STONE ISLAND

Sportswear Company S.p.A.

Annual Report
as at 31 October 2018

Index

Report on Operations

REPORT ON OPERATIONS

Letter to the Shareholders

Dear Shareholders,

The annual reporting period ended 31 October 2018 was better than expected, especially in terms of profitability which reached absolutely the highest levels in our industry, particularly considering the clothing segment. Revenue grew again this year with an increase of more than 30%. This put under pressure the entire production organisation but it coped well in terms of both product quality and delivery periods. This has been and remains our toughest challenge but the results achieved prove that the organisational structure and operating mechanisms developed over the years are up to the challenge.

In 2018, we further strengthened our relations with supplier Tintoria Emiliana by jointly investing in state of the art machinery. We have laid the foundations for centres of excellence in other product categories and have reinforced the prototypes division which has coped with the generational change that has seen it 80% involved in just two years. We identified people to train up in the quality control division while the finished goods warehouse has been expanded by 30% in terms of area with the new lay out helping increase productivity by more than 50% in just one year. All of this is geared towards maintaining the very highest level of knowhow, a key factor in the success of the brand in the last 37 years.

On the retail side, too, the Group achieved its objectives. Premises for a new store in Milan - much larger than the previous one and in an even more prestigious location – were found, while the Tokyo store was opened and is performing even better than expected.

In 2018, the restructuring the distribution process that has been ongoing in Italy and Europe for some time was substantially completed after important measures taken in Japan, too. Constant monitoring of retail activities in all of the countries where we operate remains fundamental in ensuring that Brand containers are in line with our product and image.

Together with traditional channels, the online retail channel also enjoyed very significant growth both for our own store which recorded a sales increase of more than 35% and for our on line customers and market places; the on line sales of our traditional customers also increased. It is significant that, in this channel too, Stone Island is an absolute leader in terms of full price sell out, clear evidence of the success of the strategy that has been adopted. It is worth stressing that our policy of producing to order only and not to push sales in the various discount channels has, for some time now, given the brand a consistent and reliable image.

Commercial success and the successful image do not distract us from the Brand’s nature as an all-round brand with a strong identity but which cannot be pigeon-holed in the manner typical of fashion industry trends. We remain committed to investing in our product in order to satisfy the high expectations of our historical customers while giving new, young customers the chance to appreciate the core values of the brand and become its best possible testimonials.

In 2018, great attention was also paid to Corporate Social Responsibility (CSR). The Group has a code of ethics that it rigorously respects but it also places increasing importance on the need to use the support of international organisations both to test substance emissions during the manufacturing processes of our suppliers (Bureau Veritas) and to conduct ever more thorough and extensive audits of the protection of worker rights and safety.

The war on counterfeiting continues unabated. Work in this area with partners Certilogo and Mark Monitor is intensified every year and uses the latest techniques. There is also unceasing collaboration with government institutions and customs authorities in order to limit the problem as far as possible and to provide our customers with the certainty that they deserve.

We are confident that 2019 will be another year of positive results and will produce further stages in the growth of the business in terms of quantity, quality and culture.

Group structure

The Consolidated Financial Statements of the Sportswear Group as at 31 October 2018 include the following companies:

Sportswear Company SpA	Parent Company and owner of the Stone Island brand
Stone Island Retail Srl	Company which operates DOS in Italy
Stone Island Paris	Permanent Establishment/Branch which operates DOS in France
SPW Germany Gmbh	Company that acts as Agent for Germany and Austria and operates DOS in Germany
Stone Island Retail Germany Gmbh	Company which operates DOS in Germany
Stone Island Antwerp BVBA	Company which operates DOS in Belgium
Stone Island Amsterdam BV	Company which operates DOS in the Netherlands
Stone Island USA Inc	Sub Holding company involved in management of the US companies
Stone Island NYC LLC	Company which operates DOS in New York
Stone Island LA LLC	Company which operates DOS in Los Angeles

Foreword

As permitted by Article 40(2 bis) of Legislative Decree no 127 of 09/04/91, the Parent Company has prepared the Report on Operations in the form of a single document accompanying the separate financial statements and the consolidated financial statements. The consolidated financial statements of Sportswear Company S.p.A. and its subsidiaries (hereinafter, also "Group" or "Sportswear Group") as at 31 October 2018 and the separate financial statements of Sportswear Company S.p.A. as at the same reporting date have been prepared in accordance with International Financial Reporting Standards (hereinafter "IFRS").

Operating performance of the Sportswear Group

The Consolidated Financial Statements for the year ended 31 October 2018 faithfully reflect operational and market events and show EBITDA for the Group of Euro 56.8 million, equal to 29.8% of Revenue.

EBITDA is not specifically defined for accounting purposes by IFRS so the figure calculated might not be comparable with those calculated by other companies. However, this indicator is commonly used by both Management and investors to evaluate the operating performance of businesses. The Group's EBITDA is calculated by taking EBIT (Operating Profit) and adding back depreciation, amortisation and any allocations to provisions for risks. It may be extrapolated directly from information contained in the IFRS consolidated financial statements.

The Group reports a net profit of Euro 38.2 million.

Statement of Profit or Loss highlights are provided in the following reclassified schedule:

Consolidated Statement of Profit or Loss (Euro '000)	**2018**	**% of revenue**	**2017**	**% of revenue**
Revenue	190,758	100%	146,109	100%
% growth	31%		35%	
Sundry income	1,494	0.8%	1,395	1.0%
Cost of goods sold	(79,882)	41.9%	(63,259)	43.3%
Gross Margin	**112,370**	**58.9%**	**84,245**	**57.7%**
Selling expenses	(14,829)	7.8%	(10,839)	7.4%
Communications costs	(5,513)	2.9%	(5,702)	3.9%
Personnel costs	(15,196)	8.0%	(13,498)	9.2%
General & administrative expenses	(20,014)	10.5%	(16,651)	11.4%
EBITDA	**56,818**	**29.8%**	**37,555**	**25.7%**
% growth	51%		93%	
Depreciation & Amortisation	(3,753)	2.0%	(3,151)	2.2%
Non-recurring allocations to provisions	(45)	0.0%	0	0.0%
EBIT	**53,020**	**27.8%**	**34,404**	**23.5%**
% growth	54%		103%	
Financial income (expenses)	-103	0.1%	-523	0.4%
Earnings before taxation	**52,917**	**27.7%**	**33,881**	**23.2%**
Taxes on income	(14,712)	7.7%	(10,537)	7.2%
Tax incidence	28%		31%	
Net profit of Group	**38,205**	**20.0%**	**23,344**	**16.0%**

% growth	64%		121%	

Selling expenses include operating commission for stores managed with sale or return contracts whose sell out revenues are included in Revenue from sales.

The key profit indicators are set out below, as calculated based on the above Statement of Profit or Loss figures and the Statement of Financial Position information provided further on:

Profit indicators		31/10/18	31/10/17
ROE	Net Profit / Net Capital	53.61%	44.92%
ROS	EBIT/Revenue	27.79%	23.55%
ROI	EBIT/Net Invested Capital	74.35%	55.61%

Operating performance of the Parent Company

The Separate Financial Statements for the year ended 31 October 2018 faithfully reflect operational and market events and show EBITDA for the Parent Company of Euro 52.3 million, equal to 29.7% of Revenue.

EBITDA is not specifically defined for accounting purposes by IFRS so the figure calculated might not be comparable with those calculated by other companies. However, this indicator is commonly used by both Management and investors to evaluate the operating performance of businesses. The Company's EBITDA is calculated by taking EBIT (Operating Profit) and adding back depreciation, amortisation and any allocations to provisions for risks. It may be extrapolated directly from information contained in the IFRS separate financial statements.

The Parent Company reports a net profit of Euro 36 million.

Statement of Profit or Loss highlights are provided in the following reclassified schedule:

Parent Company Statement of Profit or Loss (Euro '000)	**2018**	**% of revenue**	**2017**	**% of revenue**
Revenue	176,061	100%	134,564	100%
% growth	31%		33%	
Sundry income	1,807	1.0%	1,904	1.4%
Cost of goods sold	(80,138)	-45.5%	(63,557)	-47.2%
Gross Margin	**97,730**	**55.5%**	**72,911**	**54.2%**
Selling expenses	(14,708)	-8.4%	(12,137)	-9.0%
Communications costs	(5,409)	-3.1%	(5,477)	-4.1%
Personnel costs	(11,497)	-6.5%	(9,993)	-7.4%
General & admin. expenses	(13,822)	-7.9%	(11,427)	-8.5%
EBITDA	**52,294**	**29.7%**	**33,877**	**25.2%**
% growth	54%		71%	
Depreciation & Amortisation	(2,193)	-1.2%	(1,761)	-1.3%

Non-recurring allocations to provisions	(45)	0.0%	0	0.0%
EBIT	**50,056**	**28.4%**	**32,116**	**23.9%**
% growth	56%		74%	
Financial income (expenses)	-39	0.0%	-345	-0.3%
Earnings before taxation	**50,017**	**28.4%**	**31,771**	**23.6%**
Taxes on income	(13,981)	-7.9%	(9,964)	-7.4%
Tax incidence	28%		31%	
Net profit of the Parent Company	**36,036**	**20.5%**	**21,807**	**16.2%**
% growth	65%		79%	

Selling expenses include operating commission for stores managed with sale or return contracts whose sell out revenues are included in Revenue from sales.

The key profit indicators are set out below:

Profit indicators		**31/10/18**	**31/10/17**
ROE	Net Profit / Net Capital	50.18%	40.10%
ROS	EBIT/Revenue	28.43%	23.87%
ROI	EBIT/Net Invested Capital	75.49%	57.06%

Statement of Financial Position of the Sportswear Group

The Group's balance sheet structure is reflected in the following table, as reclassified to show Sources and Applications of Funds:

Reclassified consolidated statement of financial position (euro 000)	31/10/2018	31/10/2017
Intangible assets and investments	7,988	6,782
Tangible assets	19,283	18,047
Other non-current assets/(liabilities), net	3,200	2,875
Total non-current assets/(liabilities), net	**30,471**	**27,704**
Net working capital	55,936	44,085
Other current assets/(liabilities), net	(7,707)	(7,858)
Total current assets/(liabilities), net	**48,229**	**36,227**
Net invested capital (applications)	**78,700**	**63,931**
Net financial position	(6,780)	1,557
Employee severance indemnity/TFR provision and other non-current provisions	2,801	2,512
Shareholders' equity	82,679	59,862
Total sources	**78,700**	**63,931**

Shareholders' equity has increased thanks to the net profit for the year of Euro 38.2 million and decreased due to the dividends of Euro 15.2 million paid during the reporting period. At the reporting date, shareholders' equity stood at Euro 82.7 million while the net financial position was positive by Euro 6.8 million.

At 31 October 2018, consolidated net working capital was equal to 29.3% of revenue, as detailed below:

Net working capital (Euro 000)	31/10/2018	31/10/2017
Trade receivables	46,907	36,742
Inventory	28,360	22,169
Trade payables	(19,331)	(14,826)
Net working capital	**55,936**	**44,085**
	29.3%	30.2%

At 31 October 2018, the consolidated net financial position showed net cash and cash equivalents of Euro 6.8 million against net financial indebtedness of Euro 1.6 million at 31 October 2017, as detailed below:

Net financial position (Euro 000)	31/10/2018	31/10/2017
Cash and cash equivalents	30,711	12,765
Long-term net financial payables	(16,423)	(9,191)
Short-term net financial payables	(7,508)	(5,131)
Net financial position	**6,780**	**(1,557)**

The following table shows the consolidated statement of cash flows for 2018 and 2017. It has been reclassified compared to that included in the consolidated financial statements in order to show cash flows in terms of the change in the overall consolidated net financial position:

Consolidated statement of cash flows (Euro 000)	31/10/2018	31/10/2017
EBITDA	**56,818**	**37,555**
Change in net working capital	(11,851)	(6,751)
Change in other receivables/(payables) – current and non-current	(476)	2,758
Net capex	(6,195)	(3,281)
Financial income (expenses)	(103)	(523)
Taxes on income	(14,712)	(10,537)
Free Cash Flow	**23,481**	**19,221**
Dividends paid	(15,294)	(7,744)
Change in shareholders' equity and other changes	150	134
Net Cash Flow	**8,337**	**11,611**
Net Financial Position at start of period	1,557	13,168
Net Financial Position at end of period	(6,780)	1,557
Change in Net Financial Position	**8,337**	**11,611**

Free Cash Flow for the 2018 reporting period totalled Euro 23.4 million compared to Euro 19.2 million for the 2017 reporting period.

Statement of financial position of the Parent Company

The Parent Company's balance sheet structure is reflected in the following table, as reclassified to show Sources and Applications of Funds:

Parent Company statement of financial position (Euro 000)	31/10/2018	31/10/2017
Intangible assets and investments	4,474	4,287
Tangible assets	11,932	10,881
Other non-current assets/(liabilities), net	2,473	2,434
Total non-current assets/(liabilities), net	**18,879**	**17,602**
Net working capital	61,076	48,562
Other current assets/(liabilities), net	(6,377)	(7,127)
Total current assets/(liabilities), net	**54,699**	**41,435**
Net invested capital (applications)	**73,578**	**59,037**
Net financial position	(12,180)	(5,839)
Employee severance indemnity/TFR provision and other non-current provisions	3,586	3,424
Shareholders' equity	82,172	61,452
Total sources	**73,578**	**59,037**

Shareholders' equity has increased thanks to the net profit for the year of Euro 36 million and decreased due to the dividends of Euro 15.2 million paid during the reporting period. At the reporting date, shareholders' equity stood at Euro 82.2 million.

At 31 October 2018, net working capital was equal to 34.7% of revenue, as detailed below:

Net working capital (Euro 000)	31/10/2018	31/10/2017
Trade receivables	54,178	42,901
Inventory	25,983	20,099
Trade payables	(19,085)	(14,437)
Net working capital	**61,076**	**48,563**
	34.7%	36.1%

The Parent Company's net financial position at 31 October 2018 shows net cash and cash equivalents of Euro 12.1 million compared to Euro 5.8 million at 31 October 2017; it is detailed in the following table. We note that the net financial position also includes financial receivables from subsidiaries totalling Euro 12.1 million at 31 October 2018 and Euro 12 million at 31 October 2017, as the Parent Company provides financial support to help with the subsidiaries' operating activities.

Net financial position (Euro 000)	31/10/2018	31/10/2017
Cash and cash equivalents	23,959	8,171
Long-term net financial payables	(6,249)	1,434
Short-term net financial payables	(5,530)	(3,766)
Net financial position	**12,180**	**5,839**

The following table shows the Parent Company's statement of cash flows for 2018 and 2017. It has been reclassified compared to that included in the separate financial statements in order to show cash flows in terms of the change in the overall net financial position:

Parent Company statement of cash flows (Euro 000)	31/10/2018	31/10/2017
EBITDA	**52,294**	**33,877**
Change in net working capital	(12,514)	(7,948)
Change in other receivables/(payables) – current and non-current	(789)	2,378
Net capex	(3,431)	(1,696)
Financial income (expenses)	(39)	(345)
Taxes on income	(13,981)	(9,964)
Free Cash Flow	**21,540**	**16,302**
Dividends paid	(15,294)	(7,744)
Change in shareholders' equity and other changes	95	(22)
Net Cash Flow	**6,341**	**8,536**
Net Financial Position at start of period	(5,839)	2,697
Net Financial Position at end of period	(12,180)	(5,839)
Change in Net Financial Position	**6,341**	**8,536**

Capital expenditure of the Sportswear Group

During the reporting period, the Group incurred significant levels of capital expenditure. At the Parent Company headquarters in Ravarino, new ERP system modules were implemented with a total investment of Euro 1.2 million, machinery totalling Euro 0.5 million was purchased and system improvements totalling Euro 0.2 million were made. Refurbishment works and furnishings for the new Showroom in Munich involved a total investment of Euro 0.3 million while significant capex was incurred to open the new store in Venice (Euro 0.7 million), to complete the store in Los Angeles (Euro 0.2 million), to take over the premises for the new store in Milan which is scheduled to open early in 2019 (Euro 1.3 million) and for a contribution towards furnishings and fittings and other works at the new store in Tokyo (Euro 1 million).

Relations with subsidiaries, associated companies and parent companies

Relations with subsidiaries have been maintained on an arm's length basis, as described in detail in the Notes to the Separate Financial Statements. There have been no significant transactions with associated companies and other related companies.

Treasury shares and shares/quota of parent companies

The Parent Company does not have any treasury shares.

Research & Development

Research and development includes all activities necessary to renew and update the collections every season. It has always been extremely important to the Group and determines how products are received by the market from one year to the next. Such expenses include the cost of developing new products, prototypes and samples. Such costs are expensed in the period in which they are incurred.

We are confident that the success of these activities will generate good results in terms of sales with a favourable impact on the business as a whole.

Risks and uncertainty

General information on risks and uncertainty

The specific risks that could give rise to obligations for the Group companies are assessed when determining any provisions necessary and are disclosed in the notes to the financial statements, together with any significant contingent liabilities. This section refers to risks and uncertainties essentially regarding the economic, regulatory and market environment that could impact the performance of the Group companies.

The Group's income statement, balance sheet and financial situation is primarily affected by factors relating to the macroeconomic environment (and including include increases or decreases in gross domestic product, the level of consumer and business confidence, interest rates, raw materials/commodities prices, the rate of unemployment and exchange rates) – in the countries where it operates and where it sells its products. Given the fact that it is hard to predict the extent and duration of the various economic cycles, each macroeconomic event – whether a significant slump on major sales markets, volatility on financial and exchange rate markets and the resulting weakening of capital markets, an increase in energy prices, commodity/raw material price fluctuations, other adverse changes in interest rates, exchange rates and government policy (including environmental regulation) or infrastructure spending, which could have a negative impact on the sector in which the Group companies operate – could negatively impact to a significant degree the prospects and the activities of the Group companies, as well as their operating results and financial situation. The profitability of the Group business is also subject to risks regarding the rate of inflation and the solvency of customers.

In terms of market risks, as already stated, significant attention must be paid to uncertainty over exchange rate trends, especially with regard to the US Dollar and the GB Pound. In addition to the aforementioned impact on costs, exchange rates have no little impact on tourist flows and on products flows, also outside the brand's official distribution channels as exchange rate fluctuations can be quickly exploited above all thanks to online sales. This is a complex area and it is still hard to forecast clearly how it will develop.

Employees of the Group companies are safeguarded by legislation and collective labour agreements which, through local and national representation, guarantee them the right to be consulted in relation to specific matters such as the downsizing or closure of departments and workforce reductions. The laws and/or collective labour agreements applicable to the Company could affect its flexibility in reviewing and/or strategically repositioning the business. The Group's ability to make any reductions in personnel or other measures to end – or suspend – employment relationships is subject to the agreement of the trades unions. Industrial action by the employees could have a negative effect on the business.

Credit risk

During the reporting period, trade receivables increased in line with the sales revenue growth while the level of doubtful debts remained stable. The Group is not particularly affected by the credit risk thanks to existing controls in terms of credit limits, constant monitoring of receivables, the use of credit assurance and commercial policy on export markets. Moreover, the Group also adopts a fairly cautious approach when providing for doubtful debts and, at 31 October 2018, the financial statements did not include any significant receivables, subject to genuine uncertainty over collection, for which no provision had been made.

The consolidated financial statements do not include other types of receivables subject to particular risks of a fluctuation in value.

Liquidity risk, cash flow risk and interest rate risk

As at 31 October 2018, the Group had net cash and cash equivalents of around Euro 6.8 million.

The cash flows, funding requirements and liquidity of the Group companies are managed with the aim of ensuring the effective and efficient management of financial resources. As shown in the statement of cash flows, during the reporting period, the Group's operating activities generated cash. At 31 October 2018, the Parent Company had approved but unutilised borrowing facilities amounting to Euro 29.2 million (entirely comprising of advances on notes receivable, short-term credit facilities and current account overdrafts). Meanwhile, almost none of the existing loans are subject to compliance with covenants. Moreover, the Directors do not expect any significant difference between the maturity dates of financial payables and the dates agreed by contract.

Borrowing includes loans subject to variable rates of interest in relation to which the need for derivative hedging is considered on a case by case basis and fixed rate loans.

The Group companies do not have any financial assets of a speculative nature. Generally speaking, they do not have any financial assets linked to interest rate trends. Any interest rate increases could have a negative impact on the future profitability of the Group companies.

Exchange rate risk

The Group's receivables are not subject to any significant extent to the risk of exchange rate fluctuation. This is because the Group operates in an international environment in which transactions take place almost exclusively in Euro. The Statement of Financial Position amounts subject to the exchange rate risk at 31 October 2018 were for immaterial amounts.

In more detail, foreign currency receivables and the Group's next exposure to the exchange rate risk at 31 October 2018 were as follows:

Foreign currency receivables	**Total in foreign currency**	**Equivalent in Euro**
US Dollars	3,422,314	3,023,780
Canadian Dollars	747,770	503,346

The Group's balance sheet structure shows the following (in addition to the comments made on trade receivables):

• The Group's assets include goodwill solely relating to the consolidation differences of several subsidiaries and to "Rental agreement takeover rights (Key Money)" for the stores in Paris, Cannes, Munich, Florence, Forte dei Marmi, Rome, Antwerp, Amsterdam and Hamburg, as recorded under Goodwill. Moreover, the amounts paid to acquire the rental rights to the stores are partially independent of the performance of the stores to which they relate. In fact, it is normal practice in the sector to invest amounts of key money and, therefore, given the prestigious locations of the stores, it could have an inherent value, irrespective of how profitable the stores are;

- in addition to the above, non-current assets consist almost entirely of the net carrying amount of buildings.

- inventory relating to prior seasons is subject to a strict obsolescence policy. No significant risks are expected in relation to selling it off, also considering the fact that, for 2019, the Group can count on a sales force also based on the usual sales channels for this type of inventory;

- the Company's assets do not include any speculative investments.

Significant events after the reporting date and outlook for the business

Revenue forecasts for 2019 are optimistic: the Spring Summer 2019 season has ended with 28.9% growth. In addition to the opening of the new store in Milan, as previously mentioned, we also highlight the fact that a rental contract was recently signed for a store in Frankfurt which is scheduled to open in late autumn.
In December 2018, we acquired a majority investment in our main knitwear supplier.
On 26 November 2018, shareholder Carlo Rivetti contributed shares representing 50.1% of the share capital of Sportswear Company S.p.A. to Rivetex S.r.l., a company 100% owned by him.

Compliance with Personal Data Protection Requirements

Pursuant to Appendix B) to Legislative Decree 196/2003 ("the Italian Data Protection Code"), the Directors note that the Group companies have adopted the minimum security measures required by said legislation.

Personnel

At the reporting date, the Group companies had a headcount of 233 employees against 214 at 31 October 2017.

For the Board of Directors

The Chairman

Carlo Rivetti

Consolidated Financial Statements

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(Euro 000)	Note	2018	2017
Revenue	4.1	190,758	146,109
Other income	4.2	1,494	1,395
Total Revenue		**192,252**	**147,504**
Costs for purchases (including change in inventory)	4.3	(53,472)	(42,903)
Costs for services	4.4	(60,536)	(47,837)
Lease and rental costs	4.5	(5,005)	(4,467)
Personnel costs	4.6	(15,196)	(13,498)
Depreciation and amortisation of non-current assets	4.7	(3,753)	(3,151)
Allocations to provision for bad debts	4.8	(129)	(183)
Allocations to provisions for risks and charges	4.9	(45)	-
Other operating expenses	4.10	(1,096)	(1,061)
Total Costs		**(139,232)**	**(113,100)**
EBIT		**53,020**	**34,404**
Financial income	4.11	117	144
Financial expenses	4.11	(603)	(452)
Exchange gains and losses	4.11	277	(281)
Total financial income and expenses		**(209)**	**(589)**
Adjustments to value of financial assets	4.12	106	66
Earnings before taxation		**52,917**	**33,881**
Taxes on income	4.13	(14,712)	(10,537)
Net profit for the period		**38,205**	**23,344**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Euro 000)	Note	2018	2017
Net profit for the period (A)		**38,205**	**23,344**
Actuarial gains (losses) IAS 19		41	17
Tax effect		(13)	(5)
Total other income (losses) that will not subsequently be recycled through profit & loss (B)	5.12	**28**	**12**
Gains (losses) on hedging instruments		(47)	75
Tax effect		(3)	(4)
Gains (losses) on translation of financial statements of foreign companies		(72)	106
Total other income (losses) that may subsequently be recycled through profit & loss (C)	5.12	**(122)**	**177**
Total other income (losses) after tax effect (B+C)		**(94)**	**189**
Total comprehensive income		**38,111**	**23,533**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Euro 000) **ASSETS** **NON-CURRENT ASSETS**	**Note**	**31 October 2018**	**31 October 2017**
Intangible assets	5.1	7,385	6,285
Property, plant and equipment	5.2	19,283	18,047
Investments in subsidiaries and associated companies	5.3	603	497
Tax receivables – non-current	5.8	279	279
Other assets – non-current	5.4	84	120
Other financial assets – non-current	5.10	2	2
Deferred tax assets	5.5	2,920	2,561
TOTAL NON-CURRENT ASSETS		**30,556**	**27,791**
CURRENT ASSETS			
Inventory	5.6	28,360	22,169
Trade receivables	5.7	46,907	36,742
Tax receivables	5.8	3,064	1,174
Other current assets	5.9	1,837	1,989
Other financial assets - current	5.10	3	62
Cash and cash equivalents	5.11	30,711	12,765
TOTAL CURRENT ASSETS		**110,882**	**74,901**
TOTAL ASSETS		**141,438**	**102,692**

LIABILITIES AND SHAREHOLDERS' EQUITY **SHAREHOLDERS' EQUITY**			
Share capital	5.12	10,000	10,000
Other reserves	5.12	34,474	26,518
Net profit for the period	5.12	38,205	23,344
TOTAL SHAREHOLDERS' EQUITY		**82,679**	**59,862**
NON-CURRENT LIABILITIES			
Liabilities for employee benefits	5.18	1,603	1,586
Provisions for risks and charges	5.19	1,198	926
Bank borrowing – non-current	5.14	16,421	9,119
Financial liabilities – non-current	5.17	0	15
Deferred tax liabilities	5.5	83	85
TOTAL NON-CURRENT LIABILITIES		**19,305**	**11,731**
CURRENT LIABILITIES			
Trade payables	5.13	19,331	14,826
Bank borrowing – current	5.14	7,511	5,193
Tax payables	5.17	4	0
Other liabilities – current	5.15	5,407	4,945
TOTAL NON-CURRENT LIABILITIES	5.16	7,201	6,135
TOTAL CURRENT LIABILITIES		**39,454**	**31,099**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**141,438**	**102,692**

