Sportswear Company S.p.A.

Annual Report
as at 31 October 2019

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DIRECTORS' REPORT

Letters to the Shareholders

Dear Shareholders,

the 2019 results were - as expected - excellent both in terms of revenue growth and profitability.

Growth was evident both on the retail and wholesale channels, with considerably improved market penetration as the men's clothing brand with the best sell through at full price for both the online and offline segments.

2019 also saw the opening of two new flagship stores in Milan and Frankfurt. Results at the new store in Milan are as expected in terms of sales - but are particularly strong in terms of brand image return. Off-line retail development will continue by assessing the emerging opportunities, while always closely considering the financial return of investments. Online retail development continues with stoneisland.com and stoneisland.com.uk which now exceed 20 million in turnover. Sales of pure online players and marketplaces are also growing significantly. The company's policy of not producing for stock and therefore not generating excess supply has reflected very positively on margins, as well as on the net working capital, and from market analysis it is clear that full price sales are in fact among the highest in the sector.

With regard to our business partners, a number of agreements (USA and Netherlands) have been reviewed and strong operational benefits expected.

On the industrial side, the search continues for alternative sources that guarantee timing and quality standards. In 2019 our company also acquired control of its main knitwear supplier, also in order to consolidate its know-how. Recruitment and training continue of young people in technical areas such as modelling and tailoring, which have always been considered strategic for the future of the brand.

A production planning and progress control system is being introduced that will use modern RFID technologies to improve the timing and reliability of return and shipment forecasts for production batches.

The commitment to environmental and social sustainability is an ongoing focus. A manager has been identified and meetings are held periodically on the subject in order to involve all company departments both to raise awareness and to gather ideas and suggestions. The project comprises three levels: Processes, Product and Packaging, with the firm intention to expand upon all of the topics so as to raise awareness, ensuring that "greenwashing" certainly does not become an aspect of the brand philosophy and ethics.

The fight against counterfeiting and trademark protection continues in order to protect our reputation. Actions are currently being undertaken both online and offline with the help of leading national and international organizations.

Group structure and composition

The Consolidated Financial Statements of the Sportswear Group at October 31, 2019 include the following companies:

Sportswear Company SpA	Parent company that owns the Stone Island brand
Stone Island Retail Srl	Company that operates DOS in Italy
Stone Island Paris	Permanent establishment that operates the DOS in France
SPW Germany GmbH	Company acting as Agent for Germany and Austria and operates DOS in Germany
Stone Island Retail Germany Gmbh	Company that operates DOS in Germany
Stone Island Antwerp BVBA	Company that operates DOS in Belgium
Stone Island Amsterdam BV	Company that operates DOS in the Netherlands
Stone Island USA Inc	Sub Holding Company involved in the management of US companies
Stone Island NYC LLC	Company that operates DOS in New York
Stone Island LA LLC	Company that operates DOS in Los Angeles
Stone Island MIAMI LLC	Company that will manage DOS in Miami
Stone Island Canada Inc	Company that operates DOS in Canada
Officina della Maglia Srl * (75.1%)	Company undertaking knitwear manufacturing

(*) Company included in the consolidation scope from January 1, 2019

Introduction

As permitted by Article 40, paragraph 2 *bis* of Legislative Decree 127 of 09/04/91, the Parent Company has prepared the Directors' Report as a separate document accompanying the statutory and consolidated financial statements. The consolidated financial statements of Sportswear Company S.p.A. and its subsidiaries (hereinafter also referred to as the "Group" or "Sportswear Group") as at October 31, 2019 and the financial statements of Sportswear Company S.p.A. as at the same date were prepared in accordance with International Financial Reporting Standards (hereinafter "IFRS").

Operating performance of the Sportswear Group

The Consolidated Financial Statements for the year ended October 31, 2019 truly reflect operating and market developments and report Group EBITDA of Euro 72.9 million - 30.8% of revenues.

EBITDA is not identified as an accounting measure under IFRS and therefore may not be comparable with that adopted by other companies. Moreover, this indicator is a measure commonly used by both management and investors to assess the operational performance of companies. In particular, the Group's EBITDA is calculated starting with EBIT (Operating Result) and adding amortisation and depreciation, any risk provision, equity incentive plans, and non-recurring costs and can be directly extrapolated from the figures in the consolidated financial statements prepared in accordance with IFRS.

The tax charge for the year ended October 31, 2019 incorporates all the tax benefits of the Patent Box for the four-year period 2016-2019.

The Group reported a net profit of Euro 64.5 million.

The reclassified key financial highlights are as follows:

Consolidated Income Statement (Euro '000)	**FY 2019**	**% revenue**	**FY 2018**	**% revenue**
Revenue	236,922	100%	190,758	100%
% growth	24%		31%	
Other income	2,160	0.9%	1,494	0.8%
Cost of sales	(97,105)	41.0%	(79,882)	41.9%
Gross Profit	**141,977**	**59.9%**	**112,370**	**58.9%**
Commercial selling expenses	(18,685)	7.9%	(14,829)	7.8%
Communication costs	(7,596)	3.2%	(5,513)	2.9%
Personnel expenses	(18,029)	7.6%	(15,196)	8.0%
Administrative expenses	(24,753)	10.4%	(20,014)	10.5%
EBITDA	**72,914**	**30.8%**	**56,818**	**29.8%**
% growth	28%		51%	
Amort. & Deprec.	(4,507)	1.9%	(3,753)	2.0%
Provisions and non-recurring costs	(230)	0.1%	(45)	0.0%
Stock option plan	(1,459)	0.6%	0	0.0%
EBIT	**66,718**	**28.2%**	**53,020**	**27.8%**
% growth	26%		54%	
Financial income (expense)	(312)	0.1%	-103	0.1%

Profit before taxes	**66,406**	**28.0%**	**52,917**	**27.7%**
income taxes	(1,884)	0.8%	(14,712)	7.7%
tax impact	3%		28%	
Net profit, including minority interests	**64,522**	**27.2%**	**38,205**	**20.0%**
Minorities	71	0.0%	0	0.0%
Group Net Profit	**64,451**	**27.2%**	**38,205**	**20.0%**
% growth	69%		64%	

Commercial selling expenses include sales point operating commissions based on estimator contracts whose sell out revenues are included in Sales revenues.

The key earnings ratios, calculated on the basis of the operating figures reported above and compared with the balance sheet figures, are presented below:

Earnings ratios		**31/10/19**	**31/10/18**
ROE	Net Income / Net Capital	63.07%	53.61%
ROS	Operating Income / Revenue	28.16%	27.79%
ROI	Operating Income / Net Capital Employed	74.13%	74.35%

Operating performance of the Parent Company

The Financial Statements for the year ended October 31, 2019 faithfully reflect operating and market developments and report Parent Company EBITDA of Euro 67.6 million - 31.2% of revenues.

EBITDA is not identified as an accounting measure under IFRS and therefore may not be comparable with that adopted by other companies. Moreover, this indicator is a measure commonly used by both management and investors to assess the operational performance of companies. In particular, the Group's EBITDA is calculated starting with EBIT (Operating Result) and adding amortisation and depreciation, any risk provision, equity incentive plans, and non-recurring costs and can be directly extrapolated from the figures in the consolidated financial statements prepared in accordance with IFRS.

The tax charge for the year ended October 31, 2019 incorporates all the tax benefits of the Patent Box for the four-year period 2016-2019.

The Parent Company reported a net profit of Euro 62.5 million.

The reclassified key financial highlights are as follows:

Parent Company Income Statement (Euro '000)	**FY 2019**	**% revenue**	**FY 2018**	**% revenue**
Revenue	216,894	100%	176,061	100%
% growth	23%		31%	
Other income	2,507	1.2%	1,807	1.0%
Cost of sales	(97,209)	44.8%	(80,138)	45.5%
Gross Profit	**122,192**	**56.3%**	**97,730**	**55.5%**
Commercial selling expenses	(17,747)	8.2%	(14,708)	8.4%

Communication costs	(7,527)	3.5%	(5,409)	3.1%
Personnel expenses	(13,368)	6.2%	(11,497)	6.5%
Administrative expenses	(15,951)	7.4%	(13,822)	7.9%
EBITDA	**67,599**	**31.2%**	**52,294**	**29.7%**
% growth	29%		54%	
Amort. & Deprec.	(2,591)	1.2%	(2,193)	1.2%
Provisions and non-recurring costs	(230)	0.1%	(45)	0.0%
Stock option plan	(1,459)			
EBIT	**63,319**	**29.2%**	**50,056**	**28.4%**
% growth	26%		56%	
Financial income (expense)	153	0.1%	-39	0.0%
Profit before taxes	**63,472**	**29.3%**	**50,017**	**28.4%**
income taxes	(955)	0.4%	(13,981)	7.9%
tax impact	2%		28%	
Net profit of the Parent Company	**62,517**	**28.8%**	**36,036**	**20.5%**
% growth	73%		65%	

Commercial selling expenses include sales point operating commissions based on estimator contracts whose sell out revenues are included in Sales revenues.

The key earnings ratios are presented below:

Earnings ratios		**31/10/19**	**31/10/18**
ROE	Net Income / Net Capital	62.04%	50.18%
ROS	Operating Income / Revenue	29.19%	28.43%
ROI	Operating Income / Net Capital Employed	73.84%	75.49%

Sportswear Group Balance Sheet

The Group's equity structure is reflected in the following reclassified balance sheet in accordance with the Uses/Sources management criterion:

Reclassified Consolidated Balance Sheet Euro '000	31/10/2019	31/10/2018
Intangible fixed assets and equity investments	7,776	7,988
Property, plant & equipment	23,116	19,283
Other net non-current assets/(liabilities)	4,389	3,200
Total net non-current assets/(liabilities)	**35,281**	**30,471**
Net working capital	66,706	55,936
Other net current assets/(liabilities)	(685)	(7,707)
Total net current assets/(liabilities)	**66,021**	**48,229**
Net capital employed (uses)	**101,302**	**78,700**
Net Financial Position	(24,071)	(6,780)

Post-employment benefits and other non-current provisions	3,303	2,801
Group Shareholders' Equity	121,691	82,679
Minority interest shareholders' equity	379	0
Total sources	**101,302**	**78,700**

Shareholders' equity increased due to the profit for the year of Euro 64.5 million, and decreased by Euro 25.4 million for dividends distributed during the year; at the end of the financial year, the Group's shareholders' equity totalled Euro 121.7 million and the net financial position at the same date was a cash position of Euro 24.1 million.

Consolidated net working capital at October 31, 2019 was 28.2% of revenue, as detailed below:

Net working capital Euro '000	31/10/2019	31/10/2018
Trade receivables	53,678	46,907
Inventories	38,497	28,360
Trade payables	(25,469)	(19,331)
Net working capital	**66,706**	**55,936**
% of revenue	28.2%	29.3%

The consolidated net financial position at October 31, 2019 was Euro 24.1 million compared to Euro 6.8 million at October 31, 2018, as detailed below. The net financial position does not include the financial debt for equity incentive plans amounting to Euro 1.5 million at October 31, 2019.

Net financial position Euro '000	31/10/2019	31/10/2018
Cash and banks	45,498	30,711
Long-term net financial debt	(13,878)	(16,419)
Short-term net financial debt	(7,549)	(7,512)
Net financial position	**24,071**	**6,780**

The consolidated cash flow statement for the years 2019 and 2018 is presented below, reclassified in a differing manner from the consolidated financial statements as representing cash flows in terms of changes in the overall consolidated net financial position:

Consolidated cash flow statement Euro '000	31/10/2019	31/10/2018
EBITDA	**72,914**	**56,818**
Change in working capital	(10,770)	(11,851)
Change in other current and non-current receivables/(payables)	(9,670)	(476)
Net investments	(8,128)	(6,195)
Net financial income/(expense)	(312)	(103)
Income taxes	(1,884)	(14,712)
Free Cash Flow	**42,150**	**23,481**

Dividends paid	(25,365)	(15,294)
Changes in shareholders' equity and other changes	506	150
Net Cash Flow	**17,291**	**8,337**
Opening Net Financial Position	(6,780)	1,557
Closing Net Financial Position	(24,071)	(6,780)
Changes in Net Financial Position	**17,291**	**8,337**

Free Cash Flow in 2019 amounted to Euro 42.2 million, compared to Euro 23.5 million in the previous year.

Parent Company Balance Sheet

The Parent Company's equity structure is reflected in the following reclassified balance sheet in accordance with the Uses/Sources management criterion:

Reclassified Parent Company Balance Sheet Euro '000	31/10/2019	31/10/2018
Intangible fixed assets and equity investments	8,055	4,474
Property, plant & equipment	11,948	11,932
Other net non-current assets/(liabilities)	3,241	2,473
Total net non-current assets/(liabilities)	**23,244**	**18,879**
Net working capital	75,386	61,076
Other net current assets/(liabilities)	(712)	(6,377)
Total net current assets/(liabilities)	**74,674**	**54,699**
Net capital employed (uses)	**97,918**	**73,578**
Net Financial Position	(24,754)	(12,180)
Post-employment benefits and other non-current provisions	3,305	3,586
Shareholders' Equity	119,367	82,172
Total sources	**97,918**	**73,578**

Shareholders' equity increased due to the profit for the year of Euro 62.5 million, and decreased by Euro 25.3 million for dividends distributed during the year; at the end of the financial year, shareholders' equity totalled Euro 119.4 million.

Net working capital at October 31, 2019 was 34.8% of revenue, as detailed below:

Net working capital Euro '000	31/10/2019	31/10/2018
Trade receivables	66,259	54,178
Inventories	35,088	25,983
Trade payables	(25,961)	(19,085)
Net working capital	**75,386**	**61,076**
% of revenue	34.8%	34.7%

The Parent Company's net financial position at October 31, 2019 was a cash position of Euro 24.8 million, compared with Euro 12.2 million at October 31, 2018, as detailed in the following table. The net financial position also includes financial receivables from subsidiaries (Euro 11.8 million at October 31, 2019 and Euro 12.1 million at October 31, 2018) in consideration of the fact that the Parent Company financially supports the development of the operating activities of these companies and does not include the financial debt for share incentive plans amounting to Euro 1.5 million at October 31, 2019.

Net financial position Euro '000	31/10/2019	31/10/2018
Cash and banks	34,100	23,959
Long-term net financial debt	(5,793)	(6,245)
Short-term net financial debt	(3,553)	(5,533)
Net financial position	**24,754**	**12,181**

The parent company cash flow statement for the years 2019 and 2018 is presented below, reclassified in a differing manner from the financial statements as representing cash flows in terms of changes in the overall consolidated net financial position:

Parent Company Cash Flow Statement Euro '000	31/10/2019	31/10/2018
EBITDA	**67,599**	**52,294**
Change in working capital	(14,310)	(12,514)
Change in other current and non-current receivables/(payables)	(7,892)	(789)
Net investments	(6,188)	(3,431)
Net financial income/(expense)	153	(39)
Income taxes	(955)	(13,981)
Free Cash Flow	**38,407**	**21,540**
Dividends paid	(25,265)	(15,294)
Changes in shareholders' equity and other changes	(568)	95
Net Cash Flow	**12,574**	**6,341**
Opening Net Financial Position	(12,180)	(5,839)
Closing Net Financial Position	(24,754)	(12,180)
Changes in Net Financial Position	**12,574**	**6,341**

Investments of the Sportswear Group

The Group made significant capital expenditures during the year. At the Parent Company's Ravarino headquarters, new ERP system modules were installed for a total of Euro 0.6 million, structural works were carried out in the offices for Euro 0.3 million, machinery acquired for a total of Euro 0.2 million, plant upgraded for Euro 0.3 million and furnishings acquired for the corners for a total of Euro 0.4 million. Significant investments were made for the re-opening of new stores in Milan (Euro 2.4 million), Toronto (Euro 1.1 million) and Frankfurt (Euro 1 million).

Transactions with subsidiary, associated, holding and group companies

Transactions were carried out with subsidiaries, as outlined in the notes to the financial statements, at market conditions. There were no significant transactions with associated and group companies.

Treasury shares and shares in parent companies

The Parent Company does not have treasury shares in portfolio.

Research & Development Activities

Research and development relates to all activities necessary to seasonally renew the collections and has always been of fundamental importance for the Group and a key to the market success of our products. It includes the costs for developing new products, prototypes and samples. Costs are expensed in the year in which they are incurred.

We remain confident that the success of these innovations can generate good results in terms of turnover, supporting its development.

Risks and uncertainties

General information on risks and uncertainties

The specific risks that may give rise to obligations for Group companies are assessed when determining the related provisions and are disclosed in the notes to the financial statements, together with significant contingent liabilities. Risk factors and uncertainties principally related to the economic-regulatory and market environment and which may impact upon the performance of the Group companies.

The Group's income statement, balance sheet and financial position is primarily influenced by the various macroeconomic concerns - including the movement in gross national product, the level of consumer and business confidence, interest rate movements, the cost of raw materials, the unemployment rate and the performance of the currency markets - in the contexts in which it operates and in which its products are sold. The Group operates in a sector which generally reflects the broader economy - sometimes even amplifying movements. Bearing in mind that it is difficult to predict the extent and duration of the various economic cycles, any macro-economic event, such as a significant decline in the main markets, the volatility of the financial and currency markets and the consequent deterioration of the capital market, an increase in energy prices, fluctuations in commodity price and of other raw materials, adverse fluctuations in specific factors such as interest rates, exchange rates, government policies (including environmental regulations) or infrastructure spending, which could impact the sector in which the Group companies operate, could have a significantly negative impact on the prospects and operations of the Group companies, as well as on its operating results and financial position. The profitability of Group operations is also subject to risks linked to the inflation rate and the solvency of counterparties.

On market risks, as mentioned above, an important assessment concerns the uncertainty on exchange rate movements, in particular against UK Sterling and the US Dollar, which, in addition to the aforementioned impact on costs, has a significant impact on tourism and product flows also outside of the brand's official distribution channels, as it is able to exploit currency spreads in real time thanks mainly to online sales. This matter is complex and it is still difficult to clearly predict its future evolution.

Employees of Group companies are protected by laws and collective bargaining agreements which guarantee them, through local and national representatives, the right to be consulted on specific issues, including the downsizing or closure of departments and the reduction of the workforce. Such laws and/or collective bargaining agreements applicable to the Companies could affect its flexibility in redefining and/or strategically repositioning its operations. The Group's ability to reduce staff numbers or other measures to interrupt the employment relationship, even temporarily, is subject to the consent of the trade unions. Trade union actions by employees may impact the company's business.

Credit risk

During the current year, there was an increase in trade receivables in line with the increase in turnover and a consolidation of non-performing receivables. On the other hand, the Group does not have any particular critical issues in terms of credit risk in view of the control procedures for the management of credit facilities, the continuous monitoring of receivables and as a result of credit insurance and sales policies on foreign markets, while the Group also adopts strict write-downs in the determination of book values and as at October 31, 2019 there were no significant amounts of receivables not written down in the financial statements and on which there are currently concrete uncertainties as to the degree of realisation.

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

Liquidity risks and changes in cash flows and interest rates

At October 31, 2019, the Group had a net cash position of approx. Euro 24.2 million.

The cash flows, funding requirements and liquidity of Group companies are managed so as to ensure the effective and efficient management of financial resources. As reported in the cash flow statement, the Group's operating performance during the year generated liquidity. The Parent Company has overdraft facilities granted and not used at October 31, 2019 for a theoretical total of Euro 25.1 million (consisting exclusively of bank overdraft facilities, short-term credit lines and overdraft facilities), while almost all of the loans outstanding are not linked to compliance with economic-financial indicators (covenants). In addition, the Directors do not expect significantly different financial debt maturities than those stipulated under contract.

