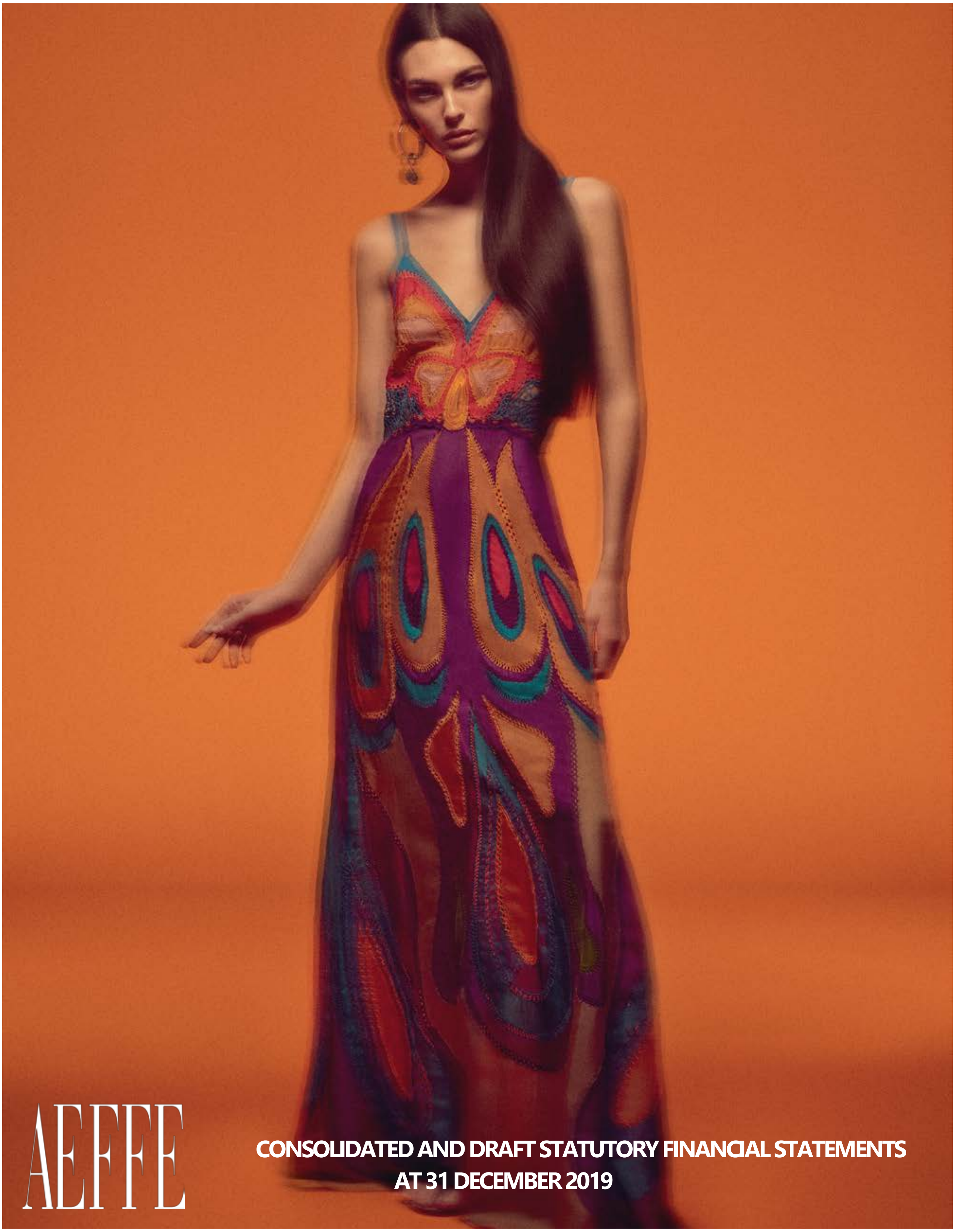


Disclaimer

The consolidated and draft statutory financial statements at 31 December 2019 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 official document.

CHAIRMAN'S LETTER

We positively evaluate 2019 results, supported by the good performance of the directly operated stores network and of the e-commerce channel, together with the good progression of accessories, confirming the effectiveness of the investments and strategies implemented by the Group.

In a mature and highly competitive market such as fashion and luxury market, the high and constant attention to quality, creativity and distinctiveness are the cornerstones of the strategy of positioning and development of the Aeffe Group brands, namely Alberta Ferretti, Philosophy di Lorenzo Serafini , Moschino and Pollini.

In an increasingly dynamic and complex context, the understanding of demographic trends and consumer attitudes are key elements in the growth strategy, especially the commercial one. Aeffe is closely monitoring the evolution of high-potential markets, in particular China and South East Asia, focusing on the interests of millennials, which in an increasingly globalized world are becoming ever more important customers. Furthermore, in order to consolidate the dialogue with consumers and attract new customers, the Group strongly believes and is investing in the multi-channel approach, that is the integration of retail, wholesale and online.

The Aeffe Group aims to strengthen its presence in the main markets and to catch new opportunities in those with high potential, in particular the Greater China and Asia Pacific area, expanding the franchising network and aiming at a plan of selective openings of monobrand directly operated stores (DOS).

Looking ahead, we see that in recent weeks the international scenario suddenly weakened, as a result of the spread of Coronavirus, and today the duration of this epidemic is still uncertain. Our Group is committing all of its resources and energies to face these difficult market conditions, both in terms of careful management of customer relations and of considered actions aimed at containing costs that can be postponed without any prejudice to the development and strengthening of our brands.

In this scenario, we have taken timely corrective measures we estimate of fundamental importance to the long-term interest of the Group and effective for facing the challenges of the current evolution of the macroeconomic situation.

The Chairman of the Board of Directors

Massimo Ferretti

INDEX

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
Alessandro Bonfiglioli
Bettina Campedelli

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

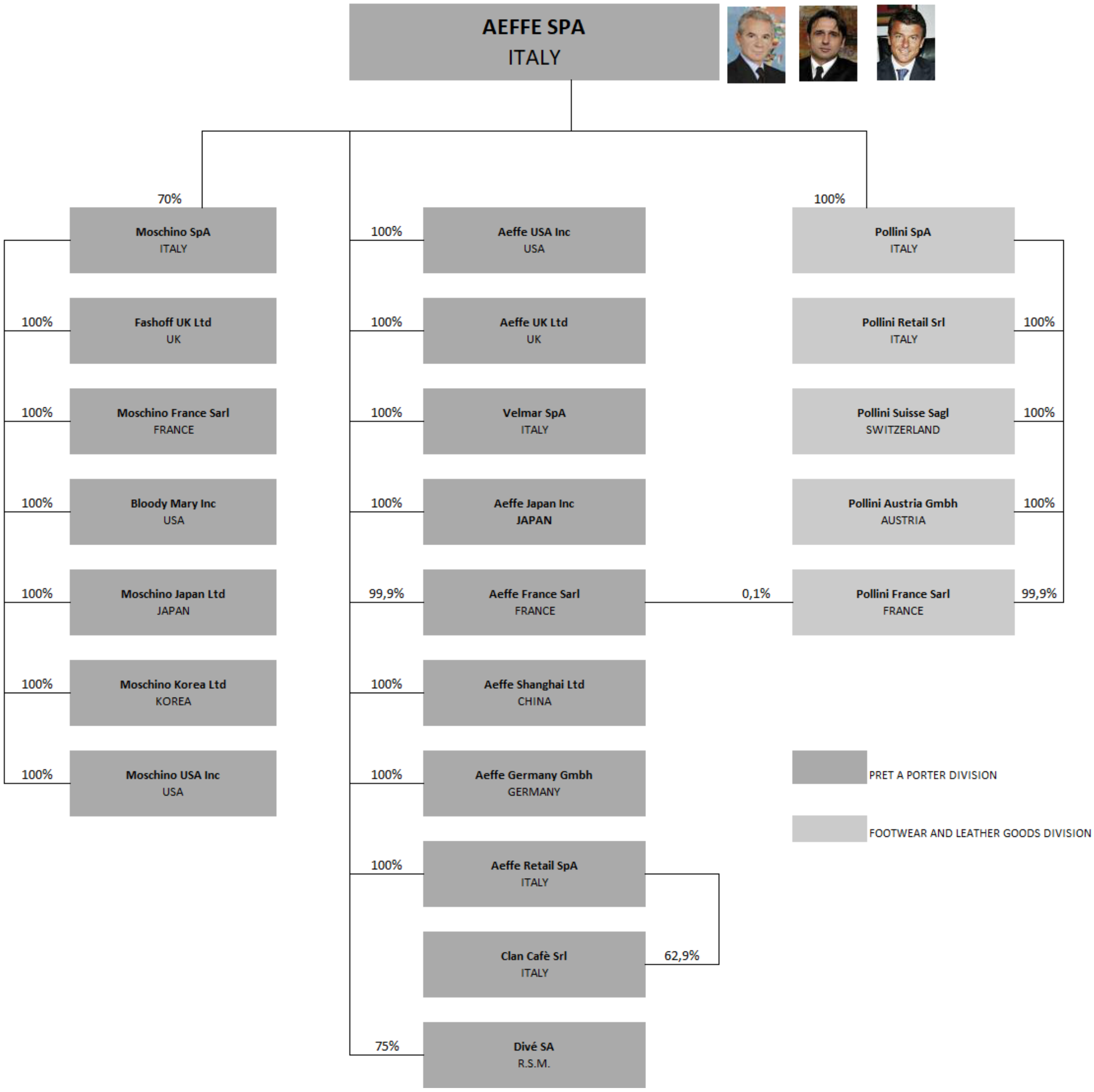
Members
Roberto Lugano
Bettina Campedelli

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
- CUSTO BARCELONA

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)
Via Donizetti, 48
20122 - Milan
Italy

MILAN
(MOSCHINO)
Via San Gregorio, 28
20124 - 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

Main flagshipstore locations under direct management

ALBERTA FERRETTI
Milan
Rome
Paris
London
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 2019	Full Year 2018
Total revenues	(Values in millions of EUI	361.5	352.0
Gross operating margin (EBITDA) *	(Values in millions of EUI	53.1	43.3
Net operating profit (EBIT)	(Values in millions of EUI	25.1	29.6
Profit before taxes	(Values in millions of EUI	21.8	28.8
Net profit for the Group	(Values in millions of EUI	11.7	16.7
Basic earnings per share	(Values in units of EUR)	0.115	0.165
Cash Flow (net profit + depreciation)	(Values in millions of EUI	38.7	29.0
Cash Flow/Total revenues	(Values in percentage)	10.7	8.2

* 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 2019	31 December 2018
Net capital invested	(Values in millions of EUR)	339.3	228.7
Net financial indebtedness	(Values in millions of EUR)	135.2	31.3
Group net equity	(Values in millions of EUR)	171.4	164.6
Group net equity per share	(Values in units of EUR)	1.6	1.5
Current assets/ current liabilities	(Ratio)	2.1	1.8
Current assets less invent./ current liabilities (ACID test)	(Ratio)	0.9	0.8
Net financial indebtedness/ Net equity	(Ratio)	0.7	0.2
ROI: Net operating profit/ Net capital invested	(Values in percentage)	7.4	13.0

CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2019

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

In its Interim Economic Outlook published last March 2, 2020, according to the OECD, the Covid-19 coronavirus represents the greatest danger to the global economy since the time of the financial crisis. In particular, the OECD proposes two scenarios: a more favorable one, in which the impact of the epidemic is globally limited, and a second scenario, the so-called "domino effect", with a more general contagion, with an appeal for intervention to public authorities.

Even at best, the OECD expects a strong impact in the first half of 2020. Global GDP growth is expected to slow further, to 2.4% in 2020, against 2.9% in 2019. The forecast it is cut by 0.5 points compared to previous November ones. Starting with China, now estimated below the 5% (4.9%) of GDP threshold in 2020, before an expected rise of more than 6% in 2021.

MACROECONOMIC BACKGROUND TO THE CLOTHING SECTOR

To date, not only China but all the countries affected by Covid-19 have adopted very strict prevention and control measures with the aim of containing the epidemic, including the closure of schools, restrictions on circulation in the most affected and the blocking of numerous flights to and from the most affected areas.

The situation remains evolving and is causing a significant generalized effect on tourism, travel and sales penalized both on Asian markets and at a domestic level for the contraction of tourist flows. Growth is still exposed to significant risks.

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 “Jeremy Scott” and “Custo”. 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 “Jeremy Scott” and “Custo”). 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 "Custo".

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 five single-brand Moschino stores, two 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.

In 2019 Velmar signed a licensing agreement with Custo Barcel for the production and distribution at international level of men's, women's, leather goods, footwear and accessories collections.

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 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 Shanghai

Aeffe Shanghai is 100% owned by Aeffe S.p.A. and manages the store in Shanghai, which sells clothing and accessories under the Alberta Ferretti label.

Aeffe Germany

Aeffe Germany is 100% owned by Aeffe S.p.A. and manages the store in Metzingen in Germany, which sells clothing and accessories under the Group labels.

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 operates in the retail segment through flagship stores under direct management and duty-free 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 two single-brand Moschino stores in Paris.

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. This contract ended in September 2018.

Moschino USA

Moschino USA, company founded in 2014 with base in New York and 100% owned by Moschino S.p.A., directly manage mainly 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)	FY 2019 IFRS 16	% on revenues	FY 2019 No IFRS 16	% on revenues	FY 2018	% on revenues	Change % included IFRS 16	Change % excluded IFRS 16
REVENUES FROM SALES AND SERVICES	**351,403**	**100.0%**	**351,403**	**100.0%**	**346,556**	**100.0%**	**1.4%**	**1.4%**
Other revenues and income	10,064	2.9%	10,064	2.9%	5,450	1.6%	84.7%	84.7%
TOTAL REVENUES	**361,468**	**102.9%**	**361,468**	**102.9%**	**352,007**	**101.6%**	**2.7%**	**2.7%**
Changes in inventory	5,935	1.7%	5,935	1.7%	4,529	1.3%	31.0%	31.0%
Costs of raw materials, cons. and goods for resale	(121,189)	(34.5%)	(121,189)	(34.5%)	(114,811)	(33.1%)	5.6%	5.6%
Costs of services	(108,336)	(30.8%)	(108,336)	(30.8%)	(100,583)	(29.0%)	7.7%	7.7%
Costs for use of third parties assets	(9,032)	(2.6%)	(25,608)	(7.3%)	(25,391)	(7.3%)	(64.4%)	0.9%
Labour costs	(72,387)	(20.6%)	(72,387)	(20.6%)	(68,503)	(19.8%)	5.7%	5.7%
Other operating expenses	(3,329)	(0.9%)	(3,329)	(0.9%)	(3,919)	(1.1%)	(15.0%)	(15.0%)
Total Operating Costs	(308,338)	(87.7%)	(324,914)	(92.5%)	(308,678)	(89.1%)	(0.1%)	5.3%
GROSS OPERATING MARGIN (EBITDA)	**53,129**	**15.1%**	**36,553**	**10.4%**	**43,329**	**12.5%**	**22.6%**	**(15.6%)**
Amortisation of intangible fixed assets	(4,668)	(1.3%)	(6,328)	(1.8%)	(6,475)	(1.9%)	(27.9%)	(2.3%)
Depreciation of tangible fixed assets	(5,321)	(1.5%)	(5,321)	(1.5%)	(5,286)	(1.5%)	0.7%	0.7%
Depreciation of right-of-use assets	(16,717)	(4.8%)	-	0.0%	-	0.0%	n.a	n.a
Revaluations / (write-downs) and provisions	(1,321)	(0.4%)	(1,321)	(0.4%)	(1,922)	(0.6%)	(31.2%)	(31.2%)
Total Amortisation, write-downs and provisions	(28,028)	(8.0%)	(12,970)	(3.7%)	(13,682)	(3.9%)	104.8%	(5.2%)
NET OPERATING PROFIT / LOSS (EBIT)	**25,102**	**7.1%**	**23,583**	**6.7%**	**29,647**	**8.6%**	**(15.3%)**	**(20.5%)**
Financial income	457	0.1%	457	0.1%	744	0.2%	(38.6%)	(38.6%)
Financial expenses	(1,414)	(0.4%)	(1,414)	(0.4%)	(1,594)	(0.5%)	(11.3%)	(11.3%)
Leasing interest expenses	(2,338)	(0.7%)	-	0.0%	-	0.0%	n.a	n.a
Total Financial Income/(expenses)	(3,295)	(0.9%)	(957)	(0.3%)	(850)	(0.2%)	287.6%	12.6%
PROFIT / LOSS BEFORE TAXES	**21,806**	**6.2%**	**22,626**	**6.4%**	**28,797**	**8.3%**	**(24.3%)**	**(21.4%)**
Taxes	(9,802)	(2.8%)	(10,005)	(2.8%)	(11,599)	(3.3%)	(15.5%)	(13.7%)
NET PROFIT / LOSS	**12,004**	**3.4%**	**12,620**	**3.6%**	**17,198**	**5.0%**	**(30.2%)**	**(26.6%)**
(Profit) / loss attributable to minority shareholders	(312)	(0.1%)	(312)	(0.1%)	(472)	(0.1%)	(34.0%)	(34.0%)
NET PROFIT / LOSS FOR THE GROUP	**11,693**	**3.3%**	**12,309**	**3.5%**	**16,726**	**4.8%**	**(30.1%)**	**(26.4%)**

Statement of reconciliation of the income statement as of December 31, 2019

The effects of the application of the new IFRS 16 are as follows:

(Values in thousands of EUR)	FY 2019 IFRS 16	Effects IFRS 16	FY 2019 No IFRS 16	FY 2018	Change Excluded IFRS16	Change % Excluded IFRS16
TOTAL REVENUES	**361,468**	**0**	**361,468**	**352,007**	**9,461**	**2.7%**
Total Operating Costs	(308,338)	(16,576)	(324,914)	(308,678)	339	5.3%
GROSS OPERATING MARGIN (EBITDA)	**53,129**	**(16,576)**	**36,553**	**43,329**	**9,800**	**-15.6%**
Total Amortisation and write-downs	(28,028)	15,057	(12,970)	(13,682)	(14,345)	-5.2%
NET OPERATING PROFIT / LOSS (EBIT)	**25,102**	**(1,519)**	**23,583**	**29,647**	**(4,545)**	**-20.5%**
Total Financial Income / (expenses)	(3,295)	2,338	(957)	(850)	(2,445)	12.6%
PROFIT / LOSS BEFORE TAXES	**21,806**	**819**	**22,626**	**28,797**	**(6,991)**	**-21.4%**
Taxes	(9,802)	(203)	(10,005)	(11,599)	1,797	-13.7%
NET PROFIT / LOSS	**12,004**	**616**	**12,620**	**17,198**	**(5,194)**	**-26.6%**

Sales

In 2019 consolidated revenues amount to EUR 351,403 thousand compared to EUR 346,556 thousand of the year 2018, showing an increase of 1.4% (+1.2% at constant exchange rates). Revenues of the prêt-à-porter division amount to EUR 262,219 thousand with a decrease of 1.3% at current exchange rates (-1.6% at constant exchange rates) compared to 2018. The revenues of the footwear and leather goods division increase by 8.3% to EUR 128,178 thousand.

Sales by brand

(Values in thousands of EUR)	Full Year 2019	%	Full Year 2018	%	Change Δ	Change %
Alberta Ferretti	26,144	7.4%	32,117	9.3%	(5,973)	(18.6%)
Philosophy	18,244	5.2%	18,181	5.2%	63	0.3%
Moschino	262,507	74.7%	250,820	72.4%	11,687	4.7%
Pollini	35,920	10.2%	35,976	10.4%	(56)	(0.2%)
Other	8,588	2.5%	9,462	2.7%	(874)	(9.2%)
Total	**351,403**	**100.0%**	**346,556**	**100.0%**	**4,847**	**1.4%**

In 2019, the Alberta Ferretti brand decreases by 18.6% (-18.9% at constant exchange rates), contributing to 7.4% of consolidated sales, while Philosophy di Lorenzo Serafini brand increases by 0.3% (-0.3% at constant exchange rates), contributing to 5.2% of consolidated sales.

In the same period Moschino brand increases by 4.7% (+4.5% at constant exchange rates), contributing to 74.7% of consolidated sales. Pollini brand records a decrease of 0.2% (-0.3% at constant exchange rates), generating 10.2% of consolidated sales, while brands under license decreases by 9.2% (-10.2% at constant exchange rates), equal to 2.5% of consolidated sales.

Sales by geographical area

(Values in thousands of EUR)	Full Year 2019	%	Full Year 2018	%	Change Δ	Change %
Italy	160,865	45.8%	168,453	48.6%	(7,588)	(4.5%)
Europe (Italy excluded)	86,890	24.7%	80,301	23.2%	6,589	8.2%
Asia and Rest of the World	86,020	24.5%	80,092	23.1%	5,928	7.4%
America	17,628	5.0%	17,710	5.1%	(82)	(0.5%)
Total	**351,403**	**100.0%**	**346,556**	**100.0%**	**4,847**	**1.4%**

In 2019, sales in Italy register a decrease to EUR 160,865 thousand, contributing to 45.8% of consolidated sales, directly due to the weakness of the wholesale channel, in contrast with the positive performance of retail. Sales in Europe increase by 8.2% (+8.1% at constant exchange rates), contributing to 24.7% of consolidated sales, driven especially by the good performance in UK, Germany and Eastern Europe.

In Asia and in the Rest of the World, the Group’s sales total EUR 86,020 thousand, amounting to 24.5% of consolidated sales, recording an increase of 7.4% (+7.5% at constant exchange rates) especially driven by a good trend in China and Korea, which posted a 7.2% and 14.6% growth respectively. Sales in America, contributing to 5.0% of consolidated sales, post in the period a decrease of 0.5% (-4.5%).

Sales by distribution channel

(Values in thousands of EUR)	Full Year 2019	%	Full Year 2018	%	Change Δ	Change %
Wholesale	243,904	69.4%	247,827	71.5%	(3,923)	(1.6%)
Retail	93,801	26.7%	87,094	25.1%	6,707	7.7%
Royalties	13,698	3.9%	11,635	3.4%	2,063	17.7%
Total	**351,403**	**100.0%**	**346,556**	**100.0%**	**4,847**	**1.4%**

The revenues generated by the Group during 2019 are analysed below:

- 69.4% from the Group's sales organisation, showrooms, agents and importers, franchise outlets, corners and shop-in-shops (wholesale channel), which contributes EUR 247,827 thousand in 2018 and EUR 243,904 thousand in 2019, down 1.6% (-1.8% at constant exchange rates);

- 26.7% from sales outlets managed directly by the Group (retail channel), which contributes EUR 87,094 thousand in 2018 and EUR 93,801 thousand in 2019, +7.7% (+7.5% at constant exchange rates);

- 3.9% 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 11,635 thousand in 2018 to EUR 13,698 thousand in 2019, by 17.7%.

Labour costs

Labour costs change from EUR 68,503 thousand in 2018 to EUR 72,387 thousand in 2019, recording an increase of EUR 3,884 thousand, and an incidence on revenues which changes from 19.8% in 2018 to 20.6% in 2019.

The workforce increases from an average of 1,350 units in 2018 to 1,364 units in 2019.

Average number of employees by category	Full Year	Full Year	Change	
	2019	2018	Δ	%
Workers	252	248	4	1.6%
Office staff-supervisors	1,088	1,080	8	0.7%
Executive and senior managers	24	22	2	9.1%
Total	**1,364**	**1,350**	**14**	**1.0%**

Gross Operating Margin (EBITDA)

In 2019 consolidated EBITDA is positive for EUR 53,129 thousand (with an incidence of 15.1% of consolidated sales), showing an increase of 22.6% compared to an EBITDA of EUR 43,329 thousand in 2018 (with an incidence of 12.5% of consolidated sales).

The increase in EBITDA is mainly related to the application of IFRS 16. The application of the new standard has led to the cancellation of operating lease instalments recognized as costs for services that will be re-allocated to depreciation of the rights to use assets and charges financial related to the valuation of the amortized cost of the financial debt of the lease. The cumulative effect deriving from the application of IFRS 16 is equal to EUR 16,576 thousand.

In particular, EBITDA of the *prêt-à-porter* division amounts to EUR 38,665 thousand (14.7% on sales), compared to an EBITDA of EUR 31,645 thousand in 2018 (11.9% on sales), with an increase of EUR 7,020 thousand of which EUR 15,202 thousand relating to the application of IFRS 16.

In 2019 EBITDA of the footwear and leather goods division is EUR 14,464 thousand (11.3% on sales), compared to an EBITDA of EUR 11,684 thousand in 2018 (9.9% on sales), with a EUR 2,780 thousand increase. The effect on the EBITDA of the IFRS 16 was equal to EUR 1,374 thousand.

Net operating result (EBIT)

Consolidated EBIT is equal to EUR 25,102 thousand (7.1% on sales), recording an reduction of EUR 4,545 thousand, compared to EUR 29,547 thousand of 2018 (8.6% on sales). The effect on the EBIT of the IFRS 16 is equal to EUR 1,519 thousand.

Result before taxes

In 2019, net financial charges amount to EUR 3,295 thousand (of which EUR 2,338 thousand relating to the application of IFRS 16) compared to EUR 850 thousand in 2018 and the increase is mainly driven by the application of IFRS 16.

The result before taxes amounts to EUR 21,806 thousand compared with result before taxes of EUR 28,797 thousand in 2018, with a EUR 6,991 thousand decrease.

The effect on the result before taxes of the IFRS 16 is equal to EUR -819 thousand.

Net result

Net result posts a profit of EUR 12,004 thousand in 2019 compared to EUR 17,198 thousand in 2018, with an drop in absolute value of EUR 5,194 thousand.

Net result for the Group

Consolidated net result for the Group decreases from EUR 16,726 thousand in 2018 to EUR 11,693 thousand in 2019, with a reduction of EUR 5,033 thousand.

CONSOLIDATED BALANCE SHEET

(Values in units of EUR)	31 December 2019	31 December 2018 included IFRS16	31 December 2018 excluded IFRS16
Trade receivables	41,524,614	43,138,560	43,138,560
Stock and inventories	112,050,942	104,261,515	104,261,515
Trade payables	(74,300,469)	(76,949,819)	(76,949,819)
Operating net working capital	**79,275,087**	**70,450,256**	**70,450,256**
Other short term receivables	35,218,280	34,852,460	34,852,460
Tax receivables	14,118,912	7,759,828	7,759,828
Derivative assets	74,055	219,632	219,632
Other short term liabilities	(18,125,081)	(21,081,936)	(21,081,936)
Tax payables	(3,391,481)	(6,452,612)	(6,452,612)
Derivative liabilities	-	-	-
Net working capital	**107,169,772**	**85,747,628**	**85,747,628**
Tangible fixed assets	62,824,618	60,298,801	60,298,801
Intangible fixed assets	76,083,463	79,576,000	103,132,467
Right-of-use assets	110,714,289	125,675,066	-
Equity investments	131,558	131,558	131,558
Other fixed assets	2,720,383	2,810,046	2,810,046
Fixed assets	**252,474,311**	**268,491,471**	**166,372,872**
Post employment benefits	(5,194,899)	(5,491,570)	(5,491,570)
Provisions	(1,847,295)	(2,558,544)	(2,558,544)
Assets available for sale	436,885	436,885	436,885
Long term not financial liabilities	(717,143)	(770,731)	(770,731)
Deferred tax assets	16,949,535	16,780,455	15,073,001
Deferred tax liabilities	(29,982,114)	(30,093,668)	(30,093,668)
NET CAPITAL INVESTED	**339,289,052**	**332,541,926**	**228,715,873**
Share capital	25,286,166	25,371,407	25,371,407
Other reserves	127,822,540	119,946,741	123,799,107
Profits / (Losses) carried-forward	6,585,047	(1,287,069)	(1,287,069)
Profits / (Loss) for the period	11,692,734	16,726,101	16,726,101
Group interest in shareholders' equity	**171,386,487**	**160,757,180**	**164,609,546**
Minority interests in shareholders' equity	32,688,421	32,289,751	32,849,847
Total shareholders' equity	**204,074,908**	**193,046,931**	**197,459,393**
Short term financial receivables	(1,132,124)	(1,420,000)	(1,420,000)
Cash	(28,390,143)	(28,037,213)	(28,037,213)
Long term financial liabilities	13,448,747	16,408,975	16,408,975
Long term financial receivables	(2,225,387)	(2,302,096)	(2,302,096)
Short term financial liabilities	57,709,288	46,606,814	46,606,814
NET FINANCIAL POSITION	**39,410,381**	**31,256,480**	**31,256,480**
Short term lease liabilities	14,098,081	14,062,364	-
Long term lease liabilities	81,705,682	94,176,151	-
NET FINANCIAL POSITION WITHOUT IFRS 16 EFFECTS	**135,214,144**	**139,494,995**	**31,256,480**
SHAREHOLDERS' EQUITY AND NET FINANCIAL INDEBTEDNESS	**339,289,052**	**332,541,926**	**228,715,873**

NET INVESTED CAPITAL

Compared to December 31, 2018, net invested capital increased by 51% due to the application of the new standard which had an impact of EUR 104 million on the opening balance sheet as of 01.01.2019.

Net working capital

Net working capital amounts to EUR 107,170 thousand (30.5% on sales) compared with EUR 85,748 thousand at 31 December 2018 (24.7% 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 12.5% (EUR 8,825 thousand) with an incidence on sales that changes from 20.3% in 2018 to 22.6% in 2019, mainly for the stock increase;
- the sum of other receivables and payables increases in all of EUR 3,323 thousand compared with the previous year mainly for lower accrued expenses and deferred incomes;
- the sum of tax receivables and tax payables increase in all of EUR 9,420 thousand. Such increase is mainly due to the increase of VAT receivable and tax receivable for IRES.

Fixed assets

Fixed assets increase by EUR 86,101 thousand from December 31, 2018, mainly relating to the application of IFRS 16 (effect on 01/01/2019 amounting to EUR 102,119 thousand).

NET FINANCIAL POSITION

The increase in the net financial position relates to the application of IFRS 16 which weighed for EUR 95,804 thousand. Without considering the effect of the application of the new standard, the net financial position increases by EUR 8,154 thousand, rising from EUR 31,256 thousand at December 31, 2018 to EUR 39,410 thousand at December 31, 2019.

(Values in thousands of EUR)	*31 December 2019*	*Effects IFRS 16*	*31 December 2019 No IFRS 16*	*31 December 2018*	*Change excluded IFRS 16*
Short term financial receivables	(1,132)		(1,132)	(1,420)	288
Cash	(28,390)		(28,390)	(28,037)	(353)
Long term financial liabilities	13,449		13,449	16,409	(2,960)
Long term financial receivables	(2,225)		(2,225)	(2,302)	77
Short term financial liabilities	57,709		57,709	46,607	11,102
Short term lease liabilities (IFRS 16)	14,098	14,098	-		-
Long term lease liabilities (IFRS 16)	81,706	81,706	-	-	-
NET FINANCIAL POSITION	**135,214**	**95,804**	**39,410**	**31,256**	**8,154**

SHAREHOLDERS' EQUITY

The shareholders' equity increases by EUR 6,616 thousand from EUR 197,459 thousand as of 31 December 2018 to EUR 204,075 thousand as of 31 December 2019. 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	3.000%
Other shareholders(*)	35.203%

(*) 5,791% 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 2019 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 2019	Net profit /loss for the full year 2019
Taken from the corporate financial statements of the parent company	**155,573**	**5,138**
Share of the consolidated subsidiaries's equity and profit /loss attributable to the Group, net of the carrying amount of equity interests	19,120	10,673
Effect of business combination reopening	30,693	(1,412)
Reversal of the intercompany inventory margin	(6,371)	(2,035)
Transition to parent company accounting policies	2,447	56
Other adjustments	2,613	(416)
Total consolidation adjustments	**48,502**	**6,866**
Group interest in shareholders' equity	**171,387**	**11,692**
Minority interest	**32,688**	**312**
Total shareholders' equity	**204,075**	**12,004**

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.

The Code of Self-Regulation is aimed at all companies with shares listed on the Mercato Telematico Azionario managed by Borsa Italiana and constitutes an organizational and functional reference model for companies listed on markets organized and managed by Borsa Italiana, which is non-binding and characterized the flexibility necessary for its adoption by 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.

Companies adopt the Code with prevalence of substance over form and apply its recommendations according to the "comply or explain" criterion.

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 2019, the Parent Company holds 6.217.839 treasury shares, par value EUR 0.25 each, totalling 5.791% of its share capital. During 2019, 340,961 treasury shares were purchased by the Parent Company for a total value of Euro 550,268.

As of 31 December 2019 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

On December 31, 2019, the Wuhan Municipal Health Commission (China) reported a series of pneumonia cases of unknown origin to the World Health Organization in the city of Wuhan, in the Chinese province of Hubei. In early January 2020, the Chinese CDC communicated the identification of a new coronavirus (2019-nCoV), subsequently named by WHO Covid-19. As of the date of this document, the virus has affected thousands of people worldwide, reaching other countries including Italy, and is causing various deaths. To date, not only China but also the other countries affected by Covid-19 have adopted very strict prevention and control measures with the aim of containing the epidemic, including the closure of schools, restrictions on circulation in the areas most affected and the blocking of numerous flights to and from the most affected areas. The situation remains evolving and is causing a significant generalized effect on tourism, travel and sales penalized both on Asian markets and at a domestic level for the contraction of tourist flows.

In recent weeks, the international macroeconomic scenario has suddenly weakened due to the spread of Coronavirus and today uncertainty about the duration of this epidemic remains high. The Group is committing all its resources and energies to face these difficult market conditions, both in terms of careful management of commercial relations with customers and of weighted actions aimed at containing costs that can be postponed without any prejudice for development and the strengthening of its brands.

In this scenario, timely corrective measures were taken, considered to be of fundamental importance for the long-term interest of the Group and capable of facing the challenges of the current development of the macroeconomic situation.

These measures are part of an ad hoc plan designed to effectively and efficiently combat the negative effects of the global emergence of the Covid-19 coronavirus.

12. OUTLOOK

The current international macroeconomic framework remains very complicated and the economic and social consequences linked to the Covid-19 coronavirus epidemic are currently not quantifiable.

The Group has already taken measures to deal with the situation by limiting its negative effects, through a particularly careful management of commercial relations with customers and the adoption of well-thought-out measures aimed at postponing costs without any prejudice for the strengthening and support of its brand.

The Group likewise confirms its commitment in terms of research, creativity and high-quality manufacturing with the aim of strengthening the positioning of the brands in its portfolio, such as Alberta Ferretti, Philosophy di Lorenzo Serafini, Moschino, Pollini.

In terms of geographical areas, the Group observes with constant attention the evolution of markets with high potential, evaluating the optimization of the development plan of the franchising network and selective openings of directly operated single-brand stores (DOS). Furthermore, following the internationalization of the management of the on-line stores of the owned brands, the Group expects further synergies deriving from the multi-channel distribution approach, i.e. on the integration between the different sales channels, physical and online. , also with a view to customizing the customer experience.

CONSOLIDATED NON-FINANCIAL DECLARATION

METHODOLOGY

The Aeffe Group (hereinafter also referred to as Aeffe or the Group) 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 directors to prepare a Consolidated Non-Financial Declaration (hereinafter also referred to as the Declaration or NFD), in order to describe to the shareholders and, more generally, all stakeholders, the principal aspects of the Group's social and environmental performance during the year ended 31st December 2019.

In order to comply with the reporting criteria envisaged in Decree 254/2016, the Group adopted the GRI Sustainability Reporting Standards (GRI Standards) to prepare this Consolidated Non-Financial Declaration. The related guidelines, issued in 2016 by the Global Reporting Initiative, represent the reference model most widely adopted at an international level for reporting on sustainability.