STATEMENT OF CASH FLOWS

(Euro 000)	Note	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit (Loss) for the period		38,205	23,344
Adjustments for:			
Taxes on income		14,712	10,537
Financial income and expenses		209	589
Amortisation of intangible assets		1,414	1,050
Depreciation of property, plant and equipment		2,339	2,101
Writedowns (Revaluations) of investments		(106)	(66)
Net change in provisions for risks and charges		272	56
Net change in employee severance indemnity provision		45	(95)
Gain (loss) on translation of fin. statements of foreign companies		(72)	102
Operating cash flows before change in net working capital	**6.1**	**57,018**	**37,618**
Change in inventory		(6,191)	(4,541)
Change in trade and sundry receivables (including current tax receivables)		(12,226)	(5,284)
Change in trade and sundry payables (including current tax payables)		6,031	5,922
Taxes on income		(14,712)	(10,537)
Cash flows generated (absorbed) by changes in working capital	**6.2**	**(27,098)**	**(14,440)**
Cash generated (absorbed) by operating activities		**29,920**	**23,178**
CASH FLOWS FROM INVESTING ACTIVITIES:			
(Investment in)/Divestment of intangible assets and goodwill		(2,514)	(864)
(Investment in)/Divestment of property, plant and equipment		(3,575)	(2,400)
(Investment in)/Divestment of equity investments		(106)	(18)
Cash generated (absorbed) by investing activities	**6.3**	**(6,195)**	**(3,281)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net change in current financial assets		9	12
Net change in non-current financial assets		(11)	(16)
Change in bank borrowing and debt to other lenders – current		2,318	(1,178)
Change in bank borrowing and debt to other lenders – non-current		7,302	(5,192)
Dividends paid		(15,294)	(7,744)
Purchase of treasury shares		0	0
Financial income and expenses		(103)	(523)
Cash generated (absorbed) by financing activities	**6.4**	**(5,779)**	**(14,641)**
Increase (Decrease) in cash and cash equivalents		**17,946**	**5,256**
Net cash and cash equivalents at start of period		12,765	7,509
Net cash and cash equivalents at end of period		30,711	12,765
Change in cash and cash equivalents		**17,946**	**5,256**

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY

(Euro 000)	Note	Share capital	Legal reserve	Rev. Res. Law 342/00	Rev. Res. Law 158/08	Extraord. Reserve	Other Reserves	IAS FTA Reserves	IAS 19 Res.	Hedge Account Reserves	Translation reserve	Retained earnings (Accum. losses)	Net profit for period	Total
At 31/10/2016		**10,000**	**2,039**	**7,560**	**4,718**	**12,446**	**28**	**(1,787)**	**(146)**	**(24)**	**(13)**	**9,256**	**0**	**44,077**
Allocation of profit for the period:	5.12					11,848						(11,848)	0	0
Distribution of dividends	5.12					(7,744)								(7,744)
Change in IAS 19 reserve	5.12								12					12
Change in Hedge accounting reserve	5.12									71				71
Other movements	5.12										106	(4)		102
Profit for the period	5.12												23,344	23,344
At 31/10/2017		**10,000**	**2,039**	**7,560**	**4,718**	**16,550**	**28**	**(1,787)**	**(134)**	**47**	**93**	**(2,596)**	**23,344**	**59,862**
Allocation of profit for the period:	5.12					21,807						1,537	(23,344)	0
Distribution of dividends	5.12					(15,294)								(15,294)
Change in IAS 19 reserve	5.12								28					28
Change in Hedge accounting reserve	5.12									(50)				(50)
Other movements	5.12										(72)			(72)
Profit for the period	5.12												38,205	38,205
At 31/10/2018		**10,000**	**2,039**	**7,560**	**4,718**	**23,063**	**28**	**(1,787)**	**(106)**	**(3)**	**21**	**(1,059)**	**38,205**	**82,679**

Consolidated Financial Statements
Notes

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

General information

1. PREPARATION METHODS

1.1 Form and content of the financial statements

The Consolidated Financial Statements of Sportswear Company S.p.A. and its subsidiaries (hereinafter, also "Group" or "Sportswear Group") as at 31 October 2018 have been prepared in compliance with the International Financial Reporting Standards (hereinafter "IFRS") endorsed by the European Commission as at the date of preparation of the financial statements.

The consolidated financial statements of the Sportswear Group as at 31 October 2018 have been audited by Deloitte & Touche S.p.A.

1.2 Financial statements structure adopted

The consolidated financial statements of Sportswear Company S.p.A. as at 31 October 2018 include the Statement of Profit or Loss, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Shareholders' Equity and these Notes.

The financial statements structure chosen by the Group includes:

- **the consolidated statement of profit and loss.** The format adopted classifies costs based on their nature as this provides the best representation of the business activities.
- **the consolidated statement of comprehensive income** with the items that make up the net profit for the period and income and expenses recorded directly in equity for transactions other than those entered into with the Shareholders. In fact, as required by IAS 1, all changes generated by transactions with third parties, whether recorded in profit and loss or accounted for directly in equity, shall be reported in a single statement (statement of comprehensive income) or in two separate statements (statement of profit and loss and statement of comprehensive income), as applied by the Group, in order to present the overall performance for the period (i.e. comprehensive income). A separate schedule was adopted for the statement of comprehensive income. Indeed, pursuant to IAS 1, all changes generated by transactions with third parties and recorded directly in equity must be shown in this statement of comprehensive income in order to present the overall performance for the period (i.e. comprehensive income). Amendments to IAS 1 require that all components of comprehensive income should be grouped together depending on whether or not they may subsequently be recycled through profit and loss.
- **the consolidated statement of financial position**, prepared using a format, in accordance with IAS 1, where current and non-current assets and current and non-current liabilities are reported separately, in relation to the 12 month operating cycle. Current assets consist of cash and cash equivalents, assets expected to be realised, sold or consumed in the normal course of the business's operating cycle, assets held for trading or assets expected to be realised within twelve months of the reporting date. All other assets are classified as non-current. Current liabilities include liabilities expected to be settled in the normal course of the business's operating cycle either twelve months of the reporting date or liabilities for which there is not an unconditional right to defer settlement beyond twelve months. All other liabilities are classified as non-current.
- **the statement of cash flows** has been prepared based on the indirect method and is presented in compliance with IAS 7, showing cash flows from operating activities, cash flows from investing activities and cash flows from financing activities.
- **the statement of changes in shareholders' equity** during the period with comparative movements for prior year.
- these **notes** and the related attachments.

1.3 Basis of preparation
The financial statements have been prepared based on the historical cost principle, except for derivative instruments which, as required by IAS 19 Other Financial Assets and Assets Available for Sale are reported at fair value.
The consolidated financial statements are presented in thousands of Euro, the currency in use in the economies where the Group mainly operates.

2. CONSOLIDATION PRINCIPLES

2.1 Scope of consolidation

The consolidated financial statements at 31 October 2018 include the financial statements of Sportswear Company S.p.A. and those of all of the companies in which it holds control, directly and indirectly, in accordance with IFRS 10.

A list of the investments included in the scope of consolidation, with details of the consolidation method used, is provided below:

Name	Operating Headquarters	Share/ Quota capital (amounts in Euro)	% of control 2018
Sportswear Company S.p.A.	Ravarino (MO) – Italy	10,000,000	Parent
Stone Island Retail S.r.l.	Milan, Rome, Verona, Florence, Riccione, Forte dei Marmi, Turin – Italy	99,000	100
Sportswear Germany Gmbh	Munich – Germany	500,000	100
Stone Island Antwerp Bvba	Antwerp – Belgium	400,000	100
Stone Island Amsterdam Bv	Amsterdam – Netherlands	25,000	100
Stone Island Retail Germany Gmbh	Sylt, Hamburg - Germany	25,000	100
Stone Island USA Inc.	Delaware	89,766	100
Stone Island LA LLC	Los Angeles	45,384	100
Stone Island NYC LLC	New York	45,384	100

The only associated company, carried at equity at 31 October 2018, is as follows:

Name	Headquarters	Quota capital (amounts in Euro)	% of control 2018
Starcolor S.r.l.	Modena – Italy	41,600	24

2.2 Consolidation methods

The companies in which Parent Company Sportswear Company S.p.A. holds control, whether directly or indirectly, are consolidated on a line-by-line basis. This involves including all asset and liability items in their entirety from the date on which control was acquired and until the date on which it ends. As provided by IFRS 10, control is exercised both through direct or indirect ownership of a majority of shares with voting rights and through the exercise of a dominant influence as expressed by the power to determine – also indirectly under contractual or legal agreements – the financial and operational decisions of an entity, obtaining the related rewards and irrespective of share ownership relations. The existence of potential voting rights exercisable at the reporting date is considered when determining the presence of control. If a parent loses control of a subsidiary, it i) derecognises the assets and liabilities of the former subsidiary from the consolidated statement of financial position, ii) recognises any investment retained in the former subsidiary at fair value at the date that control is lost, iii) recognises the gain or loss associated with the loss of control attributable to the former controlling interest.

The main consolidation criteria adopted when applying the line-by-line method are as follows:

- subsidiaries are consolidated from the date on which control is effectively transferred to the Group and cease to be consolidated from the date control is transferred outside the Group;
- when necessary, the financial statements of the subsidiaries are adjusted to align the accounting policies used with those adopted by the Group;
- the assets and liabilities, revenue and expenses of subsidiaries consolidated line-by-line are included in full in the consolidated financial statements. The carrying amount of investments is eliminated against the corresponding portion of equity of the investee companies recording the individual asset and liability items their fair value at the date of acquisition of control (the acquisition method as defined by IFRS 3 "Business combinations"). Any positive difference is recorded under "Goodwill" while any negative difference is recorded in the Statement of Profit and Loss. For further details, see the later note on Business combinations.
- Transactions between consolidated entities have been eliminated, as have receivable and payable balances, expenses and revenues and unrealised gains resulting from transactions between Group companies, after any tax effect;
- The portions of equity and net profit for the period pertaining to non-controlling interests are disclosed separately in shareholders' equity and in the consolidated statement of profit or loss.

Financial statements prepared in currencies other than the Group's consolidated reporting currency i.e. the Euro are consolidated following the method described above, after translation into Euro. Translation is performed as follows:

- Assets and liabilities are translated using exchange rates at the consolidated reporting date;
- Revenue and expenses are translated at the average exchange rate for the reporting period;
- The "Reserve for translation differences" includes both differences generated by the translation of profit and loss items at a rate different than the closing rate and differences generated from the translation of opening equity at a rate different than the reporting period end rate;
- Goodwill and fair value adjustments relating to the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the reporting date rate.

Financial statements prepared in the currencies of non-Euro member countries are translated into Euro applying the rules described above. The main exchange rates applied for 2018 and 2017 are shown below:

Currency	**2018**		**2017**	
	Average rate	**Reporting date rate**	**Average rate**	**Reporting date rate**
US Dollar	1.1875	1.1318	1.111494	1.1638

3. ACCOUNTING POLICIES ADOPTED WHEN PREPARING THE CONSOLIDATED FINANCIAL STATEMENTS

Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance that will generate future economic benefits. These assets are recognised at purchase and/or production costs, inclusive of any directly attributable expenses to prepare the asset for use. They are stated net of accumulated amortisation and any impairment adjustments. Amortisation commences when the asset is available for use and is allocated on a systematic basis over its useful life.
After initial recognition, intangible assets with a finite useful life are carried at cost and amortised on a straight-line basis over their useful life which is estimated in relation to the period in which economic benefits will be generated; they are stated net of any impairment adjustments, determined in accordance with IAS 36.

The amortisation rates applied are as follows:

Intangible assets	% amortisation
Software	20%
Key money	Period of rental agreement
Other intangible assets	20%

(i) Software and other intangible assets

Software and other intangible assets are recognised at purchase cost and amortised over a period of five years. Software and other intangible assets purchased by the Group which have a finite useful life are measured at cost minus accumulated amortisation and impairment adjustments.

(ii) Key money

The Key money paid to open directly operated stores is considered as an expense incurred to take over a property lease. It generally has a finite useful life, as determined based on the period of the underlying lease agreement. In certain circumstances, Key money has an indefinite useful life in relation to legal protection or common practice in jurisdictions or markets which provide for its reimbursement at the end of the lease period. In such limited cases – which must be adequately supported – Key money is not amortised but tested periodically for impairment, at least annually (as described in the Note on impairment of non-financial assets).

(iii) Research and development costs

Research and development costs are expensed to profit and loss in the period in which they are incurred in accordance with best practice in the sector. This is because it is difficult to distinguish the development phase from the research phase.

Property, plant and equipment

Property, plant and equipment are recognised at purchase cost (in the case of buildings, revaluations performed in prior years under specific laws have been maintained as the option permitted by IFRS 1 in terms of deemed cost has been adopted) or production cost, inclusive of related expenses, and stated net of accumulated depreciation and any impairment adjustments. Production costs include direct and indirect costs insofar as reasonably attributable to the asset and necessary to make the asset available for use (e.g. personnel costs, freight, customs duties, expenses to prepare the place of installation, testing costs, notary expenses and land register fees). Financial expenses directly attributable to the purchase, construction or production of a tangible asset are expensed to Profit and Loss when they are incurred.

Ordinary maintenance expenses are charged in full to Profit and Loss. Costs for improvements, modernisation and transformation which increase the value of an asset are capitalised.
When the depreciable asset consists of separately identifiable components whose useful life differs significantly from that of the other components of the asset, depreciation is performed separately for each component following a "component approach".

Tangible assets highly likely to be sold at the date of preparation of the financial statements are classified as current assets under the caption "Current assets available for sale" and measured at the lower of carrying amount and fair value less costs to sell. The sale of an asset classified under non-current assets is highly probable when Management has formally approved plans to dispose of the assets (or disposal group) or the process to identify a buyer and complete the disposal has begun. Moreover, the asset (or disposal group) has been offered for sale at a reasonable price compared to its current fair value. Completion of the sale is expected within a year of the date of classification and the action necessary to complete the planned sale shows that it is improbable that the plans will be subsequently amended or abandoned.

Assets held under finance lease agreements have been recognised under the relevant categories of property, plant and equipment. They are depreciated applying the depreciation rates adopted for said asset categories unless the duration of the lease agreement is shorter than the useful life represented by said rates and it is not reasonably certain that ownership of the leased assets will be transferred at the natural expiry date of the lease agreement; in such cases, the depreciation period is equal to the duration of the lease agreement. When the asset is recognised, the short-term and medium-term liabilities towards the lessor are also recorded. The instalments paid are divided between financial expenses and a reduction in the short-term and medium-term finance lease payables rather than being included in full in the profit and loss caption lease and rental costs. Financial expenses are recorded in the profit and loss statement in order to obtain a constant rate of interest on the residual liability for each reporting period.
Leases where the lessor substantially maintains the risks and rewards of ownership of the assets are classified as operating leases. Costs for operating lease instalments are recorded on a straight-line basis over the duration of the lease agreement.

Depreciation commences when the assets are ready for use. Assets under construction include costs relating to tangible assets whose economic utilisation process has not yet commenced. Tangible assets are systematically depreciated in each reporting period based on depreciation rates felt to represent the remaining useful lives of the assets.
The following table shows the depreciation rates applied to the various asset categories.

Property, plant and equipment	**% depreciation**
Buildings	3%
Plant and machinery	12.5%
Equipment	25%
Furniture and fittings	12%
Leasehold improvements	Shorter of lease/rental agreement and useful life of improvement
Other tangible assets	12% to 25%

As required by IAS 16, the estimated useful lives of tangible assets are reviewed in every reporting period in order to assess the need to revise them. If the estimated useful lives are found not adequately to reflect the future economic benefits expected, the depreciation periods must be revised based on the new assumptions. The effects of such changes are allocated to profit and loss prospectively.

The recoverability of the carrying amount of tangible assets is tested adopting the criteria set out under "Impairment of assets" below.

Business combinations

Business combinations are accounted for using the "acquisition method" (as defined by IFRS 3 - revised - "Business combinations"). After the acquirer in the business combination has been identified and the acquisition cost determined, the "acquisition method" requires all of the assets and liabilities acquired (including contingent liabilities) to be measured at fair value. Any goodwill is determined on a residual basis only as the difference between the cost of the business combination and the relevant portion of the difference between the assets and liabilities acquired as measured at fair value. If this difference is negative, it is recognised as income in the period in which the business combination takes place. Transaction-related expenses are recorded directly in the Statement of Profit or Loss.

Business combinations of entities under common control

Business combinations of entities under common control are business combinations of entities controlled by the same parties both before and after the business combination and whose control is not temporary. The presence of minority interests in each of the entities involved in a business combination before and after the combination is not relevant in determining whether the combination involves entities under common control. Business combinations of entities under common control are accounted for in such a way that the net assets of the entity acquired and the acquiring entity are measured at their carrying amounts in the respective accounting regards before the operation, without recognising in the consolidated financial statements any gains resulting from these combinations and recorded in the separate financial statements of the Company.

Investments in associated companies and other entities

Investments in associated companies are initially recognised at acquisition cost and then measured using the equity method. Investments in other entities are measured at fair value. When fair value cannot be reliably estimated, the investment is measured at cost. The recoverability of the carrying amount is tested following the method described under "Impairment of assets".

Receivables and other assets – current and non-current

Trade receivables and other receivables resulting from the supply of financial resources, goods or services by the Group to third parties are classified as current assets except where their maturity date is more than twelve months from the reporting date with reference to non-trade receivables.
Current and non-current financial receivables, current and non-current other receivables and trade receivables, except for assets resulting from derivative instruments, are measured – if they have a pre-determined maturity – at amortised cost calculated using the effective interest method.
When financial assets do not have a pre-determined maturity, they are measured at cost. Receivables maturing after more than a year and which are interest-free or generate interest at less than the market rate are discounted using market rates.
Where there is objective evidence of indicators of impairment, the asset is reduced to bring it into line with the value of future cash flows. Impairment adjustments are recorded in the Statement of Profit or Loss. If, in subsequent periods, the reasons for a previous impairment adjustment cease to apply, the value of the assets is restored up to the amount they would have had if the amortised cost method had been applied and the impairment adjustment had never been made.

Deferred tax assets and liabilities

Deferred tax assets and liabilities refer to taxes expected to be paid or recovered on temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax values used to determine taxable income.
Deferred tax liabilities are generally recorded for all taxable temporary differences while deferred tax assets are recognised to the extent that it is considered probable that there will be future taxable income to enable deductible temporary differences to be utilised. The carrying amount of deferred tax assets is reviewed at

each reporting date and reduced to the extent that it is no longer probable that there will be sufficient taxable income to enable all or part of the assets to be recovered.
Deferred tax assets/liabilities are calculated taking account of the tax rate expected to apply to the Group in the year when the differences will form part of taxable income, considering rates in force or already announced at the reporting date.

Inventory

Inventory of raw materials, work in progress and finished goods is measured at the lower of weighted average production or production cost and net realisable amount. Average cost includes the direct cost of materials and processing.
The provision for raw materials and finished goods is calculated to bring cost into line with net realisable amount based on estimates that take account of the production season and the possibility of using raw materials in production and selling finished goods through alternative channels (outlet stores and other discount retailers).

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, bank current accounts, deposits reimbursable on demand and other highly liquid, short-term financial investments which are readily convertible into cash i.e. which can be transformed into cash within 90 days of their original acquisition date. These items are not subject to a significant risk of a change of value.

Impairment of assets

At least once a year at the annual reporting date, the Group reviews the carrying amount of its goodwill, intangible assets and property, plant and equipment to determine if there are any indicators of impairment. If any such indicators are identified, it estimates the recoverable amount of the assets in order to determine the impairment adjustment required. Where it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash generating group to which the asset belongs.
Recoverable amount is the greater of fair value less costs to sell and value in use. When determining value in use, estimated future cash flows are discounted to present value using a pre-tax rate that reflects the current market valuation of the value of money and the specific risks of the assets.
If the estimated recoverable amount of an asset (or a cash generating unit) is lower than its carrying amount, it is adjusted accordingly. An impairment adjustment is recorded immediately in the Statement of Profit or Loss.
When an impairment adjustment is no longer required, the carrying amount of the asset (or the cash generating unit), except for goodwill, is increased to the new value based on an estimate of recoverable amount but this cannot exceed the net carrying amount the asset would have had if the impairment adjustment had never been made. The reversal of the impairment adjustment is recorded in the Statement of Profit or Loss.

Shareholders' Equity

Share Capital consists of ordinary shares in issue and is recorded at nominal amount. Costs relating to the issue of shares or options are classified as reductions to Shareholders' Equity (net of the related tax benefit) by deducting them from the proceeds from the issue of such instruments.
Upon the purchase of treasury shares, the price paid – including any directly related expenses – is deducted from Group Shareholders' Equity until the cancellation, reissue or disposal of the shares. When such shares are resold or reissued, the proceeds – net of any direct related expenses and the tax effect – are accounted for as an increase to Group Shareholders' Equity.

Movements on the translation reserve occur upon recognition of exchange differences in relation to the consolidation of companies that prepare their financial statements in currencies other than the Euro.
Movements on the Legal reserve regard amounts allocated in terms of Article 2430 of the Italian Civil Code i.e. it is increased by one-twentieth of the net profits of the Parent Company until the reserve reaches one-fifth of the Share Capital of the Parent Company. Once the reserve reaches a fifth of Share Capital but is,

then, decreased for any reason, it is then restored by making annual allocations on the basis described above.

Post-employment benefit liabilities

The Group treats pension plans based on the defined benefit and/or defined contribution plan approach as the Employee Severance Indemnity ("*T.F.R.*" – *Trattamento di fine rapporto*) is such a plan.
The liability relating to a defined benefit pension plan (such as the T.F.R.) represents the present value of the corresponding obligation at the reporting date, net of the fair value of the assets at the service of the plan, as adjusted to take account of actuarial gains and losses and costs for service to date.
The obligation to finance such defined benefit pension plans and the related annual cost recorded in the Statement of Profit or Loss are determined by independent actuaries, using the projected unit credit method.
For defined benefit plans, costs resulting from discounting of the obligation are classified as financial expenses. Meanwhile, actuarial differences emerging in case of changes to the assumptions applied when calculating defined benefit pension plans are recorded in the Statement of Comprehensive Income.
The Employee Severance Indemnity Provision (TFR) is akin to a defined benefit plan until 31 December 2016 and must be measured based on strategic and demographic assumptions, as well as using actuarial valuation methods. As a result of changes to Italian legislation, the TFR provision maturing from 1 January 2007 onwards has been treated as a defined contribution plan where the requirements of the regulatory changes were met.
Under IFRS, actuarial gains and losses are recorded under Other Comprehensive Income, service cost is recorded under Personnel Costs and the interest cost is recorded under Financial Expense.

Provisions for risks and charges

Provisions for risks and charges are recorded to cover losses or liabilities which are certain or probable but whose amount or maturity date could not be determined at the reporting date.
Provision is made when:

- there is a probable current obligation as a result of a past event;
- it is probable that a cash outflow will be required to fulfil the obligation;
- the amount of the obligation may be reliably estimated.

Provisions are recorded at an amount representing the best estimate of the amount the entity would rationally pay to extinguish the obligation, or transfer it to third parties, at the reporting date.
When the financial effect of time is significant and the payment dates of the obligations can be reliably estimated, the provision is discounted; any increase in the provision due to the passage of time is recorded in the Statement of Profit or Loss under "Financial income (expenses)".
Provisions are periodically updated to reflect changes in estimates of costs, realisation periods and discount rates. Changes in the estimated amount of provisions are recorded in the Statement of Profit or Loss caption in which the original allocation was made. When the liability relates to tangible assets (e.g. dismantlement and restoration costs), changes are recorded against the related asset.

Hedging instruments

The Group uses derivative instruments to hedge its exposure to the exchange rate risk and the interest rate risk. It does not have any speculative financial instruments. In accordance with IAS 39, hedge accounting is applied to hedging instruments only if the following conditions are met:

(i) at the inception of the hedge, formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge;

(ii) the hedge is expected to be highly effective in offsetting changes in fair value (fair value hedge) or cash flows (cash flow hedge) attributable to the hedged risk;

(iii) for cash flow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss;

(iv) the effectiveness of the hedge can be reliably measured, i.e. the fair value or cash flows of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured;

(v) the hedge has been assessed on an ongoing basis and has been considered highly effective throughout the life of the derivative.

Hedging instruments are measured at their fair value at the designated date. The fair value of exchange rate derivatives is measured in relation to their inherent value and their time value. At every reporting date, hedging instruments are tested for effectiveness in order to check if the hedge has met the requirements for classification as an effective hedge and to be treated based on hedge accounting principles. When financial instruments meet hedge accounting requirements, the following accounting treatment is applied:

Fair value hedge – If a derivative instrument is designated as a hedge of the risk of changes in the fair value of an asset or liability because of a particular risk that could produce effects on Profit and Loss, the gains or losses arising from subsequent fair value measurement of the hedging instrument are recorded in the Statement of Profit or Loss. Gains or losses on the hedged item, attributable to he hedged risk, change the carrying amount of said item and are recognised in Profit and Loss.

Cash flow hedge – If a derivative instrument is designated as a hedge of the risk of changes in future cash flows from an asset or liability recorded in the financial statements or a highly probable transaction and which could have an effect on Profit and Loss, changes in the fair value of the hedging instrument are reported in the Statement of Comprehensive Income; any ineffective portion is recorded in the Statement of Profit or Loss.
If a hedging instrument or a hedging relationship is closed but the hedged transaction has not yet been realised, the cumulative gains and losses, until then recorded in the Statement of Comprehensive Income, are recognised in Profit and Loss when the transaction is realised.
If the hedged transaction is no longer considered probable, any unrealised gains and losses suspended in Equity are recorded immediately in Profit and Loss.
If hedge accounting cannot be applied, gains or losses arising from the far value measurement of the derivative instrument are recorded immediately in Profit and Loss.

Financial liabilities

Financial liabilities include loans, trade payables and other payment obligations. They are measured at fair value upon initial recognition and, subsequently, at amortised cost, using the effective interest method. Where there is a change in expected cash flows and they can be reliably estimated, the amount of loans is recalculated to reflect this change based on the present value of the new expected cash flows and the internal rate of return initially determined. Financial liabilities are classified as current liabilities unless the Group has an unconditional right to defer payment for at least 12 months after the reporting date.
Financial liabilities are derecognised when they are extinguished or when the Group has transferred all of the risks and expenses relating to the instruments. As the Group's financial liabilities have been contracted at variable rates of interest, their fair value is broadly in line with their carrying amount.

Application of the amortised cost method when measuring loans

IFRS provide for the use of the amortised cost method to measure loans received. In turn, the amortised cost method requires the use of the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortised cost of a financial liability. Under the amortised cost method, all loan-related expenses, including ancillary expenses, are accounted for as financial expenses.