The debt is linked to variable interest rates against which it assesses on a case-by-case basis whether it would be appropriate to take out derivative hedging contracts, and fixed-rate loans.

The Group companies do not hold financial assets of a speculative nature and, in general, they do not have financial assets related to interest rate movements. Any increase in interest rates could have a negative impact on the future profitability of Group companies.

Currency risk

The Group's and the Group's receivables are not significantly exposed to risks arising from fluctuations in foreign exchange rates, since it operates in an international context in which transactions are conducted almost exclusively in euros. The balance sheet accounts at October 31, 2019 subject to this risk are not significant.

In particular, the Group's exchange rates and net exposure at October 31, 2019 were as follows:

Foreign currency receivables	**total foreign currency**	**value in Euro**
US Dollar	3,780,799	3,389,635
Canadian Dollar	2,674,826	1,822,958

The Group's balance sheet structure indicates the following prerogatives (in addition to the comments made with regard to trade receivables):

- The Group's assets indicate goodwill solely attributable to the consolidation differences of certain subsidiaries and to "Lease take-over rights" for the shops in Paris, Cannes, Munich, Florence, Forte dei Marmi, Rome, Antwerp, Amsterdam, Hamburg and Frankfurt recorded under Goodwill. In addition, investments for the acquisition of lease rights for the management of stores are partially independent of the performance of the stores to which they refer. In fact, according to sector (and non-sector) practice large sums of key money must be invested and, consequently, the price paid, given the prestigious locations of the stores, may have an intrinsic value even regardless of the operating performance of the store itself;

- in addition to the above, fixed assets consist almost exclusively of the net book value of buildings.

- inventories relating to previous seasons are subject to strict devaluation policies and no significant risks are expected from their disposal, also considering that for 2020 the Group can rely on a sales force based on the usual sales channels for these types of inventories;

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

Subsequent events and outlook

For 2020, turnover forecasts are optimistic: the Spring-Summer 2020 season reported growth of 22.3%. The Toronto store opened in November 2019 and the Miami store is scheduled to open in spring 2020.

Compliance with the Privacy Law

Pursuant to Annex B) of Legislative Decree 196/2003 (Privacy Code), the directors acknowledge that the Group companies have complied with the minimum security measures provided for under the above legislation.

Personnel

At the end of the year, the Group companies' workforce amounted to 282 employees compared to 233 in the previous year.

For the Board of Directors

The Chairman

Dr. Carlo Rivetti

Consolidated Financial Statements

Financial Statements

CONSOLIDATED INCOME STATEMENT

(Euro '000)	Note	FY 2019	FY 2018
Revenue	4.1	236,922	190,758
Other income	4.2	2,160	1,494
Total Revenue		**239,082**	**192,252**
Purchase costs (including changes in inventories)	4.3	(60,196)	(53,472)
Service costs	4.4	(80,149)	(60,536)
Lease and rental costs	4.5	(6,524)	(5,005)
Personnel expenses	4.6	(19,488)	(15,196)
Amortisation & depreciation	4.7	(4,507)	(3,753)
Doubtful debt provision	4.8	(198)	(129)
Provisions for risks and charges	4.9	0	(45)
Other operating charges	4.10	(1,302)	(1,096)
Total Costs		**(172,364)**	**(139,232)**
Operating profit		**66,718**	**53,020**
Financial income	4.11	120	117
Financial expenses	4.11	(722)	(603)
Exchange gains and losses	4.11	180	277
Total financial income and expenses		**(422)**	**(209)**
Adjustment to financial assets	4.12	110	106
Profit before taxes		**66,406**	**52,917**
Income taxes	4.13	(1,884)	(14,712)
Net profit, including minority interests		**64,522**	**38,205**
Minority interests	5.12	71	0
Group Net Profit		**64,451**	**38,205**

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT

(Euro)	Note	FY 2019	FY 2018
Net profit (A)		**64,522**	**38,205**
Actuarial gains/(losses) IAS 19		(132)	41
Tax effect of gains and losses		36	(13)
Total other gains/(losses) that cannot be subsequently reclassified to the income statement (B)	5.12	**(96)**	**28**
Gains/(losses) on hedging derivatives		4	(47)
Tax effect of gains/(losses)		(1)	(3)
Gain/(loss) from translation of financial statements of foreign companies		(24)	(72)
Total other gains/(losses) that may subsequently be reclassified to the income statement (C)	5.12	**(21)**	**(122)**
Total other profit/(loss) net of tax effect (B+C)		**(117)**	**(94)**
Total comprehensive income		**64,405**	**38,111**

CONSOLIDATED BALANCE SHEET

(Euro '000) **ASSETS** **NON-CURRENT ASSETS**	**Note**	**FY 2019**	**FY 2018**
Intangible assets	5.1	7,159	7,385
Property, plant and equipment	5.2	23,116	19,283
Investments in subsidiaries and associates	5.3	617	603
Non-current tax receivables	5.8	279	279
Other non-current assets	5.4	287	84
Other non-current financial assets	5.10	2	2
Deferred tax assets	5.5	3,966	2,920
TOTAL NON-CURRENT ASSETS		**35,426**	**30,556**
CURRENT ASSETS			
Inventories	5.6	38,497	28,360
Trade receivables	5.7	53,678	46,907
Tax receivables	5.8	7,430	3,064
Other current assets	5.9	3,298	1,837
Other current financial assets	5.10	2	3
Cash and cash equivalents	5.11	45,498	30,711
TOTAL CURRENT ASSETS		**148,403**	**110,882**
TOTAL ASSETS		**183,829**	**141,438**

LIABILITIES AND SHAREHOLDERS' EQUITY			
EQUITY			
Share capital	5.12	10,000	10,000
Other Reserves	5.12	47,240	34,474
Net profit for the year	5.12	64,451	38,205
Group share capital and reserves		**121,691**	**82,679**
Minority interest reserves	5.12	308	0
Minority interest profit/(loss)	5.12	71	0
Minorities capital and reserves		**379**	**0**
TOTAL SHAREHOLDERS' EQUITY		**122,070**	**82,679**
NON-CURRENT LIABILITIES			
Post-employment benefits	5.18	2,253	1,603
Provisions for risks and charges	5.19	1,050	1,198
Non-current bank payables	5.14	13,753	16,421
Other non-current financial liabilities	5.17	1,586	0
Deferred tax liabilities	5.5	143	83
TOTAL NON-CURRENT LIABILITIES		**18,785**	**19,305**
CURRENT LIABILITIES			
Trade payables	5.13	25,469	19,331
Current bank payables	5.14	7,510	7,511
Other current financial liabilities	5.17	41	4
Tax payables	5.15	1,483	5,407
Other current liabilities	5.16	8,471	7,201
TOTAL CURRENT LIABILITIES		**42,974**	**39,454**
TOTAL LIABILITIES		**183,829**	**141,438**

CASH FLOW STATEMENT

	Note	FY 2019	FY 2018
CASH FLOW FROM OPERATING ACTIVITIES:			
Net profit		64,522	38,205
Adjustments:			
Income taxes		1,884	14,712
Financial income and expense		421	209
Amortisation		1,617	1,414
Depreciation		2,890	2,339
Write-down/(Revaluations) of equity investments		(110)	(106)
Net change in provisions for risks and charges		(205)	272
Net change in post-employment benefit provision		478	45
Gain/(loss) from translation of financial statements of foreign companies		(24)	(72)
Operating cash flow before changes in working capital	6.1	**71,473**	**57,018**
Change in inventories		(8,799)	(6,191)
Change in trade and other receivables (including current tax receivables)		(10,328)	(12,262)
Change in trade and other payables (including current tax payables)		359	6,031
Income taxes		(1,884)	(14,712)
Cash flow generated/(absorbed) from changes in working capital	6.2	**(20,652)**	**(27,134)**
Cash flow generated/(absorbed) from operating activities		**50,821**	**29,884**
CASH FLOW FROM BUSINESS COMBINATIONS:			
Price paid for acquisitions		(1,985)	0
Cash and cash equivalents from acquisition		404	0
Cash flow generated/(absorbed) from business combinations	6.3	**(1,581)**	**0**
CASH FLOW FROM INVESTING ACTIVITIES			
(Investments)/Disposals of intangible assets and goodwill		(1,090)	(2,514)
(Investments) /Disposals of property, plant and equipment		(6,723)	(3,575)
(Investments)/Disposals of equity investments		(14)	(106)
Net change in other non-current assets		(203)	36
Cash flow generated/(absorbed) from investing activities	6.4	**(8,030)**	**(6,159)**

CASH FLOW FROM FINANCING ACTIVITIES			
Net change in current financial assets		4	9
Net change in non-current financial assets		0	0
Net change in non-current financial liabilities		1,623	(11)
Change in payables to banks and other current lenders		(114)	2,318
Change in payables to banks and other non-current lenders		(2,668)	7,302
Dividends paid		(25,365)	(15,294)
Financial income and expense		(311)	(103)
Minority interest		408	0
Cash flow generated/(absorbed) from financing activities	6.5	**(26,423)**	**(5,779)**
Increase/(Decrease) in cash and cash equivalents		**14,787**	**17,946**

Opening cash & cash equivalents		30,711	12,765
Closing cash & cash equivalents		45,498	30,711
Change in cash and cash equivalents		**14,787**	**17,946**

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY

(Euro '000)	Note	Share capital	Legal reserve	Rev. Res. Law 342/00	Rev. Res. Law 158/08	Extra. Res.	Other Reserves	IAS FTA Reserve	IAS 19 Reserve	Hedge Accounting Reserve	Translation reserve	Gains/ (Losses) carr. forward	Profit/ (Loss)	Group Net Equity	Equity attri. to non-controll. interests	Total Consol. Share. Equity
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**	**0**	**59,862**
Reclassification reserve	5.12					21,807						1,537	(23,344)	0		0
Dividends allocated	5.12					(15,294)								(15,294)		(15,294)
Change IAS 19 reserve	5.12								28					28		28
Change in Hedge accounting reserve	5.12									(50)				(50)		(50)
Other movements	5.12										(72)			(72)		(72)
Profit for the year	5.12												38,205	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**	**0**	**82,679**
Allocation of the result for the year	5.12					10,771						27,434	(38,205)	0		0
Change in consolidation scope	5.12													0	408	408
Dividends allocated	5.12											(25,265)		(25,265)	(100)	(25,365)
Change IAS 19 reserve	5.12								(96)					(96)		(96)
Change in Hedge accounting reserve	5.12									3				3		3
Other movements	5.12					367					(24)	(424)		(81)		(81)
Profit for the year	5.12												64,450	64,451	71	64,521
At 31.10.2019		**10,000**	**2,039**	**7,560**	**4,718**	**34,201**	**28**	**(1,787)**	**(202)**	**0**	**(3)**	**686**	**64,450**	**121,691**	**379**	**122,070**

Consolidated Financial Statements Explanatory Notes to the financial statements

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

General information

1. BASIS OF PREPARATION

1.1 Form and content of the financial statements

These Consolidated Financial Statements of Sportswear Company S.p.A. and its subsidiaries (hereinafter also the "Group" or "Sportswear Group") at October 31, 2019 have been prepared in accordance with the International Financial Reporting Standards (hereinafter "IFRS") endorsed by the European Commission at the date of preparation of these financial statements.

The consolidated financial statements of the Sportswear Group at October 31, 2019 have been audited by Deloitte & Touche S.p.A.

1.2 Financial statements format

The consolidated financial statements of Sportswear Company S.p.A. as of October 31, 2019 include the income statement, the comprehensive income statement, the balance sheet, the cash flow statement and the statement of changes in shareholders' equity and these explanatory notes.

The Group's consolidated financial statements include the following schedules:

- the consolidated income statement. The format adopted provides for the classification of costs by nature as such presents the best representation of operational activities.
- **the consolidated comprehensive income statement** with the accounts which comprise the profit or loss for the year and the charges and income recognised directly to equity for transactions other than those involving shareholders. In fact, in application of the provisions of IAS 1, all changes generated by transactions with third parties, whether recorded in the income statement or booked directly to equity, must be shown in a single separate statement (comprehensive income statement) or in two separate statements (income statement and comprehensive income statement), as applied by the Group, in order to present the overall performance for the year (so-called comprehensive income). It was decided to adopt a separate format for the comprehensive income statement. In particular, in application of the provisions of IAS 1, all changes generated by transactions with third parties and booked directly to shareholders' equity must be shown in this comprehensive income statement in order to present the overall performance for the year (so-called comprehensive income). The amendments to IAS 1 require all the items presented in the comprehensive income statement to be grouped according to whether or not they can be reclassified to the income statement.
- **the consolidated balance sheet**, prepared in accordance with IAS 1, in which current and non-current assets and liabilities are shown separately for the twelve-month operating cycle. Current assets consist of cash or equivalent liquid assets, of assets whose completion, sale or consumption is envisaged during the company's standard operating cycle, of assets held for trading or of assets to be completed within twelve months of the date of the financial statements. All other assets are classified as non-current. Current liabilities consist of liabilities, the repayment of which is envisaged during the company's standard operating cycle or within twelve months of the date of the financial statements, or of those liabilities whose repayment may not be deferred by more than twelve months. All other liabilities are classified as non-current.
- the cash flow statement has been prepared using the indirect method and is presented in accordance with IAS 7, classifying cash flows as operating, investing and financing activities.
- the statement of changes in shareholders' equity for the year, compared with the previous year.
- these explanatory notes and their annexes.

1.3 Basis of preparation
The financial statements were prepared in accordance with the historical cost convention, except for derivative financial instruments, Other financial assets and Available-for-sale assets, which are recognized at fair value, as required by IFRS 9.
The consolidated financial statements are presented in thousands of Euro, which is the currency of the economies in which the Group mainly operates.

2. CONSOLIDATION PRINCIPLES

2.1 Consolidation Scope

The consolidated financial statements at October 31, 2019 include the financial statements of Sportswear Company S.p.A. and the companies in which it controls directly and indirectly, in accordance with IFRS 10.

The list of equity investments included in the consolidation scope and the related consolidation method is illustrated below:

Company	Location	Share capital (in Euro)	% held 2019
Sportswear Company S.p.A.	Ravarino (Mo) - Italy	10,000,000	Parent Company
Stone Island Retail Srl	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, Frankfurt - Germany	25,000	100
Stone Island USA Inc	Delaware, New Jersey - USA	1,794,644	100
Stone Island LA LLC	Los Angeles	448,652	100
Stone Island NYC LLC	New York	448,652	100
Stone Island MIAMI LLC	Miami	448,652	100
Stone Island Canada Inc	Toronto - Canada	331,763	100
Officina della Maglia Srl	Mirandola (Mo) - Italy	10,000	75.10

The only associated company, measured using the equity method at October 31, 2019, is as follows:

Company	Location	Share capital (in Euro)	% held 2019
Starcolor S.r.l.	Modena - Italy	41,600	24

2.2 Consolidation methods

The consolidation of the companies in which the Parent Company Sportswear Company S.p.A directly or indirectly holds control, whether by right or by fact, is made through the line-by-line method, which records all the assets and liabilities fully from the date in when control is acquired and until the date control terminates. Control is exercised, in accordance with IFRS 10, either due to directly or indirectly holding a majority of the voting rights, or through the exercise of a dominant influence which is expressed by the power to determine, including indirectly based on contractual or legal agreements, the financial and operating choices of the entity and thus obtaining the relative benefits, without reference to the actual holding in the company. The existence of potential exercisable voting rights at the reporting date is considered in order to determine control. If the parent company loses control of a subsidiary it shall (i) derecognise the assets and liabilities of the former subsidiary from the consolidated balance sheet, (ii) recognise any equity investment retained in the former subsidiary at its fair value at the date of loss of control, (iii) recognise the gain or loss related to the loss of control attributable to the former majority interest.

The most important consolidation principles adopted for the application of the line-by-line method are the following:

- subsidiaries are consolidated as of the date on which control was actually transferred to the Group, and cease to be consolidated as of the date on which control is transferred outside the Group;
- where necessary, adjustments are made to the financial statements of subsidiaries in order to apply uniform Group accounting policies;
- the assets and liabilities, and the income and expenses, of the companies consolidated on a line-by-line basis are fully included in the consolidated financial statements; the book value of the investments is eliminated against the corresponding net equity of the subsidiaries, allocating to the individual assets and liabilities their fair value at the date of acquisition of control (purchase method as defined by IFRS 3 "Business Combinations"). Any residual difference, if positive, is recorded in the asset account "Goodwill"; if negative, this is credited to the income statement. For further details, reference should be made to that described below with reference to Business Combinations.
- Transactions between consolidated subsidiaries are eliminated as well as payables and receivables, costs and revenues and unrealised gains from inter-company transactions, net of any tax effect;
- the share of shareholders' equity and result for the period attributable to minority shareholders are recorded separately under shareholders' equity and in the consolidated income statement.

The financial statements in currencies other than that of the consolidated financial statements of the Group, that is the Euro, are consolidated utilising the method described above with translation into Euro. The translation is made as follows:

- the assets and the liabilities were translated using the exchange rate at the consolidated balance sheet date;
- the costs and revenues were translated at the average exchange rate for the period;
- the "Translation reserve" includes both the exchange rate differences generated from the translation of foreign currency profit and loss items at a rate different from the closing rate, and also those generated from the translation of opening equity at an exchange rate which is different from the closing exchange rate;
- the goodwill and the fair value adjustments related to the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the exchange rate at the reporting date.

The financial statements in currencies other than the Euro are translated into Euro applying the rules indicated above. The main exchange rates applied for 2019 and 2018 are shown below:

Currency	2019		2018	
	Average	Year-end	Average	Year-end
US Dollar	1.1242	1.1154	1.1875	1.1318
Canadian Dollar	1.4814	1.4673	-	-

3. ACCOUNTING STANDARDS ADOPTED FOR THE PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

Intangible assets

An intangible asset is a non-monetary asset, identifiable and without physical substance and capable of generating future economic benefits. These assets are recorded at purchase and/or production cost, including the costs of bringing the asset to its current use, net of accumulated amortisation, and any loss in value. The amortisation begins when the asset is available for use and is amortised systematically over the useful life of the asset.
After initial recognition, the intangible assets with a definite useful life are recognised at cost and amortised on a straight-line basis over their estimated useful life in which they are expected to generate economic benefits and net of any impairment losses, determined in accordance with IAS 36.

The following rates are applied:

Intangible assets	% amortisation
Software	20%
Key money	lease contract duration
Other intangible assets	20%

(i) Software and other intangible assets

Expenses for software and other intangible assets are recorded under assets at their purchase cost and are amortised according to a five-year plan. Software and other intangible assets acquired by the Group that have a definite useful life are valued at cost net of amortisation and accumulated impairment losses.

(ii) Key money

Key money paid for the opening of direct shops is considered as exit costs relating to a real estate lease contract and is considered an asset with a definite useful life determined over the period of the underlying contract. In certain circumstances, key money has an indefinite useful life in relation to legal protections or common practices in the jurisdictions or markets that provide for its repayment at the end of the lease. In these limited cases, which must be adequately supported, key money is not amortised but subject to periodic review, at least annually, to identify any impairment (as referred to in the paragraph on impairment of non-financial assets).

(iii) Research and development costs

Research and development costs are charged to the income statement in the year they are incurred in accordance with best industry practices, since it is difficult to distinguish between the development phase and the research phase.

