxes of any change in rates of taxation is posted to the income statement in the period in which the change occurs.

Earnings per share

Basic earnings per share are calculated by dividing the profit or loss attributable to the Company's shareholders by the weighted average number of ordinary shares outstanding during the year. Diluted earnings per share are calculated by dividing the profit or loss attributable to the Company's shareholders by the weighted average number of ordinary shares outstanding.

Main estimates used by the Management

Hereafter we report the main estimates and assumptions used by the Management to draft the financial statements, whose variations, not foreseeable at the moment, could affect the economic and equity situation of the Company.

- Estimates used to evaluate value impairment of assets other than financial assets

For the purposes of ascertaining any impairment of value of assets other than current assets entered in the financial statement, the Company applied the method described above in the paragraph entitled "Impairment of value of assets".

In particular, regarding the impairment tests related to equity investments, the main estimations used are the following:

<u>Equity investment in Pollini S.p.A.</u>: the evaluation emerges from the cash flow analysis of the entire Pollini Group. The cash flows have been gathered, for the year 2018, by the Group budget. It has been also estimated cash flow projections for the year 2019, 2020, 2021 and 2022 at a flat growth flat of 7%. The terminal value has been determined using the formula of perpetual annuity and assuming, prudentially, a growth rate G equal to 0. The cash flow useful to determine the terminal value has been gathered by the latest year of the cash flow projections, that is 2022. The rate used for the cash flow discounting back is the weighted average cost of capital (WACC), specifically calculated for the Pollini Group, equal to 5.63% (6.78% last year).

<u>Equity investment in Aeffe Retail S.p.A., Velmar S.p.A. Aeffe France S.a.r.l., and Aeffe USA Inc.</u>: the evaluation emerges from the cash flow analysis of each single company. The cash flows have been gathered, for the year 2018, by the Group budget. It has been also estimated cash flow projections for the year 2019, 2020, 2021 and 2022 at a growth rate basically stable compared to the one used in the budget 2018. The terminal value has been determined using the formula of perpetual annuity and assuming, prudentially, a growth rate G equal to 0. The cash flow useful to determine the terminal value has been gathered by the latest year of the cash flow projections, that is 2022. The rate used for the cash flow discounting back is the weighted average cost of capital (WACC) equal to 5.63% (6.78% last year).

- These estimates used for actuarial calculation serve to calculate the benefit plans in the sphere of future benefits of the working relationship:

– The inflation rate foreseen is 1.50%;

– The discount rate used is 1.11%;
– The annual rate in increase of the severance indemnity fund foreseen is 2.625%;
– The expected turn-over of employees is 6% for Aeffe S.p.A.

- Estimates used in the actuarial calculations to determine the supplementary clientele severance indemnity fund:

– The voluntary turnover rate foreseen is 0.00%;
– The corporate turnover rate foreseen is 5.00%;
– The discount rate used is 1.11%;

OTHER INFORMATION

Management of financial risk

The financial risks to which the Company is exposed in the performance of its business are as follows:

- risk of liquidity
- market risk (inclusive the exchange risk, rate risk, price risk);
- credit risk;

Liquidity and market risk

Management of the financial needs and relative risks (mainly rate and exchange risks) is handled at the level of the central treasury.

The main goal of these guidelines consists of:

(v) **Liquidity risk**

The Company manages the liquidity risk with a view to guarantee the presence of a liability structure in balance with the asset composition of the financial statement, in order to maintain an elevated solid equity.

(vi) **Exchange risk:**

The Company operates internationally and is therefore exposed to the exchange risk. The exchange risk arises when assets and liabilities are reported in a currency other than that in which the Company operates.

The mode of management of this risk consists of minimizing the risk connected with exchange rates by using operating coverage. Alternatively, the Company, if exposed to the exchange risk, covers itself by loans in foreign currency.

(vii) **Rate risk:**

The interest rate risk to which the Company is exposed originates mainly from the medium and long-term financial payables in existence, that are almost all at variable rates and expose the Company to the risk of variation in cash flows as the interest rates vary.

The average cost of indebtedness tends to be parametrized with the status of the EURIBOR rate at 3/6 months, plus a spread that depends mainly on the type of financial instrument used. In general, the margins applied are in line with the best market standards.

As of 31 December 2017 a hypothetical upward variation of 10% in the interest rate, all other variables being equal, would have produced a higher cost before taxes (and thus a corresponding reduction in the shareholders' equity) of about EUR 90 thousand annually (EUR 167 thousand as of 31 December 2016).

The *cash flow risk* on interest rates has never been managed in the past with recourse to derivative contracts - *interest rate swaps* - that would transform the variable rate into a fixed rate. As of 31 December 2017 there are no instruments that hedge interest-rate risk.

(viii) **Price risk**

The Company makes its purchases and sales worldwide and is therefore exposed to the normal risk of variations in price, typical of the sector.

Credit risk

With reference to receivables in Italy, the Company deals only with known and reliable clients. It is a policy of the Company that clients requesting extended payment terms are subject to procedures of audit of the class of merit. Moreover, the balance of receivables is monitored during the year to ensure that the doubtful positions are not significant.

The credit quality of unexpired financial assets and those that have not undergone value impairment can be valued with reference to the internal credit management procedure.

Customer monitoring activity consists mainly of a preliminary stage, in which we gather data and information about new clients, and a subsequent activation stage in which a credit is recognized and the development of the credit position is supervised.

The preliminary stage consists of collecting the administrative and fiscal data necessary to make a complete and correct assessment of the risks connected with the new client. Activation of the client is subject to the completeness of the data and approval, after any further clarification by the Customer Office.

Every new customer has a credit line: its concession is linked to further information (years in business, payment terms, and customer's reputation) all of which are essential to make an evaluation of the level of solvency. After gathering this information, the documentation on the potential customer is submitted for approval by the company organizations.

Management of overdue receivable is differentiated depending on the seniority of the client (overdue payment group).

For overdue payments up to 60 days, reminders are sent through the branch or directly by the Customer Office; clearly, if an overdue payment exceeds 15 days or the amount of the credit granted, all further supplied to the client are suspended. For overdue credits "exceeding 90 days", where necessary, legal steps are taken.

As regards foreign receivables, the Company proceeds as follows:

a) some of foreign receivables are guaranteed by primary credit insurance companies.
b) the residual uninsured part of receivables is managed:
    a. Most of them by request of letter of credit and 30% advances within two weeks of the order confirmation;
    b. The remaining uninsured receivables not covered by insurance nor by request of letter of credit or by advance, are specifically authorized and managed following the procedure for Italian receivables.

This procedure serves to define the rules and operating mechanisms that guarantee a flow of payments sufficient to ensure the solvency of the client and guarantee the Company an income from the relationship.
As of the reference date of the financial statement, the maximum credit risk exposure was equal to the value of each category of receivable indicated here below:

(Values in thousands of EUR)	31 December 2017	31 December 2016	Change Δ	%
Trade receivables	56,077	63,925	(7,848)	(12.3%)
Other current receivables	12,974	11,699	1,274	10.9%
Total	**69,051**	**75,624**	**(6,574)**	**(8.7%)**

See note 7 for the comment and breakdown of the item "trade receivables" and note 10 for "other current receivables".
The fair value of the above categories has not been indicated, as the book value is a reasonable approximation.

As of 31 December 2017, overdue but not written-down trade receivables amount to EUR 29,222 thousand (EUR 31,595 thousand in 2016). The breakdown by due date is as follows:

(Values in thousands of EUR)	31 December 2017	31 December 2016	Change Δ	%
By 30 days	4,297	4,003	294	7.3%
31 - 60 days	3,527	1,495	2,032	135.9%
61 - 90 days	647	964	(317)	(32.9%)
Exceeding 90 days	20,751	25,133	(4,382)	(17.4%)
Total	**29,222**	**31,595**	**(2,373)**	**(7.5%)**

The decrease of overdue commercial receivables of EUR 2,373 thousand is the effect of a more and more careful financial management.

No risks of default with respect to such overdue receivables have to be highlighted.

Cash flow statement

The cash flow statement presented by the Company in accordance with IAS 7 has been prepared using the indirect method. The cash and cash equivalents included in the cash flow statement represent the amounts reported in the balance sheet at the accounting reference date. Cash equivalents comprise short term and highly liquid applications of funds that can be readily converted into cash; the risk of changes in their value is minimal. Accordingly, a financial investment is usually classified as a cash equivalent if it matures rapidly, i.e. within three months or less of the acquisition date.