Revenue recognition

Revenue is recognised to the extent that it is probable that the company will obtain economic benefits and its amount can be reliably determined. Revenue is stated after any adjustments (returns, discounts and allowances) and does not include value added tax or any other sales tax.
Wholesale channel sales are recognised upon shipment of the finished product to the end customer because that is the moment when ownership is transferred, together with the related risks and rewards. The accrual for returns and discounts is estimated based on future forecasts, taking account of the historical trend.
Retail channel sales are recognised on the date of the direct sale of the goods to the end customer.

Cost recognition

Costs for purchases of goods and services are recognised when their amount can be determined reliably. Costs for purchases of goods are recognised upon delivery which, based on contractual agreements, identifies the moment when the related risks and rewards are transferred. Costs for services are recognised on an accrual basis based on when the services are received.

Financial income and expenses

Interest expenses are recorded on an accrual basis based on interest accruing on the net amount of financial assets and liabilities, using the effective interest rate method.

Taxation

Taxation for the period represents the sum of current and deferred taxes.
Taxes on income are determined based on a realistic forecast of the taxes payable in application of current tax legislation.
Taxes relating to future periods but payable during the current period (deferred tax assets) are included as are those relating to the period but which will only be payable in future periods (deferred taxes). These deferred taxes and deferred tax assets are the result of temporary differences between the value of assets and liabilities for statutory reporting purposes and their respective tax values.
Deferred tax assets are recognised to the extent that their future recovery is probable.
The recoverability of deferred tax assets is tested at every reporting date and any amount whose recovery is no longer probable is released to Profit and Loss.
The benefits resulting from tax loss carryforwards are accounted for only if it is considered probable that in future periods there will be sufficient taxable income to offset the losses.
Deferred tax assets and liabilities are determined based on the tax rates expected to be applicable in the periods when the temporary differences will be realised or extinguished.
Deferred tax assets and liabilities are classified, respectively, under assets and non-current liabilities. Any net balance after offsetting is recorded under "Deferred tax assets" or under "Deferred tax liabilities".
Tax assets and liabilities – whether current or deferred – are offset if due to the same tax authority, the reversal period is the same and there is a legal right of offset.

Translation of amounts denominated in foreign currency

Receivables and payables originally denominated in currencies other than the functional currency or the Company reporting the receivable/payable (foreign currency) are translated into the functional currency of that company at the historical rates on the dates of the relevant transactions. Exchange differences realised upon collection of receivables and settlement of payables in foreign currency are recorded in Profit and Loss. At the reporting date, any foreign currency receivables and payables are translated at the spot exchange rates at that date and the change in the amount of the receivables/payables is recorded in Profit and Loss (unrealised exchange gains and losses).

Segment information

As the Group is unlisted, it has opted not to provide segment information, as permitted by IFRS 8.

Use of estimates

Preparation of the financial statements requires Group Management to make accounting estimates based on complex and/or subjective judgments. These estimates are based on past experience and on assumptions considered reasonable and reliable based on information known at the time of the estimate. Utilisation of these accounting estimates influences the amount of assets and liabilities and disclosures regarding contingent assets and liabilities at the reporting date, as well as the amount of revenue and expenses in the reporting period. The final results i.e. the actual Profit and Loss effect recorded when the event occurs, in relation to the items for which said estimates and assumptions were used, may differ from those reported in the financial statements because of the inherent uncertainty that characterises the assumptions and the conditions on which the estimates are based.

Details are provided below of the issues which, more than others, require the Directors to use their subjective judgment when making estimates and for which a change in the conditions underlying the assumptions made could have a significant effect on the consolidated financial information:

Impairment of assets
In accordance with the Accounting Principles applied by the Group, intangible assets and property, plant and equipment with a finite useful life are tested for impairment (which is recorded by means of an adjustment) when there are indicators that lead to the expectation that it will be difficult to recover their net carrying amount through use. In order to check for the presence of such indicators, the Directors have to made subjective assessments based on information available within the Group and on the market, as well as using their past experience. Moreover, when potential impairment is identified, the Group proceeds to calculate its amount using appropriate measurement techniques. The proper identification of indicators of impairment and estimates of its amount depend on factors which may vary over time, affecting the assessments and estimates made by the Directors.

Depreciation and amortisation of non-current assets
The cost of property, plant and equipment is depreciated on a straight-line basis over the estimated useful life of the assets. The estimated useful life of the Group's non-current assets is determined by the Directors when the asset is acquired. It is based on past experience for similar assets, market conditions and information regarding future events that could impact useful life e.g. technological advances. Therefore, actual useful life may differ from estimated useful life. The Group periodically assesses technological changes and changes in the industry to update residual useful life. Such periodical updating could lead to a change in the depreciation period and also in the depreciation charges in future periods.

Inventory valuation and obsolescence provision
The Group values its inventory at the lower of cost and estimated realisable amount based on an assessment of expected market trends and making assumptions with regard to the future realisation of the value of inventory. If actual market conditions are less favourable than expected, the value of inventory might have to be adjusted accordingly.

Provision for bad debts
In order to determine the appropriate level of provision for bad debts, the Group assesses the possibility of collection of receivables based on the ability of each debtor to pay. The quality of the estimates depends on the availability of up-to-date information on the debtor's ability to pay.

Deferred tax assets
Deferred tax assets are recognised based on taxable income forecast in future periods and also taking account of the amount and time period of the temporary differences giving rise to deferred taxes. Forecasts of future taxable income used when accounting for deferred tax assets depend on factors that can vary over time with a significant impact on the measurement of the deferred tax assets.

Provisions for risks and charges
Provisions are recorded when the Group has a current obligation as a result of a past event and it is probable that it will be required to fulfil that obligation. Provisions are recorded based on the best estimate of the costs required to fulfil the obligation at the reporting date and are discounted when the effect is significant. The Notes provide disclosures regarding any possible liabilities in relation to which no provision has been made in the financial statements.

Actuarial calculation of defined benefit pension plans: estimates, demographic and economic/financial assumptions made, with support from the estimates of an independent actuary, when performing the actuarial calculation for use in determining defined benefit plans in relation to post-employment benefits, are detailed as follows:

Annual rate of inflation	Probability employee will leave Group	Probability of advance payment on TFR
1.5% in 2018 and 2017	Frequency of 3.8% in 2018 and 2017	1.7% in 2018 and 2017

Finally, it should be noted that actuarial calculations were performed using the rate curve for corporate securities with an AA rating.

Accounting standards, amendments and IFRS interpretations applied from 1 November 2017

As the Group's annual reporting period ended on 31 October 2018, application of accounting standards is deferred compared to the calendar year. Consequently, IFRS applicable from 1 January 2018 will be applied by the Group with effect from the consolidated financial statements for the period ended 31 October 2019.

The Group applied the following accounting standards, amendments and IFRS interpretations for the first time from 1 November 2017:

- Amendment to IAS 7 "Disclosure Initiative" (issued on 29 January 2016). The amendment aims to provide certain clarification to improve the disclosure of financial liabilities. In particular, the amendments require the provision of disclosures that enable the users of financial statements to understand changes in liabilities resulting from financing operations.

- Amendment to IAS 12 "Recognition of Deferred Tax Asset for Unrealised Losses" (published on 19 January 2016). The document aims to provide certain clarification as to the recognition of deferred tax assets on unrealised losses on the measurement of financial assets included in the "Available for Sale" in certain circumstances and on estimates of taxable income for future periods. Adoption of these amendments did not have any effect on the Group's consolidated financial statements.

Accounting standards, amendments and IFRS and IFRIC interpretations endorsed by the European Union, not applicable on an obligatory basis and not adopted in advance by the Sportswear Group as at 31 October 2018

• On 28 May 2014, the IASB published IFRS 15 – Revenue from Contracts with Customers which, together with further clarifications published on 12 April, 2016, is destined to replace IAS 18 – Revenue and IAS 11 – Construction Contracts, as well as interpretations IFRIC 13 – Customer Loyalty Programmes, IFRIC 15 – Agreements for the Construction of Real Estate, IFRIC 18 – Transfers of Assets from Customers and SIC 31 – Revenues-Barter Transactions Involving Advertising Services. The standard introduces a new model of revenue recognition that will apply to all contracts signed with clients except for those that fall within the scope of application of other IAS/IFRS, such as finance leases, insurance contracts and financial instruments. The key steps in revenue recognition under the new model are: identify the contract with the customer; or identify the performance obligations in the contract; or determine the price; or allocate the price to the performance obligations in the contract; or recognise revenue when the entity satisfies each performance obligation. The standard is applicable from 1 January, 2018. The amendments to IFRS15 – Revenue from Contracts with Customers, published by the IASB in April 2016, were endorsed by the European Union on 6 November 2017.
Based on an initial review, the possible future adoption of this standard should not have a significant effect on the Group's consolidated financial statements.

• On 24 July 2014, the IASB published the final version of IFRS 9 – Financial Instruments. The document includes the results of the IASB project with a view to replacing IAS 39. The new standard must be applied for financial statements for reporting periods commencing on or after 1 January 2018. The standard introduces new criteria for the classification and measurement of financial assets and liabilities. For financial assets, the new standard uses a single approach based on the method of management of financial instruments and the characteristics of the contractual cash flows of the financial assets themselves in order to determine the measurement criteria, substituting the different rules provided for by IAS 39. For financial liabilities, meanwhile, the main change regards the accounting treatment of changes in the fair value of a financial liability designated as a financial liability measured at fair value through profit and loss when such changes are due to a change in the credit rating of the issuer of the liability. Under the new standard, such changes must be reported in "Other comprehensive income" and no longer in the Statement of Profit or Loss. With regard to impairment, the new standard requires that estimates of losses on receivables be performed based on the expected losses model (and not on the incurred losses model used by IAS 39) using supportable information, available with no expense or unreasonable efforts, which include historical, current and prospective information. The standard provides that this impairment model shall be applied to all financial instruments i.e. to financial assets measured at amortised cost, to financial instruments measured at fair value through other comprehensive income, to receivables from rental agreements and to trade receivables. Finally, the standard introduces a new model of hedge accounting in order to adapt the requirements of the current IAS 39 which have been considered too strict and unsuitable in reflecting the companies' risk management policies. The main changes regard: an increase in the types of transaction eligible for hedge accounting, also including risks regarding non-financial assets/liabilities eligible for hedge accounting; a change in the accounting method for forward contracts and options when included in a hedge accounting relationship in order to reduce volatility in profit and loss; changes to the effectiveness test with the current method based on the 80-125% parameter replaced with the principle of an "economic relationship" between the item hedged and the hedging instrument; moreover, an evaluation of the retrospective effectiveness of the hedging relationship will no longer be required.

The greater flexibility offered by the new accounting rules is counterbalanced by additional disclosure requirements on the Group's risk management activities.

Based on an initial review, possible future adoption of this standard should not have a significant impact on the Group's financial statements.

IFRS 16 – Leases. Leases, published by the IASB on 13 January 2016 and destined to replace IAS 17 – Leases and interpretations IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases—Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The new standard provides a new definition of lease and introduces a criterion based on control of an asset (right of use) to distinguish lease agreements from contracts for services. The discriminating characteristics are: the identification of the asset, the right to replace the asset, the right to obtain substantially all economic benefits from use of the asset and the right to direct the use of the asset under the contract. The standard is applicable from 1 January 2019. Early application is permitted for companies that apply IFRS 15. In the coming months, detailed analysis will be performed to assess the effects the introduction of IFRS 16 will have on the Group. A significant impact on Non-Current Assets, on the Group's Financial Liabilities and on certain intermediate Profit and Loss results is likely.

Amendments to IFRS 4 – Application of IFRS 9 "Financial instruments" and IFRS 4 "Insurance contracts". The document, published by the IASB on 12 September 2016, contains a series of amendments which aim to clarify problems regarding the temporary volatility of results reported in financial statements due to application of the new IFRS 9 before the IASB replaces the existing IFRS 4. The amendments are applicable from 1 January 2018 but early application is permitted. The introduction of the amendments is not expected to have any effect on the Group's consolidated financial statements.

Amendments to IFRS 9 - Prepayment Features with Negative Compensation. Document issued by the IASB on 12 October 2017. The amendments, applicable from 1 January 2019, regard the requirements of IFRS 9 in relation to termination rights in order to permit valuation at amortised cost (or, depending on the business model, at fair value through comprehensive income) also in case of negative compensation payments. The Directors are currently assessing the possible effects of the introduction of these amendments on the Group's consolidated financial statements.

Amendments to IFRS 2 – Share-based payments. On 20 June 2016, the IASB published the document "Classification and measurement of share-based payment transactions". The amendments provide some clarification on the accounting treatment of the effects of vesting conditions in the presence of cash-settled share-based payments, the classification of share-based payments with net settlement features and the accounting treatment of changes to the terms and conditions of a share-based payment which transform its classification from cash-settled to equity-settled. The amendments are applicable from 1 January 2018 but early application is permitted. The introduction of the amendments is not expected to have an impact on the Group's consolidated financial statements.

On 8 December 2016, the IASB published the document "Annual Improvements to IFRSs: 2014-2016 Cycle". The improvements regard three existing International Accounting Standards: IFRS 12 – Disclosure of Interests in Other Entities (applicable from 1 January 2017), IFRS 1 – First-time Adoption (applicable from 1 January 2018) and IAS 28 – Investments in associates and joint ventures (applicable from 1 January 2018). The amendments clarify, correct or remove certain parts of the text of the standards in question. The Directors are currently assessing the possible effects of the introduction of these amendments on the Group's consolidated financial statements.

IFRIC 22 – Foreign currency transactions and advance consideration. The interpretation, published by the IASB on 8 December 2016 and applicable from 1 January 2018, establishes which exchange rate to use in foreign currency transactions involving consideration paid or received in advance. The Directors are currently assessing the possible effects of the introduction of the new interpretation on the Group's consolidated financial statements.

IFRIC 23 – Uncertainty over Income Tax Treatments. The interpretation, published by the IASB on 7 June 2017 and applicable from 1 January 2019, aims to clarify the recognition and measurement requirements of IAS 12 in case of uncertainty over income tax treatments. The Directors are currently assessing the possible effects of the introduction of the new interpretation on the Group's consolidated financial statements.

Amendments to IAS 40 – Investment property. Document issued by the IASB on 8 December 2016. The amendments, applicable from 1 January 2018, clarify the requirements regarding transfers to or from investment property. The Directors are currently assessing the possible effects of the introduction of these amendments on the Group's consolidated financial statements.

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

The competent European Union bodies are currently endorsing the following standards, improvements and amendments of IFRS (already approved by the IFRS), as well as the following interpretations (already approved by the IFRS IC):

IFRS 17 – Insurance contracts. IFRS 17 requires that insurance contract liabilities be measured at current performance amount. It provides a more standard measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the objective of a principle-based accounting treatment for insurance contracts. IFRS 17 will replace IFRS 4 from 1 January 2021. The Directors are currently assessing the possible effects of the introduction of these amendments on the Group's consolidated financial statements.

Amendment to IAS 28 "Long-term Interests in Associates and Joint Ventures" (published on 12 October 2017)". This document clarifies the need to apply IFRS 9, including its impairment requirements, to other long-term interests in associates and joint ventures for which the equity method is not applied. The amendment is applicable from 1 January 2019 but early application is permitted. The Directors are currently assessing the possible effects of the introduction of the amendment on the Group's consolidated financial statements.

On 12 December 2017, the International Accounting Standards Board (IASB) published the document "Improvements to International Financial Reporting Standards (2015-2017 Cycle)". The improvements include amendments to four existing international financial reporting standards (applicable from 1 January 2019): IFRS 3 and IFRS 11 – the amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business. IAS 12 – The amendments clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognised in profit or loss. IAS 23 – The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings. The Directors are currently assessing the possible effects of the introduction of these amendments on the Group's consolidated financial statements.

Amendment to IAS 19 "Plan Amendment, Curtailment or Settlement" (published on 7 February 2018). The document clarifies how an entity shall recognise an amendment (i.e. curtailment or settlement) to a defined benefit plan. The amendments require the entity to update their assumptions and to remeasure the net asset or liability resulting from the plan. The amendments clarify that after such an event, an entity shall use updated assumptions to measure the current service cost and interest for the remainder of the relevant period after the event. The amendments are applicable from 1 January 2019 but early application is permitted. The Directors do not expect adoption of these amendments to have a significant effect on the Company's financial statements.

IFRS 14 – Regulatory Deferral Accounts (published on 30 January 2014) which permits only first-time adopters of IFRS to record amounts relating to Rate Regulation Activities based on the previous accounting principles adopted. As the Group is not a first-time adopter, this standard is not applicable.

The European Union endorsement process has been suspended for the following amendments to standards and interpretations:

Amendments to IFRS 10 and IAS 28 – Sales or Contribution of Assets between an Investor and its Associate or Joint Venture. Document published by the IASB on 11 September 2014 in order to resolve the conflict between the aforementioned two standards in relation to the sale or contribution of an asset or a subsidiary to an associate or joint venture, applicable from 1 January 2016. The amendments introduced provide that in case of the sale or contribution of an asset or a subsidiary to an associate or to a joint venture, the gain or loss to be recorded in the financial statements of the seller/contributor company shall be determined in relation to the classification of the assets or the subsidiary sold/contributed as a business, as defined by IFRS 3. If the sale/contribution represents a business, the entity shall recognise the gain or loss on the entire previously held interest. Otherwise, the entity shall recognise the portion of the gain or loss relating to the interest still held by the entity which shall be derecognised.

4. Notes to the Statement of Profit or Loss

4.1 Revenue

Analysis by business category:	31/10/2018	31/10/2017
Sales on Italy	48,785	40,677
Sales in other countries	105,991	78,890
Store sales	36,037	26,447
Other revenue	9	33
Allocation to provision for returns	(274)	(210)
Utilisation of provision for returns	210	272
Total	**190,758**	**146,109**

During the reporting period, the Sportswear Group increased its revenue by 30.6%.
"Store sales" includes revenue generated by retail sales at stores and at the Company's factory outlet. Revenue is reported net of the best estimate of expected returns.

Revenue by geographical area	31/10/18	31/10/17
Italy	56,633	48,318
Europe (excl. Italia)	99,988	75,322
Americas	15,681	8,626
Rest of the World	18,456	13,843
Total	**190,758**	**146,109**

4.2 Other income

Description	31/10/2018	31/10/2017
Rental income	33	25
Recovery of legal expenses	15	10
Royalties income	0	0
Recovery of expenses for compensation for damages for non-quality related issues	117	80
Law 296/06 R&D grant	118	164
Out of period income	58	156
Other revenue and expenses	1,153	960
Total	**1,494**	**1,395**

"Other revenue and income" includes all amounts charged by the Parent Company to third parties for services and/or materials supplied during the period, revenue for the sale of sundry materials e.g. furnishings for stores and retail corners opened during the period and the recovery of shipping costs which are charged to customers upon restocking.

4.3 Costs for purchases (including change in inventory)

	31/10/2018	31/10/2017
Raw materials and semi-finished products	16,227	13,433
Finished products	41,220	32,244
Ancillary materials	309	266
Purchase of packaging	47	26
Advertising materials	969	694

Other purchases	854	824
Change in inventory	(6,154)	(4,584)
Total	**53,472**	**42,903**

Overall, purchases of raw materials and finished products for resale have increased in line with the revenue increase.

4.4 Costs for services

	31/10/2018	**31/10/2017**
Utilities	433	418
Maintenance	621	347
Shipping	6,318	4,202
Outsourced production	25,760	20,255
Management of external warehouses	3,865	3,156
Commission and ancillary services	5,977	4,038
Advertising	4,490	4,935
Royalties and stylistic consulting	946	602
Insurance	510	478
Telephone	206	179
Consultancy	2,021	1,676
Legal advice	59	63
Directors' fees	579	588
Statutory auditors' fees	46	39
Cleaning	274	238
Banking services	762	562
Other services	7,669	6,061
Total	**60,536**	**47,837**

The increase in costs for outsourced production is linked to the revenue growth achieved.

4.5 Lease and rental costs

In the 2018 reporting period, Lease and rental costs amounted to Euro 5,005 thousand (Euro 4,467 thousand in 2017) and included property lease costs of Euro 4,633 thousand (Euro 4,128 thousand in 2017), information system operating lease costs of Euro 125 thousand (Euro 125 thousand in 2017), company car fleet long-term rental costs of Euro 240 thousand (Euro 203 thousand in 2017) and other rental costs of Euro 7 thousand (Euro 11 thousand in 2017)

4.6 Personnel costs

As at 31 October 2018, the Group had 233 employees (214 employees at 31 October 2017). Personnel costs amounted to Euro 15,196 thousand (Euro 13,498 thousand in 2017), including contributions of Euro 2,800 thousand (Euro 2,444 thousand in 2017) and allocations to employee severance indemnity/TFR provisions of Euro 701 thousand (Euro 564 thousand in 2017).

	AVERAGE 2018	at 31 October 2018	AVERAGE 2017	at 31 October 2017
BLUE COLLAR	14	16	10	11
INTERMEDIATES	5	5	5	5
WHITE COLLAR	202	203	186	191
MANAGERS	8	9	6	7
	229	**233**	**207**	**214**

4.7 Depreciation and amortisation of non-current assets

In the 2018 reporting period, depreciation and amortisation amounted to Euro 3,753 thousand (Euro 3,151 thousand in 2017).

4.8 Provision for bad debts

In the 2018 reporting period, Euro 129 thousand was allocated to the provision for bad debts (Euro 183 thousand in 2017).

4.9 Provisions for risks and charges

During the reporting period, a provision of Euro 45 thousand was created for a tax demand received by the Parent Company from the Italian Tax Authorities for the tax period 1/11/2015-31/10/2016. No allocations to provisions for risks and charges were made in the 2017 reporting period.

4.10 Other operating expenses

This caption includes:

	31/10/2018	31/10/2017
Taxes and duties	308	200
Tax and contractual penalties	15	15
Losses due to damage	143	54
Gifts and donations	524	491
Out of period expenses	59	82
Bad debts	0	209
Other minor expenses	47	10
Total	**1,096**	**1,061**

4.11 Financial income and expenses

This caption is analysed as follows:

	31/10/2018	31/10/2017
Bank interest income	7	3
Income from customers	82	78
Other interest income	5	1
Income for cash discounts	22	63
Bank interest expenses for advances	0	(2)
Interest expenses on bank loans and other M/L term loans	(131)	(184)
Other interest expenses	0	(4)
Cash discounts to customers	(448)	(234)
Loan arrangement expenses	(23)	(29)

Exchange gains (losses)	277	(281)
Total	**(209)**	**(589)**

4.12 Adjustments to value of financial assets

During the reporting period, the value of the investment in associate Starcolor S.r.l was adjusted upwards by a total of Euro 106 thousand (Euro 66 thousand in 2017) in order to take account of said company's net profit for the period.

4.13 Taxes on income

	31/10/2018	**31/10/2017**
Current taxation	15,149	10,327
Prior year taxation	(57)	(4)
Deferred taxation (income)	(380)	214
Total	**14,712**	**10,537**

The taxation included in the Statement of Profit or Loss includes current income taxes and deferred taxes.

The income tax expense for the reporting period is determined in accordance with current tax law.

In 2017/2018, the Sportswear Group recorded a net increase of Euro 380 thousand in deferred tax assets, as described in the relevant note.

We note that, under Legislative Decree no 344 of 12 December 2003 which introduced group taxation in terms of Presidential Decree no 197 of 22 December 1986 ("Consolidated Taxation") for corporate groups, this option has been exercised by the Parent Company and direct subsidiary Stone Island Retail S.r.l.

5. Notes to the statement of financial position

5.1 Intangible assets

The following tables show opening balances, movements in 2016/2017 and 2017/2018 and closing balances for intangible assets:

			2018	**2017**
Intangible Assets	**Gross amount**	**Accum. Amort'n**	**Net amount**	**Net amount**
Software	5,405	(3,011)	2,394	1,322
Key money	9,158	(4,192)	4,966	4,295
Other intangible assets	420	(398)	22	42
Intangible assets in progress	3	0	3	626
	14,986	**(7,601)**	**7,385**	**6,285**

Movements on each intangible asset category are shown below:

Intangible Assets	2016 Net amount	Increases	Decreases	Amortisation	2017 Net amount
Software	710	1,022		(410)	1,322
Key money	4,908			(613)	4,295
Other intangible assets	68	1		(27)	42
Intangible assets in progress	785		(159)		626
	6,471	**1,023**	**(159)**	**(1,050)**	**6,285**

Intangible Assets	2017 Net amount	Increases	Decreases	Amortisation	2018 Net amount
Software	1,322	1,837		(766)	2,393
Key money	4,295	1,300		(629)	4,966
Other intangible assets	42			(19)	23
Intangible assets in progress	626		(623)		3
	6,285	**3,137**	**(623)**	**(1,414)**	**7,385**

Movements on "Software" and on Intangible assets in progress relate to costs for the implementation of Microsoft Dynamics AX ERP software which as completed during the reporting period.

The Sportswear Group does not have any intangible assets with an indefinite useful life.