(iv) Goodwill

Goodwill is represented by the excess of the purchase cost compared to the net fair value at the acquisition date of assets and liabilities. Goodwill is not subject to amortisation but to a periodic test carried out at least once a year to verify the adequacy of its carrying value (impairment test). This test is made with reference to the "cash generating unit" to which the goodwill is allocated. A reduction in the value of the goodwill is recorded when the recoverable value of the goodwill is lower than the carrying value. The recoverable value is the higher between the fair value of the cash generating unit, net of selling costs, and the relative value in use (see the paragraph below "Loss in value of Assets" for further details concerning the determination of the value in use). Goodwill may not be restated in subsequent years.
When the reduction in value deriving from the test is higher than the value of the goodwill allocated to the cash generating unit the residual amount is allocated to the assets included in the cash generating unit in proportion to their carrying value. This allocation has as its minimum limit, the highest value between:
(a) the fair value of the asset less costs to sell;
(b) the value in use, as defined above.

Property, plant and equipment

Property, plant and equipment are recognised at purchase cost (in the case of buildings it was decided to maintain revaluations carried out in accordance with law in previous years as the option allowed by IFRS1 in terms of deemed cost was adopted) or production including ancillary charges, net of the related depreciation provision and any impairment losses. The cost of production includes direct and indirect costs for the portion reasonably attributable to the asset and necessary to make the assets available for use (e.g. personnel expenses, transport, customs duties, preparation of the place of installation, testing costs, notary and land registry fees). Financial expenses directly attributable to the acquisition, construction or production of a tangible fixed asset are recognised in the income statement at the time at which they are incurred.

Maintenance costs of an ordinary nature are charged fully to the income statement. The cost for improvements, modernisation and transformation of an incremental nature are allocated as an asset.
When the asset to be depreciated is composed of separately identifiable elements whose useful life differs significantly from the other parts of the asset, the depreciation is made separately for each part of the asset, with the application of the component approach principle.

The fixed assets which at the date of the preparation of the financial statements it is highly probable they will be sold are classified under "current assets available-for-sale" and measured at the lower between the carrying amount and the relative fair value net of the estimated costs to sell. The sale of an asset classified under non-current assets is highly probable when management through formal resolution have defined a programme for the disposal of the asset (or of the group to be disposed) and activities have commenced to identify an acquirer and complete the programme. In addition, the asset (or group to be disposed) was offered for sale at a reasonable price compared to the current fair value. The completion of the sale is expected within one year from the date of the classification and the actions required to complete the programme demonstrate the improbability that the programme can be significantly modified or cancelled.

The fixed assets held under finance leases are recorded under the fixed asset class to which they refer and depreciated, applying the same rates, indicated below, for the relative asset class, except where the duration of the lease contract is lower than the useful life and there is not a reasonable certainty of the transfer of ownership of the asset at the normal expiry date of the contract; in this case, the depreciation is over the duration of the lease contract. Short- and medium-term payables to the lender are recorded against the recognition of the asset; the instalments are divided between the financial expenses and the reduction of the short- and medium-term payables, with consequent reversal from the income statement of the lease payments recorded under leases, rent and similar charges. Financial expenses are allocated to the income statement so as to obtain a constant interest rate on the residual liability for each year.

The leased assets, where the lessor bears the majority of the risks and rewards related to an asset, are recorded as operating leases. Operating lease payments are recognised on a straight-line basis over the term of the lease.

The depreciation begins when the assets are ready for use. Assets under construction include costs relating to tangible fixed assets for which the process of economic use has not yet begun. Tangible fixed assets are depreciated on a straight-line basis on economic/technical rates considered representative of the residual possible future use of the asset.
The tables below show the depreciation rates taken into account for the depreciation of assets.

Property, plant & equipment	% depreciation
Buildings	3%
Plant and machinery	12.5%
Equipment	25%
Furniture and fittings	12%
Leasehold improvements	Lesser between lease contract and useful life of improvement
Other assets	Between 12% and 25%

As required by IAS 16, the estimated useful lives of property, plant and equipment are reviewed each year in order to assess the need for revision. In the event that the estimated useful lives do not adequately represent the expected future economic benefits, the related depreciation plans must be redefined on the basis of the new assumptions. These changes are charged to the income statement prospectively.

The recovery of the value recorded of the tangible fixed assets is verified adopting the criteria indicated under "Loss in value of assets".

Business Combinations

The business combinations are accounted for under the purchase method (purchase method as defined by IFRS 3 Revised "Business Combinations"). The purchase method requires, after the identification of the acquirer in the business combination and having determined the cost of the acquisition, to value all the assets and liabilities at fair value (including the so-called contingent liabilities) acquired. Any goodwill is only determined residually as the difference between the cost of the business combination and the share in the difference between the assets and liabilities acquired measured at fair value. If this difference is negative, it is recognised as a positive component of the result for the period in which the business combination takes place. Transaction costs are expensed directly to the income statement.

Business combinations under common control

Business combinations under common control or "Business combinations of entities under common control" are those business combinations between entities which are, ultimately, controlled by the same party, either before or after the business combination and the control is not of a temporary nature. The presence of minority interests in each of the entities subject to the business combination before or after the operation is not significant in determining if the business combination involves entities under common control.
The business combinations between entities under common control are recorded so that the net assets of the entities acquired and the acquiring entity are recorded at the book values recorded prior to the operation (continuity of values), without recognising in the consolidated financial statements any gains from these business combinations recorded in the individual financial statements of the Company.

Equity investments in associate and other companies

Investments in associates are initially recorded at the cost incurred for the acquisition and subsequently measured using the equity method. The investments in other companies are measured at fair value; where the fair value cannot be reliably estimated, the investment is measured at cost. The recovery of the value recorded is verified adopting the criteria indicated under "Loss in value of assets".

Receivables and other current and non-current assets

Trade receivables and other receivables arising from the provision of financial assets, goods or services by the Group to third parties are classified as current assets except when they mature more than twelve months after the reporting date with reference to non-trade receivables.
Current and non-current financial receivables, other current and non-current receivables and trade receivables, with the exception of assets deriving from derivative financial instruments, are measured, if they have a fixed maturity, at amortised cost calculated using the effective interest method.
When the financial assets do not have a fixed maturity, they are measured at acquisition cost. Receivables with maturities of over one year which bear no interest or an interest rate significantly lower than market rates are discounted using market rates.
When there is an indication of a reduction in value, the asset is reduced to the value of the discounted future cash flows obtainable. Impairments are recognised to the income statement. When, in subsequent periods, the reasons for the impairment loss no longer exist, the amount of the assets is restated up to the amount deriving from the application of the amortised cost where no impairment loss had been applied.

Deferred tax assets & liabilities

Deferred tax assets and liabilities are the taxes that it is expected to pay or recover on the temporary differences between the carrying value of the assets and of the liabilities in the financial statements and the corresponding fiscal value used in the calculation of the assessable income.
Deferred tax liabilities are generally recorded on all temporary assessable differences, while deferred tax assets are recorded based on the probability that the future assessable results will permit the use of the temporary deductible differences. The carrying value of deferred tax assets is revised at the end of the year and reduced to the extent that it is no longer likely that there will be sufficient taxable income against which to recover all or part of the assets.
Deferred tax assets and liabilities are calculated taking into account the tax rate that the Group expects to incur in the year in which these differences will contribute to the formation of the fiscal result, considering the rates in force or already issued at the date of the financial statements.

Financial assets

Financial assets, as per the new IFRS 9 - "Financial Instruments: Recognition and Measurement" (as revised in July 2014) which replaces IAS 39 - "Financial Instruments: Recognition and Measurement", are classified, on the basis of the way in which they are managed by the Group and the related contractual cash flows, in the following categories:

- Amortized Cost: financial assets held exclusively for the purpose of collecting the contractual cash flows are classified in the category Amortized Cost; they are measured using the amortised cost method, recording the income in the income statement using the effective interest rate method;
- Fair value through other comprehensive income ("FVOCI"): financial assets whose contractual cash flows are represented exclusively by the payment of principal and interest and which are held in order to collect the contractual cash flows as well as the flows deriving from the sale of the same are classified in the FVOCI category. They are measured at fair value. Interest income, exchange rate gains/losses, impairment losses (and related write-backs) of financial assets classified in the category FVOCI, are recorded in the income statement; other changes in the fair value of assets are recorded among the other items of OCI. When these financial assets are sold or reclassified to other categories, due to a change in the business model, the cumulative gains or losses recognised in OCI are reclassified to the income statement;

- Fair value through profit or loss ("FVTPL"): the FVTPL category is residual in nature and includes financial assets that do not fall under the Amortized Cost and FVOCI categories, such as financial assets purchased for trading or derivatives, or assets designated as FVTPL by management at the date of first recognition. They are measured at fair value. Gains or losses resulting from this valuation are recognised in the income statement;
- FVOCI for equity instruments: the financial assets represented by equity instruments of other entities (i.e. investments in companies other than subsidiaries, associates and joint control companies), not held for trading purposes, may be classified in the category FVOCI. This choice can be made instrument by instrument and provides that changes in the fair value of these instruments are recognised in the OCI and are not reversed in the income statement either on sale or on impairment of the same. Only dividends from these instruments will be recognised to the income statement.

The fair value of financial assets is calculated on the basis of the listed offer prices or through the use of financial models. The fair value of unlisted financial assets is estimated using specific valuation techniques adapted to the specific situation.
Regular valuations are made in order to assess whether a financial asset or a group of assets have incurred a loss in value. If there is evidence of a loss in value, the loss is recognised in the income statement for the period.

Financial liabilities
Financial liabilities are measured using the amortised cost method, recording charges in the income statement using the effective interest rate method, except for financial liabilities purchased for trading or derivatives (see next paragraph), or those designated as FVTPL by management at the date of initial recognition, which are measured at fair value through profit or loss.

Derivative financial instruments
The Group holds derivative instruments in order to hedge its exposure to the risk of changes in interest and exchange rates. The operations that, in compliance with the risk management policies, satisfy the requisites imposed by the accounting standard for the treatment of "hedge accounting" are designated as "hedging" (recognised as illustrated below), while those that, although made with intention to cover, do not satisfy the requisites required by the standard are classified as "trading". In this case, changes in the fair value of derivative instruments are recognised in the income statement in the period in which they are determined. The fair value is determined on the basis of the market value.

Hedge accounting
For accounting purposes, the hedging operations are classified as a "fair value hedge" if they are made against the risk of change in the market value of the underlying asset or liability; or as a "cash flow hedge" if they are made against the risk of change in the derivative cash flows either from an existing asset or liability, or from a future operation.
In relation to the derivative instruments classified as "fair value hedge", that comply with the conditions for the accounting treatment as hedging operations, the gains and losses deriving from the determination of their market value are recognised in the income statement. Also recognised in the income statement are the gains or losses deriving from the "fair value" adjustment of the underlying element of the hedge.
For instruments classified as cash flow hedges and qualifying as such, changes in fair value are recognised, limited to the "effective" portion only, in a specific equity reserve called the "Cash flow hedge reserve", through the comprehensive income statement. This reserve is subsequently reversed to the income statement when the underlying hedged item materialises. The change in fair value attributable to the ineffective portion is immediately recognised in the income statement for the period. If the occurrence of the underlying transaction is no longer considered highly probable or the hedging relationship is no longer demonstrable, the corresponding portion of the "Cash flow hedge reserve" is immediately reversed to the income statement.
If, on the other hand, the derivative instrument is sold and therefore no longer qualifies as an effective hedge of the risk against which the transaction was initiated, the portion of the "Cash flow hedge reserve" relating to it is maintained until the economic effects of the underlying contract become apparent.

Derecognition of financial assets and liabilities

Financial assets
A financial asset is eliminated from the financial statements when:
- the right to receive the financial flows of the asset terminate;
- the Group retains the right to receive the cash flows from the asset, but has a contractual obligation to pay them fully and without delay to a third party;
- the Group has transferred its right to receive the cash flows from the asset and has transferred substantially all of the risks and rewards of ownership of the financial asset or has not transferred or retained all of the risks and rewards of the asset, but has transferred control.

Where the Group has transferred all the rights to receive the financial flows of an asset and has not transferred or withheld all of the risks and rewards or has not lost control, the asset is recorded in the financial statements up to the amount of its residual holding in the asset. Residual involvement that takes the form of a guarantee on the transferred asset is measured at the asset's initial book value or the maximum consideration that the Group could be required to pay, whichever is less.
In cases where the residual involvement takes the form of an option issued and/or purchased on the transferred asset (including options settled in cash or similar), the extent of the Group's involvement corresponds to the amount of the transferred asset that the Group may repurchase; however, in the case of a put option issued on an asset measured at fair value (including options settled in cash or similar), the extent of the Group's residual involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities
A financial liability is derecognised from the financial statements when the underlying liability is settled or cancelled.
If an existing financial liability is replaced by another by the same lender but under substantially different conditions, or if the conditions of an existing financial liability are substantially changed, such a swap or change is treated as an elimination of the original liability and the opening of a new liability, with any differences in accounting values recorded in the income statement.
In changes to financial liabilities defined as non-substantial, the financial liability is not derecognised and the value of the debt is recalculated maintaining the original effective interest rate unchanged, discounting the modified cash flows, thus generating a positive or negative effect on the income statement.

Inventories

Inventories of raw materials, semi-finished and finished products are measured at the lower of weighted average production or purchase cost and net realisable value. The average cost includes the direct costs of materials and processing.
The raw materials and finished products obsolescence provision is calculated to return cost to net realisable value based on estimates that take into account the length of the production season and the possibility of using the raw materials in production and selling finished products through the various distribution channels (outlets and stocks).

Cash and cash equivalents

The account relating to cash and cash equivalents includes cash, bank current accounts and deposits on demand and other highly liquid short-term financial investments, readily convertible into cash, that is transferable into cash within 90 days from the original acquisition date, and that do not have a significant risk of a change in value.

Impairments

At least annually, at the reporting date, the Group reviews the book value of the goodwill and of intangible and tangible fixed assets to determine whether there are indications that these assets have suffered any impairment. When it is determined that a potential loss exists, the Directors make valuations on the recoverable amount of those assets in order to identify the potential amount of the loss. Where it is not possible to make an estimate of the recoverable amount of an asset individually, the Group makes an estimate of the recoverable amount of the cash generating unit the asset belongs to.

The recoverable value is the higher between fair value less costs to sell and value in use. In determining the value in use, the estimated future cash flows are discounted on a pre-tax basis which reflects the market assessment of the time value of money and the risks specific to the asset.
If the recoverable amount of an asset (or a CGU) is lower than its carrying amount, it is impaired to that recoverable amount. An impairment is recognised to the income statement immediately.
When the reasons for the impairment no longer exist, the carrying value of the asset (or the cash generating unit) – except for Goodwill – is increased to the revised estimate of its recoverable value. The new value cannot exceed the net carrying value if no write-down for impairment had being recorded. The restated values are immediately recognised in the income statement.

Shareholders' Equity

The share capital comprises the ordinary shares outstanding and is recognised at the nominal value. The costs relating to the issue of shares or options are classified as a reduction of Net Equity (net of the related tax benefit) as a deduction of the income deriving from the issue of such instruments.
For the acquisition of treasury shares, the price paid, including any accessory charges directly attributable, is deducted from the Group net equity until its cancellation, re-issue or sale of the shares. When such treasury shares are re-sold or re-issued, the price received, net of any accessory charges directly allocated and the relative tax effect, is recorded as an increase in the Group net equity.

Changes in the translation reserve occur on the recording of the exchange differences relating to the consolidation of the companies prepared in currencies other than the Euro.
The legal reserve includes the provisions recognised in accordance with Article 2430 of the Civil Code, which are increased by 1/20th of the net profits of the Parent Company until the reserve reaches 1/5th of the share capital of the Parent Company. Once 1/5th of the share capital is reached the reserve - if subsequently reduced for any reason - is integrated with annual provisions as indicated above.

Post-employment benefits

The Group manages pension plans according to the defined-benefit and/or defined-contribution schemes, as the post-employment benefits provision falls within this category.
The liability relating to a defined benefit pension plan (such as the post-employment benefits provision) represents the present value of the corresponding obligation at the reporting date, net of the fair value of plan assets, adjusted for actuarial gains or losses and past service costs.
The obligation to finance the defined benefit plans and the annual cost recognised in the income statement are determined by independent actuaries using the projected unit credit method.
With reference to defined benefit plans, costs arising from the discounting effect of the obligation are classified as financial expenses. Actuarial differences arising from changes in the assumptions used to calculate defined benefit pension plans are recognised in the comprehensive income statement.
Post-employment benefits matured to December 31, 2006 are similar to a defined benefit plan, to be measured in accordance with statistical and demographic assumptions, as well as actuarial methodologies. Following the amendment introduced by the Italian legislature, from January 1, 2007 the post-employment benefits matured are similar to a defined contribution plan.
On the transition to IFRS the value of this provision was therefore remeasured, as well as the cost relating to each year. In particular, actuarial gains and losses are recognised in other items of the comprehensive income statement, service costs are recognised under personnel expenses and interest costs are recognised under financial expense.

Share-based payments

In accordance with IFRS 2 and in relation to the specific characteristics of the stock option plan approved by the Directors, including the related probabilistic assessments, falling within the category of "cash-settled share-based payment transactions", the fair value at the grant date of the incentives recognised in equity-settled share-based payments granted to employees is recognised as a cost, with a corresponding increase in financial liabilities, over the period during which employees obtain the right to the incentives. The amount recognised as an expense is adjusted to reflect the actual number of incentives for which the conditions for remaining in service have matured, so that the final amount recognised as an expense is based on the number of incentives that meet the above conditions on the vesting date.

In the case of incentives recognised in share-based payments whose conditions are not to be considered as vesting, the fair value at the grant date of the share-based payment is measured to reflect these conditions. With reference to the non-vesting conditions, any differences between the assumptions at the grant date and the effective date will not produce any impact in the financial statements.
The liability is measured at each reporting date and at the settlement date based on the fair value of the shares. Any changes in the fair value of the liability are recognised to profit or loss for the year.

Provisions for risks and charges

Provision for risks and charges are recorded in respect of certain or probable losses or liabilities, the amount or due date of which could not be determined at the reporting date.
The provisions are recorded when:
- the existence of a present obligation, legal or implicit, deriving from a past event is probable;
- it is probable that compliance with the obligation will result in a charge;
- the amount of the obligation can be estimated reliably.

Provisions are recorded at the value representing the best estimate of the amount that the Company would pay to discharge the obligation or to transfer it to a third party at the reporting date.
When the financial effect of the time is significant and the payment dates of the obligations can be reliably estimated, the provision shall be discounted at the average cost of debt to the company; the increase of the provision due to the passing of time is recorded in the income statement in the account "Net financial income/(expenses)".
The provisions are periodically updated to reflect the changes in the estimate of the costs, of the time period and of the discounting rate; the revision of estimates are recognised in the same income statement captions in which the provision was recognised, when the liability relates to property, plant and equipment (for example dismantling and reclamation), and in the asset account to which it refers.

Revenue recognition

Revenues from customer contracts are recorded according to a five-step model:
- o identify the contract with a customer;
- o identify the performance obligations in the contract;
- o determine the transaction price;
- o allocate the price to the performance obligations in the contract;
- o recognise revenue when (or as) the entity satisfies a performance obligation.

Revenue is recorded on the transfer of all of the risks and charges deriving from the ownership of the assets transferred.
Revenue is shown net of any adjusting items (returns, discounts and rebates) and does not include value added tax and any other sales tax.
Sales in the wholesale channel are recognized when the finished product is shipped to the end customer as this moment essentially reflects the transfer of ownership with its risks and rewards. The provision for returns and discounts is estimated on the basis of forecasts, taking into account historical trends. For the goods expected to be returned, the Company adjusts revenue and records a liability for refunds. The right to return an asset (and the corresponding adjustment of the cost of sales) is also recognised for the right to receive the goods from the customer.
Sales in the retail channel are recognised on the date of direct sale of the asset to the end customer.