Bank overdrafts are generally part of financing activities, except when they are repayable on demand and are an integral part of the management of a company's cash and cash equivalents, in which case they are classified as a reduction of its cash equivalents.

Foreign currency cash flows have been translated using the average exchange rate for the year. Income and expenses deriving from interest, dividends received and income taxes are included in the cash flows from operating activities.

Under IAS 7, the cash flow statement must identify separately the cash flow deriving from operating, investing and financing activities:

(i) cash flow from operating activities: the cash flow deriving from operating activities mainly relates to income-generating activities and is presented by the Company using the indirect method; on this basis, net profit is adjusted for the effects of items that did not give rise to payments or cash inflows during the year (non-monetary transactions);

(ii) cash flow from investing activities: investing activities are presented separately since, among other factors, they reflect the investment/disposals made in order to obtain future revenues and cash inflows;

(iii) cash flow from financing activities: financing activities comprise the cash flows that modify the size and composition of shareholders' equity and financial payables.

COMMENTS ON THE BALANCE SHEET

NON-CURRENT ASSETS

1. Intangible fixed assets

The composition of intangible fixed assets is analysed in the following table, together with the changes that took place during the year:

(Values in thousands of EUR)	Brands	Other	Total
Net book value as of 01.01.16	**3,400**	**486**	**3,886**
Increases externally acquired		298	298
Disposals		(16)	(16)
Amortisation	(126)	(284)	(410)
Net book value as of 01.01.17	**3,274**	**484**	**3,758**
Increases externally acquired		419	419
Disposals		(39)	(39)
Amortisation	(126)	(279)	(405)
Net book value as of 31.12.17	**3,149**	**585**	**3,734**

Brands

This caption comprises the value of the brand names owned by the Company: “Alberta Ferretti” and “Philosophy”.

The residual amortisation period for this caption is 25 years.

Other

The caption “Other” relates to user licenses for software.

2. Tangible fixed assets

The composition of tangible fixed assets is analysed in the following table:

(Values in thousands of EUR)	Lands	Buildings	Leasehold improvements	Plant and machinery	Industrial and commercial equipment	Other tangible assets	Total
Net book value as of 01.01.16	**16,945**	**22,846**	**1,386**	**1,551**	**26**	**537**	**43,291**
Increases		86	222	560	36	193	1,097
Disposals			(24)			(1)	(25)
Depreciation		(562)	(295)	(429)	(16)	(191)	(1,493)
Net book value as of 01.01.17	**16,945**	**22,370**	**1,289**	**1,682**	**46**	**538**	**42,870**
Increases		65	199	249	45	264	822
Disposals			(6)				(6)
Depreciation		(564)	(276)	(403)	(28)	(186)	(1,457)
Net book value as of 31.12.17	**16,945**	**21,871**	**1,206**	**1,528**	**63**	**616**	**42,229**

Tangible fixed assets have changed as follows:

- Increases of EUR 822 thousand for new investments. These mainly comprise buildings, leasehold improvements, information tools and general and specific plant and machinery.
- Disposals of EUR 6 thousand in leasehold improvements.
- Depreciation of EUR 1,457 thousand, charged in relation to all tangible fixed assets, except for land, using the rates applicable to each category (see the accounting policies relating to tangible fixed assets for further details).

Other non-current assets

3. Equity investments

This caption comprises the investments held in subsidiary and associated companies. A complete list, together with the information requested by Co.N.So.B, is presented in Attachment I.

The investments increase of EUR 450 thousand due to increase of share capital, through waiver of financial receivables, towards the subsidiary Aeffe France S.a.r.l..

4. Other fixed assets

This caption principally includes amounts due by subsidiaries.

5. Deferred tax assets and liabilities

This caption is analysed below as of 31 December 2017 and 2016:

(Values in thousands of EUR)	Receivables		Liabilities	
	2017	2016	2017	2016
Tangible fixed assets			(17)	(17)
Intangible fixed assets			(130)	(130)
Provisions	440	510		
Costs deducible in future periods	1,105	988		
Income taxable in future periods			(132)	(39)
Tax losses carried forward	158	158		
Other tax assets (liabilities) from transition to IAS	863	623	(7,204)	(7,140)
Total	**2,566**	**2,279**	**(7,483)**	**(7,326)**

Changes in temporary differences during the year are shown in the following table:

(Values in thousands of EUR)	Opening balance	Recorded in the income statement	Other	Closing balance
Tangible fixed assets	(17)			(17)
Intangible fixed assets	(130)			(130)
Provisions	510	(2)	(69)	440
Costs deducible in future periods	988	117		1,105
Income taxable in future periods	(39)	(93)		(132)
Tax losses carried forward	158			158
Other tax assets (liabilities) from transition to IAS	(6,517)	167	8	(6,342)
Total	**(5,047)**	**190**	**(61)**	**(4,918)**

The variation of EUR 190 thousand in the income statement mainly refers to the deferred on provisions for inventory write-down and for unrealized foreign exchange losses.

Deferred tax assets have been determined estimating the future recoverability of such activities.

CURRENT ASSETS

6. *Stocks and inventories*

This caption comprises:

(Values in thousands of EUR)	31 December 2017	31 December 2016	Change Δ	%
Raw, ancillary and consumable materials	4,584	4,452	132	3.0%
Work in progress	6,206	4,725	1,481	31.3%
Finished products and goods for resale	22,611	19,157	3,454	18.0%
Advance payments	22	17	5	29.4%
Total	**33,423**	**28,352**	**5,071**	**17.9%**

The increase by EUR 5,071 thousand in inventories is mainly related to the sales growth of the Spring/Summer 2018 collections.

Raw materials and work in progress products mainly concern the Spring/Summer 2018 collections.

Finished products mainly relate to the Autumn/Winter 2017 and to the Spring/Summer 2018 collections and to the Autumn/Winter 2018 samples collections.

Inventories are valued at the lower of cost and net realizable value and therefore, to account for any physical obsolescence and slow moving of the materials in stock, the following write-downs have been recorded:

(Values in thousands of EUR)	31 December 2017	31 December 2016	Change Δ	%
Finished goods write-down provision	3,300	2,300	1,000	43.5%
Total	**3,300**	**2,300**	**1,000**	**43.5%**

7. *Trade receivables*

This caption is analysed in the following table:

(Values in thousands of EUR)	31 December 2017	31 December 2016	Change Δ	%
Customers receivables	12,671	12,420	251	2.0%
Subsidiaries receivables	44,322	51,838	(7,516)	(14.5%)
(Allowance for doubtful receivables)	(916)	(333)	(583)	175.1%
Total	**56,077**	**63,925**	**(7,848)**	**(12.3%)**

Trade receivables amount to EUR 56,077 thousand at 31 December 2017, showing an decrease by 12.3% compared to the value at 31 December 2016, mainly due to the decrease in receivables from subsidiaries as a result of a careful group financial management.

The allowance for doubtful receivables was determined by reference to a detailed analysis of the available information and, in general, is based on historical trends.

In particular the allowance existing at 31 December 2016 has been used for the amount of EUR 217 thousand to cover losses related to receivables arisen in previous years.

The adjustment of the receivables nominal value to the estimated realisable value has been obtained through the allocation of EUR 800 thousand to allowance for doubtful receivables.

8. Tax receivables

This caption is analysed in the following table:

(Values in thousands of EUR)	31 December 2017	31 December 2016	Change Δ	%
VAT	2,722	1,604	1,118	69.7%
Corporate income tax (IRES)	799	799	-	n.a.
Other tax receivables	50	22	28	125.6%
Total	**3,571**	**2,426**	**1,146**	**47.2%**

The variation of tax receivables is mainly due to the increase of VAT receivable.

9. Cash

This caption comprises:

(Values in thousands of EUR)	31 December 2017	31 December 2016	Change Δ	%
Bank and post office deposits	7,594	2,606	4,988	191.4%
Cheques	-	4	(4)	(100.0%)
Cash in hand	18	25	(7)	(28.0%)
Total	**7,612**	**2,635**	**4,977**	**188.8%**

Bank and postal deposits represent the nominal value of the current account balances with banks, including the interest accrued at period end.

Cash and cash equivalents represent the nominal value of the cash held at period end.

As of 31 December 2017, cash and cash equivalents are EUR 4,977 thousand higher than at the end of the previous year. The reasons for this are analysed in the cash flow statement.