The “GRI Content Index” presents, in summary form, a table that correlates the information reported by the Group with the relevant GRI indicators, opting for a Referenced level of coverage.

The 2019 data presented is compared, where possible, with the results for 2018. The information was collected directly, with the exception of certain estimates - duly reported in the document - that do not affect the accuracy of the data presented.

All parts of the organization contributed to determining the contents of this Declaration, while the actual data was collected by the Administration, Finance and Control Department.

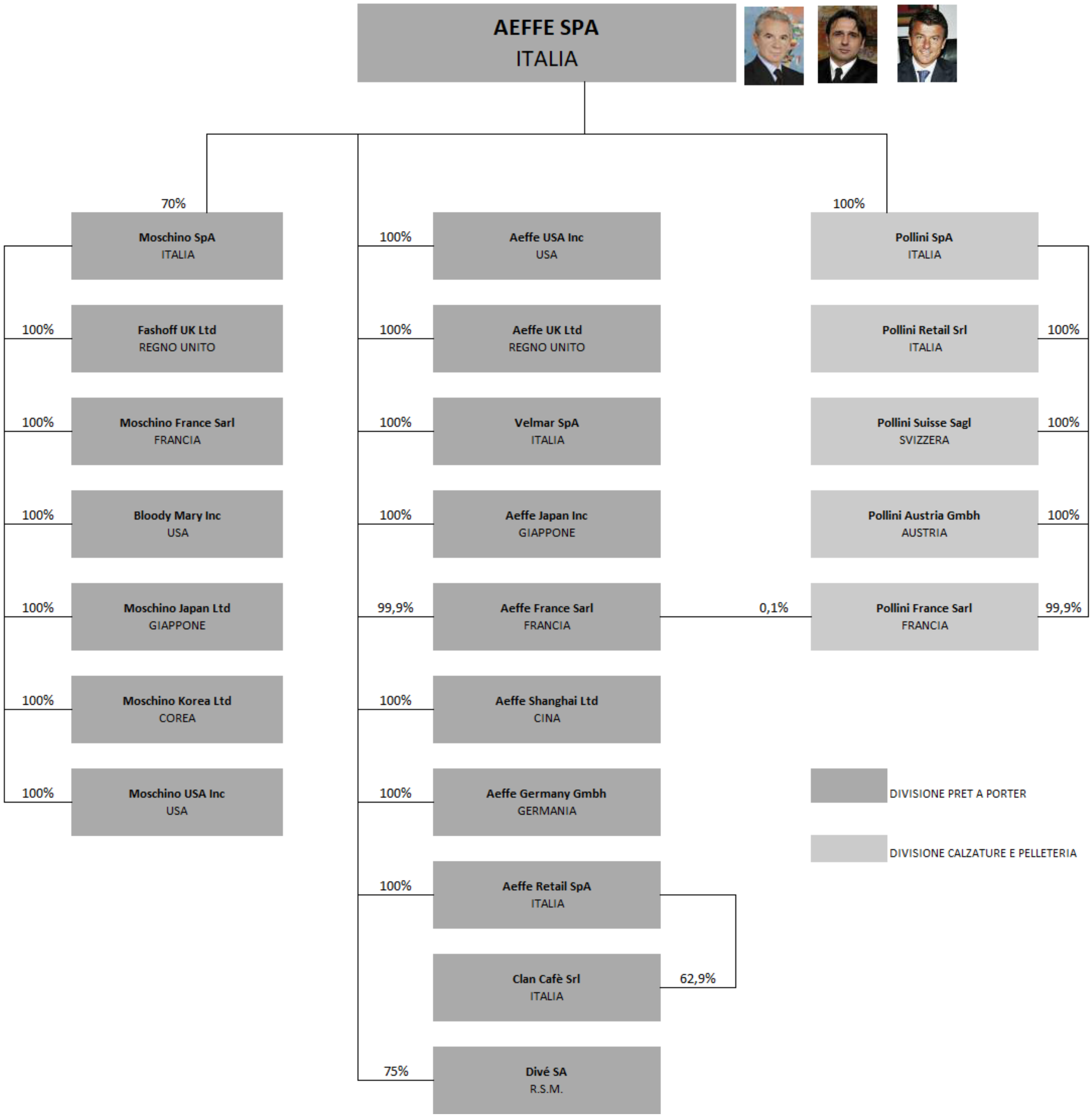
Scope of the Consolidated Non-Financial Declaration

The following Group companies are included within the reporting scope of this Non-Financial Declaration: Aeffe S.p.A., Aeffe Retail S.p.A., Aeffe USA Inc., Velmar S.p.A., Pollini S.p.A., Pollini Retail S.r.l., Moschino S.p.A., Moschino Korea Ltd.

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

These exclusions are explained by the fact that the socio-economic and environmental impacts of the above companies are not believed significant, considering their incidence in terms of consolidated sales and employment. This possibility is 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.

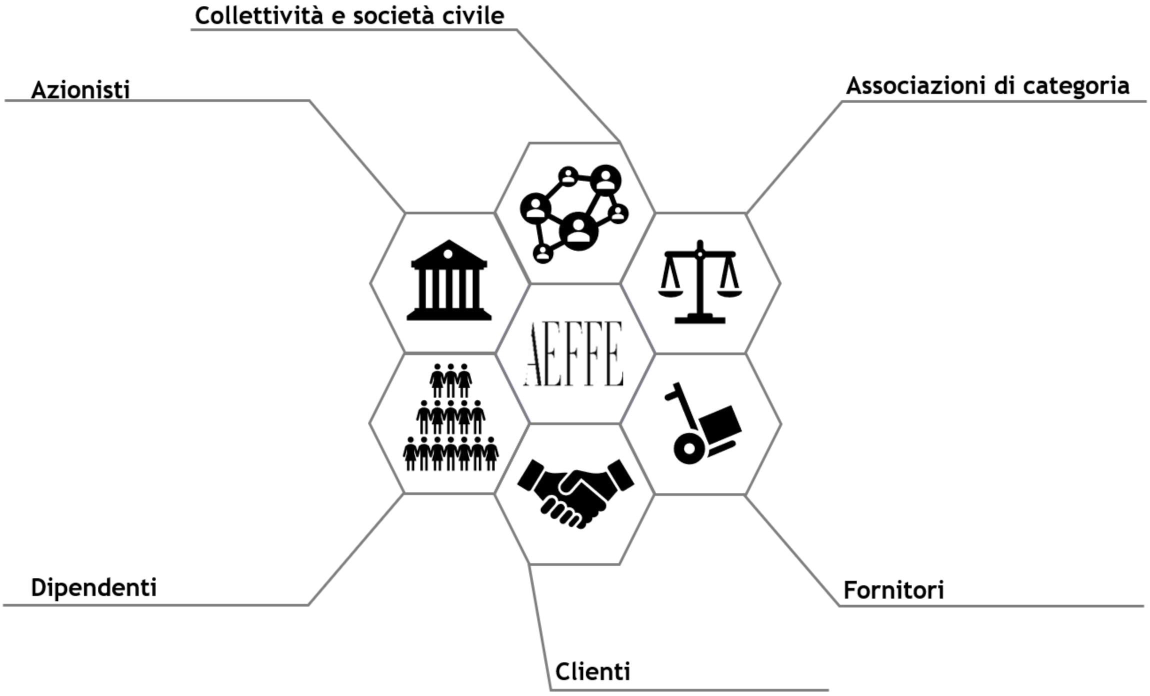
The following diagram presents the corporate structure of the Group, including its controlling interests at 31st December 2019.



Analysis of materiality associated with risk

The activities of Aeffe involve maintaining relations with numerous actors. More or less directly, these stakeholders influence the work performed and have an interest in ensuring that business is carried out in a responsible and sustainable manner.

The following principal categories of stakeholder have been identified by Aeffe, which is conscious of the Group's social role and deep territorial roots:



As part of the reporting process, Aeffe carried out a materiality analysis designed to identify and prioritize the topics considered meaningful for the business and for the various categories of stakeholder.

Material topics were identified within the boundaries envisaged in Decree 254/2016, having regard for the need to ensure that the activities of the Group are understood, together with the impacts generated by them. In particular, these topics encompass the more significant economic, social and environmental impacts of the Organization, while also influencing the decisions made by both internal and external stakeholders.

It is recognized that risk management and strategy underpin all non-financial reporting. For this reason, the Group has decided this year, for the first time, to include the level of perceived risk for each material topic in its materiality matrix. This matrix, with a direct link to the perceived risk, was created by applying weighted analyses.

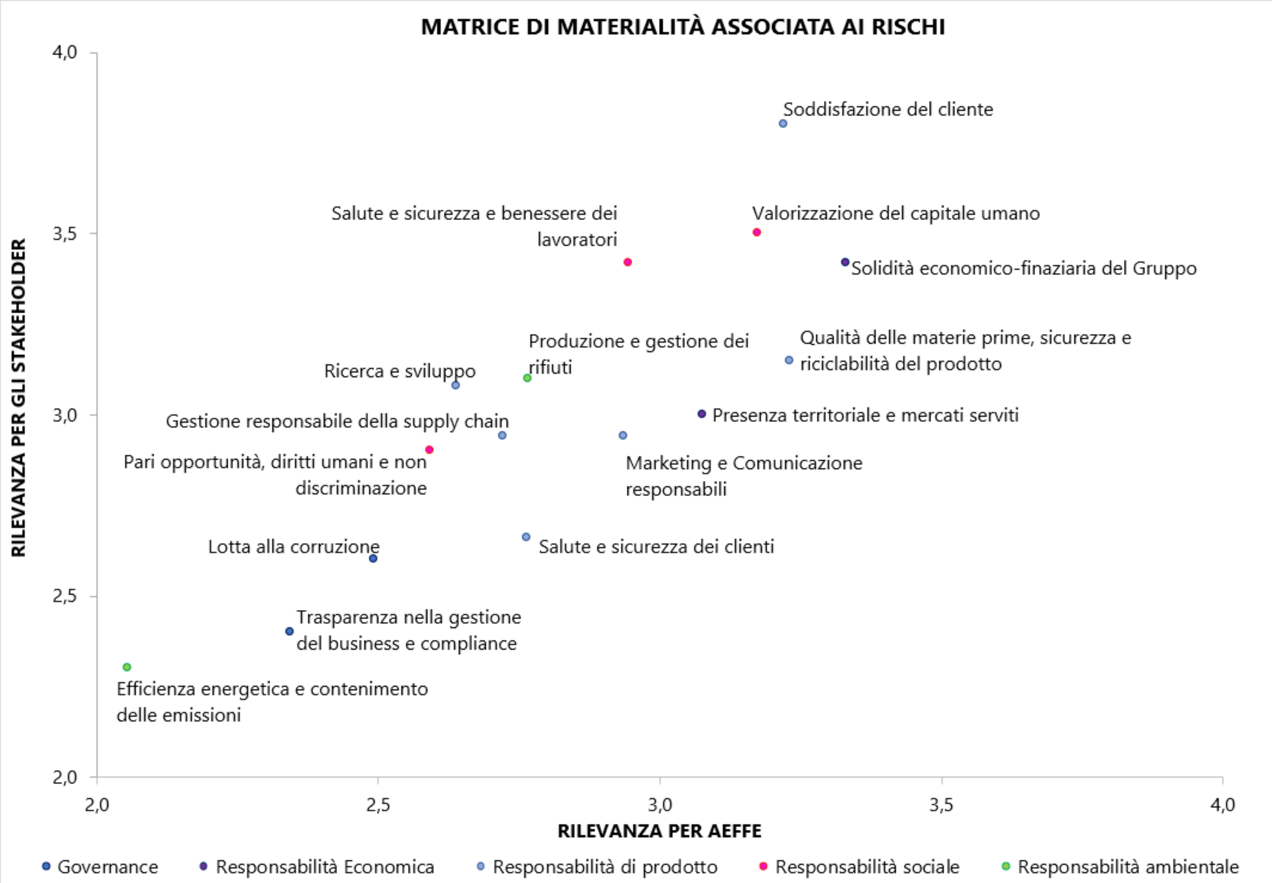
After identifying the topics of importance to Aeffe, the core issues - those crucial topics at the focus of reporting - were determined by:

- conducting an internal survey to identify the material topics;
- conducting a survey among the target group to assess the risks associated with each topic (General Management; Operations Department; Administration, Finance and Control Department; Prevention and Protection Department; Human Resources Department). The level of risk was calculated by multiplying the probability of occurrence of the risk event - due to inadequate supervision of the material topic - by the seriousness (gravity) of any resulting consequences [R=PxG];
- benchmarking with leading competitors and peers in the sector.

This analysis made it possible to:

- identify the material topics;
- determine the degree of alignment/misalignment between the standpoint of stakeholders and that of the Group on each topic;
- analyze and identify the level of risk associated with each topic.

The above analysis generated the following matrix, which was obtained by combining the assessments of each topic and the level of risk associated with each, both from the standpoint of Aeffe and from that of the various stakeholders. The matrix only addresses those topics that satisfied the materiality threshold, being those that - on both axes - obtained an average score in excess of 2 on a scale from 1 (insignificant, improbable and not serious) to 4 (very significant, highly probable and very serious).



The following analysis identifies, for each material topic, the related risks, the perimeter within which real and potential impacts are generated, and the scope of reporting.

<table>
<tr><th rowspan="2">Context</th><th rowspan="2">Material topic</th><th rowspan="2">Risks identified</th><th colspan="2">Impact scope</th><th rowspan="2">Reporting scope</th></tr>
<tr><th>Internal</th><th>External</th></tr>
<tr><td rowspan="2">Governance</td><td>Transparency of business management and compliance</td><td>Non-compliance with or violation of regulations, resulting in payment of monetary fines and/or involvement in court cases</td><td>Aeffe Group</td><td>External collaborators</td><td>NFD perimeter</td></tr>
<tr><td>Fight against corruption</td><td>Violation of regulations, resulting in payment of monetary fines and/or involvement in court cases
Loss of market share</td><td>Aeffe Group</td><td>External collaborators
Vendors
Business partners</td><td>NFD perimeter</td></tr>
<tr><td>Economic liability</td><td>Economic-financial strength of the Group</td><td>Contraction of economic results and failure to achieve objectives</td><td>Aeffe Group</td><td>Business partners</td><td>Financial consolidation</td></tr>
</table>

Context	Material topic	Risks identified	Impact scope		Reporting scope
	Territorial presence and markets served	Loss of competitiveness and market share	Aeffe Group		NFD perimeter
Product liability	Quality of raw materials, product safety and recyclability	Market launch of a product not compliant with qualitative and regulatory standards, with consequent potential loss of reputation and market share	Aeffe Group	Vendors	NFD perimeter
	Customer satisfaction	Loss of image and reputation Loss of competitiveness and market share	Aeffe Group	Business partners	NFD perimeter
	Customer health and safety	Loss of image and reputation Loss of competitiveness and market share	Aeffe Group		NFD perimeter
	Responsible Marketing and Communication	Loss of image and reputation Loss of competitiveness and market share	Aeffe Group		NFD perimeter
	Responsible management of the supply chain	Bankruptcy of the vendors and commercial partners with which the Group works Contraction of economic results and failure to achieve objectives 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	Aeffe Group	Vendors Business partners	Aeffe S.p.A. and Pollini S.p.A. Limitation justified by the fact that the other companies considered are largely (or exclusively) commercial in nature. Accordingly, the impacts are not considered significant
	Research and development	Loss of image and reputation Loss of competitiveness and market share	Aeffe Group		NFD perimeter

Context	Material topic	Risks identified	Impact scope		Reporting scope
Social liability	Health, safety and well-being of workers	Increase in the injury rate Increase in work-related stress	Aeffe Group	Vendors	Only Italian companies[1] have been included in the reporting scope Compliance with local rules is guaranteed for foreign companies
	Enhancement of human capital	Increase in employee turnover and loss of skilled personnel with important roles in key processes; Failure to achieve the established objectives due to bad planning and/or wrong execution of properly planned action; Dissemination of know-how and consequent strengthening of competitors	Aeffe Group		NFD perimeter
	Equal opportunities, human rights and non-discrimination	Loss of human resources, reputation and profits due to penalties and reasons linked to racism or inequality, resulting in loss of reputation; Risk of court cases linked to failure to safeguard human rights, resulting in loss of reputation	Aeffe Group		NFD perimeter
Environmental liability	Energy efficiency and containment of emissions	Generation of adverse environmental impacts; Monetary penalties and fines for failure to comply with current regulations	Aeffe Group	Vendors	Aeffe S.p.A. and Pollini S.p.A. Limitation justified by the fact that the other companies considered are largely (or exclusively) commercial in nature. Accordingly, the impacts are not considered significant
	Production and management of waste	Generation of adverse environmental impacts, especially from the poor management of hazardous waste	Aeffe Group	Vendors	

All changes with respect to the information shown in the "reporting scope" column are evidenced appropriately within the section.

[1] Aeffe S.p.A.; Aeffe Retail S.p.A.; Velmar S.p.A.; Pollini S.p.A.; Pollini Retail S.r.l.; Moschino S.p.A.

Reporting process

The contents of this NFD have been checked and approved in the following manner:

1. a small working party was identified within the General Management team of the Aeffe Group, representing the following functions:
   - Operational Management – Aeffe S.p.A.
   - Technical Product Director – Aeffe S.p.A.
   - HR Manager – Aeffe S.p.A., Velmar S.p.A., Aeffe Retail S.p.A.
   - Consolidated Financial Statements Manager – Aeffe Group
   - HSO – Aeffe S.p.A., Velmar S.p.A., Moschino S.p.A., Aeffe Retail S.p.A.
   - Legal Department Manager – Aeffe Group
2. Each company within the reporting scope contributed the information requested, identifying a data owner and requiring the content of each data collection form to be validated by the manager of the entity concerned.
3. The consolidated information and data were then collected and aggregated by the managers of the above functions, each to the extent of their own responsibilities.
4. Lastly, the final contents were approved by the General Management of the Group and, on 12th March 2020, by the Board of Directors of Aeffe S.p.A.
5. The content of this Declaration was examined and checked by the designated auditing firm, applying the methodologies envisaged in ISAE 3000 (Limited Assurance).
6. This Declaration is published, together with the report on the 2019 Financial Statements of the Aeffe Group, in the Investor Relations - Financial Statements and Report section of the website http://www.aeffe.com.

GOVERNANCE

MATERIAL TOPICS
➢ Transparency of business management and compliance ➢ Equal opportunities, human rights and non-discrimination
IMPROVEMENT OBJECTIVES
Extend the internal auditing processes adopted by the Parent Company to all companies within the reporting scope.

Policies and 231 Model

The Aeffe Group is committed to guaranteeing equal opportunities for all collaborators. Furthermore, 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.

Aeffe S.p.A. 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.

BODY	No. MEMBERS	FUNCTION
Board of Directors	8	The Company is managed by a Board of Directors comprising a number of executive and non-executive directors, with female directors accounting for at least a third of the total. The ordinary Shareholders' Meeting is responsible for appointing the members of the Board of Directors, from the lists of candidates presented by the shareholders, in compliance with the current legislation on gender balance. The Board of Directors exercises the widest powers of ordinary and extraordinary administration, without any exceptions, and has the right to perform all deeds deemed appropriate for the pursuit and achievement of the company's objects, with the sole exclusion of those reserved by law for the shareholders' meeting.
Board of Statutory Auditors	5	The Board of Statutory Auditors checks compliance with the law and with the company statutes and can challenge any non-compliant resolutions before the courts. The Statutory Auditors also verify the adequacy of the administrative and accounting organization and the proper administration of the Company, reporting any significant facts to the Shareholders’ Meeting. They can also report any management irregularities to the courts.
Compensation Committee	3	The role of the Compensation Committee is to make proposals to the Board, in the absence of the directors involved, concerning the remuneration of the executive directors and those with specific responsibilities, as well as - at the request of the executive directors - to establish criteria for the remuneration of the Company's senior managers, including any stock-option plans or allocations of shares, as well as any short and medium/long-term MBO bonuses. The Compensation Committee periodically checks the criteria adopted for the remuneration of executives with strategic responsibilities, monitors their application based on information provided by the executive directors and makes general recommendations to the Board on this subject.

BODY	No. MEMBERS	FUNCTION
Audit Committee	3	The Audit Committee has a consultative function and makes recommendations to the Board concerning: (a) the guidelines of the internal reporting and risk management systems, aimed at ensuring that the key risks associated with the Group and Company are adequately identified, measured, managed and monitored, also identifying the criteria under which suck risks can be compatible with the healthy and correct management of the company; (b) any decision relating to the appointment, revocation and remuneration of the Internal Audit Manager, as well as the resources afforded to her or him; (c) the appointment of the Executive Director tasked with supervising the Internal Audit system; (d) evaluating the appropriateness, effectiveness and actual functioning of the Internal Audit system at least once a year; (e) describing the essential elements of the Internal Audit system in the Corporate Governance report. The Audit Committee also: (a) ensures, together with the Board of Auditors and the Director in charge of the company's accounting, that the accounting standards used to prepare the Consolidated Financial Statements are consistent and correctly applied; (b) upon request from the Chairman, provides an opinion on specific issues related to the identification of key corporate risks, or to the design, execution and management of the Internal Audit system; (c) assesses the work schedule of the Internal Audit as well as its reports; (d) evaluates the proposals tendered by companies applying to be appointed auditors, evaluates their work plan and the results set forth in their report and letter of recommendations, if applicable; (e) monitors the effectiveness of the reporting; (f) where necessary, asks the Internal Audit department to check specific operational areas and, at the same time, informs the Chairman of the Board of Statutory Auditors.

The risk management and internal control system adopted by Aeffe ensures the healthy and proper management of the business, consistent with the established objectives for sustainable business development, via the adoption of appropriate procedures to identify, measure, manage and monitor the principal risks. The organization, management and control model pursuant to Decree 231/2001 (hereinafter also referred to as the 231 Model) 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).

Performance indicators

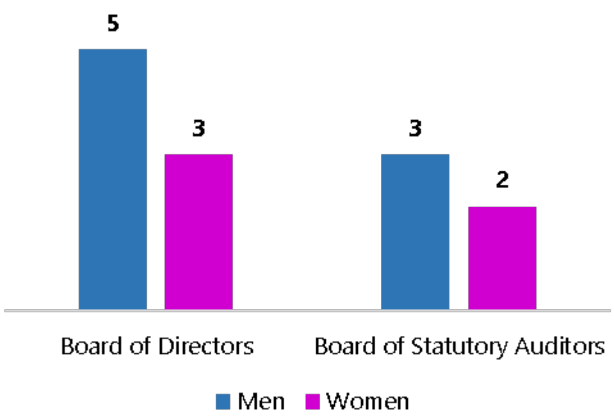
There were no significant incidents linked to discrimination of any kind within the reporting scope during 2019.

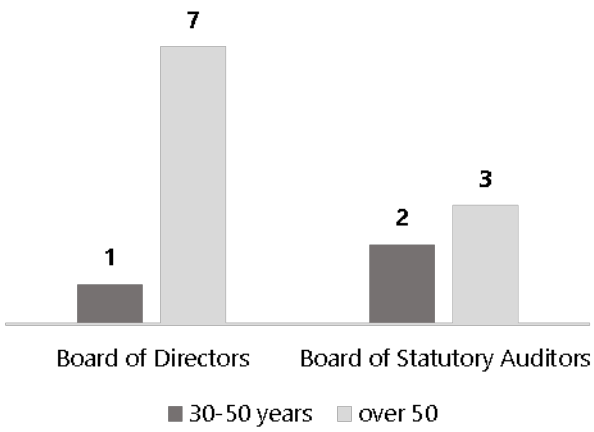
On matters relating to diversity within the highest positions in governance, Aeffe S.p.A. complies with current regulations by ensuring that women members comprise at least one third of its Board of Directors.

GOVERNING BODIES OF AEFFE S.P.A. ANALYZED BY GENDER AND AGE BAND

	Men	Women	Total	under 30	30-50	over 50	Total
Board	5	3	**8**	-	1	7	**8**
Board of Statutory Auditors	3	2	**5**	-	2	3	**5**

Governing Bodies





HUMAN RESOURCES

MATERIAL TOPICS
➢ Health, safety and well-being of workers ➢ Enhancement of human capital
IMPROVEMENT OBJECTIVES
The primary objective of Aeffe's Human Resources Department is to improve employee performance and plan possible improvements to the related organizational processes, in order to facilitate the growth of the business. Given this, each individual must be considered in a holistic manner, not simply by looking at professional experiences, but also by seeking to understand the person and discover his or her aptitudes, motivations and potential. ***Short-term improvement objectives and commitments:*** ✓ maintain constant and constructive dialog with personnel, pursuing the common objective of building value for the business by actively listening to all employees; ✓ outsource activities that add less value to the HR function (e.g. by using agencies to hire seasonal workers, search for and shortlist junior profiles, etc.); ✓ provide compliance training to employees via a digital e-learning platform; ✓ carry out a detailed age-band analysis of the entire organization, in order to determine the current intergenerational balance and adapt the activities assigned to the various positions. This analysis is needed in order to identify best practices for managing the age of collaborators and helping to extend their working lives, while also promoting equal opportunities for workers within the various age bands; ✓ monitor constantly the KPIs of current employees, applying specific metrics.

Medium/long-term improvement objectives and commitments:

- ✓ attract high quality resources, providing effective training for the development of a range of skills and planning career paths that enhance human capital. All this while keeping control over employment costs;
- ✓ manage talents, developing their skills in order to create value for the organization;
- ✓ search for, select and hire both technical and professional personnel, with the principal goal of establishing a chain of succession for key roles;
- ✓ introduce smart working - on an experimental basis in certain offices/departments - in the next supplementary in-house employment contract, with a view to developing a culture of flexible working. Over time, HR in all sectors will be asked to enable all employees to use smart working (wherever possible), consistent with company needs and deadlines, having due regard for processes and the seasonal character of the business;
- ✓ improve external communication flows (via social networks, the corporate intranet and Group websites). The company is currently working to create a common identity for all Group websites, redefining communications and content across all digital channels in order to transmit a consistent and integrated corporate image, while also working on employer branding to attract the best people.

HSE improvement objectives and commitments:

With regard to the Group's OH&S objectives, a number of actions have been identified over the medium term to further reduce the risks associated with the various activities, seeking to lower the injury rate in accordance with the applicable regulations and legislation, especially Decree 81/08, as amended.

INITIATIVES FOR 2020

- ✓ Development and implementation of the Infinity App, which provides access to the HR system at all levels, even by tablets and smartphones;
- ✓ Mapping, identification, collection and input of the HR data for foreign Group companies to the HR headquarters software, enabling their data to be aggregated in real time;
- ✓ The HR system will also make new information about diversity management available to each collaborator. This document seeks to improve corporate compliance and promote awareness about cultural and organizational change, thus creating an "inclusive" environment in which "different" groups and individuals are not the subject of discrimination, but benefit instead from real attention and a listening ear. The new document will be published on the Infinity portal for all employees and given to each new hire;
- ✓ Implementation of the new resource assessment model on the HR Infinity system, providing greater analytical depth more aligned with the business.

Policies and 231 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 policies are established and disseminated via programs designed to manage every organizational aspect of personnel training and development, motivation and the comprehensive measurement of performance at all levels, consistent with the budgets assigned and presented to top management, as well as with the pact agreed with social partners.

In order to make the HR management model effective, the Group must establish a planning process for the development of personnel that: identifies the organizational roles to be covered by internal resources and the related professional profiles; seeks, selects and hires human resources, evaluating them constantly and recognizing the value of their contribution to the business, inclusive of their conduct and respect for corporate culture; adopts appropriate leadership models for the managers of operational teams and implements personnel development actions, including training, meritocratic remuneration policies that provide incentives, and internal mobility.

The occupational health and safety systems of all companies in the Group are organized in accordance with current domestic legislation (Decree 81/08, as amended, and equivalent rules for foreign companies). In order to mitigate associated risks, the Group not only complies with all current regulations and ensures a healthy workplace, but also provides employees with training and incentives to ensure that staff acquire new skills, and feel listened to and rewarded.

Performance indicators

During 2019 Aeffe maintained its promise to implement the HR information system and make it available to all employees of the Italian companies. Implementation of the HR software by the various departments profiled is already completing the information available about each employee, facilitating analysis and helping to achieve a broader understanding. Three clusters have been profiled (Employee, Manager, Coordinator), each with the ability to query the population within their defined hierarchical perimeter, as well as to interact with the system in the Cloud. As an example, the Cloud platform contains corporate policies, regulations, procedures and other information, such as membership of the hours bank, access to tax advice and the new national and supplementary in-house employment contracts.

Employer branding activities have been greatly extended, with a view to strengthening the brands and positioning the Group as a “place for talent”. This uses the power of marketing to make the organization attractive. The objective is to present Aeffe as an ideal place to work, not least by seeking to involve social media users (LinkedIn), paying attention to the Group’s on-line reputation and improving usage of the career site (software for collecting CVs). The intention is to concentrate all candidatures within a single database that collects and tracks CVs with privacy consent, while adding a corporate timeline and expanding the content of the career section. This will encourage users to learn about the history and culture of the business before submitting their applications.

Marketing/HR activities have been extended to schools and universities (those specializing in the sector) by participating in their career days and providing orientation to students in upper schools. These sessions pave the way for the induction of young talents via curricular and training internships for university students and work experience opportunities for upper school pupils.

A learning management system has been purchased as part of a three-year program, enabling the HR department to provide compliance training to collaborators (code of ethics, privacy and GDPR in this phase) on a distance-learning basis. This system makes it possible to track the training delivered and check participation/frequency of attendance.

In addition, the HR department is progressing a series of initiatives and actions that cover environmental sustainability and the intellectual, professional and interpersonal growth of employees and collaborators. In particular:

- the agreement with the employment center has been renewed for the period 2019-2022, covering the employment of sheltered categories and persons with disabilities, as well as the contract for the collection of differentiated office waste by protected persons, as envisaged by law 68/99;
- purified water dispensers have been installed at the Milan and San Giovanni in Marignano plants and coffee machines now use biodegradable capsules, rather than non-ecological versions;
- the card accompanying the Christmas gift to employees promoted the activities of Associazione "il porto dei piccoli" Onlus, a charity that seeks to introduce children in hospital and their families to sea-related culture; additionally, a steel flask personalized with the name of the recipient was gifted, as a symbolic gesture to encourage use of the water dispensers; furthermore, the bottles available from automated dispensers were replaced with biodegradable versions.

In addition, ongoing work in the area of employee engagement has been strengthened in order to develop a sense of belonging. Actions include:

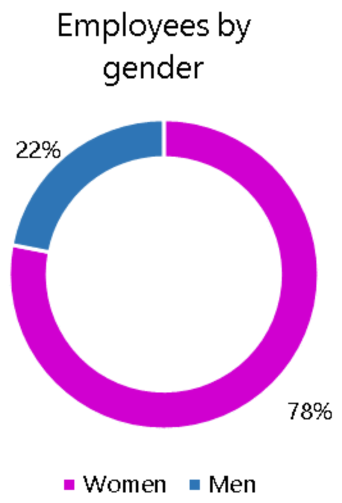
- live streaming of spring/summer and fall/winter fashion parades in operating departments;
- constant stimulation of the management feedback channel regarding the evaluation of employees;
- review of the evaluation form used to assess the skills/values/conduct of collaborators, in order to improve the alignment of personal and business objectives;
- revision of the new hire induction process (plant tour, explanation of the corporate organization chart, roles and professional families, the corporate culture and mission, intra-Group interactions, work processes and flows).

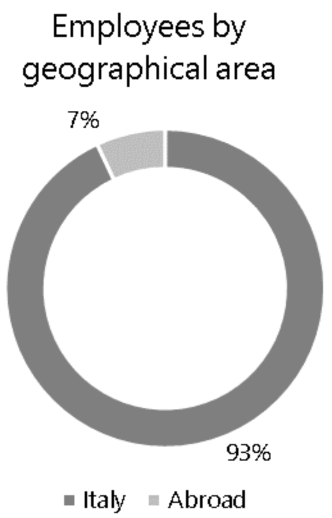
Composition of the workforce and Diversity

The workforce totals 1,335 employees in 2019, of whom the large majority, 78%, are women. In addition, 93% of the workforce is employed by companies based in Italy.

EMPLOYEES, ANALYZED BY CONTRACT, JOB TYPE AND GENDER

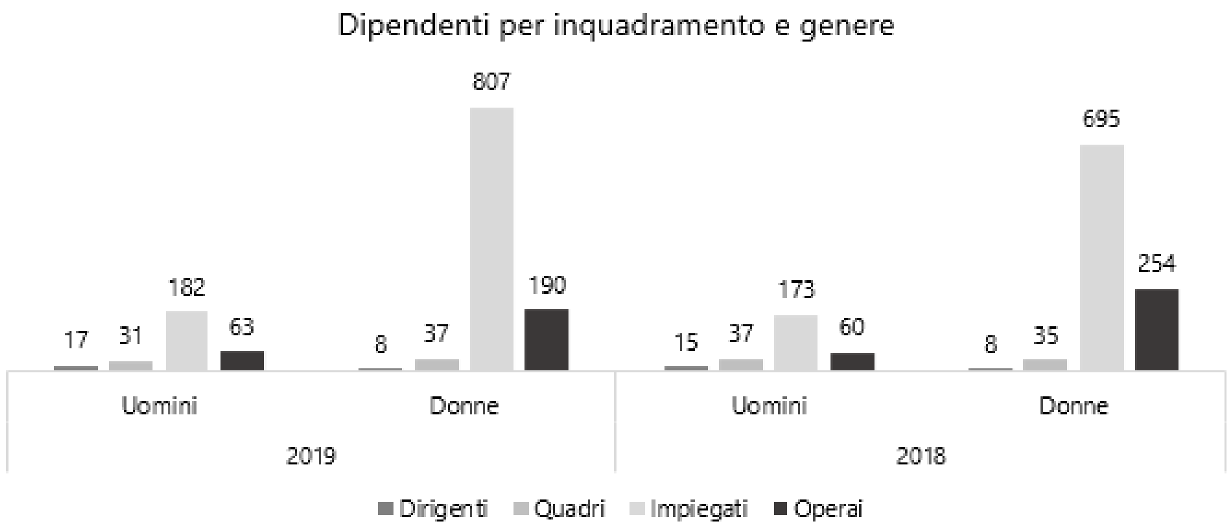
	2019			2018		
	Men	Women	**Total**	Men	Women	**Total**
Permanent	260	907	**1,167**	259	862	**1,121**
Fixed term	33	135	**168**	26	130	**156**
Total	**293**	**1,042**	**1,335**	**285**	**992**	**1,277**
Full-time	274	856	**1,130**	271	830	**1,101**
Part-time	19	186	**205**	14	162	**176**
Total	**293**	**1,042**	**1,335**	**285**	**992**	**1,277**





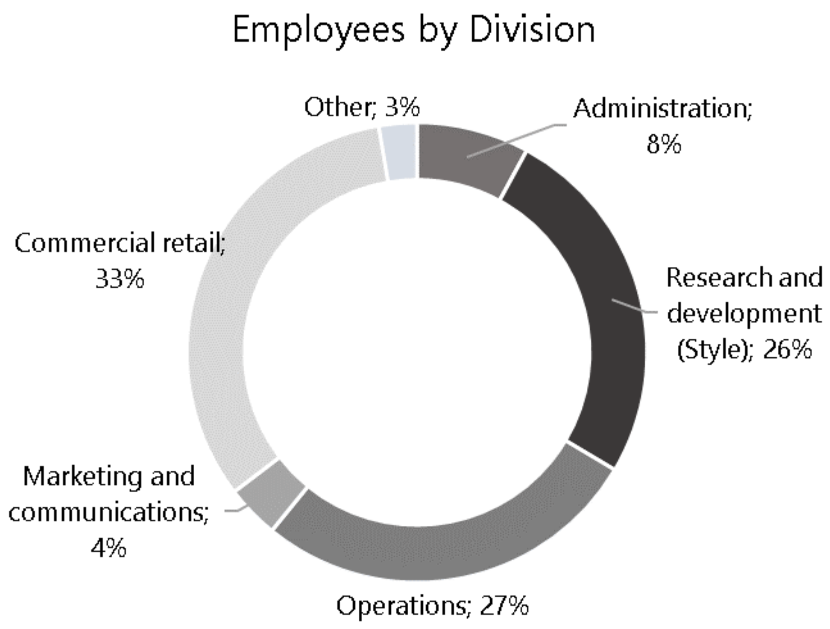
EMPLOYEES, BY LEVEL AND GENDER

	2019			2018		
	Men	Women	**Total**	Men	Women	**Total**
Executives	17	8	**25**	15	8	**23**
Managers	31	37	**68**	37	35	**72**
Clerical staff	182	807	**989**	173	695	**868**
Factory workers	63	190	**253**	60	254	**314**
Total	**293**	**1,042**	**1,335**	**285**	**992**	**1,277**
Percentage	**21.9%**	**78.1%**	**100%**	**22.1%**	**77.9%**	**100%**



EMPLOYEES, BY LEVEL AND AGE BAND

	2019				2018			
	under 30	30-50	over 50	**Total**	under 30	30-50	over 50	**Total**
Executives	-	10	15	**25**	-	8	15	**23**
Managers	3	44	21	**68**	2	46	24	**72**
Clerical staff	187	609	193	**989**	152	543	173	**868**
Factory workers	18	111	124	**253**	30	161	123	**314**
Total	**208**	**774**	**353**	**1,335**	**184**	**758**	**335**	**1,277**
Percentage	**15.6%**	**58.0%**	**26.4%**	**100%**	**14.4%**	**59.4%**	**26.2%**	**100%**



Attraction of talent

Total employment increased by 58 during 2019, rising 5% over the year with a new hire rate of 12%.