5.2 Property, plant and equipment

The following tables show opening balances, movements in 2016/2017 and in 2017/2018 and closing balances for property, plant and equipment:

Property, plant and equipment	Gross amount	Accumulated depreciation	2018 Net amount	2017 Net amount
Land and buildings	9,389	(1,802)	7,587	7,808
Plant and machinery	5,025	(2,976)	2,049	1,825
Equipment	2,563	(1,942)	621	469
Furniture and fittings	5,397	(2,794)	2,603	2,406
Leasehold improvements	7,648	(1,488)	6,160	5,369
Other assets	564	(301)	263	170
	30,586	**(11,303)**	**19,283**	**18,047**

Movements on property, plant and equipment are summarised in the following tables:

at 31 October 2017 **Property plant and equipment Gross amount**	31/10/16	Increases	Decreases	Other movements	31/10/17
Land and buildings	9,176	170			9,346
Plant and machinery	4,253	299	(36)		4,516
Equipment	1,978	164	(2)		2,140
Furniture and fittings	3,813	888	(4)	(27)	4,670

Leasehold improvements	5,221	952		(108)	6,065
Other assets	490	68	(92)		466
Assets under construction	0				0
	24,931	**2,541**	**(134)**	**(135)**	**27,203**

Property, plant and equipment Accumulated depreciation	**31/10/16**	**Deprec'n**	**Decreases**	**Other movements**	**31/10/17**
Land and buildings	1,278	261		(1)	1,538
Plant and machinery	2,389	338	(36)		2,691
Equipment	1,346	318	(2)	9	1,671
Furniture and fittings	1,861	408	(2)	(3)	2,264
Leasehold improvements	0	706		(10)	696
Other assets	308	70	(92)	10	296
	7,182	**2,101**	**(132)**	**5**	**9,156**

Property, plant and equipment Net amount	**31/10/16**	**Increases**	**Decreases**	**Other movements**	**31/10/17**
Land and buildings	7,898	170	(261)	1	7,808
Plant and machinery	1,864	299	(338)	0	1,825
Equipment	632	164	(318)	(9)	469
Furniture and fittings	1,952	888	(410)	(24)	2,406
Leasehold improvements	5,221	952	(706)	(98)	5,369
Other assets	182	68	(70)	(10)	170
Assets under construction	0				0
	17,749	**2,541**	**(2,103)**	**(140)**	**18,047**

at 31 October 2018

Property plant and equipment Gross amount	**31/10/17**	**Increases**	**Decreases**	**Other movements**	**31/10/18**
Land and buildings	9,346	43			9,389
Plant and machinery	4,516	616	(107)		5,025
Equipment	2,140	468	(45)		2,563
Furniture and fittings	4,670	703	(11)	35	5,397
Leasehold improvements	6,065	1,565	(53)	71	7,648
Other assets	466	234	(136)		564
Assets under construction	0				0
	27,203	**3,629**	**(352)**	**106**	**30,586**

Property, plant and equipment Accumulated depreciation	**31/10/17**	**Deprec'n**	**Decreases**	**Other movements**	**31/10/18**
Land and buildings	1,538	264			1,802

Plant and machinery	2,691	388	(103)		2,976
Equipment	1,671	293	(22)		1,942
Furniture and fittings	2,264	517		13	2,794
Leasehold improvements	696	800	(27)	19	1,488
Other assets	296	75	(70)		301
	9,156	**2,337**	**(222)**	**32**	**11,303**

Property, plant and equipment Net amount	**31/10/17**	**Increases**	**Decreases**	**Other movements**	**31/10/18**
Land and buildings	7,808	43	(264)	0	7,587
Plant and machinery	1,825	616	(392)	0	2,049
Equipment	469	468	(316)	0	621
Furniture and fittings	2,406	703	(528)	22	2,603
Leasehold improvements	5,369	1,565	(826)	52	6,160
Other assets	170	234	(141)	0	263
Assets under construction	0	0	0	0	0
	18,047	**3,629**	**(2,467)**	**74**	**19,283**

The increases in Land and buildings relate to completion of the new knitwear department at the Parent Company headquarters and to the replacement and installation of new machinery at the Parent Company's in-house dry-cleaner's. Two machines for the dry-cleaning and drying of garments were also purchased for installation at a supplier's premises.

Increases to equipment and furniture and fittings are mainly due to the fitting out of the new stores in Tokyo and Venice, the retail corners in Amsterdam, Rome and Moscow and the new Showroom in Munich.

Increases in leasehold improvements mainly regard the realisation of systems and works carried out at the stores in Tokyo, Venice and Los Angeles.

Movements on other assets manly relate to the purchase of four cars and to the disposal of two cars owned by the Group.

The other movements column shows exchange differences relating to the consolidation of the US companies and some small reclassifications.

5.3 Investments in subsidiaries and associated companies

This caption is analysed as follows:

Movements on associated companies	**Country**	**% interest held**	**Carrying amount at 31/10/17**	**Changes in 2018**	**Carrying amount at 31/10/18**
Starcolor Srl	Italy	24%	497	106	603
Total net			**497**	**106**	**603**

The 24% investment in associated company Star Color has been measured using the equity method.

5.4 Other non-current assets

Other non-current assets of Euro 84 thousand include guarantee deposits and mainly refer to the guarantee deposits paid for the rental of the stores in Paris and Cannes. The decrease compared to the balance of

Euro 120 thousand as at 31 October 2017 is due to reimbursement of the guarantee deposit relating to rental of retail premises at the Castel Romano designer outlet.

5.5 Deferred tax assets

This caption consists entirely of deferred tax assets recognised in relation to temporary differences between the carrying amount of assets and liabilities in the Statement of Financial Position and the corresponding amounts recognised for tax purposes.

DESCRIPTIONE	DEF. TAX ASSETS '17			REVERSALS IN '18			INCREASES '18			DEF. TAX ASSETS '18		
Deductible differences	**Temp diff**	**Rate**	**Tax**	**Temp. diff.**	**Rate**	**Tax**	**Temp diff.**	**Rate.**	**Tax**	**Temp diff**	**Rate**	**Tax**
Obsolescence prov – RM inv	1,333	27.9%	372		27.9%	0	303	27.9%	85	1,636	27.9%	456
Obsolescence prov – F inv	1,688	27.9%	471		27.9%	0	207	27.9%	58	1,895	27.9%	529
Taxed bad debt provision	1,280	24.0%	307		24.0%	0		24.0%	0	1,280	24.0%	307
Taxed agents' leaving ind prov	255	27.9%	71	90	27.9%	25		27.9%	0	165	27.9%	46
Prov for risks and charges	0	27.9%	0		27.9%	0		27.9%	0	0	27.9%	0
Provision for returns	210	27.9%	59	210	27.9%	59	274	27.9%	76	274	27.9%	76
Other costs with deferred deductibility	642	27.9%	179	642	27.9%	179	514	24.0%	123	514	24.0%	123
Amortisation of trademarks	829	27.9%	231		27.9%	0	124	27.9%	35	953	27.9%	266
Dep'n of reval'd land & bldgs.	61	27.9%	17		27.9%	0		27.9%	0	61	27.9%	17
Tax deficit French Branch	22	33.3%	7		33.3%	0		33.3%	0	22	33.3%	7
IAS 38 – derecognition int assets	300	27.9%	84	53	27.9%	15		27.9%	0	247	27.9%	69
Goodwill former SI Retail	146	27.9%	41		27.9%	0	30	27.9%	8	176	27.9%	49
Goodwill former SI Rome	100	27.9%	28		27.9%	0	31	27.9%	9	131	27.9%	37
Goodwill Milan	0	27.9%	0		27.9%	0	6	27.9%	2	6	27.9%	2
Sto ck P ro fit	2,292	27.9%	639	2,292	27.9%	639	3,211	27.9%	896	3,211	27.9%	896
T OT A L DEF TAX ASSETS WITH P&L EFFECT	9,158		2,506	3,287		917	4,700		1,292	10,571		2,880
IAS 19 - TFR	184	27.9%	51	46	27.9%	13		27.9%	0	138	27.9%	39
IFRS 9 – cash flow hedge derivatives	15	24.0%	4	15	24.0%	4	4	24.0%	1	4	24.0%	1
T OT A L DEFERRED TAX ASSETS WITH EFFECT ON STATEMENT OF COMPREHENSIVE INCOME	199		55	61		17	4		1	142		40
T OT A L DEF TAX ASSETS	9,357		2,561	3,348		934	4,704		1,293	10,713		2,920

DESCRIPTION	DEFERRED TAX '17			REVERSALES '18			INCREASES '18			DEFERRED TAX'18		
Goodwill SI Amsterdam	86	25,00%	21	8	25,00%	2		25,00%	0	78	25,00%	19
Goodwill SP W Germany	229	27.9%	64		27.9%	0		27.9%	0	229	27.9%	64
T OT A L DEFERRED TAXES	315		85	8		2	0		0	307		83

	31/10/2017	31/10/2018
Total Deferred tax assets	2.,476	2,837

The Sportswear Group has recognised deferred tax assets totalling Euro 2,837 thousand i.e. 100% of such assets at 31 October 2018 as there are no doubts over recoverability.

The financial statements contain not items subject to deferred taxation.

The Company does not have any tax loss carryforwards.

In light of performance during the year, performance forecasts and the operating outlook, the Company Directors do not believe there are any issues regarding the recoverability of deferred tax assets.

5.6 Inventory

Inventory is analysed as shown in the table:

Inventory	**31/10/18**	**31/10/17**
Raw materials	6,967	5,471
Work in progress	8,581	6,719
Finished goods	16,342	12,999
Gross inventory	**31,890**	**25,189**
Obsolescence provision – raw materials	(1,636)	(1,333)
Obsolescence provision – finished goods	(1,894)	(1,687)
Total net	**28,360**	**22,169**

The raw materials obsolescence provision also takes account of the value of slow moving items which will be utilised over a long period of time. During the reporting period, the Parent Company Directors decided prudently to increase the provision by Euro 303 thousand.

The overall increase in inventory of work in progress and finished goods is due to the increase in revenue compared to the previous reporting period.

The increase in the finished goods obsolescence provision is essentially due to an increase in inventory of garments relating to previous seasons. The increase in such inventory is the natural consequence of the higher volume of business.

Finished goods held at the stores in Paris and Cannes are measured at average production cost.
The obsolescence provisions for raw materials and finished goods take account of the amount of inventory destroyed and sold to discount retailers during the period. For finished goods, it also takes account of the alternative retail channels open to the Company.

5.7 Trade receivables

Trade receivables	**31/10/18**	**31/10/17**
Trade receivables	48,401	38,205
Provision for bad debts	(1,494)	(1,463)
Total trade receivables, net	**46,907**	**36,742**

Trade receivables are analysed by maturity date as follows:

	Balance at 31/10/18	**Current**	**Overdue**					
			0-30 days	**30-60 days**	**60-90 days**	**90-120 days**	**120-360 days**	**> 360 days**
Trade receivables	48,401	37,425	5,036	2,909	1,089	736	776	430
Bad debt provision	(1,494)							
Total trade receivables, net	**46,907**	**37,425**	**5,036**	**2,909**	**1,089**	**736**	**776**	**430**

The increase in trade receivables in absolute terms is in line with revenue growth.

During the reporting period, no bad debts were expensed to the Statement of Profit or Loss. For the sake of prudence, the provision for bad debts has been kept in line with prior year level also because of ongoing payment extensions granted to a foreign distributor. The Group believes that this amount means that the provision is sufficient to cover the receivables collection risk at 31 October 2018. It should be recalled that part of export sales revenue is guaranteed by an insurance contract which offers partial cover for receivables; this is except for payments by letter of credit or in advance which, inherently, do not involve any risk.

Movements on the bad debt provision are shown below:

At 31 October 2017

	31/10/16	Allocated	Utilised	31/10/17
Bad debt provision	1,437	183	(157)	1,463

At 31 October 2018

	31/10/17	Allocated	Utilised	31/10/18
Bad debt provision	1,463	129	(98)	1,494

The following table contains a breakdown of trade receivables by geographical area.

Receivables by geographical area	**31/10/18**
Italy	26,225
Europe (excl. Italy)	10,644
Americas	2,875
Rest of the World	8,657
Total	**48,401**

In line with previous periods, the Company has not sold any receivables except in relation to a reverse factoring transaction – amounting to Euro 3,246 thousand at 31 October 2018 – as carried out at the specific request of a customer and which gives the Company a guarantee of collection by a contractual due date. Under said contract, the Company has not used the possibility of requesting advances on the amounts factored.

5.8 Current and non-current tax receivables

Current tax receivables	**31/10/18**	**31/10/17**
VAT receivables	2,681	952
Direct tax receivables	145	194
Other receivables	238	28
Total current tax receivables	**3,064**	**1,174**

Non-current tax receivables	**31/10/18**	**31/10/17**
Receivable for tax refunds requested	279	279
Total non-current tax receivables	**279**	**279**

IRES and IRAP payments on account made during the reporting period have been deducted directly from the related tax liabilities.

The receivable for tax refunds requested refers to the IRES rebate requested in relation to the 2007-2011 tax periods as a result of the deductibility of IRAP on personnel costs for employees in terms of Legislative Decree 201/2011 as converted by Law no 214 of 22 December 2011.

5.9 Other current assets

Other current assets	**31/10/18**	**31/10/17**
Advances to suppliers	283	324

Receivables from agents	62	88
Receivable under order 57-12 – earthquake grant	664	788
Prepaid expenses and accrued income	785	681
Other receivables	43	108
Total other current assets	**1,837**	**1,989**

Advances to suppliers mainly regard advances to outsourcers for production of Summer 2019 season garments and notes receivable from suppliers.

The outstanding grant receivable under Legislative Decree 57/2012 et seq. for the reconstruction of production facilities situated in areas hit by earthquakes between 20 and 29 May 2012 is expected to be settled in 2019.

5.10 Other financial assets – current and non-current

Other financial assets - current	**31/10/18**	**31/10/17**
Other financial assets – current	3	3
Derivative instruments	0	59
Total other financial assets - current	**3**	**62**

Other financial assets – non-current	**31/10/18**	**31/10/17**
Investments in other entities	2	2
Total other financial assets – non-current	**2**	**2**

At 31 October 2018, there were no assets for derivative instruments (Euro 59 thousand at 31 October 2017).

The Group hedges the exchange risk relating to purchase of raw materials in US Dollars and sub-contract production carried out in foreign currency. It uses exchange risk hedging instruments, seeking to fix and crystallise the exchange rate at a level in line with budget expectations.

5.11 Cash and cash equivalents

At 31 October 2018, cash and cash equivalents amounted to Euro 30,711 thousand (Euro 12,765 thousand at 31 October 2017) and consisted entirely of cash at bank.

5.12 Shareholders' Equity

At 31 October 2018, subscribed and paid share capital amounted to Euro 10,000,000 and consisted of 9,680,000 shares with no nominal value.

Movements on shareholders' equity in the 2018 reporting period and in the previous period are described in the Statement of Movements on Shareholders' Equity to which reference should be made.

The First Time Adoption reserve, which has a negative balance of Euro 1,787 thousand, refers to the effects on shareholders' equity at 1 November 2015 of the first-time adoption of IFRS. Pursuant to Article 7(6) of Legislative Decree 38/2005, this reserve may be reduced only when respecting the relevant provisions of the Italian Civil Code. If it is used to cover losses, earnings may not be distributed until the reserve has been restored or reduced proportionately following an Extraordinary Shareholders' Meeting resolution.

The IAS 19 Reserve includes amounts recorded in relation to actuarial gains (losses) on defined benefit liabilities towards employees, as required by IAS 19. Further details of movements during the period are provided in the Statement of Comprehensive Income.

The cash flow hedge reserve includes amounts recorded in relation to the positive (negative) fair value of derivative hedging instruments, as required by IAS 39. Further details of movements during the period are provided in the Statement of Comprehensive Income.

In 2018, dividends of Euro 15,294 thousand were paid to the Shareholders (Euro 7,744 thousand in 2017).

The following table contains a reconciliation between the shareholders' equity of the Parent Company and consolidated shareholders' equity:

	(In thousands of Euro)	**Shareholders' equity**	**Profit/(Loss) for the period**
	Separate financial statements of Sportswear Company Spa	**82,172**	**36,036**
a.	Difference between carrying amount of consolidated companies and book shareholders' equity	1,923	2,666*
b.	Elimination of unrealised profits from transactions between Group companies, after the tax effect	(2,315)	(662)
c.	Elimination of IC provisions for returns and agents' leaving indemnity provision	711	(56)
d.	Other changes	188	221
	Amounts pertaining to the Group per the Consolidated Financial Statements at 31 October 2018	**82,679**	**38,205**

* Effect of profits of Subsidiaries and any writedowns and revaluations during the period

5.13 Trade payables

Trade payables amount to Euro 19.3 million at 31 October 2018 (Euro 14.8 million at 31 October 2017) and refer to short-term obligations towards suppliers of goods and services. The payables refer to balances due in the short-term and there are no amounts due after more than a year.

5.14 Bank borrowing – current and non-current

Bank borrowing - current	**31/10/18**	**31/10/17**
Current account overdrafts	2	0
Loans	7,525	5,214
Amortised cost of loans	(16)	(21)
Total bank borrowing – current	**7,511**	**5,193**

Bank borrowing – non-current	**31/10/18**	**31/10/17**
Loans	16,443	9,138
Amortised cost of loans	(22)	(19)
Total bank borrowing – non-current	**16,421**	**9,119**

Total bank borrowing	**23,932**	**14,312**

The following table shows movements during the reporting period:

Movements on bank borrowing (Euro 000)	**31/10/2017**	**Arranged**	**Repaid**	**Amortised costs**	**Reclassif-ications**	**31/10/2018**
Current account overdrafts	0	2				2
Loans	5,213		(5,214)		7,525	7,524
Amortised cost of loans	(20)			5		(15)
Total borrowing – current	**5,193**	**2**	**(5,214)**	**5**	**7,525**	**7,511**
Loans	9,139	15,500	(670)		(7,525)	16,444
Amortised costs of loans	(20)			(3)		(23)
Total borrowing – non-current	**9,119**	**15,500**	**(670)**	**(3)**	**(7,525)**	**16,421**
	14,312	**15,502**	**(5,884)**	**2**	**0**	**23,932**

There are no financial payables due after more than five years.

5.15 Tax payables

The following table contains details of tax payables. Balances are shown after payments on account made and withholding taxes suffered:

Tax payables	**31/10/18**	**31/10/17**
Current tax payables	4,965	4,538
Taxes withheld at source from employees	366	328
Taxes withheld at source from freelancers	74	74
Other tax payables	2	5
Total tax payables	**5,407**	**4,945**

5.16 Other current liabilities

Other current liabilities	**31/10/18**	**31/10/17**
Payables to customers	63	38
Sundry payables	270	93
Payables to employees	2,107	2,174
Payables to insurance companies	0	1
Payables to agents	2,820	1,697
Payables to social security/pensions institutions	307	274
Deferred grant income ord 57-12	1,110	1,309
Other accrued expenses and deferred income	524	549
Total other current liabilities	**7,201**	**6,135**

Payables to customers include credit notes to be issued to customers who have returned goods that were in transit at the reporting date.

"Payables to employees" include accruals for additional months' salaries, holiday pay and company bonuses as well as salaries payable.

"Payables to insurance companies" include final adjustments on insurance premiums already determined but not yet paid to the insurance companies.

"Payables to agents" include commission accruing in favour of agents but not yet invoiced by them.

Deferred income mainly regards a grant awarded by Emilia Romagna Region to the Parent Company in relation to earthquake damage suffered by it in 2012. The portion of this grant income relating to capitalisable costs recorded by the Company in prior years has been recognised in the Statement of Profit or Loss on a gradual basis over the useful lives of said assets.

5.17 Other financial liabilities – current and non-current

Current financial liabilities include liabilities for derivative instruments totalling Euro 4 thousand (at 31 October 2017, classified under non-current financial liabilities in the amount of Euro 15 thousand).

The fair value of the liabilities for financial instruments at 31 October 2018 is Euro 4 thousand and refers to derivatives designated as hedges of the interest rate risk in relation to variable rate loans arranged by the Company.

As it had total outstanding liabilities of Euro 883 thousand for medium/long-term loans, the Company has arranged interest rate hedges (IRS), essentially transforming its variable rate borrowing into fixed rate debt. The amount and maturity of the IRS are broadly in line with the underlying loans and the derivatives have been accounted for by recording expenses and income in the P&L on the related maturity dates against the financial expense regarding the loans.

In the case of cash flow hedges, the fair value of the hedging derivative (mark to market), whether negative or positive, has been recorded in the Statement of Financial Position under Current financial liabilities in the amount of Euro 4 thousand. The contra-entry has been made to Shareholders' Equity under "Hedge Accounting Reserve".

Detailed information is provided below:

Currency (000)	**Notional amount**	**Duration: from**	**Duration: until**	**Counterparty**	**Fair Value at 31/10/17**	**Fair Value at 31/10/18**
Euro	383	16/04/2015	16/04/2019	UBI	6	1
Euro	500	29/07/2014	15/06/2019	BPM	9	3

5.18 Liabilities for employee benefits

This caption includes liabilities for post-employment benefits measured using the actuarial method known as the projected unit credit method, as applied by an independent actuary in terms of IAS 19.

Movements during the last two reporting periods on the Employee Severance Indemnity / TFR provision (which represents the full amount of the Provision for employee benefits), inclusive of the effect of the actuarial valuation, are as follows:

Employee severance indemnity/TFR – movements	**31/10/18**	**31/10/17**
Net obligation at start of period	1,586	1,693
Interest on obligation	0	0
Current service cost	693	564
Payments	(631)	(654)
Actuarial gain / (loss)	(45)	(17)
Net obligation at end of period	**1,603**	**1,586**

The actuarial methods and assumptions used to calculate the Provision are described in the Note on Accounting Policies – Actuarial calculation of defined benefit plans.

A sensitivity analysis has shown that the provision would not differ greatly in case of changes to the main actuarial assumptions.

5.19 Provisions for risks and charges

Provisions for risks and charges	**31/10/18**	**31/10/17**
Provision for retirement benefits and similar obligations	879	716
Provision for returns	274	210
Tax provision	45	0
Total provisions for risks and charges	**1,198**	**926**

The main changes to provisions for risks and charges are as follows:

- the agents' leaving indemnity provision has been increased applying the calculation methods required by current laws and regulations on agency relationships, taking account of negotiations in progress with the agents as at 31 October 2018.

- the provision for returns carried at 31 October 2017 was used in full during the period ended 31 October 2018 in relation to prior season returns during the period. Parent Company Management has allocated its best estimate of the provision required for returns that will be made in future periods in relation to sales made before 31 October 2018.

The main factors considered when determining the provision were as follows:

  - historical percentage incidence of returns on sales revenue; returns relating to Fall Winter 2017/2018 season and to earlier seasons not yet received by the date the financial statements were closed;
  - garments in the hands of shipping companies in expectation of payment by defaulting customers – if they do not fulfil their commitments, the products will have to be returned to the Company;
  - forecast of the Company's ability to sell off the goods returned
  - distinction between seasonal returns and returns for replacement; in fact, under company policy, returns for replacement are permitted only to the extent that there is a new sale for at least the same value.

- During the period, a tax provision was created following a tax demand received from the Italian Tax Authorities for the 2016 tax year.

The following tables contains details of movements on the provisions:

at 31 October 2017

Movements on provisions for risks and charges	**31/10/16**	**Allocated**	**Utilised**	**Other mov.**	**31/10/17**
Retirement benefits and similar obligations	598	118			716
Provision for returns	272	210	(272)		210
Tax provision	0				0
Total provisions	**870**	**328**	**(272)**	**0**	**926**

at 31 October 2018

Movements on provisions for risks and charges	**31/10/17**	**Allocated**	**Utilised**	**Other mov.**	**31/10/18**
Retirement benefits and similar obligations	716	163			879
Provision for returns	210	274	(210)		274
Tax provision	0	45	0		45
Total provisions	**926**	**482**	**(210)**	**0**	**1,198**

6. Notes to the Statement of Cash Flows

6.1. Operating cash flow before changes in working capital

Gross operating cash flow represents the Group's cash inflows from its operating activities and considers the net profit/loss for the period as adjusted for items not involving any cash flow (depreciation/amortisation, allocations to provisions, deferred taxation, etc.) and for amounts which, in order better to represent their nature are classified as changes due to investing activities (financial income) and financing activities (financial expenses).
Gross operating cash flow before changes in working capital amounts to Euro 57,018 thousand and has improved significantly compared to the prior period (Euro 37,618 thousand in the period ended 31/10/2017).

6.2. Cash flows generated (absorbed) by changes in working capital

This item shows the effect of net working capital on liquidity in terms of the generation or absorption of cash. Over the reporting period, the overall change was negative by Euro 27,098 thousand (negative by Euro 14,440 thousand at 31/10/2017), mainly because of increases in inventory, trade receivables and taxes paid as a result of the significant increase in the volume of business.

6.3. Cash flows from investing activities

Cash flows relating to property, plant and equipment refers to the costs incurred to fit out the new stores in Venice and Tokyo and to complete the store in Los Angeles, to fit out new retail corners in Amsterdam, Rome and Moscow and to purchase new machinery and equipment. Meanwhile, cash flows relating to intangible assets refers to costs incurred for the implementation of the new ERP software.
Investing activities absorbed cash totalling Euro 6,195 thousand (Euro 3,281 thousand at 31/10/2017).

6.4. Cash flows from financing activities

This section of the Statement of Cash Flows summarises cash inflows and outflows from the Group's financing activities.
Cash flows from financing activities are influenced by the decrease in bank borrowing and by the outflow for dividends paid to the Shareholders.
Financing activities absorbed cash totalling Euro 5,779 thousand (Euro 14,641 thousand at 31/10/2017).

7. Commitments

The following commitments were in place at the reporting date:

	31/10/2018	31/10/2017
SURETIES	**2,684**	**2,129**
- Munich – Store	108	108
- Munich - Showroom	72	0
- Sylt	26	26
- Riccione	36	36
- Rome	225	225
- Milan	490	40
- Antwerp	60	60
- Amsterdam	148	148
- Turin	50	50
- Hamburg	56	56
- Los Angeles	1,113	1,144
- New York	133	136
- Venice	100	100
- BMG Castel Romano	67	0

The increase in commitments compared to the prior reporting date is due to an increase in sureties under rental agreements for the new Showroom in Munich and the new store at the Castel Romano retail outlet.

8. Disclosures on relation party transactions – IAS 24

The Company's related party transactions cannot be classed as atypical or unusual and form part of its ordinary business activities.

Related party transactions – whether commercial or financial – have been entered into on an arm's length basis and all transactions have been carried out in the best interests of the Company.

The following tables show the Statement of Financial Position and Statement of Profit or Loss balances relating to the Parent Company's related party transactions, as required by IAS 24.

Transactions with related parties Amanpulo Srl and Amandari Srl with which there are lease/rental agreements are shown below:

at 31 October 2017

Revenue/Expenses with Related Companies	**Commercial Expenses**	**Financial Expenses**	**Commercial Revenue**	**Financial Income**
Amanpulo Srl	(460)		0	
Amandari Srl	(170)		0	
	(630)	**0**	**0**	**0**

at 31 October 2018

Revenue/Expenses with Related Companies	Commercial Expenses	Financial Expenses	Commercial Revenue	Financial Income
Amanpulo Srl	(464)	0	0	0
Amandari Srl	(172)	0	0	0
	(636)	**0**	**0**	**0**

As in prior year, at 31 October 2018, there were no receivables or payables with related companies.

9. Disclosures regarding financial instruments – IFRS 7 risk analysis (liquidity, market, credit, commodity, etc.)

The activities of the Parent Company and the Group are exposed to a variety of financial risks, as follows:

-Liquidity risk;

-Market risk;

-Credit risk.

Pursuant to IFRS 7, qualitative and quantitative information regarding the extent of these risks for the Company is provided below.

The main risks are reported to and discussed by Management in order to ensure they are hedged and insured and the residual risk is assessed.

9.1 Liquidity risk

A prudent liquidity risk policy involves maintaining adequate cash and cash equivalents and arranging sufficient credit facilities. It is Company policy to have available credit facilities for use in meeting cash requirements and which are immediately available up to the amount of the approved facilities.

9.2 Market risk

Based on the definition provided by IFRS 7, the market risk has been identified as the probability that measurement of the fair value and economic cash flows relating to a financial asset or liability might change as a result of variation in factors such as:

- exchange rates (exchange rate risk);
- interest rates (interest rate risk);

Market risk management objectives regard the monitoring, management and control – within acceptable levels – of the Company's exposure to such risks and the resulting Profit & Loss, Balance Sheet and Financial effects.