10. Other receivables

This caption comprises:

(Values in thousands of EUR)	31 December 2017	31 December 2016	Change Δ	%
Credits for prepaid costs (costs of producing collections)	10,454	8,856	1,598	18.0%
Advances for royalties and commissions	226	808	(582)	(72.0%)
Advances to suppliers	333	414	(81)	(19.6%)
Accrued income and prepaid expenses	597	513	84	16.4%
Other	1,364	1,108	255	23.1%
Total	**12,974**	**11,699**	**1,274**	**10.9%**

Credits for prepaid costs are related to the costs incurred to design and make samples for the Spring/Summer 2018 and Autumn/Winter 2018 collections, for which the corresponding revenues from sales have not been realised yet.

Accrued income and prepaid expenses refer mainly to owed rent, insurance premium, maintenance and subscriptions fees.

11. SHAREHOLDERS' EQUITY

The main elements comprising shareholders' equity as of 31 December 2017 are described below.

(Values in thousands of EUR)	31 December 2017	31 December 2016	Change Δ
Share capital	25,371	25,371	-
Legal reserve	2,995	2,909	86
Share premium reserve	71,240	71,240	-
Other reserves	26,558	24,929	1,629
Fair value reserve	7,742	7,742	-
IAS reserve	1,086	1,086	-
Reamisurement of defined benefit plans reserve	(681)	(655)	(26)
Profits/(Losses) carried-forward	2,348	2,348	-
Net profit / (loss)	6,818	1,715	5,103
Total	**143,477**	**136,685**	**6,792**

Share capital

Share capital as of 31 December 2017 (gross of treasury shares) is represented by 107,362,504 issued and fully-paid ordinary shares, par value EUR 0.25 each, totalling EUR 26,841 thousand. As of 31 December 2017 the Company holds 5,876,878 treasury shares, representing the 5.5% of its share capital.

There are no shares with restricted voting rights, without voting rights or with preferential rights. The number of outstanding shares (non-considering treasury shares) is not changed during the period.

Legal reserve

The legal reserve amounts to EUR 2,995 thousand at 31 December 2017. The increase of 86 thousand is determined by the 5% allocation of the net profit.

Share premium reserve

The share premium reserve amounts to EUR 71,240 thousand and it remains unchanged since 31 December 2016.

Other reserves

The caption records a positive variation as a consequence of the previous year's profit allocation for EUR 1,629 thousand.

We specify that reserves haven't changed for income or expenses recognized directly in equity.

Fair value reserve

The fair value reserve derives from the application of IAS 16 in order to measure the land and buildings owned by the Company at their fair value, as determined with reference to an independent appraisal.

IAS reserve

The IAS reserve, formed on the first-time adoption of IFRS, reflects the differences in value that emerged on the transition from ITA GAAP to IFRS. The differences reflected in this equity reserve are stated net of tax effect, as required by IFRS 1.

Reamisurement of defined benefit plans reserve

The remeasurement of defined benefit plans reserve, formed as a result of the application, from 1st January 2014 (retrospectively), of the amendment to IAS 19, decreases of EUR 26 thousand compared to the value at 31 December 2016.

Profits/(Losses) carried-forward

The Profits/(losses) carried-forward at 31 December 2017, amounting to EUR 2,348 thousand, is not changed compared to 31 December 2016.

Net Profit /loss

This caption highlights a net profit of EUR 6,818 thousand.

Information on distributable reserves

The following schedule provides information on the way each equity reserve can be used and/or distributed, together with how they have been used in the past three years.

(Values in thousands of EUR)	Amount	Possible uses	Amount distributable	Uses in prior years		
				To cover losses	For capital increases	For distribution to shareholders
Share capital	25,371					
Legal reserve	2,995	B				
Share premium reserve:						
- including	69,075	A,B,C	69,075			
- including	2,165	B				
Other reserves:						
- inc. extraordinary reserve	26,154	A,B,C	26,154			
IAS reserve (art.6 D.Lgs. 38/2005)	1,086	B				
Fair Value reserve (art. 6 D.Lgs. 38/2005)	7,742	B				
Remeasurement of defined benefit plans reserve	(681)	B				
Merger reserve	404	B				
Profit/(losses) carried-forward	2,348	A,B,C	2,348			
Total	**136,659**		**97,577**	-	-	-

Restricted Reserves

Pursuant to art. 109.4.b) of the Consolidated Income Tax Law approved by Decree 917 dated 22 December 1986, as modified by Decree 344 dated 12 December 2003, restricted reserves as of 31 December 2017 amount to EUR 1,302 thousand.

In the absence of freely-distributable reserves or profits, these reserves would be taxable upon distribution.

NON-CURRENT LIABILITIES

12. Provisions

The changes in the various provisions are analysed below:

(Values in thousands of EUR)	31 December 2016	Increases	Decreases	31 December 2017
Pensions and similar obligations	282	21	(180)	123
Total	**282**	**21**	**(180)**	**123**

The agents' termination indemnities reflect an estimate of the costs to be incurred on the termination of agency contracts, considering legal requirements and all other useful information, such as historical experience, the average duration of agency contracts and their rate of turnover. The amount stated represents the present value of the payments required to settle the obligation.

The section on "Contingent liabilities" describes the tax contingencies that are not covered by provisions since the Company is unlikely to incur charges in relation to them.

13. Post-employment benefits

The severance indemnities payable on a deferred basis to all employees of the Company are deemed to represent a defined benefits plan (IAS 19), since the employer's obligation does not cease on payment of the contributions due on the remuneration paid, but continue until termination of the employment relationship.

For plans of this type, the standard requires the amount accrued to be projected forward in order to determine the amount that will be paid on the termination of employment, based on an actuarial valuation that takes account of employee turnover, likely future pay increases and any other applicable factors. This methodology does not apply to those employees whose severance indemnities are paid into approved supplementary pension funds which, in the circumstances, are deemed to represent defined contributions plans.

The main changes are described below:

(Values in thousands of EUR)	31 December 2016	Increases	Decreases / Other changes	31 December 2017
Post employment benefits	4,284	85	(427)	3,943
Total	**4,284**	**85**	**(427)**	**3,943**

Increases include the share of post employment benefits matured in the year and the related revaluation, while the entry decreases/other changes includes the decrease for the liquidation of the post employment benefits and the actuarial variation.

14. Non-current financial liabilities

Non-current financial payables are analysed in the following table:

(Values in thousands of EUR)	31 December 2017	31 December 2016	Change Δ	%
Loans from financial institutions	20,548	22,712	(2,164)	(9.5%)
Amounts due to other creditors	2,120	2,407	(287)	(11.9%)
Total	**22,668**	**25,119**	**(2,451)**	**(9.8%)**

The increase in this entry is mainly due to the disbursement of a ten-year mortgage loan for an amount of EUR 11.5 million on a real estate based in Gatteo, headquarter of the subsidiary Pollini Spa.

All other amounts due to banks relate to the portion of bank loans due beyond 12 months and comprise solely unsecured loans and bank finance. Such loans are not assisted by any form of security and they are not subject to special clauses, except for the early repayment clauses normally envisaged in commercial practice.

Furthermore, there are no covenants to comply with specific financial terms or negative pledges.

The amount due to other creditors refer mainly to bearing loans obtained from the American subsidiary Aeffe Usa Inc. during 2016. The reduction of EUR 287 thousand is related to the exchange rate adjustment of these loans.

The following table details the bank loans outstanding as of 31 December 2017, including both the current and the non-current portion:

(Values in thousands of EUR)	Total amount	Current portion	Non-current portion
Bank borrowings	29,964	9,416	20,548
Total	**29,964**	**9,416**	**20,548**

The total due beyond five years amount to EUR 1,096 thousand.

15. Non-current not financial liabilities

Non-current not financial liabilities refers mainly to tax payable generated in Aeffe Spa, as a consequence of the adhesion of the subsidiaries to the fiscal consolidation, related to the fiscal losses.

CURRENT LIABILITIES

16. Trade payables

This caption is analysed below on a comparative basis:

(Values in thousands of EUR)	31 December 2017	31 December 2016	Change Δ	%
Payables with subsidiaries	39,590	41,784	(2,194)	(5.3%)
Payables with third parties	34,171	30,006	4,165	13.9%
Total	**73,761**	**71,790**	**1,971**	**2.7%**

Trade payables are due within 12 months and concern the debts for supplying goods and services.