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, as confirmed by the fact that about 47% of new hires were under 30 (of those, 82% were women).

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 in the Aeffe Group are covered by National Employment Contracts, as follows:

- Clothing (Aeffe S.p.A., Velmar S.p.A.)
- Leather and shoes (Pollini S.p.A.)
- Retail (Aeffe Retail S.p.A., Pollini Retail S.r.l.)
- Textiles (Moschino S.p.A.)
- Federmanager (Managers of all companies)

Even though local employment rules are different from those applicable in Italy, the employees of Aeffe USA Inc (USA) and Moschino Korea Ltd (South Korea) are covered by equivalent contracts within those legislations.

A new supplementary in-house employment contract covering the period 2019-2021 was signed in May 2019 by Aeffe Spa and Velmar Spa. Management and the Workers' Representatives achieved the following objectives in that document:

- Increase in the daily canteen contribution for employees at the S. Giovanni in Marignano plant to € 5.29; employees at the Milan plant now receive electronic Ticket Restaurant vouchers worth € 7.00 for each day actually worked. The meal voucher agreement has also been extended to part-time workers;
- A framework agreement was reached on the use of flexi-time to manage overtime hours, with recovery of the extra hours worked during the calendar year;
- The companies have agreed to allow additional part-time working with, for the first time, exclusion from the limit agreed of those part-time jobs made available to sheltered workers and persons with disabilities;
- Additional part-time work has also been agreed for working mothers returning after optional leave of absence, with reduced working hours for at least 8 months;
- The number of hours of paid cancer prevention leave was increased (from 4 to 6), in addition to the annual vacation/personal days allowed to workers;
- Both white-collar and blue-collar workers are now entitled to a sick-pay supplement, assuring them of up to 75% of their normal remuneration, for the fifth and sixth months away from work;
- The variable remuneration (performance bonus) linked to EBITDA has been increased with respect to prior years;
- An annual "welfare credit" of € 250.00 has been introduced for each employee;
- A number of departments will analyze and test smart working in 2020, in order to check the compatibility and consistency of the procedures with the required level of performance;
- Personnel included in protection programs will receive two months' remuneration and a possible reduction in working hours, with respect to the conditions established in national programs/regulations;
- Employees can now donate "solidarity hours", with the transfer of vacation and paid leave of absence to workers facing severe hardships affecting their children and/or close relations.

Training

During 2019, the training conducted and the plans for developing the careers and skills of employees principally addressed 3 areas:

1. **Induction training and training for apprentices**

   Induction training is designed to introduce new hires to the business, helping them to quickly become familiar with their colleagues and integrate into their new environment. The objectives and values of the Group are explained during this process, making them more aware of the corporate vision and strategies, while also providing an overview of the plans for the future. The training program for apprentices, covering the entire duration of their contracts, is delivered by dedicated operators specialized in this type of work.

2. **Technical-professional updates - Technical skills**

These are specific training courses designed to develop the technical skills of individual actors within the organization. Courses include project management, IT training for specialist users of the Gerber modeling flow system and CAD tools for the design of clothing/knitwear, IT training for specialist users of the HR Infinity software, individual and group language courses (English, Chinese), participation in training seminars provided by trade associations (Confindustria, Chamber of Commerce, etc.).

3. **Development of managerial skills - Cross-functional skills**

Development of inter-personal skills for executives using external providers and training in compliance, depending on the positions held within the organization.

The principal objectives of this training cover professional updates, deep dives on certain topics, learning and practical skills. The sessions are delivered in a variety of ways:

- External training at private training bodies;
- Distance learning using electronic platforms;
- OTJ training, both in house and at private training bodies.

Health and safety[2]

The health and safety of employees is organized and managed internally by a specific office that covers the entire working population of all Italian companies. For all matters related to workplace safety, current legislation requires workers to be represented by a Workers' Safety Representative who maintains relations with both the Employer and the Health and Safety Officer.

The occupational health and safety risks faced by the Aeffe Fashion Group are described in the Risk Assessment Documents (DVR) prepared by the various companies in Decree 81/08, as amended. They are monitored by the organization and the responsible office in application of the management model implemented pursuant to Decree 231/01. These risks are assessed regularly, in accordance with the established timetable, to ensure compliance at all levels with the relevant current legislation.

Based on the assessment of corporate risks, there are no professional activities or duties that expose the workers of the Group to a high risk of contracting work-related diseases.

There were 20 injuries during 2019 (involving 6 men and 14 women), 7 more than in 2018. Of these, 13 occurred in the workplace and 7 while traveling between home and work.

There were no instances of professional diseases, while the number of days lost (through injury or illness) by employees in 2019 averaged 9% of the total.

[2] The data relates to Aeffe S.p.A., Aeffe Retail S.p.A., Pollini S.p.A., Pollini Retail S.r.l, Moschino S.p.A. and Velmar S.p.A.

HEALTH AND SAFETY INDICATORS	2019			2018		
	Women	Men	**Total**	Women	Men	**Total**
Injury rate (frequency index) (no. injuries/tot. hours worked)*1000000	9.49	12.77	**10.28**	7.75	4.47	**6.96**
Lost days rate (seriousness index) (no. days lost due to injuries/professional diseases/tot. workable hours)*1000	0.08	0.08	**0.08**	0.10	0.07	**0.09**

ENVIRONMENT

MATERIAL TOPICS
➢ Energy efficiency and containment of emissions ➢ Production and management of waste
IMPROVEMENT OBJECTIVES
The medium-term objectives of the Aeffe Group go beyond compliance with current environmental legislation, seeking to reduce or optimize the impact of activities via specific action to contain consumption and achieve energy efficiency pursuant to Decree 102/14 (Decree for energy-intensive businesses). The energy improvement activities will be extended to the industrial building used by Pollini SpA, where the installation of a photovoltaic plant will reduce even further the environmental impact of the facility.

Policies and 231 Model

Management is sensitive to the potential impact that the conduct of individuals might have on the natural environment in which the Group operates.

In order to help pass on a more sustainable environment to future generations, 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 most representative and with the greatest impact;

the production of waste, via the careful management of scrap and products that reach the end of their lives.

The management and mitigation of environmental risks, described in the 231 Model, is guaranteed by the responsible management of activities - regarding sources as well as consumption - in compliance with all relevant legislation.

The plants of Aeffe S.p.A. and Pollini S.p.A. produce waste that is 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 current legislation.

The management and reduction of environmental risks, described in the 231 Model, is guaranteed by the responsible management of activities - regarding sources as well as consumption - in compliance with all relevant legislation.

The plants of Aeffe S.p.A. and Pollini S.p.A. produce waste that is 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 current legislation.

Performance indicators

Following the positive results and experience gained from the work on energy efficiency at the Pollini plant, the Group extended that installation to the principal Aeffe plant in 2019, as described in the latest Energy Audit prepared in November 2019 for the Group plants considered to be most representative.

Energy consumption [3]

Energy consumption was determined using the following calculation and conversion tools obtained from authoritative sources:

- http://www.snam.it/it/stoccaggio/strumenti/convertitore.html
- https://www.eecabusiness.govt.nz/tools/wood-energy-calculators/co2-emission-calculator
- https://dgsaie.mise.gov.it/prezzi_carburanti_mensili.php

The two companies considered, Aeffe S.p.A. and Pollini S.p.A., consumed a total of 30,874 GJ of energy in 2019, down by 20.5% with respect to 2018. This was due, in part, to the efficiency improvements made over the past two years (installation of photovoltaic plants).

FOSSIL FUEL CONSUMPTION

	2019		2018	
	Total	**Total GJ**	**Total**	**Total GJ**
AEFFE S.p.A.				
Natural gas for heating (Sm^3)	127,802	**5,094**	162,249.00	**6,393**
Fuel for the company fleet (l)	138,426	**5,624**	119,037	**4,836**
Diesel (l)	135,398	5,501	117,085	4,757
Gasoline (l)	3,028	123	1,952	79
POLLINI S.p.A.				
Natural gas for heating (Sm^3)	140,220	**5,589**	192,848	**7,687**
Fuel for the company fleet (l)	42,840	**1,500**	63,281	**2,430**
Diesel (l)	40,849	1,430	63,281	2,430
Gasoline (l)	1,991	70	0	0

[3] The data relates to Aeffe S.p.A. and Pollini S.p.A.

ELECTRICITY CONSUMPTION

	2019		2018	
	Total	**Total GJ**	**Total**	**Total GJ**
Purchased electricity (inc. 26.18% from renewable sources[4]) (Kwh)	4,234,934	**11,255**	4,368,927	**15,728**
Total self-produced electricity consumed (Kwh)	503,442	**1,812**	490,563	**1,766**

Reduction in consumption[5]

In order to reduce the consumption of natural gas, a new initiative in 2018 involved the remote control of the heating installation at the Pollini plant (excluding the office block), with action in 2019 extending this approach to the Aeffe plant and offices at San Giovanni in Marignano. The resulting optimization of temperatures and operation timetables resulted in the reduction of energy consumption during 2019. In particular:

- energy consumption at the Pollini plant was reduced by 5,388.79 GJ
- energy consumption at the Aeffe plant was reduced by 4,468.91 GJ

Water consumption

The water consumption levels reported below have been deduced from the water bills of the plants indicated above, which are connected to the local water mains and are considered the most representative of the Aeffe Group.

WATER DRAWN FROM THE MAINS (CUBIC METERS)

	2019	2018
AEFFE S.p.A. (m^3)	**22,224**	20,399
POLLINI S.p.A. (m^3)	**1,789**	2,145

A total of 24,013 cubic meters of water were drawn from the municipal mains during 2019, compared with 22,542 cubic meters in 2018.

Greenhouse gas emissions[6]

Emissions were determined using the following calculation and conversion tools obtained from authoritative sources:

---

[4] Data source: HERACOMM

[5] The data relates to Aeffe S.p.A. and Pollini S.p.A.

[6] The data relates to Aeffe S.p.A. and Pollini S.p.A.

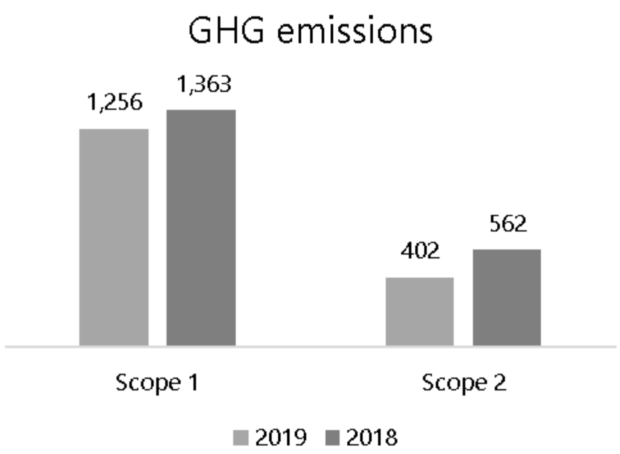
- http://www.snam.it/it/stoccaggio/strumenti/convertitore.html
- https://www.eecabusiness.govt.nz/tools/wood-energy-calculators/co2-emission-calculator

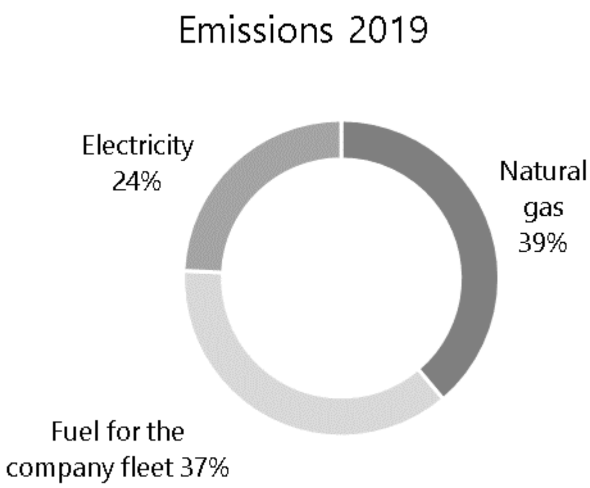
EMISSIONS SCOPE 1

	2019		2018	
	Total GJ	**Total GHG**	**Total GJ**	**Total GHG**
AEFFE S.p.A.				
Natural gas for heating (Sm^3)	5,094	**307**	6,393	**385**
Fuel for the company fleet (l)	5,624	**399**	4,836	**343**
Diesel (l)	5,501	390	4,757	337
Gasoline (l)	123	9	79	6
POLLINI S.p.A.				
Natural gas for heating (Sm^3)	5,589	**337**	7,687	**463**
Fuel for the company fleet (l)	42,840	**213**	63,281	**172**
Diesel (l)	2,012	143	2,430	172
Gasoline (l)	1,991	70	0	0
TOTAL SCOPE 1 (includes CO_2 only)	20,310	**1,256**	21,346	**1,363**

EMISSIONS SCOPE 2

	2019		2018	
	Total GJ	**Total GHG**	**Total GJ**	**Total GHG**
Electricity from NON renewable sources	11,255	402	15,728	562
TOTAL SCOPE 2 (includes CO_2 only)	11,255	**402**	15,728	**562**





Waste disposal[7]

The waste produced and stored at Group locations is transferred to selected and authorized waste managers that process it, depending on type, in accordance with the relevant current legislation.

WASTE BY TYPE (TONNES)

	Hazardous waste (t)		Non-hazardous waste (t)		Total	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**
AEFFE S.p.A.	0	N.A.	2.6	N.A.	2.6	0
POLLINI S.p.A.	0.78	0.60	110	111	110.78	111.60
TOTAL	**0.78**	**0.60**	**112.6**	**111**	**113.38**	**111.60**

HUMAN RIGHTS AND THE FIGHT AGAINST CORRUPTION

MATERIAL TOPICS
➢ Fight against corruption ➢ Equal opportunities, human rights and non-discrimination
IMPROVEMENT OBJECTIVES
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; Formalization of a system of internal mandates that clearly assign roles and responsibilities to the persons responsible for working with the public administration.

Policies and 231 Model

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.

[7] The data relates to Aeffe S.p.A. and Pollini S.p.A.

In order to manage the risks linked to human rights and the fight against corruption, 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) that also covers the management of those topics. The other companies in the Group that fall within the reporting scope are under the direction and coordination of the parent company.

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 a folder on the 231 organizational model, as well as the Code of Ethics issued by the parent company.

Performance indicators

No cases of corruption were identified within the reporting scope during the year.
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.

OTHER MATERIAL TOPICS

MATERIAL TOPICS
➢ Responsible management of the supply chain ➢ Quality of raw materials, product safety and recyclability ➢ Territorial Presence and Markets Served ➢ Customer satisfaction ➢ Customer health and safety ➢ Responsible Marketing and Communication ➢ Research and development ➢ Economic-financial strength of the Group
IMPROVEMENT OBJECTIVES
Vendor qualification and selection based increasingly on meritocratic criteria, considering their professionalism, reliability, financial strength and compliance with the Aeffe Code of Ethics and 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; Gradual change in the production process from individual phases to complete cycles, thus enhancing product quality and the volume of sales; Greater attention in the design phase to the cost of individual components and processes, in order to create a product compatible with the brand positioning.

Policies and 231 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 the various challenges and studying the environmental and social impact of products throughout their life cycles.

In order to mitigate risks, the 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 guaranteed high quality of the products offered are all fundamental factors, based on constant evolution and innovation, in order to ensure maximum customer satisfaction.

The Group also promotes 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 are fundamental for mutual development and to meet market expectations.

The industrial processes of the Aeffe Group are managed by operating companies on a divisional basis; accordingly, R&D, procurement, prototyping and production are coordinated by the Divisions that, in this way, optimize and manage relations with each individual vendor.

One of the key characteristics of the procurement of raw materials is rigorous quality control: raw materials and semi-finished 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. Another key element consists in the ability to structure collections and industrialize them with maximum efficiency and cost-effectiveness.

One of the Group's key strengths is the creative independence of each fashion house: research and experimenting are an essential feature of each stylist's mindset. These activities take place on an on-going basis in the Group, enabling a constant renewal that aims to capture and anticipate latent desires and the latest market trends.

All products, whether garments or footwear, carry a label containing information about the composition of the fabrics used and the related washing instructions, so that the end consumer can look after the product properly, as well as the "Made in" information.

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.

Performance indicators

Procurement[8]

Action during 2019 focused on improving delivery performance and product quality, including:

- Organizational changes to the role of external quality control technician;
- Gradual change in the production process from individual phases to complete cycles;
- Verification of the number and economic/qualitative strength of vendors;
- New control process for the release of garments for production, from the start of the sales campaign until launch.

[8] The data relates to Aeffe S.p.A. and Pollini S.p.A.

EXPENDITURE BY GEOGRAPHICAL AREA

	2019		2018	
	€	%	€	%
Expenditure for vendors in Italy	93,333,472	**64.7%**	95,481,398	**65.4%**
Expenditure for vendors in Europe	17,387,318	**12.0%**	17,348,835	**11.9%**
Expenditure for vendors in Rest of the World	33,614,745	**23.3%**	33,131,441	**22.7%**
Total	**144,335,536**	**100%**	**145,961,674**	**100%**

NEW VENDORS

	2019	2018
TOTAL NEW VENDORS	**826**	**288**
New vendors selected through **environmental** criteria	49	52
New vendors selected through **social** criteria	21	20
Percentage of new vendors selected through **environmental** criteria	**5.9%**	**18%**
Percentage of new vendors selected through **social** criteria	**2.5%**	**7%**

Raw materials[9]

VOLUME OF PURCHASED MATERIALS AND VOLUME OF MATERIALS FROM RECYCLED AND/OR CERTIFIED SOURCES

	Total volume (€)	Vol. materials from recycled sources (€)	Vol. materials from OEKO-TEX certified sources (€)
Cotton	3,639,299.00	-	2,183,579.40
Wool	2,616,037.00	156,963.00	1,569,622.20
Synthetic fibers	3,683,187.00	-	1,473,274.80
Acrylic	132,272.00	-	52,908.80
Silk	1,959,268.00	-	1,175,560.80
Linen	51,267.00	-	30,760.20
Leather	4,404,584.00	-	440,458.40
Rubber	4,280.00	-	-
Metal	3,546,889.00	-	177,344.45

[9] The data relates to Aeffe S.p.A. and Pollini S.p.A.

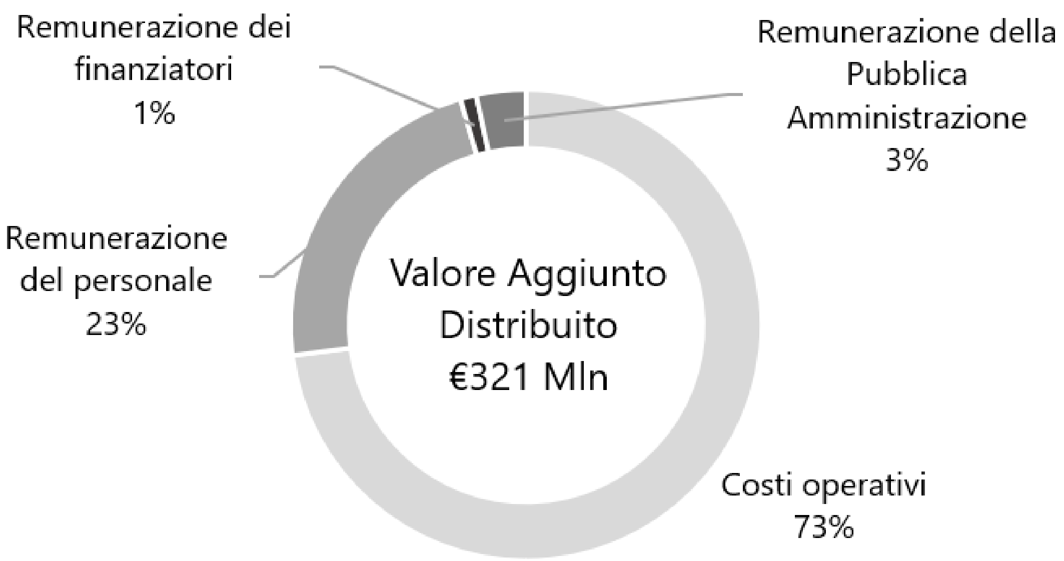
	Total volume (€)	Vol. materials from recycled sources (€)	Vol. materials from OEKO-TEX certified sources (€)
Plastic	1,191,799.00	-	-
Cardboard	1,240,248.00	-	-
Other (viscose, acetate, triacetate and cupro)	13,830,052.00	-	4,149,015.60
TOTAL	**36,299,182.00**	**156,963.00**	**11,252,524.65**

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.

	Valore Economico	2019	2018
	Ricavi	351.403.409	346.556.367
	Altri proventi	8.548.244	4.230.653
	Proventi finanziari	249.927	230.481
	Valore Economico Generato	**360.201.580**	**351.017.500**
	Ripartito fra:		
1	Costi operativi	233.947.158	238.117.994
2	Remunerazione del personale	72.386.514	68.502.867
3	Remunerazione dei finanziatori	3.513.622	1.198.488
4	Remunerazione della Pubblica Amministrazione	10.895.741	12.166.684
	Totale Valore Economico Distribuito	**320.743.035**	**319.986.033**
	Trattenuto dal Gruppo (Riserve, Ammortamenti, Svalutazioni, Differenze cambio)	**39.458.545**	**31.031.468**

1) About 73% of the economic value distributed was absorbed by **operating costs,** down from €238.1 million in 2018 to €233.9 million in 2019, a reduction of around 2%;
2) The amount absorbed by **employees,** in the form of wages, salaries and social security charges, increased from €68.5 million to €72.4 million, a rise of about 6%; as shown in the chart below, this represented 23% of the total economic value distributed;
3) **the suppliers of equity capital and debt** were remunerated with €3.5 million, almost three times more than in the prior year;
4) the **Public Administration** received €10.9 million in tax and duties, a decrease of 10% compared to the previous year; this absorbed 3% of the total economic value distributed.



Marketing & Communications

Aeffe is engaged in a program of growth intended to support the commercial organization. The mix of business skills made available to clients has provided a competitive advantage, enabling the Group not only to respond to market needs, but also to propose innovative solutions to clients in terms of technical functionality and product customization, special processes for materials, aesthetic finishes and creative choices.

The Group has maintained a constant digital and social media presence: Facebook, Twitter, Instagram, YouTube. The audience of the social media channels is analyzed below at 31st December 2019:

GRI CONTENT INDEX

GRI Standard Title	GRI Disclosure Number	GRI Disclosure Title	No. of pages/notes
GRI 102: General Disclosures 2016 - Organizational Profile	**102-1**	Name of the organization	Cover
	102-2	Activities, brands, products and services	Page 5 e 11 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.
	102-3	Location of headquarters	Page 6 San Giovanni in Marignano (Rimini), Italy
	102-4	Locations of operations	Page 6 – 8 and26 Considering the entire distribution structure, the Aeffe Group is present in nearly 80 countries throughout the world.
	102-5	Ownership and legal form	Legal form of the Parent Company: Joint stock company (S.p.A.)
	102-6	Markets served	Page 6 – 8 and 26 Subsidiaries are grouped into 3 geographical areas: Europe, North America, Far East.
	102-7	Scale of the organization	Page 9
	102-8	Information on employees and other workers	Page 34
	102-9	Supply chain	Page 47 - 48
	102-10	Significant changes to the organization and its supply chain	N.a.
	102-12	External initiatives	During 2019, the Group decided to allocate the majority of its charitable donations totaling about €35 thousand in favor of health, for the benefit in particular of children (il Porto dei Piccoli, a charity), oncological diseases (Fondazione IEO) and University education (Alma Mater UniBo, Fondazione San Pellegrino,

			Fondazione RUI), as well as orphans, abandoned and sick children, and those living in extreme poverty (The Children for Peace-Onlus). In addition, a contribution of €725 thousand was made to MET GALA, an annual fund-raising dinner.
	102-13	Membership of associations	Confindustria
GRI 102: General Disclosures 2016 - Strategy	**102-14**	Statement from senior decision-maker	Page 11
GRI 102: General Disclosures 2016 - 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 2016 - Governance	**102-18**	Governance structure	Page 3 and 32
GRI 102: General Disclosures 2016 - Stakeholder engagement	**102-40**	List of stakeholder groups	Page 27
	102-41	Collective bargaining agreements	Page 40
	102-42	Identifying and selecting stakeholders	Page 27
GRI 102: General Disclosures 2016 - Reporting practice	**102-45**	Entities included in the consolidated financial statements	Page 25 and 26
	102-46	Defining report content and topic boundaries	Page 25 and 26
	102-47	List of material topics	Page 28
	102-48	Restatements of information	N.a.
	102-49	Changes in reporting	N.a.
	102-50	Reporting period	01.01.2019 - 31.12.2019
	102-51	Date of most recent report	30 March 2020
	102-52	Reporting cycle	Annual

	102-54	Claims of reporting in accordance with the GRI Standards	Page 25
	102-55	GRI content index	Page 51
	102-56	External assurance	Page 57 – 59
GRI 103: Management approach 2016	**103-1**	Explanation of the material topic and its boundary	Page 28
	103-2	Managerial approach and related components	Page 31 – 35 – 42 – 46 – 47
GRI 201: Economic performance 2016	**201-1**	Direct economic value generated and distributed	Page 50
GRI 204: Procurement practices 2016	**204-1**	Proportion of spending on local suppliers	Page 49
GRI 205: Anti-corruption 2016	**205-3**	Confirmed incidents of corruption and actions taken	Page 47
GRI 301: Materials 2016	**301-1**	Materials used by weight or volume	Page 49
GRI 302: Energy consumption in 2016	**302-1**	Energy consumption within the organization	Page 43
GRI 302: Reduction in energy consumption in 2018	**302-4**	Reduction in energy consumption	Page 44
GRI 303: Water withdrawal by source 2016	**303-1**	Water withdrawal by source	Page 44
GRI 305: Emissions 2016	**305-1**	Direct greenhouse gas emissions (Scope 1)	Page 45
GRI 306: Effluents and waste 2016	**306-2**	Waste by type and disposal method	Page 46
GRI 308: Environmental assessment of vendors 2016	**308-1**	New vendors assessed using environmental criteria	Page 49
GRI 401: Employment 2016	**401-1**	New employee hires and employee turnover	Page 39
GRI 403: Occupational health and safety 2016	**403-2**	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related	Page 41 – 42

		fatalities	
	403-3	Workers with high incidence or high risk of diseases related to their occupation	Page 41
GRI 404: Training and education 2016	**404-1**	Average hours of training per year per employee	During the year, Aeffe S.p.A. alone delivered more than 1,300 hours of training.
GRI 405: Diversity and equal opportunity 2016	**405-1**	Diversity of employees and governance bodies	Page 34 and 37 -38
GRI 406: Non-discrimination 2016	**406-1**	Incidents of discrimination and corrective actions taken	Page 33
GRI 412: Human rights assessment 2016	**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 414: Social assessment of vendors 2016	**414-1**	New vendors assessed using social criteria	Page 49
GRI 416: Customer health and safety 2016	**416-2**	Incidents of non-compliance concerning the health and safety impacts of products and services	No non-conformities were found regarding the impact on health and safety of the products offered by the Aeffe Group within the reference time period.
GRI 417: Marketing and labeling 2016	**417-1**	Requirements for product and service information and labeling	Page 48 and 51

In accordance with the Referenced level of application

Tel: +39 051 27.15.54
Fax: +39 051 46.86.021
www.bdo.it

Corte Isolani, 1
40125 Bologna

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 article 5 of CONSOB Regulation n. 20267 of January 18, 2018

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 of January 18, 2018, we have been engaged to perform a limited assurance engagement on the Consolidated Non-Financial Statement of AEFFE S.p.A. and subsidiaries (the "Group") as of December 31, 2019 prepared in accordance with article 4 of the Decree, and approved by the Board of Directors on March 12, 2020 (hereinafter the "NFS").

Directors' and Board of Statutory Auditors' responsibility for the NFS

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").
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 a NFS that is free from material misstatement, whether due to fraud or error.

Moreover, the Directors are responsible for the identification of the content of the NFS, within the topics specified in article 3, paragraph 1, of the Decree, taking into account the Group' business and characteristics, to the extent necessary to ensure an understanding of the Group's business, performance, results and the related impacts.

Finally, the Directors are responsible to design a business management model for the organisation of the Group's activities, as well as, with reference to the topics identified and reported in the NFS, for the policies for the identification and management of 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 control

We are independent in compliance with the independence and all other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. Our company applies International Standard on Quality Control 1 (ISQC Italia 1) and, accordingly, maintains a system of quality control that includes directives and procedures concerning compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

BDO Italia S.p.A. – Sede Legale: Viale Abruzzi, 94 – 20131 Milano – Capitale Sociale Euro 1.000.000 i.v.
Codice Fiscale, Partita IVA e Registro Imprese di Milano n. 07722780967 - R.E.A. Milano 1977842
Iscritta al Registro dei Revisori Legali al n. 167911 con D.M. del 15/03/2013 G.U. n. 26 del 02/04/2013
BDO Italia S.p.A., società per azioni italiana, è membro di BDO International Limited, società di diritto inglese (company limited by guarantee), e fa parte della rete internazionale BDO, network di società indipendenti.

Auditors' responsibility

Our responsibility is to express our conclusion based on the procedures performed about the compliance of the NFS with the requirements of the Decree and the GRI Standards. We carried out 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. This standard requires that we plan and perform the engagement to obtain limited assurance whether the NFS is free from material misstatement. A limited assurance engagement is less in scope than a reasonable assurance engagement carried out in accordance with *ISAE 3000 Revised*, and, consequently, does 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 the NFS are based on our professional judgement and include inquiries, primarily of the company's personnel responsible for the preparation of the information presented in the 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 article 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 disclosures presented in the NFS with those included in the Group's 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 set out in article 3 of the Decree;
   - Policies adopted by the entity in connection with the topics set out in article 3 of the Decree, achieved results and related key performance indicators;
   - Main risks, generated and/or undertaken, in connection with the topics set out in article 3 of the Decree.

   With reference to these matters, we compared them with the disclosures presented in the NFS and carried out the procedures described in point 5, letter a).
5. Understanding of the processes underlying the origination, recording and management of significant qualitative and quantitative information disclosed in the NFS.

   Specifically, we carried out interviews and discussions with the management of AEFFE S.p.A. We also performed limited documentary verifications, in order to gather information on the processes and procedures supporting the collection, aggregation, processing and transmittal of non-financial data and information to the department responsible for the preparation of the NFS.

   In addition, with respect to significant information, taking into consideration the Group's business and characteristics:

   - at parent company's level:

     a) with regards to qualitative information included in the NFS, and specifically with reference to the business model, policies applied and main risks, we carried out interviews and gathered supporting documentation to check for consistency with available evidence.

     b) with regards to quantitative information, we carried out both analytical and limited procedures to ensure, on a sample basis, the correct aggregation of data.

Conclusion

Based on the work performed, nothing has come to our attention that causes us to believe that the NFS of AEFFE Group as of December 31, 2019 has not been prepared, in all material respects, in accordance with the requirements of article 3 and 4 of the Decree and the Global Reporting Initiative Sustainability Reporting Standards" established by GRI – Global Reporting Initiative ("GRI Standards").

Bologna, March 30, 2020

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.