Risks regarding exchange rate fluctuation

The receivables of the Company and the Group are not significantly affected by the risk of exchange rate fluctuation as the Group operates in an international environment in which transactions take place almost exclusively in Euro. The Statement of Financial Position items subject to this risk at 31 October 2018 did not have significant balances.

In more detail, foreign currency balances and the related net exposure of the Parent Company at 31 October 2018 were as follows:

Receivables in foreign currency	Total in Foreign Currency	Euro equivalent
US Dollars	3,422	3,024
Canadian Dollars	748	503

The risk of exchange rate fluctuation, mainly in relation to the US Dollar, in terms of purchases, has led Management to adopt a hedge account policy which involves the ongoing hedging of risks relating to purchases based on the amount of orders issued that will have to be settled in USD. This approach may be classified as "cash flow hedging" i.e. hedging the risk of fluctuation in future cash flows. These cash flows may relate to assets or liabilities in the financial statements or to highly probable future transactions. In accordance with IAS 39, the portion of the gain or loss maturing or the hedging instrument which is considered effective for hedging purposes has been recognised directly in the Statement of Comprehensive Income and classified in a specific Equity reserve.

During the reporting period ended 31 October 2018, the Parent Company and the Group entered into contracts for the forward purchase of currency for USD 1,500 thousand with a total Euro equivalent value of Euro 1,278 thousand at an average exchange rate of 1.1739 USD/EUR.

Risks regarding interest rate fluctuation

The objective of interest rate risk management is to guarantee control over financial expenses and their volatility. Through a mix of fixed rate and variable rate liabilities, this involves predetermining a portion of financial expenses for a time period consistent with the debt structure. In turn, the debt structure must be consistent with the equity structure and future cash flows.

The Company's borrowing is linked to variable rates of interest in relation to which a case by case assessment is made of the need to arrange derivative hedging agreements. It also includes fixed rate loans.

The Company and the Group do not have any speculative financial assets. Nor, generally speaking, do they have any financial assets linked to interest rate trends.

9.3 Credit risk

At 31 October 2018, the carrying amount of trade receivables reported in the financial statements represented the maximum exposure to the credit risk.

This credit risk – significant in theory – is mitigated by careful procedures to assess the solvency of customers when granting credit to individual customers. Moreover, there are no significant debtor balances leading to excessive concentration of the credit risk.

9.4 Assets and liabilities measured at amortised cost

Trade receivables and payables, restricted deposits, loans payable and other assets and liabilities are measured at amortised cost. Carrying amount represents a reasonable approximation of the fair value of trade receivables and payables.

10. Fees of the Board of Directors, the Board of Statutory Auditors and the External Auditors

The following table shows the fees of the members of the Board of Directors, the Board of Statutory Auditors and the External Auditors:

	31/10/2018	**31/10/2017**
Board of Directors' Fees	525	535
Statutory Auditors' Fees	39	39
External Auditors' Fees	53	53
Total	**617**	**627**

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STATEMENT OF PROFIT OR LOSS

Euro	Note	2018	2017
Revenue	3.1	176,061,110	134,563,621
Other income	3.2	1,806,708	1,904,232
Total Revenue		**177,867,818**	**136,467,854**
Costs for raw materials (including change in inventory)	3.3	(53,504,231)	(42,893,298)
Costs for services	3.4	(58,383,041)	(47,434,020)
Lease and rental costs	3.5	(1,208,153)	(1,129,419)
Personnel costs	3.6	(11,496,755)	(9,993,254)
Depreciation and amortisation of non-current assets	3.7	(2,192,913)	(1,761,239)
Allocations to provision for bad debts	3.8	(128,800)	(182,640)
Allocations to provisions for risks and charges	3.9	(44,829)	0
Other operating expenses	3.10	(852,923)	(957,979)
Total Costs		**(127,811,645)**	**(104,351,850)**
EBIT		**50,056,173**	**32,116,004**
Financial income	3.11	302,834	400,425
Financial expenses	3.11	(604,462)	(445,852)
Exchange gains and losses	3.11	261,988	(299,133)
Total financial income and expenses		**(39,640)**	**(344,561)**
Adjustments to value of financial assets	3.12	0	0
Earnings before taxation		**50,016,533**	**31,771,443**
Taxes on income	3.13	(13,980,928)	(9,964,052)
Net profit for the period		**36,035,605**	**21,807,391**

STATEMENT OF COMPREHENSIVE INCOME

Euro	Note	2018	2017
Net profit for the period (A)		**36,035,605**	**21,807,391**
Actuarial gains (losses) IAS 19		41,562	15,933
Tax effect		(12,720)	(5,072)
Total other income (losses) that will not subsequently be recycled through profit & loss (B)	4.12	**28,842**	**10,861**
Gains (losses) on hedging instruments		(47,110)	74,474
Tax effect		(2,739)	(3,828)
Total other income (losses) that may subsequently be recycled through profit & loss (C)	4.12	**(49,848)**	**70,646**
Total other income (losses) after tax effect (B+C)		**(21,007)**	**81,507**
Total comprehensive income		**36,014,598**	**21,888,898**

STATEMENT OF FINANCIAL POSITION

Euro **ASSETS** **NON-CURRENT ASSETS**	**Note**	**31 October 2018**	**31 October 2017**
Intangible assets	4.1	2,786,744	2,600,262
Property, plant and equipment	4.2	11,932,171	10,881,336
Investments in subsidiaries and associated companies	4.3	1,687,216	1,687,216
Tax receivables – non-current	4.8	279,160	279,160
Other assets – non-current	4.4	51,529	90,039
Other financial assets – non-current	4.10	10,175,349	10,627,606
Deferred tax assets	4.5	2,141,696	2,063,754
TOTAL NON-CURRENT ASSETS		**29,053,865**	**28,229,373**
CURRENT ASSETS			
Inventory	4.6	25,982,955	20,098,622
Trade receivables	4.7	54,178,024	42,900,930
Tax receivables	4.8	2,755,661	1,138,505
Other current assets	4.9	1,394,518	1,612,224
Other financial assets - current	4.10	1,981,352	1,427,960
Cash and cash equivalents	4.11	23,958,868	8,170,596
TOTAL CURRENT ASSETS		**110,251,378**	**75,348,837**
TOTAL ASSETS		**139,305,243**	**103,578,210**

LIABILITIES AND SHAREHOLDERS' EQUITY

SHAREHOLDERS' EQUITY			
Share capital	4.12	10,000,000	10,000,000
Other reserves	4.12	36,136,174	29,644,190
Net profit for the period	4.12	36,035,605	21,807,391
TOTAL SHAREHOLDERS' EQUITY		**82,171,779**	**61,451,581**
NON-CURRENT LIABILITIES			
Liabilities for employee benefits	4.18	1,247,634	1,288,147
Provisions for risks and charges	4.19	2,338,696	2,136,035
Bank borrowing – non-current	4.14	16,420,594	9,119,188
Financial liabilities – non-current	4.17	0	15,085
Deferred tax liabilities		**20,006,924**	**12,558,455**
TOTAL NON-CURRENT LIABILITIES			
Trade payables	4.13	19,085,188	14,437,318
Bank borrowing – current	4.14	7,510,978	5,193,759
Other current financial liabilities	4.17	3,670	0
Tax payables	4.15	4,811,241	4,566,100
Other liabilities – current	4.16	5,715,463	5,370,997
TOTAL CURRENT LIABILITIES		**37,126,540**	**29,568,174**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**139,305,243**	**103,578,210**

STATEMENT OF CASH FLOWS

Euro	Note	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit (Loss) for the period		36,035,605	21,807,391
Adjustments for:			
Taxes on income		13,980,928	9,964,052
Financial income and expenses		39,640	344,561
Amortisation of intangible assets		1,029,133	681,733
Depreciation of property, plant and equipment		1,163,780	1,079,506
Net change in provisions for risks and charges		202,661	45,191
Net change in employee severance indemnity provision		(11,671)	(137,793)
Operating cash flows before change in net working capital	**5.1**	**52,440,076**	**33,784,640**
Change in inventory		(5,884,333)	(4,450,013)
Change in trade and sundry receivables (including current tax receivables)		(12,715,976)	(6,699,335)
Change in trade and sundry payables (including current tax payables)		5,237,477	5,670,021
Taxes on income		(13,980,928)	(9,964,052)
Cash flows generated (absorbed) by changes in working capital	**5.2**	**(27,343,760)**	**(15,443,379)**
Cash generated (absorbed) by operating activities		**25,096,316**	**18,341,261**
CASH FLOWS FROM INVESTING ACTIVITIES:			
(Investment in)/Divestment of intangible assets and goodwill		(1,215,615)	(863,165)
(Investment in)/Divestment of property, plant and equipment		(2,214,615)	(852,810)
(Investment in)/Divestment of equity investments		0	18,600
Cash generated (absorbed) by investing activities	**5.3**	**(3,430,230)**	**(1,697,375)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net change in current financial assets		(603,241)	(229,120)
Net change in non-current financial assets		452,257	2,078,868
Net change in non-current financial liabilities		(11,415)	(15,950)
Change in bank borrowing and debt to other lenders – current		2,317,219	(1,176,563)
Change in bank borrowing and debt to other lenders – non-current		7,301,406	(5,192,756)
Dividends paid		(15,294,400)	(7,744,000)
Purchase of treasury shares		0	0
Financial income and expenses		(39,640)	(344,561)
Cash generated (absorbed) by financing activities	**5.4**	**(5,877,814)**	**(12,624,082)**
Increase (Decrease) in cash and cash equivalents		**15,788,272**	**4,019,803**

Net cash and cash equivalents at start of period		8,170,596	4,150,793
Net cash and cash equivalents at end of period		23,958,868	8,170,596
Change in cash and cash equivalents		**15,788,272**	**4,019,803**

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Note	Share Capital	Legal Reserve	Law 342/00 Rev. Reserve	Law 158/08 Rev. Reserve	Extraord. Reserve	Other Reserves	IAS FTA Reserve	IAS 19 Reserve	Hedge Accounting Reserves	Retained earnings (Accumulated Losses	Net Profit For period	Total
At 1/11/2016		**10,000,000**	**2,038,774**	**7,559,535**	**4,718,301**	**12,446,369**	**27,945**	**(1,569,269)**	**(106,303)**	**(23,587)**	**12,214,917**	**0**	**47,306,682**
Reclassification of reserves	4.12					12,214,917					(12,214,917)	0	0
Distribution of dividends	4.12					(7,744,000)							(7,744,000)
Change in IAS 19 reserve	4.12								10,861				10,861
Change in Hedge accounting reserve	4.12									70,647			70,647
Other movements	4.12												0
Profit for the period	4.12											21,807,391	21,807,391
At 31/10/2017		**10,000,000**	**2,038,774**	**7,559,535**	**4,718,301**	**16,917,286**	**27,945**	**(1,569,269)**	**(95,442)**	**47,060**	**0**	**21,807,391**	**61,451,581**
Allocation of profit for the period	4.12					21,807,391						(21,807,391)	0
Payment of dividends	4.12					(15,294,400)							(15,294,400)
Change in IAS 19 reserve	4.12								28,842				28,842
Change in Hedge accounting reserve	4.12									(49,849)			(49,849)
Other movements	4.12												0
Profit for the period	4.12											36,035,605	36,035,605
Retained earnings – Accum. losses	4.12												0
At 31/10/2018		**10,000,000**	**2,038,774**	**7,559,535**	**4,718,301**	**23,430,277**	**27,945**	**(1,569,269)**	**(66,600)**	**(2,789)**	**0**	**36,035,605**	**82,171,779**

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NOTES TO THE SEPARATE FINANCIAL STATEMENTS

General information

1. METHOD OF PREPARATION

1.1 General information

Sportswear Company S.p.A. (hereinafter, also, the "Company") is a company incorporated in Italy with its registered office at Galleria Cavour, 4, Bologna, Italy.

During the 2018 reporting period, business activities proceeded normally. There were no events that significant altered operating performance and which made it necessary to make exceptions to application of IFRS.

1.2 Statement of compliance with International Financial Reporting Standards

The Company's Financial Statements have been prepared in accordance with the International Financial Reporting Standards (hereinafter "IFRS" or "international accounting standards") issued by the International Accounting Standards Board (IASB) and endorsed by the European Commission following the procedure set out in Article 6 of Regulation (CE) no 1606/2002 of the European Parliament and Council of 19 July 2002 and in terms of Article 9 of Legislative Decree. 38/05. IFRS is intended as including all "International Financial Reporting Standards", all International Accounting Standards ("IAS") and all interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), previously called the Standing Interpretations Committee ("SIC"), as endorsed by the European Union at the date of approval of the financial statements by the Company Board of Directors and contained in the relevant E.U. Regulations published at that date.
The 2018 financial statements have been audited by Deloitte & Touche S.p.A.

1.3 Financial statements structure adopted

The separate financial statements of Sportswear Company S.p.A. as at 31 October 2018 include the Statement of Profit or Loss, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Shareholders' Equity and these Notes.

The financial statements structure chosen by the Company includes:

- **the statement of profit or loss.** The format adopted classifies costs based on their nature as this provides the best representation of the business activities.
- **the statement of comprehensive income** with the items that make up the net profit for the period and income and expenses recorded directly in equity for transactions other than those entered into with the Shareholders. In fact, as required by IAS 1, all changes generated by transactions with third parties, whether recorded in profit and loss or accounted for directly in equity, shall be reported in a single statement (statement of comprehensive income) or in two separate statements (statement of profit or loss and statement of comprehensive income), as applied by the Company, in order to present the overall performance for the period (i.e. comprehensive income). A separate schedule was adopted for the statement of comprehensive income. Indeed, pursuant to IAS 1, all changes generated by transactions with third parties and recorded directly in equity must be shown in this statement of comprehensive income in order to present the overall performance for the period (i.e. comprehensive income). Amendments to IAS 1 require that all components of comprehensive income should be grouped together depending on whether or not they may subsequently be recycled through profit and loss.
- **the statement of financial position**, prepared using a format, in accordance with IAS 1, where current and non-current assets and current and non-current liabilities are reported separately, in relation to the 12 month operating cycle. Current assets consist of cash and cash equivalents, assets expected to be realised, sold or consumed in the normal course of the business's operating cycle, assets held for trading or assets

expected to be realised within twelve months of the reporting date. All other assets are classified as non-current. Current liabilities include liabilities expected to be settled in the normal course of the business's operating cycle either twelve months of the reporting date or liabilities for which there is not an unconditional right to defer settlement beyond twelve months. All other liabilities are classified as non-current.
- **the statement of cash flows** has been prepared based on the indirect method and is presented in compliance with IAS 7, showing cash flows from operating activities, cash flows from investing activities and cash flows from financing activities.
- the statement of changes in shareholders' equity during the period with comparative movements for prior year.
- these **Notes** and the related attachments.

1.4 Basis of preparation

The financial statements have been prepared based on the historical cost principle, except for derivative instruments which, as required by IAS 39 Other Financial Assets and Assets Available for Sale are reported at fair value.

2. ACCOUNTING POLICIES ADOPTED WHEN PREPARING THE SEPARATE FINANCIAL STATEMENTS

Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance that will generate future economic benefits. These assets are recognised at purchase and/or production costs, inclusive of any directly attributable expenses to prepare the asset for use. They are stated net of accumulated amortisation and any impairment adjustments. Amortisation commences when the asset is available for use and is allocated on a systematic basis over its useful life.
After initial recognition, intangible assets with a finite useful life are carried at cost and amortised on a straight-line basis over their useful life which is estimated in relation to the period in which economic benefits will be generated; they are stated net of any impairment adjustments, determined in accordance with IAS 36.

The amortisation rates applied are as follows:

Intangible assets	**% amortisation**
Software	20%
Key money	Period of rental agreement
Other intangible assets	20%

(i) Software and other intangible assets

Software and other intangible assets are recognised at purchase cost and amortised over a period of five years. Software and other intangible assets purchased by the Company which have a finite useful life are measured at cost minus accumulated amortisation and impairment adjustments.

(ii) Key money

The Key money paid to open directly operated stores is considered as an expense incurred to take over a property lease. It is considered an asset with a finite useful life, as determined based on the period of the underlying lease agreement.

(iii) Research and development costs

Research and development costs are expensed to profit and loss in the period in which they are incurred in accordance with best practice in the sector. This is because it is difficult to distinguish the development phase from the research phase.

Property, plant and equipment

Property, plant and equipment are recognised at purchase cost (in the case of buildings, revaluations performed in prior years under specific laws have been maintained as the option permitted by IFRS 1 in terms of deemed cost has been adopted) or production cost, inclusive of related expenses, and stated net of accumulated depreciation and any impairment adjustments. Production costs include direct and indirect costs insofar as reasonably attributable to the asset and necessary to make the asset available for use (e.g. personnel costs, freight, customs duties, expenses to prepare the place of installation, testing costs, notary expenses and land register fees). Financial expenses directly attributable to the purchase, construction or production of a tangible asset are expensed to Profit and Loss when they are incurred.

Ordinary maintenance expenses are charged in full to Profit and Loss. Costs for improvements, modernisation and transformation which increase the value of an asset are capitalised.
When the depreciable asset consists of separately identifiable components whose useful life differs significantly from that of the other components of the asset, depreciation is performed separately for each component following a "component approach".

Tangible assets highly likely to be sold at the date of preparation of the financial statements are classified as current assets under the caption "Current assets available for sale" and measured at the lower of carrying amount and fair value less costs to sell. The sale of an asset classified under non-current assets is highly probable when Management has formally approved plans to dispose of the assets (or disposal group) or the process to identify a buyer and complete the disposal has begun. Moreover, the asset (or disposal group) has been offered for sale at a reasonable price compared to its current fair value. Completion of the sale is expected within a year of the date of classification and the action necessary to complete the planned sale shows that it is improbable that the plans will be subsequently amended or abandoned.

Assets held under finance lease agreements have been recognised under the relevant categories of property, plant and equipment. They are depreciated applying the depreciation rates adopted for said asset categories unless the duration of the lease agreement is shorter than the useful life represented by said rates and it is not reasonably certain that ownership of the leased assets will be transferred at the natural expiry date of the lease agreement; in such cases, the depreciation period is equal to the duration of the lease agreement. When the asset is recognised, the short-term and medium-term liabilities towards the lessor are also recorded. The instalments paid are divided between financial expenses and a reduction in the short-term and medium-term finance lease payables rather than being included in full in the profit and loss caption lease and rental costs. Financial expenses are recorded in the profit and loss statement in order to obtain a constant rate of interest on the residual liability for each reporting period.
Leases where the lessor substantially maintains the risks and rewards of ownership of the assets are classified as operating leases. Costs for operating lease instalments are recorded on a straight-line basis over the duration of the lease agreement.

Depreciation commences when the assets are ready for use. Assets under construction include costs relating to tangible assets whose economic utilisation process has not yet commenced. Tangible assets are systematically depreciated in each reporting period based on depreciation rates felt to represent the remaining useful lives of the assets.
The following table shows the depreciation rates applied to the various asset categories:

Property, plant and equipment	**% depreciation**
Buildings	3%
Plant and machinery	12.5%
Equipment	25%
Furniture and fittings	12%
Leasehold improvements	Shorter of lease/rental agreement and useful life of improvement
Other tangible assets	12% to 25%

As required by IAS 16, the estimated useful lives of tangible assets are reviewed in every reporting period in order to assess the need to revise them. If the estimated useful lives are found not adequately to reflect the future economic benefits expected, the depreciation periods must be revised based on the new assumptions. The effects of such changes are allocated to profit and loss prospectively.

The recoverability of the carrying amount of tangible assets is tested adopting the criteria set out under "Impairment of assets" below.

Business combinations

Business combinations – which, in the case of separate financial statements, regard acquisitions of business units - are accounted for using the "acquisition method" (as defined by IFRS 3 - revised - "Business combinations"). After the acquirer in the business combination has been identified and the acquisition cost determined, the "acquisition method" requires all of the assets and liabilities acquired (including contingent liabilities) to be measured at fair value. Any goodwill is determined on a residual basis only as the difference between the cost of the business combination and the relevant portion of the difference between the assets and liabilities acquired as measured at fair value. If this difference is negative, it is recognised as income in the period in which the business combination takes place. Transaction-related expenses are recorded directly in the Statement of profit or loss based on Company Management's decision to adopt an accounting policy consistent with that required by IFRS for the consolidated financial statements.

Business combinations of entities under common control

Business combinations of entities under common control are business combinations of entities controlled by the same parties both before and after the business combination and whose control is not temporary. The presence of minority interests in each of the entities involved in a business combination before and after the combination is not relevant in determining whether the combination involves entities under common control. Business combinations of entities under common control are accounted for in such a way that the net assets of the entity acquired and the acquiring entity are measured at their carrying amounts in the respective accounting regards before the operation, without recognising in the financial statements any gains resulting from these combinations and recorded in the separate financial statements of the Company.

Investments

Investments in subsidiaries and associated companies not classified as held for sale are accounted for at cost, as adjusted for any impairment.
Where there are indicators of impairment of an investment, the investment is subjected to an impairment test and adjusted accordingly if necessary. For the impairment adjustment to be recorded in Profit and Loss, there must be objective evidence that events affecting the estimated future cash flows of the investments have occurred. Any losses in excess of the carrying amount of the investments that emerge in relation to legal or implicit obligations to cover the losses of the investee entities are recorded under provisions for risks and charges.
Original amount is restored in subsequent periods if the reasons for the impairment adjustment cease to apply. Dividends are recorded as financial income from investments when the right to receive them is finalised – this generally coincides with the Shareholders' Meeting resolution.

Investments in other entities are measured at fair value. When fair value cannot be reliably estimated, the investment is measured at cost. The recoverability of the carrying amount of investments is tested using the method described in the Note "Impairment of assets".

Receivables and other assets – current and non-current

Trade receivables and other receivables resulting from the supply of financial resources, goods or services by the Company to third parties are classified as current assets except where their maturity date is more than twelve months from the reporting date with reference to non-trade receivables.
Current and non-current financial receivables, current and non-current other receivables and trade receivables, except for assets resulting from derivative instruments, are measured – if they have a pre-determined maturity – at amortised cost calculated using the effective interest method.
When financial assets do not have a pre-determined maturity, they are measured at cost. Receivables maturing after more than a year and which are interest-free or generate interest at less than the market rate are discounted using market rates.
Where there is objective evidence of indicators of impairment, the asset is reduced to bring it into line with the value of future cash flows. Impairment adjustments are recorded in the Statement of profit or loss. If, in subsequent periods, the reasons for a previous impairment adjustment cease to apply, the value of the assets is restored up to the amount they would have had if the amortised cost method had been applied and the impairment adjustment had never been made.

Deferred tax assets and liabilities

Deferred tax assets and liabilities refer to taxes expected to be paid or recovered on temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax values used to determine taxable income.
Deferred tax liabilities are generally recorded for all taxable temporary differences while deferred tax assets are recognised to the extent that it is considered probable that there will be future taxable income to enable deductible temporary differences to be utilised. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that there will be sufficient taxable income to enable all or part of the assets to be recovered.
Deferred tax assets/liabilities are calculated taking account of the tax rate expected to apply to the Company in the year when the differences will form part of taxable income, considering rates in force or already announced at the reporting date.

Inventory

Inventory of raw materials, work in progress and finished goods is measured at the lower of weighted average production or production cost and net realisable amount. Average cost includes the direct cost of materials and processing.
The provision for raw materials and finished goods is calculated to bring cost into line with net realisable amount based on estimates that take account of the production season and the possibility of using raw materials in production and selling finished goods through alternative channels (outlet stores and other discount retailers).

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, bank current accounts, deposits reimbursable on demand and other highly liquid, short-term financial investments which are readily convertible into cash i.e. which can be transformed into cash within 90 days of their original acquisition date. These items are not subject to a significant risk of a change of value.

Impairment of assets

At least once a year at the annual reporting date, the Company reviews the carrying amount of its goodwill, intangible assets and property, plant and equipment to determine if there are any indicators of impairment. If any such indicators are identified, it estimates the recoverable amount of the assets in order to determine the impairment adjustment required. Where it is not possible to estimate the recoverable amount of an asset individually, the Company estimates the recoverable amount of the cash generating group to which the asset belongs.
Recoverable amount is the greater of fair value less costs to sell and value in use. When determining value in use, estimated future cash flows are discounted to present value using a pre-tax rate that reflects the current market valuation of the value of money and the specific risks of the assets.
If the estimated recoverable amount of an asset (or a cash generating unit) is lower than its carrying amount, it is adjusted accordingly. An impairment adjustment is recorded immediately in the statement of profit or loss.
When an impairment adjustment is no longer required, the carrying amount of the asset (or the cash generating unit), except for goodwill, is increased to the new value based on an estimate of recoverable amount but this cannot exceed the net carrying amount the asset would have had if the impairment adjustment had never been made. The reversal of the impairment adjustment is recorded in the statement of profit or loss.

Shareholders' Equity

Share Capital consists of ordinary shares in issue and is recorded at nominal amount. Costs relating to the issue of shares or options are classified as reductions to Shareholders' Equity (net of the related tax benefit) by deducting them from the proceeds from the issue of such instruments.
Upon the purchase of treasury shares, the price paid – including any directly related expenses – is deducted from Group Shareholders' Equity until the cancellation, reissue or disposal of the shares. When such shares are resold or reissued, the proceeds – net of any direct related expenses and the tax effect – are accounted for as an increase to Shareholders' Equity.

Movements on the Legal reserve regard amounts allocated in terms of Article 2430 of the Italian Civil Code i.e. it is increased by one-twentieth of the net profits of the Company until the reserve reaches one-fifth of the Share Capital of the Company. Once the reserve reaches a fifth of Share Capital but is, then, decreased for any reason, it is then restored by making annual allocations on the basis described above.

Post-employment benefit liabilities

The Company treats pension plans based on the defined benefit and/or defined contribution plan approach as the Employee Severance Indemnity ("T.F.R." – *Trattamento di fine rapporto*) is such a plan.
The liability relating to a defined benefit pension plan (such as the T.F.R.) represents the present value of the corresponding obligation at the reporting date, net of the fair value of the assets at the service of the plan, as adjusted to take account of actuarial gains and losses and costs for service to date.
The obligation to finance such defined benefit pension plans and the related annual cost recorded in the Statement of Profit or Loss are determined by independent actuaries, using the projected unit credit method.
For defined benefit plans, costs resulting from discounting of the obligation are classified as financial expenses. Meanwhile, actuarial differences emerging in case of changes to the assumptions applied when calculating defined benefit pension plans are recorded in the Statement of Comprehensive Income.
The Employee Severance Indemnity Provision (TFR) is akin to a defined benefit plan until 31 December 2016 and must be measured based on strategic and demographic assumptions, as well as using actuarial valuation methods. As a result of changes to Italian legislation, the TFR provision maturing from 1 January 2007 onwards has been treated as a defined contribution plan where the requirements of the regulatory changes were met.
Upon transition to IFRS, the amount of the provision was recalculated, as was the cost relating to each year. In more detail, actuarial gains and losses are recorded under Other Comprehensive Income, service cost is recorded under Personnel Costs and the interest cost is recorded under Financial Expenses.