The variation of this caption is mainly due to the sales growth in 2017, partly offset by the reduction in payables to subsidiaries as a result of careful group financial management.

17. Tax payables

Tax payables are analysed on a comparative basis in the following table:

(Values in thousands of EUR)	31 December 2017	31 December 2016	Change Δ	%
Local business tax (IRAP)	137	208	(71)	(34.1%)
Corporate income tax (IRES)	326	4,229	(3,903)	(92.3%)
Amounts due to tax authority for withheld taxes	1,362	1,435	(73)	(5.1%)
Total	**1,825**	**5,872**	**(4,047)**	**(68.9%)**

The decrease of Tax payables is mostly due to the reduction of payable for IRES and IRAP generated in the period by Aeffe S.p.A. and the fiscal Group consolidated as a result of the reduction in the IRES rate, which change from 27.5% in 2016 to 24% in 2017.

18. Short-term financial liabilities

This caption is analysed in the following table:

(Values in thousands of EUR)	31 December 2017	31 December 2016	Change Δ	%
Due to banks	42,746	44,847	(2,101)	(4.7%)
Total	**42,746**	**44,847**	**(2,101)**	**(4.7%)**

Bank overdrafts include advances from banks, short-term loans and the current portion of long-term loans. Advances mainly comprise the drawdown against short-term lines of credit arranged to finance working capital.

These captions are analysed in the following table:

(Values in thousands of EUR)	31 December 2017	31 December 2016	Change Δ	%
Current bank loans	33,330	37,124	(3,794)	(10.2%)
Current portion of long-term bank borrowings	9,416	7,723	1,693	21.9%
Total	**42,746**	**44,847**	**(2,101)**	**(4.7%)**

The decrease of loans is mostly due to the improvement of the operating cash flow.

19. Other liabilities

Other current liabilities are analysed on a comparative basis in the following table:

(Values in thousands of EUR)	31 December 2017	31 December 2016	Change Δ	%
Due to total security organization	1,979	1,994	(15)	(0.8%)
Due to employees	2,445	2,503	(58)	(2.3%)
Trade debtors - credit balances	2,238	2,078	160	7.7%
Other	1,020	701	319	45.5%
Total	**7,682**	**7,276**	**406**	**5.6%**

The amounts due to social security institutions, recorded at nominal value, relate to the social security charges on the wages and salaries of the Company's employees.

COMMENTS ON THE INCOME STATEMENT

20. Revenues from sales and services

In 2017 revenues amount to EUR 157,527 thousand compared to EUR 145,903 thousand of the year 2016, showing an increase of 8% (8.4% at constant exchange rates). Such increase has mainly interested the brand Moschino and the two owned brands Alberta Ferretti and Philosophy di Lorenzo Serafini.

46% of revenues are earned in Italy while 54% come from foreign markets.

Revenues are analysed by geographical area below:

(Values in thousands of EUR)	Full Year 2017	%	Full Year 2016	%	Change Δ	%
Italy	72,816	46.2%	59,504	40.8%	13,312	22.4%
Europe (Italy and Russia excluded)	29,211	18.5%	29,439	20.2%	(228)	(0.8%)
United States	8,701	5.5%	10,563	7.2%	(1,862)	(17.6%)
Russia	4,958	3.1%	5,496	3.8%	(538)	(9.8%)
Rest of the world	41,841	26.6%	40,901	28.0%	940	2.3%
Total	**157,527**	**100.0%**	**145,903**	**100.0%**	**11,624**	**8.0%**

21. Other revenues and income

This caption comprises:

(Values in thousands of EUR)	Full Year 2017	Full Year 2016	Change Δ	%
Rental income	3,509	3,523	(14)	(0.4%)
Other income	2,114	1,721	393	22.8%
Total	**5,623**	**5,244**	**379**	**7.2%**

The caption other income, which amounts to EUR 2,114 thousand in 2017, mainly refers to exchange gains on commercial transaction, provision of services and sales of raw materials and packaging.

22. Costs of raw materials

This caption comprises:

(Values in thousands of EUR)	Full Year 2017	Full Year 2016	Change Δ	%
Raw, ancillary and consumable materials and goods for resale	62,094	52,763	9,331	17.7%
Total	**62,094**	**52,763**	**9,331**	**17.7%**

This caption mainly reflects the purchase of raw materials, such as fabrics, yarns, hides and accessories, finished products acquired for resale and packaging.

The increase in this caption is mainly due to the sales growth in 2017.

23. Costs of services

This caption comprises:

(Values in thousands of EUR)	Full Year 2017	Full Year 2016	Change Δ	%
Subcontracted work	20,541	17,128	3,413	19.9%
Consultancy fees	7,694	7,206	488	6.8%
Advertising	4,512	3,857	655	17.0%
Commission	6,587	6,858	(271)	(4.0%)
Transport	1,745	1,871	(126)	(6.7%)
Utilities	561	545	16	3.0%
Directors' and auditors' fees	2,254	1,823	431	23.6%
Insurance	193	154	39	25.3%
Bank charges	304	310	(6)	(1.9%)
Travelling expenses	1,006	965	41	4.2%
Sundry industrial services	916	754	162	21.5%
Other services	1,457	1,337	120	9.0%
Total	**47,771**	**42,808**	**4,963**	**11.6%**

Costs of services increase from EUR 42,808 thousand in the year 2016 to EUR 47,771 thousand in the year 2017, by 11.6%. The increase is mainly due to:

- the increase of costs for subcontracted work linked to the growth of sales;
- the increase in "consultancy fees" and "adverting" related to both the increase of marketing and advertising activities aimed at further enhancing Moschino, Alberta Ferretti and Philosophy di Lorenzo Serafini brands.

24. Costs of use of third parties assets

This caption comprises:

(Values in thousands of EUR)	Full Year 2017	Full Year 2016	Change Δ	%
Rental expenses	2,642	2,557	85	3.3%
Royalties	12,574	13,332	(758)	(5.7%)
Hire charges and similar	484	461	23	5.0%
Total	**15,700**	**16,350**	**(650)**	**(4.0%)**

The entry cost of use of third parties assets decrease of EUR 650 thousand from EUR 16,350 thousand in 2016 to EUR 15,700 thousand in 2017. This change is mainly attributable to the reduction in costs for royalties as a result of the increase in turnover of the owned brands Alberta Ferretti and Philosophy di Lorenzo Serafini.

25. Labour costs

This caption comprises:

(Values in thousands of EUR)	Full Year 2017	Full Year 2016	Change Δ	%
Labour costs	27,364	27,659	(295)	(1.1%)
Total	**27,364**	**27,659**	**(295)**	**(1.1%)**

Labour costs move from EUR 27,659 thousand in 2016 to EUR 27,364 thousand in 2017 with a decrease of EUR 295 thousand.

The applicable national payroll agreement is the textile and clothing sector contract of July 2017.

The average number of employees as of 31 December 2017 is analysed below:

(Average number of employees by category)	31 December 2017	31 December 2016	Change Δ	%
Workers	136	134	2	1.5%
Office staff - supervisors	389	383	6	1.6%
Executive and senior managers	13	12	1	8.3%
Total	**538**	**529**	**9**	**1.7%**

26. Other operating expenses

This caption comprises:

(Values in thousands of EUR)	Full Year 2017	Full Year 2016	Change Δ	%
Taxes	322	276	46	16.7%
Gifts	217	276	(59)	(21.4%)
Other operating expenses	1,211	1,129	82	7.3%
Total	**1,750**	**1,681**	**69**	**4.1%**

The caption other operating expenses decreases from EUR 1,681 thousand in 2016 to EUR 1,750 thousand in 2017.

27. Amortisation and write-downs

This caption comprises:

(Values in thousands of EUR)	Full Year 2017	Full Year 2016	Change Δ	%
Amortisation of intangible fixed assets	405	411	(6)	(1.5%)
Depreciation of tangible fixed assets	1,456	1,492	(36)	(2.4%)
Write-downs	800	300	500	166.7%
Total	**2,661**	**2,203**	**458**	**20.8%**

28. Financial income/ expenses

The caption "Financial income" comprises:

(Values in thousands of EUR)	Full Year 2017	Full Year 2016	Change Δ	%
Interest income	341	347	(6)	(1.7%)
Financial discounts	11	49	(38)	(77.6%)
Foreign exchange gains	287	-	287	n.a.
Total	**639**	**396**	**243**	**61.4%**

The caption "Financial expenses" comprises:

(Values in thousands of EUR)	Full Year 2017	Full Year 2016	Change Δ	%
Interest expenses	1,069	1,820	(751)	(41.3%)
Foreign exchange losses	-	191	(191)	(100.0%)
Other expenses	454	178	276	155.1%
Totale	**1,523**	**2,189**	**(666)**	**(30.4%)**

The decrease in financial expenses is substantially linked to lower interest expenses as a result of the better banking conditions applied by banks and to the reduction of the banking indebtedness occurred during 2017.