Financial statements

CONSOLIDATED BALANCE SHEET ASSETS (*)

(Values in units of EUR)	Notes	31 December 2019	31 December 2018	Change
Key money		-	23,556,467	(23,556,467)
Trademarks		74,988,008	78,481,588	(3,493,580)
Other intangible fixed assets		1,095,455	1,094,412	1,043
Intangible fixed assets	(1)	76,083,463	103,132,467	(27,049,004)
Lands		17,123,494	17,118,773	4,721
Buildings		25,636,868	23,436,161	2,200,707
Leasehold improvements		12,568,482	12,551,514	16,968
Plant and machinary		3,411,595	3,050,863	360,732
Equipment		387,559	260,569	126,990
Other tangible fixed assets		3,696,620	3,880,921	(184,301)
Tangible fixed assets	(2)	62,824,618	60,298,801	2,525,817
Right-of-use assets	(3)	110,714,289	-	110,714,289
Equity investments	(4)	131,558	131,558	-
Long term financial receivables	(5)	2,225,387	2,302,096	(76,709)
Other fixed assets	(6)	2,720,383	2,810,046	(89,663)
Deferred tax assets	(7)	16,949,535	15,073,001	1,876,534
NON-CURRENT ASSETS		**271,649,233**	**183,747,969**	**87,901,264**
Stocks and inventories	(8)	112,050,942	104,261,515	7,789,427
Trade receivables	(9)	41,524,614	43,138,560	(1,613,946)
Tax receivables	(10)	14,118,912	7,759,828	6,359,084
Derivate assets	(11)	74,055	219,632	(145,577)
Cash	(12)	28,390,143	28,037,213	352,930
Short term financial receivables	(13)	1,132,124	1,420,000	(287,876)
Other receivables	(14)	35,218,280	34,852,460	365,820
CURRENT ASSETS		**232,509,070**	**219,689,208**	**12,819,862**
Assets available for sale	(15)	436,885	436,885	-
TOTAL ASSETS		**504,595,188**	**403,874,062**	**100,721,126**
Share capital		25,286,166	25,371,407	(85,241)
Other reserves		127,822,540	123,799,107	4,023,433
Profits / (losses) carried-forward		6,585,047	(1,287,069)	7,872,116
Net profit / (loss) for the Group		11,692,734	16,726,101	(5,033,367)
Group interest in shareholders' equity		171,386,487	164,609,546	6,776,941
Minority interests in share capital and reserves		32,376,708	32,377,912	(1,204)
Net profit / (loss) for the minority interests		311,713	471,935	(160,222)
Minority interests in shareholders' equity		32,688,421	32,849,847	(161,426)
SHAREHOLDERS' EQUITY	**(16)**	**204,074,908**	**197,459,393**	**6,615,515**
Provisions	(17)	1,847,295	2,558,544	(711,249)
Deferred tax liabilities	(7)	29,982,114	30,093,668	(111,554)
Post employment benefits	(18)	5,194,899	5,491,570	(296,671)
Long term financial liabilities	(19)	95,154,429	16,408,975	78,745,454
Long term not financial liabilities	(20)	717,143	770,731	(53,588)
NON-CURRENT LIABILITIES		**132,895,880**	**55,323,488**	**77,572,392**
Trade payables	(21)	74,300,469	76,949,819	(2,649,350)
Tax payables	(22)	3,391,481	6,452,612	(3,061,131)
Derivate liabilities	(11)	-	-	-
Short term financial liabilities	(23)	71,807,369	46,606,814	25,200,555
Other liabilities	(24)	18,125,081	21,081,936	(2,956,855)
CURRENT LIABILITIES		**167,624,400**	**151,091,181**	**16,533,219**
Liabilities available for sale		-	-	-
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**504,595,188**	**403,874,062**	**100,721,126**

(*) 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 INCOME STATEMENT (*)

(Values in units of EUR)	Notes	Full Year 2019	%	Full Year 2018	%
REVENUES FROM SALES AND SERVICES	**(25)**	**351,403,409**	**100.0%**	**346,556,367**	**100.0%**
Other revenues and income	(26)	10,064,295	2.9%	5,450,452	1.6%
TOTAL REVENUES		**361,467,704**	**102.9%**	**352,006,819**	**101.6%**
Changes in inventory		5,934,562	1.7%	4,529,177	1.3%
Costs of raw materials, cons. and goods for resale	(27)	(121,189,301)	(34.5%)	(114,810,886)	(33.1%)
Costs of services	(28)	(108,336,161)	(30.8%)	(100,583,191)	(29.0%)
Costs for use of third parties assets	(29)	(9,031,792)	(2.6%)	(25,391,209)	(7.3%)
Labour costs	(30)	(72,386,514)	(20.6%)	(68,502,867)	(19.8%)
Other operating expenses	(31)	(3,329,130)	(0.9%)	(3,918,553)	(1.1%)
Amortisation, write-downs and provisions		(1,321,264)	(0.4%)	(1,921,681)	(0.6%)
Financial Income / (expenses)	(33)	(3,295,276)	(0.9%)	(850,198)	(0.2%)
PROFIT / LOSS BEFORE TAXES		**21,806,320**	**6.2%**	**28,796,819**	**8.3%**
Taxes	(34)	(9,801,873)	(2.8%)	(11,598,783)	(3.3%)
NET PROFIT / LOSS		**12,004,447**	**3.4%**	**17,198,036**	**5.0%**
(Profit) / loss attributable to minority shareholders		(311,713)	(0.1%)	(471,935)	(0.1%)
NET PROFIT / LOSS FOR THE GROUP		**11,692,734**	**3.3%**	**16,726,101**	**4.8%**
Basic earnings per share	(35)	0.116		0.165	
Dilutive earnings per share	(35)	0.116		0.165	

(*) 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)	Full Year 2019	Full Year 2018
Profit/(loss) for the period (A)	**12,004,447**	**17,198,036**
Remeasurement of defined benefit plans	(197,974)	78,171
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)	**(197,974)**	**78,171**
Gains/(losses) on cash flow hedges	(104,961)	1,155,887
Gains/(losses) on exchange differences on translating foreign operations	(123,266)	586,837
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)	**(228,227)**	**1,742,724**
Totale Other comprehensive income, net of tax(B1)+(B2)=(B)	**(426,201)**	**1,820,895**
Total Comprehensive income / (loss) (A) + (B)	**11,578,246**	**19,018,931**
Total Comprehensive income / (loss) attributable to:	**11,578,246**	**19,018,931**
Owners of the parent	11,252,948	18,476,618
Non-controlling interests	325,298	542,313

CONSOLIDATED CASH FLOW STATEMENT (*)

(Values in thousands of EUR)	Notes	Full Year 2019	Full Year 2018
OPENING BALANCE		**28,037**	**22,809**
Profit before taxes		21,806	28,797
Amortisation / write-downs		28,028	13,682
Accrual (+)/availment (-) of long term provisions and post employment benefits		(1,119)	(281)
Paid income taxes		(13,144)	(9,845)
Financial income (-) and financial charges (+)		3,295	850
Change in operating assets and liabilities		(19,625)	(7,677)
CASH FLOW (ABSORBED)/ GENERATED BY OPERATING ACTIVITY	**(36)**	**19,241**	**25,526**
Increase (-)/ decrease (+) in intangible fixed assets		(1,813)	(1,257)
Increase (-)/ decrease (+) in tangible fixed assets		(7,847)	(6,657)
Increase (-)/ decrease (+) in right-of-use assets (1)		(1,119)	-
Investments and write-downs (-)/ Disinvestments and revaluations (+)		-	-
CASH FLOW (ABSORBED)/ GENERATED BY INVESTING ACTIVITY	**(37)**	**(10,779)**	**(7,914)**
Other variations in reserves and profits carried-forward of shareholders' equity		(976)	1,820
Dividends paid		-	-
Proceeds (+)/ repayments (-) of financial payments		8,143	(14,398)
Proceeds (+)/ repayment (-) of lease payments (2)		(12,435)	-
Increase (-)/ decrease (+) in long term financial receivables		454	1,044
Financial income (+) and financial charges (-)		(3,295)	(850)
CASH FLOW (ABSORBED)/GENERATED BY FINANCING ACTIVITY	**(38)**	**(8,109)**	**(12,384)**
CLOSING BALANCE		**28,390**	**28,037**

(*) 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	Cash flow reserve	Other reserves	Fair Value reserve	IAS reserve	Remeasurement of defined benefit plans reserve	Translation reserve	Profits/(losses) carried-forward	Net profit / loss for the Group	Group interest in shareholders' equity	Minority interest in shareholders' equity	Total shareholders' equity
At December 31, 2018	**25,371**	**71,240**	**158**	**35,967**	**7,901**	**11,459**	**(1,095)**	**(1,832)**	**(1,286)**	**16,726**	**164,609**	**32,850**	**197,459**
Effects deriving from the application of IFRS 16						**(3,852)**					**(3,852)**	**(560)**	**(4,412)**
At January 1, 2019	**25,371**	**71,240**	**158**	**35,967**	**7,901**	**7,607**	**(1,095)**	**(1,832)**	**(1,286)**	**16,726**	**160,757**	**32,290**	**193,047**
Allocation of 2018 profit/(loss)	-	-	-	8,781	-	-	-	-	7,945	(16,726)	-	-	-
Dividends paid	-	-	-		-	-	-	-	-	-	-	-	-
Treasury stock (buyback)/sale	(85)	(465)	-	-	-	-	-	-	-	-	(550)	-	(550)
Total comprehensive income/(loss) of 2019	-	-	(105)		-	-	(191)	(144)	-	11,693	11,253	325	11,578
Other changes	-	-	-	-	-	-	-	-	(73)	-	(73)	73	-
At December 31, 2019	**25,286**	**70,775**	**53**	**44,748**	**7,901**	**7,607**	**(1,286)**	**(1,976)**	**6,586**	**11,693**	**171,387**	**32,688**	**204,075**

(Values in thousands of EUR)	Share capital	Share premium reserve	Cash flow reserve	Other reserves	Fair Value reserve	IAS reserve	Remeasurement of defined benefit plans reserve	Translation reserve	Profits/(losses) carried-forward	Net profit / loss for the Group	Group interest in shareholders' equity	Minority interest in shareholders' equity	Total shareholders' equity
At December 31, 2017	**25,371**	**71,240**		**29,150**	**7,901**	**11,459**	**(1,173)**	**(2,348)**	**(6,957)**	**11,490**	**146,133**	**32,307**	**178,440**
Effects deriving from the application of IFRS 9			**(998)**						**998**				
At January 1, 2018	**25,371**	**71,240**	**(998)**	**29,150**	**7,901**	**11,459**	**(1,173)**	**(2,348)**	**(5,959)**	**11,490**	**146,133**	**32,307**	**178,440**
Allocation of 2017 profit/(loss)	-	-	-	6,817	-	-	-	-	4,673	(11,490)	-	-	-
Dividends paid	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury stock (buyback)/sale	-	-	-	-	-	-	-	-	-	-	-	-	-
Total comprehensive income/(loss) of 2018	-	-	1,156	-	-	-	78	516	-	16,726	18,476	543	19,019
Other changes	-	-	-	-	-	-	-	-	-	-	-	-	-
At December 31, 2018	**25,371**	**71,240**	**158**	**35,967**	**7,901**	**11,459**	**(1,095)**	**(1,832)**	**(1,286)**	**16,726**	**164,609**	**32,850**	**197,459**

Ria
Grant Thornton

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

Ria Grant Thornton S.p.A.
Via 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 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, 2019, 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, 2019 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.

Evaluation of Trademarks Alberta Ferretti, Moschino and Pollini

Description of the Key matter	**Audit procedures in response to the Key matter**
The consolidated financial statements as at 31 December 2019 include the Alberta Ferretti, Moschino and Pollini brands (collectively referred as "Trademarks") for a value of 75 million Euros,	The audit procedures carried out also with the involvement of experts from the Grant Thornton network included:

accounted as intangible assets with a finite useful life, and systematically amortized on a straight-line basis over the estimated useful life period in 40 years;

Although IAS 36 accounting standard requires the annual test (therefore independent from impairment indicators) only for goodwill and intangibles with an indefinite useful life, the Directors of the Parent Company perform an impairment tests over the Trademarks on annual basis, close to the period-end of the consolidated financial statements, to compare their recoverable values against their book values.

Management applied the method of discounting royalties to determine the recoverable value of the brands subject to impairment test. Such estimation method consists in discounting, for a period deemed appropriate, the flows of royalties that the market would be willing to pay (or corresponds to) to the owner of an intangible asset to acquire its license of use.

The information is showed in the explanatory notes to note 1 and in the paragraph "Main estimates adopted by the Management".

The performance of the impairment test involves complex assessments that require a high degree of subjective judgment. For these reasons, we considered the evaluation of trademarks as a key aspect of the auditing activity.

- analysis of the reasonableness of the depreciation criteria adopted;
- an understanding of the process applied in preparing the impairment test on brands, approved by the directors of the Parent Company;
- understanding the process applied in the preparation of the Group 2020 budget approved by the Parent Company's Board of Directors on January 29, 2020, taken as a reference for carrying out the impairment tests;
- understanding the process followed to calculate the royalties and their reconciliation with the consolidated financial statements;
- analysis of the reasonableness of the estimates used to determine the recoverable value of the Trademarks and any impairment losses;
- examination of the sensitivity analysis with reference to the key assumptions used for the impairment tests including the interest rate and the perpetual growth rate;
- the examination of the appropriateness of the information provided by the directors in the explanatory notes in relation to the Brands and the impairment tests.

First adoption of the international accounting principle IFRS 16

Description of the Key matter

The Aeffe Group has adopted the international accounting standard IFRS 16 "Leasing" starting from 1 January 2019.

For the purposes of the first application of the accounting principle, the Group has used the retroactive modified application method, as such did not restate the comparative info, and applied some of the practical expedients as described by the principle itself.

The adoption of the new accounting standard resulted in the recognition of higher usage rights related to leased assets for 102.1 million Euros and financial payables as at the date of first application, i.e. January 1st, 2019, for 108.2 million Euros. This is illustrated in the explanatory notes to the consolidated financial statements.

Audit procedures in response to the Key matter

The audit procedures performed also with the involvement of experts from the Grant Thornton network included:

- the analysis of the appropriateness of the accounting rules applied by Management for consistency with the requirements of the international accounting standard IFRS 16, including first time application options and practical expedients;
- an understanding of the corporate transition processes to the new accounting standard and the related IT environment of the Group;
- for a sample of contracts that contain or represent a lease:
  - analysis of the appropriate classification of the lease term;

The process of adopting IFRS 16 required complex assessments, as well as the use of estimates, which are subjective in their nature, with reference to:

- the evaluation of whether the contracts contain or represent a lease;
- the determination of the lease term, considering the non-cancellable period of the contract together with the assessments of any renewal or termination options;
- the determination of the leasing liability on the basis of the payments due, discounted by applying the implicit interest rate of the relevant lease or the average cost of the debt;
- the estimation of the useful life for the purpose of amortization of the assets by right of use and the carrying out of any impairment tests on these assets in accordance with IAS 36;
- the accounting of any contractual changes.

The information is reported in the explanatory notes to note 3, in the paragraph "Amended accounting standards and interpretations applicable from January 1, 2019" and in the paragraph "Main estimates adopted by the Management".

In consideration of the complexity and subjectivity of the assessments described above, the adoption of accounting standard IFRS 16 represented a key aspect of the audit.

- analysis of the calculation of payments due over the duration of the contract;
- analysis of the reasonableness of the discount rate used to calculate the present value of the residual payments due;

- analysis of the useful lives of the assets for the right of use applied for the amortization of such asset;
- understanding of the process followed by Management to perform impairment tests in accordance with IAS 36;
- analysis of the process followed by Management to identify events that require the re-determination of the leasing liabilities and in such circumstances the recalculation of such liabilities;
- the examination of the appropriateness of the information and disclosures provided by the Directors in the explanatory notes in relation to the first adoption of the accounting standard IFRS 16.

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 International Standard on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in 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. We describe these matters in our auditor's report.

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, 2019, 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, 2019 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, 2019 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 20, 2020

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 "Jeremy Scott" and "Custo".

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 IV 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 2019 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 2019 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 2019 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%	
Aeffe Japan Inc.	Tokyo (J)	JPY	3,600,000	100%	
Aeffe Shanghai Ltd.	Shanghai (CN)	CNY	17,999,960	100%	
Aeffe Germany G.m.b.h.	Metzingen (DE)	EUR	25,000	100%	
Divè S.a.	Galazzano (RSM)	EUR	260,000	75%	
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)
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	50,000		70% (ii)
Moschino USA Inc.	New York (USA)	USD	10,000		70% (ii)
Bloody Mary Inc.	New York (USA)	USD	100,000		70% (ii)

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.

The following operations were completed during the period:

a) payment of 1,035 thousand euros to the capital of Aeffe Shanghai Ltd. held 100% by Aeffe S.p.A ..

b) foundation of Aeffe Germany G.m.b.h 100% owned by Aeffe S.p.A ..

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 2019	Average exchange rate 2019	Actual exchange rate 31 December 2018	Average exchange rate 2018
Chinese Renminbi	7.8205	7.7355	7.8751	7.8081
United States Dollars	1.1234	1.1195	1.1450	1.1810
United Kingdom Pounds	0.8508	0.8778	0.8945	0.8847
Japanese Yen	121.9400	122.0058	125.8500	130.3959
South Korean Won	1,296.2800	1,305.3200	1,277.9300	1,299.0713
Swiss franc	1.0854	1.1124	1.1269	1.1550

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 POLICIES

The accounting policies adopted in the preparation of this consolidated financial statement are the same used as those used in the preparation of the consolidated financial statement as of December 31, 2018, except for the following interpretations and amendments to the accounting principles that have been mandatory since January 1, 2019.

Accounting standards, amendments and interpretations approved by the European Union, applicable from 1 January 2019, which were applied for the first time in the consolidated half-yearly financial statements of the AEFFE Group closed as at 31 December 2019

IFRS 16 "Leasing": On 13 January 2016 the IASB (International Accounting Standard Board) published the accounting standard IFRS 16 Leasing, which replaces IAS 17; this document was adopted by the European Union on 9 November 2017. IFRS 16 defines the principles for the recognition, measurement, presentation and reporting of leases (contracts that give the right to use third party assets) and requires tenants to account for all leasing contracts in accordance with the method envisaged for financial leases by the old accounting standard IAS 17, effectively eliminating the previous dichotomy between operating and financial leases. The Group has opted for a retrospective application of the principle, without restatement of comparative information. The cumulative effect was noted as a reduction in retained earnings. The application of IFRS 16 as of January 1, 2019 has had a significant impact on the consolidated financial statements of the Aeffe Group by virtue of the operational activity linked to the retail distribution network.

In fact, the Group is the lessee of a series of leases which have been analyzed for the purposes of applying the new IFRS 16 principle and which mainly concern the DOS points of sale, showrooms, company cars and apartments benefiting from employees. The leases of the DOS represent the preponderant category, representing in fact about 73% of the total liabilities for leasing.

From an accounting point of view, the application of IFRS 16 has resulted in the recognition of an activity by right of use on the assets covered by the lease agreements and a liability for leased assets in relation to the fixed fees still to be paid. The activity for the right to use leased assets is initially valued at cost, and subsequently amortized over the lease term defined during the analysis. The cost of the right of use assets includes the initially recognized value of the leasing liability, the initial direct costs incurred, the estimate of any restoration costs to be incurred at the end of the contract and the advance payments relating to the leasing made on the date of the first transition net of leasing incentives received. The leasing liability is valued at the present value of the payments due for the fixed installments not yet paid at the transition date discounted using the interest rate as defined below. The liability for leased assets is subsequently increased by the interest accrued on said liability and decreased in correlation with the lease payments.

Below is a summary of the impacts deriving from the application of the aforementioned principle both in terms of balance sheet and income statement:

(Values in thousands of EUR)	Notes	1 January 2019	IFRS 16 Adjustment	31 December 2018
Operating net working capital		70,450		70,450
Net working capital		85,748		85,748
Fixed assets	*a*	268,491	102,119	166,373
NET CAPITAL INVESTED	*b*	332,542	103,826	228,716
Total shareholders' equity	*c*	193,047	(4,412)	197,459
Short term financial receivables		(1,420)	-	(1,420)
Cash		(28,037)	-	(28,037)
Long term financial liabilities		16,409	-	16,409
Long term lease liabilities	*d*	94,176	94,176	-
Long term financial receivables		(2,302)	-	(2,302)
Short term financial liabilities		46,607	-	46,607
Short term lease liabilities	*e*	14,062	14,062	-
NET FINANCIAL POSITION		139,495	108,239	31,256
SHAREHOLDERS' EQUITY AND NET FINANCIAL INDEBTEDNESS		332,542	103,826	228,716

The main assumptions that have been adopted by the Aeffe Group for the first application of IFRS 16 are summarized below:

1) the Group has made use of the exemption granted in relation to short-term leases (i.e. contracts with expiry within 12 months or less) and for lease contracts for which the underlying asset is configured as a low-value asset (goods of a small amount). For these contracts, for which the exemption was used, the

introduction of IFRS 16 did not entail the recognition of the financial liability of the lease and the related right of use, therefore the accounting records did not change compared to the previous period ;

2) Significant initial direct costs that had a positive net book value in the balance sheet on the transition date were included in the measurement of the right of use on 1 January 2019;

3) The duration of the lease contracts, with particular reference to the exercise of renewal and early closing options, was determined on the basis of the information existing at the transition date;

4) The discount rate (IBR Incremental Borrowing Rate) used for the estimates relating to the discounting of future payments of the rent, was determined taking into account the free risk interest rates in force in the individual countries in which the companies operate of the Aeffe Group involved in the application of IFRS 16.

The weighted average IBR applied during the transition was 2.22%;

Variable rents, which do not depend on an index or rate, but which mainly depend on the volume of sales, continue to be recorded in the income statement under costs for third party assets. After the first entry, for 125.7 million euros (including the reclassification of Key Money), the Activities by right of use increased in 2019, following new lease agreements entered into during the period, for 1.1 million euro and decreased by 16.6 million euro following the normal process of furnishing of the period and a foreign exchange effect of -0.6 million euro.

At the same time as the application of IFRS 16 and to give a more truthful and correct representation, the amortization plan of the Key Money was modified, making them fall within the rights of use of assets as they represent the initial direct costs of the lessee. The change in estimate (Useful Life) was made prospectively resulting in an insignificant change. The reclassification within the user activities, during the transition to 01/01/2019 was equal to 23.6 million euro.

In addition to the information provided above, it should be noted that:

1) The lease payments relating to those assets falling within the definition of "low value assets" envisaged by IFRS 16 were equal to 0.8 million euros at 31 December 2019;

2) The lease payments relating to those contracts that provide for a variable rent and therefore have not been included in the valuation of the leasing liability, amounted to 2 million euros at 31 December 2019.

In order to assist in understanding the impacts of the first application of the standard, the following table provides a reconciliation between future commitments relating to lease contracts, and the impact resulting from the adoption of IFRS 16 on January 1, 2019:

(Values in thousands of EUR)	
Lease commitments reconciliations	
Operating leasing bonds at 12/31/2018	127,856
Short term	-
Low value lease	(780)
Additional costs	(64)
Variable fees	(2,087)
Financial liability not discounted for lease as of January 1, 2019	**124,925**
Discounting effect	(16,686)
Financial liability discounted by lease as of January 1, 2019	**108,239**

Accounting standards, amendments and interpretations published by the IASB but not yet endorsed by the European Union

Description	Effective date foreseen by the principle
IFRS 14 Regulatory Deferral Accounts	**(*)**
IFRS 17 Insurance Contracts	01/01/2021
Interpretations	01/01/2019
IFRIC 22 Foreign Currency Transactions and Advance Consideration	01/01/2018
IFRIC 23 Uncertainty over Income Tax Treatments	01/01/2019
Amendments	01/01/2019
Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred until completion of the IASB project on the *equity method*
Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions	01/01/2018
Annual Improvements to IFRS Standards 2015-2017 Cycle	01/01/2019
Amendments to IAS 40: Transfers of Investment Property	01/01/2018
Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures	01/01/2019
Amendments to IFRS 9: Prepayment Features with Negative Compensation	01/01/2019

(*) IFRS 14 came into force on 1 January 2016, but the European Commission decided to suspend the approval process pending the new accounting principle on "rate-regulated activities".

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 2019, the company has not recorded values related to goodwill in the financial statements.

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 2019, 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%
Plant and machinery	12,5%
Photovoltaic systems	9%
Industrial and commercial equipment	25%
Electronic machines	20%
Furniture and fixtures	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 IFRS16

IFRS 16 was published in January 2016 and replaced IAS 17 Leasing, IFRIC 4, SIC-15 and SIC-27. IFRS 16 defines the principles for the recognition, measurement, presentation and disclosure of leases (contracts that give the right to use third party assets) and requires lessees to account for all leasing contracts in the financial statements on the basis of a single model similar to the one used to account for financial leases in accordance with IAS 17. The standard provides for two exemptions for the recognition by tenants - leasing contracts relating to activities of "low value / low value assets" (for example personal computers, copiers, ...) and short term / short term leasing contracts (for example contracts with expiration within 12 months or less). At the start date of the leasing contract, the lessee recognizes a liability against non-variable payments of the lease payments (i.e. the leasing liability) and an asset that represents the right to use the underlying asset for the duration of the contract (i.e. the right of use). Lessees must separately account for interest expenses on the leasing liability and the amortization of the right of use. Lessees will also need to remeasure the lease liability upon the occurrence of certain events (for example: a change in the conditions of the lease, a change in future payments of the lease following the change in an index or rate used to determine those payments). The lessee generally recognizes the amount of the remeasurement of the leasing liability as a correction of the right to use the asset. However, the standard does not provide for significant changes for landlords.

Impairment

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, right-of-use 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.

Derivative financial instruments

The fundamental characteristics of derivative financial instruments are set out in the paragraph Derivative financial instruments (Note 10). The Group uses derivative financial instruments to hedge the risks associated with currency exposure arising from its operations, without any speculative or trading purpose. Accounting for derivative transactions, since these refer to a risk linked to the variability of expected cash flows (forecast transaction), are performed in accordance with the cash flow hedge rules. The rules of hedge accounting require the recognition of derivatives at their fair value in the balance sheet;

the recording of changes in fair value differs depending on the type of hedge at the valuation date:

• for derivatives used to hedge expected transactions (ie cash flow hedges), changes in fair value are recognized directly in the specific shareholders' equity reserve, except for the portion of variation relating to the ineffective portion of the hedge that is allocated to the account economic, financial income and charges; the fair value differences already recognized directly in the specific equity reserve are fully charged to the income statement, adjusting the operating margins, at the time the assets / liabilities relating to the hedged items are recognized;

• for derivatives used to hedge assets and liabilities recognized in the financial statements (ie fair value hedges), the differences in fair value are recognized entirely in the income statement under financial income and expense. In addition, the value of the hedged item (assets / liabilities) is adjusted for the change in value attributable to the hedged risk, using financial income and expenses as a contra entry.

Revenue

Revenues from sales and services derive mainly from the sale of goods with the recognition of "at poin in time" revenues when the asset was transferred to the customer. This is provided for both the Wholesale distribution (shipment of goods to the customer, and for retail distribution when the asset is sold through a physical store. With regard to the export of goods, the control can be transferred in various stages depending on the type of product). Incoterm applied to the specific customer This premise leads to a limited judgment on the identification of the control passage of the asset and the consequent recognition of the revenue.

A part of the group's revenues derives from the recognition of the Roylalties, agreed, based on a predetermined percentage in the contract with the customer, on the net turnover. The royalties accrue "at point in time", therefore at the time of issue by the Licensee, of the invoices for the sale of the products granted.

Most of the Group's revenues derive from list prices that can vary depending on the type of product, brand and geographical region. Some contracts with the Group's Retail Companies provide for the transfer of control with the right of return. Being intra-group transactions they do not impact the consolidated financial statements as they are eliminated.

With regard to the recognition of Royalties, these are calculated based on a percentage of the Licensee's net sales. The percentage may vary depending on the type of product.

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".

IFRS 16

The transition to IFRS 16 introduces some elements of professional judgment which involve the definition of some accounting policies and the use of assumptions. The main ones are summarized below:

- Lease term: the identification of the duration of the rental contract is a very relevant issue since the form, legislation and commercial practices on property rental contracts vary significantly from one jurisdiction to another and the assessment of the effects of the renewal options at the end of the non-cancellable period on the lease term estimate entails the use of assumptions. In fact, for the definition of the lease term, the Group considered the presence of renewal and cancellation options respectively for the lessee, the lessor or both. In the presence of renewal options exercisable by both contractual parties, it considered the existence or not of significant economic disincentives in refusing the renewal request as required by paragraph B34 of IFRS 16. In the presence of options exercisable only by one of the two parties considered paragraph B35 of IFRS 16. The application of the above, taking into account the specific facts and circumstances as well as the estimate that the option is reasonably certain, has meant that, for contracts with an annual duration renewable automatically unless canceled, an average duration of ten years was considered, basing this choice on historical evidence while in other cases if it is only the Group that can exercise the option, a duration was considered until the second renewal provided for in the contract, based on the historical evidence and the fact that renewal beyond the second period cannot be considered reasonably certain.
- Definition of the discount rate: since in most of the rental contracts stipulated by the Group, there is no implicit interest rate, the Group has calculated an incremental Borrowing Rate-IBR. In order to determine the IBR to be used for discounting future rent payments, the Group has identified each country as a portfolio of contracts with similar characteristics and has determined the relative IBR as the rate of a risk-free instrument of the respective country in which the contract was stipulated, based on the different contractual deadlines. The weighted average IBR applied during the transition was 2.22%.
- Activities by right of use: the Group detects activities by right of use on the lease start date (ie on the date on which the underlying asset is available for use). The right of use activities that fall under the definition of investments in real estate activities are classified in this balance sheet item. The assets by right of use are measured at cost, net of accumulated depreciation, of accumulated impairment losses and modified for any re-measurement of the leasing liability. The cost of the assets by right of use includes the initially recognized value of the leasing liability, initial direct costs incurred, the payments due for the leasing made on the date or before the effective date net of the leasing incentives received. Unless the Group is reasonably certain that it purchases the leased asset at the end of the lease contract, the assets by right of use are amortized linearly in the shorter period between the duration of the contract and the useful life of the leased asset. The value of the asset by right of use is subject to verification to detect any impairment.
- Leasing liabilities: at the start date of the leasing contract, the Group recognizes the leasing liability measured as the present value of future residual payments until the end of the contract. Future payments include fixed payments, net of any leasing incentives to be received, variable payments that depend on an index or rate and the amounts that the Group is expected to pay as guarantees of the residual value. Future payments also include the exercise price of the purchase option, if the Group has reasonable certainty to exercise the option and the leasing termination penalty payments, if the Group has reasonable certainty to exercise the resolution option. . Variable payments, which do not depend on an index or rate, but which for the Group mainly depend on the volume of sales, continue to be recorded as costs in the income statement, among the costs for services. To calculate the present value

of future payments, the Group uses the Incremental Borrowing rate (IBR) on the contract start date. Subsequently, the leasing liability is increased for interest and decreased for payments made. In addition, the leasing liability is remeasured to take into account changes to the terms of the contract.

- Short term leases and low value assets leases: the Group avails itself of the exemption from the application of IFRS 16 for short-term contracts (less than 12 months) and for contracts in which the individual leased asset is of small value . The payments of the fees of these contracts are accounted for linearly as costs in the income statement, based on the terms and conditions of the contract.

- As of 2019, IFRS 16 requires the recognition of an asset for the right of use and a liability for the obligation to pay leasing installments in the financial statements. Any impairment of the asset for the right of use must be calculated and recognized in accordance with the provisions of IAS 36. The "rights of use" of each individual CGU are subjected to impairment tests in the presence of triggering events (in to the individual CGU) identified by a possible loss of value and reported by the following key performance indicators:

  - divestment plans;

  - performance indicators below expectations;

  - operational losses.

  The impairment test is carried out in the following ways:

  - calculation of the value in use of the CGUs excluding from cash flows those connected to the leasing liability;

  - calculation of the fair value of the CGU by discounting future rental rates at market value

  - calculation of the recoverable value as the greater of value in use and fair value

  - comparison of the recoverable value with the book value of the CGU, the latter calculated net of the book value of the leasing liability.

  In calculating the value in use, the discount rate used is the Group WACC.

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 2020. For the remaining periods the management has used an increase in turnover with a compound annual growth rate ("CAGR") variable from 0.58% to 2.19%. 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 7.40% (6.39% 31/12/2018).

- 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 1.20%;
- The discount rate used is 0.62%;
- The annual rate in increase of the severance indemnity fund foreseen is 2.40%;
- 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 0.37%.

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 2019 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 55 thousand annually (EUR 68 thousand as of 31 December 2018).

As of 31 December 2019 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 27,334 thousand as of 31 December 2019, represent 66% of the receivables entered in the financial statements. This percentage decreases compared to the 74% 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 2019	31 December 2018	Change Δ	%
Trade receivables	41,525	43,139	(1,614)	(3.7%)
Other current receivables	35,218	34,852	366	1.1%
Other fixed assets	2,720	2,810	(90)	(3.2%)
Total	**79,463**	**80,801**	**(1,338)**	**(1.7%)**

See note 6 for the comment and breakdown of the item "other fixed assets" note 9 "trade receivables" and note 14 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 2019, overdue but not written-down trade receivables amount to EUR 14,191 thousand (EUR 11,297 thousand in 2018). The breakdown by due date is as follows:

\	31 December 2019	31 December 2018	Change Δ	%
By 30 days	6,151	5,530	621	11.2%
31 - 60 days	3,271	2,081	1,190	57.2%
61 - 90 days	1,298	843	455	54.0%
Exceeding 90 days	3,471	2,843	628	22.1%
Total	**14,191**	**11,297**	**2,894**	**25.6%**

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 01.01.18	**81,975**	**26,853**	**851**	**109,679**
Increases	-	696	713	1,409
- increases externally acquired	*-*	*696*	*713*	*1,409*
- increases from business aggregations	-	-	-	-
Disposals	-	(1,479)	(2)	(1,481)
Translation differences and other variations	-	-		-
Amortisation	(3,493)	(2,514)	*(468)*	(6,475)
Net book value as of 31.12.18	**78,482**	**23,556**	**1,094**	**103,132**
Effects deriving from the application of IFRS 16		**(23,556)**	**-**	**(23,556)**
Net book value as of 01.01.19	**78,482**	**-**	**1,094**	**79,576**
Increases	-	-	1,185	1,185
- increases externally acquired	-	-	*1,185*	*1,185*
- increases from business aggregations	-	-	-	-
Disposals	-	-	-	-
Translation differences and other variations	-	-	(9)	(9)
Amortisation	(3,494)	-	*(1,175)*	(4,669)
Net book value as of 31.12.19	**74,988**	**-**	**1,095**	**76,083**

The intangible fixed assets highlight the following main variations:

- increases, equal to EUR 1,185 thousand, mainly related to software;
- amortisation of the period is EUR 4,669 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 2019	31 December 2018
Alberta Ferretti	23	2,897	3,023
Moschino	25	41,841	43,769
Pollini	21	30,250	31,690
Total		**74,988**	**78,482**

Key money

At the same time as the application of IFRS 16 and to give a more truthful and correct representation, the amortization plan of the Key Money was modified, making them fall within the rights of use of assets as they represent the initial direct costs of the lessee. The change in estimate (Useful Life) was made prospectively resulting in an insignificant change.

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 01.01.18	**17,119**	**22,168**	**12,597**	**2,864**	**260**	**4,096**	**59,104**
Increases	-	1,835	2,961	916	124	914	6,750
Disposals	-	-	(262)	(20)	-	(42)	(324)
Translation differences and other variations	-	-	38	-	2	15	55
Depreciation	-	(567)	(2,783)	(709)	(125)	(1,102)	(5,286)
Net book value as of 31.12.18	**17,119**	**23,436**	**12,551**	**3,051**	**261**	**3,881**	**60,299**
Increases	4	2,807	2,607	1,175	269	913	7,775
Disposals	-	-	-	-	(4)	(5)	(9)
Translation differences and other variations	-	-	81	2	-	(2)	81
Depreciation	-	(606)	(2,671)	(816)	(138)	(1,090)	(5,321)
Net book value as of 31.12.19	**17,123**	**25,637**	**12,568**	**3,412**	**388**	**3,697**	**62,825**

Tangible fixed assets have changed as follows:

- Increases for new investments of EUR 7,775 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 9 thousand;
- Increase for differences arising on translation and other variation of EUR 81 thousand which mainly relates to the translation differences of the foreign subsidiaries.
- Depreciation of EUR 5,321 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).

3. *Right-of-use assets*

The following table shows the movement of activities by right of use for the year ended 31 December 2019:

(Valori in migliaia di Euro)	Buildings	Car	Other	Total
Net book value as of 01.01.19	**124,347**	**184**	**1,144**	**125,675**
Increases	1,044	75	-	1,119
Disposals	-	-	-	-
Translation differences and other variations	637	-	-	637
Depreciation	(16,230)	(74)	(413)	(16,717)
Net book value as of 31.12.19	**109,798**	**185**	**731**	**110,714**

The item Buildings includes Activities by right of use relating mainly to shop rental contracts (equal to approximately 85% of the activities by right of use Buildings) and to a residual extent relating to rental contracts for offices, and other spaces . The main increases recorded during the half year refer to new rental contracts signed during the period, mainly for the points of sale. To give a more truthful and correct representation, the amortization plan of the Key Money has been modified (reparameterized to the duration of the underlying contract) reclassifying them in the rights of use of assets as they represent the initial direct costs of the lessee. The change in estimate (Useful Life) was made prospectively resulting in an insignificant change. The reclassification within the user activities, during the transition to 01/01/2019 was equal to EUR 23.6 million. During the year, there were no indicators that made it necessary to verify the existence of impairment of the fixed assets entered. In consideration of the relevance of the amounts of the rights of use recorded in the Fixed Assets and the valuation aspects related to them, despite the absence of significant triggering events, the Group has formalized an impairment test in the manner described previously in paragraph "IFRS 16". In particular, for the Cash Generating Units (CGU), the recoverable value was calculated as the greater of the fair value and use value of the related Cash Generating Unit with the carrying amount of its net invested capital ("carrying amount"). For the 2019 valuation, the expected cash flows and revenues are based on the 2020 Budget (approved by the Board of Directors on 29 January 2020) and on the management estimates for subsequent years, consistently with the duration of the rental contracts. The discount rate used for discounting cash flows is equal to the Group WACC (7.40%), while the compound annual growth rate (CAGR) is on average 4.7%.