Recognition of costs

The costs for the acquisition of goods and services are recognised when their amount may be reliably established. The costs for the acquisition of goods are recognised on delivery based on contracts in place identifying the moment of transfer of the related risks and rewards. Service costs are recognised at the moment of receipt of the services.

Financial income and expenses

Interest income and expenses are recorded on an accruals basis on the interest matured on the net value of the relative financial assets and liabilities and utilising the effective interest rate.

Income taxes

Income taxes for the year represent the sum of current and deferred taxation.
Income taxes are calculated based on a realistic estimate of the tax charge, in accordance with the accruals principle and applicable tax laws.
In particular, deferred tax assets and liabilities are also included in the financial statements. Deferred tax assets and liabilities derive from temporary differences between the carrying amount of the assets and liabilities and the respective tax values.
Deferred tax assets are recorded for the probable amount of their expected future recovery.
The recoverability of deferred tax assets is verified at the end of each year and any part for which the recovery is no longer probable is recognised in the Income Statement.
The benefits from carried forward tax losses are recognised only if it is considered probable that in future years positive results will be achieved such as to reabsorb the losses.
Deferred tax assets and liabilities are determined with the tax rates that are expected to be applied in the years when the temporary differences are realised or settled.
Deferred tax assets and liabilities are classified respectively to non-current assets and liabilities. The amount of the offsetting, when positive, is recorded in the account "Deferred tax assets", if the amount is a liability, the amount is recorded under "Deferred tax liabilities".
The tax assets and liabilities, both current and deferred, are offset when due to the same tax authorities, if the reversal period is the same and if a legal right to offsetting exists.

Transactions in foreign currencies

Receivables and payables originally expressed in currencies other than the operational currency of the company which records the receivable/payable (foreign currencies) are translated into the operational currency of this company at the historical rates at the transaction date. The differences arising on receipts and payments in foreign currencies are recorded in the income statement. At the date of the preparation of the financial statements, the receivables and payables in foreign currencies are translated at exchange rates in force at that date with the recording of any changes in the value of the receivables/payables in the income statement (unrealised exchange gains and losses).

Segment information

Since the Group is not listed, it has chosen the option not to provide information on operating segments, as allowed by IFRS 8.

Use of estimates

The preparation of the financial statements requires Management of the Group to make accounting estimates based on complex and/or subjective opinions; these estimates are based on past experience and assumptions considered reasonable and realistic on the basis of the information available at the moment of the estimate. The utilisation of these accounting estimates impacts the value of the assets and liabilities and the information on the contingent assets and liabilities at the balance sheet date, as well as the amount of the revenues and costs in the period. The final outcome of the accounts in the financial statements which use the above-mentioned estimates and assumptions may differ from those reported in the financial statements due to the uncertainty which characterises the assumptions and the conditions upon which the estimates are based.

The aspects which require greater subjectivity by the Directors in the preparation of the estimates and for which a change in the underlying conditions or the assumptions may have a significant impact on the consolidated financial statements are briefly described below:

Impairments
In accordance with the accounting standards applied by the Group, the tangible and intangible assets with definite life are verified to ascertain if there has been a loss in value which is recorded by means of a write-down, when it is considered there will be difficulties in the recovery of the relative net book value through use. The verification of the existence of the above-mentioned difficulties requires the Directors to make valuations based on the information available within the Group and from the market, as well as from historical experience. In addition, when it is determined that there may be a potential reduction in value, the Group determines this through using the most appropriate technical valuation methods available. The correct identification of the indicators of the existence of a potential reduction in value as well as the estimates for their determination depends on factors which may vary over time impacting upon the valuations and estimates made by the Directors.

Depreciation of property, plant & equipment
The cost of property, plant and equipment is depreciated on a straight-line basis on the estimated useful life of the asset. The useful life of the tangible fixed assets of the Group is determined by the Directors when the fixed assets are purchased. This is based on the historical experiences for similar fixed assets, market conditions and considerations relating to future events which could have an impact on the useful life, such as changes in technology. Therefore, the effective useful life may be different from the estimated useful life. The Group periodically evaluates technological and sector changes to update the residual useful life. This periodic update could result in a change in the depreciation period and therefore in the depreciation charge in future years.

Inventory valuation and obsolescence provision
The Group values inventory at the lower of the purchase price and the estimated realisable value, based on market trends and expectations on the future realisation of the value of the inventories. Where the actual market conditions are less favourable than the expectations, the value of the inventories may be written down.

Doubtful debt provision
In order to determine the appropriate level of the doubtful debt provisions, the recovery of the receivables is assessed based on the solvency of each debtor. The quality of the estimates depends on the availability of updated information on the solvency of the debtor.

Deferred tax assets
Deferred tax assets are recorded on the basis of expected income in future years and also taking into account the amount and time horizon of the temporary differences that generate the deferred tax provision. The valuation of the expected income in order to record the deferred tax asset depends upon factors which may change over time and result in significant effects on the valuation of this asset.

Provisions for risks and charges
Provisions are recorded in the financial statements when the Group has a current obligation that is the result of a past event and it is probable that the obligation must be met. Provisions are made based on the best estimate of the cost of fulfilling the obligation at the reporting date, and are discounted when the effect is significant. The explanatory notes provide information on the existence of possible liabilities against which no provision has been made in the financial statements.

Actuarial calculation of the defined benefit plans: the estimates, and demographic and economic/financial assumptions adopted, with the support of the valuations of an expert actuary, in the actuarial calculation for the determination of the defined benefit plans in relation to employment benefits subsequent to the employment period, are shown below:

Annual inflation rate	Probability of the employee leaving the Group	Probability of post-employment benefit advances
1.5% for 2019 and 2018	Frequency of 3.8% for 2019 and 2018	1.7% for 2019 and 2018

Finally, the rate curve for corporate securities with an AA rating was used for actuarial valuations.

Fair value stock options: the Group adopts Stock Option Plans as an incentive instrument. The beneficiaries of the current plan is the Parent Company's Management and provides for a right to receive, without consideration and subject to certain conditions, special category shares of the Company.
In accordance with IFRS 2, the Company estimates the financial expense from the above plan by evaluating:
- the probability of occurrence of the events that condition the right to receive the shares and the probability that these can be converted into cash;
- the fair value of the option rights assigned. This value was determined with reference to the date on which the option rights were assigned by the Board of Directors with the assistance of an independent expert.

This assessment depends on factors that may vary over time and are not subject to the control of the Directors.

IFRS Standards, Amendments and Interpretations applied from January 1, 2018

In view of the fact that the Group closed its financial year on October 31, 2018, the application of the accounting standards is deferred with respect to the calendar year; consequently, the IFRS standards applicable from January 1, 2018 will be applied by the Group starting from the consolidated financial statements at October 31, 2019.

The following IFRS standards, amendments and interpretations have been applied for the first time by the Group from November 1, 2018:

• On May 28, 2014, the IASB published "IFRS 15 Revenue from Contracts with Customers" which, together with additional clarifications published on April 12, 2016, replaces IAS 18 Revenue and IAS 11 Construction Contracts, in addition to the 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 establishes a new revenue recognition model, which will apply to all contracts with clients, with the exception of those falling under the application of other IAS/IFRS such as leasing, insurance contracts and financial instruments. The essential issues for the recognition of revenue according to the new model are:
o identify the contract with a customer;
o identify the performance obligations in the contract;
o determine the transaction price;
o allocate the price to the performance obligations in the contract;
o recognise revenue when (or as) the entity satisfies a performance obligation.

The Group applied IFRS 15 retroactively with cumulative effect at the date of first application, November 1, 2018, although there was no effect on shareholders' equity at that date. Therefore, the figures at October 31, 2018 were not restated i.e. they were presented as per IAS 18, IAS 11 and the relative interpretations.
The following tables summarise the effects of the application of IFRS 15 on the individual items concerned in the balance sheet at October 31, 2019 and in the Group income statement for the year 2019. In particular, the figures for 2019 have been restated below in accordance with the previous accounting treatment adopted by the Group, in order to allow better comparability of the figures for the two years with the same accounting rules.

CONSOLIDATED BALANCE SHEET

(Euro '000) **ASSETS** **NON-CURRENT ASSETS**	**FY 2019**	**Reclassifications**	**FY 2019 Restated**	**FY 2018**
Intangible assets	7,159		7,159	7,385
Property, plant and equipment	23,116		23,116	19,283
Investments in subsidiaries and associates	617		617	603
Non-current tax receivables	279		279	279
Other non-current assets	287		287	84
Other non-current financial assets	2		2	2
Deferred tax assets	3,966		3,966	2,920
TOTAL NON-CURRENT ASSETS	**35,426**	**0**	**35,426**	**30,556**
CURRENT ASSETS				
Inventories	38,497	(303)	38,194	28,360
Trade receivables	53,678		53,678	46,907
Tax receivables	7,430		7,430	3,064
Other current assets	3,298		3,298	1,837
Other current financial assets	2		2	3
Cash and cash equivalents	45,498		45,498	30,711
TOTAL CURRENT ASSETS	**148,403**	**(303)**	**148,100**	**110,882**
TOTAL ASSETS	**183,829**	**(303)**	**183,526**	**141,438**

LIABILITIES AND SHAREHOLDERS' EQUITY **SHAREHOLDERS' EQUITY**				
Share capital	10,000		10,000	10,000
Other Reserves	47,240		47,240	34,474
Net profit for the year	64,451		64,451	38,205
Group share capital and reserves	**121,691**		**121,691**	**82,679**
Minority interest reserves	308		308	0
Minority interest profit/(loss)	71		71	0
Minorities capital and reserves	**379**		**379**	**0**
TOTAL SHAREHOLDERS' EQUITY	**122,070**		**122,070**	**82,679**
NON-CURRENT LIABILITIES			**0**	
Post-employment benefits	2,253		2,253	1,603
Provisions for risks and charges	1,050	393	1,443	1,198
Non-current bank payables	13,753		13,753	16,421
Other non-current financial liabilities	1,586		1,586	4
Deferred tax liabilities	143		143	83
TOTAL NON-CURRENT LIABILITIES	**18,785**	**393**	**19,178**	**19,309**
CURRENT LIABILITIES			**0**	
Trade payables	25,469	(696)	24,773	19,331
Current bank payables	7,510		7,510	7,511
Other current financial liabilities	41		41	
Tax payables	1,483		1,483	5,407
Other current liabilities	8,471		8,471	7,201
TOTAL CURRENT LIABILITIES	**42,974**	**(696)**	**42,278**	**39,450**
TOTAL LIABILITIES	**183,829**	**(303)**	**183,526**	**141,438**

CONSOLIDATED INCOME STATEMENT

(Euro '000)	FY 2019	Reclassifications	FY 2019 Restated	FY 2018
Revenue	236,922	303	237,225	190,758
Other income	2,160		2,160	1,494
Total Revenue	**239,082**	**303**	**239,385**	**192,252**
Purchase costs (including changes in inventories)	(60,196)	(303)	(60,499)	(53,472)
Service costs	(80,149)		(80,149)	(60,536)
Lease and rental costs	(6,524)		(6,524)	(5,005)
Personnel expenses	(19,488)		(19,488)	(15,196)
Amortisation & depreciation	(4,507)		(4,507)	(3,753)
Doubtful debt provision	(198)		(198)	(129)
Provisions for risks and charges	0		0	(45)
Other operating charges	(1,302)		(1,302)	(1,096)
Total Costs	**(172,364)**	**(303)**	**(172,667)**	**(139,232)**
Operating profit	**66,718**	**0**	**66,718**	**53,020**
Financial income	120		120	117
Financial expenses	(722)		(722)	(603)
Exchange gains and losses	180		180	277
Total financial income and expenses	**(422)**	**0**	**(422)**	**(209)**
Adjustment to financial assets	110		110	106
Profit before taxes	**66,406**	**0**	**66,406**	**52,917**
Income taxes	(1,884)		(1,884)	(14,712)
Net profit, including minority interests	**64,522**	**0**	**64,522**	**38,205**
Minority interests	71		71	0
Group Net Profit	**64,451**		**64,451**	**38,205**

Previously, the Group recognised an estimate of the lower margin relating to expected returns from the sale of products as a reduction in revenues and a corresponding provision for risks under liabilities. In accordance with IFRS 15, the Group recognises as a reduction in revenues the estimated credit notes relating to expected returns from the sale of products and as a reduction in the cost of sales the estimated cost relating to such returns. In the balance sheet, the amount corresponding to the sales value of the expected returns is recorded as an increase in Trade payables and the amount corresponding to the cost of the returned items is recorded under Inventories.

• On July 24, 2014, the IASB published IFRS 9 – Financial Instruments: recognition and measurement. The document incorporates the results of the IASB project to replace IAS 39. The new standard must be applied for financial statements beginning on or after January 1, 2018.

The standard introduces new criteria for the classification and measurement of financial assets and liabilities. In particular for financial assets the new standard utilises a single approach based on the management method of financial instruments and on the contractual cash flow characteristics of the financial assets in order to determine the measurement criteria, replacing the various rules established by IAS 39. For financial liabilities however the standard is amended with regard to the accounting treatment of the fair value changes of a financial liability designated as a financial liability at fair value through profit or loss, in the case in which these changes relate to changes in the credit rating of the issuer of the liability. According to the new standard, these changes must be recorded to "Other comprehensive income" and no longer to the income statement. In addition, in the non-substantial changes to financial liabilities it is no longer permitted to record the economic effects of the renegotiation on the residual duration of the payable modifying the effective interest rate at that date, but it is necessary to record the relative effect in the income statement.

In relation to impairment, the new standard requires that the doubtful debts estimate is based on the expected losses model (and not on the incurred losses model under IAS 39), utilizing supporting information, available without unreasonable charges or effort, which includes historic, current and projected figures. The standard establishes that this impairment model applies to all financial instruments, therefore financial assets valued at amortized cost, those valued at fair value through other comprehensive income and receivables deriving from rental contracts and trade receivables.

In fact, this standard introduces a new model of hedge accounting to adjust the requirements under the current IAS 39, which on occasion are considered too stringent and inappropriate to reflect the risk management policies of the company. The main amendments of the document relate to:

o increased number of transactions eligible for hedge accounting, in particular including also the risks of non-financial assets/liabilities eligible to be managed in hedge accounting;

o the change in the accounting method of the forward contracts and options when considered in a hedge accounting relationship in order to reduce the volatility of the income statement;

o the amendments to the effectiveness test through the replacement of the current methods based on the 80-125% parameter with the principle of the "economic relationship" between the item hedged and the hedge instrument; in addition, a retrospective evaluation of the effectiveness of the hedge relationship will no longer be required;

The greater flexibility of the new accounting rules is offset by the additional disclosure requirements on the risk management activities of the company.

This standard is effective as of January 1, 2018. The application of the new standard did not have a significant impact on the Group's financial statements.

• On June 20, 2016, the IASB published the amendment to IFRS 2 "Classification and measurement of share-based payment transactions" which contains clarifications upon the recognition of the effects of vesting conditions in the presence of cash-settled share-based payments, on the classification of share-based payments with characteristics of net settlement and the recognition of the amendments to the terms and conditions of a share-based payment which changes the classification from cash-settled to equity-settled. The amendments were applied from November 1, 2018: The amendment has been taken into account in determining the accounting treatment for share-based incentive plans subscribed during the year of the Parent Company.

• On December 8, 2016, the IASB published the document "Annual Improvements to IFRSs 2014-2016 Cycle" which partially reflects the amendments to some standards within the annual improvements process. The principal changes relate to:

- IFRS 1 First-Time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters. The amendment was applied from January 1, 2018 and concerns the elimination of certain short-term exemptions under paragraphs E3-E7 of Appendix E of IFRS 1 as the benefit of these exemptions is now considered exhausted.
- IAS 28 Investments in Associates and Joint Ventures – Measuring investees at fair value through profit or loss: an investment-by-investment choice or a consistent policy choice. The amendment clarifies that the option for a venture capital organization or similarly qualifying entities (e.g. a mutual investment fund or similar entity) to measure investments in associates and joint ventures at fair value through profit or loss (rather than through application of the equity method) is exercised for each individual investment on initial recognition. The amendment has been applied from November 1, 2018.
- IFRS 12 Disclosure of Interests in Other Entities – Clarification of the scope of the Standard. The amendment clarifies the scope of application of IFRS 12, specifying that the disclosure required by the standard, with the exception of that under paragraphs B10-B16, applies to all investments which are classified as held-for-sale, held-for-distribution to shareholders or as discontinued operations as per IFRS 5. The amendment has been applied from November 1, 2018.

The adoption of these amendments does not have any effects on the Group financial statements.

• On December 8, 2016, the IASB published the amendment to IAS 40 "Transfers of Investment Property". These amendments clarify the requirement necessary for the transfers of a building to, or from, investment property. In particular, an entity shall reclassify a building to, or from, investment property only when there is a clear indication of a change in the use of the building. This change must be attributable to a specific event that has occurred and shall not therefore be limited to only a change in intention by management of the entity. These amendments were applied from November 1, 2018. The adoption of these amendments does not have any effects on the Group financial statements.

• On December 8, 2016, the IASB published the interpretation "Foreign Currency Transactions and Advance Consideration (IFRIC Interpretation 22)". The interpretation provides guidelines for transactions in foreign currencies where advances or non-monetary payments on account are recorded in the financial statements (against cash received/paid), before the recognition of the relative asset, cost or revenue. This document provides indications on how an entity should determine the date of a transaction, and consequently, the exchange rate to be utilised concerning operations in foreign currencies concerning payments made or received in advance.
The interpretation clarifies that the transaction date is the earlier of: (a) the date when the advance or down-payment received is recognised in the entity's financial statements; and (b) the date when the asset, cost or revenue (or part of it) is recognised in the financial statements (resulting in a reversal of the advance or down-payment received).
Where numerous payments or receipts in advance are made, a specific settlement date should be identified for each. IFRIC 22 was applied from November 1, 2018. The adoption of this interpretation does not have effects on the Group financial statements.

Accounting standards, amendments and interpretations approved by the European Union, but not yet applied and adopted in advance by the Sportswear Group at October 31, 2019.

• On January 13, 2016, the IASB published the new standard IFRS 16 Leases, which replaces IAS 17 – Leases, as well as the 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 a lease and introduces a criterion based on control (right of use) over an asset in order to differentiate lease contracts from service contracts. It identifies the following differentiating features: identification of the asset, the right to replacement of the asset, the right to obtain substantially all of the economic benefits from use of the asset and the right to direct the use of the underlying asset.
It establishes a single model to recognise and measure leasing contracts for the lessee, which provides also for the recognition of operating leases under assets with a related financial payable. Meanwhile, the standard does not include any significant changes for lessors.
The standard will be effective from January 1, 2019, although advance application is permitted.

The Group completed its preliminary assessment of the potential impacts of the application of the new Standard as at the transition date (November 1, 2019). This process is divided into stages, including the full mapping and analysis of the contracts potentially including a lease in order to understand the main clauses of such contracts that are relevant to IFRS 16.

The implementation process for the Standard, involving set-up of the IT infrastructure for the accounting management of the Standard and the alignment of the administrative and control processes applicable to the critical areas governed by the Standard, is in the process of being completed. This process is expected to be completed in early 2020.
The Group has elected to apply the Standard retrospectively, and therefore to recognise the cumulative effect of the application of the Standard in other comprehensive income with effect from November 1, 2019, in accordance with IFRS 16:C7-C13. In particular, with regard to lease contracts previously classified as operating leases, the Group will recognise the following:

- financial assets at the present value of the residual future payments at the transition date, discounted according to the incremental borrowing rate applicable to each contract at the transition date;
- a right of use equal to the value of the financial liability at the transition date, net of any prepayments and accruals associated with the lease carried in the balance sheet at the reporting date of these financial statements.