29. Income taxes

This caption comprises:

(Valori in migliaia di Euro)	Esercizio 2017	Esercizio 2016	Variazioni Δ	%
Current income taxes	3,388	2,346	1,042	44.4%
Deferred income (expenses) taxes	(346)	(591)	245	(41.5%)
Totale imposte sul reddito	**3,042**	**1,755**	**1,287**	**73.3%**

The changes in deferred income (expenses) taxes are analysed in the note on deferred tax assets and liabilities.

The effective tax rates for 2016 and 2017 are reconciled with the theoretical rate in the following table:

(Values in thousands of EUR)	Full Year 2017	Full Year 2016
Profit before taxes	9,860	3,469
Theoretical tax rate	24.0%	27.5%
Theoretical income taxes (IRES)	**2,366**	**954**
Fiscal effect	29	291
Total income taxes excluding IRAP (current and deferred)	**2,395**	**1,245**
IRAP (current and deferred)	**647**	**509**
Total income taxes (current and deferred)	**3,042**	**1,754**

This reconciliation of the theoretical and effective tax rates does not take account of IRAP, given that it does not use profit before taxes to calculate the taxable amount. Accordingly, the inclusion of IRAP in the reconciliation would generate distorting effects between years.

COMMENTS ON THE CASH FLOW STATEMENT

The cash flow generated in 2017 amounts to EUR 4,978 thousand.

(Values in thousands of EUR)	Full year 2017	Full year 2016
OPENING BALANCE (A)	**2,633**	**1,339**
Cash flow (absorbed)/generated by operating activity (B)	7,552	12,095
Cash flow (absorbed)/generated by investing activity (C)	(1,646)	(1,754)
Cash flow (absorbed)/generated by financing activity (D)	(929)	(9,047)
Increase (decrease) in cash flow (E)=(B)+(C)+(D)	**4,978**	**1,294**
CLOSING BALANCE (F)=(A)+(E)	**7,610**	**2,633**

30. Net cash flow (absorbed)/generated by operating activity

The cash flow generated by operating activity during 2017 amounts to EUR 7,552 thousand.

The cash flow from operating activities is analysed below:

(Values in thousands of EUR)	Full Year 2017	Full Year 2016
Profit before taxes	9,860	3,469
Amortisation	2,661	2,203
Accrual (+)/availment (-) of long term provisions and post employment benefits	(501)	(38)
Paid income taxes	(7,435)	2,162
Financial income (-) and financial charges (+)	884	1,793
Change in operating assets and liabilities	2,083	2,506
CASH FLOW (ABSORBED)/ GENERATED BY OPERATING ACTIVITY	**7,552**	**12,095**

31. Net cash flow (absorbed)/generated by investing activity

The cash flow absorbed by investing activity during 2017 amounts to EUR 1,646 thousand.

The factors comprising this use of funds are analysed below:

(Values in thousands of EUR)	Full Year 2017	Full Year 2016
Increase (-)/ decrease (+) in intangible fixed assets	(380)	(282)
Increase (-)/ decrease (+) in tangible fixed assets	(816)	(1,072)
Investments (-)/ Disinvestments (+)	(450)	(400)
CASH FLOW (ABSORBED)/ GENERATED BY INVESTING ACTIVITY	**(1,646)**	**(1,754)**

32. Net cash flow (absorbed)/generated by financing activity

The cash flow absorbed by financing activity during 2017 amounts to EUR 929 thousand.

The factors comprising this use of funds are analysed below:

(Values in thousands of EUR)	Full Year 2017	Full Year 2016
Other variations in reserves and profits carried-forward of shareholders' equity	(26)	(70)
Proceeds (+)/repayments (-) of financial payments	(4,551)	(8,451)
Increase (-)/ decrease (+) in long term financial receivables	4,533	1,267
Financial income (+) and financial charges (-)	(884)	(1,793)
CASH FLOW (ABSORBED)/GENERATED BY FINANCING ACTIVITY	**(929)**	**(9,047)**

OTHER INFORMATION

33. Incentive plans

Regarding the long term incentive plans reserved to executive directors of Aeffe S.p.A., please refer to the indicated in the Report on remuneration available from the governance section of the following website: www.aeffe.com.

34. Net financial position

As required by Co.N.So.B communication DEM/6264293 dated 28th July 2006 and in compliance with the CESR's "Recommendations for the consistent implementation of the European Commission's Regulation on Prospectuses" dated 10 February 2005, the Company's net financial position as of 31 December 2017 is analysed below:

(Values in thousands of EUR)	31 December 2017	31 December 2016	Change
A - Cash in hand	18	29	(11)
B - Other available funds	7,594	2,606	4,988
C - Securities held for trading			
D - Cash and cash equivalents (A) + (B) + (C)	*7,612*	*2,635*	*4,977*
E - Short term financial receivables			
F - Current bank loans	(33,330)	(37,123)	3,793
G - Current portion of long-term bank borrowings	(9,416)	(7,723)	(1,693)
H - Current portion of loans from other financial istitutions			
I - Current financial indebtedness (F) + (G) + (H)	*(42,746)*	*(44,846)*	*2,100*
J - Net current financial indebtedness (I) + (E) + (D)	*(35,134)*	*(42,211)*	*7,077*
K - Non current bank loans	(22,668)	(25,119)	2,451
L - Issued obbligations			
M - Other non current loans			
N - Non current financial indebtedness (K) + (L) + (M)	*(22,668)*	*(25,119)*	*2,451*
O - Net financial indebtedness (J) + (N)	***(57,802)***	***(67,330)***	***9,528***

Short-term financial liabilities include advances from banks that mainly comprise the drawdown against short-term lines of credit arranged to finance working capital.

35. Earnings per share

Basic earnings per share

(Values in thousands of EUR)	31 December 2017	31 December 2016
Earnings for the period	6,818	1,715
Medium number of shares for the period	101,486	101,486
Basic earnings per share	**0.0672**	**0.0169**

36. Intercompany transactions

Aeffe S.p.A. also operates via its own direct or indirect subsidiaries. Operations carried out with them mainly concern the exchange of goods, the performance of services and the provision of financial resources. All transactions arise in the ordinary course of business and are settled on market terms i.e. on the terms that are or would be applied between two independent parties.

The effect of these transactions on the individual captions reported in the 2017 and 2016 financial statements, as shown in the supplementary income statement and balance sheet prepared for this purpose, is summarised in the following tables:

COSTS AND REVENUES

(Values in thousands of EUR) Year 2017	Revenues from sales and services	Other revenues and income	Costs of raw materials, cons. and goods for	Costs of services	Costs for use of third parties assets	Other operating costs	Financial income (expenses)
Moschino Group	15,464	668	246	3,504	12,020	6	(69)
Pollini Group	693	2,621	20,422	36	5		308
Aeffe Retail Group	14,505	830	123	177			
Velmar S.p.A.	103	341	472	75			
Aeffe Usa Inc.	5,542	3		886		3	(48)
Aeffe UK L.t.d.	1,007	11	55	250			
Aeffe France S.a.r.l.	844	6	84	738			22
Total Group companies	**38,157**	**4,479**	**21,403**	**5,664**	**12,025**	**9**	**214**
Total income statement	157,527	5,623	62,094	47,771	15,700	(1,751)	(884)
Incidence % on income statement	**24.2%**	**79.7%**	**34.5%**	**11.9%**	**76.6%**	**(0.5%)**	**(24.2%)**