Provisions for risks and charges

Provisions for risks and charges are recorded to cover losses or liabilities which are certain or probable but whose amount or maturity date could not be determined at the reporting date.
Provision is made when:

- there is a probable current obligation as a result of a past event;
- it is probable that a cash outflow will be required to fulfil the obligation;
- the amount of the obligation may be reliably estimated.

Provisions are recorded at an amount representing the best estimate of the amount the entity would rationally pay to extinguish the obligation, or transfer it to third parties, at the reporting date.
When the financial effect of time is significant and the payment dates of the obligations can be reliably estimated, the provision is discounted; any increase in the provision due to the passage of time is recorded in the Statement of Profit or Loss under "Financial income (expenses)".
Provisions are periodically updated to reflect changes in estimates of costs, realisation periods and discount rates. Changes in the estimated amount of provisions are recorded in the Statement of Profit or Loss caption in which the original allocation was made. When the liability relates to tangible assets (e.g. dismantlement and restoration costs), changes are recorded against the related asset.

Hedging instruments

The Company uses derivative instruments to hedge its exposure to the exchange rate risk and the interest rate risk. It does not have any speculative financial instruments. In accordance with IAS 39, hedge accounting is applied to hedging instruments only if the following conditions are met:
(i) at the inception of the hedge, formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge;
(ii) the hedge is expected to be highly effective in offsetting changes in fair value (fair value hedge) or cash flows (cash flow hedge) attributable to the hedged risk;
(iii) for cash flow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss;
(iv) the effectiveness of the hedge can be reliably measured, i.e. the fair value or cash flows of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured;
(v) the hedge has been assessed on an ongoing basis and has been considered highly effective throughout the life of the derivative.
Hedging instruments are measured at their fair value at the designated date. The fair value of exchange rate derivatives is measured in relation to their inherent value and their time value. At every reporting date, hedging instruments are tested for effectiveness in order to check if the hedge has met the requirements for classification as an effective hedge and to be treated based on hedge accounting principles. When financial instruments meet hedge accounting requirements, the following accounting treatment is applied:

Fair value hedge - If a derivative instrument is designated as a hedge of the risk of changes in the fair value of an asset or liability because of a particular risk that could produce effects on Profit and Loss, the gains or losses arising from subsequent fair value measurement of the hedging instrument are recorded in the Statement of Profit or Loss. Gains or losses on the hedged item, attributable to he hedged risk, change the carrying amount of said item and are recognised in Profit and Loss.

Cash flow hedge - If a derivative instrument is designated as a hedge of the risk of changes in future cash flows from an asset or liability recorded in the financial statements or a highly probable transaction and which could have an effect on Profit and Loss, changes in the fair value of the hedging instrument are reported in the Statement of Comprehensive Income; any ineffective portion is recorded in the Statement of Profit or Loss.
If a hedging instrument or a hedging relationship is closed but the hedged transaction has not yet been realised, the cumulative gains and losses, until then recorded in the Statement of Comprehensive Income, are recognised in Profit and Loss when the transaction is realised.
If the hedged transaction is no longer considered probable, any unrealised gains and losses suspended in Equity are recorded immediately in Profit and Loss.
If hedge accounting cannot be applied, gains or losses arising from the far value measurement of the derivative instrument are recorded immediately in Profit and Loss.

Financial liabilities

Financial liabilities include loans, trade payables and other payment obligations. They are measured at fair value upon initial recognition and, subsequently, at amortised cost, using the effective interest method. Where there is a change in expected cash flows and they can be reliably estimated, the amount of loans is recalculated to reflect this change based on the present value of the new expected cash flows and the internal rate of return initially determined. Financial liabilities are classified as current liabilities unless the Company has an unconditional right to defer payment for at least 12 months after the reporting date.
Financial liabilities are derecognised when they are extinguished or when the Company has transferred all of the risks and expenses relating to the instruments. As the Company's financial liabilities have been contracted at variable rates of interest, their fair value is broadly in line with their carrying amount.

Application of the amortised cost method when measuring loans
IFRS provide for the use of the amortised cost method to measure loans received. In turn, the amortised cost method requires the use of the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortised cost of a financial liability. Under the amortised cost method, all loan-related expenses, including ancillary expenses, are accounted for as financial expenses.

Revenue recognition

Revenue is recognised to the extent that it is probable that the company will obtain economic benefits and its amount can be reliably determined. Revenue is stated after any adjustments (returns, discounts and allowances) and does not include value added tax or any other sales tax.
Wholesale channel sales are recognised upon shipment of the finished product to the end customer because that is the moment when ownership is essentially transferred, together with the related risks and rewards. The accrual for returns and discounts is estimated based on future forecasts, taking account of the historical trend.

Retail channel sales are recognised on the date of the direct sale of the goods to the end customer.

Dividends

Dividends are recognised when the Shareholders' right to receive payment is confirmed.

Cost recognition

Costs for purchases of goods and services are recognised when their amount can be determined reliably. Costs for purchases of goods are recognised upon delivery which, based on contractual agreements, identifies the moment when the related risks and rewards are transferred. Costs for services are recognised on an accrual basis based on when the services are received.

Financial income and expenses

Interest expenses are recorded on an accrual basis based on interest accruing on the net amount of financial assets and liabilities, using the effective interest rate method.

Taxation

Taxation for the period represents the sum of current and deferred taxes.
Taxes on income are determined based on a realistic forecast of the taxes payable in application of current tax legislation.
Taxes relating to future periods but payable during the current period (deferred tax assets) are included as are those relating to the period but which will only be payable in future periods (deferred taxes). These

deferred taxes and deferred tax assets are the result of temporary differences between the value of assets and liabilities for statutory reporting purposes and their respective tax values.
Deferred tax assets are recognised to the extent that their future recovery is probable.
The recoverability of deferred tax assets is tested at every reporting date and any amount whose recovery is no longer probable is released to Profit and Loss.
The benefits resulting from tax loss carryforwards are accounted for only if it is considered probable that in future periods there will be sufficient taxable income to offset the losses.
Deferred tax assets and liabilities are determined based on the tax rates expected to be applicable in the periods when the temporary differences will be realised or extinguished.
Deferred tax assets and liabilities are classified, respectively, under assets and non-current liabilities. Any net balance after offsetting is recorded under "Deferred tax assets" or under "Deferred tax liabilities".
Tax assets and liabilities – whether current or deferred – are offset if due to the same tax authority, the reversal period is the same and there is a legal right of offset.

Translation of amounts denominated in foreign currency

Receivables and payables originally denominated in currencies other than the functional currency or the Company reporting the receivable/payable (foreign currency) are translated into the functional currency of that company at the historical rates on the dates of the relevant transactions. Exchange differences realised upon collection of receivables and settlement of payables in foreign currency are recorded in Profit and Loss. At the reporting date, any foreign currency receivables and payables are translated at the spot exchange rates at that date and the change in the amount of the receivables/payables is recorded in Profit and Loss (unrealised exchange gains and losses).

Segment information

As the Company is unlisted, it has opted not to provide segment information, as permitted by IFRS 8.

Use of estimates

Preparation of the financial statements requires Company Management to make accounting estimates based on complex and/or subjective judgments. These estimates are based on past experience and on assumptions considered reasonable and reliable based on information known at the time of the estimate. Utilisation of these accounting estimates influences the amount of assets and liabilities and disclosures regarding contingent assets and liabilities at the reporting date, as well as the amount of revenue and expenses in the reporting period. The final results i.e. the actual Profit and Loss effect recorded when the event occurs, in relation to the items for which said estimates and assumptions were used, may differ from those reported in the financial statements because of the inherent uncertainty that characterises the assumptions and the conditions on which the estimates are based.

Details are provided below of the issues which, more than others, require the Directors to use their subjective judgment when making estimates and for which a change in the conditions underlying the assumptions made could have a significant effect on the consolidated financial information:

Impairment of assets
In accordance with the Accounting Principles applied by the Company, intangible assets and property, plant and equipment with a finite useful life are tested for impairment (which is recorded by means of an adjustment) when there are indicators that lead to the expectation that it will be difficult to recover their net carrying amount through use. In order to check for the presence of such indicators, the Directors have to made subjective assessments based on information available within the Company and on the market, as well as using their past experience. Moreover, when potential impairment is identified, the Company proceeds to calculate its amount using appropriate measurement techniques. The proper identification of indicators of impairment and estimates of its amount depend on factors which may vary over time, affecting the assessments and estimates made by the Directors.

Depreciation of property, plant and equipment
The cost of property, plant and equipment is depreciated on a straight-line basis over the estimated useful life of the assets. The estimated useful life of the Company's non-current assets is determined by the Directors when the asset is acquired. It is based on past experience for similar assets, market conditions and information regarding future events that could impact useful life e.g. technological advances. Therefore, actual useful life may differ from estimated useful life. The Company periodically assesses technological changes and changes in the industry to update residual useful life. Such periodical updating could lead to a change in the depreciation period and also in the depreciation charges in future periods.

Inventory valuation and obsolescence provision
The Company values its inventory at the lower of cost and estimated realisable amount based on an assessment of expected market trends and making assumptions with regard to the future realisation of the value of inventory. If actual market conditions are less favourable than expected, the value of inventory might have to be adjusted accordingly.

Provision for bad debts
In order to determine the appropriate level of provision for bad debts, the Company assesses the possibility of collection of receivables based on the ability of each debtor to pay. The quality of the estimates depends on the availability of up-to-date information on the debtor's ability to pay.

Deferred tax assets
Deferred tax assets are recognised based on taxable income forecast in future periods and also taking account of the amount and time period of the temporary differences giving rise to deferred taxes. Forecasts of future taxable income used when accounting for deferred tax assets depend on factors that can vary over time with a significant impact on the measurement of the deferred tax assets.

Provisions for risks and charges
Provisions are recorded when the Company has a current obligation as a result of a past event and it is probable that it will be required to fulfil that obligation. Provisions are recorded based on the best estimate of the costs required to fulfil the obligation at the reporting date and are discounted when the effect is significant. The Notes provide disclosures regarding any possible liabilities in relation to which no provision has been made in the financial statements.

Actuarial calculation of defined benefit pension plans: estimates, demographic and economic/financial assumptions made, with support from the estimates of an independent actuary, when performing the actuarial calculation for use in determining defined benefit plans in relation to post-employment benefits, are detailed as follows:

Annual rate of inflation	Probability employee will leave Group	Probability of advance payment on TFR
1.5% in 2018 and 2017	Frequency of 3.8% in 2018 and 2017	1.7% for 2018 and 2017

Finally, it should be noted that actuarial calculations were performed using the rate curve for corporate securities with an AA rating.

Accounting standards, amendments and IFRS interpretations applied from 1 November 2017

As the Company's annual reporting period ended on 31 October 2018, application of accounting standards is deferred compared to the calendar year.

The Company applied the following accounting standards, amendments and IFRS interpretations for the first time from 1 November 2017:

Amendment to IAS 7 "Disclosure Initiative" (issued on 29 January 2016). The amendment aims to provide certain clarification to improve the disclosure of financial liabilities. In particular, the amendments require the provision of disclosures that enable the users of financial statements to understand changes in liabilities resulting from financing operations.

Amendment to IAS 12 "Recognition of Deferred Tax Asset for Unrealised Losses" (published on 19 January 2016). The document aims to provide certain clarification as to the recognition of deferred tax assets on unrealised losses on the measurement of financial assets included in the "Available for Sale" in certain circumstances and on estimates of taxable income for future periods. Adoption of these amendments did not have any effect on the Company's financial statements.

Accounting standards, amendments and IFRS and IFRIC interpretations endorsed by the European Union, not applicable on an obligatory basis and not adopted in advance by Sportswear as at 31 October 2018

Accounting standards, amendments and interpretations endorsed by the European Union but not yet applicable and not adopted in advance by the Company:

• On 28 May 2014, the IASB published IFRS 15 – Revenue from Contracts with Customers which, together with further clarifications published on 12 April, 2016, is destined to replace IAS 18 – Revenue and IAS 11 – Construction Contracts, as well as interpretations IFRIC 13 – Customer Loyalty Programmes, IFRIC 15 – Agreements for the Construction of Real Estate, IFRIC 18 – Transfers of Assets from Customers and SIC 31 – Revenues-Barter Transactions Involving Advertising Services. The standard introduces a new model of revenue recognition that will apply to all contracts signed with clients except for those that fall within the scope of application of other IAS/IFRS, such as finance leases, insurance contracts and financial instruments. The key steps in revenue recognition under the new model are: identify the contract with the customer; or identify the performance obligations in the contract; or determine the price; or allocate the price to the performance obligations in the contract; or recognise revenue when the entity satisfies each performance obligation. The standard is applicable to financial statements for annual reporting periods commencing on or after 1 January, 2018. The amendments to IFRS15 – Clarifications to IFRS 15 - Revenue from Contracts with Customers, published by the IASB in April 2016, were endorsed by the European Union on 6 November 2017.

Based on an initial review, possible future adoption of this standard should not have a significant impact on the Company's financial statements.

• On 24 July 2014, the IASB published the final version of IFRS 9 – Financial Instruments. The document includes the results of the IASB project with a view to replacing IAS 39. The new standard must be applied for financial statements for reporting periods commencing on or after 1 January 2018. The standard introduces new criteria for the classification and measurement of financial assets and liabilities. For financial assets, the new standard uses a single approach based on the method of management of financial instruments and the characteristics of the contractual cash flows of the financial assets themselves in order to determine the measurement criteria, substituting the different rules provided for by IAS 39. For financial liabilities, meanwhile, the main change regards the accounting treatment of changes in the fair value of a financial liability designated as a financial liability measured at fair value through profit and loss when such changes are due to a change in the credit rating of the issuer of the liability. Under the new standard, such changes must be reported in "Other comprehensive income" and no longer in the Statement of Profit or Loss. With regard to impairment, the new standard requires that estimates of losses on receivables be performed based on the expected losses model (and not on the incurred losses model used by IAS 39) using supportable information, available with no expense or unreasonable efforts, which include historical, current and prospective information. The standard provides that this impairment model shall be applied to all financial instruments i.e. to financial assets measured at amortised cost, to financial instruments measured at fair value through other comprehensive income, to receivables from rental agreements and to trade receivables. Finally, the standard introduces a new model of hedge accounting in order to adapt the requirements of the current IAS 39 which have been considered too strict and unsuitable in reflecting the companies' risk management policies. The main changes regard: an increase in the types of transaction eligible for hedge accounting, also including risks regarding non-financial assets/liabilities eligible for hedge accounting; a change in the accounting method for forward contracts and options when included in a hedge accounting relationship in order to reduce volatility in profit and loss; changes to the effectiveness test with the current method based on the 80-125% parameter replaced with the principle of an "economic relationship" between the item hedged and the hedging instrument; moreover, an evaluation of the retrospective effectiveness of the hedging relationship will no longer be required.

The greater flexibility offered by the new accounting rules is counterbalanced by additional disclosure requirements on the Company's risk management activities.

Based on an initial review, possible future adoption of this standard should not have a significant impact on the Company's financial statements.

IFRS 16 – Leases. Leases, published by the IASB on 13 January 2016 and destined to replace IAS 17 – Leases and interpretations IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases—Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The new standard provides a new definition of lease and introduces a criterion based on control of an asset (right of use) to distinguish lease agreements from contracts for services. The discriminating characteristics are: the identification of the asset, the right to replace the asset, the right to obtain substantially all economic benefits from use of the asset and the right to direct the use of the asset under the contract. The standard is applicable from 1 January 2019. Early application is permitted for companies that apply IFRS 15. In the coming months, detailed analysis will be performed to assess the effects the introduction of IFRS 16 will have on the Group. A significant impact on Non-Current Assets, on the Company's non-current assets and Financial Liabilities and on certain intermediate Profit and Loss results is likely.

Amendments to IFRS 9 - Prepayment Features with Negative Compensation. Document issued by the IASB on 12 October 2017. The amendments, applicable from 1 January 2019, regard the requirements of IFRS 9 in relation to termination rights in order to permit valuation at amortised cost (or, depending on the business model, at fair value through comprehensive income) also in case of negative compensation payments. The Directors are currently assessing the possible effects of the introduction of these amendments on the Company's financial statements.

Amendments to IFRS 2 – Share-based payments. On 20 June 2016, the IASB published the document "Classification and measurement of share-based payment transactions". The amendments provide some clarification on the accounting treatment of the effects of vesting conditions in the presence of cash-settled share-based payments, the classification of share-based payments with net settlement features and the accounting treatment of changes to the terms and conditions of a share-based payment which transform its classification from cash-settled to equity-settled. The amendments are applicable from 1 January 2018 but early application is permitted. The introduction of the amendments is not expected to have an impact on the Company's financial statements.

Amendments to IFRS 4 – Application of IFRS 9 "Financial instruments" and IFRS 4 "Insurance contracts". The document, published by the IASB on 12 September 2016, contains a series of amendments which aim to clarify problems regarding the temporary volatility of results reported in financial statements due to application of the new IFRS 9 before the IASB replaces the existing IFRS 4. The amendments are applicable from 1 January 2018 but early application is permitted. The introduction of the amendments is not expected to have any effect on the Company's financial statements.

On 8 December 2016, the IASB published the document "Annual Improvements to IFRSs: 2014-2016 Cycle". The improvements regard three existing International Accounting Standards: IFRS 12 – Disclosure of Interests in Other Entities (applicable from 1 January 2017), IFRS 1 – First-time Adoption (applicable from 1 January 2018) and IAS 28 – Investments in associates and joint ventures (applicable from 1 January 2018). The amendments clarify, correct or remove certain parts of the text of the standards in question. The Directors are currently assessing the possible effects of the introduction of these amendments on the Company's financial statements.

IFRIC 22 – Foreign currency transactions and advance consideration. The interpretation, published by the IASB on 8 December 2016 and applicable from 1 January 2018, establishes which exchange rate to use in foreign currency transactions involving consideration paid or received in advance. The Directors are currently assessing the possible effects of the introduction of the new interpretation on the Company's financial statements.

IFRIC 23 – Uncertainty over Income Tax Treatments. The interpretation, published by the IASB on 7 June 2017 and applicable from 1 January 2019, aims to clarify the recognition and measurement requirements of IAS 12 in case of uncertainty over income tax treatments. The Directors are currently assessing the possible effects of the introduction of the new interpretation on the Company's financial statements.

Amendments to IAS 40 – Investment property. Document issued by the IASB on 8 December 2016. The amendments, applicable from 1 January 2018, clarify the requirements regarding transfers to or from investment property. The Directors are currently assessing the possible effects of the introduction of these amendments on the Company's financial statements.

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

The competent European Union bodies are currently endorsing the following standards, improvements and amendments of IFRS (already approved by the IFRS), as well as the following interpretations (already approved by the IFRS IC):

IFRS 17 – Insurance contracts. IFRS 17 requires that insurance contract liabilities be measured at current performance amount. It provides a more standard measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the objective of a principle-based accounting treatment for insurance contracts. IFRS 17 will replace IFRS 4 from 1 January 2021. The Directors are currently assessing the possible effects of the introduction of these amendments on the Company's financial statements.

Amendment to IAS 28 "Long-term Interests in Associates and Joint Ventures" (published on 12 October 2017)". This document clarifies the need to apply IFRS 9, including its impairment requirements, to other long-term interests in associates and joint ventures for which the equity method is not applied. The amendment is applicable from 1 January 2019 but early application is permitted. The Directors are currently assessing the possible effects of the introduction of the amendment on the Company's financial statements.

On 12 December 2017, the International Accounting Standards Board (IASB) published the document "Improvements to International Financial Reporting Standards (2015-2017 Cycle)". The improvements include amendments to four existing international financial reporting standards (applicable from 1 January 2019): IFRS 3 and IFRS 11 – the amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business. IAS 12 – The amendments clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognised in profit or loss. IAS 23 – The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings. The Directors are currently assessing the possible effects of the introduction of these amendments on the Company's financial statements.

Amendment to IAS 19 "Plan Amendment, Curtailment or Settlement" (published on 7 February 2018). The document clarifies how an entity shall recognise an amendment (i.e. curtailment or settlement) to a defined benefit plan. The amendments require the entity to update their assumptions and to remeasure the net asset or liability resulting from the plan. The amendments clarify that after such an event, an entity shall use updated assumptions to measure the current service cost and interest for the remainder of the relevant period after the event. The amendments are applicable from 1 January 2019 but early application is permitted. The Directors do not expect adoption of these amendments to have a significant effect on the Company's financial statements.

The European Union endorsement process has been suspended for the following amendments to standards and interpretations:

Amendments to IFRS 10 and IAS 28 – Sales or Contribution of Assets between an Investor and its Associate or Joint Venture. Document published by the IASB on 11 September 2014 in order to resolve the conflict between the aforementioned two standards in relation to the sale or contribution of an asset or a subsidiary to an associate or joint venture, applicable from 1 January 2016. The amendments introduced provide that in case of the sale or contribution of an asset or a subsidiary to an associate or to a joint venture, the gain or loss to be recorded in the financial statements of the seller/contributor company shall be determined in relation to the classification of the assets or the subsidiary sold/contributed as a business, as defined by IFRS 3. If the sale/contribution represents a business, the entity shall recognise the gain or loss on the entire previously held interest. Otherwise, the entity shall recognise the portion of the gain or loss relating to the interest still held by the entity which shall be derecognised.

3 Notes to the Statement of Profit or Loss

3.1 Revenue

Analysis by business category:	**31/10/2018**	**31/10/2017**
Sales in Italy	48,774,619	40,697,440
Sales in other countries	105,833,561	78,846,259
Sales to subsidiaries	16,481,235	10,482,874
Store sales	4,908,435	4,390,266
Other revenue	8,260	32,782
Allocation to provision for returns	(950,000)	(1,005,000)
Utilisation of provision for returns	1,005,000	1,119,000
Total	**176,061,110**	**134,563,621**

The above figures show a significant, 30.8% revenue increase in the 2018 reporting period compared to the previous period. This confirms the trend already seen in previous periods.
Sales to subsidiaries take place on an arm's length basis and regard the sale of goods to Stone Island Retail S.r.l. for all stores in Italy, SPW Germany for the store in Munich, Stone Island Retail Germany for the stores in Sylt and Hamburg, Stone Island Antwerp for the store in Antwerp, Stone Island Amsterdam for the store in Amsterdam and Stone Island USA Inc for sales in the United States.
Revenue is reported net of the best estimate of expected returns.

Revenue by geographical area (Euro 000)	**31/10/2018**	**31/10/2017**
Italy	50,220	42,568
Europe (excl. Italia)	96,532	71,517
Americas	10,851	6,636
Rest of the World	18,458	13,843
Total	**176,061**	**134,564**

3.2 Other income

	31/10/2018	**31/10/2017**
Rental income	32,655	24,961
Recovery of legal expenses	14,974	9,913
Royalties income	0	0
Recovery of expenses for compensation for damages for non-quality related issues	116,103	80,207
Law 296/06 R&D grant	118,312	164,099
Out of period income	54,436	154,325

Chargebacks to subsidiaries	470,653	651,045
Other revenue and income	999,575	819,682
Total	**1,806,708**	**1,904,232**

"Other revenue and income" includes all amounts charged by the Company to the subsidiaries for services and/or materials provided during the period, revenue for the sale of sundry items such as furnishings for stores and retail corners opened during the period and the recovery of shipping costs which are charged to customers upon restocking.

3.3 Costs for purchases (including change in inventory)

	31/10/2018	31/10/2017
Raw materials and semi-finished products	16,227,889	13,432,724
Finished products	41,212,455	32,213,688
Ancillary materials	309,638	264,701
Purchase of packaging	47,072	25,800
Advertising materials	964,782	681,075
Other purchases	626,728	725,323
Change in inventory	(5,884,333)	(4,450,013)
Total	**53,504,231**	**42,893,298**

Overall, purchases of raw materials and finished products for resale have increased in line with the revenue increase.

3.4 Costs for services

	31/10/2018	31/10/2017
Utilities	281,378	290,011
Maintenance	500,917	267,651
Shipping	4,911,770	4,087,024
Outsourced production	25,751,436	20,249,148
Management of external warehouses	3,864,750	3,155,057
Commission and ancillary services	7,261,514	5,376,540
Advertising	4,363,631	4,695,724
Royalties and stylistic consulting	945,735	601,473
Insurance	372,718	350,165
Telephone	148,879	126,746
Consultancy	1,468,331	1,337,872
Legal advice	47,558	48,094
Directors' fees	579,355	587,599
Statutory auditors' fees	38,698	38,579
Cleaning	148,042	125,814
Banking services	283,143	280,146
Other services	7,415,186	5,816,377
Total	**58,383,041**	**47,434,020**

The increase in costs for outsourced production is linked to revenue growth.

3.5 Lease and rental costs

In the 2018 reporting period, Lease and rental costs amounted to Euro 1,208 thousand (Euro 1,129 thousand in 2017) and included property lease costs of Euro 865 thousand (Euro 818 thousand in 2017), information system operating lease costs of Euro 125 thousand (Euro 124 thousand in 2017), company car fleet long-term rental costs of Euro 211 thousand (Euro 177 thousand in 2017) and other rental costs of Euro 8 thousand (Euro 9 thousand in 2017).

3.6 Personnel costs

As at 31 October 2018, the Company had 160 employees (146 employees at 31 October 2017). Personnel costs amounted to Euro 11,497 thousand (Euro 9,993 thousand in 2017), including contributions of Euro 2,364 thousand (Euro 2,037 thousand in 2017) and allocations to employee severance indemnity/TFR provisions of Euro 630 thousand (Euro 501 thousand in 2017).

	AVERAGE 2018	**at 31 October 2018**	**AVERAGE 2017**	**at 31 October 2017**
BLUE COLLAR	14	16	10	11
INTERMEDIATES	5	5	5	5
WHITE COLLAR	128	130	120	124
MANAGERS	8	9	6	6
	155	**160**	**141**	**146**

3.7 Depreciation and amortisation of non-current assets

In the 2018 reporting period, depreciation and amortisation amounted to Euro 2,193 thousand (Euro 1,761 thousand in 2017).

3.8 Provision for bad debts

In the 2018 reporting period, Euro 129 thousand was allocated to the provision for bad debts (Euro 183 thousand in 2017).

3.9 Provisions for risks and charges

During the reporting period, a provision of Euro 45 thousand was created for a tax demand from the Italian Tax Authorities for the tax period 1/11/2015-31/10/2016. No allocations to provisions for risks and charges were made in the 2017 reporting period.