The following table shows the estimated impact of the adoption of IFRS 16 at the transition date:

Euro millions

ASSETS	***Impact at the transition date (01.11.2019)***
Non-current assets	
Right of Use Buildings	*Euro 72.037*
Rights of use Motor vehicles	*Euro 146*
Total	**Euro 72.183**
Current assets	
Prepaid expenses	Euro -233
Total	**Euro -233**
TOTAL ASSETS	**Euro 71.950**
SHAREHOLDERS' EQUITY & LIABILITIES	
Non-current liabilities	
Financial liabilities for non-current leases	*Euro 65.797*
Current liabilities	
Financial liabilities for current leases	*Euro 6.153*
Total Liabilities	**Euro 71.950**

The value of non-current assets relating to operating lease contracts was increased by the balance of prepaid expenses recorded as at October 31, 2019 for an amount equal to Euro 233 thousand.
In adopting IFRS 16, the Group intends to make use of the exemption granted in paragraph IFRS 16:5(a) in relation to short-term leases for motor vehicles.
Likewise, the Group intends to opt for the exemption permitted under IFRS 16:5(B) with regard to lease contracts for which the underlying asset qualifies as a "low-value asset" (i.e., the asset underlying the lease contract does not exceed Euro 5,000 when new). The contracts for which the exemption has been applied primarily fall within the following categories:

- Computers, telephones and tablets;
- Printers;
- Other electronic devices;

For such contracts, the introduction of IFRS 16 will not entail the recognition of the financial liability associated with the lease and relevant right of use. Rather, the lease payments will be taken to the income statement on a straight-line basis over the term of the relevant contracts.

In addition, with regard to transition rules, the Group intends to opt for the following practical expedients available in the event of the selection of the modified retrospective transition method:

- Classification of contracts set to expire within 12 months of the transition date as short-term leases. The lease payments for such contracts will be taken to the income statement on a straight-line basis;
- Exclusion of the initial direct costs from the measurement of the right of use at November 1, 2020.
- Use of the information available at the transition date to determine the lease term, with particular regard to the exercise of extension and early termination options.

The transition to IFRS 16 introduces some elements of professional judgment that entail the definition of certain accounting policies and the use of assumptions and estimates with regard to the lease term and the definition of the incremental borrowing rate. The main ones are summarised below:

- The Group has decided not to apply IFRS 16 for contracts containing a lease where the underlying asset is an intangible asset;

• Lease term: the Group has analysed all of its lease contract and has identified the lease term for each of them – this is the non-cancellable period together with the effects of any extension or early termination options whose exercise is considered reasonably certain. In more detail, for properties, this determination considered the specific facts and circumstances of each asset. For other categories of assets, mainly company cars and equipment, the Company generally concluded that it was improbable that any extension or early termination clauses would be exercised, in light of the normal practice followed by the Group.

• Definition of the incremental borrowing rate: as most of the lease contracts entered into by the Group do not include an implied rate of interest, the discount rate to be applied to future lease/rental payments was determined as the risk-free rate of each country where the contracts have been signed, with maturities commensurate to the duration of the specific lease agreement, as increased by the specific Credit Spread of the Group.

Reconciliation with the lease commitments

In order to illustrate the impacts from the initial application of the standard, the following table reconciles future commitments regarding lease contracts and the impact from the adoption of IFRS 16 at November 1, 2019.

Reconciliation of lease commitments
Euro millions

	November 1, 2019
Commitments for operating leases at October 31, 2019	***Euro 77.607***
Short-term lease charges (exemption)	*Euro -48*
Low-value lease charges (exemption)	*Euro -137*
Non-lease components included in liabilities	*Euro -375*
Undiscounted financial liability for leases at November 1, 2019	***Euro 77.047***
Discounting effect	*Euro 5.097*
Financial liabilities for leases at November 1, 2019	***Euro 71.950***

• The IASB published an amendment to IFRS 9 "Prepayment Features with Negative Compensation" on October 12, 2017. This document specifies that instruments which provide for an advance repayment could comply with the Solely Payments of Principal and Interest ("SPPI") test also in the case where the "reasonable additional compensation" to be paid in the event of advance repayment is a "negative compensation" for the lender. The amendment applies from January 1, 2019, although early application is permitted. The directors do not expect these amendments to have a significant impact on the Group financial statements.

• The IASB published the interpretation IFRIC 23 "Uncertainty over Income Tax Treatments" on June 7, 2017. The document addresses the issue of uncertainty over income tax treatments. In particular, the interpretation requires an entity to analyse uncertain tax treatments (individually or collectively, depending on their characteristics), always assuming that the tax authority will examine the tax position in question, with access to all relevant information. If the entity believes it is improbable that the tax authorities will accept the tax treatment followed, the entity shall reflect the effect of the uncertainty on the measurement of its current and deferred income taxes. In addition, the document does not contain any new disclosure obligations, but underlines that an entity should establish whether it will be necessary to provide information on considerations made by management and the relative uncertainty concerning the accounting of income taxes, in accordance with IAS 1.
The new interpretation applies from January 1, 2019, although early application is permitted. The Directors do not expect this interpretation to have a significant impact on the Group's financial statements.

• Amendment to IAS 28 "Long-term Interests in Associates and Joint Ventures" (published on October 12, 2017)". This document clarifies the necessity to apply IFRS 9, including the requirements related to impairment, to the other long-term interests in associates and joint ventures which do not apply the equity method. The amendment applies from January 1, 2019, although early application is permitted. The directors do not expect these amendments to have a significant impact on the Group consolidated financial statements.

• On December 12, 2017 the IASB published the document "Annual Improvements to IFRSs 2015-2017 Cycle" which reflects the amendments to some standards within the annual improvements process. The principal changes relate to:
• IFRS 3 Business Combinations and IFRS 11 Joint Arrangements: the amendment clarifies that when an entity obtains control of a business which represents a joint operation, it must remeasure its previous holding in the business. This process however is not required in relation to obtaining joint control.
• IAS 12 Income Taxes: the amendment clarifies that all the tax effects related to dividends (including the payments on financial instruments classified within equity) must be recognised in line with the transaction which generated these profits (profit or loss, OCI or net equity).
• IAS 23 Borrowing costs: the amendment clarifies that loans that remain in place even after the related qualifying asset is ready for use or sale shall become part of the total loans used to calculate borrowing costs.
The amendments are applicable from January 1, 2019, although advance application is permitted.

• Amendment to IAS 19 "Plan Amendment, Curtailment or Settlement" (published on February 7, 2018). The document clarifies that an entity must recognise a change (i.e. a curtailment or a settlement) of a defined benefit plan. The amendment requires the entity to update its assumptions and to remeasure the net liability or asset resulting from the plan. The amendments clarify that after the occurrence of this event, an entity utilises updated assumptions to measure the current service cost and interest for the remainder of the period. The amendments are applicable from January 1, 2019, although advance application is permitted. The Directors do not expect these amendments to have a significant impact on the Group consolidated financial statements.

• On October 31, 2018, the IASB published the document "Definition of Material (Amendments to IAS 1 and IAS 8)". The document modified the definition of "material" in IAS 1 – Presentation of Financial Statements and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors. The amendment aims to provide a more specific definition of "material" and introduce the concept of "obscured information" alongside the concepts of omitted or misstated information previously included in the two amended Standards. The amendment clarifies that information is obscured if it is described in a way that results in an effect for the primary users of the financial statements similar to that which would have resulted if the information in question had been omitted or misstated. The amendments will be applied from January 1, 2020. The Directors do not expect these amendments to have a significant impact on the Group consolidated financial statements.

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

The following standards, updates and amendments to IFRS are in the course of approval by the relevant European Union bodies (already approved by the IASB), in addition to the following interpretations (already approved by IFRS IC):

• IFRS 17 - insurance contracts. IFRS 17 requires insurance liabilities to be measured at current settlement value and provides a more consistent measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the objective of principle-based accounting for insurance contracts. IFRS 17 will replace IFRS 4 from January 1, 2021. The directors are currently assessing the possible effects from the introduction of these amendments on the Group consolidated financial statements.

• On October 22, 2018, the IASB published the document "Definition of a Business (Amendments to IFRS 3)". The document provides certain clarifications on the definition of a business for the purposes of the proper application of IFRS 3. In particular, the amendment clarifies that while a business normally yields an output, the existence of an output is not strictly necessary to identify a business when there is an integrated set of activities and assets. However, in order to meet the definition of a business, an integrated set of activities and assets must include, at minimum, an input and a substantial process that together contribute significantly to the capacity to create output. For this purpose, the IASB has replaced the term "capacity to

create output" with "capacity to contribute to the creation of output" to clarify that a business may exist even without all the inputs and processes necessary to create an output.
The amendment also introduced an optional test ("concentration test") for an entity to determine whether a set of activities and assets acquired is not a business. If the test yields a positive result, the set of activities and assets acquired does not constitute a business and the Standard does not require further verification. If the test yields a negative result, the entity must conduct additional analyses of the activities and assets acquired to identify the presence of a business. To this end, the amendment adds numerous examples illustrating IFRS 3 with the aim of ensuring an understanding of the practical application of the new definition of a business in specific cases. The amendments apply to all business combinations and acquisitions of activities after January 1, 2020, although advance application is permitted.

For the following amendments to the standards and interpretations the approval process is suspended:

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 September 11, 2014 to resolve a conflict between the two standards in relation to the sale of an asset or a subsidiary to an associate or joint venture, applicable from January 1, 2016. The amendments introduced provide that in the event of the sale or contribution of assets or of a subsidiary to an associate or joint venture, the gain or loss to be recognised in the financial statements of the transferor/transferee is to be determined in relation to the classification of the assets or subsidiary sold/transferred as a business, as defined by IFRS 3. Where the sale/contribution represents a business, the entity should recognise the gain or loss on the entire share previously held; while, on the contrary, it should recognise the share of the gain or loss concerning the stake still held by the entity which must be eliminated.

4. Comments on the income statement

4.1 Revenue

Breakdown by revenue channel:	31/10/2019	31/10/2018
Sales Italy	60,844	48,785
Sales Overseas	138,341	111,335
Sales Points of sale	38,152	30,693
Other revenues	7	9
Reversal estimate returns	(696)	
Returns risk provision	0	(274)
Utilisation returns risk provision	274	210
Total	**236,922**	**190,758**

The Sportswear Group increased its turnover by 24.2% during the year.
The item "Sales at points of sale" includes the revenues generated by retail sales at the company's stores and the company shop.
In accordance with IFRS 15, the Group from the current year recognises as a reduction in revenues the estimated credit notes relating to expected returns from the sale of products and as a reduction in the cost of sales the estimated cost relating to such returns.

Revenues by region	31/10/19	31/10/18
Italy	70,030	56,633
Europe (excl. Italy)	104,727	99,988
The Americas	34,543	15,681
Rest of the World	27,622	18,456
Total	**236,922**	**190,758**

4.2 Other income

	31/10/2019	31/10/2018
Rental income	28	33
Recovery legal expenses	19	15
Recovery of expenses for damages and quality issues	231	117
Grants Law 296/06 research and development	462	118
Prior year income	74	58
Other revenue and income	1,346	1,153
Total	**2,160**	**1,494**

The item "other revenues and income" includes all recharges of the Parent Company to third parties for services and/or materials supplied, revenues from sales of various materials, such as shop fittings and corners opened during the year, and the recovery of transport costs that are charged to customers.

4.3 Purchase costs (including changes in inventories)

	31/10/2019	31/10/2018
Raw materials and semi-finished goods	20,492	16,227
Finished products	44,697	41,220
Ancillary materials	86	309
Packaging	88	47
Advertising material	2,318	969
Other purchases	1,298	854
Change in inventories	(8,783)	(6,154)
Total	**60,196**	**53,472**

Overall, there was an increase in the cost of raw materials and finished products sold, which is closely linked to the increase in revenues.

4.4 Service costs

	31/10/2019	31/10/2018
Utilities	501	433
Maintenance	465	621
Transport	8,673	6,318
Outsourcing	36,385	25,760
External warehouse management	4,743	3,865
Commissions and accessory charges	7,541	5,977
Advertising	5,278	4,490
Royalties and stylistic fees	871	946
Insurance	522	510
Telephone	227	206
General consultancy	3,022	2,021
Legal consultancy	174	59
Directors remuneration	649	579
Statutory auditors' fees and corporate expenses	116	46
Cleaning	348	274
Bank services	1,056	762
Other services	9,578	7,669
Total	**80,149**	**60,536**

The increase in outsourcing costs is related to the growth in revenues.

4.5 Rental, leasing and similar costs

The item rental, leasing and similar costs in 2019, amounting to Euro 6,524 thousand (Euro 5,005 thousand in 2018), refers to property rental costs of Euro 6,131 thousand (Euro 4,633 thousand in 2018), IT systems of Euro 137 thousand (Euro 125 thousand in 2018) and long-term car rental fleet costs of Euro 245 thousand (Euro 240 thousand in 2018) and other rental costs of Euro 11 thousand (Euro 7 thousand in 2018).

4.6 Personnel expenses

As October 31, 2019, the Group had 282 employees (233 at October 31, 2018). Personnel expenses totalled Euro 19,488 thousand (Euro 15,196 thousand in 2018), including social security contributions of Euro 3,362 thousand (Euro 2,800 thousand in 2018), provisions for post-employment benefits and retention costs of Euro 1,132 thousand (Euro 701 thousand in 2018) and costs related to stock option plans of Euro 1,459 thousand (a description of the incentive plans is provided in Section 8.1).

	AVERAGE 2019	as of October 31 2019	AVERAGE 2018	as of October 31 2018
BLUE COLLAR	23	25	14	16
FOREMEN	5	4	5	5
WHITE-COLLAR	222	244	202	203
EXECUTIVES	9	9	8	9
	259	**282**	**229**	**233**

4.7 Amortisation and depreciation of fixed assets

Amortisation and depreciation amounted to Euro 4,507 thousand in 2019 (Euro 3,753 thousand in 2018).

4.8 Doubtful debt provision

The doubtful debt provision in 2019 amounted to Euro 198 thousand (Euro 129 thousand in 2018).

4.9 Provision for risks and charges

No provisions were recorded for future risks in 2019.

4.10 Other operating charges

The breakdown is as follows:

	31/10/2019	31/10/2018
Taxes and duties	300	308
Fiscal and contractual penalties	42	15
Losses due to damages	123	143
Gifts and donations	531	524
Prior year charges	64	59
Losses on receivables	0	0
Non-recurring charges	230	
Other minor charges	12	47
Total	**1,302**	**1,096**

4.11 Financial income and expenses

The breakdown is as follows:

	31/10/2019	31/10/2018
Bank interest income	5	7
Interest on customers	78	82
Other interest income	4	5
Financial discounts	33	23
Financial Income	**120**	**117**
Interest from banks on advances	0	0

Bank interest on mortgages and other medium/long-term loans	(150)	(131)
other interest charges	(10)	0
discounts to clients	(546)	(449)
loan drawdown charges	(16)	(23)
Financial income	**(722)**	**(603)**
Exchange gains/(losses)	**180**	**277**
Total	**(422)**	**(209)**

4.12 Adjustment to financial assets

During the year, the holding in the associated company Starcolor Srl was revalued for a total of Euro 110 thousand (Euro 106 thousand in 2018) to account for its result for the year.

4.13 Income taxes

	31/10/2019	**31/10/2018**
Current taxes	12,681	15,149
Prior year taxes	(9,785)	(57)
Deferred tax charge/(income)	(1,012)	(380)
Total	**1,884**	**14,712**

Income taxes represent the amount for current income taxes, prior year taxes and deferred taxes. The tax rate for the year is not comparable with the previous year due to the tax benefits commented on below.

Firstly, prior year taxes include the tax credit from the tax benefits for the years 2016, 2017 and 2018 connected to the prior agreement with the Italian Revenue Agency for access to the Patent Box tax benefits. This five-year agreement was signed before October 31, 2019.

Secondly, the income tax charge for the year is determined on the basis of current legislation and is calculated taking into account the Patent Box tax benefit calculated for the current year.

In 2018/2019, the Sportswear Group recorded a net increase in deferred tax assets of Euro 755 thousand, as shown in the relevant section.

It should be noted that, following Legislative Decree No. 344 of December 12, 2003, which introduced group taxation for corporate groups pursuant to Article 117 and thereafter of Presidential Decree No. 197 of December 22, 1986 ("the National Tax Consolidation"), this is exercised jointly with the directly controlled company Stone Island Retail Srl.

5. Notes to the Balance Sheet

5.1 Intangible assets

The opening balances, movements in 2018 and 2019 and the closing balances of intangible assets are shown in the following tables:

			2019	2018
Intangible assets	**Gross value**	**Accumulated amortisation**	**Net value**	**Net value**
Software	6,093	(3,881)	2,212	2,394
Key money	10,801	(6,401)	4,400	4,966
Goodwill	535	0	535	0
Other intangible assets	469	(460)	9	22
Assets in progress	3	0	3	3
	17,901	**(10,742)**	**7,159**	**7,385**

The movements in the individual asset categories are as follows:

Intangible assets	**2017 Value Equity**	**Increases**	**Decreases**	**Amort isation**	**2018 Value net**
Software	1,322	1,838		(766)	2,394
Key money	4,295	1,300		(629)	4,966
Other intangible assets	42		(1)	(19)	22
Assets in progress	626		(623)		3
	6,285	**3,138**	**(624)**	**(1,414)**	**7,385**

Intangible assets	**2018 Value net**	**Increases**	**Decreases**	**Amort isation**	**2019 Value net**
Software	2,394	688	0	(870)	2,212
Key money	4,966	167	0	(733)	4,400
Goodwill	0	535	0	0	535
Other intangible assets	22	2	0	(15)	9
Assets in progress	3	0	0	0	3
	7,385	**1,392**	**0**	**(1,618)**	**7,159**

Movements in "software" and assets in progress relate to increases in costs incurred for the implementation of the Microsoft Dynamics AX management software.

Goodwill at October 31, 2019 amounted to Euro 535 thousand and refers to the difference arising from the acquisition of control of Officina della Maglia s.r.l..

Since this is an intangible asset with an indefinite useful life, goodwill, as required by IFRS 36, is tested for impairment annually. Goodwill paid on the acquisition of companies or businesses is allocated to the Group's cash generating units (CGUs), represented by the individual companies to which it refers.

Management deemed it correct to identify the above-mentioned cash generating unit and formalised the related impairment test with reference to the CGU's net invested capital.

The tests carried out at October 31, 2019 were positive and, therefore, no write-down was made.