(Values in thousands of EUR) Year 2016	Revenues from sales and services	Other revenues and income	Costs of raw materials, cons. and goods for	Costs of services	Costs for use of third parties assets	Other operating costs	Financial income (expenses)
Moschino Group	15,843	574	272	3,488	12,219	1	(75)
Pollini Group	388	2,590	17,628	28			307
Aeffe Retail Group	9,839	885	105	147			
Velmar S.p.A.	131	244	121	43			
Aeffe Usa Inc.	6,701	12		440			(28)
Aeffe UK L.t.d.	996	15	65	251			1
Aeffe France S.a.r.l.	636	4	95	761			34
Total Group companies	**34,534**	**4,322**	**18,286**	**5,158**	**12,219**	**1**	**238**
Total income statement	145,903	5,244	52,763	42,808	16,350	(1,681)	(1,793)
Incidence % on income statement	**23.7%**	**82.4%**	**34.7%**	**12.0%**	**74.7%**	**(0.1%)**	**(13.3%)**

RECEIVABLES AND PAYABLES

(Values in thousands of EUR) Year 2017	Other fixed assets	Trade receivables	Trade payables	Non-current financial liabilities
Moschino Group		3,201	28,451	
Pollini Group		27,202	7,775	
Aeffe Retail Group		4,868	218	
Velmar S.p.A.		935	1,121	
Aeffe Usa Inc.			1,336	2,085
Aeffe UK L.t.d.		4,896	250	
Aeffe France S.a.r.l.	1,861	2,898	439	
Aeffe Japan Inc.	30	322		
Total Group companies	**1,891**	**44,322**	**39,590**	**2,085**
Total balance sheet	2,356	56,077	73,761	22,668
Incidence % on balance sheet	**80.3%**	**79.0%**	**53.7%**	**9.2%**

(Values in thousands of EUR) Year 2016	Other fixed assets	Trade receivables	Trade payables	
Moschino Group		10,646	30,442	
Pollini Group	4,000	26,977	8,435	
Aeffe Retail Group		5,899	37	
Velmar S.p.A.		507	784	
Aeffe Usa Inc.		783	1,356	2,371
Aeffe UK L.t.d.		4,009	250	
Aeffe France S.a.r.l.	2,079	2,499	480	
Aeffe Japan Inc.		518		
Total Group companies	**6,079**	**51,838**	**41,784**	**2,371**
Total balance sheet	6,889	63,926	71,790	25,118
Incidence % on balance sheet	**88.2%**	**81.1%**	**58.2%**	**9.4%**

37. Transactions with related parties

Transactions between the Company and related parties mainly concern the exchange of goods, the performance of services and the provision of financial resources. All transactions arise in the ordinary course of business and are settled on market terms i.e. on the terms that are or would be applied between two independent parties.

The following schedule summarises the Company's transactions with other related parties:

(Values in thousands of EUR)	31 December 2017	31 December 2016	Nature of the transactions
Shareholder Alberta Ferretti with Aeffe S.p.A.			
Contract for the sale of artistic assets and design	751	300	Cost
Commercial	205		Payable
Ferrim with Aeffe S.p.A.			
Property rental	1,789	1,779	Cost
Commerciale Valconca with Aeffe S.p.A.			
Revenues	1,350	1,247	Revenue
Cost of services	73	74	Cost
Property rental	50	50	Cost
Commercial	735	763	Receivable

The following table indicates the data related on the incidence of related party transactions on the income statement, balance sheet and cash flow as of 31 December 2017 and 31 December 2016:

(Values in thousands of EUR)	Balance 2017	Value rel. party 2017	%	Balance 2016	Value rel. party 2016	%
Incidence of related party transactions on the income statement						
Revenues from sales and services	157,527	1,350	0.9%	145,903	1,247	0.9%
Costs of services	47,771	874	1.8%	42,808	424	1.0%
Costs for use of third party assets	15,700	1,789	11.4%	16,350	1,779	10.9%
Incidence of related party transactions on the balance sheet						
Lands	16,945		0.0%	16,945		0.0%
Other current receivables	12,974		0.0%	11,699		0.0%
Trade receivables	56,077	735	1.3%	63,926	763	1.2%
Trade payables	73,761	205	0.3%	71,790		0.0%
Incidence of related party transactions on the cash flow						
Cash flow (absorbed) / generated by operating activity	7,552	(1,080)	n.a.	12,095	(826)	n.a.
Cash flow (absorbed) / generated by investing activity	(1,646)		0.0%	(1,754)		0.0%
Incidence of related party transactions on the indebtedness						
Net financial indebtedness	(57,802)	(1,080)	1.9%	(67,330)	(826)	1.2%

38. Atypical and/or unusual transactions

Pursuant to Co.N.So.B Communication DEM/6064293 dated 28 July 2006, it is confirmed that the Company did not enter into any atypical and/or unusual transactions (as defined in such Communication) during 2017.

39. Significant non-recurring events and transactions pursuant to the Co.N.So.B regulation of 28 July 2006

No significant non-recurring events, occurred the year, have to be reported.

40. Guarantees and commitments

(Values in thousands of EUR)	31 December 2017	31 December 2016	Change Δ	%
Guarantees given				
- on behalf of third parties	7,679	5,261	2,418	46.0%
Total	**7,679**	**5,261**	**2,418**	**46.0%**

41. Contingent liabilities

Fiscal disputes

Aeffe S.p.A.: the Rimini Provincial Tax Commission with ruling no. 101/2/06 filed on 16 December 2006 cancelled notices of assessment 81203T100562 (RG no. 43/05) and 81203T100570 (RG no. 69/05) issued by the Rimini Tax Authorities in November 2004. The issues raised related to the 1999 and 2000 tax years concern costs deemed not allowable and the write-down of the investment in Moschino. The Rimini tax office has appealed against the sentence handed down by the Rimini Provincial Tax Commissioners. The Company presented its counter analysis within the legally-prescribed time period. The Bologna Regional Tax Commission, as set during the hearing of 27 September 2010, has rejected the appeal, confirming the first level ruling.

On 12 January 2012, the State Legal Bar disputed the validity of the judgment of the Bologna regional tax commission, by bringing an appeal before the Court of Cassation. The company, presented its counter-submission within the time limit established by the law.

The positive outcome at the first two levels of judgment means that the further development of this dispute can be considered in a positive light.

The Rimini Provincial Tax Commission with ruling no. 37/02/08 of 28 January 2008, filed on 9 April 2008, cancelled notices of assessment no. 81203T300390/06 and no. 81203T300393/06 issued by the Rimini Tax Authorities in June 2006. The assessments concern tax years 2001 and 2002, and are connected with non-recognition of utilisation of the tax loss achieved during tax period 2000. The Rimini Tax Office has appealed against the sentence handed down by the Rimini Provincial Tax Commissioners with notification sent to the company on 29 May 2009. The appeal presented its counter analysis to the Regional Tax Commission of Bologna within the legally-prescribed time period. The Bologna Regional Tax Commission ordered on 14 April 2011 the suspension of this judgment pending resolution of the dispute ruling related to the notice of assessment 81203T100570/20042 (tax year 2000). The judgment was summarized by Section 1 of the Regional Tax Commission of Bologna with the hearing on the merits on 26 May 2016, after postponed to 1 December 2016 and again postponed to 15 December 2016.

It was again placed the suspension of the trial pending a ruling of the Supreme Court.

On 1 October 2008 the Rimini Tax Office notified the company of inspection minutes in relation to direct taxes and IRAP for FY 2005. The audits also concerned VAT and were mainly focused on relations with group companies and costs for services. Specifically, the Tax Office raised issues on non-pertinent costs totaling EUR 130 thousand and non-pertinent advertising costs amounting to roughly EUR 580 thousand tied to the disbursement of contributions to subsidiary companies. On 30 August 2010, the Major Taxpayers Office of the Emilia Romagna Regional Tax Department notified assessments TGB03B500172/2010 (IRAP), TGB08B500181/2010 (theoretical IRES) and TGB09B500185/2010 (actual IRES), containing the matters indicated above. The company challenged these assessments before the Bologna Provincial Tax Commissioners ahead of the legal deadline, trusting that the valid defensive reasoning will be accepted. On 13 July 2011, with tax return n. 137 2011 00031537 15 the company has been ordered to pay the amount registered in the roll by the Tax Office, provisionally awaiting trial, equal to half of the taxes in dispute, besides interests, for a total amount of EUR 161 thousand. This tax dispute has been disputed in December

2012 before the Bologna Provincial Tax Commission, who, with sentence no. 40/13/13, filed on 14 March 2013, has accepted the request of the company, annulling the contested measures with reference to the matter relating to intra-group costs for advertising contributions and confirming the contested measures related to the reliefs for costs to be incurred and intra-group costs for lease payments. The Office, with act of appeal notified to the company on 28 October 2013, appealed against the sentence of the Bologna Provincial Tax Commission requesting the reform in relation to the matter relating to intra-group costs for advertising contributions. The Company, on 23 December 2013, filed a timely notice of cross-appeal counterclaims and contextual interlocutory appeal. On 13 September 2016, the Company has formulated a proposed conciliation agreement aimed at achieving a settlement agreement that, if reached would not involve any outlay for the Company.