4. *Equity Investments*

This item includes shareholdings measured at the cost.

5. *Long term financial receivables*

Long term financial receivables change from EUR 2,302 thousand at December 31, 2018 to EUR 2,225 thousand at December 31, 2019.

6. *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.

7. *Deferred tax assets and liabilities*

The table below illustrates the breakdown of this item at 31 December 2019 and at 31 December 2018:

(Values in thousands of EUR)	Receivables		Liabilities	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Tangible fixed assets	5	5	(18)	(19)
Intangible fixed assets	35	46	(144)	(144)
Provisions	3,876	3,992	(4)	(1)
Costs deductible in future periods	4,512	5,637	(28)	(27)
Income taxable in future periods	2,022	1,195	(1,532)	(1,608)
Tax losses carried forward	2,510	3,121	-	-
Other	147	5	(89)	(87)
Tax assets (liabilities) from transition to IAS	3,843	1,072	(28,167)	(28,208)
Total	**16,950**	**15,073**	**(29,982)**	**(30,094)**

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	(14)	-	1	-	(13)
Intangible fixed assets	(98)	-	(11)	-	(109)
Provisions	3,991	6	(125)	-	3,872
Costs deductible in future periods	5,610	2	(1,128)	-	4,484
Income taxable in future periods	(413)	-	903	-	490
Tax losses carried forward	3,121	32	(355)	(288)	2,510
Other	(82)	(2)	14	128	58
Tax assets (liabilities) from transition to IAS	(27,136)	-	1,003	1,809	(24,324)
Total	**(15,021)**	**38**	**302**	**1,649**	**(13,032)**

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

8. Stocks and inventories

This item comprises:

(Values in thousands of EUR)	31 December 2019	31 December 2018	Change Δ	%
Raw, ancillary and consumable materials	15,136	14,412	724	5.0%
Work in progress	6,273	9,770	(3,497)	(35.8%)
Finished products and goods for resale	90,596	79,830	10,766	13.5%
Advance payments	46	250	(204)	(81.6%)
Total	**112,051**	**104,262**	**7,789**	**7.5%**

Inventories of raw materials and work in progress mainly relate to the production of the Spring/Summer 2020 collections, while finished products mainly concern the Autumn/Winter 2019 and the Spring/Summer 2020 collections and the Autumn/Winter 2020 sample collections.

9. Trade receivables

This item is illustrated in the following table:

(Values in thousands of EUR)	31 December 2019	31 December 2018	Change Δ	%
Trade receivables	45,205	46,537	(1,332)	(2.9%)
(Allowance for doubtful account)	(3,680)	(3,398)	(282)	8.3%
Total	**41,525**	**43,139**	**(1,614)**	**(3.7%)**

Trade receivables amount to EUR 45,205 thousand at 31 December 2019, down 2.9% since 31 December 2018.

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.

10. Tax receivables

This item is illustrated in details in the following table:

(Values in thousands of EUR)	31 December 2019	31 December 2018	Change Δ	%
VAT	5,578	3,702	1,876	50.7%
Corporate income tax (IRES)	3,571	1,133	2,438	215.2%
Local business tax (IRAP)	707	196	511	260.7%
Amounts due to tax authority for withheld taxes	-	4	(4)	(100.0%)
Other tax receivables	4,263	2,725	1,538	56.4%
Total	**14,119**	**7,760**	**6,359**	**81.9%**

As of 31 December 2019, the Group's tax receivables amount to EUR 14,119 thousand. The variation of EUR 6,359 thousand compared with the value at 31 December 2018 is mainly due to the increase of VAT and IRES receivables and to the recognition of the tax credit in the subsidiary Moschino Spa for incremental investments made in research and development activities.

11. Derivate assets and liabilities

The AEFFE Group, characterized by an important presence in international markets, is exposed to exchange rate risk mainly for purchases by the subsidiary Pollini in US Dollars (USD). The Group signs forward currency derivative contracts (USD) at term (Forward) with primary credit institutions to cover the aforementioned risk. These contracts are set up to cover a specific percentage of expected purchase volumes in USD. At the balance sheet date, the notional amount of forward currency contracts stipulated is USD 25,500 thousand (USD 26,000 thousand at 31/12/2019). All contracts opened at 12/31/2019 will expire in 2020.

The composition of the derivative financial instruments in place at December 31, 2019 and December 31, 2018 is summarized below with an indication of the respective current and non-current accounting values referring to the fair value and fair value of the cash flow hedge reserve, this last shown net of the related deferred tax effect:

(Values in thousands of EUR)	31 December 2019			31 December 2018		
	Assets	Liabilities	Hedging Reserve	Assets	Liabilities	Hedging Reserve
Forward contracts for cash flow hedge exchange rate risk	-	-	-	-	-	-
TOTAL NON CURRENT	**-**	**-**	**-**	**-**	**-**	**-**
Forward contracts for cash flow hedge exchange rate risk	74	-	53	220	-	158
TOTAL CURRENT	**74**	**-**	**53**	**220**	**-**	**158**

The cash flow hedge reserve relating to forward contracts hedging the currency risk on currencies amounts to Euro 53 thousand net of the related tax effect (Euro -21 thousand).

The transfer to the 2019 income statement of the effect of the hedging transactions on exchange rate risk was equal to Euro 921 thousand brought to decrease costs.

12. Cash

This item includes:

(Values in thousands of EUR)	31 December 2019	31 December 2018	Change Δ	%
Bank and post office deposits	27,914	27,483	431	1.6%
Cheques	25	61	(36)	(59.0%)
Cash in hand	451	493	(42)	(8.5%)
Total	**28,390**	**28,037**	**353**	**1.3%**

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 2019 compared with the amount recorded at 31 December 2018, is EUR 353 thousand. About the reason of this variation see the Cash Flow Statement.

13. Short term financial receivables

This item includes:

(Values in thousands of EUR)	31 December 2019	31 December 2018	Change Δ	%
Financial receivables	1,132	1,420	(288)	(20.3%)
Total	**1,132**	**1,420**	**(288)**	**(20.3%)**

14. Other receivables

This caption comprimes:

(Values in thousands of EUR)	31 December 2019	31 December 2018	Change Δ	%
Credits for prepaid costs	27,637	26,851	786	2.9%
Advances for royalties and commissions	96	191	(95)	(49.7%)
Advances to suppliers	30	235	(205)	(87.2%)
Accrued income and prepaid expenses	3,854	3,455	399	11.5%
Other	3,601	4,120	(519)	(12.6%)
Total	**35,218**	**34,852**	**366**	**1.1%**

Other short term receivables remain substantially in line with the previous period.

Credits for prepaid costs relate to the costs incurred to design and make samples for the Spring/Summer 2020 and Autumn/Winter 2020 collections for which the corresponding revenues from sales have not been realised yet.

15. *Assets and liabilities available for sale*

This item is not changed during the period.

(Values in thousands of EUR)	31 December 2019	31 December 2018
Other fixed assets	437	437
Total Assets	**437**	**437**

16. *Shareholders' equity*

Described below are main categories of shareholders' equity at 31 December 2019, while the corresponding variations are described in the prospect of shareholders' equity.

(Values in thousands of EUR)	31 December 2019	31 December 2018	Change
Share capital	25,286	25,371	(85)
Share premium reserve	70,775	71,240	(465)
Cash flow reserve	53	158	(105)
Other reserves	44,748	35,967	8,781
Fair value reserve	7,901	7,901	-
IAS reserve	7,607	11,459	(3,852)
Remeasurement of defined benefit plans reserve	(1,286)	(1,095)	(191)
Translation reserve	(1,976)	(1,832)	(144)
Profits / (losses) carried-forward	6,586	(1,286)	7,872
Net profit / (loss) for the Group	11,693	16,726	(5,033)
Minority interests	32,688	32,850	(162)
Total	**204,075**	**197,459**	**6,616**

Share capital

Share capital as of 31 December 2019, 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 2019 the Parent Company holds 6,217,839 treasury shares, representing the 5.791% of its share capital.

There are no shares with restricted voting rights, without voting rights or with preferential rights. During 2019, 340,961 treasury shares were purchased by the Parent Company for a total value of Euro 550,268.

Share premium reserve

The variation in the share premium reserve amounts to EUR 465 thousand and it is related to the purchase of treasury shares made during the year.

Cash flow reserve

For the change in the cash flow hedge reserve of EUR 105 thousand, please refer to note 11 of the assets and liabilities for derivatives.

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. The change of EUR 3,852 thousand refers to the application of IFRS 16 on January 1, 2019.

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 191 thousand compared to the value at 31 December 2018.

Translation reserve

The decrease of EUR 144 thousand related to such reserve is mainly due to the conversion of companies' financial statements in other currency than EUR.

Profits/(losses) carried-forward

The caption profits/(losses) carried forward records a positive variation as a consequence of the consolidated result at 31 December 2018.

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. The change in the application of IFRS 16 on the third party IAS reserve is equal to EUR -560 thousand.

NON-CURRENT LIABILITIES

17. Provisions

Provisions are illustrated in the following statement:

(Values in thousands of EUR)	31 December 2018	Increases	Decreases	31 December 2019
Pensions and similar obligations	465	5	(121)	349
Other	2,094	111	(707)	1,498
Total	**2,559**	**116**	**(828)**	**1,847**

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".

18. 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 2018	Increases	Decreases / Other changes	31 December 2019
Post employment benefits	5,492	135	(432)	5,195
Total	**5,492**	**135**	**(432)**	**5,195**

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 loss.

19. Long-term financial liabilities

The following table contains details of long-term borrowings:

(Values in thousands of EUR)	31 December 2019	31 December 2018	Change Δ	%
Loans from financial institutions	13,449	16,337	(2,888)	(17.7%)
Lease liabilities	81,705	-	81,705	n.a.
Amounts due to other creditors	-	72	(72)	(100.0%)
Total	**95,154**	**16,409**	**78,745**	**479.9%**

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.

Lease liabilities relate to the application of IFRS 16.

The following table contains details of bank loans as of 31 December 2019, including the current portion and the long term portion:

(Values in thousands of EUR)	Total amount	Current portion	Long term portion
Bank borrowings	24,366	10,917	13,449
Total	**24,366**	**10,917**	**13,449**

There are no amounts due beyond five years.

20. Long-term not financial liabilities

The item remained essentially in line with the previous period.

CURRENT LIABILITIES

21. Trade payables

Tax payables are analysed in comparison with the related balances as of 31 December 2018:

(Values in thousands of EUR)	31 December 2019	31 December 2018	Change Δ	%
Trade payables	74,300	76,950	(2,650)	(3.4%)
Total	**74,300**	**76,950**	**(2,650)**	**(3.4%)**

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

22. *Tax payables*

Tax payables are analysed in comparison with the related balances as of 31 December 2018 in the following table:

(Values in thousands of EUR)	31 December 2019	31 December 2018	Change Δ	%
Local business tax (IRAP)	47	374	(327)	(87.4%)
Corporate income tax (IRES)	287	3,325	(3,038)	(91.4%)
Amounts due to tax authority for withheld taxes	2,823	2,569	254	9.9%
VAT due to tax authority	218	165	53	32.1%
Other	16	20	(4)	(20.0%)
Total	**3,391**	**6,453**	**(3,062)**	**(47.5%)**

At December 31, 2019, the Group's payables to tax institutions amounted to EUR 3,391 thousand. The change of EUR 3,062 thousand compared to 31 December 2018 is mainly due to the decrease of IRES payable.

23. *Short term financial liabilities*

A breakdown of this item is given below:

(Values in thousands of EUR)	31 December 2019	31 December 2018	Change Δ	%
Due to banks	57,709	46,607	11,102	23.8%
Lease liabilities	14,098	-	14,098	n.a.
Total	**71,807**	**46,607**	**25,200**	**54.1%**

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.

Lease liabilities relate to the application of IFRS 16.

24. *Other liabilities*

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

(Values in thousands of EUR)	31 December 2019	31 December 2018	Change Δ	%
Due to total security organization	4,406	4,442	(36)	(0.8%)
Due to employees	5,923	5,989	(66)	(1.1%)
Trade debtors - credit balances	1,809	2,162	(353)	(16.3%)
Accrued expenses and deferred income	1,795	4,703	(2,908)	(61.8%)
Other	4,192	3,786	406	10.7%
Total	**18,125**	**21,082**	**(2,957)**	**(14.0%)**

The other short term liabilities amount to EUR 18,125 thousand at 31 December 2019 decreasing of EUR 2,957 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.

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 ""Jeremy Scott" and "Custo"). 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 "Custo".

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 2019 and 2018 of the *Prêt-à porter* and Footwear and leather goods Divisions:

(Values in thousands of EUR) 2019	Prêt-à porter Division	Footwear and leather goods Division	Elimination of intercompany transactions	Total
SECTOR REVENUES	**262,219**	**128,178**	**(38,994)**	**351,403**
Intercompany revenues	(11,533)	(27,461)	38,994	-
Revenues with third parties	**250,686**	**100,717**	-	**351,403**
Gross operating margin (EBITDA)	**38,665**	**14,464**	-	**53,129**
Amortisation	(22,783)	(3,924)	-	(26,707)
Other non monetary items:				
Write-downs	(925)	(396)	-	(1,321)
Net operating profit / loss (EBIT)	**14,957**	**10,144**	-	**25,101**
Financial income	344	282	(169)	457
Financial expenses	(3,055)	(866)	169	(3,752)
Profit / loss before taxes	**12,246**	**9,560**	**-**	**21,806**
Income taxes	(7,011)	(2,791)	-	(9,802)
Net profit / loss	**5,235**	**6,769**	**-**	**12,004**

(Values in thousands of EUR) 2018	Prêt-à porter Division	Footwear and leather goods Division	Elimination of intercompany transactions	Total
SECTOR REVENUES	**265,638**	**118,305**	**(37,387)**	**346,556**
Intercompany revenues	(8,902)	(28,485)	37,387	-
Revenues with third parties	**256,736**	**89,820**	-	**346,556**
Gross operating margin (EBITDA)	**31,645**	**11,684**	-	**43,329**
Amortisation	(8,902)	(2,858)	-	(11,760)
Other non monetary items:				
Write-downs	(1,725)	(197)	-	(1,922)
Net operating profit / loss (EBIT)	**21,018**	**8,629**	-	**29,647**
Financial income	348	594	(198)	744
Financial expenses	(1,043)	(749)	198	(1,594)
Profit / loss before taxes	**20,323**	**8,474**	**-**	**28,797**
Income taxes	(8,916)	(2,683)	-	(11,599)
Net profit / loss	**11,407**	**5,791**	**-**	**17,198**

The following tables indicate the main patrimonial and financial data at 31 December 2019 and 2018 of the *Prêt-à porter* and Footwear and leather goods Divisions:

(Values in thousands of EUR) 31 December 2019	Prêt-à porter Division	Footwear and leather goods Division	Elimination of intercompany transactions	Total
SECTOR ASSETS	*385,054*	*136,043*	*(47,570)*	473,527
of which non-current assets (*)				
Intangible fixed assets	*45,624*	*30,459*	-	*76,083*
Tangible fixed assets	*56,681*	*6,144*	-	*62,825*
Right-of-use assets	*100,670*	*10,044*	-	*110,714*
Other non-current assets	*4,763*	*314*	-	*5,077*
OTHER ASSETS	*27,685*	*3,383*	-	31,068
CONSOLIDATED ASSETS	**412,739**	**139,426**	**(47,570)**	**504,595**
SECTOR LIABILITIES	233,559	81,157	(47,570)	267,146
OTHER LIABILITIES	*23,438*	*9,936*	-	33,374
CONSOLIDATED LIABILITIES	**256,997**	**91,093**	**(47,570)**	**300,520**

(*) 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 2018	Prêt-à porter Division	Footwear and leather goods Division	Elimination of intercompany transactions	Total
SECTOR ASSETS	*308,635*	*120,993*	*(48,587)*	381,041
of which non-current assets (*)				
Intangible fixed assets	*67,305*	*35,827*	*-*	*103,132*
Tangible fixed assets	*56,635*	*3,664*	*-*	*60,299*
Right-of-use assets	*-*	*-*	*-*	*-*
Other non-current assets	*4,895*	*739*	*(390)*	*5,244*
OTHER ASSETS	*19,445*	*3,388*	*-*	22,833
CONSOLIDATED ASSETS	**328,080**	**124,381**	**(48,587)**	**403,874**
SECTOR LIABILITIES	145,796	72,660	(48,587)	169,869
OTHER LIABILITIES	*26,637*	*9,909*	*-*	36,546
CONSOLIDATED LIABILITIES	**172,433**	**82,569**	**(48,587)**	**206,415**

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

Segment information by geographical area

The following table indicates the revenues for the full year 2019 and 2018 divided by geographical area:

(Values in thousands of EUR)	Full Year		Full Year		Change	
	2019	%	2018	%	Δ	%
Italy	160,865	45.8%	168,453	48.6%	(7,588)	(4.5%)
Europe (Italy excluded)	86,890	24.7%	80,301	23.2%	6,589	8.2%
Asia and Rest of the World	86,020	24.5%	80,092	23.1%	5,928	7.4%
America	17,628	5.0%	17,710	5.1%	(82)	(0.5%)
Total	**351,403**	**100.0%**	**346,556**	**100.0%**	**4,847**	**1.4%**

COMMENTS ON THE CONSOLIDATED INCOME STATEMENT

25. Revenues from sales and services

Accounting Policy:

Revenues from sales and services derive mainly from the sale of goods with the recognition of "at poin in time" revenues when the asset was transferred to the customer. This is provided for both the Wholesale distribution (shipment of goods to the customer, and for retail distribution when the asset is sold through a physical store. With regard to the export of goods, the control can be transferred in various stages depending on the type of product). Incoterm applied to the specific customer This premise leads to a limited judgment on the identification of the control passage of the asset and the consequent recognition of the revenue.

A part of the group's revenues derives from the recognition of the Roylalties, agreed, based on a predetermined percentage in the contract with the customer, on the net turnover. The royalties accrue "at point in time", therefore at the time of issue by the Licensee, of the invoices for the sale of the products granted.

Determination of the transaction price:

Most of the Group's revenues derive from list prices that can vary depending on the type of product, brand and geographical region. Some contracts with the Group's Retail Companies provide for the transfer of control with the right of return. Being intra-group transactions they do not impact the consolidated financial statements as they are eliminated.

With regard to the recognition of Royalties, these are calculated based on a percentage of the Licensee's net sales. The percentage may vary depending on the type of product.

Breakdown of revenues from sales and services (IFRS 15)

(Values in thousands of EUR) Full Year 2019	Prêt-à porter Division	Footwear and leather goods Division	Elimination of intercompany transactions	Total
Geographical area	**262,219**	**128,178**	**(38,994)**	**351,403**
Italy	118,023	78,356	(35,514)	160,865
Europe (Italy excluded)	49,278	38,836	(1,224)	86,890
Asia and Rest of the World	77,617	9,478	(1,075)	86,020
America	17,301	1,508	(1,181)	17,628
Brand	**262,219**	**128,178**	**(38,994)**	**351,403**
Alberta Ferretti	26,177	2,092	(2,125)	26,144
Philosophy	18,246	749	(751)	18,244
Moschino	209,249	88,747	(35,489)	262,507
Pollini	39	35,916	(35)	35,920
Other	8,508	674	(594)	8,588
Distribution channel	**262,219**	**128,178**	**(38,994)**	**351,403**
Wholesale	168,481	106,149	(30,726)	243,904
Retail	71,846	21,969	(14)	93,801
Royalties	21,892	60	(8,254)	13,698
Timing of goods and services transfer	**262,219**	**128,178**	**(38,994)**	**351,403**
POINT IN TIME (transfer of significant risks and benefits connected to the property of the asset)	240,327	128,118	(30,740)	337,705
POINT IN TIME (Royalties accrual on Licensee's turnover)	21,892	60	(8,254)	13,698

In 2019 consolidated revenues amount to EUR 351,403 thousand compared to EUR 346,556 thousand of the year 2018, showing an increase of 1.4% (+1.2% at constant exchange rates).

Revenues of the prêt-à-porter division amount to EUR 262,219 thousand with a decrease of 1.3% at current exchange rates (-1.6% at constant exchange rates) compared to 2018. The revenues of the footwear and leather goods division increase by 8.3% to EUR 128,178 thousand.

26. Other revenues and income

This item comprises:

(Values in thousands of EUR)	Full Year 2019	Full Year 2018	Change Δ	%
Other income	10,064	5,450	4,614	84.7%
Total	**10,064**	**5,450**	**4,614**	**84.7%**

The caption other income, that amounts to EUR 10,064 thousand in 2019, is mainly composed by recovery of receivables from bankrupt customers, Co-branding activities, revenues from previous years, exchange gains on commercial transaction, rental income, sales of raw materials and packaging.

27. Costs of raw materials

(Values in thousands of EUR)	Full Year 2019	Full Year 2018	Change Δ	%
Raw, ancillary and consumable materials and goods for resale	121,189	114,811	6,378	5.6%
Total	**121,189**	**114,811**	**6,378**	**5.6%**

The entry purchase of raw materials increase of EUR 6,378 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.

28. Costs of services

This item comprises:

(Values in thousands of EUR)	Full Year 2019	Full Year 2018	Change Δ	%
Subcontracted work	29,456	31,768	(2,312)	(7.3%)
Consultancy fees	25,655	20,782	4,873	23.4%
Advertising	17,486	15,080	2,406	16.0%
Commission	8,695	8,469	226	2.7%
Transport	8,189	6,794	1,395	20.5%
Utilities	1,941	1,929	12	0.6%
Directors' and auditors' fees	3,526	3,660	(134)	(3.7%)
Insurance	617	627	(10)	(1.6%)
Bank charges	1,630	1,649	(19)	(1.2%)
Travelling expenses	2,488	2,338	150	6.4%
Other services	8,653	7,487	1,166	15.6%
Total	**108,336**	**100,583**	**7,753**	**7.7%**

Costs of services increase from EUR 100,583 thousand in the year 2018 to EUR 108,336 thousand in the year 2019, by 7.7%. The increase is mainly due to:

- 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.

29. *Costs for use of third parties assets*

This item comprises:

(Values in thousands of EUR)	Full Year 2019	Full Year 2018	Change Δ	Change %
Rental expenses	6,672	22,488	(15,816)	(70.3%)
Royalties	1,266	1,826	(560)	(30.7%)
Hire charges and similar	1,094	1,077	17	1.6%
Total	**9,032**	**25,391**	**(16,359)**	**(64.4%)**

The costs for use of third parties assets decreases by EUR 16,359 thousand from EUR 25,391 thousand in 2018 to EUR 9,032 thousand in 2019 due to the application of IFRS 16.

30. *Labour costs*

Labour costs increase by EUR 3,884 thousand from EUR 68,503 thousand in 2018 to EUR 72,387 thousand in 2019, recording an incidence on revenues which changes from 19.8% in 2018 to 20.6% in 2019. In 2019 the Group invested mainly in Research and Development, in commercial and communication/marketing departments.

This item comprises:

(Values in thousands of EUR)	Full Year 2019	Full Year 2018	Change Δ	Change %
Labour costs	72,387	68,503	3,884	5.7%
Total	**72,387**	**68,503**	**3,884**	**5.7%**

In 2019 the average number of employees of the Group is:

Average number of employees by category	Full Year 2019	Full Year 2018	Change Δ	Change %
Workers	252	248	4	1.6%
Office staff-supervisors	1,088	1,080	8	0.7%
Executive and senior managers	24	22	2	9.1%
Total	**1,364**	**1,350**	**14**	**1.0%**

31. *Other operating expenses*

This item includes:

(Values in thousands of EUR)	Full Year 2019	Full Year 2018	Change Δ	%
Taxes	1,094	821	273	33.3%
Gifts	427	452	(25)	(5.5%)
Contingent liabilities	83	558	(475)	(85.1%)
Write-down of current receivables	176	90	86	95.6%
Foreign exchange losses	735	1,214	(479)	(39.5%)
Other operating expenses	814	784	30	3.8%
Total	**3,329**	**3,919**	**(590)**	**(15.1%)**

The other operating costs item went from EUR 3,919 thousand in 2018 to EUR 3,329 thousand in 2019 with a decrease of 15.1%, mainly due to a decrease in contingent liabilities and exchange rate losses.

32. Amortisation, write-downs and provisons

This item includes:

(Values in thousands of EUR)	Full Year 2019	Full Year 2018	Change Δ	%
Amortisation of intangible fixed assets	4,668	6,475	(1,807)	(27.9%)
Depreciation of tangible fixed assets	5,321	5,286	35	0.7%
Depreciation of right-of-use assets	16,718	-	16,718	n.a.
Write-downs and provisions	1,321	1,921	(600)	(31.2%)
Total	**28,028**	**13,682**	**14,346**	**104.9%**

The item goes from EUR 13,682 thousand in 2018 to EUR 28,028 thousand in 2019 mainly due to the effect of IFRS16.

33. Financial income/expenses

This item include:

(Values in thousands of EUR)	Full Year 2019	Full Year 2018	Change Δ	%
Interest income	166	142	24	16.9%
Foreign exchange gains	207	513	(306)	(59.6%)
Financial discounts	84	89	(5)	(5.6%)
Financial income	**457**	**744**	**(287)**	**(38.6%)**
Bank interest expenses	310	445	(135)	(30.3%)
Other interest expenses	277	277	-	n.a.
Leasing interest expenses	2,338	-	2,338	n.a.
Foreign exchange losses	239	396	(157)	(39.6%)
Other expenses	588	476	112	23.5%
Financial expenses	**3,752**	**1,594**	**2,158**	**135.4%**
Total	**3,295**	**850**	**2,445**	**287.6%**

The increase in financial income/expenses amounts to EUR 2,445 thousand. This effect is mainly related to the application of IFRS16 (effect equal to higher interests for EUR 2,338 thousand).

With regard to the effects deriving from the use of derivative instruments, please refer to note 11.

34. *Income taxes*

This item includes:

(Values in thousands of EUR)	Full Year 2019	Full Year 2018	Change Δ	Change %
Current income taxes	10,100	12,934	(2,834)	(21.9%)
Deferred income (expenses) taxes	(302)	(1,384)	1,082	(78.2%)
Taxes related to previous years	4	49	(45)	(91.8%)
Total taxes	**9,802**	**11,599**	**(1,797)**	**(15.5%)**

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 2019 and 2018 is illustrated in the following table:

(Values in thousands of EUR)	Full Year 2019	Full Year 2018
Profit / loss before taxes	21,806	28,797
Theoretical tax rate	24.0%	24.0%
Theoretical income taxes (IRES)	**5,233**	**6,911**
Fiscal effect	2,337	211
Effect of foreign tax rates	2,726	2,567
Total income taxes excluding IRAP (current and deferred)	**10,296**	**9,689**
IRAP (current and deferred)	**(494)**	**1,910**
Total income taxes (current and deferred)	**9,802**	**11,599**

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.

35. *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 2019	Full Year 2018
Earnings for determining basic earnings per share	11,693	16,726
Dilutive effects	-	-
Earnings for determing dilutive earnings per share	**11,693**	**16,726**

(Values in thousands of EUR) From continuing activities	Esercizio 2019	Esercizio 2018
Earnings for the period	11,693	16,726
Earnings from discontinued operations	-	-
Earnings for determining basic earnings per share	**11,693**	**16,726**
Dilutive effects	-	-
Earnings for determing dilutive earnings per share	**11,693**	**16,726**

In both periods, December 2019 and December 2018, there is no evidence of dilution of consolidated net earnings.

Number of reference share

	Esercizio 2019	Esercizio 2018
Average number of shares for determing earnings per share	**101,145**	**101,486**
Share options	-	-
Average number of shares for determing diluted earnings per	**101,145**	**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 11,693 thousand (December 2018: EUR 16,726 thousand).

Dilutive earnings per share

The calculation of diluted earnings per share for the period January - December 2019, 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 2019 is EUR 353 thousand.

(Values in thousands of EUR)	Full Year 2019	Full Year 2018
OPENING BALANCE (A)	**28,037**	**22,809**
Cash flow (absorbed)/ generated by operating activity (B)	19,241	25,526
Cash flow (absorbed)/ generated by investing activity (C)	(10,779)	(7,914)
Cash flow (absorbed)/ generated by financing activity (D)	(8,109)	(12,384)
Increase (decrease) in cash flow (E)=(B)+(C)+(D)	**353**	**5,228**
CLOSING BALANCE (F)=(A)+(E)	**28,390**	**28,037**

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

The cash flow generated by operating activity during 2019 amounts to EUR 19,241 thousand.

The cash flow from operating activity is analysed below:

(Values in thousands of EUR)	Full Year 2019	Full Year 2018
Profit before taxes	21,806	28,797
Amortisation / write-downs	28,028	13,682
Accrual (+)/availment (-) of long term provisions and post employment benefits	(1,119)	(281)
Paid income taxes	(13,144)	(9,845)
Financial income (-) and financial charges (+)	3,295	850
Change in operating assets and liabilities	(19,625)	(7,677)
CASH FLOW (ABSORBED)/ GENERATED BY OPERATING ACTIVITY	**19,241**	**25,526**

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

The cash flow absorbed by investing activity during 2019 amounts to EUR 10,779 thousand.

The factors comprising this use of funds are analysed below:

(Values in thousands of EUR)	Full Year 2019	Full Year 2018
Increase (-)/ decrease (+) in intangible fixed assets	(1,813)	(1,257)
Increase (-)/ decrease (+) in tangible fixed assets	(7,847)	(6,657)
Increase (-)/ decrease (+) in right-of-use assets (1)	(1,119)	-
Investments ans write-downs (-)/ Disinvestments and revaluations (+)	-	-
CASH FLOW (ABSORBED)/ GENERATED BY INVESTING ACTIVITY	**(10,779)**	**(7,914)**

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

The cash flow absorbed by financing activity during 2019 amounts to EUR 8,109 thousand.

The factors comprising this use of funds are analysed below:

(Values in thousands of EUR)	Full Year 2019	Full Year 2018
Other variations in reserves and profits carried-forward of shareholders' equity	(976)	1,820
Dividends paid	-	-
Proceeds (+)/ repayments (-) of financial payments	8,143	(14,398)
Proceeds (+)/repayment (-) of leasing payments	(12,435)	-
Increase (-)/ decrease (+) in long term financial receivables	454	1,044
Financial income (+) and financial charges (-)	(3,295)	(850)
CASH FLOW (ABSORBED)/GENERATED BY FINANCING ACTIVITY	**(8,109)**	**(12,384)**

OTHER INFORMATION

39. 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.

40. 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 2019 is analysed below:

(Values in thousands of EUR)	31 December 2019	31 December 2018
A - Cash in hand	476	554
B - Other available funds	27,914	27,483
C - Securities held for trading	-	-
D - Cash and cash equivalents (A) + (B) + (C)	*28,390*	*28,037*
E - Short term financial receivables	1,132	1,420
F - Current bank loans	(46,792)	(33,672)
G - Current portion of long-term bank borrowings	(10,917)	(12,934)
H - Current portion of loans from other financial istitutions	(14,098)	-
I - Current financial indebtedness (F) + (G) + (H)	*(71,807)*	*(46,606)*
J - Net current financial indebtedness (I) + (E) + (D)	*(42,285)*	*(17,149)*
K - Non current bank loans	(13,448)	(16,337)
L - Issued obbligations	2,225	2,302
M - Other non current loans	(81,706)	(72)
N - Non current financial indebtedness (K) + (L) + (M)	*(92,929)*	*(14,107)*
O - Net financial indebtedness (J) + (N)	**(135,214)**	**(31,256)**

The increase in the net financial position relates to the application of IFRS 16 which weighed for EUR 95,804 thousand. Without considering the effect of the application of the new standard, the net financial position increases by EUR 8,154 thousand, rising from EUR 31,256 thousand at December 31, 2018 to EUR 39,410 thousand at December 31, 2019.

41. *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 2019	Full Year 2018	Nature of the transactions
Shareholder Alberta Ferretti with Aeffe S.p.a.			
Contract for the sale of artistic assets and design	1.000	1.000	Cost
Commerciale Valconca with Aeffe S.p.a.			
Commercial	474	1.390	Revenue
Property rental	50	50	Cost
Cost of services	76	73	Cost
Commercial	613	638	Receivable
Ferrim with Aeffe S.p.a.			
Property rental	887	1.805	Cost
Aeffe USA with Ferrim USA			
Property rental	-	698	Cost
Financial income	124	118	Financial income
Commercial	525	439	Receivable
Commercial	123	60	Payable
Non current financial	2.225	1.882	Receivable
Current financial	712	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 2019 and 31 December 2018.

(Values in thousands of EUR)	Balance Full Year	Value rel. party 2019	%	Balance Full Year	Value rel. party 2018	%
Incidence of related party transactions on the income statement						
Revenues from sales and services	351,403	474	0.1%	346,556	1,390	0.4%
Costs of services	108,336	1,076	1.0%	100,583	1,073	1.1%
Costs for use of third party assets	9,032	937	10.4%	25,391	2,553	10.1%
Financial Income / expenses	3,295	124	3.8%	850	118	13.8%
Incidence of related party transactions on the balance sheet						
Non current financial receivables	2,225	2,225	100.0%	2,302	1,882	81.8%
Trade receivables	41,525	1,138	2.7%	43,139	1,077	2.5%
Current financial receivables	1,132	712	62.9%	1,420	1,000	70.4%
Trade payables	74,300	123	0.2%	76,950	60	0.1%
Incidence of related party transactions on the cash flow						
Cash flow (absorbed) / generated by operating activities	19,241	(1,413)	n.a.	25,526	(2,301)	n.a.
Cash flow (absorbed) / generated by financing activities	(8,109)	(55)	0.7%	(12,384)	(130)	1.0%
Incidence of related party transactions on the indebtedness						
Net financial indebtedness	(135,214)	(1,468)	1.1%	(31,256)	(2,431)	7.8%

42. Atypical and/or unusual transactions

Pursuant to Consob communication DEM/6064293 dated 28th July 2006, it is confirmed that in 2019 the Group did not enter into any atypical and/or unusual transactions, as defined in that communication.

43. 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.

44. Guarantees and commitments

As of 31 December 2019, the Group has given performance guarantees to third parties totaling EUR 11,147 thousand (EUR 12,523 thousand as of 31 December 2018).

45. Contingent liabilities

Fiscal disputes

In consideration of the fact that there are no significant tax disputes, no provision has been set aside.

46. 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 2019 for the audit and audit related services provided by the Audit Firm.

(Values in thousand of EUR)	Service provider	2019 fees
Audit	RIA GRANT THORNTON	120
Audit	BDO ITALIA	55
Audit	WARD DIVECHA	9
Audit	ARI AUDIT	4
Audit	GEREC	3
R&D tax credit certification	RIA GRANT THORNTON	30
R&D tax credit certification	BDO ITALIA	30
Stamp of approval of VAT declaration	BDO ITALIA	2
Audit non-financial statement (DNF)	BDO ITALIA	11
Total		**264**

ATTACHMENTS TO THE EXPLANATORY NOTES

ATTACHMENT I	Consolidated Balance Sheet with related parties.
ATTACHMENT II	Consolidated Income Statement with related parties.
ATTACHMENT III	Consolidated Cash Flow Statement with related parties.
ATTACHMENT IV	Prospect of crucial data from the statutory financial statements of Fratelli Ferretti Holding at 31 December 2018.