3.10 Other operating expenses

This caption includes:

	31/10/2018	**31/10/2017**
Taxes and duties	181,861	164,721
Tax and contractual penalties	15,039	14,703
Losses due to damage	142,579	53,621
Gifts and donations	448,832	426,916
Out of period expenses	51,402	77,911
Bad debts	0	209,003
Other minor expenses	13,210	11,104
Total	**852,923**	**957,979**

3.11 Financial income and expenses

This caption is analysed as follows:

	31/10/2018	**31/10/2017**
Interest income from subsidiaries	187,735	208,715
Dividends from subsidiaries	0	48,000
Bank interest income	7,327	2,879
Interest from customers	81,989	77,905
Other interest income	4,030	2
Income from cash discounts	21,754	62,924
Bank interest expenses for advances	(401)	(1,552)
Bank interest expenses on M/L term loans	(131,384)	(183,980)
Other interest expenses	(2,001)	2,191
Cash discounts to customers	(448,103)	(233,688)
Loan arrangement expenses	(22,573)	(28,824)
Exchange gains (losses)	261,987	(299,133)
Total	**(39,640)**	**(344,561)**

Interest income from subsidiaries includes interest charged to subsidiaries on loans made to them. Income from cash discounts relates to payments made ahead of contractual maturity dates with our suppliers.

3.12 Adjustments to value of financial assets

No adjustments to the value of financial assets were made during the reporting period.

3.13 Taxes on income

	31/10/2018	**31/10/2017**
Current taxation	14,131,366	9,695,218
Prior year taxation	(57,037)	(4,212)
Deferred taxation (income)	(93,401)	273,046
Total	**13,980,928**	**9,964,052**

The taxation included in the Statement of Profit or Loss includes current income taxes and deferred taxes.

The income tax expense for the reporting period is determined in accordance with current tax law.

In 2017/2018, the Company recorded a net increase of Euro 93,401 in deferred tax assets, as described in the relevant note.

We note that, under Legislative Decree no 344 of 12 December 2003 which introduced group taxation in terms of Presidential Decree no 197 of 22 December 1986 ("Consolidated Taxation") for corporate groups, this option has been exercised by the Company and its direct subsidiary Stone Island Retail S.r.l.

The following table contains a reconciliation between the theoretical tax expenses, applying the Company's theoretical tax rate, and the effective tax expense:

Reconciliation of theoretical and effective tax expense (Euro '000)	**Taxable income 2018**	**Taxes 2018**	**% tax 2018**	**Taxable income 2017**	**Taxes 2017**	**% tax 2017**
Profit before taxation	50,017			31,771		
Taxes at theoretical tax rate		**(12,004)**	**24.0%**		**(8,737)**	**27.5%**
Temporary differences	525	(126)	0.3%	1,119	(308)	1.0%
Permanent differences	9	(2)	0.0%	(2,107)	579	-1.8%
IRAP		(1,975)	3.9%		(1,221)	3.8%
Other differences		33	-0.1%		(5)	0.0%
Deferred taxes recognised in Profit and Loss		93	-0.2%		(273)	0.9%
Taxes at effective tax rate		**(13,981)**	**28.0%**		**(9,964)**	**31.4%**

4. Notes to the Statement of Financial Position

4.1 Intangible assets

The following tables show opening balances, movements in 2016/2017 and 2017/2018 and closing balances for intangible assets:

Intangible Assets	**Gross amount**	**Accumulated amortisation**	**2018 Net amount**	**2017 Net amount**
Software	6,012,657	(3,618,183)	2,394,474	1,321,823
Key money	2,262,002	(1,888,329)	373,673	622,390
Other intangible assets	927,404	(911,507)	15,897	29,926
Intangible assets in progress	2,700	0	2,700	626,123
	9,204,763	**(6,418,019)**	**2,786,744**	**2,600,262**

Movements on each intangible asset category are shown below:

Intangible Assets	**2016 Net amount**	**Increases**	**Decreases**	**Amorti-sation**	**2017 Net amount**
Software	709,629	1,022,317		(410,123)	1,321,823
Key money	871,106			(248,716)	622,390
Other intangible assets	52,821			(22,895)	29,926
Intangible assets in progress	785,274		(159,151)		626,123
	2,418,830	**1,022,317**	**(159,151)**	**(681,734)**	**2,600,262**

Intangible Assets	**2017 Net amount**	**Increases**	**Decreases**	**Amorti-sation**	**2018 Net amount**
Software	1,321,823	1,839,040		(766,389)	2,394,474
Key money	622,390	(1)		(248,716)	373,673

Other intangible assets	29,926	(1)		(14,028)	15,897
Intangible assets in progress	626,123		(623,423)		2,700
	2,600,262	**1,839,038**	**(623,423)**	**(1,029,133)**	**2,786,744**

Movements on "Software" and on Intangible assets in progress relate to costs for the implementation of Microsoft Dynamics AX ERP software which as completed during the reporting period.

The Company does not report any intangible assets with an indefinite useful life.

4.2 Property, plant and equipment

The following tables show opening balances, movements in 2016/2017 and in 2017/2018 and closing balances for property, plant and equipment:

Property, plant and equipment	**Gross amount**	**Accumulated depreciation**	**2018 Net amount**	**2017 Net amount**
Land and buildings	9,388,662	(1,802,405)	7,586,257	7,807,466
Plant and machinery	4,916,561	(2,932,134)	1,984,427	1,754,843
Equipment	1,644,580	(1,382,996)	261,584	237,659
Furniture and fittings	2,390,812	(1,305,885)	1,084,927	608,365
Leasehold improvements	1,062,026	(270,249)	791,777	320,249
Other assets	402,089	(178,890)	223,199	152,754
	19,804,730	**(7,872,559)**	**11,932,171**	**10,881,336**

Movements on property, plant and equipment are summarised in the following tables:

at 31 October 2017

Property, plant and equipment, gross	**31/10/2016**	**Increases**	**Decreases**	**Other movements**	**31/10/2017**
Land and buildings	9,176,211	169,695			9,345,906
Plant and machinery	4,148,248	298,871	(35,779)		4,411,340
Equipment	1,358,178	110,923			1,469,101
Furniture and fittings	1,559,699	188,589	(3,941)		1,744,347
Leasehold improvements	547,741	28,527			576,268
Other assets	367,147	58,691	(92,023)		333,815
Assets under construction	0				0
	17,157,224	**855,296**	**(131,743)**	**0**	**17,880,777**

Property, plant and equipment, accumulated depreciation	**31/10/2016**	**Deprec'n**	**Decreases**	**Other movements**	**31/10/2017**
Land and buildings	1,277,662	260,778			1,538,440
Plant and machinery	2,363,636	328,490	(35,629)		2,656,497
Equipment	1,036,018	195,424			1,231,442
Furniture and fittings	1,030,469	107,119	(1,606)		1,135,982
Leasehold improvements	124,436	131,583			256,019
Other assets	216,971	56,113	(92,023)		181,061
	6,049,192	**1,079,507**	**(129,258)**	**0**	**6,999,441**

Property, plant and equipment, net	31/10/2016	Increases	Decreases	Other movements	31/10/2017
Land and buildings	7,898,549	169,695	(260,778)	0	7,807,466
Plant and machinery	1,784,612	298,871	(328,640)	0	1,754,843
Equipment	322,160	110,923	(195,424)	0	237,659
Furniture and fittings	529,230	188,589	(109,454)	0	608,365
Leasehold improvements	423,305	28,527	(131,583)	0	320,249
Other assets	150,176	58,691	(56,113)	0	152,754
	11,108,032	**855,296**	**(1,081,992)**	**0**	**10,881,336**

at 31 October 2018

Property, plant and equipment, gross	31/10/2017	Increases	Decreases	Other movements	31/10/2018
Land and buildings	9,345,906	42,756			9,388,662
Plant and machinery	4,411,340	613,182	(107,961)		4,916,561
Equipment	1,469,101	177,008	(1,529)		1,644,580
Furniture and fittings	1,744,347	644,346		2,119	2,390,812
Leasehold improvements	576,268	610,194			1,186,462
Other assets	333,815	197,338	(126,945)	(2,119)	402,089
Assets under construction	0				0
	17,880,777	**2,284,824**	**(236,435)**	**0**	**19,929,166**

Property, plant and equipment, accumulated depreciation	31/10/2017	Deprec'n	Decreases	Other movements	31/10/2018
Land and buildings	1,538,440	263,965			1,802,405
Plant and machinery	2,656,497	378,912	(103,275)		2,932,134
Equipment	1,231,442	153,084	(1,530)		1,382,996
Furniture and fittings	1,135,982	169,903			1,305,885
Leasehold improvements	256,019	138,666			394,685
Other assets	181,061	59,250	(61,421)		178,890
	6,999,441	**1,163,780**	**(166,226)**	**0**	**7,996,995**

Property, plant and equipment, net	31/10/2017	Increases	Decreases	Other movements	31/10/2018
Land and buildings	7,807,466	42,756	(263,965)	0	7,586,257
Plant and machinery	1,754,843	613,182	(383,598)	0	1,984,427
Equipment	237,659	177,008	(153,083)	0	261,584
Furniture and fittings	608,365	644,346	(169,903)	2,119	1,084,927
Leasehold improvements	320,249	610,194	(138,666)	0	791,777
Other assets	152,754	197,338	(124,774)	(2,119)	223,199
Property, plant and equipment, net	0	0	0	0	0
	10,881,336	**2,284,824**	**(1,233,989)**	**0**	**11,932,171**

The increases in Land and buildings relate to completion of the new knitwear department at the Ravarini headquarters and to the replacement and installation of new machinery at the in-house dry-cleaner's. Two machines for the dry-cleaning and drying of garments were also purchased for installation at a supplier's premises.

Increases to equipment and furniture and fittings are mainly due to the fitting out of the new store in Tokyo and the retail corners in Amsterdam, Rome and Moscow.

Increases in leasehold improvements mainly regard the realisation of systems and works carried out at the store in Tokyo.

Movements on other assets manly relate to the purchase of four cars and to the disposal of two cars owned by the Company.

4.3 Investments in subsidiaries and associated companies

This caption is analysed as follows:

Investments in subsidiaries	Country	% interest held	Carrying amount	Equity of subsidiary
Stone Island Retail Srl	Italy	100%	1,137,534	3,010,815
SPW Germany Gmbh	Germany	100%	0	676,441
Stone Island Antwerp Bvba	Belgium	100%	400,000	(17,794)
Stone Island Retail Germany Gmbh	Germany	100%	25,000	213,823
Stone Island Amsterdam BV	Netherlands	100%	25,000	605,088
Stone Island Usa Inc	USA	100%	89,767	(2,116,600)
Total subsidiaries			**1,677,300**	
Investments in associated companies				
Starcolor Srl	Italy	24%	9,916	
Total			**1,687,216**	

Investments are recorded at purchase cost, inclusive of any incidental expenses, and adjusted for any impairment of value.
The equity of associated company Starcolor Srl is significantly higher than the carrying amount of the investment.

Movements on the value of investments in subsidiaries are shown below:

Movements on subsidiaries	Country	Carrying amount at 31/10/2017	Change in 2018	Carrying amount at 31/10/2018
Stone Island Retail Srl	Italy	1,137,534	0	1,137,534
SPW Germany Gmbh	Germany	0	0	0
Stone Island Antwerp Bvba	Belgium	400,000	0	400,000
Stone Island Retail Germany Gmbh	Germany	25,000	0	25,000
Stone Island Amsterdam BV	Netherlands	25,000	0	25,000
Stone Island Usa Inc	USA	89,767	0	89,767
		1,677,300	**0**	**1,677,300**

Movements on associated companies	Country	Carrying amount at 31/10/2017	Change in 2018	Carrying amount at 31/10/2018
Starcolor Srl	Italy	9,916	0	9,916
Total		**1,687,216**	**0**	**1,687,216**

SPW Germany Gmbh, a company headquartered in Munich, operates as agent on the German and Austrian markets and operates the store in Munich. It reports a net profit of Euro 790 thousand for the 2018 reporting period.

Stone Island Antwerp Bvba, a company based in Antwerp, reports a net profit of Euro 16 thousand for the 2018 reporting period.

Stone Island Retail Germany Gmbh, a company based in Munich and with stores in Sylt and Hamburg, reports a net profit of Euro 220 thousand for 2018.

The US company is still in its start-up phase and the loss (Euro 412 thousand) generated by it in its third year of activity is in line with forecast. The subsidiary is expected to break even in the medium term.

The Company Directors have not identified any indicators of impairment of the investments. Therefore, they have not performed any impairment tests.

The following table contains the financial highlights of the subsidiaries:

					31/10/17
Financial highlights (Euro/000)	**Assets**	**Liabilities**	**Equity**	**Revenue**	**Profit (Loss)**
Stone Island Retail Srl	7,891	6,457	1,434	11,978	1,124
SPW Germany Gmbh	3,411	3,524	(113)	3,087	445
Stone Island Antwerp Bvba	892	926	(34)	718	(38)
Stone Island Retail Germany Gmbh	1,616	1,623	(7)	2,121	152
Stone Island Amsterdam BV	1,047	810	237	1,927	329
Stone Island Usa Inc	4,982	6,620	(1,638)	3,607	(541)
Total, net	**19,839**	**19,960**	**(121)**	**23,438**	**1,471**

					31/10/18
Financial highlights (Euro/000)	**Assets**	**Liabilities**	**Equity**	**Revenue**	**Profit (Loss)**
Stone Island Retail Srl	9,817	6,806	3,011	14,186	1,578
SPW Germany Gmbh	3,653	2,977	676	3,862	790
Stone Island Antwerp Bvba	877	895	(18)	754	16
Stone Island Retail Germany Gmbh	1,859	1,645	214	2,239	220
Stone Island Amsterdam BV	1,086	481	605	2,084	368
Stone Island Usa Inc	9,429	11,546	(2,117)	3,607	(412)
Total, net	**26,721**	**24,350**	**2,371**	**26,732**	**2,560**

4.4 Other non-current assets

Other non-current assets of Euro 52 thousand mainly include guarantee deposits paid for the rental of the stores in Paris and Cannes. The decrease compared to the balance of Euro 90 thousand as at 31 October 2017 is due to reimbursement of the guarantee deposit relating to rental of retail premises at the Castel Romano designer outlet.

4.5 Deferred tax assets

This caption consists entirely of deferred tax assets recognised in relation to temporary differences between the carrying amount of assets and liabilities in the Statement of Financial Position and the corresponding amounts recognised for tax purposes.

DESCRIPTION	DEF. TAX ASSETS '17			REVERSALS '18			INCREASES '18			DEF TAX ASSETS '18		
Deductible differences	**Temp diff.**	**Rate**	**Tax**	**Temp diff**	**Rate**	**Tax**	**Temp diff.**	**Rate**	**Tax**	**Temp diff.**	**Rate**	**Tax**
Obsolescence prov – RM inv	1,332,974	27.9%	371,900		27.9%	0	303,070	27.9%	84,557	1,636,044	27.9%	456,456
Obsolescence prov – FG inv	1,686,870	27.9%	470,637		27.9%	0	207,092	27.9%	57,779	1,893,962	27.9%	528,415
Taxed bad debt provision	1,280,205	24.0%	307,249		24.0%	0		24.0%	0	1,280,205	24.0%	307,249
Taxed agents' leaving ind prov	454,363	27.9%	126,767	14,251	27.9%	3,976		27.9%	0	440,112	27.9%	122,791
Prov for risks and charges	0	27.9%	0		27.9%	0		27.9%	0	0	27.9%	0
Provision for returns	1,005,000	27.9%	280,395	1,005,000	27.9%	280,395	950,000	27.9%	265,050	950,000	27.9%	265,050
Other costs with deferred deductibility	642,286	27.9%	179,198	642,286	27.9%	179,198	514,700	24.0%	123,528	514,700	24.0%	123,528
Amortisation of trademarks & goodwill	827,270	27.9%	230,808		27.9%	0	124,484	27.9%	34,731	951,754	27.9%	265,539
Dep'n of revalued land & buildings	61,984	27.9%	17,294		27.9%	0		27.9%	0	61,984	27.9%	17,294
Tax deficit French Branch	21,756	33.3%	7,251		33.3%	0		33.3%	0	21,756	33.3%	7,251
IAS 38 – derecognition intangible assets	116,745	27.9%	32,572	31,086	27.9%	8,673		27.9%	0	85,659	27.9%	23,899
TOTAL DEF TAX ASSETS WITH P&L EFFECT	7,429,454		2,024,071	1,692,623		472,242	2,099,346		565,645	7,836,177		2,117,472
IAS 19 - TFR	129,257	27.9%	36,063	45,592	27.9%	12,720		27.9%	0	83,665	27.9%	23,343
IFRS 9 - cash flow hedge derivatives	15,085	24.0%	3,620	15,085	24.0%	3,620	3,670	24.0%	881	3,670	24.0%	881
TOTAL DEFERRED TAX ASSETS WITH EFFECT ON STATEMENT OF COMPREHENSIVE INCOME	144,342		39,683	60,677		16,340	3,670		881	87,335		24,224
TOTAL DEF TAX ASSETS	7,573,796		2,063,754	1,753,300		488,582	2,103,016		566,526	7,923,512		2,141,696

	31/10/2017	31/10/2018
Total Deferred tax assets	2,063,754	2,141,696

The Company has recognised deferred tax assets totalling Euro 2,142 thousand i.e. 100% of such assets at 31 October 2018 as there are no doubts over recoverability.

The financial statements contain no items subject to deferred taxation.

The Company does not have any tax loss carryforwards.

In light of performance during the year, performance forecasts and the operating outlook, the Company Directors do not believe there are any issues regarding the recoverability of deferred tax assets.

4.6 Inventory

Inventory is analysed as shown in the table:

Inventory	**31/10/18**	**31/10/17**
Raw materials	6,966,336	5,470,403
Work in progress	8,581,431	6,718,961
Finished goods	13,965,194	10,929,102
Gross inventory	**29,512,961**	**23,118,466**
Obsolescence provision – raw materials	(1,636,044)	(1,332,974)
Obsolescence provision – finished goods	(1,893,962)	(1,686,870)
Total net	**25,982,955**	**20,098,622**

The raw materials obsolescence provision also takes account of the value of slow moving items which will be utilised over a long period of time. During the reporting period, the Company Directors decided prudently to increase the provision by Euro 303 thousand.

The overall increase in inventory of work in progress and finished goods is due to the increase in revenue compared to the previous reporting period.

The increase in the finished goods obsolescence provision is essentially due to an increase in inventory of garments relating to previous seasons. The increase in such inventory is the natural consequence of the higher volume of business.

Finished goods held at the stores in Paris and Cannes are measured at average production cost.
The obsolescence provisions for raw materials and finished goods take account of the amount of inventory destroyed and sold to discount retailers during the period. For finished goods, it also takes account of the alternative retail channels open to the Company.

4.7 Trade receivables

Trade receivables	**31/10/18**	**31/10/17**
Third party trade receivables	46,321,837	38,168,039
Receivables from subsidiaries	9,350,210	6,195,736
Provision for bad debts	(1,494,023)	(1,462,845)
Total trade receivables, net	**54,178,024**	**42,900,930**

Trade receivables are analysed by maturity date as follows:

	Balance at 31/10/18	**Current**	**Overdue**					
			0-30 days	**30-60 days**	**60-90 days**	**90-120 days**	**120-360 days**	**> 360 days**
Trade receivables	46,322	36,302	4,828	2,594	976	416	776	430
Receivables from subsidiaries	9,350	9,350						
Bad debt provision	(1,494)							
Total trade receivables, net	**54,178**	**45,652**	**4,828**	**2,594**	**976**	**416**	**776**	**430**

The increase in trade receivables in absolute terms is in line with revenue growth.

During the reporting period, no bad debts were expensed to the Statement of Profit or Loss. For the sake of prudence, the provision for bad debts has been kept in line with prior year level also because of ongoing payment extensions granted to a foreign distributor. The Company believes that this amount means that the provision is sufficient to cover the receivables collection risk at 31 October 2018. It should be recalled that part of export sales revenue is guaranteed by an insurance contract which offers partial cover for receivables; this is except for payments by letter of credit or in advance which, inherently, do not involve any risk.

Movements on the bad debt provision are shown below:

At 31 October 2017

	31/10/16	**Allocated**	**Utilised**	**31/10/17**
Bad debt provision	1,437,001	182,640	(156,796)	1,462,845

At 31 October 2018

	31/10/17	**Allocated**	**Utilised**	**31/10/18**
Bad debt provision	1,462,845	128,801	(97,623)	1,494,023

The following table contains a breakdown of trade receivables by geographical area.

Receivables by geographical area (Euro 000)	**31/10/18**
Italy	31,110
Europe (excl. Italy)	12,054
Americas	3,851
Rest of the World	8,657
Total	**55,672**

In line with previous periods, the Company has not sold any receivables except in relation to a reverse factoring transaction – amounting to Euro 3,246 thousand at 31 October 2018 – as carried out at the specific request of a customer and which gives the Company a guarantee of collection by a contractual due date. Under said contract, the Company has not used the possibility of requesting advances on the amounts factored.

4.8 Current and non-current tax receivables

Current tax receivables	**31/10/18**	**31/10/17**
VAT receivables	2,517,075	1,109,634
Direct tax receivables	443	443
Other receivables	238,143	28,428
Total current tax receivables	**2,755,661**	**1,138,505**

Non-current tax receivables	**31/10/18**	**31/10/17**
Receivable for tax refunds requested	279,160	279,160
Total non-current tax receivables	**279,160**	**279,160**

IRES and IRAP payments on account made during the reporting period have been deducted directly from the related tax liabilities.

The receivable for tax refunds requested refers to the IRES rebate requested in relation to the 2007-2011 tax periods as a result of the deductibility of IRAP on personnel costs for employees in terms of Legislative Decree 201/2011 as converted by Law no 214 of 22 December 2011.

4.9 Other current assets

Other current assets	**31/10/18**	**31/10/17**
Advances to suppliers	280,293	308,853
Receivables from agents	62,114	87,994
Receivable under order 57-12 – earthquake grant	664,136	787,832
Prepaid expenses and accrued income	374,897	419,955
Other receivables	13,078	7,590
Total other current assets	**1,394,518**	**1,612,224**

Advances to suppliers mainly regard advances to outsourcers for production of Summer 2019 season garments and notes receivable from suppliers.

The outstanding grant receivable under Legislative Decree 57/2012 et seq. for the reconstruction of production facilities situated in areas hit by earthquakes between 20 and 29 May 2012 is expected to be settled in 2019.

4.10 Other financial assets – current and non-current

Other financial assets – current	**31/10/18**	**31/10/17**
Loans to subsidiaries	1,978,213	1,366,296
Financial instruments	0	58,525
Other current financial assets	3,139	3,139
Total other financial assets – current	**1,981,352**	**1,427,960**

Other financial assets – non-current	**31/10/18**	**31/10/17**
Loans to subsidiaries	10,173,800	10,626,057
Investments in other entities	1,549	1,549
Total other financial assets – non-current	**10,175,349**	**10,627,606**

Other financial assets mainly include receivables from subsidiaries for loans made by the Company – on an arm's length basis – to provide the subsidiaries with financial support to meet the initial investment necessary to refurbish stores and to fund operations until they are able to break even.

The following table contains details of movements in 2018 and 2017:

	31/10/18			**31/10/17**		
(Euro 000)	**Opening amount**	**Change**	**Closing amount**	**Opening amount**	**Change**	**Closing amount**
Stone Island Retail Srl	1,508	(503)	1,005	3,317	(1,809)	1,508
SPW Germany GmbH	3,079	(1,030)	2,049	3,570	(491)	3,079
Stone Island Antwerp	706	0	706	709	(3)	706
Stone Island Amsterdam	305	(305)	0	807	(502)	305
Stone Island Ret. Germany	1,097	(124)	973	1,472	(375)	1,097
Stone Island USA Inc	5,297	2,122	7,419	3,955	1,342	5,297
Total	**11,992**	**160**	**12,152**	**13,830**	**(1,838)**	**11,992**

During the reporting period ended 31 October 2018, new loans were made to subsidiary Stone Island USA Inc. to support US operating activities and for the stores in New York and Los Angeles. Meanwhile, Stone Island Amsterdam fully repaid its outstanding loans while Stone Island Retail Srl and SPW Germany GmbH partially repaid the loans received in previous periods.

At 31 October 2018, there were no assets for derivative instruments (Euro 58 thousand at 31 October 2017).

The Company hedges the exchange risk relating to purchase of raw materials in US Dollars and sub-contract production carried out in foreign currency. It uses exchange risk hedging instruments, seeking to fix and crystallise the exchange rate at a level in line with budget expectations.

4.11 Cash and cash equivalents

At 31 October 2018, cash and cash equivalents amounted to Euro 23,959 thousand (Euro 8,171 thousand at 31 October 2017) and consisted entirely of cash at bank.

4.12 Shareholders' Equity

At 31 October 2018, subscribed and paid share capital amounted to Euro 10,000,000 and consisted of 9,680,000 shares with no nominal value.

Movements on shareholders' equity in the 2018 reporting period and in the previous period are described in the Statement of Movements on Shareholders' Equity to which reference should be made.

In 2018, dividends of Euro 15,294 thousand were paid to the Shareholders (Euro 7,744 thousand in 2017).

The following table contains details of Shareholders' Equity. Information on the origin, possible utilisation and availability of the component items is provided in accordance with Article 2427(7-bis) of the Italian Civil Code:

Information on reserves	**Amount**	**Possible utilisation**	**Amount available**	**Amount not available**
Share capital	10,000,000			
Reserves:	0			
Legal reserve	2,038,774	B		2,038,774
Rev. Res. Law 342/2000	7,559,535	A,B,C	7,559,535	
Rev. Res. DL 158/08	4,718,301	A,B,C	4,718,301	
Extraordinary reserve	23,430,276	A,B,C	23,430,276	
Reserve for Exchange gains	27,945			27,945
FTA reserve	(1,569,269)			(1,569,269)
IAS 19 reserve	(66,600)			(66,600)
Hedge Accounting reserve	(2,788)			(2,788)
Total reserves:	**36,136,174**		**35,708,112**	**428,062**

Legend: A share capital increase - B coverage of losses - C distributable to Shareholders

The First Time Adoption reserve, which has a negative balance of Euro 1,569 thousand, refers to the effects on shareholders' equity at 1 November 2015 of the first-time adoption of IFRS. Pursuant to Article 7(6) of Legislative Decree 38/2005, this reserve may be reduced only when respecting the relevant provisions of the Italian Civil Code. If it is used to cover losses, earnings may not be distributed until the reserve has been restored or reduced proportionately following an Extraordinary Shareholders' Meeting resolution.

The IAS 19 Reserve includes amounts recorded in relation to actuarial gains (losses) on defined benefit liabilities towards employees, as required by IAS 19. Further details of movements during the period are provided in the Statement of Comprehensive Income.

The cash flow hedge reserve includes amounts recorded in relation to the positive (negative) fair value of derivative hedging instruments, as required by IAS 39. Further details of movements during the period are provided in the Statement of Comprehensive Income.