On 30 May 2014, following a general tax audit for IRES, IRAP and VAT for the tax years 2009, 2010 and 2011, by the Emilia Romagna Regional Management, Large Taxpayers Office, was issued a formal notice of assessment, with which the Tax Office has formulated remarks with recoveries of total taxes (IRES and IRAP) of EUR 210 thousand for 2009, EUR 350 thousand for 2010 and EUR 299 thousand for 2011. The complaints mainly concern the recovery of costs for commissions and advertising contributions granted to certain foreign subsidiaries and the failure to account for interest income on loans to foreign subsidiaries.

The company, on 29 July 2014, submitted comments pursuant to Article 12, paragraph 7, of Law 212 of 2000.

On 3 December 2014 the Large Taxpayers Office of Emilia Romagna Regional Management has notified, for 2009, the assessment notices n. TGB0EC700238/2014 (IRES) and n. TGB03C700239/2014 (IRAP), with a total recovery of taxes of EUR 210 thousand.

Both assessment notices were challenged before the competent Provincial Tax Commission of Bologna.

On 25 September 2015 the Large Taxpayers Office of Emilia Romagna Regional Management has notified, for 2010, the assessment notices n. TGB0EC700149/2015 (IRES) and n. TGB03C700150/2015 (IRAP), with a total recovery of taxes of EUR 350 thousand.

Both assessment notices were challenged before the competent Provincial Tax Commission of Bologna.

On 6 June 2016, the Large Taxpayers Office of Emilia Romagna Regional Management has notified, for 2011, the assessment notices n. TGB0EC700080/2016 (IRES) and n. TGB0CC700083/2016 (IRAP), with total tax recoveries of Euro 299 thousand. Both assessment notices have been challenged before the competent Provincial Tax Commission of Bologna.

It is noted that regarding the deductibility of advertising contributions to foreign subsidiaries (which constitute the bulk of disputes) the company has already received feedback from the Provincial Tax Commission of Bologna that, with judgment 40/13/13 filed on 14 March 2013 on the litigation referred to in paragraph above, has already rejected this type of dispute.

No provisions have been recorded in relation to the above disputes, since the defensive arguments put forward by the companies and its professional advisors are fully sustainable.

The directors, in receipt of the opinion of their fiscal and legal consultants, do not deem it likely that any liabilities will derive from the above-mentioned.

42. Information pursuant to art. 149-duodecies of Co.N.So.B's Issuers' Regulations

The following schedule, prepared pursuant to art. 149-duodecies of Co.N.So.B's Issuers' Regulation, shows the fees incurred in 2017 for auditing services and non-auditing services provided by the appointed firm for auditors. No services were provided by members of the auditing firm's network.

(Values in thousands of EUR)	Service provider	2017 fees
Audit	RIA GRANT THORNTON S.p.A.	78
Audit non-financial statement (DNF)	BDO Italia S.p.A	10
Non-financial statement (DNF)	BDO Italia S.p.A	15
Total		**103**

ATTACHMENTS TO THE EXPLANATORY NOTES

ATTACHMENT I

List of investments in subsidiary companies

requested by Co.N.So.B Communication no. DEM/6064293 dated 28 July 2006

Company	Registered office	Currency	Share Capital (EUR)	Net profit for the period (EUR)	Net equity (EUR)	Direct interest	Number of shares	Book value
(Values in units of EUR)								
In subsidiaries companies:								
Italian companies								
Aeffe Retail S.p.A.	**S.G. in Marignano (RN) Italy**							
At 31/12/16			8,585,150	(271,393)	8,840,952	100%	8,585,150	26,593,345
At 31/12/17			8,585,150	1,937,332	10,778,284	100%	8,585,150	26,593,345
Moschino S.p.A.	**S.G. in Marignano (RN) Italy**							
At 31/12/16			66,817,108	699,024	71,372,739	70%	14,000,000	46,857,175
At 31/12/17			66,817,108	(178,435)	71,194,304	70%	14,000,000	46,857,175
Pollini S.p.A.	**Gatteo (FC) Italy**							
At 31/12/16			6,000,000	4,853,842	25,838,027	100%	6,000,000	41,945,452
At 31/12/17			6,000,000	5,163,389	31,001,416	100%	6,000,000	41,945,452
Velmar S.p.A.	**S.G. in Marignano (RN) Italy**							
At 31/12/16			120,000	131,844	456,393	100%	60,000	8,290,057
At 31/12/17			120,000	2,139,325	2,595,718	100%	60,000	8,290,057
Foreign companies								
Aeffe France S.a.r.l.	**Paris (FR)**							
At 31/12/16			50,000	(266,676)	(211,421)	100%	n.d. *	4,568,720
At 31/12/17			50,000	(174,840)	63,739	100%	n.d. *	5,018,720
Aeffe UK L.t.d.	**London (GB)**							
At 31/12/16		GBP	310,000	(801,623)	(1,620,776)	100%	n.d. *	
			362,065	(936,257)	(1,892,988)	100%	n.d. *	478,400
At 31/12/17		GBP	310,000	(916,753)	(2,537,526)	100%	n.d. *	
			349,414	(1,033,310)	(2,860,151)	100%	n.d. *	478,400
Aeffe USA Inc.	**New York (USA)**							
At 31/12/16		USD	600,000	(105,101)	11,927,042	100%	n.d. *	
			569,206	(99,707)	11,314,906	100%	n.d. *	10,664,812
At 31/12/17		USD	600,000	(263,879)	11,663,163	100%	n.d. *	
			500,292	(220,028)	9,724,975	100%	n.d. *	10,664,812
Aeffe Japan Inc.	**Tokyo (Japan)**							
At 31/12/16		JPY	3,600,000	(9,638,376)	(278,628,577)	100%	n.d. *	-
			29,173	(78,107)	(2,257,930)	100%	n.d. *	-
At 31/12/17		JPY	3,600,000	(2,613,232)	(281,241,809)	100%	n.d. *	-
			26,665	(19,356)	(2,083,118)	100%	n.d. *	-
Total interests in subsidiaries:								**139,847,961**

* quota

List of investments in other companies

requested by Co.N.So.B Communication no. DEM/6064293 dated 28 July 2006

Company	Registered office	Currency	Share Capital (EUR)	Net profit for the period (EUR)	Net equity (EUR)	Direct interest	Number of shares	Book value
(Values in units of EUR)								
In other companies								
Conai								
At 31/12/16								109
At 31/12/17								109
Caaf Emilia Romagna								
At 31/12/16						0.688%	5,000	2,600
At 31/12/17						0.688%	5,000	2,600
Assoform								
At 31/12/16						1.670%	n.d. *	1,667
At 31/12/17						1.670%	n.d. *	1,667
Consorzio Assoenergia Rimini								
At 31/12/16						2.100%	n.d. *	516
At 31/12/17						2.100%	n.d. *	516
Effegidi								
At 31/12/16								6,000
At 31/12/17								6,000
Total interests in other companies:								**10,892**
* quota								
Total interests:								**139,858,853**

ATTACHMENT II

Balance Sheet Assets, with related parties

Pursuant to Co.N.So.B Resolution no. 15519 dated 27 July 2006

(Values in thousands of EUR)	Notes	31 December 2017	of which related parties	31 December 2016	of which related parties
NON-CURRENT ASSETS					
Intangible fixed assets					
Trademarks		3,149		3,274	
Other intangible fixed assets		585		484	
Total intangible fixed assets	(1)	3,734		3,759	
Tangible fixed assets					
Lands		16,945		16,945	
Buildings		21,871		22,370	
Leasehold improvements		1,206		1,288	
Plant and machinary		1,528		1,682	
Equipment		63		46	
Other tangible fixed assets		616		538	
Total tangible fixed assets	(2)	42,230		42,870	
Other fixed assets					
Equity investments	(3)	139,859	139,848	139,409	139,398
Other fixed assets	(4)	2,356	1,891	6,889	6,079
Deferred tax assets	(5)	2,565		2,279	
Total other fixed assets		144,780		148,577	
TOTAL NON-CURRENT ASSETS		**190,744**		**195,206**	
CURRENT ASSETS					
Stocks and inventories	(6)	33,423		28,352	
Trade receivables	(7)	56,077	45,057	63,926	52,601
Tax receivables	(8)	3,571		2,426	
Cash	(9)	7,612		2,635	
Other receivables	(10)	12,974		11,699	
TOTAL CURRENT ASSETS		**113,657**		**109,037**	
TOTAL ASSETS		**304,402**		**304,243**	