ATTACHMENT I

Consolidated Balance Sheet with related parties

Pursuant to Consob Resolution n. 15519 of 27 July 2006

(Values in units of EUR)	Notes	31 December 2019	of which Related parties	31 December 2018	of which Related parties
Key money		-		23,556,467	
Trademarks		74,988,008		78,481,588	
Other intangible fixed assets		1,095,455		1,094,412	
Intangible fixed assets	(1)	76,083,463		103,132,467	
Lands		17,123,494		17,118,773	
Buildings		25,636,868		23,436,161	
Leasehold improvements		12,568,482		12,551,514	
Plant and machinary		3,411,595		3,050,863	
Equipment		387,559		260,569	
Other tangible fixed assets		3,696,620		3,880,921	
Tangible fixed assets	(2)	62,824,618		60,298,801	
Right-of-use assets	(3)	110,714,289	-	-	
Equity investments	(4)	131,558		131,558	
Long term financial receivables	(5)	2,225,387	2,225,387	2,302,096	1,882,096
Other fixed assets	(6)	2,720,383		2,810,046	
Deferred tax assets	(7)	16,949,535		15,073,001	
NON-CURRENT ASSETS		**271,649,233**		**183,747,969**	
Stocks and inventories	(8)	112,050,942		104,261,515	
Trade receivables	(9)	41,524,614	1,137,619	43,138,560	1,077,496
Tax receivables	(10)	14,118,912		7,759,828	
Derivative assets	(11)	74,055		219,632	
Cash	(12)	28,390,143		28,037,213	
Short term financial receivables	(13)	1,132,124	712,124	1,420,000	1,000,000
Other receivables	(14)	35,218,280		34,852,460	
CURRENT ASSETS		**232,509,070**		**219,689,208**	
Assets available for sale	(15)	436,885		436,885	
TOTAL ASSETS		**504,595,188**		**403,874,062**	
Share capital		25,286,166		25,371,407	
Other reserves		127,822,540		123,799,107	
Profits / (losses) carried-forward		6,585,047		(1,287,069)	
Net profit / (loss) for the Group		11,692,734		16,726,101	
Group interest in shareholders' equity		171,386,487		164,609,546	
Minority interests in share capital and reserves		32,376,708		32,377,912	
Net profit / (loss) for the minority interests		311,713		471,935	
Minority interests in shareholders' equity		32,688,421		32,849,847	
SHAREHOLDERS' EQUITY	**(16)**	**204,074,908**		**197,459,393**	
Provisions	(17)	1,847,295		2,558,544	
Deferred tax liabilities	(7)	29,982,114		30,093,668	
Post employment benefits	(18)	5,194,899		5,491,570	
Long term financial liabilities	(19)	95,154,429		16,408,975	
Long term not financial liabilities	(20)	717,143		770,731	
NON-CURRENT LIABILITIES		**132,895,880**		**55,323,488**	
Trade payables	(21)	74,300,469	122,604	76,949,819	59,971
Tax payables	(22)	3,391,481		6,452,612	
Derivative liabilities	(11)	-		-	
Short term financial liabilities	(23)	71,807,369		46,606,814	
Other liabilities	(24)	18,125,081		21,081,936	
CURRENT LIABILITIES		**167,624,400**		**151,091,181**	
Liabilities available for sale		-		-	
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**504,595,188**		**403,874,062**	

ATTACHMENT II

Consolidated Income Statement with related parties

Pursuant to Consob Resolution N. 15519 of 27 July 2006

(Values in units of EUR)	Notes	Full Year 2019	of which Related parties	Full Year 2018	of which Related parties
REVENUES FROM SALES AND SERVICES	**(25)**	**351,403,409**	**473,993**	**346,556,367**	**1,390,484**
Other revenues and income	(26)	10,064,295		5,450,452	
TOTAL REVENUES		**361,467,704**		**352,006,819**	
Changes in inventory		5,934,562		4,529,177	
Costs of raw materials, cons. and goods for resale	(27)	(121,189,301)		(114,810,886)	
Costs of services	(28)	(108,336,161)	(1,075,504)	(100,583,191)	(1,072,936)
Costs for use of third parties assets	(29)	(9,031,792)	(937,000)	(25,391,209)	(2,552,936)
Labour costs	(30)	(72,386,514)		(68,502,867)	
Other operating expenses	(31)	(3,329,130)		(3,918,553)	
Amortisation, write-downs and provisions	(32)	(28,027,772)		(13,682,273)	
Financial Income / (expenses)	(33)	(3,295,276)	123,805	(850,198)	117,358
PROFIT / LOSS BEFORE TAXES		**21,806,320**		**28,796,819**	
Taxes	(34)	(9,801,873)		(11,598,783)	
NET PROFIT / LOSS		**12,004,447**		**17,198,036**	
(Profit) / loss attributable to minority shareholders		(311,713)		(471,935)	
NET PROFIT / LOSS FOR THE GROUP		**11,692,734**		**16,726,101**	

ATTACHMENT III

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 2019	of which Related parties	Full Year 2018	of which Related parties
OPENING BALANCE		**28,037**		**22,809**	
Profit before taxes		21,806	(1,415)	28,797	(2,118)
Amortisation / write-downs		28,028		13,682	
Accrual (+)/availment (-) of long term provisions and post employment benefits		(1,119)		(281)	
Paid income taxes		(13,144)		(9,845)	
Financial income (-) and financial charges (+)		3,295		850	
Change in operating assets and liabilities		(19,625)	2	(7,677)	(183)
CASH FLOW (ABSORBED)/ GENERATED BY OPERATING ACTIVITY	**(36)**	**19,241**		**25,526**	
Increase (-)/ decrease (+) in intangible fixed assets		(1,813)		(1,257)	
Increase (-)/ decrease (+) in tangible fixed assets		(7,847)	-	(6,657)	-
Increase (-)/ decrease (+) in right-of-use assets		(1,119)		-	
Investments and write-downs (-)/ Disinvestments and revaluations (+)		-		-	
CASH FLOW (ABSORBED)/ GENERATED BY INVESTING ACTIVITY	**(37)**	**(10,779)**		**(7,914)**	
Other variations in shareholders' equity		(976)		1,820	
Dividends paid		-		-	
Proceeds (+)/ repayments (-) of financial payments		8,143		(14,398)	
Proceeds (+)/ repayment (-) of lease payments		(12,435)		-	-
Increase (-)/ decrease (+) in long term financial receivables		454	(55)	1,044	(130)
Financial income (+) and financial charges (-)		(3,295)		(850)	
CASH FLOW (ABSORBED)/GENERATED BY FINANCING ACTIVITY	**(38)**	**(8,109)**		**(12,384)**	
CLOSING BALANCE		**28,390**		**28,037**	

ATTACHMENT IV

Prospect of crucial data from the statutory financial statements of Fratelli Ferretti Holding at 31 December 2018

(Values in units of EUR)	STATUTORY FINANCIAL STATEMENTS 2018	STATUTORY FINANCIAL STATEMENTS 2017
BALANCE SHEET		
ASSETS		
Intangible fixed assets	80,404	86,926
Tangible fixed assets	1,944,182	2,052,505
Equity investments	65,256,999	65,742,281
Non current assets	**67,281,585**	**67,881,712**
Trade receivables	1,004,523	1,051,210
Tax receivables		
Cash	44,756	140,134
Other receivables	3,035	3,966
Current assets	**1,052,314**	**1,195,310**
Total assets	**68,333,899**	**69,077,022**
LIABILITIES		
Share capital	100,000	100,000
Share premium reserve	61,275,974	61,594,665
Other reserves	15,038	15,038
Profits / (losses) carried-forward	(2)	
Net profit / loss	(123,937)	(318,691)
Shareholders' equity	**61,267,073**	**61,391,012**
Provisions	137,119	160,625
Long term financial liabilities	-	-
Non-current liabilities	**137,119**	**160,625**
Trade payables	6,929,707	7,525,385
Current liabilities	**6,929,707**	**7,525,385**
Total shareholders' equity and liabilities	**68,333,899**	**69,077,022**
INCOME STATEMENT		
Revenues from sales and services	**375,565**	**357,701**
Other revenues and income	1	
Total revenues	**375,566**	**357,701**
Operating expenses	(347,467)	(386,881)
Costs for use of third parties assets		
Amortisation and write-downs	(244,045)	(236,307)
Other operating expenses	(15,026)	(16,866)
Financial income / (expenses)	62,071	55,515
Financial assets adjustments	-	(150,722)
Profit / (loss) before taxes	**(168,901)**	**(377,560)**
Income taxes	44,964	58,869
Net profit / (loss)	**(123,937)**	**(318,691)**

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 2019.

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.

12 March 2020

President of the board of directors

Massimo Ferretti

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

Marcello Tassinari

DRAFT STATUTORY FINANCIAL STATEMENTS AT 31 DECEMBER 2019

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

In its Interim Economic Outlook published last March 2, 2020, according to the OECD, the Covid-19 coronavirus represents the greatest danger to the global economy since the time of the financial crisis. In particular, the OECD proposes two scenarios: a more favorable one, in which the impact of the epidemic is globally limited, and a second scenario, the so-called "domino effect", with a more general contagion, with an appeal for intervention to public authorities.

Even at best, the OECD expects a strong impact in the first half of 2020. Global GDP growth is expected to slow further, to 2.4% in 2020, against 2.9% in 2019. The forecast it is cut by 0.5 points compared to previous November ones. Starting with China, now estimated below the 5% (4.9%) of GDP threshold in 2020, before an expected rise of more than 6% in 2021.

MACROECONOMIC BACKGROUND TO THE CLOTHING SECTOR

To date, not only China but all the countries affected by Covid-19 have adopted very strict prevention and control measures with the aim of containing the epidemic, including the closure of schools, restrictions on circulation in the most affected and the blocking of numerous flights to and from the most affected areas.

The situation remains evolving and is causing a significant generalized effect on tourism, travel and sales penalized both on Asian markets and at a domestic level for the contraction of tourist flows. Growth is still exposed to significant risks.

2. TREND OF THE COMPANY MANAGEMENT

INCOME STATEMENT

(Values in thousands of EUR)	FY 2019 IFRS 16	% on revenues	FY\ 2019 No IFRS 16	% on revenues	FY 2018	% sui ricavi	Change % included IFRS 16	Change % excluded IFRS 16
REVENUES FROM SALES AND SERVICES	**161,947**	**100.0%**	**161,947**	**100.0%**	**175,976**	**100.0%**	**(8.0%)**	**(8.0%)**
Other revenues and income	8,384	5.2%	8,384	5.2%	5,876	3.3%	42.7%	42.7%
TOTAL REVENUES	**170,331**	**105.2%**	**170,331**	**105.2%**	**181,852**	**103.3%**	**(6.3%)**	**(6.3%)**
Changes in inventory	(3,743)	(2.3%)	(3,743)	(2.3%)	(503)	(0.3%)	643.5%	643.5%
Costs of raw materials, cons. and goods for resale	(61,184)	(37.8%)	(61,184)	(37.8%)	(65,441)	(37.2%)	(6.5%)	(6.5%)
Costs of services	(47,822)	(29.5%)	(47,822)	(29.5%)	(51,212)	(29.1%)	(6.6%)	(6.6%)
Costs for use of third parties assets	(11,425)	(7.1%)	(13,658)	(8.4%)	(17,075)	(9.7%)	(33.1%)	(20.0%)
Labour costs	(30,067)	(18.6%)	(30,067)	(18.6%)	(29,245)	(16.6%)	2.8%	2.8%
Other operating expenses	(1,969)	(1.2%)	(1,969)	(1.2%)	(2,086)	(1.2%)	(5.6%)	(5.6%)
Total Operating Costs	(156,210)	(96.5%)	(158,442)	(97.8%)	(165,562)	(94.1%)	(5.6%)	(4.3%)
GROSS OPERATING MARGIN (EBITDA)	**14,120**	**8.7%**	**11,888**	**7.3%**	**16,290**	**9.3%**	**(13.3%)**	**(27.0%)**
Amortisation of intangible fixed assets	(520)	(0.3%)	(520)	(0.3%)	(465)	(0.3%)	11.9%	11.9%
Depreciation of tangible fixed assets	(1,645)	(1.0%)	(1,645)	(1.0%)	(1,554)	(0.9%)	5.9%	5.9%
Depreciation of right-of-use assets	(1,827)	(1.1%)	-	0.0%	-	0.0%	n.a	n.a
Revaluations / (write-downs) and provisions	(800)	(0.5%)	(800)	(0.5%)	(215)	(0.1%)	272.1%	272.1%
Total Amortisation, write-downs and provisions	(4,792)	(3.0%)	(2,965)	(1.8%)	(2,233)	(1.3%)	114.5%	32.8%
NET OPERATING PROFIT / LOSS (EBIT)	**9,329**	**5.8%**	**8,923**	**5.5%**	**14,057**	**8.0%**	**(33.6%)**	**(36.5%)**
Financial income	145	0.1%	145	0.1%	156	0.1%	(7.2%)	(7.2%)
Financial expenses	(861)	(0.5%)	(861)	(0.5%)	(993)	(0.6%)	(13.3%)	(13.3%)
Leasing interest expenses	(496)	(0.3%)	-	0.0%	-	0.0%	n.a	n.a
Total Financial Income/(expenses)	(1,212)	(0.7%)	(716)	(0.4%)	(837)	(0.5%)	44.8%	(14.4%)
PROFIT / LOSS BEFORE TAXES	**8,116**	**5.0%**	**8,206**	**5.1%**	**13,219**	**7.5%**	**(38.6%)**	**(37.9%)**
Taxes	(2,978)	(1.8%)	(2,996)	(1.8%)	(4,439)	(2.5%)	(32.9%)	(32.5%)
NET PROFIT / LOSS	**5,138**	**3.2%**	**5,211**	**3.2%**	**8,781**	**5.0%**	**(41.5%)**	**(40.7%)**

Statement of reconciliation of the income statement as of December 31, 2019

The effects of the application of the new IFRS 16 are as follows:

(Values in thousands of EUR)	FY 2019 IFRS 16	Effects IFRS 16	FY 2019 No IFRS 16	FY 2018	Change Excluded IFRS16	Change luded IFRS16
TOTAL REVENUES	**170,331**	**0**	**170,331**	**181,852**	**(11,521)**	**-6.3%**
Total Operating Costs	(156,210)	(2,232)	(158,442)	(165,562)	9,352	-4.3%
GROSS OPERATING MARGIN (EBITDA)	**14,120**	**(2,232)**	**11,888**	**16,290**	**(2,170)**	**-27.0%**
Total Amortisation, write-downs and provisions	(4,792)	1,827	(2,965)	(2,233)	(2,558)	32.8%
NET OPERATING PROFIT / LOSS (EBIT)	**9,329**	**(406)**	**8,923**	**14,057**	**(4,728)**	**-36.5%**
Financial Income/(expenses)	(1,212)	496	(716)	(837)	(375)	-14.4%
PROFIT / LOSS BEFORE TAXES	**8,116**	**90**	**8,206**	**13,219**	**(5,103)**	**-37.9%**
Taxes	(2,978)	(17)	(2,996)	(4,439)	1,460	-32.5%
NET PROFIT / LOSS	**5,138**	**73**	**5,211**	**8,781**	**(3,643)**	**-40.7%**

Revenues from sales and services

In 2019 revenues amount to EUR 161,947 thousand compared to EUR 175,976 thousand of the year 2018, showing an decrease of 8,0%. Such decrease has mainly interested Moschino Alberta Ferretti brands.

48% of revenues are earned in Italy while 52% come from foreign markets.

Labour costs

Labour costs move from EUR 29,245 thousand in 2018 to EUR 30,067 thousand in 2019, increasing by 2.8%.

Gross Operating Margin (EBITDA)

EBITDA moves from 16,290 thousand in 2018 to 14,120 thousand in 2019.

In percentage terms MOL changes from 9.3% in 2018 to 8.7% in 2019.

The effect on 2019 EBITDA deriving from the application of IFRS 16 is equal to EUR 2,232 thousand. The application of the new standard has led to the cancellation of operating lease instalments recognized as costs for services that will be re-allocated to depreciation of the rights to use assets and charges financial related to the valuation of the amortized cost of the financial debt of the lease.

Net operating profit (EBIT)

Net operating profit moves from 14,057 thousand in 2018 to 9,329 thousand in 2019. The effect deriving from the application of IFRS 16 is equal to EUR 406 thousand.

Profit / loss before taxes

In 2019, net financial charges amount to EUR 1,212 thousand (of which EUR 496 thousand relating to the application of IFRS 16) compared to EUR 837 thousand in 2018 and the increase is mainly driven by the application of IFRS 16.

The result before taxes amounts to EUR 13,219 thousand compared with result before taxes of EUR 8,116 thousand in 2018, with a EUR 5,103 thousand decrease.

The effect on the result before taxes of the IFRS 16 is equal to EUR -90 thousand.

Net profit / loss

Net result increases from EUR 8,781 thousand in 2018 to EUR 5,138 thousand in 2019, declining for EUR 3,642 thousand.

BALANCE SHEET

(Values in units of EUR)	31 December 2019	31 December 2018 Included IFRS 16	31 December 2018 Excluded IFRS 16
Trade receivables	56,362,980	56,940,977	56,940,977
Stock and inventories	29,755,008	32,801,798	32,801,798
Trade payables	(79,288,737)	(77,254,483)	(77,254,483)
Operating net working capital	**6,829,252**	**12,488,292**	**12,488,292**
Other short term receivables	14,740,121	14,508,652	14,508,652
Tax receivables	8,977,837	4,247,159	4,247,159
Other short term liabilities	(6,679,472)	(7,851,064)	(7,851,064)
Tax payables	(1,452,333)	(4,650,390)	(4,650,390)
Net working capital	**22,415,406**	**18,742,649**	**18,742,649**
Tangible fixed assets	43,558,435	43,463,022	43,463,022
Intangible fixed assets	3,657,986	3,822,429	3,822,429
Right-of-use assets	14,425,534	16,176,702	-
Equity investments	142,243,401	141,182,870	141,182,870
Other fixed assets	2,965,219	2,159,476	2,159,476
Fixed assets	**206,850,576**	**206,804,499**	**190,627,797**
Post employment benefits	(3,388,677)	(3,652,806)	(3,652,806)
Provisions	(55,229)	(118,715)	(118,715)
Long term not financial liabilities	(326,456)	(620,289)	(620,289)
Deferred tax assets	2,663,653	3,042,341	2,577,452
Deferred tax liabilities	(7,687,777)	(7,609,227)	(7,609,227)
NET CAPITAL INVESTED	**220,471,494**	**216,588,453**	**199,946,861**
Share capital	25,286,166	25,371,407	25,371,407
Other reserves	122,801,258	114,613,914	115,815,296
Profits/(Losses) carried-forward	2,347,959	2,347,959	2,347,959
Profits/(Loss) for the period	5,137,634	8,780,613	8,780,613
Shareholders' equity	**155,573,017**	**151,113,893**	**152,315,275**
Cash	(6,945,771)	(4,560,795)	(4,560,795)
Long term financial liabilities	13,860,592	18,926,237	18,926,237
Short term financial liabilities	41,801,456	33,266,144	33,266,144
NET FINANCIAL POSITION WITHOUT IFRS 16 EFFECTS	**48,716,277**	**47,631,586**	**47,631,586**
Short term lease liabilities	1,706,158	1,729,638	-
Long term lease liabilities	14,476,042	16,113,336	-
NET FINANCIAL POSITION	**64,898,477**	**65,474,559**	**47,631,586**
SHAREHOLDERS' EQUITY AND NET FINANCIAL INDEBTEDNESS	**220,471,494**	**216,588,453**	**199,946,860**

NET CAPITAL INVESTED

Compared to December 31, 2018, net invested capital increased by 10% due to the application of the new standard which had an impact of EUR 16.6 million on the opening balance sheet as of 01.01.2019.

Net working capital

Net working capital amounts to EUR 22,415 thousand at 31 December 2019 compared with EUR 18,743 thousand at 31 December 2018.

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

- the operating net working capital decreases by 45.3%, 5,659 thousand in absolute terms. Such change is mainly due to the increase of trade payables, determined by the decrease of revenues occurred in 2019;
- the sum of other short term receivables and payables changes in all of EUR 1,403 thousand mainly due to lower advance payments from customers;
- the sum of tax receivables and tax payables changes in all of EUR 7,928 thousand. This change is mainly due to the increase of tax receivable for IRES and contextual cancellation of tax payable for IRES generated in the period by Aeffe S.p.A. and as a consequence of the fiscal consolidation and of the higher V.A.T. Group receivable.

Fixed assets

Fixed assets increase by EUR 16,223 thousand since 31 December 2018, mainly for the application of IFRS16 (effect on 01/01/2019 equal to EUR 16,177 thousand).

Fixed assets decreased by EUR 69 thousand compared to 31 December 2018. The changes in the main items are described below:

- tangible fixed assets increase of EUR 95 thousand as a consequence of:
    - investments for EUR 1,741 thousand for buildings, leasehold improvements, information tools and general and specific plant and machinery;
    - depreciations for EUR 1,646 thousand;
- intangible fixed assets decrease of EUR 164 thousand as a consequence of:
    - investments for EUR 356 thousand in software;
    - amortisations for EUR 520 thousand;
- equity investments increase of EUR 25 thousand after the subscription of 100% owned Aeffe Germany, a company managing the store in Metzingen in Germany and of EUR 1,035 thousand after the share capital increase of the subsidiary Aeffe Shanghai.

NET FINANCIAL POSITION

The increase in the net financial position relates to the application of IFRS 16 which weighed for EUR 16,182 thousand. Without considering the effect of the application of the new standard, the net financial position increases by EUR 1,084 thousand, rising from EUR 47,632 thousand at December 31, 2018 to EUR 48,716 thousand at December 31, 2019.

(Values in thousands of EUR)	*31 December 2019*	*Effects IFRS 16*	*31 December 2019 No IFRS 16*	*31 December 2018*	*Change excluded IFRS 16*
Short term financial receivables	0		0	0	0
Cash	(6,946)		(6,946)	(4,560)	(2,386)
Long term financial liabilities	13,861		13,861	18,926	(5,065)
Long term financial receivables	0		0	0	0
Short term financial liabilities	41,801		41,801	33,266	8,535
Short term lease liabilities (IFRS 16)	1,706	1,706	-		-
Long term lease liabilities (IFRS 16)	14,476	14,476	-	-	-
NET FINANCIAL POSITION	**64,898**	**16,182**	**48,716**	**47,632**	**1,084**

SHAREHOLDERS' EQUITY

Total shareholders' equity increases by EUR 3,258 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 20,362 thousand, have been charged to the 2019 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 2019:

Main shareholders	%
Fratelli Ferretti Holding S.r.l.	37.387%
I.M. Fashion S.r.l.	24.410%
Tullio Badioli	3.000%
Other shareholders(*)	35.203%

(*) 5.791% of own shares held by Aeffe S.p.A.

6. TREASURY SHARES

As of 31 December 2019, the Company holds 6.217.839 treasury shares, par value EUR 0.25 each, totalling 5.791% of its share capital. During 2019, 340,961 treasury shares were purchased by the Company for a total value of Euro 550,268.

As of 31 December 2019 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 37 and 38 of the Financial Statements at 31 December 2019.

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

On December 31, 2019, the Wuhan Municipal Health Commission (China) reported a series of pneumonia cases of unknown origin to the World Health Organization in the city of Wuhan, in the Chinese province of Hubei. In early January 2020, the Chinese CDC communicated the identification of a new coronavirus (2019-nCoV), subsequently named by WHO Covid-19. As of the date of this document, the virus has affected thousands of people worldwide, reaching other countries including Italy, and is causing various deaths. To date, not only China but also the other countries affected by Covid-19 have adopted very strict prevention and control measures with the aim of containing the epidemic, including the closure of schools, restrictions on circulation in the areas most affected and the blocking of numerous flights to and from the most affected areas. The situation remains evolving and is causing a significant generalized effect on tourism, travel and sales penalized both on Asian markets and at a domestic level for the contraction of tourist flows.

In recent weeks, the international macroeconomic scenario has suddenly weakened due to the spread of Coronavirus and today uncertainty about the duration of this epidemic remains high. The Group is committing all its resources and energies to face these difficult market conditions, both in terms of careful management of commercial relations with customers and of weighted actions aimed at containing costs that can be postponed without any prejudice for development and the strengthening of its brands.

In this scenario, timely corrective measures were taken, considered to be of fundamental importance for the long-term interest of the Group and capable of facing the challenges of the current development of the macroeconomic situation.

These measures are part of an ad hoc plan designed to effectively and efficiently combat the negative effects of the global emergence of the Covid-19 coronavirus.

11. OUTLOOK

The current international macroeconomic framework remains very complicated and the economic and social consequences linked to the Covid-19 coronavirus epidemic are currently not quantifiable.

The Company has already taken measures to deal with the situation by limiting its negative effects, through a particularly careful management of commercial relations with customers and the adoption of well-thought-out measures aimed at postponing costs without any prejudice for the strengthening and support of its brand. The Company likewise confirms its commitment to implement the strategy aimed at improving the strategic positioning of its collections and the continuous strengthening of the brand.

12. PROPOSALS TO APPROVE THE FINANCIAL STATEMENTS AND ALLOCATE THE RESULT FOR THE YEAR 2019

Shareholders,

In presenting the financial statements as of 31 December 2019 for your approval, we propose to allocate the profit of the year of EUR 5,137,634 as follows:

- legal reserve EUR 256,882
- extraordinary reserve EUR 4,880,752

12 March 2020

For the Board of Directors

Chairman Massimo Ferretti

Financial Statements

BALANCE SHEET (*)

(Values in units of EUR)	Notes	31 December 2019	31 December 2018	Change 2019/18
Trademarks		2,897,149	3,022,910	(125,762)
Other intangible fixed assets		760,838	799,518	(38,681)
Intangible fixed assets	(1)	3,657,986	3,822,429	(164,442)
Lands		17,319,592	16,944,871	374,721
Buildings		22,656,825	22,860,124	(203,299)
Leasehold improvements		901,551	1,049,585	(148,034)
Plant and machinary		1,834,362	1,797,330	37,032
Equipment		72,643	110,988	(38,346)
Other tangible fixed assets		773,462	700,124	73,338
Tangible fixed assets	(2)	43,558,435	43,463,022	95,413
Right-of-use assets	(3)	14,425,534	-	14,425,534
Equity investments	(4)	142,243,401	141,182,870	1,060,532
Other fixed assets	(5)	2,965,219	2,159,476	805,743
Deferred tax assets	(6)	2,663,653	2,577,452	86,201
NON-CURRENT ASSETS		**209,514,228**	**193,205,248**	**16,308,980**
Stocks and inventories	(7)	29,755,008	32,801,798	(3,046,790)
Trade receivables	(8)	56,362,980	56,940,977	(577,997)
Tax receivables	(9)	8,977,837	4,247,159	4,730,679
Cash	(10)	6,945,771	4,560,795	2,384,976
Other receivables	(11)	14,740,121	14,508,652	231,469
CURRENT ASSETS		**116,781,718**	**113,059,381**	**3,722,337**
TOTAL ASSETS		**326,295,946**	**306,264,630**	**20,031,317**
Share capital		25,286,166	25,371,407	(85,241)
Other reserves		122,801,258	115,815,296	6,985,962
Profits / (Losses) carried-forward		2,347,959	2,347,959	0
Net profit / loss		5,137,634	8,780,613	(3,642,979)
SHAREHOLDERS' EQUITY	**(12)**	**155,573,017**	**152,315,275**	**3,257,742**
Provisions	(13)	55,229	118,715	(63,486)
Deferred tax liabilities	(5)	7,687,777	7,609,227	78,550
Post employment benefits	(14)	3,388,677	3,652,806	(264,128)
Long term financial liabilities	(15)	28,336,634	18,926,237	9,410,398
Long term not financial liabilities	(16)	326,456	620,289	(293,832)
NON-CURRENT LIABILITIES		**39,794,774**	**30,927,274**	**8,867,501**
Trade payables	(17)	79,288,737	77,254,483	2,034,254
Tax payables	(18)	1,452,333	4,650,390	(3,198,057)
Short term financial liabilities	(19)	43,507,614	33,266,144	10,241,470
Other liabilities	(20)	6,679,472	7,851,064	(1,171,592)
CURRENT LIABILITIES		**130,928,155**	**123,022,081**	**7,906,074**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**326,295,946**	**306,264,629**	**20,031,317**

(*) 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 II and described in Notes 37 and 38.

INCOME STATEMENT (*)

(Values in units of EUR)	Notes	Full year 2019	Full year 2018
REVENUES FROM SALES AND SERVICES	**(21)**	**161,946,729**	**175,976,102**
Other revenues and income	(22)	8,383,791	5,875,841
TOTAL REVENUES		**170,330,520**	**181,851,943**
Changes in inventory		(3,742,662)	(503,416)
Costs of raw materials, cons. and goods for resale	(23)	(61,184,163)	(65,440,897)
Costs of services	(24)	(47,821,583)	(51,212,321)
Costs for use of third parties assets	(25)	(11,425,476)	(17,074,777)
Labour costs	(26)	(30,067,477)	(29,244,784)
Other operating expenses	(27)	(1,968,743)	(2,085,716)
Amortisation and write-downs	(28)	(4,791,856)	(2,233,489)
Financial Income / (expenses)	(29)	(1,212,485)	(837,063)
PROFIT / LOSS BEFORE TAXES		**8,116,075**	**13,219,481**
Income Taxes	(30)	(2,978,441)	(4,438,868)
NET PROFIT / LOSS		**5,137,634**	**8,780,613**
Basic earnings per share	(31)	0.051	0.087
Dilutive earnings per share	(31)	0.051	0.087

(*) 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 III and described in Notes 37 and 38.

COMPREHENSIVE INCOME STATEMENT

(Values in units of EUR)	Full Year 2019	Full Year 2018
Profit/(loss) for the period (A)	**5,137,634**	**8,780,613**
Remeasurement of defined benefit plans	(128,243)	57,945
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)	**(128,243)**	**57,945**
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)	**(128,243)**	**57,945**
Total Comprehensive income / (loss) (A) + (B)	**5,009,391**	**8,838,558**

CASH FLOW STATEMENT (*)

(Values in thousands of EUR)	Notes	Full Year 2019	Full Year 2018
OPENING BALANCE		**4,558**	**7,610**
Profit before taxes		8,116	13,219
Amortisation		4,792	2,233
Accrual (+)/availment (-) of long term provisions and post employment benefits		(328)	(294)
Paid income taxes		(5,719)	(1,365)
Financial income (-) and financial charges (+)		1,212	837
Change in operating assets and liabilities		(1,565)	786
CASH FLOW (ABSORBED)/ GENERATED BY OPERATING ACTIVITY	**(32)**	**6,508**	**15,416**
Increase (-)/ decrease (+) in intangible fixed assets		(356)	(553)
Increase (-)/ decrease (+) in tangible fixed assets		(1,741)	(2,787)
Increase (-)/ decrease (+) in right-of-use assets		(75)	-
Investments (-)/ Disinvestments (+)		(1,060)	(1,324)
CASH FLOW (ABSORBED)/ GENERATED BY INVESTING ACTIVITY	**(33)**	**(3,232)**	**(4,664)**
Other variations in reserves and profits carried-forward of shareholders' equity		(679)	58
Proceeds (+)/repayments (-) of financial payments		3,470	(13,221)
Proceeds (+)/ repayment (-) of lease payments		(1,661)	-
Increase (-)/ decrease (+) in long term financial receivables		(806)	197
Financial income (+) and financial charges (-)		(1,212)	(837)
CASH FLOW (ABSORBED)/GENERATED BY FINANCING ACTIVITY	**(34)**	**(888)**	**(13,804)**
CLOSING BALANCE		**6,946**	**4,558**

(*) 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 IV and described in Notes 37 and 38.

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
At December 31, 2018	**25,371**	**71,240**	**33,034**	**7,742**	**1,086**	**3,336**	**(623)**	**2,348**	**8,781**	**152,315**
Effects deriving from the application of IFRS 16					(1,201)					(1,201)
At January 1, 2019	**25,371**	**71,240**	**33,034**	**7,742**	**(115)**	**3,336**	**(623)**	**2,348**	**8,781**	**151,114**
Allocation of 2018 profit			8,342			439			(8,781)	-
Total comprehensive income/(loss) of 2019							(128)		5,137	5,009
Other variations	(85)	(465)								(550)
At December 31, 2019	**25,286**	**70,775**	**41,376**	**7,742**	**(115)**	**3,775**	**(751)**	**2,348**	**5,137**	**155,573**

(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
At December 31, 2017	**25,371**	**71,240**	**26,558**	**7,742**	**1,086**	**2,995**	**(681)**	**2,348**	**6,818**	**143,477**
Allocation of 2017 profit			6,477			341			(6,818)	-
Total comprehensive income/(loss) of 2018							58		8,781	8,839
Other variations										-
At December 31, 2018	**25,371**	**71,240**	**33,034**	**7,742**	**1,086**	**3,336**	**(623)**	**2,348**	**8,781**	**152,315**

Report of the Board of Statutory Auditors to the Shareholders' Meeting called to approve the financial statements as of 31st December 2019

pursuant to article 153 of Italian Legislative Decree 58/98

Shareholders,

Pursuant to art. 153 of Decree No. 58/1998 (TUF - Consolidated Finance Law) and art. 2429, para. 2, of the Italian Civil Code, the Board of Statutory Auditors must report to the Shareholders' Meeting on the results for the year and the work carried out in the performance of its duties, as well as make observations and proposals regarding the financial statements, their approval and other matters for which it is responsible.

The current Board of Statutory Auditors was appointed at the Shareholders' Meeting held on 12th April 2017 and, accordingly, its mandate will terminate at the Shareholders' Meeting called to approve the financial statements for 2019.

During the year, the Board of Statutory Auditors performed its supervisory activities in compliance with current regulations, having regard for the principles of conduct recommended by the Italian Accounting Profession and the instructions issued by Consob regarding the audit and other work carried out by Boards of Statutory Auditors, as supplemented by the indications contained in the Code of self-regulation for listed companies, approved in July 2018 by the Corporate Governance Commission and promoted by Borsa Italiana S.p.A. (the **"Code"**), which has been adopted by Aeffe S.p.A. (hereinafter also referred to as **"Aeffe"** or the **"Company"**).

For this purpose, in addition to attended the meetings of the Board of Directors and those of the Board Committees, the Board of Statutory Auditors also exchanged information constantly with the relevant administrative and audit functions, the Supervisory Body responsible for monitoring the effectiveness of, compliance with and update of the Organization, Management and Control Model adopted pursuant to Decree No. 231/01 (the **"SB"**), and Ria Grant Thornton S.p.A., the auditing firm engaged to perform the legal audit of the accounts.

***

We confirm that the financial statements of the Company as of 31st December 2019 were prepared in accordance with the international accounting standards (IAS/IFRS) issued by the International Accounting Standards Board (IASB), endorsed by the European Union and in force on 31st December 2019, and with the measures issued to implement art. 9 of Decree No. 38/2005.

The separate and consolidated financial statements of Aeffe as of 31st December 2019 contain the required declarations of conformity from the Executive responsible for preparing the Company's accounting documentation.

Intercompany and Related-Party Transactions

Pursuant to art. 2391-bis of the Italian Civil Code and Consob Decision No. 17221 of 12th March 2010 on the "Regulation of Related-Party Transactions", as amended by Consob Decision Nos. 17389 of 23rd June 2010, 19925 of 22nd March 2017 and 19974 of 27th April 2017, the Board of Directors approved the "Regulation governing related-party transactions" (the **"Regulation"**) on 10th November 2010.

We confirm that the Regulation adopted by the Company is available on the website of the Company (www.Aeffe.com), is consistent with the principles contained in the above-mentioned Consob Regulation and was followed with regard to the transactions carried out during 2019.

The disclosures about related-party transactions contained in the Report on operations and in the explanatory notes to the separate and consolidated financial statements appear to be both adequate and complete.