5.2 Property, plant and equipment

The opening balances, movements in 2018 and 2019 and the closing balances of property, plant and equipment are shown in the following tables:

Property, plant & equipment	Gross value	Accumulated changes	2019 Net value	2018 Net value
Land and buildings	10,350	(2,262)	8,088	7,587
Plant and machinery	5,623	(3,484)	2,139	2,049
Equipment	2,906	(2,301)	605	621
Furniture and fittings	6,322	(3,410)	2,912	2,603
Leasehold improvements	11,847	(2,852)	8,995	6,160
Other assets	674	(397)	277	263
Assets in progress	100	0	100	0
	37,822	**(14,706)**	**23,116**	**19,283**

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

al 31 ottobre 2019

Property, plant and equipment gross value	31/10/18	Increases	Decreases	Change in the scope of consolidation	Other movements	31/10/19
Land and buildings	9,389	348		1,114		10,851
Plant and machinery	5,025	518	(3)	102		5,642
Equipment	2,563	276			(7)	2,832
Furniture and fittings	5,397	900		5	18	6,320
Leasehold improvements	7,648	3,658		0	31	11,337
Other assets	564	149	(29)	45	1	730
Assets in progress	0	100				100
	30,586	**5,949**	**(32)**	**1,266**	**43**	**37,812**

Property, plant and equipment accumulated depreciation	31/10/18	Increases	Decreases	Change in the scope of consolidation	Other movements	31/10/19
Land and buildings	1,802	336		445	1	2,584
Plant and machinery	2,976	466		51	1	3,494
Equipment	1,942	350			(15)	2,277
Furniture and fittings	2,794	605		3	5	3,407
Leasehold improvements	1,488	1,036		0		2,524
Other assets	301	96	(26)	31	8	410
	11,303	**2,889**	**(26)**	**530**	**0**	**14,696**

Property, plant and equipment net value	**31/10/18**	**Increases**	**Decreases**	**Change in the scope of consolidation**	**Other movements**	**31/10/19**
Land and buildings	7,587	348	(336)	669	(1)	8,267
Plant and machinery	2,049	518	(469)	51	(1)	2,148
Equipment	621	276	(350)	0	8	555
Furniture and fittings	2,603	900	(605)	2	13	2,913
Leasehold improvements	6,160	3,658	(1,036)	0	31	8,813
Other assets	263	149	(99)	14	(7)	320
Assets in progress	0	100	0		0	100
	19,283	**5,949**	**(2,895)**	**736**	**43**	**23,116**

Increases in buildings and plant relate to the seismic upgrading and replacement of fixtures at the Parent Company's head office and the replacement and installation of new machinery at the Parent Company's internal dyehouse. We also acquired a garment dyeing and centrifuging machine which was placed directly at one of our suppliers.

The increase in equipment and furnishings and leasehold improvements are mainly related to the fitting out of the new stores in Milan, Toronto and Frankfurt.

The movements of the other assets are mainly due to the purchase of two motor vehicles and the disposal of one owned vehicle.

The other movements column shows the book values of Officina della Maglia's fixed assets and the exchange rate differences relating to the consolidation of the American companies as well as some minor reclassifications.

5.3 Equity investments in subsidiary and associated companies

A breakdown follows:

Movements in associated companies	**Country**	**% held**	**book value at 31/10/18**	**2019 Changes**	**book value at 31/10/19**
Starcolor Srl	Italy	24%	603	14	617
Net total			**603**	**14**	**617**

The investment in the associate Star Color, 24% owned, is measured using the equity method.

5.4 Other non-current assets

Non-current assets of Euro 287 thousand relate to security deposits and mainly refer to the amounts paid on leases of the Paris and Cannes stores. The increase compared to non-current assets in the previous year, which amounted to Euro 84 thousand, is linked to deposits for new leases in Toronto and Miami.

5.5 Deferred tax assets

Deferred tax assets only include the temporary differences arising between the carrying values of assets and liabilities in the Balance Sheet and the corresponding values recognised for tax purposes.

DESCRIPTION	TAX: DEFERRED '18			REABSORPTIONS '19			INCREASES '19			TAX: DEFERRED '19		
Deductible differences	Assess.	Rate	Tax	Assess.	Rate	Tax	Assess.	Rate	Tax	Assess.	Rate	Tax
Raw mat. inv. write-down provision	1,636	27.9%	456		27.9%	0	33	27.9%	9	1,669	27.9%	466
Fin. prod. inv. write-down provision	1,895	27.9%	529		27.9%	0	2,121	27.9%	592	4,016	27.9%	1,120
Doubtful debt provision not-deductible	1,280	24.0%	307		24.0%	0		24.0%	0	1,280	24.0%	307
Agent supp. ind. provision not-deductible	165	27.9%	46	74	27.9%	21		27.9%	0	91	27.9%	25
Provision for risks and charges	0	27.9%	0		27.9%	0		27.9%	0	0	27.9%	0
Provisions for returns	274	27.9%	76	274	27.9%	76	394	27.9%	110	394	27.9%	113
Other deferred deduction costs	514	24.0%	123	515	24.0%	124	455	24.0%	109	454	24.0%	109
Amortisation of trademarks	922	27.9%	257	30	27.9%	8	124	27.9%	35	1,016	27.9%	283
Depreciation of revalued buildings & plant	61	27.9%	17		27.9%	0		27.9%	0	61	27.9%	17
Fiscal deficit Stab Org France	22	33.3%	7	22	33.3%	7		33.3%	0	0	33.3%	0
IAS 38 - reversal intangible assets	278	27.9%	78	22	27.9%	6		27.9%	0	256	27.9%	71
Goodwill ex SI Retail	176	27.9%	49		27.9%	0	30	27.9%	8	206	27.9%	57
Goodwill ex SI Rome	131	27.9%	37		27.9%	0	33	27.9%	9	164	27.9%	46
Goodwill Milan	6	27.9%	2		27.9%	0	36	27.9%	10	42	27.9%	12
Stock Profit	3,211	27.9%	896	3,211	27.9%	896	4,535	27.9%	1,265	4,535	27.9%	1,265
TOTAL DEFERRED TAXES WITH EFFECT ON INCOME STATEMENT	10,571		2,880	4,148		1,138	7,761		2,147	14,184		3,891
IAS 19 – Post-employment benefits	138	27.9%	39	0	27.9%	0	130	27.9%	36	268	27.9%	75
IFRS 9 - cash flow hedge derivatives	4	24.0%	1	4	24.0%	1		24.0%	0	0	24.0%	0
TOTAL DEFERRED TAXES WITH EFFECT ON COMPREHENSIVE INCOME STATEMENT	142		40	4		1	130		36	268		75
TOTAL DEFERRED TAX ASSETS	10,713		2,920	4,152		1,139	7,891		2,183	14,452		3,966

DESCRIPTION	TAX: DEFERRED '18			REABSORPTIONS '19			INCREASES '19			TAX: DEFERRED '19		
Goodwill SI Amsterdam	78	25.00%	19	8	25.00%	2		25.00%	0	70	25.00%	17
Goodwill SPW Germany	229	27.9%	64		27.9%	0		27.9%	0	229	27.9%	64
Leasing Officina Della Maglia	0	27.9%	0		27.9%	0	224	27.9%	62	224	27.9%	62
	0	3.90%			3.90%	0		3.90%	0		3.90%	0
	0	31.4%	0		31.4%	0	0	31.4%	0	0	31.4%	0
	0	31.4%	0		31.4%	0	0	31.4%	0	0	31.4%	0
TOTAL DEFERRED TAX ASSETS	307		83	8		2	224		62	523		143

	31/10/2018	31/10/2019
Total deferred tax assets	2,837	3,823

The Group Sportswear recorded total net deferred tax assets of Euro 3,823 thousand, corresponding to 100% of the amount of the tax asset as at October 31, 2019, as there are no doubts on the probable recovery of this amount.

There are no deferred tax liabilities in the financial statements under analysis.

The Company has no tax losses carried forward.

In view of the operating performance for the year and the outlook, the Company's Directors do not believe that there are any issues regarding the recoverability of the deferred tax assets.

5.6 Inventories

The breakdown of inventories is shown in the table below:

Inventories	**31/10/19**	**31/10/18**
Raw materials	7,403	6,967
Products in work-in-progress	13,089	8,581
Finished products	23,688	16,342
Gross inventory	**44,180**	**31,890**

Raw materials obsolescence provision	(1,668)	(1,636)
Finished products obsolescence provision	(4,015)	(1,894)
Net total	**38,497**	**28,360**

The overall increase in the value of work-in-progress and finished products is due to the increase in turnover compared to the previous year.

The finished products in the stores in Paris and Cannes are measured at the average cost of production.

The raw materials obsolescence provision also takes into account the value of slow-moving codes whose estimated use will be diluted over time.

The increase in the provision for the write-down of finished products is essentially related to the increase in quantitative terms of inventories from previous seasons; the increase in these inventories is a consequence of the increase in turnover.

The estimate of the raw materials and finished products obsolescence provisions takes into account the extent of the destruction and sale of stock during the year, as well as, with regard to finished products, the disposal channels available to the Group.

5.7. Trade receivables

	31/10/19	**31/10/18**
Trade customers	55,294	48,401
Doubtful debt provision	(1,616)	(1,494)
Total trade receivables	**53,678**	**46,907**

The breakdown by maturity is as follows:

(Euro 000)	**Balance 31/10/19**	**Maturing**	**Past due**					
			0-30 days	**30-60 days**	**60-90 days**	**90-120 days**	**120-360 days**	**over 360 days**
Trade receivables	55,294	44,523	6,014	2,236	1,338	590	140	453
Doubtful debt provision	(1,616)							
Total net trade receivables	**53,678**	**44,523**	**6,014**	**2,236**	**1,338**	**590**	**140**	**453**

The increase in trade receivables is in line with the increase in turnover.

No losses on receivables were recorded in the year under review. The doubtful debt provision was maintained in line with that allocated in the previous year also due to the continuation of extended credit terms granted to a foreign distributor. It is considered that this sum is adequate to cover the risk of doubtful debts at October 31, 2019. In this respect, we recall that part of the export turnover is guaranteed by an insurance contract, which allows partial coverage of claims, with the exception of payments against letter of credit or advances, which are inherently without risk.

The movements in the doubtful debt provision are as follows:

At October 31, 2018

	31/10/17	Provision	Utilizations	31/10/18
Doubtful debt provision	1,463	129	(98)	1,494

At October 31, 2019

	31/10/18	Provision	Utilizations	31/10/19
Doubtful debt provision	1,494	261	(139)	1,616

The table below provides a regional breakdown of trade receivables.

Receivables by region	**31/10/19**
Italy	30,026
Europe (excl. Italy)	8,375
The Americas	5,110
Rest of the World	11,783
Total	**55,294**

In line with previous years, the Group did not factor receivables, with the exception of the reverse factoring transaction at October 31, 2019 amounting to Euro 3,603 thousand, which was carried out at the specific request of an Italian customer and provides the Parent Company with a collection guarantee within a contractually defined period. In relation to this contract, the Parent Company has not exercised its right to request advances on the sums transferred.

5.8 Current and non-current tax receivables

Current tax receivables	**31/10/19**	**31/10/18**
VAT Receivables	2,761	2,681
Direct taxes	4,164	145
Other receivables	505	238
Total current tax receivables	**7,430**	**3,064**

Non-current tax receivables	**31/10/19**	**31/10/18**
Tax repayment request	279	279
Tax receivables (non-current)	**279**	**279**

The IRES and IRAP (corporate and regional income taxes) advances paid during the year have been reclassified as a direct deduction of the related tax payables.

The tax repayment request refers to the lower IRES for the years 2007-2011 requested for reimbursement as a result of the deductibility of IRAP related to the cost of employment and similar, pursuant to Legislative Decree No. 201/2011 converted into Law No. 214 of December 22, 2011.

5.9 Other current assets

Other current assets	**31/10/19**	**31/10/18**
Advances to suppliers	1,263	283
Receivables from agents	57	62
Leg. Decree 57-12 earthquake contribution	666	664
Prepayments and accrued income	1,034	785

Other receivables	278	43
Total other current assets	**3,298**	**1,837**

Advances to suppliers mainly refer to advances to subcontractors for the production of the 2020 summer season garments and credit notes to be received from suppliers.

The receipt of the residual receivable relating to the contribution provided for by Legislative Decree 57/2012 and subsequent for the reconstruction of production buildings for the areas affected by the earthquakes of May 20 and May 29, 2012 is expected during 2020.

5.10 Other current and non-current financial assets

	31/10/19	**31/10/18**
Other current financial assets	2	3
Financial Instruments - Assets	0	0
Total other current financial assets	**2**	**3**

Other non-current financial assets	**31/10/19**	**31/10/18**
Investments in other companies	2	2
Total other non-current financial assets	**2**	**2**

As at October 31, 2019 there were no assets for derivative financial instruments.

The Group hedges the exchange risk associated to the purchases in US Dollars of raw materials and outsourcing in foreign currencies. In consideration of this, the Group utilises hedging instruments, attempting to fix and maintain the exchange rate at a level in line with budget forecasts.

During the year ended October 31, 2019, the Group did not undertake forward currency purchase contracts.

5.11 Cash and cash equivalents

At October 31, 2019 cash and cash equivalents amounted to Euro 45,498 thousand (Euro 30,711 thousand at October 31, 2018) and is entirely represented by liquid bank deposits.

5.12 Shareholders' Equity

As October 31, 2019 the subscribed and paid-in share capital amounted to Euro 10,000,000 and consists of 9,680,000 shares with no par value.

The movements in shareholders' equity for 2019 and the comparative period are described in the statement of changes in shareholders' equity, to which reference should be made.

The First-Time Adoption Reserve, negative for Euro 1,787 thousand, refers to the effects on shareholders' equity at November 1, 2015 deriving from the first-time adoption of IFRS. Pursuant to Article 7, paragraph 6, Legislative Decree No. 38/2005, this reserve can only be reduced in accordance with the provisions of paragraphs 2 and 3 of the Italian Civil Code. If the reserve is used to cover losses, no profits may be distributed until the reserve has been reinstated or reduced proportionately following a motion of the extraordinary shareholders' meeting.

The IAS 19 Reserve includes the recognition of actuarial gains/(losses) on defined employee benefit liabilities, as required by IAS 19. For further details on movements during the year, reference should be made to the comprehensive income statement.

The Hedge Accounting Reserve includes the recognition of the positive/(negative) fair value of hedging derivatives, as required by IFRS 9. For further details on movements during the year, reference should be made to the comprehensive income statement.

Dividends were paid in 2019 amounting to Euro 25,365 thousand (Euro 15,294 thousand in 2018).

Below is a reconciliation between the Parent Company's shareholders' equity and the corresponding consolidated values:

(in Euro thousands)	Shareholders' Equity	Profit/(loss) for the year
Financial statements of Sportswear Company Spa	**119,366**	**62,516**
Difference between the book value of the consolidated companies and the related book net equity	5,798	2,699
Elimination of unrealised profits deriving from transactions between Group companies, net of the related tax effect	(3,267)	(952)
Elimination of provisions for returns and Provision for agent's indemnities	1,050	327
Other changes	(877)	(139)
Net effect of consolidation adjustments in thousands of Euro	**122,070**	**64,451**
Minority interest net equity and net profit	379	71
Group Consolidated Financial Statements at October 31, 2019	**122,449**	**64,522**

5.13 Trade payables

Trade payables amounted to Euro 25.5 million at October 31, 2019 (Euro 19.3 million at October 31, 2018) and refer to short-term obligations to suppliers of goods and services. Payables relate to short-term payable positions and there are no amounts due beyond 12 months.

5.14 Bank payables (current and non-current)

Current bank payables	**31/10/19**	**31/10/18**
current payables	22	2
loans	7,498	7,525
amortised costs for loans	(10)	(16)
Total current bank payables	**7,510**	**7,511**
Non-current bank payables	**31/10/19**	**31/10/18**
loans	13,770	16,443
amortised costs for loans	(17)	(22)
Total non-current bank payables	**13,753**	**16,421**
Total bank payables	**21,263**	**23,932**

The following table shows the movements during the year under review:

Movements in bank payables (Euro '000)	**31/10/2018**	**New loans**	**Repayments**	**Amortised costs**	**Reclassifications**	**31/10/2019**
current payables	2	22	(2)			22
loans	7,524		(7,524)		7,498	7,498
amortised costs for loans	(15)			5		(10)
Total current payables	**7,511**	**22**	**(7,526)**	**5**	**7,498**	**7,510**
loans	16,444	5,074	(250)		(7,498)	13,770
amortised costs for loans	(23)			6		(17)
Total non-current payables	**16,421**	**5,074**	**(250)**	**6**	**(7,498)**	**13,753**
	23,932	**5,096**	**(7,776)**	**11**	**0**	**21,263**

There are no financial payables due beyond 5 years.

5.15 Tax payables

The following table shows the breakdown of tax payables recorded net of payments on account and withholding taxes:

Tax payables	**31/10/19**	**31/10/18**
current tax payables	904	4,965
employee withholding taxes	432	366
consultant withholding taxes	84	74
other tax payables	63	2
Total tax payables	**1,483**	**5,407**

The decrease in tax payables derives from the decrease in current tax payables (for more details see paragraph 4.13).

5.16 Other current liabilities

Other current liabilities	**31/10/19**	**31/10/18**
Payables to customers	927	63
Other payables	409	270
Employee payables	2,664	2,107
Payables to agents	2,710	2,820
Social security institutions	363	307
Deferred income Leg. Decree No. 57-12 contribution	948	1,110
Other accruals and deferred income	450	524
Total other current liabilities	**8,471**	**7,201**

Payables to customers represent credit notes to be issued to customers who have made a return of garments that are in transit at the reporting date.

Employees payables include the accruals for additional monthly salary, vacation days not yet taken, company bonuses and salaries to be paid.

Payables to agents consist of the portion of commissions accrued by agents but not yet invoiced.

Deferred income mainly relates to the contribution recognised by the Emilia-Romagna Region to the Parent Company for damages suffered during the 2012 earthquake. The portion of this contribution referring to the capitalisable costs recorded by the Parent Company in previous years was recognised in the income statement on a straight-line basis over the useful life of the assets.

5.17 Other financial liabilities (current and non-current)

There are no current financial liabilities (Euro 4 thousand at October 31, 2018 consisting of liabilities for derivative financial instruments).

Non-current financial liabilities mainly refer to the liability to employees for the equity incentive plan, for a description of which see paragraph 8.1.

5.18 Post-employment benefit provision

This item includes the liability relating to post-employment benefits measured using the projected unit credit valuation method by an independent actuary in accordance with IAS 19.

The movements during the past two years of the post-employment benefit provision (which represents the entire value of the employee benefit provision), including the effects of the actuarial valuation of the provision, is as follows:

Post-employment benefit provision - movements	**31/10/19**	**31/10/18**
opening net obligation	1,603	1,586
Interest on bonds	0	0
Current cost	1,132	693
Payments	(350)	(631)
Actuarial gains/(losses)	(132)	(45)
closing net obligation	**2,253**	**1,603**

The criteria and actuarial assumptions used to calculate the provision are set out in the section Accounting Policies - Actuarial calculation of defined benefit pension plans in these Explanatory Notes.

From the sensitivity analysis, changes in the main actuarial assumptions do not result in significant changes in the provision.

5.19 Provision for risks and charges

Provisions for risks and charges	**31/10/19**	**31/10/18**
Pension and similar	1,050	879
Provisions for returns	0	274
Provision for taxes and duties	0	45
Total provisions for risks and charges	**1,050**	**1,198**

Provisions for risks and charges include the following changes:

- the agents' indemnity provision was increased by applying the regulations in force governing relations with commercial agents, as well as taking into account the negotiations underway with the agents at October 31, 2019.

- the provision for returns accrued at October 31, 2018 was fully utilised in the year ended October 31, 2019 against returns from previous seasons received. With reference to December 31, 2019, the item Provisions for returns does not include any liabilities as, given the application of IFRS 15, this item has been reclassified as described in paragraph 4.1.

- The provision for taxes and duties was used in full during the current year.

The following tables detail the movements of the provisions:

At October 31, 2018

Movements provisions for risks and charges	**31/10/17**	**Provision**	**Utilizations**	**Other move.**	**31/10/18**
pension and similar provision	879	163			879
Provisions for returns	274	274	(274)		274
Provision for taxes and duties	45	45	(45)		0
Total provisions	**1,198**	**482**	**(319)**	**0**	**1,153**

At October 31, 2019

Movements provisions for risks and charges	**31/10/18**	**Provision**	**Utilizations**	**Other move.**	**31/10/19**
pension and similar provision	879	176	(5)		1,050
Provisions for returns	274		(274)		0
Provision for taxes and duties	45		(45)		0
Total provisions	**1,198**	**176**	**(324)**	**0**	**1,050**

6. Notes to the Cash Flow Statement

6.1. Operating cash flow before changes in working capital

The gross operating cash flow represents the Group's cash inflow from normal business activities and considers the net result adjusted for non-cash items (amortisation/depreciation, provisions, deferred taxes, etc.) and amounts which, to better represent their nature, are reclassified in the changes deriving from investing activities (financial income) and financing activities (financial expenses).
Gross operating cash flow before changes in working capital was positive at Euro 71,473 thousand, a significant improvement on the previous year (Euro 57,018 thousand in 2018).