ATTACHMENT III

Balance Sheet Liabilities, with related parties

Pursuant to Co.N.So.B Resolution no. 15519 dated 27 July 2006

(Values in thousands of EUR)	Notes	31 December 2017	of which related parties	31 December 2016	of which related parties
SHAREHOLDERS' EQUITY					
Share capital		25,371		25,371	
Share premium reserve		71,240		71,240	
Other reserves		26,558		24,929	
Fair Value reserve		7,742		7,742	
IAS reserve		1,086		1,086	
Legal reserve		2,995		2,909	
Remeasurement of defined benefit plans reserve		(681)		(655)	
Profits / (Losses) carried-forward		2,348		2,348	
Net profit / loss		6,818		1,715	
TOTAL SHAREHOLDERS' EQUITY	**(11)**	**143,477**		**136,685**	
NON-CURRENT LIABILITIES					
Provisions	(12)	123		282	
Deferred tax liabilities	(5)	7,483		7,326	
Post employment benefits	(13)	3,943		4,284	
Long term financial liabilities	(14)	22,668	2,085	25,118	2,371
Long term not financial liabilities	(15)	695		761	
TOTAL NON-CURRENT LIABILITIES		**34,911**		**37,771**	
CURRENT LIABILITIES					
Trade payables	(16)	73,761	39,795	71,790	41,784
Tax payables	(17)	1,825		5,872	
Short term financial liabilities	(18)	42,746		44,847	
Other liabilities	(19)	7,682		7,277	
TOTAL CURRENT LIABILITIES		**126,014**		**129,786**	
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**304,402**		**304,243**	

ATTACHMENT IV

Income Statement, with related parties

Pursuant to Co.N.So.B Resolution no. 15519 dated 27 July 2006

(Values in thousands of EUR)	Notes	Full year 2017	of which related parties	Full year 2016	of which related parties
REVENUES FROM SALES AND SERVICES	**(20)**	**157,527**	**39,507**	**145,903**	**35,781**
Other revenues and income	(21)	5,623	4,479	5,244	4,322
TOTAL REVENUES		**163,150**		**151,148**	
Changes in inventory		4,935		(2,422)	
Costs of raw materials, cons. and goods for resale	(22)	(62,094)	(21,403)	(52,763)	(18,286)
Costs of services	(23)	(47,771)	(6,538)	(42,808)	(5,582)
Costs for use of third parties assets	(24)	(15,700)	(13,814)	(16,350)	(13,998)
Labour costs	(25)	(27,364)		(27,659)	
Other operating expenses	(26)	(1,751)	(9)	(1,681)	(1)
Amortisation and write-downs	(27)	(2,661)		(2,203)	
Financial income/(expenses)	(28)	(884)	214	(1,793)	238
PROFIT / LOSS BEFORE TAXES		**9,860**		**3,469**	
Income taxes	(29)	(3,042)		(1,755)	
NET PROFIT / LOSS		**6,818**		**1,715**	

ATTACHMENT V

Cash Flow Statement, with related parties

Pursuant to Co.N.So.B Resolution no. 15519 dated 27 July 2006

(Values in thousands of EUR)	Notes	Full Year 2017	of which related parties	Full Year 2016	of which related parties
OPENING BALANCE		**2,633**		**1,339**	
Profit before taxes		9,860		3,469	
Amortisation		2,661		2,203	
Accrual (+)/availment (-) of long term provisions and post employment benefits		(501)		(38)	
Paid income taxes		(7,435)		2,162	
Financial income (-) and financial charges (+)		884		1,793	
Change in operating assets and liabilities		2,083	(5,555)	2,506	(1,879)
CASH FLOW (ABSORBED)/ GENERATED BY OPERATING ACTIVITY	**(30)**	**7,552**		**12,095**	
Increase (-)/ decrease (+) in intangible fixed assets		(380)		(282)	
Increase (-)/ decrease (+) in tangible fixed assets		(816)		(1,072)	(130)
Investments (-)/ Disinvestments (+)		(450)	(450)	(400)	(400)
CASH FLOW (ABSORBED)/ GENERATED BY INVESTING ACTIVITY	**(31)**	**(1,646)**		**(1,754)**	
Other variations in reserves and profits carried-forward of shareholders' equity		(26)		(70)	
Proceeds (+)/repayment (-) of financial payments		(4,551)	(2,085)	(8,451)	(2,371)
Increase (-)/ decrease (+) in long term financial receivables		4,533	4,188	1,267	851
Financial income (+) and financial charges (-)		(884)		(1,793)	
CASH FLOW (ABSORBED)/GENERATED BY FINANCING ACTIVITY	**(32)**	**(929)**		**(9,047)**	
CLOSING BALANCE		**7,610**		**2,633**	

ATTACHMENT VI

Prospect of crucial data from the statutory financial statements of Fratelli Ferretti Holding at 31 December 2016

(Values in units of EUR)	STATUTORY FINANCIAL STATEMENTS 2016	STATUTORY FINANCIAL STATEMENTS 2015
BALANCE SHEET		
ASSETS		
Intangible fixed assets	127,574	162,405
Tangible fixed assets	2,248,163	1,547,778
Equity investments	63,397,878	60,695,372
Non current assets	**65,773,615**	**62,405,555**
Trade receivables	1,391,856	1,381,624
Tax receivables		341,690
Cash	21,753	83,161
Other receivables	3,308	87,280
Current assets	**1,416,917**	**1,893,755**
Total assets	**67,190,532**	**64,299,310**
LIABILITIES		
Share capital	100,000	100,000
Share premium reserve	62,529,081	63,195,446
Other reserves	15,038	15,038
Approximations		
Net profit/(loss)	(934,416)	(666,366)
Shareholders' equity	**61,709,703**	**62,644,118**
Provisions	184,132	195,885
Long term financial liabilities		
Non-current liabilities	**184,132**	**195,885**
Trade payables	5,296,697	1,459,307
Current liabilities	**5,296,697**	**1,459,307**
Total shareholders' equity and liabilities	**67,190,532**	**64,299,310**

INCOME STATEMENT		
Revenues from sales and services		
Other revenues and income	366,894	343,594
Total revenues	**366,894**	**343,594**
Operating costs	(305,149)	(393,855)
Costs for use of third parties assets	(215,672)	(489,341)
Amortisation and write-downs	(165,803)	(76,175)
Other operating expenses	(15,112)	(24,894)
Financial income (expenses)	47,040	213,695
Profit (loss) from affiliates		
Financial assets adjustments	(717,550)	(290,916)
Extraordinary profit/(loss)		
Profit before taxes	**(1,005,352)**	**(717,892)**
Income taxes	70,936	51,526
Net profit/(loss)	**(934,416)**	**(666,366)**

Certification of the Financial Statements pursuant to art.81-ter of Co.N.So.B Regulation N. 11971 of 14 May 1999, as amended

The undersigned Massimo Ferretti as President of the Board of Directors, and Marcello Tassinari as manager responsible for preparing Aeffe S.p.A.'s financial reports, pursuant to the provisions of art. 154 bis, clauses 3 and 4, of Legislative Decree n. 58 of 1998, hereby attest:

- the adequacy with respect to the Company structure and
- the effective application

of the administrative and accounting procedures applied in the preparation of the statutory financial statements at 31 December 2017.

The undersigned moreover attest that the statutory financial statements:

i. have been prepared in accordance with International Financial Reporting Standards, as endorsed by the European Union through Regulation (EC) 1606/2002 of the European Parliament and Council, dated 19 July 2002;
ii. correspond to the amounts shown in Company's accounts, books and records;
iii. provide a fair and correct representation of the financial conditions, results of operations and cash flows of the Company.

The report on operations includes a reliable operating and financial review of the Company as well as a description of the main risks and uncertainties to which they are exposed.

8 March 2018

President of the board of directors

Massimo Ferretti

Manager responsible for preparing Aeffe S.p.A. financial reports

Marcello Tassinari