The Board of Statutory Auditors has monitored compliance with the Regulation and the suitability of the process followed the Board of Directors in order to identify related parties and, in this regard, has no matters to report.

Atypical or unusual transactions

The Company has not arranged any atypical or unusual transactions, as defined in Consob Communication No. DEM/6064293 of 28th July 2006.

Impairment Test Procedure

As envisaged in the joint document issued by the Bank of Italy/Consob/ISVAP on 3rd March 2010, the Board of Directors confirmed on 12th March 2020 that the impairment test procedure adopted complies with the requirements of IAS 36. The Board of Statutory Auditors believes that the impairment test procedure adopted by the Company is adequate.

The explanatory notes to the financial statements provide information about the process followed for each category of assets tested and the related results.

Work performed by the Board of Statutory Auditors during 2019

When carrying out its activities, the Board:

- monitored compliance with the law and the Articles of Association;
- monitored compliance with the principles of proper administration;
- attended the meetings of the Board of Directors and obtained periodic information from the directors, at least every quarter, on the general results of operations and the outlook for the future, as well as on the principal economic, financial and equity transactions carried out by Aeffe and its Group of companies (the "**Group**"), ensuring that the resolutions adopted and implemented were not obviously imprudent, reckless, subject to potential conflicts of interest, in contrast with shareholders' resolutions or likely to generate heavy losses;
- attended, in the person of the Chairman or another authorized Serving Auditor, the meetings of the Audit Committee and the Remuneration Committee;
- monitored the adequacy of the organizational structure by direct observation, by the collection of information from the managers of business functions and by attendance at the meetings of the Board Committees referred to above. In this regard, the Board of Statutory Auditors considers the organizational structure of the Company to be adequate for its needs and suitable to guarantee compliance with the principles of proper administration;
- monitored the adequacy and functioning of the system of internal control and risk management by attendance at the meetings of the Audit Committee and by obtaining information from the Chief Executive Officer, as the person responsible for the system of internal control and risk management, from the managers of the business functions, from the representatives of the auditing firm and from the Supervisory Body. The Board also held meetings with the internal audit manager of the Company, obtaining information about the progress of work on the Audit Plan for the year, the results of the work carried out and the corrective actions planned and implemented, as well as about the related follow-up activities;
- monitored the adequacy of the administrative-accounting system by meeting regularly with the Chief Financial Officer, who is also the Executive responsible for preparing the Company's accounting documentation, and with Ria Grant Thornton S.p.A., the auditing firm, in order to exchange data and information;
- monitored implementation of the rules of Corporate Governance adopted by the Company, in compliance with the principles embodied in the Code. In particular, the Board:
  - checked proper application of the verification criteria and procedures adopted by the Board of Directors in order to assess the independence of its members;
  - checked the independence of the auditing firm;
  - assessed the independence of its own members;

- monitored the adequacy of the instructions given by the Company to its subsidiaries pursuant to art. 114, para. 2, of Decree No. 58/98. These instructions enabled the subsidiaries to provide, on a timely basis, the information needed by the Company to comply with the disclosure requirements imposed by law;
- monitored the related-party and intercompany transactions; in this regard, the Board considers the information provided to be adequate;
- monitored proper application of the requirements placed on the Company by the Market Abuse Regulation, including those relating to internal dealing, investor protection and corporate disclosures;
- did not receive any statements or complaints pursuant to art. 2408 of the Italian Civil Code;
- did not issue any opinions required by law during the year.

No omissions, censurable facts or irregularities to be reported to the relevant supervisory and control authorities, or mentioned in this Report, were identified during the supervisory work described above.

The internal audit manager and the Chairman of the Supervisory Body did not raise any particular issues regarding their areas of responsibility during the periodic meetings held with them.

The annual Report of the Board of Directors on Corporate Governance and the Ownership Structure does not highlight any matters that should be drawn to your attention.

Similarly, the meetings held by the Board of Statutory Auditors with the corresponding boards working at the principal Italian subsidiaries did not identify any significant matters that should be drawn to your attention.

Monitoring the process of financial disclosure

The Board of Statutory Auditors has verified that appropriate regulations and procedures govern the process through which financial information is collected, prepared and disseminated.

The Board also acknowledges that the Executive responsible for preparing the Company's accounting documentation has confirmed:

- the adequacy and suitability of the powers and resources granted by the Board of Directors;
- having had direct access to all the information required to produce the accounting information, without need for authorizations of any kind;
- having participated in the internal flows of information for accounting purposes and having approved all the related procedures.

The Board of Statutory Auditors therefore considers that the process followed to prepare financial information is adequate, ensuring its completeness and accuracy, and that there are no matters to be reported to the Shareholders’ Meeting.

Monitoring the process of non-financial disclosure

The Board of Statutory Auditors has monitored compliance with the provisions of Decree No. 254/2016, verifying that appropriate regulations and procedures govern the process through which non-financial information is collected, prepared and presented.

The Board of Statutory Auditors therefore considers that the process followed to prepare the Non-Financial Declaration is adequate, having regard for the strategic objectives of the Group in socio-environmental terms, and that there are no matters to be reported to the Shareholders’ Meeting.

When preparing the Non-Financial Declaration, the Company did not elect to omit information about imminent developments and ongoing negotiations, as would be allowed pursuant to art. 3, para. 8, of Decree No. 254/2016.

Monitoring pursuant to Decree No. 39/2010 - verification of the independence of the auditing firm

As required by art. 19.e) of Decree No. 39/2010, the Board has also monitored the legal audit of the accounts and the consolidated financial statements, the independence of the auditing firm with particular reference to any non-audit services provided, and the results of the legal audit.

With reference to the independence of the auditing firm - Ria Grant Thornton S.p.A. -, the Board of Statutory Auditors examined the assignment to that firm of engagements other than the legal audit of the accounts, evaluating in particular their compatibility with the exclusions specified in art. 5 of Regulation (EU) 537/2014 and the absence of potential risks for the independence of the auditor deriving from provision of the services concerned.

During 2019, the auditing firm carried out for the Group the activities described in note 46 to the consolidated financial statements. This work was provided pursuant and consequent to art. 149 *duodecies* of the Issuers' Regulation adopted by Decision No. 11971 of 14th May 1999 and subsequent amendments and additions. The Board of Statutory Auditors confirms that the consideration indicated in the above-mentioned schedule was appropriate, considering the extent, complexity and characteristics of the work performed, and that the engagements to provide non-audit services were not such as to compromise the independence of the auditing firm.

The Board of Statutory Auditors is not aware of any appointments granted to parties linked to the auditing firm on an ongoing basis.

It is confirmed that, on 30th March 2020, Ria Grant Thornton S.p.A. issued in its role as the appointed legal auditor:

- the Reports required by arts. 14 of Decree No. 39/2010 and 10 of Regulation (EU) 537/2014, prepared in compliance with the provisions of the above Decree, as amended by Decree No. 135/2016. These Reports contain an unqualified opinion on the separate and consolidated financial statements, together with confirmation that they provide a true and fair view of the financial position of the Company and the Group as of 31st December 2019, and the results of their operations and their cash flows, in accordance with the applicable accounting standards;
- the additional Report required by art. 11 of Regulation (EU) 537/2014, stating that there are no significant weaknesses in the system of internal control and risk management with regard to the process followed for making financial disclosures, and attaching the declaration envisaged in art. 6 of Regulation (EU) 537/2014, which does not identify any situations that might compromise the independence of the auditing firm.

The Consolidated Non-Financial Declaration as of 31st December 2019 was certified by BDO ITALIA S.p.A., an auditing firm. In that certification, the designated auditor concluded that no elements had comes to its attention to suggest that the Consolidated Non-Financial Declaration for the year ended 31st December 2019 had not been prepared, in all significant respects, in accordance with the provisions of Decree No. 254/2016 and the GRI Standards.

Self-assessment of the Board of Statutory Auditors

Following the recommendations contained in the rules of conduct for listed companies issued by the Italian Accounting Profession, the Board of Statutory Auditors completed the self-assessment process and notified the positive outcome to the Administrative Body in a reasoned report.

Meetings of the Board of Statutory Auditors, the Board of Directors and the Board Committees

During 2019:

- the Board of Statutory Auditors held 14 meetings, each with a duration of about 2 hours;
- the Board of Statutory Auditors held periodic meetings and exchanged information with the representatives of Ria Grant Thornton S.p.A.;
- the Board of Directors held 9 meetings. In this regard, it is noted that the Board of Directors has eight members, four of whom are independent. Three of the eight directors are female;
- the Audit Committee met 5 times; the Compensation Committee met 2 times.

The Board of Statutory Auditors attended the meetings of the Board of Directors and, through its Chairman, the meetings of the Board Committees.

Lastly, the Board confirms that it attended the Shareholders’ Meeting held on 18th April 2019.

***

On 12th March 2020, the Executive responsible for preparing the Company's accounting documentation issued the declarations pursuant to art. 154-bis TUF, confirming that the separate and consolidated financial statements have been prepared in accordance with the applicable international accounting standards endorsed by the European Union pursuant to Regulation (EC) 1606/2002 of the European Parliament and of the Council of 19th July 2002, agree with the underlying accounting records and entries, and are suitable to provide a true and fair view of the economic and financial position of the Issuer and the Group.

The Board of Statutory Auditors confirms the completeness and adequacy of the information provided by the Board of Directors in its reports, including with regard to the risks and uncertainties to which the Company and the Group are exposed, including those relating to the extraordinary contingency that the whole world is going through.

Closing Considerations - Recommendations to the Shareholders’ Meeting

No significant omissions, censurable facts or irregularities were identified during the supervisory activities carried out by the Board of Statutory Auditors.

Pursuant to art. 153, para. 2, of Decree No. 58/98, the Board of Statutory Auditors has no objection to approval of the financial statements as of 31st December 2019 and concurs with the proposed allocation of net profit for the year.

In thanking you for your confidence in us, we return our mandate which has now expired and invite you to make the necessary appointments for the next three-year period.

San Giovanni in Marignano, 30 March 2020

Board of Statutory Auditors

Angelo MIGLIETTA (President)

Carla TROTTI

Fernando CIOTTI

“Free translation from the original in Italian”.

Ria
Grant Thornton

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

Ria Grant Thornton S.p.A.
Via 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, 2019, 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, 2019 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 financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Evaluation of investments in subsidiaries

Description of the Key matter	**Audit procedures performed in response to the Key matter**
The financial statements as at 31 December 2019 include assets related to investments in subsidiaries for 142.2 million Euros. As indicated in the explanatory notes, the investments are accounted for at historical cost, which is reduced by long-term losses in value as required by IAS 36. The original value is restored in	The review procedures carried out also with the involvement of experts from the Grant Thornton network included: – an understanding of the process used by Management in the preparation of the impairment tests of the subsidiaries,

subsequent years if the reasons for the write-down no longer exist.

As in previous years, the Directors carried out impairment tests to estimate the recoverable value of some equity investments for the most significant subsidiaries, in order to verify the consistency of the book value. Such recoverable value is based on the value in use, determined using the discounted cash flow method.

The information is showed in the explanatory notes at note 4, as well as in the illustrations of the accounting principles adopted and in the paragraph "Main estimates adopted by the Management".

Due to the complexity of these estimation processes, we considered the valuation of equity investments to be a key aspect of the audit activity.

approved by the Directors of the Parent Company;

- an understanding of the process adopted in preparing the Group 2020 budget approved by the Parent Company's Board of Directors on January 29, 2020, taken as a reference for the performance the impairment tests;
- analysis of the correctness and truthfulness of the figures of the financial statements of the most significant subsidiaries, which flow into the Group's consolidated financial statements, and the reconciliation of the related economic and equity values with the inputs assumed for the preparation of the impairment tests;
- estimation of the recoverable value using the enterprise value as the basis (operating value, gross of financial debt), obtained by applying a multiple EV / Ebitda to the main balances of the companies under test. As a precaution, the multiple taken as a reference has been applied to the EBITDA achieved in the 2019 financial year. The result obtained was adjusted to consider the net financial position on the date of the test;
- examination of the appropriateness of the information and disclosures provided by the Directors in the explanatory notes in relation to equity investments and impairment tests.

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 International Standard on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Ria
Grant Thornton

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. We describe these matters in our auditor's report.

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.

Ria Grant Thornton

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, 2019, 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, 2019 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, 2019 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 30, 2020

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 Tavollo snc street – San Giovanni in Marignano (RN);
5) Storage in Erbosa I street n. 92 – Gatteo (FC);
6) Storage in Raibano n. 55/A street – Coriano (RN):
7) Storage in Tamerici 9 street – San Giovanni in Marignano (RN);
8) Storage in Santarcangiolese 6 street – Poggio Torriana (RN);
9) Storage in Pietro Colletta 31 street – Reggio Emilia (RE);
10) Storage in Chieri 107 street – Andenzeno (TO).

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 2019. 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 Ria Grant Thornton S.p.A.

The Company 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.

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 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 POLICIES

The accounting policies adopted in the preparation of this financial statement are the same used as those used in the preparation of the financial statement as of December 31, 2018, except for the following interpretations and amendments to the accounting principles that have been mandatory since January 1, 2019.

Accounting standards, amendments and interpretations approved by the European Union, applicable from 1 January 2019, which were applied for the first time in the yearly financial statements of the AEFFE Company closed as at 31 December 2019

IFRS 16 "Leasing": On 13 January 2016 the IASB (International Accounting Standard Board) published the accounting standard IFRS 16 Leasing, which replaces IAS 17; this document was adopted by the European Union on 9 November 2017. IFRS 16 defines the principles for the recognition, measurement, presentation and reporting of leases (contracts that give the right to use third party assets) and requires tenants to account for all leasing contracts in accordance with the method envisaged for financial leases by the old accounting standard IAS 17, effectively eliminating the previous dichotomy between operating and financial leases. The Company has opted for a retrospective application of the principle, without restatement of comparative information. The cumulative effect was noted as a reduction in retained earnings. The application of IFRS 16 as of January 1, 2019 has had a significant impact on the financial statements of the Company by virtue of the operational activity linked to the retail distribution network.

In fact, the Company is the lessee of a series of leases which have been analyzed for the purposes of applying the new IFRS 16 principle and which mainly concern the DOS points of sale, showrooms, company cars and apartments benefiting from employees. The leases of the DOS represent the preponderant category, representing in fact about 62% of the total liabilities for leasing.

From an accounting point of view, the application of IFRS 16 has resulted in the recognition of an activity by right of use on the assets covered by the lease agreements and a liability for leased assets in relation to the fixed fees still to be paid. The activity for the right to use leased assets is initially valued at cost, and subsequently amortized over the lease term defined during the analysis. The cost of the right of use assets includes the initially recognized value of the leasing liability, the initial direct costs incurred, the estimate of any restoration costs to be incurred at the end of the contract and the advance payments relating to the leasing made on the date of the first transition net of leasing incentives received. The leasing liability is valued at the present value of the payments due for the fixed installments not yet paid at the transition date discounted using the interest rate as defined below. The liability for leased assets is subsequently increased by the interest accrued on said liability and decreased in correlation with the lease payments.

Below is a summary of the impacts deriving from the application of the aforementioned principle both in terms of balance sheet and income statement:

(Values in thousands of EUR)	Notes	1 January 2019	IFRS 16 Adjustment	31 December 2018
Operating net working capital		12,488		12,488
Net working capital		18,743		18,743
Fixed assets	*a*	206,805	16,177	190,628
NET CAPITAL INVESTED	*b*	216,589	16,642	199,947
Total shareholders' equity	*c*	151,114	(1,201)	152,315
Short term financial receivables		-	-	-
Cash		(4,560)	-	(4,560)
Long term financial liabilities		18,926	-	18,926
Long term lease liabilities	*d*	16,113	16,113	-
Long term financial receivables		-	-	-
Short term financial liabilities		33,266	-	33,266
Short term lease liabilities	*e*	1,730	1,730	-
NET FINANCIAL POSITION		65,475	17,843	47,632
SHAREHOLDERS' EQUITY AND NET FINANCIAL INDEBTEDNESS		216,589	16,642	199,947

The main assumptions that have been adopted by the Company for the first application of IFRS 16 are summarized below:

1) the Company has made use of the exemption granted in relation to short-term leases (i.e. contracts with expiry within 12 months or less) and for lease contracts for which the underlying asset is configured as a low-value asset (goods of a small amount). For these contracts, for which the exemption was used, the introduction of IFRS 16 did not entail the recognition of the financial liability of the lease and the related right of use, therefore the accounting records did not change compared to the previous period ;

2) Significant initial direct costs that had a positive net book value in the balance sheet on the transition date were included in the measurement of the right of use on 1 January 2019;

3) The duration of the lease contracts, with particular reference to the exercise of renewal and early closing options, was determined on the basis of the information existing at the transition date;

4) The discount rate (IBR Incremental Borrowing Rate) used for the estimates relating to the discounting of future payments of the rent, was determined taking into account the free risk interest rates in force in Italy.

The weighted average IBR applied during the transition was 2.89%;

Variable rents, which do not depend on an index or rate, but which mainly depend on the volume of sales, continue to be recorded in the income statement under costs for third party assets. After the first entry, for EUR 16.2 million (including the reclassification of Key Money), the Activities by right of use increased in 2019, following new lease agreements entered into during the period, for EUR 0.1 million and decreased by EUR 1.8 million following the normal process of furnishing of the period.

In addition to the information provided above, it should be noted that the lease payments relating to those assets falling within the definition of "low value assets" envisaged by IFRS 16 were equal to EUR 0.2 million at 31 December 2019;

In order to assist in understanding the impacts of the first application of the standard, the following table provides a reconciliation between future commitments relating to lease contracts, and the impact resulting from the adoption of IFRS 16 on January 1, 2019:

(Values in thousands of EUR)	
Lease commitments reconciliations	
Operating leasing bonds at 12/31/2018	22,092
Short term	-
Low value lease	(184)
Additional costs	(35)
Variable fees	-
Financial liability not discounted for lease as of January 1, 2019	**21,873**
Discounting effect	(4,030)
Financial liability discounted by lease as of January 1, 2019	**17,843**

Accounting standards, amendments and interpretations published by the IASB but not yet endorsed by the European Union

Description	Effective date foreseen by the principle
IFRS 14 Regulatory Deferral Accounts	**(*)**
IFRS 17 Insurance Contracts	01/01/2021
Interpretations	01/01/2019
IFRIC 22 Foreign Currency Transactions and Advance Consideration	01/01/2018
IFRIC 23 Uncertainty over Income Tax Treatments	01/01/2019
Amendments	01/01/2019
Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred until completion of the IASB project on the *equity method*
Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions	01/01/2018
Annual Improvements to IFRS Standards 2015-2017 Cycle	01/01/2019
Amendments to IAS 40: Transfers of Investment Property	01/01/2018
Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures	01/01/2019
Amendments to IFRS 9: Prepayment Features with Negative Compensation	01/01/2019

(*) IFRS 14 came into force on 1 January 2016, but the European Commission decided to suspend the approval process pending the new accounting principle on "rate-regulated activities”.

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 2020. For the remaining periods the management has used an increase in turnover with a compound annual growth rate ("CAGR") of 0.59%. 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 7.40% (6.39% at 31 December 2018).

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 2019 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%
Photovoltaic systems	9%
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 IFRS16

IFRS 16 was published in January 2016 and replaced IAS 17 Leasing, IFRIC 4, SIC-15 and SIC-27. IFRS 16 defines the principles for the recognition, measurement, presentation and disclosure of leases (contracts that give the right to use third party assets) and requires lessees to account for all leasing contracts in the financial statements on the basis of a single model similar to the one used to account for financial leases in accordance with IAS 17. The standard provides for two exemptions for the recognition by tenants - leasing contracts relating to activities of "low value / low value assets" (for example personal computers, copiers, ...) and short term / short term leasing contracts (for example contracts with expiration within 12 months or less). At the start date of the leasing contract, the lessee recognizes a liability against non-variable payments of the lease payments (i.e. the leasing liability) and an asset that represents the right to use the underlying asset for the duration of the contract (i.e. the right of use). Lessees must separately account for interest expenses on the leasing liability and the amortization of the right of use. Lessees will also need to remeasure the lease liability upon the occurrence of certain events (for example: a change in the conditions of the lease, a change in future payments of the lease following the change in an index or rate used to determine those payments). The lessee generally recognizes the amount of the remeasurement of the leasing liability as a correction of the right to use the asset. However, the standard does not provide for significant changes for landlords.

Impairment

At 31 December 2019, 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 2020 + 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 (2020) 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 7.40%), 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, Pollini S.p.A., Aeffe France S.a.r.l., Aeffe UK and Aeffe Shanghai, 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 from sales and services derive mainly from the sale of goods with the recognition of "at poin in time" revenues when the asset was transferred to the customer. This is provided for both the Wholesale distribution (shipment of goods to the customer, and for retail distribution when the asset is sold through a physical store. With regard to the export of goods, the control can be transferred in various stages depending on the type of product). Incoterm applied to the specific customer. This premise leads to a limited judgment on the identification of the control passage of the asset and the consequent recognition of the revenue.

Most of the Company's revenues derive from list prices that can vary depending on the type of product, brand and geographical region. Some contracts with the Group's Retail Companies provide for the transfer of control with the right of return

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).

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:

Equity investment in Pollini S.p.A.: the evaluation emerges from the cash flow analysis of the entire Pollini Group. The cash flows have been gathered, for the year 2020, by the Group budget. It has been also estimated cash flow projections for the years 2021, 2022, 2023 and 2024 at an average growth flat of 5%. 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 2024. The rate used for the cash flow discounting back is the weighted average cost of capital (WACC), equal to 7.40% (6.39% last year).

Equity investment in Aeffe France S.a.r.l., Aeffe UK Ltd. and Aeffe Shanghai: the evaluation emerges from the cash flow analysis of each single company. The cash flows have been gathered, for the year 2020, by the Group budget. It has been also estimated cash flow projections for the years 2021, 2022, 2023 and 2024 at a growth rate basically stable compared to the one used in the budget 2020. 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 2024. The rate used for the cash flow discounting back is the weighted average cost of capital (WACC) equal to 7.40% (6.39% last year).

IFRS 16

The transition to IFRS 16 introduces some elements of professional judgment which involve the definition of some accounting policies and the use of assumptions. The main ones are summarized below:

- Lease term: the identification of the duration of the rental contract is a very relevant issue since the form, legislation and commercial practices on property rental contracts vary significantly from one jurisdiction to another and the assessment of the effects of the renewal options at the end of the non-cancellable period on the lease term estimate entails the use of assumptions. In fact, for the definition of the lease term, the Group considered the presence of renewal and cancellation options respectively for the lessee, the lessor or both. In the presence of renewal options exercisable by both contractual parties, it considered the existence or not of significant economic disincentives in refusing the renewal request as required by paragraph B34 of IFRS 16. In the presence of options exercisable only by one of the two parties considered paragraph B35 of IFRS 16. The application of the above, taking into account the specific facts and circumstances as well as the estimate that the option is reasonably certain, has meant that, for contracts with an annual duration renewable automatically unless canceled, an average duration of ten years was considered, basing this choice on historical evidence while in other cases if it is only the Group that can exercise the option, a duration was considered until the second renewal provided for in the contract, based on the historical evidence and the fact that renewal beyond the second period cannot be considered reasonably certain.
- Definition of the discount rate: since in most of the rental contracts stipulated by the Group, there is no implicit interest rate, the Group has calculated an incremental Borrowing Rate-IBR. In order to determine the IBR to be used for discounting future rent payments, the Group has identified each country as a portfolio of contracts with similar characteristics and has determined the relative IBR as the rate of a risk-free instrument of the respective country in which the contract was stipulated, based on the different contractual deadlines. The weighted average IBR applied during the transition was 2.22%.
- Activities by right of use: the Group detects activities by right of use on the lease start date (ie on the date on which the underlying asset is available for use). The right of use activities that fall under the definition of investments in real estate activities are classified in this balance sheet item. The assets by

right of use are measured at cost, net of accumulated depreciation, of accumulated impairment losses and modified for any re-measurement of the leasing liability. The cost of the assets by right of use includes the initially recognized value of the leasing liability, initial direct costs incurred, the payments due for the leasing made on the date or before the effective date net of the leasing incentives received. Unless the Group is reasonably certain that it purchases the leased asset at the end of the lease contract, the assets by right of use are amortized linearly in the shorter period between the duration of the contract and the useful life of the leased asset. The value of the asset by right of use is subject to verification to detect any impairment.

- Leasing liabilities: at the start date of the leasing contract, the Group recognizes the leasing liability measured as the present value of future residual payments until the end of the contract. Future payments include fixed payments, net of any leasing incentives to be received, variable payments that depend on an index or rate and the amounts that the Group is expected to pay as guarantees of the residual value. Future payments also include the exercise price of the purchase option, if the Group has reasonable certainty to exercise the option and the leasing termination penalty payments, if the Group has reasonable certainty to exercise the resolution option. . Variable payments, which do not depend on an index or rate, but which for the Group mainly depend on the volume of sales, continue to be recorded as costs in the income statement, among the costs for services. To calculate the present value of future payments, the Group uses the Incremental Borrowing rate (IBR) on the contract start date. Subsequently, the leasing liability is increased for interest and decreased for payments made. In addition, the leasing liability is remeasured to take into account changes to the terms of the contract.
- Short term leases and low value assets leases: the Group avails itself of the exemption from the application of IFRS 16 for short-term contracts (less than 12 months) and for contracts in which the individual leased asset is of small value . The payments of the fees of these contracts are accounted for linearly as costs in the income statement, based on the terms and conditions of the contract.
- As of 2019, IFRS 16 requires the recognition of an asset for the right of use and a liability for the obligation to pay leasing installments in the financial statements. Any impairment of the asset for the right of use must be calculated and recognized in accordance with the provisions of IAS 36. The "rights of use" of each individual CGU are subjected to impairment tests in the presence of triggering events (in to the individual CGU) identified by a possible loss of value and reported by the following key performance indicators:

  - divestment plans;
  - performance indicators below expectations;
  - operational losses.

  The impairment test is carried out in the following ways:

  - calculation of the value in use of the CGUs excluding from cash flows those connected to the leasing liability;
  - calculation of the fair value of the CGU by discounting future rental rates at market value
  - calculation of the recoverable value as the greater of value in use and fair value
  - comparison of the recoverable value with the book value of the CGU, the latter calculated net of the book value of the leasing liability.

  In calculating the value in use, the discount rate used is the Group WACC.

- **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 1.20%;
– The discount rate used is 0.62%;
– The annual rate in increase of the severance indemnity fund foreseen is 2.40%;
– The expected Company's turn-over of employees is 6%.

- **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 0.37%;

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 on the basis of the guidelines established by the Managing Director and approved by the Chief Executive Officer.

The main goal of these guidelines consists of:

(i) **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.

(ii) **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.

(iii) **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 2019 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 33 thousand annually (EUR 45 thousand as of 31 December 2018).

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 2019 there are no instruments that hedge interest-rate risk.

(iv) **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 2019	31 December 2018	Change Δ	%
Trade receivables	56,363	56,941	(578)	(1.0%)
Other current receivables	14,740	14,509	231	1.6%
Total	**71,103**	**71,450**	**(347)**	**(0.5%)**

See note 8 for the comment and breakdown of the item “trade receivables” and note 11 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 2019, overdue but not written-down trade receivables amount to EUR 37,226 thousand (EUR 24,863 thousand in 2018). The breakdown by due date is as follows:

(Values in thousands of EUR)	31 December 2019	31 December 2018	31 December Δ	Change %
By 30 days	3,905	3,454	451	13.1%
31 - 60 days	5,238	3,769	1,469	39.0%
61 - 90 days	3,251	915	2,336	255.3%
Exceeding 90 days	24,832	16,725	8,107	48.5%
Total	**37,226**	**24,863**	**12,363**	**49.7%**

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 01.01.18	**3,149**	**585**	**3,734**
Increases externally acquired	-	553	553
Disposals	-	-	-
Amortisation	(126)	(339)	(465)
Net book value as of 01.01.19	**3,023**	**799**	**3,822**
Increases externally acquired	-	356	356
Disposals	-	-	-
Amortisation	(126)	(394)	(520)
Net book value as of 31.12.19	**2,897**	**761**	**3,658**

Brands

This caption comprises the value of the brand owned by the Company: “Alberta Ferretti” and “Philosophy”.

The residual amortisation period for this caption is 23 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 01.01.18	**16,945**	**21,871**	**1,206**	**1,528**	**63**	**616**	**42,229**
Increases		1,556	145	716	90	295	2,802
Disposals				(15)			(15)
Depreciation		(567)	(301)	(432)	(42)	(211)	(1,553)
Net book value as of 01.01.19	**16,945**	**22,860**	**1,050**	**1,797**	**111**	**700**	**43,463**
Increases	375	398	114	557	6	291	1,741
Disposals	-	-	-	-	-	-	-
Depreciation	-	(601)	(262)	(520)	(44)	(219)	(1,646)
Net book value as of 31.12.19	**17,320**	**22,657**	**902**	**1,834**	**73**	**772**	**43,558**

Tangible fixed assets have changed as follows:

- Increases of EUR 1,741 thousand for new investments. These mainly comprise buildings, leasehold improvements, information tools and general and specific plant and machinery.
- Depreciation of EUR 1,646 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).

3. *Right-of-use assets*

The composition of right-of-use assets is analysed in the following table:

(Valori in migliaia di Euro)	Buildings	Car	Other	Total
Net book value as of 01.01.19	**14,849**	**184**	**1,144**	**16,177**
Increases	-	76	-	76
Disposals	-	-	-	-
Translation differences and other variations	-	-	-	-
Depreciation	(1,340)	(74)	(413)	(1,827)
Net book value as of 31.12.19	**13,509**	**186**	**731**	**14,426**

The item Buildings includes Activities by right of use relating mainly to shop rental contracts (equal to approximately 65% of the activities by right of use Buildings) and to a residual extent relating to rental contracts for offices and other spaces.

During the year, there were no indicators that made it necessary to verify the existence of impairment of the fixed assets entered. In consideration of the relevance of the amounts of the rights of use recorded in the Fixed Assets and the valuation aspects related to them, despite the absence of significant triggering events, the Company has formalized an impairment test in the manner described previously in paragraph "IFRS 16". In particular, for the Cash Generating Units (CGU), the recoverable value was calculated as the greater of the fair value and use value of the related Cash Generating Unit with the carrying amount of its net invested capital ("carrying amount"). For the 2019 valuation, the expected cash flows and revenues are based on the 2020 Budget (approved by the Board of Directors on 29 January 2020) and on the management estimates for subsequent years, consistently with the duration of the rental contracts. The discount rate used for discounting cash flows is equal to the Company WACC (7.40%), while the compound annual growth rate (CAGR) is on average 4.7%.

4. *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.

Equity investments increase of EUR 25 thousand after the subscription of 100% owned Aeffe Germany, a company managing the store in Metzingen in Germany and of EUR 1,035 thousand after the share capital increase of the subsidiary Aeffe Shanghai.

5. *Other fixed assets*

This caption principally includes amounts due by subsidiaries.

6. *Deferred tax assets and liabilities*

This caption is analysed below as of 31 December 2019 and 2018:

(Values in thousands of EUR)	Receivables		Liabilities	
	2019	2018	2019	2018
Tangible fixed assets	-	-	(17)	(17)
Intangible fixed assets	-	-	(130)	(130)
Provisions	268	369	-	-
Costs deducible in future periods	1,069	1,346	-	-
Income taxable in future periods	-	-	(204)	(158)
Tax losses carried forward	-	-	-	-
Other tax assets (liabilities) from transition to IAS	1,327	863	(7,337)	(7,304)
Total	**2,664**	**2,578**	**(7,688)**	**(7,609)**

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	369	(102)	-	267
Costs deducible in future periods	1,346	(277)	-	1,069
Income taxable in future periods	(158)	(45)	-	(203)
Tax losses carried forward	-	-	-	-
Other tax assets (liabilities) from transition to IAS	(6,441)	(74)	505	(6,010)
Total	**(5,031)**	**(498)**	**505**	**(5,024)**

The negative variation of EUR 498 thousand in the income statement mainly refers to the deferred tax assets on the previous losses definitively used.

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

CURRENT ASSETS

7. *Stocks and inventories*

This caption comprises:

(Values in thousands of EUR)	31 December	31 December	Change	
	2019	2018	Δ	%
Raw, ancillary and consumable materials	5,141	4,463	678	15.2%
Work in progress	4,143	6,404	(2,261)	(35.3%)
Finished products and goods for resale	20,427	21,909	(1,482)	(6.8%)
Advance payments	44	26	18	69.2%
Total	**29,755**	**32,802**	**(3,047)**	**(9.3%)**

The decrease by EUR 3,047 thousand in inventories is mainly related to the trend of revenues from sales and services.

Raw materials and work in progress products mainly concern the Spring/Summer collections.

Finished products mainly relate to the Autumn/Winter 2019 and to the Spring/Summer 2020 collections and to the Autumn/Winter 2020 samples collections.

Inventories are valued at the lower of cost and net realizable value.

8. *Trade receivables*

This caption is analysed in the following table:

(Values in thousands of EUR)	31 December 2019	31 December 2018	Change Δ	%
Customers receivables	5,111	9,892	(4,781)	(48.3%)
Subsidiaries receivables	52,295	47,794	4,501	9.4%
Parent Company receivables	4	4	-	n.a.
(Allowance for doubtful receivables)	(1,047)	(749)	(298)	39.8%
Total	**56,363**	**56,941**	**(578)**	**(1.0%)**

Trade receivables amount to EUR 56,363 thousand at 31 December 2019, showing a reduction by 1.0% compared to the value at 31 December 2018, mainly as a result of the increase in receivables from subsidiaries.

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 2018 has been used for the amount of EUR 502 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.

9. *Tax receivables*

This caption is analysed in the following table:

(Values in thousands of EUR)	31 December 2019	31 December 2018	Change Δ	%
VAT	4,434	3,063	1,371	44.8%
Corporate income tax (IRES)	3,544	1,104	2,440	221.0%
Local business tax (IRAP)	375	5	370	7,400.0%
Other tax receivables	625	75	550	733.3%
Total	**8,978**	**4,247**	**4,731**	**111.4%**

The variation of tax receivables is mainly due to the increase of VAT and IRES receivables.

10. Cash

This caption comprises:

(Values in thousands of EUR)	31 December 2019	31 December 2018	Change Δ	%
Bank and post office deposits	6,932	4,512	2,420	53.6%
Cheques	-	30	(30)	(100.0%)
Cash in hand	14	18	(4)	(23.9%)
Total	**6,946**	**4,561**	**2,386**	**52.3%**

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 2019, cash and cash equivalents are EUR 2,386 thousand higher than at the end of the previous year. The reasons for this are analysed in the cash flow statement.

11. Other receivables

This caption comprises:

(Values in thousands of EUR)	31 December 2019	31 December 2018	Change Δ	%
Credits for prepaid costs	12,040	11,481	559	4.9%
Advances for royalties and commissions	96	191	(95)	(49.7%)
Advances to suppliers	307	614	(307)	(50.0%)
Accrued income and prepaid expenses	1,054	517	537	103.9%
Other	1,243	1,706	(463)	(27.1%)
Total	**14,740**	**14,509**	**231**	**1.6%**

Credits for prepaid costs are related to the costs incurred to design and make samples for the Spring/Summer 2020 and Autumn/Winter 2020 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.

12. SHAREHOLDERS' EQUITY

The main elements comprising shareholders' equity as of 31 December 2019 are described below.