6.2. Cash flow generated/(absorbed) from changes in working capital

This account reports the effect of net working capital on liquidity in terms of generation and absorption of cash. The overall change for the year was a negative Euro 20,652 thousand (negative Euro 27,134 thousand in 2018), mainly due to the increase in inventories and trade receivables in relation to the significant increase in turnover.

6.3. Cash flow from business combinations.

During the current year, 75.10% of the company Officina della Maglia Srl was acquired for a total value of Euro 1,985 thousand.

6.4. Cash flow from investing activities

The cash flow relating to property, plant and equipment refers to the costs incurred for the new sales outlets in Milan, Toronto and Frankfurt and the purchase of machinery; while the cash flow relating to intangible assets refers to the costs incurred to implement the management software.
Investing activities absorbed a total of Euro 8,030 thousand in resources (Euro 6,159 thousand in 2018).

6.5. Cash flow from financing activities

This section of the cash flow statement summarises cash outflow and inflows deriving from the financial management of the Group.
The cash flow from financing activities was impacted by the decrease in payables to lenders and the dividends paid to shareholders.
Financing activities absorbed a total of Euro 26,423 thousand (Euro 5,779 thousand in 2018).

7. Commitments

At the end of the year, the following commitments were outstanding:

	31/10/2019	31/10/2018
SURETIES	**8,073**	**2,687**
- Munich - Shop	108	108
- Munich - Showroom	72	72
- Sylt	26	26
- Riccione	36	36
- Rome	225	225
– Milan	490	490
- Antwerp	60	60
- Amsterdam	148	148
- Turin	50	50
- Hamburg	56	56
- Los Angeles	1,113	1,113
- New York	136	136
- Venice	100	100
- BMG Castel Romano	67	67
- Frankfurt	150	0
- Amanpulo	5,236	0

The increase in commitments compared to the previous year is due to the increase in guarantees given to the related company Amanpulo Srl to cover renovation work on a building.

8. Disclosure on related party transactions – IAS 24

The transactions of the Group with related parties are not atypical or unusual and form part of the ordinary business activities of the Group.

The transactions, both of a trade and financial nature, with these entities were concluded at normal market conditions and all transactions were carried out in the interest of the Group.

The following tables reports the Balance Sheet and Income Statement amounts relating to the transactions of the Parent Company with related parties, as required by IAS 24.

The transactions with the related parties Amanpulo Srl and Amandari Srl with which lease contracts are in place are shown below:

At October 31, 2018

Costs Revenues with Related Parties	**Commercial Costs**	**Financial Costs**	**Commercial Revenues**	**Financial Revenues**
Amanpulo Srl	464		0	
Amandari Srl	172		0	
	636	**0**	**0**	**0**

At October 31, 2019

Costs Revenues with Related Parties	**Commercial Costs**	**Financial Costs**	**Commercial Revenues**	**Financial Revenues**
Amanpulo Srl	469	0	0	0
Amandari Srl	47	0	0	0
	516	**0**	**0**	**0**

The lease contract with Amandari Srl was terminated during the current year.

As in the previous year, at October 31, 2019, there were no receivables or payables with related companies.

8.1 Stock option plan

On June 28, 2019, the Board of Directors approved an incentive plan in favour of management, through the assignment of a right to receive, free of charge, subject to certain conditions, special class shares of the Company, with limited voting rights, for a maximum number of 96,800 shares.

The agreements provide for cross put and call options in favour of the Parent Company and the assignees of the shares, respectively, which determine the rights and obligations to purchase and sell the shares subject to the incentive plan, once the right to obtain them has matured, with consequent payment by the Parent Company of their fair value.

The Parent Company has appointed an independent appraiser to estimate the fair value of the incentive plan and, on the basis of this appraisal, has recognised in the income statement the portion of the cost for 2019, equal to Euro 1,459 thousand. In accordance with IFRS2 applicable to this case, the cost has been charged to personnel expenses.

From a financial point of view, the Group has recognised a non-current financial liability as the incentive plan in question has been classified as "cash-settled" since on the basis of the probabilistic forecasts drawn up by the Directors, it is considered that the most probable scenario is the activation of the put and call option mentioned above with consequent cash outlay.

9. Disclosure relating to financial instruments - IFRS risk analysis (liquidity, market, credit, commodities, etc.)

The activity Parent Company and the Group is exposed to a variety of financial risks, including:

- Liquidity risk;

- Market risk;

- Credit risk.

In accordance with IFRS 7, the current section provides qualitative and quantitative information concerning the extent of these risks on the Group.

The principal risks are reported and discussed by the Company's top management so that measures are taken for their hedging, insurance and for the valuation of the residual risk.

9.1 Liquidity risk

A prudent liquidity risk policy implies maintaining adequate liquid assets and sufficient credit lines. It is the Group's policy to have credit lines available that can be used for cash requirements and immediately available within the limits of the credit lines granted.

9.2 Market risk

Based on the definition established by IFRS 7, the probability that the valuation of the fair value of the cash flows from the financial assets or liabilities may change following changes in the following elements was identified as a market risk:

- exchange rates (so-called currency risk);
- interest rates (so-called interest rate risk);

The objectives of the management of the market risks concern the monitoring, management and control, within acceptable limits, of the Group exposure to these risks and to the consequent economic and financial impact.

Currency rate risk

The Group's and the Group's receivables are not significantly exposed to risks arising from fluctuations in foreign exchange rates, since it operates in an international context in which transactions are conducted almost exclusively in euros. The balance sheet accounts at October 31, 2019 subject to this risk are not significant.

In particular, the Parent Company's exchange rates and net exposure at October 31, 2019 were as follows:

Foreign currency receivables	**total foreign currency**	**value in Euro**
US Dollar	3,781	3,390
Canadian Dollar	2,675	1,823

The risk of fluctuations in foreign currencies, mainly the U.S. dollar, in terms of purchases, required Management to adopt a risk containment strategy better defined as a "hedge accounting policy," which consists of continuously hedging the risks related to purchases based on the amount of orders which must be settled in U.S. dollars. This behaviour can be classified as a "cash flow hedge" or rather a hedge of the risk of changes in future cash flows; these flows may relate to assets or liabilities in the financial statements or to highly probable future transactions. In compliance with IFRS 9, the portion of the gain or loss on the hedging instrument, which is considered effective for hedging purposes, has been recognised directly in the comprehensive income statement and in a specific equity reserve.

During the year ended October 31, 2019, the Group did not undertake forward currency purchase contracts.

Interest rate risk

The objective of the management of the interest rate risk is to ensure control of the financial costs and their volatility. This implies, through a mix of fixed and variable interest rates, the pre-determination of a part of the financial charges for a period in line with the structure of debt, which, in turn, should be in line with the Group's future cash flow streams.

The Group's debt is linked to variable interest rates against which it assesses on a case-by-case basis whether it would be appropriate to take out derivative hedging contracts, and fixed-rate loans.

The Group does not hold financial assets of a speculative nature and, in general, does not have financial assets related to interest rate movements.

9.3 Credit risk

At October 31, 2019, the maximum exposure to credit risk is represented by the book value of trade receivables recognised in the financial statements.

This credit risk, which is theoretically significant, is mitigated by a careful assessment of customers' creditworthiness for the purposes of granting credit to individual customers and, lastly, there are no significant credit positions involving an excessive concentration of credit.

9.4 Assets and liabilities measured at amortised cost

Trade receivables and payables, time deposits, loans payable, mortgages and other liabilities and assets are measured at amortised cost. For trade receivables and payables, their carrying amount represents a reasonable approximation of their fair value.

10. Remuneration of the board of directors, board of statutory auditors and independent audit firm

The following table summarises the remuneration of the Board of Directors, the Board of Statutory Auditors and the Independent Audit Firm:

	31/10/2019	**31/10/2018**
Board of Directors remuneration	534	525
Statutory auditors' remuneration	39	39
Independent audit firm fees	49	49
Total	**622**	**613**

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INCOME STATEMENT

	Note	FY 2019	FY 2018
Revenue	3.1	216,894,336	176,061,110
Other income	3.2	2,506,803	1,806,708
Total Revenue		**219,401,139**	**177,867,818**
Cost of raw materials (including changes in inventories)	3.3	(62,872,068)	(53,504,231)
Service costs	3.4	(73,301,909)	(58,383,041)
Lease and rental costs	3.5	(1,176,552)	(1,208,153)
Personnel expenses	3.6	(14,826,947)	(11,496,755)
Amortisation & depreciation	3.7	(2,591,332)	(2,192,913)
Doubtful debt provision	3.8	(197,722)	(128,800)
Provisions for risks and charges	3.9	0	(44,829)
Other operating charges	3.10	(1,115,803)	(852,923)
Total Costs		**(156,082,333)**	**(127,811,645)**
Operating profit		**63,318,806**	**50,056,173**
Financial income	3.11	683,892	302,834
Financial expenses	3.11	(711,974)	(604,462)
Exchange gains and losses	3.11	180,702	261,988
Total financial income and expenses		**152,620**	**(39,640)**
Adjustment to financial assets	3.12	0	0
Profit before taxes		**63,471,426**	**50,016,533**
Income taxes	3.13	(954,704)	(13,980,928)
Net profit		**62,516,722**	**36,035,605**

COMPREHENSIVE INCOME STATEMENT

	Note	FY 2019	FY 2018
Net profit (A)		**62,516,722**	**36,035,605**
Actuarial gains/(losses) IAS 19		(81,741)	41,562
Tax effect of gains and losses		22,060	(12,720)
Total other gains/(losses) that cannot be subsequently reclassified to the income statement (B)	4.12	**(59,681)**	**28,842**
Gains/(losses) on hedging derivatives		3,670	(47,110)
Tax effect of gains/(losses)		(881)	(2,739)
Total other gains/(losses) that may subsequently be reclassified to the income statement (C)	4.12	**2,789**	**(49,849)**
Total other profit/(loss) net of tax effect (B+C)		**(56,892)**	**(21,007)**
Total comprehensive income		**62,459,830**	**36,014,598**

BALANCE SHEET

ASSETS	Note	FY 2019	FY 2018
NON-CURRENT ASSETS			
Intangible assets	4.1	2,345,824	2,786,744
Property, plant and equipment	4.2	11,947,620	11,932,171
Investments in subsidiaries and associates	4.3	5,708,856	1,687,216
Non-current tax receivables	4.8	279,160	279,160
Other non-current assets	4.4	51,550	51,529
Other non-current financial assets	4.10	7,885,111	10,175,349
Deferred tax assets	4.5	2,911,060	2,141,696
TOTAL NON-CURRENT ASSETS		**31,129,181**	**29,053,865**
CURRENT ASSETS			
Inventories	4.6	35,088,204	25,982,955
Trade receivables	4.7	66,258,624	54,178,024
Tax receivables	4.8	6,084,993	2,755,661
Other current assets	4.9	2,249,931	1,394,518
Other current financial assets	4.10	3,956,480	1,981,352
Cash and cash equivalents	4.11	34,099,874	23,958,868
TOTAL CURRENT ASSETS		**147,738,106**	**110,251,378**
TOTAL ASSETS		**178,867,287**	**139,305,243**

LIABILITIES AND SHAREHOLDERS' EQUITY			
SHAREHOLDERS' EQUITY			
Share Capital	4.12	10,000,000	10,000,000
Other Reserves	4.12	46,850,087	36,136,174
Net profit for the year	4.12	62,516,722	36,035,605
TOTAL SHAREHOLDERS' EQUITY		**119,366,809**	**82,171,779**
NON-CURRENT LIABILITIES			
Post-employment benefits	4.18	1,708,480	1,247,634
Provisions for risks and charges	4.19	1,596,805	2,338,696
Non-current bank payables	4.14	13,678,207	16,420,594
Other non-current financial liabilities	4.17	1,459,296	0
Deferred tax liabilities	4.5	0	0
TOTAL NON-CURRENT LIABILITIES		**18,442,788**	**20,006,924**
CURRENT LIABILITIES			
Trade payables	4.13	25,960,552	19,085,188
Current bank payables	4.14	7,509,338	7,510,978
Other current financial liabilities	4.17	0	3,670
Tax payables	4.15	513,862	4,811,241
Other current liabilities	4.16	7,073,938	5,715,463
TOTAL CURRENT LIABILITIES		**41,057,690**	**37,126,540**
TOTAL LIABILITIES		**178,867,287**	**139,305,243**

CASH FLOW STATEMENT

Euro	Note	FY 2019	FY 2018
CASH FLOW FROM OPERATING ACTIVITIES:			
Net profit		62,516,722	36,035,605
Adjustments:			
Income taxes		954,704	13,980,928
Financial income and expense		(152,620)	39,640
Amortisation		1,128,583	1,029,133
Depreciation		1,462,749	1,163,780
Net change in provisions for risks and charges		(741,891)	202,661
Net change in post-employment benefit provision		401,165	(11,671)
Operating cash flow before changes in working capital	**5.1**	**65,569,412**	**52,440,076**
Change in inventories		(9,105,249)	(5,884,333)
Change in trade and other receivables (including current tax receivables)		(17,034,730)	(12,715,976)
Change in trade and other payables (including current tax payables)		3,936,460	5,237,477
Income taxes		(954,704)	(13,980,928)
Cash flow generated/(absorbed) from changes in working capital	**5.2**	**(23,158,223)**	**(27,343,760)**
Cash flow generated/(absorbed) from operating activities		**42,411,189**	**25,096,316**
CASH FLOW FROM INVESTING ACTIVITIES			
(Investments)/Disposals of intangible assets and goodwill		(687,663)	(1,215,615)
(Investments) /Disposals of property, plant and equipment		(1,478,198)	(2,214,615)
(Investments)/Disposals of equity investments		(4,021,640)	0
Cash flow generated/(absorbed) from investing activities	**5.3**	**(6,187,501)**	**(3,430,230)**
CASH FLOW FROM FINANCING ACTIVITIES			
Net change in current financial assets		(1,972,339)	(603,241)
Net change in non-current financial assets		2,290,238	452,257
Net change in current and non-current financial liabilities		1,455,626	(11,415)
Change in payables to banks and other current lenders		(1,640)	2,317,219
Change in payables to banks and other non-current lenders		(2,742,387)	7,301,406
Dividends paid		(25,264,800)	(15,294,400)
Financial income and expense		152,620	(39,640)
Cash flow generated (absorbed) from financing activities	**5.4**	**(26,082,682)**	**(5,877,814)**
Increase/(Decrease) in cash and cash equivalents		**10,141,006**	**15,788,272**

Opening cash & cash equivalents		23,958,868	8,170,596
Closing cash & cash equivalents		34,099,874	23,958,868
Change in cash and cash equivalents		**10,141,006**	**15,788,272**

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Note	Share capital	Legal Reserve	Rev. Res. Law 342/00	Rev. Res. Law 158/08	Extra Res.	Other Reserves	IAS-FTA Reserves	IAS 19 Reserves	Hedge Accounting Reserve	Gains/(Losses) carr. forward	Profit/ (Loss)	Total
At 1/11/2017		**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**
Reclassification reserve	4.12					6,512,991					15,294,400	(21,807,391)	0
Dividends allocated	4.12										(15,294,400)		(15,294,400)
Change 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 year	4.12											36,035,605	36,035,605
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**
Allocation of the result for the year	4.12					10,770,805					25,264,800	(36,035,605)	0
Dividends allocated	4.12										(25,264,800)		(25,264,800)
Change IAS 19 reserve	4.12								(59,681)				(59,681)
Change in Hedge accounting reserve	4.12									2,789			2,789
Other movements	4.12												0
Profit for the year	4.12											62,516,722	62,516,722
Profits - carried forward	4.12												0
At 31/10/2019		**10,000,000**	**2,038,774**	**7,559,535**	**4,718,301**	**34,201,082**	**27,945**	**(1,569,269)**	**(126,281)**	**0**	**0**	**62,516,722**	**119,366,809**

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS

General information

1. BASIS OF PREPARATION

1.1 General information

Sportswear Company S.p.A. (hereinafter also referred to as the "Company") is a company under Italian law with registered office in Italy, in Galleria Cavour, 4 - Bologna.

During the 2019 financial year, operating activities proceeded as planned and there were no events that significantly altered the operating performance and which required the application of exceptions under IFRS.

1.2 Statement of compliance with international financial reporting standards

The Financial Statements have been drawn up in accordance with International Financial Reporting Standards (hereinafter "IFRS" or "international accounting standards"), issued by the International Accounting Standards Board (IASB) and endorsed by the European Commission in accordance with the procedure laid down by Article 6 of Regulation (EC) No. 1606/2002 of the European Parliament and Council of July 19, 2002 and Article 9 of Legs. Decree 38/05. The term "IFRS" includes all of the "International Financial Reporting Standards", all of the International Accounting Standards ("IAS") and all of the interpretations of the "International Financial Reporting Interpretations Committee" ("IFRIC") previously called the "Standing Interpretations Committee" ("SIC") adopted by the European Union at the date of the approval of the financial statements by the Board of Directors of the Company and contained in the relative EU Regulations published at that date.
The 2018 financial statements were audited by Deloitte & Touche S.p.A.

1.3 Financial statements format

The financial statements of Sportswear Company S.p.A. as of October 31, 2019 include the income statement, the comprehensive income statement, the balance sheet, the cash flow statement and the statement of changes in shareholders' equity and these explanatory notes.

The structure of the financial statements of the Company is as follows:

- the income statement. The format adopted provides for the classification of costs by nature as such presents the best representation of operational activities.
- **the comprehensive income statement** with the accounts which comprise the profit or loss for the year and the charges and income recognised directly to equity for transactions other than those involving shareholders. In fact, in application of the provisions of IAS 1, all changes generated by transactions with third parties, whether recorded in the income statement or booked directly to equity, must be shown in a single separate statement (comprehensive income statement) or in two separate statements (income statement and comprehensive income statement), as applied by the Company, in order to present the overall performance for the year (so-called comprehensive income). It was decided to adopt a separate format for the comprehensive income statement. In particular, in application of the provisions of IAS 1, all changes generated by transactions with third parties and booked directly to shareholders' equity must be shown in this comprehensive income statement in order to present the overall performance for the year (so-called comprehensive income). The amendments to IAS 1 require all the items presented in the comprehensive income statement to be grouped according to whether or not they can be reclassified to the income statement.
- **the balance sheet**, prepared in accordance with IAS 1, in which current and non-current assets and liabilities are shown separately for the twelve-month operating cycle. Current assets consist of cash or equivalent liquid assets, of assets whose completion, sale or consumption is envisaged during the company's standard operating cycle, of assets held for trading or of assets to be completed within twelve months of the date of the financial statements. All other assets are classified as non-current. Current liabilities consist of

liabilities, the repayment of which is envisaged during the company's standard operating cycle or within twelve months of the date of the financial statements, or of those liabilities whose repayment may not be deferred by more than twelve months. All other liabilities are classified as non-current.
- the cash flow statement has been prepared using the indirect method and is presented in accordance with IAS 7, classifying cash flows as operating, investing and financing activities.
- the statement of changes in shareholders' equity for the year, compared with the previous year.
- these explanatory notes and their annexes.

1.4 Basis of preparation

The financial statements were prepared in accordance with the historical cost convention, except for derivative financial instruments, Other financial assets and Available-for-sale assets, which are recognized at fair value, as required by IFRS 9.