4.13 Trade payables

Trade payables amount to Euro 19.1 million at 31 October 2018 (Euro 14.4 million at 31 October 2017) and refer to short-term obligations towards suppliers of goods and services. The payables refer to balances due in the short-term and there are no amounts due after more than a year.

4.14 Bank borrowing – current and non-current

Bank borrowing - current	**31/10/18**	**31/10/17**
Current account overdrafts	1,895	1,022
Loans	7,524,939	5,214,082
Amortised cost of loans	(15,856)	(21,345)
Total bank borrowing - current	**7,510,978**	**5,193,759**

Bank borrowing – non-current	**31/10/18**	**31/10/17**
Loans	16,443,076	9,138,254
Amortised cost of loans	(22,482)	(19,066)
Total bank borrowing – non-current	**16,420,594**	**9,119,188**

Total bank borrowing	**23,931,572**	**14,312,947**

The following table shows movements during the reporting period:

Movements on bank borrowing (Euro 000)	**31/10/2017**	**Arranged**	**Repaid**	**Amortised costs**	**Reclassification**	**31/10/2018**
Current account overdrafts	1	2	(1)			2
Loans	5,214		(5,214)		7,525	7,525
Amortised cost of loans	(21)			5		(16)
Total borrowing – current	**5,194**	**2**	**(5,215)**	**5**	**7,525**	**7,511**
Loans	9,138	15,500	(670)		(7,525)	16,443
Amortised cost of loans	(19)			(3)		(22)
Total borrowing – non-current	**9,119**	**15,500**	**(670)**	**(3)**	**(7,525)**	**16,421**
	14,313	**15,502**	**(5,885)**	**2**	**0**	**23,932**

There are no financial payables due after more than five years.

4.15 Tax payables

The following table contains details of tax payables. Balances are shown after payments on account made and withholding taxes suffered:

Tax payables	**31/10/18**	**31/10/17**
Current tax payables	4,431,890	4,214,341
Taxes withheld at source from employees	306,136	273,403
Taxes withheld at source from freelancers	71,887	72,899
Other tax payables	1,328	5,457
Total tax payables	**4,811,241**	**4,566,100**

4.16 Other current liabilities

Other current liabilities	**31/10/18**	**31/10/17**
Payables to customers	62,601	37,982
Sundry payables	25,774	36,328
Payables to employees	1,927,860	2,006,989
Payables to insurance companies	0	1,015
Payables to agents	2,258,925	1,697,058
Payables to social security/pensions institutions	270,846	243,250

Deferred grant income ord 57-12	1,109,772	1,308,677
Other accrued expenses and deferred income	59,685	39,698
Total other current liabilities	**5,715,463**	**5,370,997**

Payables to customers include credit notes to be issued to customers who have returned goods that were in transit at the reporting date.

"Payables to employees" include accruals for additional months' salaries, holiday pay and company bonuses as well as salaries payable.

"Payables to insurance companies" include final adjustments on insurance premiums already determined but not yet paid to the insurance companies.

"Payables to agents" include commission accruing in favour of agents but not yet invoiced by them.

Deferred income mainly regards a grant awarded by Emilia Romagna Region to the Parent Company in relation to earthquake damage suffered by it in 2012. The portion of this grant income relating to capitalisable costs recorded by the Company in prior years has been recognised in the Statement of Profit or Loss on a gradual basis over the useful lives of said assets.

4.17 Other financial liabilities – current and non-current

Current financial liabilities include liabilities for derivative instruments totalling Euro 4 thousand (at 31 October 2017, classified under non-current financial liabilities in the amount of Euro 15 thousand).

The fair value of the liabilities for financial instruments at 31 October 2018 is Euro 3,670 and refers to derivatives designated as hedges of the interest rate risk in relation to variable rate loans arranged by the Company.

As it had total outstanding liabilities of Euro 883 thousand for medium/long-term loans, the Company has arranged interest rate hedges (IRS), essentially transforming its variable rate borrowing into fixed rate debt. The amount and maturity of the IRS are broadly in line with the underlying loans and the derivatives have been accounted for by recording expenses and income in the P&L on the related maturity dates against the financial expense regarding the loans.

In the case of cash flow hedges, the fair value of the hedging derivative (mark to market), whether negative or positive, has been recorded in the Statement of Financial Position under Current financial liabilities in the amount of Euro 3,670. The contra-entry has been made to Shareholders' Equity under "Hedge Accounting Reserve.

Detailed information is provided below:

Currency (000)	Notional amount	Duration: from	Duration: until	Counterparty	Fair Value at 31/10/17	Fair Value at 31/10/18
Euro	383,438	16/04/2015	16/04/2019	UBI	5,746	823
Euro	500,000	29/07/2014	15/06/2019	BPM	9,339	2,847

4.18 Liabilities for employee benefits

This caption includes liabilities for post-employment benefits measured using the actuarial method known as the projected unit credit method, as applied by an independent actuary in terms of IAS 19.

Movements during the last two reporting periods on the Employee Severance Indemnity / TFR provision (which represents the full amount of the Provision for employee benefits), inclusive of the effect of the actuarial valuation, are as follows:

Employee severance indemnity/TFR – movements	**31/10/18**	**31/10/17**
Net obligation at start of period	1,288,147	1,436,801
Interest on obligation	0	0
Current service cost	620,247	500,589
Payments	(615,168)	(631,062)
Actuarial gain / (loss)	(45,592)	(18,181)
Net obligation at end of period	**1,247,634**	**1,288,147**

The actuarial methods and assumptions used to calculate the Provision are described in the Note on Accounting Policies – Actuarial calculation of defined benefit plans.

A sensitivity analysis has shown that the provision would not differ greatly in case of changes to the main actuarial assumptions.

4.19 Provisions for risks and charges

Provisions for risks and charges	**31/10/18**	**31/10/17**
Provision for retirement benefits and similar obligations	1,128,867	916,035
Provisions for returns	950,000	1,005,000
Tax provision	44,829	0
Provision for coverage of losses of investee companies	215,000	215,000
Total provisions for risks and charges	**2,338,696**	**2,136,035**

The main changes to provisions for risks and charges are as follows:

- the agents' leaving indemnity provision has been increased applying the calculation methods required by current laws and regulations on agency relationships, taking account of negotiations in progress with the agents as at 31 October 2018.

- the provision for returns carried at 31 October 2017 was used in full during the period ended 31 October 2018 in relation to prior season returns during the period. Company Management has allocated its best estimate of the provision required for returns that will be made in future periods in relation to sales made before 31 October 2018.

The main factors considered when determining the provision were as follows:

- historical percentage incidence of returns on sales revenue; returns relating to Fall Winter 2017/2018 season and to earlier seasons not yet received by the date the financial statements were closed;
- garments in the hands of shipping companies in expectation of payment by defaulting customers – if they do not fulfil their commitments, the products will have to be returned to the Company;
- forecast of the Company's ability to sell off the goods returned
- distinction between seasonal returns and returns for replacement; in fact, under company policy, returns for replacement are permitted only to the extent that there is a new sale for at least the same value.

- During the period, a tax provision was created following a tax demand received from the Italian Tax Authorities for the 2016 tax year.
- The provision for coverage of losses of investee companies was created before the IFRS transition date and the Company exercised the option to maintain it.

The following tables contain details of movements on provisions:

at 31 October 2017

Movements on provisions for risks and charges	31/10/16	Allocated	Utilised	Other mov.	31/10/17
Retirement benefits and similar obligations	756,845	159,190			916,035
Provision for returns	1,119,000	1,005,000	(1,119,000)		1,005,000
Provision for coverage of losses of investee companies	215,000				215,000
Total provisions	**2,090,845**	**1,164,190**	**(1,119,000)**	**0**	**2,136,035**

at 31 October 2018

Movements on provisions for risks and charges	31/10/16	Allocated	Utilised	Other mov.	31/10/17
Retirement benefits and similar obligations	916,035	212,832			1,128,867
Provision for returns	1,005,000	950,000	(1,005,000)		950,000
Provision for coverage of losses of investee companies	0	44,829			44,829
Provision for coverage of losses of investee companies	215,000				215,000
Total provisions	**2,136,035**	**1,207,661**	**(1,005,000)**	**0**	**2,338,696**

5. Notes to the Statement of Cash Flows

5.1. Operating cash flows before changes in working capital

Gross operating cash flow represents the Company's cash inflows from its operating activities and considers the net profit/loss for the period as adjusted for items not involving any cash flow (depreciation/amortisation, allocations to provisions, deferred taxation, etc.) and for amounts which, in order better to represent their nature are classified as changes due to investing activities (financial income) and financing activities(financial expenses).
Gross operating cash flows before changes in working capital amount to Euro 52,440 thousand and have improved significantly compared to the prior period (Euro 33,785 thousand in the period ended 31/10/2017).

5.2. Cash flows generated (absorbed) by changes in working capital

This item shows the effect of net working capital on liquidity in terms of the generation or absorption of cash. Over the reporting period, the overall change was negative by Euro 27,344 thousand, mainly because of increases in inventory and trade receivables as a result of the significant increase in the volume of business.

5.3. Cash flows from investing activities

Cash flows relating to property, plant and equipment mainly refers to the costs incurred to fit out the new store in Tokyo and the retail corners in Amsterdam, Rome and Moscow, as well to purchase new machinery and equipment. Meanwhile, cash flows relating to intangible assets refer to costs incurred for the implementation of the new ERP software.
Investing activities absorbed cash totalling Euro 3,430 thousand.

5.4. Cash flows from financing activities

This section of the Statement of Cash Flows summarises cash inflows and outflows from the Company's financing activities.
Cash flows from financing activities are influenced by the decrease in bank borrowing and by the outflow for dividends paid to the Shareholders, as offset by the repayment of loans by the subsidiaries.

6. Commitments

The following commitments were in place at the reporting date:

	31/10/2018	31/10/2017
SURETIES	**1,495,612**	**1,365,274**
- to subsidiaries	1,495,612	1,365,274
- to other entities	0	0

Sureties to subsidiaries have been provided as guarantees for rental/lease agreements. They include Euro 107,738 to SPW Germany Gmbh for the store in Munich, Euro 1,113,174 to Stone Island LA LLC for the store in Los Angeles and Euro 136,153 to Stone Island NYC LLC for the store in New York.

The increase in commitments compared to the prior reporting date is due to an increase in sureties under rental agreements for the new Showroom in Munich (Euro 71,922) and the new store at the Castel Romano retail outlet.

7. Disclosures on related party transactions – IAS 24

The Company's related party transactions cannot be classed as atypical or unusual and form part of its ordinary business activities.

Related party transactions – whether commercial or financial – have been entered into on an arm's length basis and all transactions have been carried out in the best interests of the Company.

The following tables show the Statement of Financial Position and Statement of Profit or Loss balances relating to the Sportswear Company S.p.A.'s related party transactions, as required by IAS 24.

Transactions with related parties Amanpulo Srl and Amandari Srl with which there are lease/rental agreements are shown below:

at 31 October 2017

Revenue/Expenses with Related Companies	**Commercial Expenses**	**Financial Expenses**	**Commercial Revenue**	**Financial Income**
Amanpulo Srl	(460,080)	0	0	0
Amandari Srl	(170,334)	0	0	0
	(630,414)	**0**	**0**	**0**

at 31 October 2018

Revenue/Expenses with Related Companies	Commercial Expenses	Financial Expenses	Commercial Revenue	Financial Income
Amanpulo Srl	(463,526)	0	0	0
Amandari Srl	(171,653)	0	0	0
	(635,179)	**0**	**0**	**0**

As in prior year, at 31 October 2018, there were no receivables or payables with related companies.

Transactions and balances with the subsidiaries regard commercial relations which are maintained on an arm's length basis, in the same manner as for related party transactions, as detailed below:

at 31 October 2017

Receivables/Payables with Subsidiaries	Trade Receivables	Financial Receivables	Trade Payables	Financial Payables	Tax Receivables (Payables)
Stone Island Retail Srl	3,689,166	1,508,041	0	0	477,463
Stone Island Paris (branch)	580,347	172,646	(585,338)	(172,646)	0
SPW Germany Gmbh	319,376	3,078,736	0	0	0
Stone Island Antwerp Bvba	147,469	706,100	0	0	0
Stone Island Retail Germany Gmbh	356,921	1,097,399	0	0	0
Stone Island Amsterdam BV	421,504	305,238	0	0	0
Stone Island Usa Inc	440,473	5,296,840	0	0	0
Stone Island NYC LLC	335,300	0	0	0	0
Stone Island LA LLC	5,175	0	0	0	0
	6,295,731	**12,165,000**	**(585,338)**	**(172,646)**	**477,463**

Revenue/Expenses Costs with Subsidiaries	Trading Expenses	Financial Expenses	Sales Revenue	Financial Income
Stone Island Retail Srl	0	0	6,506,422	20,001
Stone Island Paris (branch)	(1,141,203)	0	1,141,203	0
SPW Germany Gmbh	(1,297,620)	0	758,897	87,578
Stone Island Antwerp Bvba	0	0	335,430	12,100
Stone Island Retail Germany Gmbh	0	0	969,167	18,427
Stone Island Amsterdam BV	0	0	849,474	11,831
Stone Island Usa Inc	0	0	10,267	64,596
Stone Island NYC LLC	0	0	910,824	0
Stone Island LA LLC	0	0	706,386	0
	(2,438,824)	**0**	**12,188,070**	**214,533**

at 31 October 2018

Receivables/Payables with Subsidiaries	Trade Receivables	Financial Receivables	Trade Payables	Financial Payables	Tax Receivables (Payables)
Stone Island Retail Srl	4,394,524	1,004,512	0	0	530,544
Stone Island Paris (branch)	571,285	65,320	(571,285)	(65,320)	0
SPW Germany Gmbh	496,255	2,049,161	0	0	0
Stone Island Antwerp Bvba	136,521	706,100	0	0	0
Stone Island Retail Germany Gmbh	500,686	973,063	0	0	0
Stone Island Amsterdam BV	274,776	0	0	0	0

Stone Island Usa Inc	2,981,856	7,419,177	0	0	0
Stone Island NYC LLC	15,711	0	0	0	0
Stone Island LA LLC	16,580	0	0	0	0
	9,388,194	**12,217,333**	**(571,285)**	**(65,320)**	**530,544**

Revenue/Expenses Costs with Subsidiaries	**Trading Expenses**	**Financial Expenses**	**Sales Revenue**	**Financial Income**
Stone Island Retail Srl	0	0	7,902,454	9,898
Stone Island Paris (branch)	(1,419,674)	0	1,419,674	0
SPW Germany Gmbh	(1,928,196)	0	1,095,285	81,766
Stone Island Antwerp Bvba	0	0	384,031	12,100
Stone Island Retail Germany Gmbh	0	0	1,088,181	11,760
Stone Island Amsterdam BV	0	0	923,860	2,088
Stone Island Usa Inc	0	0	5,385,005	68,377
Stone Island NYC LLC	0	0	77,626	0
Stone Island LA LLC	0	0	76,746	0
	(3,347,870)	**0**	**18,352,862**	**185,989**

Sportswear Company SpA participates in a tax consolidation and is responsible for the tax liabilities and related interest regarding overall consolidated income with Stone Island Retail Srl.

8 Disclosures regarding financial instruments – IFRS 7 risk analysis (liquidity, market, credit, commodity, etc.)

The activities of the Company and the Group are exposed to a variety of financial risks, as follows:

- Liquidity risk;

-Market risk;

-Credit risk.

Pursuant to IFRS 7, qualitative and quantitative information regarding the extent of these risks for the Company is provided below.

The main risks are reported to and discussed by Management in order to ensure they are hedged and insured and the residual risk is assessed.

8.1 Liquidity risk

A prudent liquidity risk policy involves maintaining adequate cash and cash equivalents and arranging sufficient credit facilities. It is Company policy to have available credit facilities for use in meeting cash requirements and which are immediately available up to the amount of the approved facilities.

8.2 Market risk

Based on the definition provided by IFRS 7, the market risk has been identified as the probability that measurement of the fair value and economic cash flows relating to a financial asset or liability might change as a result of variation in factors such as:

- exchange rates (exchange rate risk);
- interest rates (interest rate risk);

Market risk management objectives regard the monitoring, management and control – within acceptable levels – of the Company's exposure to such risks and the resulting Profit & Loss, Balance Sheet and Financial effects.

Risks regarding exchange rate fluctuation

The receivables of the Company and the Group are not significantly affected by the risk of exchange rate fluctuation as the Group operates in an international environment in which transactions take place almost exclusively in Euro. The Statement of Financial Position items subject to this risk at 31 October 2018 did not have significant balances.

In more detail, foreign currency balances and the related net exposure of the Company at 31 October 2018 were as follows:

Receivables in foreign currency	**Total in Foreign Currency**	**Euro equivalent**
US Dollars	3,422,314	3,023,780
Canadian Dollars	747,770	503,346

The risk of exchange rate fluctuation, mainly in relation to the US Dollar, in terms of purchases, has led Management to adopt a hedge account policy which involves the ongoing hedging of risks relating to purchases based on the amount of orders issued that will have to be settled in USD. This approach may be classified as "cash flow hedging" i.e. hedging the risk of fluctuation in future cash flows. These cash flows may relate to assets or liabilities in the financial statements or to highly probable future transactions. In accordance with IAS 39, the portion of the gain or loss maturing or the hedging instrument which is considered effective for hedging purposes has been recognised directly in the Statement of Comprehensive Income and classified in a specific Equity reserve.

During the reporting period ended 31 October 2018, the Company and the Group entered into contracts for the forward purchase of currency for USD 1,500 thousand with a total Euro equivalent value of Euro 1,278 thousand at an average exchange rate of 1.1739 USD/EUR.

Risks regarding interest rate fluctuation

The objective of interest rate risk management is to guarantee control over financial expenses and their volatility. Through a mix of fixed rate and variable rate liabilities, this involves predetermining a portion of financial expenses for a time period consistent with the debt structure. In turn, the debt structure must be consistent with the equity structure and future cash flows.

The Company's borrowing is linked to variable rates of interest in relation to which a case by case assessment is made of the need to arrange derivative hedging agreements. It also includes fixed rate loans.

The Company and the Group do not have any speculative financial assets. Nor, generally speaking, do they have any financial assets linked to interest rate trends.

8.3 Credit risk

At 31 October 2018, the carrying amount of trade receivables reported in the financial statements represented the maximum exposure to the credit risk.

This credit risk – significant in theory – is mitigated by careful procedures to assess the solvency of customers when granting credit to individual customers. Moreover, there are no significant debtor balances leading to excessive concentration of the credit risk.

8.4 Assets and liabilities measured at amortised cost

Trade receivables and payables, restricted deposits, loans payable and other assets and liabilities are measured at amortised cost. Carrying amount represents a reasonable approximation of the fair value of trade receivables and payables.

9. Fees of the Board of Directors, the Board of Statutory Auditors and the External Auditors

The following table shows the fees of the members of the Board of Directors, the Board of Statutory Auditors and the External Auditors:

	31/10/2018	**31/10/2017**
Board of Directors' Fees	525,148	534,678
Statutory Auditors' Fees	38,698	38,579
External Auditors' Fees	52,685	52,569
Total	**616,531**	**625,826**

10. Proposed approval of the Financial Statements and allocation of the Net Profit for 2018

The Board of Directors proposes to allocate the net profit for the period of Euro 36,035,605.09 as follows:

- Distribution of a gross dividend of Euro 2.61 per ordinary share for a total amount of Euro 25,264,800 with the remaining Euro 10,770,805.09 to be allocated to the Extraordinary Reserve as the Legal Reserve has already reached its legal maximum level.

Attachments

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INDEPENDENT AUDITORS' REPORT
PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010

To the Shareholders of
Sportswear Company S.p.A.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Sportswear Company S.p.A. and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at October 31, 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at October 31, 2018, 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.

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 requirements applicable under Italian law to the audit of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Directors and the Board of Statutory Auditors for the Consolidated Financial Statements

The Directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, and, within the terms established by law, for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Ancona Bari Bergamo Bologna Brescia Cagliari Firenze Genova Milano Napoli Padova Parma Roma Torino Treviso Udine Verona

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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 they have identified the existence of the conditions for the liquidation of the Company or the termination of the business or have no realistic alternatives to such choices.

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in 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 Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain 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.
- Obtain 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude 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.
- Evaluate 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.
- Obtain 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 communicate with those charged with governance 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.

Report on Other Legal and Regulatory Requirements

Opinion pursuant to art. 14 paragraph 2 (e) of Legislative Decree 39/10

The Directors of Sportswear Company S.p.A. are responsible for the preparation of the report on operations of the Group as at October 31, 2018, including its consistency with the related consolidated financial statements and its compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations, with the consolidated financial statements of the Group as at October 31, 2018 and on its compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the above-mentioned report on operations is consistent with the consolidated financial statements of Sportswear Company Group as at October 31, 2018 and is prepared in accordance with the law.

With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/10, made on the basis of the knowledge and understanding of the Group and of the related context acquired during the audit, we have nothing to report.

DELOITTE & TOUCHE S.p.A.

Signed by
Stefano Montanari
Partner

Bologna, Italy
February 12, 2019

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

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INDEPENDENT AUDITORS' REPORT
PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010

To the Shareholders of
SPORTSWEAR COMPANY S.p.A.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Sportswear Company S.p.A. (the "Company"), which comprise the statement of financial position as at October 31, 2018, and the statement of comprehensive income, statement of changes in equity and 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 accompanying financial statements give a true and fair view of the financial position of the Company as at October 31, 2018, 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.

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 requirements applicable under Italian law to the audit of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Directors and the Board of Statutory Auditors for the Financial Statements

The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and, within the terms established by law, for such internal control as the Directors 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 they have identified the existence of the conditions for the liquidation of the Company or for the termination of the operations or have no realistic alternative to such choices.

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

Ancona Bari Bergamo Bologna Brescia Cagliari Firenze Genova Milano Napoli Padova Parma Roma Torino Treviso Udine Verona

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain 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.

- Obtain 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude 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.

- Evaluate 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 communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

Opinion pursuant to art. 14, paragraph 2 (e), of Legislative Decree 39/10

The Directors of Sportswear Company S.p.A. are responsible for the preparation of the report on operations of the Company as at October 31, 2018, including its consistency with the related financial statements and its compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations with the financial statements of the Company as at October 31, 2018 and on its compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the above-mentioned report on operations is consistent with the financial statements of Sportswear Company S.p.A. as at October 31, 2018 and is prepared in accordance with the law.

With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/10, made on the basis of the knowledge and understanding of the entity and of the related context acquired during the audit, we have nothing to report.

DELOITTE & TOUCHE S.p.A.

Signed by
Stefano Montanari
Partner

Bologna, Italy
February 12, 2019

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SPORTSWEAR COMPANY S.p.A.

Registered Office - Galleria Cavour, 4, Bologna

Share Capital Euro 10,000,000 wholly paid

Bologna Register of Companies Number and Tax Number 01046470371

Bologna Business Database/R.E.A. no. 224649

REPORT OF THE BOARD OF STATUTORY AUDITORS ON THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31/10/2018

To the Shareholders' Meeting of Sportswear Company S.p.A.

We commence by recalling that, with effect from the reporting period ended 31 October 2017, the Company voluntarily chose to adopt the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Commission for preparation of its separate and consolidated financial statements.

In the reporting period ended 31 October 2018, we supervised compliance with the law and the articles of association and due respect for principles of good business management. In performance of our engagement, we followed the guidelines set out in the "*Code of Conduct for Boards of Statutory Auditors*" issued by the Italian Accounting Profession ("*il Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili*").

Based on our work, we report the following:

- We attended Shareholders' Meetings and Meetings of the Board of Directors which were held in accordance with the articles of association and legal rules governing their functioning and can provide reasonable assurance that the resolutions approved were in accordance with the law and the articles of association, were not clearly imprudent or risky, did not involve a conflict of interests and were not such as to threaten the integrity of the net assets;
- We obtained from the Directors information on the general operating performance and on the business outlook as well as details of the most significant transactions – in terms of size or characteristics – carried out by the Company and its subsidiaries. We can be reasonably certain that the operations and transactions carried out were in

accordance with the law and the articles of association, were not clearly imprudent or risky, did not involve a potential conflict of interests or violation of a Shareholders' Meeting resolution and were not such as to threaten the integrity of the net assets;

- Based on discussions held with the external auditors, no significant information in need of highlighting in this report has emerged;
- We gathered information on and confirmed the adequacy of the Company's organisational structure and how it operates, also through discussions with the persons in charge of the various departments. We have not particular comments to make in this regard;
- We reviewed and assessed the adequacy of the administrative and accounting system with particular reference to its reliability and its ability in accurately reflecting business operations. This involved gathering information from the persons in charge of the various functions, reviewing company documents and analysing the results of the work done by the external auditors. We have no particular comments to make in this regard;
- We are unaware of any atypical and/or unusual transactions that have taken place whether with related parties, other Group entities or third parties. Ordinary transactions with other Group entities and related parties take place on an arm's length basis and the Directors' Report and the Notes provide information on their nature and income statement amount and on related receivable/payable balances outstanding at 31/10/2018;
- We have acquired information from the Supervisory Board and have not identified any issues regarding the Organisational Model that need to be highlighted in this report;
- We have not received any reports in terms of Article 2408 of the Italian Civil Code;
- We have not received any reports in terms of Article 2409(7) of the Italian Civil Code;
- We have not issued any opinions provided for by law.

We have reviewed the financial statements for the period ended 31.10.2018 (comprising the Statement of Financial Position, the Statement of Profit or Loss, the Statement of Cash Flows and the Notes) and note the following:

- As we are not required to audit the financial statements, we have reviewed its general form and its compliance with legal requirements on structure and content. We have no particular comments to make in this regard;
- When preparing the financial statements, the Board of Directors did not make any exceptions to statutory reporting requirements in terms of Article 2423(5) of the Italian Civil Code. Meanwhile, the accounting policies applied are consistent with International Accounting Standards (IAS/IFRS) which have been applied on the same basis as in prior year;

As required by Article 2428 of the Italian Civil Code, the Directors' Report provides appropriate information on activities during the year and duly highlights transactions between the Company and its subsidiaries. It also provides details of the outlook for the business going forward.

During our supervisory work, we did not identify any other significant events requiring to be mentioned in this Report.

External auditors "Deloitte & Touche S.p.A.", appointed to audit the financial statements for the period ended 31/10/2018, today issued an unqualified report thereon.

In conclusion, therefore, taking account of the information above and within the scope of our responsibility, we have not identified any reason not to approve the financial statements for the period ended 31/10/2018 or the proposed allocation of the net profit for the year as set out by the Board of Directors in the Notes to the Financial Statements.

Bologna, 12 February 2019

THE BOARD OF STATUTORY AUDITORS

Sergio Parenti

Antonella Vannucchi

Alessandra Tronconi