(Values in thousands of EUR)	31 December 2019	31 December 2018	Change Δ
Share capital	25,286	25,371	(85)
Legal reserve	3,775	3,336	439
Share premium reserve	70,775	71,240	(465)
Other reserves	41,376	33,034	8,342
Fair value reserve	7,742	7,742	-
IAS reserve	(116)	1,086	(1,202)
Reamisurement of defined benefit plans reserve	(751)	(623)	(128)
Profits/(Losses) carried-forward	2,348	2,348	-
Net profit / (loss)	5,138	8,781	(3,643)
Total	**155,573**	**152,315**	**3,258**

Share capital

Share capital as of 31 December 2019, 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 2019 the Company holds 6,217,839 treasury shares, representing the 5.791% of its share capital.

There are no shares with restricted voting rights, without voting rights or with preferential rights. During 2019, 340,961 treasury shares were purchased by the Company for a total value of Euro 550,268.

Legal reserve

The legal reserve amounts to EUR 3,775 thousand at 31 December 2019. The increase of 439 thousand is determined by the 5% allocation of the net profit.

Share premium reserve

The variation in the share premium reserve amounts to EUR 465 thousand and it is related to the purchase of treasury shares made during the year.

Other reserves

The caption records a positive variation as a consequence of the previous year's profit allocation for EUR 8,342 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. The change of EUR -1,202 thousand refers to the application of IFRS 16 on January 1, 2019.

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, increases of EUR 128 thousand compared to the value at 31 December 2018.

Profits/(Losses) carried-forward

The Profits/(losses) carried-forward at 31 December 2019, amounting to EUR 2,348 thousand, is not changed compared to 31 December 2018.

Net Profit /loss

This caption highlights a net profit of EUR 5,138 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	25,286					
Legal reserve	3,775	B				
Share premium reserve:						
- including	69,182	A,B,C	69,182			
- including	1,593	B				
Other reserves:						
- inc. extraordinary reserve	40,972	A,B,C	40,972			
IAS reserve (art.6 D.Lgs. 38/2005)	(116)	B				
Fair Value reserve (art. 6 D.Lgs. 38/2005)	7,742	B				
Remeasurement of defined benefit plans reserve	(751)	B				
Merger reserve	404	B				
Profit/(losses) carried-forward	2,348	A,B,C	2,348			
Total	**150,435**		**112,502**	-	-	-

<u>Restricted Reserves</u>

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 2019 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

13. Provisions

The changes in the various provisions are analysed below:

(Values in thousands of EUR)	31 December 2018	Increases	Decreases	31 December 2019
Pensions and similar obligations	119	-	(64)	55
Total	**119**	**-**	**(64)**	**55**

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.

14. Post-employment benefits

The severance indemnities payable on a deferred basis to all employees 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 2018	Increases	Decreases / Other changes	31 December 2019
Post employment benefits	3,653	86	(350)	3,389
Total	**3,653**	**86**	**(350)**	**3,389**

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.

15. Non-current financial liabilities

Non-current financial payables are analysed in the following table:

(Values in thousands of EUR)	31 December 2019	31 December 2018	Change Δ	%
Loans from financial institutions	10,745	15,834	(5,089)	(32.1%)
Lease liabilities	14,476	-	14,476	n.a.
Amounts due to other creditors	3,116	3,092	24	0.8%
Total	**28,337**	**18,926**	**9,411**	**49.7%**

The entry “Loans from financial institutions” relates to the portion of bank loans due beyond 12 months. It is mainly due to a ten-year mortgage loan to the Company 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.

Lease liabilities relate to the application of IFRS 16.

The amounts due to other creditors mainly refer to bearing loans obtained from the American subsidiary Aeffe Usa Inc..

The following table details the bank loans outstanding as of 31 December 2019, including both the current and the non-current portion:

(Values in thousands of EUR)	Total amount	Current portion	Non-current portion
Bank borrowings	20,863	10,118	10,745
Total	**20,863**	**10,118**	**10,745**

There are no amounts due beyond five years.

16. Non-current not financial liabilities

Non-current not financial liabilities decrease mainly for the reduction of 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

17. Trade payables

This caption is analysed below on a comparative basis:

(Values in thousands of EUR)	31 December 2019	31 December 2018	Change Δ	%
Payables with subsidiaries	46,495	40,613	5,882	14.5%
Payables with third parties	32,794	36,642	(3,848)	(10.5%)
Total	**79,289**	**77,254**	**2,035**	**2.6%**

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

This caption is substantially in line with the comparative period.

18. Tax payables

Tax payables are analysed on a comparative basis in the following table:

(Values in thousands of EUR)	31 December 2019	31 December 2018	Change Δ	%
Local business tax (IRAP)	-	90	(90)	(100.0%)
Corporate income tax (IRES)	-	3,166	(3,166)	(100.0%)
Amounts due to tax authority for withheld taxes	1,452	1,394	58	4.2%
Total	**1,452**	**4,650**	**(3,198)**	**(68.8%)**

The decrease of tax payables is mostly due to the cancellation of payable for IRES generated in the period by Aeffe S.p.A. and the fiscal Group consolidated.

19. *Short-term financial liabilities*

This caption is analysed in the following table:

(Values in thousands of EUR)	31 December 2019	31 December 2018	Change Δ	%
Due to banks	41,802	33,266	8,536	25.7%
Lease liabilities	1,706	-	1,706	n.a.
Total	**43,508**	**33,266**	**10,242**	**30.8%**

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.

Lease liabilities relate to the application of IFRS 16.

20. *Other liabilities*

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

(Values in thousands of EUR)	31 December 2019	31 December 2018	Change Δ	%
Due to total security organization	2,036	2,075	(39)	(1.9%)
Due to employees	2,353	2,556	(203)	(7.9%)
Trade debtors - credit balances	1,884	2,474	(590)	(23.8%)
Accrued expenses and deferred income	5	-	5	n.a.
Other	401	747	(346)	(46.3%)
Total	**6,679**	**7,851**	**(1,172)**	**(14.9%)**

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

21. Revenues from sales and services

In 2019 revenues amount to EUR 161,947 thousand compared to EUR 175,976 thousand of the year 2018, showing an decrease of 8,0%. Such decrease has mainly interested Moschino Alberta Ferretti brands.

48% of revenues are earned in Italy while 52% come from foreign markets.

Accounting Policy:

Revenues from sales and services derive mainly from the sale of goods with the recognition of "at point in time" revenues when the asset was transferred to the customer. With regard to the export of goods, the control can be transferred in various stages depending on the type of Incoterm applied to the specific customer. This premise leads to a limited judgment on the identification of the control passage of the asset and the consequent recognition of the revenue.

Determination of the transaction price:

Most of the Group's revenues derive from list prices that can vary depending on the type of product, brand and geographical region. Some contracts with the Group's Retail Companies provide for the transfer of control with the right of return.

Breakdown of revenues from sales and services (IFRS 15)

(Values in thousands of EUR) Full Year 2019	Prêt-à porter Division	Footwear and leather goods Division	Total
Geographical area	**134,666**	**27,281**	**161,947**
Italy	65,406	11,942	77,348
Europe (Italy excluded)	22,239	4,086	26,325
Asia and Rest of the World	40,035	9,944	49,979
America	6,986	1,309	8,295
Brand	**134,666**	**27,281**	**161,947**
Alberta Ferretti	21,867	1,947	23,814
Philosophy	17,169	-	17,169
Moschino	89,141	25,318	114,459
Other	6,489	16	6,505
Distribution channel	**134,666**	**27,281**	**161,947**
Wholesale	134,666	27,281	161,947
Timing of goods and services transfer	**134,666**	**27,281**	**161,947**
POINT IN TIME (transfer of significant risks and benefits connected to the property of the asset)	134,666	27,281	161,947

22. Other revenues and income

This caption comprises:

(Values in thousands of EUR)	Full Year 2019	Full Year 2018	Change Δ	%
Rental income	3,953	3,531	422	12.0%
Other income	4,431	2,345	2,086	89.0%
Total	**8,384**	**5,876**	**2,508**	**42.7%**

The caption other income, which amounts to EUR 4,431 thousand in 2019, mainly refers to exchange gains on commercial transactions, provision of services and sales of raw materials and packaging.

23. Costs of raw materials

This caption comprises:

(Values in thousands of EUR)	Full Year 2019	Full Year 2018	Change Δ	%
Raw, ancillary and consumable materials and goods for resale	61,184	65,441	(4,257)	(6.5%)
Total	**61,184**	**65,441**	**(4,257)**	**(6.5%)**

This caption mainly reflects the purchase of raw materials, such as fabrics, yarns, hides and accessories, finished products acquired for resale and packaging.

The decrease in this caption is mainly due to the sales decline in 2019.

24. Costs of services

This caption comprises:

(Values in thousands of EUR)	Full Year 2019	Full Year 2018	Change Δ	%
Subcontracted work	19,809	22,115	(2,306)	(10.4%)
Consultancy fees	9,865	9,053	812	9.0%
Advertising	4,444	4,756	(312)	(6.6%)
Commission	4,931	6,568	(1,637)	(24.9%)
Transport	2,022	1,868	154	8.2%
Utilities	560	551	9	1.6%
Directors' and auditors' fees	2,306	2,549	(243)	(9.5%)
Insurance	178	196	(18)	(9.2%)
Bank charges	251	250	1	0.4%
Travelling expenses	1,071	988	83	8.4%
Other services	2,385	2,318	67	2.9%
Total	**47,822**	**51,212**	**(3,390)**	**(6.6%)**

Costs of services decrease from EUR 51,212 thousand in the year 2018 to EUR 47,822 thousand in the year 2019, by 6.6%. The decrease is mainly due to:

- the decrease of costs for subcontracted work and commission linked to the reduction of sales;

25. Costs of use of third parties assets

This caption comprises:

(Values in thousands of EUR)	Full Year 2019	Full Year 2018	Change Δ	%
Rental expenses	466	2,808	(2,342)	(83.4%)
Royalties	10,371	13,627	(3,256)	(23.9%)
Hire charges and similar	588	640	(52)	(8.1%)
Total	**11,425**	**17,075**	**(5,650)**	**(33.1%)**

The entry cost of use of third parties assets decrease of EUR 5,650 thousand from EUR 17,075 thousand in 2018 to EUR 11,425 thousand in 2019. This change is mainly attributable to the lower costs for royalties as a result of the reduction in the brand Moschino's sales.

26. Labour costs

This caption comprises:

(Values in thousands of EUR)	Full Year 2019	Full Year 2018	Change Δ	%
Wages and payrolls	30,067	29,244	823	2.8%
Total	**30,067**	**29,244**	**823**	**2.8%**

Labour costs move from EUR 29,244 thousand in 2018 to EUR 30,067 thousand in 2019 with an increase of EUR 823 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 2019 is analysed below:

(Average number of employees by category)	31 December 2019	31 December 2018	Change Δ	%
Workers	152	147	5	3.4%
Office staff - supervisors	398	402	(4)	(1.0%)
Executive and senior managers	14	13	1	7.7%
Total	**564**	**562**	**2**	**0.4%**

27. Other operating expenses

This caption comprises:

(Values in thousands of EUR)	Full Year 2019	Full Year 2018	Change Δ	%
Taxes	553	320	233	72.6%
Gifts	343	407	(64)	(15.8%)
Other operating expenses	1,072	1,358	(286)	(21.0%)
Total	**1,968**	**2,086**	**(118)**	**(5.6%)**

The caption other operating expenses moves from EUR 2,086 thousand in 2018 to EUR 1,968 thousand in 2019.

28. Amortisation and write-downs

This caption comprises:

(Values in thousands of EUR)	Full Year 2019	Full Year 2018	Change Δ	%
Amortisation of intangible fixed assets	520	465	55	11.9%
Depreciation of tangible fixed assets	1,645	1,554	91	5.9%
Depreciation of right-of-use assets	1,827	-	1,827	n.a.
Write-downs and provisions	800	215	585	272.1%
Total	**4,792**	**2,233**	**2,559**	**114.6%**

The item went from EUR 2,233 thousand in 2019 to EUR 4,792 thousand in 2019 mainly due to the effect of IFRS16.

29. Financial income/ expenses

The caption “Financial income” comprises:

(Values in thousands of EUR)	Full Year 2019	Full Year 2018	Change Δ	%
Interest income	133	146	(13)	(8.9%)
Financial discounts	2	10	(8)	(80.0%)
Foreign exchange gains	10	-	10	n.a.
Total	**145**	**156**	**(11)**	**(7.1%)**

The caption “Financial expenses” comprises:

(Values in thousands of EUR)	Full Year 2019	Full Year 2018	Change Δ	%
Interest expenses	577	629	(52)	(8.2%)
Leasing interest expenses	496	-	496	n.a.
Foreign exchange losses	59	122	(63)	(51.6%)
Other expenses	225	243	(18)	(7.3%)
Totale	**1,357**	**993**	**364**	**36.6%**

The increase in financial expenses is linked to interest on leasing due to the application of IFRS16.

30. Income taxes

This caption comprises:

(Values in thousands of EUR)	Full Year 2019	Full Year 2018	Change Δ	%
Current income taxes	2,448	4,191	(1,743)	(41.6%)
Deferred income (expenses) taxes	530	248	282	113.7%
Total income taxes	**2,978**	**4,439**	**(1,461)**	**(32.9%)**

The changes in deferred income (expenses) taxes are analysed in the note on deferred tax assets and liabilities.

The effective tax rates for 2018 and 2019 are reconciled with the theoretical rate in the following table:

(Values in thousands of EUR)	Full Year 2019	Full Year 2018
Profit before taxes	8,116	13,219
Theoretical tax rate	24.0%	24.0%
Theoretical income taxes (IRES)	**1,948**	**3,173**
Fiscal effect	1,541	519
Total income taxes excluding IRAP (current and deferred)	**3,489**	**3,692**
IRAP (current and deferred)	**(511)**	**747**
Total income taxes (current and deferred)	**2,978**	**4,439**

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.

31. 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 2019	Full Year 2018
Earnings for determining basic earnings per share	5,138	8,781
Dilutive effects	-	-
Earnings for determing dilutive earnings per share	**5,138**	**8,781**

(Values in thousands of EUR) From continuing activities	Esercizio 2019	Esercizio 2018
Earnings for the period	5,138	8,781
Earnings from discontinued operations	-	-
Earnings for determining basic earnings per share	**5,138**	**8,781**
Dilutive effects	-	-
Earnings for determing dilutive earnings per share	**5,138**	**8,781**

In both periods, December 2019 and December 2018, there is no evidence of dilution of consolidated net earnings.

Number of reference share

	Esercizio 2019	Esercizio 2018
Average number of shares for determing earnings per share	**101,145**	**101,486**
Share options	-	-
Average number of shares for determing diluted earnings per	**101,145**	**101,486**

Basic earnings per share

Net earnings attributable to holders of ordinary shares of the Company, amounts to EUR 5,138 thousand (December 2018: EUR 8,781 thousand).

Dilutive earnings per share

The calculation of diluted earnings per share for the period January - December 2019, matches with the calculation of basic earnings per share, as there are no tools with potential dilutive effects.

COMMENTS ON THE CASH FLOW STATEMENT

The cash flow generated in 2019 amounts to EUR 2,388 thousand.

(Values in thousands of EUR)	Full year 2019	Full year 2018
OPENING BALANCE (A)	**4,558**	**7,610**
Cash flow (absorbed)/generated by operating activity (B)	6,508	15,416
Cash flow (absorbed)/generated by investing activity (C)	(3,232)	(4,664)
Cash flow (absorbed)/generated by financing activity (D)	(888)	(13,804)
Increase (decrease) in cash flow (E)=(B)+(C)+(D)	**2,388**	**(3,052)**
CLOSING BALANCE (F)=(A)+(E)	**6,946**	**4,557**

32. Net cash flow (absorbed)/generated by operating activity

The cash flow generated by operating activity during 2019 amounts to EUR 6,508 thousand.

The cash flow from operating activities is analysed below:

(Values in thousands of EUR)	Full Year 2019	Full Year 2018
Profit before taxes	8,116	13,219
Amortisation	4,792	2,233
Accrual (+)/availment (-) of long term provisions and post employment benefits	(328)	(294)
Paid income taxes	(5,719)	(1,365)
Financial income (-) and financial charges (+)	1,212	837
Change in operating assets and liabilities	(1,565)	786
CASH FLOW (ABSORBED)/ GENERATED BY OPERATING ACTIVITY	**6,508**	**15,416**

33. Net cash flow (absorbed)/generated by investing activity

The cash flow absorbed by investing activity during 2019 amounts to EUR 3,232 thousand.

The factors comprising this use of funds are analysed below:

(Values in thousands of EUR)	Full Year 2019	Full Year 2018
Increase (-)/ decrease (+) in intangible fixed assets	(356)	(553)
Increase (-)/ decrease (+) in tangible fixed assets	(1,741)	(2,787)
Increase (-)/ decrease (+) in right-of-use assets	(75)	-
Investments (-)/ Disinvestments (+)	(1,060)	(1,324)
CASH FLOW (ABSORBED)/ GENERATED BY INVESTING ACTIVITY	**(3,232)**	**(4,664)**

34. Net cash flow (absorbed)/generated by financing activity

The cash flow absorbed by financing activity during 2019 amounts to EUR 888 thousand.

The factors comprising this use of funds are analysed below:

(Values in thousands of EUR)	Full Year 2019	Full Year 2018
Other variations in reserves and profits carried-forward of shareholders' equity	(679)	58
Proceeds (+)/repayments (-) of financial payments	3,470	(13,221)
Proceeds (+)/ repayment (-) of lease payments	(1,661)	-
Increase (-)/ decrease (+) in long term financial receivables	(806)	197
Financial income (+) and financial charges (-)	(1,212)	(837)
CASH FLOW (ABSORBED)/GENERATED BY FINANCING ACTIVITY	**(888)**	**(13,804)**

OTHER INFORMATION

35. 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.

36. 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 2019 is analysed below:

(Values in thousands of EUR)	31 December 2019	31 December 2018
A - Cash in hand	14	48
B - Other available funds	6,932	4,512
C - Securities held for trading		
D - Cash and cash equivalents (A) + (B) + (C)	*6,946*	*4,561*
E - Short term financial receivables		
F - Current bank loans	(33,390)	(20,832)
G - Current portion of long-term bank borrowings	(10,118)	(12,434)
H - Current portion of loans from other financial istitutions		
I - Current financial indebtedness (F) + (G) + (H)	*(43,508)*	*(33,266)*
J - Net current financial indebtedness (I) + (E) + (D)	*(36,562)*	*(28,705)*
K - Non current bank loans	(28,336)	(18,926)
L - Issued obbligations		
M - Other non current loans		
N - Non current financial indebtedness (K) + (L) + (M)	*(28,336)*	*(18,926)*
O - Net financial indebtedness (J) + (N)	***(64,898)***	***(47,631)***

The increase in the net financial position relates to the application of IFRS 16 which weighed for EUR 16,182 thousand. Without considering the effect of the application of the new standard, the net financial position increases by EUR 1,085 thousand, rising from EUR 47,631 thousand at December 31, 2018 to EUR 48,716 thousand at December 31, 2019.

37. 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 2018 and 2017 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 2019	Revenues from sales and services	Other revenues and income	Costs of raw materials, cons. and goods for resale	Costs of services	Costs for use of third parties assets	Other operating costs	Financial income (expenses)
Moschino Group	26,138	998	103	2,596	9,887	3	(99)
Pollini Group	1,279	3,156	20,805	214	6	2	101
Aeffe Retail Group	23,962	820	119	164		71	
Velmar S.p.A.	395	1,154	695	9			(10)
Aeffe Usa Inc.	4,799	4		368		5	(108)
Aeffe UK L.t.d.	846	6	45	250		16	2
Aeffe France S.a.r.l.	444	1	147	704		15	9
Aeffe Shanghai	577	3		250		9	
Aeffe Germany G.m.b.h.	584	1					1
Total Group companies	**59,024**	**6,143**	**21,914**	**4,555**	**9,893**	**121**	**(104)**
Total income statement	161,947	8,384	61,184	47,822	11,425	(1,969)	(1,212)
Incidence % on income statemen	**36.4%**	**73.3%**	**35.8%**	**9.5%**	**86.6%**	**(6.1%)**	**8.6%**

(Values in thousands of EUR) Year 2018	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	23,200	659	107	3,341	13,092	7	(60)
Pollini Group	642	2,606	20,862	31	6	4	125
Aeffe Retail Group	18,256	810	75	175			
Velmar S.p.A.	92	345	101	54			(1)
Aeffe Usa Inc.	5,005	3		353		3	(86)
Aeffe UK L.t.d.	1,019	3	60	250		10	
Aeffe France S.a.r.l.	729	3	130	858		12	9
Aeffe Shanghai	589			370		7	
Total Group companies	**49,533**	**4,427**	**21,335**	**5,433**	**13,098**	**43**	**(12)**
Total income statement	175,976	5,876	65,441	51,212	17,075	(2,086)	(837)
Incidence % on income statement	**28.1%**	**75.3%**	**32.6%**	**10.6%**	**76.7%**	**(2.0%)**	**1.5%**

RECEIVABLES AND PAYABLES

(Values in thousands of EUR)	Other fixed assets	Trade receivables	Trade payables	Non-current financial liabilities
Year 2019				
Moschino Group		6,349	25,175	
Pollini Group		17,059	10,094	
Aeffe Retail Group		12,094	4,418	
Velmar S.p.A.		1,890	4,483	
Aeffe Usa Inc.		271	1,451	3,116
Aeffe UK L.t.d.	725	7,048	136	
Aeffe France S.a.r.l.	1,411	4,171	444	
Aeffe Japan Inc.	60	546		
Aeffe Shanghai		2,148	294	
Aeffe Germany G.m.b.h		719	-	
Total Group companies	**2,196**	**52,295**	**46,495**	**3,116**
Total balance sheet	2,965	56,363	79,289	28,337
Incidence % on balance sheet	**74.1%**	**92.8%**	**58.6%**	**11.0%**

(Values in thousands of EUR)	Other fixed assets	Trade receivables	Trade payables	Non-current financial liabilities
Year 2018				
Moschino Group		3,908	26,938	
Pollini Group		23,934	5,864	390
Aeffe Retail Group		6,259	2,820	
Velmar S.p.A.		2,181	1,374	1,636
Aeffe Usa Inc.			1,130	3,057
Aeffe UK L.t.d.		5,882	7	
Aeffe France S.a.r.l.	1,411	3,653	850	
Aeffe Japan Inc.	30	474		
Aeffe Shanghai		1,503		
Total Group companies	**1,441**	**47,794**	**38,983**	**5,083**
Total balance sheet	2,159	56,941	77,254	18,926
Incidence % on balance sheet	**66.7%**	**83.9%**	**50.5%**	**26.9%**

38. 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 2019	31 December 2018	Nature of the transactions
Shareholder Alberta Ferretti with Aeffe S.p.A.			
Contract for the sale of artistic assets and design	1,000	1,000	Cost
Ferrim with Aeffe S.p.A.			
Property rental	887	1,805	Cost
Commerciale Valconca with Aeffe S.p.A.			
Revenues	474	1,390	Revenue
Cost of services	76	73	Cost
Property rental	50	50	Cost
Commercial	613	638	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 2019 and 31 December 2018:

(Values in thousands of EUR)	Balance 2019	Value rel. party 2019	%	Balance 2018	Value rel. party 2018	%
Incidence of related party transactions on the income statement						
Revenues from sales and services	161,947	474	0.3%	175,976	1,390	0.8%
Costs of services	47,822	1,126	2.4%	51,212	1,123	2.2%
Costs for use of third party assets	11,425	887	7.8%	17,075	1,805	10.6%
Incidence of related party transactions on the balance sheet						
Trade receivables	56,363	613	1.1%	56,941	638	1.1%
Incidence of related party transactions on the cash flow						
Cash flow (absorbed) / generated by operating activity	6,508	(1,514)	n.a.	15,416	(1,080)	n.a.
Incidence of related party transactions on the indebtedness						
Net financial indebtedness	(48,716)	(1,514)	3.1%	(47,632)	(1,080)	2.3%

39. 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 2019.

40. 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.

41. Guarantees and commitments

As of 31 December 2019, the Group has given performance guarantees to third parties totaling EUR 8,243 thousand (EUR 9,488 thousand as of 31 December 2018).

42. Contingent liabilities

Fiscal disputes

In consideration of the fact that there are no significant tax disputes, no provision has been set aside.

43. 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 2019 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	2019 fees
Audit	RIA GRANT THORNTON S.p.A.	76
Audit non-financial statement (DNF)	BDO ITALIA S.p.A.	11
R&D tax credit certification	RIA GRANT THORNTON S.p.A.	30
Total		**118**

ATTACHMENTS TO THE EXPLANATORY NOTES

ATTACHMENT	I:	List of investments in subsidiary and other companies
ATTACHMENT	II:	Balance Sheet with related parties
ATTACHMENT	III:	Income Statement with related parties
ATTACHMENT	IV:	Cash Flow Statement with related parties
ATTACHMENT	V:	Prospect of crucial data from the statutory financial statements of Fratelli Ferretti Holding S.r.l. at 31 December 2018

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	Net profit for the period	Net equity	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**							
Al 31/12/18			8,585,150	2,826,797	13,605,081	100%	8,585,150	26,593,345
Al 31/12/19			8,585,150	591,869	14,196,950	100%	8,585,150	26,593,345
Moschino S.p.A.	**S.G. in Marignano (RN) Italy**							
Al 31/12/18			66,817,108	(74,248)	71,120,056	70%	14,000,000	46,857,175
Al 31/12/19			66,817,108	801,194	71,921,250	70%	14,000,000	46,857,175
Pollini S.p.A.	**Gatteo (FC) Italy**							
Al 31/12/18			6,000,000	9,915,367	40,916,783	100%	6,000,000	41,945,452
Al 31/12/19			6,000,000	9,220,240	50,137,023	100%	6,000,000	41,945,452
Velmar S.p.A.	**S.G. in Marignano (RN) Italy**							
Al 31/12/18			120,000	3,853,318	6,449,037	100%	60,000	8,290,057
Al 31/12/19			120,000	4,781,466	11,230,503	100%	60,000	8,290,057
Foreign companies								
Aeffe France S.a.r.l.	**Parigi (FR)**							
Al 31/12/18			50,000	(654,143)	(590,404)	100%	n.d. *	5,018,720
Al 31/12/19			50,000	(713,266)	(1,303,670)	100%	n.d. *	5,018,720
Aeffe UK L.t.d.	**Londra (GB)**							
Al 31/12/18		GBP	310,000	(1,221,368)	(3,758,894)	100%	n.d. *	
			346,562	(1,365,420)	(4,202,229)	100%	n.d. *	478,400
Al 31/12/19		GBP	310,000	(1,480,899)	(5,239,793)	100%	n.d. *	
			346,562	(1,687,057)	(6,158,666)	100%	n.d. *	478,400
Aeffe USA Inc.	**New York (USA)**							
Al 31/12/18		USD	600,000	(67,300)	11,595,863	100%	n.d. *	
			524,017	(58,777)	10,127,391	100%	n.d. *	10,664,812
Al 31/12/19		USD	600,000	74,213	11,670,076	100%	n.d. *	
			524,017	66,291	10,388,175	100%	n.d. *	10,664,812
Aeffe Japan Inc.	**Tokyo (Japan)**							
Al 31/12/18		JPY	3,600,000	(3,095,264)	(284,337,073)	100%	n.d. *	-
			28,605	(24,595)	(2,259,333)	100%	n.d. *	-
Al 31/12/19		JPY	3,600,000	(3,067,173)	(287,404,246)	100%	n.d. *	
			28,605	(25,140)	(2,356,932)	100%	n.d. *	
Aeffe Shanghai	**Shanghai (China)**							
Al 31/12/18		CNY	10,000,000	(6,532,798)	3,467,202	100%	n.d. *	
			2,301,638	(829,551)	440,274	100%	n.d. *	1,324,017
Al 31/12/19		CNY	10,000,000	(5,993,626)	5,473,535	100%	n.d. *	
			28,605	(774,821)	699,887	100%	n.d. *	2,359,548
Aeffe Germany G.m.b.h.	**Metzingen (Germany)**							
Al 31/12/19			25,000	(19,679)	5,321	100%	n.d. *	25,000
Total interests in subsidiaries:								**142,232,509**

* 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	Net profit for the period	Net equity	Direct interest	Number of shares	Book value
(Values in units of EUR)								
In other companies								
Conai								
Al 31/12/18								109
Al 31/12/19								109
Caaf Emilia Romagna								
Al 31/12/18						0.688%	5,000	2,600
Al 31/12/19						0.688%	5,000	2,600
Assoform								
Al 31/12/18						1.670%	n.d. *	1,667
Al 31/12/19						1.670%	n.d. *	1,667
Consorzio Assoenergia Rimini								
Al 31/12/18						2.100%	n.d. *	516
Al 31/12/19						2.100%	n.d. *	516
Effegidi								
Al 31/12/18								6,000
Al 31/12/19								6,000
Total interests in other companies:								**10,892**
* quota								
Total interests:								**142,243,401**

ATTACHMENT II

Balance Sheet, with related parties

Pursuant to Co.N.So.B Resolution no. 15519 dated 27 July 2006

(Values in thousands of EUR)	Notes	31 December 2019	of which related parties	31 December 2018	of which related parties
Trademarks		2,897		3,023	
Other intangible fixed assets		761		800	
Intangible fixed assets	(1)	3,658		3,822	
Lands		17,320	370	16,945	
Buildings		22,657		22,860	
Leasehold improvements		902		1,050	
Plant and machinery		1,834		1,797	
Equipment		73		111	
Other tangible fixed assets		773		700	
Total tangible fixed assets	(2)	43,558		43,463	
Right-of-use assets	(3)	14,426		-	
Equity investments	(4)	142,243	142,233	141,183	141,172
Other fixed assets	(5)	2,965	2,196	2,159	1,441
Deferred tax assets	(6)	2,664		2,577	
NON-CURRENT ASSETS		**209,514**		**193,205**	
Stocks and inventories	(7)	29,755		32,802	
Trade receivables	(8)	56,363	52,908	56,941	48,432
Tax receivables	(9)	8,978		4,247	
Cash	(10)	6,946		4,561	
Other receivables	(11)	14,740		14,509	
CURRENT ASSETS		**116,782**		**113,059**	
TOTAL ASSETS		**326,296**		**306,265**	
Share capital		25,286		25,371	
Other reserves		122,801		115,815	
Profits / (Losses) carried-forward		2,348		2,348	
Net profit / loss		5,138		8,781	
SHAREHOLDERS' EQUITY	**(12)**	**155,573**		**152,315**	
Provisions	(13)	55		119	
Deferred tax liabilities	(5)	7,688		7,609	
Post employment benefits	(14)	3,389		3,653	
Long term financial liabilities	(15)	28,337	3,116	18,926	5,083
Long term not financial liabilities	(16)	326		620	
NON-CURRENT LIABILITIES		**39,795**		**30,927**	
Trade payables	(17)	79,289	46,495	77,254	38,983
Tax payables	(18)	1,452		4,650	
Short term financial liabilities	(19)	43,508		33,266	
Other liabilities	(20)	6,679		7,851	
CURRENT LIABILITIES		**130,928**		**123,022**	
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**326,296**		**306,265**	

ATTACHMENT III

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 2019	of which related parties	Full year 2018	of which related parties
REVENUES FROM SALES AND SERVICES	**(21)**	**161,947**	**59,498**	**175,976**	**50,923**
Other revenues and income	(22)	8,384	6,143	5,876	4,427
TOTAL REVENUES		**170,331**		**181,852**	
Changes in inventory		(3,743)		(503)	
Costs of raw materials, cons. and for resale	(23)	(61,184)	(21,914)	(65,441)	(21,335)
Costs of services	(24)	(47,822)	(5,681)	(51,212)	(6,556)
Costs for use of third parties assets	(25)	(11,425)	(10,780)	(17,075)	(14,903)
Labour costs	(26)	(30,067)		(29,245)	
Other operating expenses	(27)	(1,969)	(121)	(2,086)	(43)
Amortisation and write-downs	(28)	(4,792)		(2,233)	
Financial income/(expenses)	(29)	(1,212)	(104)	(837)	(12)
PROFIT / LOSS BEFORE TAXES		**8,116**		**13,219**	
Income taxes	(30)	(2,978)		(4,439)	
NET PROFIT / LOSS		**5,138**		**8,781**	

ATTACHMENT IV

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 2019	of which related parties	Full Year 2018	of which related parties
OPENING BALANCE		**4,558**		**7,610**	
Profit before taxes		8,116		13,219	
Amortisation		4,792		2,233	
Accrual (+)/availment (-) of long term provisions and post employment benefits		(328)		(294)	
Paid income taxes		(5,719)		(1,365)	
Financial income (-) and financial charges (+)		1,212		837	
Change in operating assets and liabilities		(1,565)	3,036	786	4,187
CASH FLOW (ABSORBED)/ GENERATED BY OPERATING ACTIVITY	**(32)**	**6,508**		**15,416**	
Increase (-)/ decrease (+) in intangible fixed assets		(356)		(553)	
Increase (-)/ decrease (+) in tangible fixed assets		(1,741)	(370)	(2,787)	
Increase (-)/ decrease (+) in right-of-use assets		(75)		-	
Investments (-)/ Disinvestments (+)		(1,060)	(1,060)	(1,324)	(1,324)
CASH FLOW (ABSORBED)/ GENERATED BY INVESTING ACTIVITY	**(33)**	**(3,232)**		**(4,664)**	
Other variations in reserves and profits carried-forward of shareholders' equity		(679)		58	
Proceeds (+)/repayment (-) of financial payments		3,470	(1,967)	(13,221)	(5,083)
Proceeds (+)/ repayment (-) of lease payments		(1,661)	-	-	
Increase (-)/ decrease (+) in long term financial receivables		(806)		197	
Financial income (+) and financial charges (-)		(1,212)		(837)	
CASH FLOW (ABSORBED)/GENERATED BY FINANCING ACTIVITY	**(34)**	**(888)**		**(13,804)**	
CLOSING BALANCE		**6,946**		**4,558**	

ATTACHMENT V

Prospect of crucial data from the statutory financial statements of Fratelli Ferretti Holding at 31 December 2018

(Values in units of EUR)	STATUTORY FINANCIAL STATEMENTS 2018	STATUTORY FINANCIAL STATEMENTS 2017
BALANCE SHEET		
ASSETS		
Intangible fixed assets	80,404	86,926
Tangible fixed assets	1,944,182	2,052,505
Equity investments	65,256,999	65,742,281
Non current assets	**67,281,585**	**67,881,712**
Trade receivables	1,004,523	1,051,210
Tax receivables	-	-
Cash	44,756	140,134
Other receivables	3,035	3,966
Current assets	**1,052,314**	**1,195,310**
Total assets	**68,333,899**	**69,077,022**
LIABILITIES		
Share capital	100,000	100,000
Share premium reserve	61,275,974	61,594,665
Other reserves	15,038	15,038
Approximations	(2)	-
Net profit/(loss)	(123,937)	(318,691)
Shareholders' equity	**61,267,073**	**61,391,012**
Provisions	137,119	160,625
Long term financial liabilities	-	-
Non-current liabilities	**137,119**	**160,625**
Trade payables	6,929,707	7,525,385
Current liabilities	**6,929,707**	**7,525,385**
Total shareholders' equity and liabilities	**68,333,899**	**69,077,022**

INCOME STATEMENT		
Revenues from sales and services	**375,565**	**357,701**
Other revenues and income	1	
Total revenues	**375,566**	**357,701**
Operating costs	(347,467)	(386,881)
Costs for use of third parties assets	-	-
Amortisation and write-downs	(244,045)	(236,307)
Other operating expenses	(15,026)	(16,866)
Financial income (expenses)	62,071	55,515
Financial assets adjustments	-	(150,722)
Profit before taxes	**(168,901)**	**(377,560)**
Income taxes	44,964	58,869
Net profit/(loss)	**(123,937)**	**(318,691)**

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 2019.

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.

12 March 2020

President of the board of directors

Massimo Ferretti

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

Marcello Tassinari