2. ACCOUNTING STANDARDS ADOPTED FOR THE PREPARATION OF THE SEPARATE FINANCIAL STATEMENTS

Intangible assets

An intangible asset is a non-monetary asset, identifiable and without physical substance and capable of generating future economic benefits. These assets are recorded at purchase and/or production cost, including the costs of bringing the asset to its current use, net of accumulated amortisation, and any loss in value. The amortisation begins when the asset is available for use and is amortised systematically over the useful life of the asset.
After initial recognition, the intangible assets with a definite useful life are recognised at cost and amortised on a straight-line basis over their estimated useful life in which they are expected to generate economic benefits and net of any impairment losses, determined in accordance with IAS 36.

The following rates are applied:

Intangible assets	% amortisation
Software	20%
Key money	lease contract duration
Other intangible assets	20%

(i) Software and other intangible assets

Expenses for software and other intangible assets are recorded under assets at their purchase cost and are amortised according to a five-year plan. Software and other intangible assets acquired by the Company that have a definite useful life are valued at cost net of amortisation and accumulated impairment losses.

(ii) Key money

Key money paid for the opening of direct shops is considered as exit costs relating to a real estate lease contract and is considered an asset with a definite useful life determined over the period of the underlying contract.

(iii) Research and development costs

Research and development costs are charged to the income statement in the year they are incurred in accordance with best industry practices, since it is difficult to distinguish between the development phase and the research phase.

Property, plant and equipment

Property, plant and equipment are recognised at purchase cost (in the case of buildings it was decided to maintain revaluations carried out in accordance with law in previous years as the option allowed by IFRS1 in terms of deemed cost was adopted) or production including ancillary charges, net of the related depreciation provision and any impairment losses. The cost of production includes direct and indirect costs for the portion reasonably attributable to the asset and necessary to make the assets available for use (e.g. personnel expenses, transport, customs duties, preparation of the place of installation, testing costs, notary and land registry fees). Financial expenses directly attributable to the acquisition, construction or production of a tangible fixed asset are recognised in the income statement at the time at which they are incurred.

Maintenance costs of an ordinary nature are charged fully to the income statement. The cost for improvements, modernisation and transformation of an incremental nature are allocated as an asset.
When the asset to be depreciated is composed of separately identifiable elements whose useful life differs significantly from the other parts of the asset, the depreciation is made separately for each part of the asset, with the application of the component approach principle.

The fixed assets which at the date of the preparation of the financial statements it is highly probable they will be sold are classified under "current assets available-for-sale" and measured at the lower between the carrying amount and the relative fair value net of the estimated costs to sell. The sale of an asset classified under non-current assets is highly probable when management through formal resolution have defined a programme for the disposal of the asset (or of the group to be disposed) and activities have commenced to identify an acquirer and complete the programme. In addition, the asset (or group to be disposed) was offered for sale at a reasonable price compared to the current fair value. The completion of the sale is expected within one year from the date of the classification and the actions required to complete the programme demonstrate the improbability that the programme can be significantly modified or cancelled.

The fixed assets held under finance leases are recorded under the fixed asset class to which they refer and depreciated, applying the same rates, indicated below, for the relative asset class, except where the duration of the lease contract is lower than the useful life and there is not a reasonable certainty of the transfer of ownership of the asset at the normal expiry date of the contract; in this case, the depreciation is over the duration of the lease contract. Short- and medium-term payables to the lender are recorded against the recognition of the asset; the instalments are divided between the financial expenses and the reduction of the short- and medium-term payables, with consequent reversal from the income statement of the lease payments recorded under leases, rent and similar charges. Financial expenses are allocated to the income statement so as to obtain a constant interest rate on the residual liability for each year.
The leased assets, where the lessor bears the majority of the risks and rewards related to an asset, are recorded as operating leases. Operating lease payments are recognised on a straight-line basis over the term of the lease.

The depreciation begins when the assets are ready for use. Assets under construction include costs relating to tangible fixed assets for which the process of economic use has not yet begun. Tangible fixed assets are depreciated on a straight-line basis on economic/technical rates considered representative of the residual possible future use of the asset.
The tables below show the depreciation rates taken into account for the depreciation of assets.

Property, plant & equipment	% depreciation
Buildings	3%
Plant and machinery	12.5%
Equipment	25%
Furniture and fittings	12%
Leasehold improvements	Lesser between lease contract and useful life of improvement
Other assets	Between 12% and 25%

As required by IAS 16, the estimated useful lives of property, plant and equipment are reviewed each year in order to assess the need for revision. In the event that the estimated useful lives do not adequately represent the expected future economic benefits, the related depreciation plans must be redefined on the basis of the new assumptions. These changes are charged to the income statement prospectively.

The recovery of the value recorded of the tangible fixed assets is verified adopting the criteria indicated under "Loss in value of assets".

Business Combinations

Business combinations - which in the case of financial statements are attributable to the purchase of business units - are accounted for by applying the so-called "purchase method" (purchase method as defined by IFRS 3 - revised - "Business combinations"). The purchase method requires, after the identification of the acquirer in the business combination and having determined the cost of the acquisition, to value all the assets and liabilities at fair value (including the so-called contingent liabilities) acquired. Any goodwill is only determined residually as the difference between the cost of the business combination and the share in the difference between the assets and liabilities acquired measured at fair value. If this difference is negative, it is recognised as a positive component of the result for the period in which the business combination takes place. The costs of the transaction are charged directly to the income statement on the basis of management's decision to adopt an accounting practice consistent with IFRS for consolidated financial statements.

Business combinations under common control

Business combinations under common control or "Business combinations of entities under common control" are those business combinations between entities which are, ultimately, controlled by the same party, either before or after the business combination and the control is not of a temporary nature. The presence of minority interests in each of the entities subject to the business combination before or after the operation is not significant in determining if the business combination involves entities under common control.
The business combinations between entities under common control are recorded so that the net assets of the entities acquired and the acquiring entity are recorded at the book values recorded prior to the operation (continuity of values), without recognising in the financial statements any gains from these business combinations recorded in the individual financial statements of the Company.

Equity investments

Investments in subsidiaries and associates, not classified as held-for-sale, are recognised at cost, adjusted for any impairment losses.
If there are indications that investments might have been impaired, they are tested for impairment and adjusted accordingly. In order for the impairment loss to be expensed to profit or loss, there must be clear evidence that events with an impact on estimated cash flows from the investments have occurred. Any losses exceeding the carrying amount of the investments following the fulfilment of legal or implicit obligations to cover the losses of the investee, are recognised under provisions for risks and charges.
The original amount is restored in subsequent years if the reasons for the impairment adjustment cease to exist. The relative dividends are recorded under investment income when the right to receive such is determined, generally coinciding with the Shareholders' Resolution.

The investments in other companies are measured at fair value; where the fair value cannot be reliably estimated, the investment is measured at cost. The recovery of the value recorded is verified adopting the criteria indicated under "Loss in value of assets".

Receivables and other current and non-current assets

Trade receivables and other receivables arising from the provision of financial assets, goods or services by the Company to third parties are classified as current assets except when they mature more than twelve months after the reporting date with reference to non-trade receivables.
Current and non-current financial receivables, other current and non-current receivables and trade receivables, with the exception of assets deriving from derivative financial instruments, are measured, if they have a fixed maturity, at amortised cost calculated using the effective interest method.
When the financial assets do not have a fixed maturity, they are measured at acquisition cost. Receivables with maturities of over one year which bear no interest or an interest rate significantly lower than market rates are discounted using market rates.
When there is an indication of a reduction in value, the asset is reduced to the value of the discounted future cash flows obtainable. Impairments are recognised to the income statement. When, in subsequent periods, the reasons for the impairment loss no longer exist, the amount of the assets is restated up to the amount deriving from the application of the amortised cost where no impairment loss had been applied.

Deferred tax assets & liabilities

Deferred tax assets and liabilities are the taxes that it is expected to pay or recover on the temporary differences between the carrying value of the assets and of the liabilities in the financial statements and the corresponding fiscal value used in the calculation of the assessable income.
Deferred tax liabilities are generally recorded on all temporary assessable differences, while deferred tax assets are recorded based on the probability that the future assessable results will permit the use of the temporary deductible differences. The carrying value of deferred tax assets is revised at the end of the year and reduced to the extent that it is no longer likely that there will be sufficient taxable income against which to recover all or part of the assets.
Deferred tax assets and liabilities are calculated taking into account the tax rate that the Company expects to incur in the year in which these differences will contribute to the formation of the fiscal result, considering the rates in force or already issued at the date of the financial statements.

Financial assets

Financial assets, as per the new IFRS 9 - "Financial Instruments: Recognition and Measurement" (as revised in July 2014) which replaces IAS 39 - "Financial Instruments: Recognition and Measurement", are classified, on the basis of the way in which they are managed by the Company and the related contractual cash flows, in the following categories:

- Amortized Cost: financial assets held exclusively for the purpose of collecting the contractual cash flows are classified in the category Amortized Cost; they are measured using the amortised cost method, recording the income in the income statement using the effective interest rate method;
- Fair value through other comprehensive income ("FVOCI"): financial assets whose contractual cash flows are represented exclusively by the payment of principal and interest and which are held in order to collect the contractual cash flows as well as the flows deriving from the sale of the same are classified in the FVOCI category. They are measured at fair value. Interest income, exchange rate gains/losses, impairment losses (and related write-backs) of financial assets classified in the category FVOCI, are recorded in the income statement; other changes in the fair value of assets are recorded among the other items of OCI. When these financial assets are sold or reclassified to other categories, due to a change in the business model, the cumulative gains or losses recognised in OCI are reclassified to the income statement;
- Fair value through profit or loss ("FVTPL"): the FVTPL category is residual in nature and includes financial assets that do not fall under the Amortized Cost and FVOCI categories, such as financial assets purchased for trading or derivatives, or assets designated as FVTPL by management at the date of first recognition. They are measured at fair value. Gains or losses resulting from this valuation are recognised in the income statement;

- FVOCI for equity instruments: the financial assets represented by equity instruments of other entities (i.e. investments in companies other than subsidiaries, associates and joint control companies), not held for trading purposes, may be classified in the category FVOCI. This choice can be made instrument by instrument and provides that changes in the fair value of these instruments are recognised in the OCI and are not reversed in the income statement either on sale or on impairment of the same. Only dividends from these instruments will be recognised to the income statement.

The fair value of financial assets is calculated on the basis of the listed offer prices or through the use of financial models. The fair value of unlisted financial assets is estimated using specific valuation techniques adapted to the specific situation.
Regular valuations are made in order to assess whether a financial asset or a group of assets have incurred a loss in value. If there is evidence of a loss in value, the loss is recognised in the income statement for the period.

Financial liabilities
Financial liabilities are measured using the amortised cost method, recording charges in the income statement using the effective interest rate method, except for financial liabilities purchased for trading or derivatives (see next paragraph), or those designated as FVTPL by management at the date of initial recognition, which are measured at fair value through profit or loss.

Derivative financial instruments
The Company holds derivative instruments in order to hedge its exposure to the risk of changes in interest and exchange rates. The operations that, in compliance with the risk management policies, satisfy the requisites imposed by the accounting standard for the treatment of "hedge accounting" are designated as "hedging" (recognised as illustrated below), while those that, although made with intention to cover, do not satisfy the requisites required by the standard are classified as "trading". In this case, changes in the fair value of derivative instruments are recognised in the income statement in the period in which they are determined. The fair value is determined on the basis of the market value.

Hedge accounting
For accounting purposes, the hedging operations are classified as a "fair value hedge" if they are made against the risk of change in the market value of the underlying asset or liability; or as a "cash flow hedge" if they are made against the risk of change in the derivative cash flows either from an existing asset or liability, or from a future operation.
In relation to the derivative instruments classified as "fair value hedge", that comply with the conditions for the accounting treatment as hedging operations, the gains and losses deriving from the determination of their market value are recognised in the income statement. Also recognised in the income statement are the gains or losses deriving from the "fair value" adjustment of the underlying element of the hedge.
For instruments classified as cash flow hedges and qualifying as such, changes in fair value are recognised, limited to the "effective" portion only, in a specific equity reserve called the "Cash flow hedge reserve", through the comprehensive income statement. This reserve is subsequently reversed to the income statement when the underlying hedged item materialises. The change in fair value attributable to the ineffective portion is immediately recognised in the income statement for the period. If the occurrence of the underlying transaction is no longer considered highly probable or the hedging relationship is no longer demonstrable, the corresponding portion of the "Cash flow hedge reserve" is immediately reversed to the income statement.
If, on the other hand, the derivative instrument is sold and therefore no longer qualifies as an effective hedge of the risk against which the transaction was initiated, the portion of the "Cash flow hedge reserve" relating to it is maintained until the economic effects of the underlying contract become apparent.

Derecognition of financial assets and liabilities

Financial assets

A financial asset is eliminated from the financial statements when:

- the right to receive the financial flows of the asset terminate;
- the Company retains the right to receive cash flows from the asset, but has a contractual obligation to pay them fully and without delay to a third party;
- the Company has transferred its right to receive the cash flows from the asset and has transferred substantially all of the risks and rewards of ownership of the financial asset or has not transferred or retained all of the risks and rewards of the asset, but has transferred control.

Where the Company has transferred all the rights to receive the financial flows of an asset and has not transferred or withheld all of the risks and rewards or has not lost control, the asset is recorded in the financial statements up to the amount of its residual holding in the asset. Residual involvement that takes the form of a guarantee on the transferred asset is measured at the asset's initial book value or the maximum consideration that the company could be required to pay, whichever is less.

In cases where the residual involvement takes the form of an option issued and/or purchased on the transferred asset (including options settled in cash or similar), the extent of the Company's involvement corresponds to the amount of the transferred asset that the Company may repurchase; however, in the case of a put option issued on an asset measured at fair value (including options settled in cash or similar), the extent of the Company's residual involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised from the financial statements when the underlying liability is settled or cancelled.

If an existing financial liability is replaced by another by the same lender but under substantially different conditions, or if the conditions of an existing financial liability are substantially changed, such a swap or change is treated as an elimination of the original liability and the opening of a new liability, with any differences in accounting values recorded in the income statement.

In changes to financial liabilities defined as non-substantial, the financial liability is not derecognised and the value of the debt is recalculated maintaining the original effective interest rate unchanged, discounting the modified cash flows, thus generating a positive or negative effect on the income statement.

Inventories

Inventories of raw materials, semi-finished and finished products are measured at the lower of weighted average production or purchase cost and net realisable value. The average cost includes the direct costs of materials and processing.

The raw materials and finished products obsolescence provision is calculated to return cost to net realisable value based on estimates that take into account the length of the production season and the possibility of using the raw materials in production and selling finished products through the various distribution channels (outlets and stocks).

Cash and cash equivalents

The account relating to cash and cash equivalents includes cash, bank current accounts and deposits on demand and other highly liquid short-term financial investments, readily convertible into cash, that is transferable into cash within 90 days from the original acquisition date, and that do not have a significant risk of a change in value.

Impairments

At least annually at the reporting date, the Company reviews the book value of intangible and tangible fixed assets to determine whether there are indications that these assets have suffered any impairment. When it is determined that a potential loss exists, the Directors make valuations on the recoverable amount of those assets in order to identify the potential amount of the loss. Where it is not possible to make an estimate of the recoverable amount of an asset individually, the Company makes an estimate of the recoverable amount of the cash-generating unit the asset belongs to.

The recoverable value is the higher between fair value less costs to sell and value in use. In determining the value in use, the estimated future cash flows are discounted on a pre-tax basis which reflects the market assessment of the time value of money and the risks specific to the asset.
If the recoverable amount of an asset (or a CGU) is lower than its carrying amount, it is impaired to that recoverable amount. An impairment is recognised to the income statement immediately.
When the reasons for the impairment no longer exist, the carrying value of the asset (or the cash generating unit) – except for Goodwill – is increased to the revised estimate of its recoverable value. The new value cannot exceed the net carrying value if no write-down for impairment had being recorded. The restated values are immediately recognised in the income statement.

Shareholders' Equity

The share capital comprises the ordinary shares outstanding and is recognised at the nominal value. The costs relating to the issue of shares or options are classified as a reduction of Net Equity (net of the related tax benefit) as a deduction of the income deriving from the issue of such instruments.
For the acquisition of treasury shares, the price paid, including any accessory charges directly attributable, is deducted from the Net Equity until its cancellation, re-issue or sale of the shares. When such treasury shares are re-sold or re-issued, the price received, net of any accessory charges directly allocated and the relative tax effect, is recorded as an increase in the net equity.

The legal reserve includes the provisions recognised in accordance with Article 2430 of the Civil Code, which are increased by 1/20th of the net profits of the Company until the reserve reaches 1/5th of the share capital of the Company. Once 1/5th of the share capital is reached the reserve - if subsequently reduced for any reason - is integrated with annual provisions as indicated above.

Post-employment benefits

The Company manages pension plans according to the defined-benefit and/or defined-contribution schemes, as the post-employment benefits provision falls within this category.
The liability relating to a defined benefit pension plan (such as the post-employment benefits provision) represents the present value of the corresponding obligation at the reporting date, net of the fair value of plan assets, adjusted for actuarial gains or losses and past service costs.
The obligation to finance the defined benefit plans and the annual cost recognised in the income statement are determined by independent actuaries using the projected unit credit method.
With reference to defined benefit plans, costs arising from the discounting effect of the obligation are classified as financial expenses. Actuarial differences arising from changes in the assumptions used to calculate defined benefit pension plans are recognised in the comprehensive income statement.
Post-employment benefits matured to December 31, 2006 are similar to a defined benefit plan, to be measured in accordance with statistical and demographic assumptions, as well as actuarial methodologies. Following the amendment introduced by the Italian legislature, from January 1, 2007 the post-employment benefits matured are similar to a defined contribution plan.
Under IFRS, actuarial gains and losses are recognised in other items of the comprehensive income statement, while service costs are recognised under personnel expenses and interest costs are recognised under financial expense.

Share-based payments

In accordance with IFRS 2 and in relation to the specific characteristics of the stock option plan approved by the Directors, including the related probabilistic assessments, falling within the category of "cash-settled share-based payment transactions", the fair value at the grant date of the incentives recognised in equity-settled share-based payments granted to employees is recognised as a cost, with a corresponding increase in financial liabilities, over the period during which employees obtain the right to the incentives. The amount recognised as an expense is adjusted to reflect the actual number of incentives
for which the conditions for remaining in service have matured, so that the final amount recognised as an expense is based on the number of incentives that meet the above conditions on the vesting date.
In the case of incentives recognised in share-based payments whose conditions are not to be considered as vesting, the fair value at the grant date of the share-based payment is measured to reflect these conditions. With reference to the non-vesting conditions, any differences between the assumptions at the grant date and the effective date will not produce any impact in the financial statements.
The liability is measured at each reporting date and at the settlement date based on the fair value of the shares. Any changes in the fair value of the liability are recognised to profit or loss for the year.

Provisions for risks and charges

Provision for risks and charges are recorded in respect of certain or probable losses or liabilities, the amount or due date of which could not be determined at the reporting date.
The provisions are recorded when:

- the existence of a present obligation, legal or implicit, deriving from a past event is probable;
- it is probable that compliance with the obligation will result in a charge;
- the amount of the obligation can be estimated reliably.

Provisions are recorded at the value representing the best estimate of the amount that the Company would pay to discharge the obligation or to transfer it to a third party at the reporting date.
When the financial effect of the time is significant and the payment dates of the obligations can be reliably estimated, the provision shall be discounted at the average cost of debt to the company; the increase of the provision due to the passing of time is recorded in the income statement in the account "Net financial income/(expenses)".
The provisions are periodically updated to reflect the changes in the estimate of the costs, of the time period and of the discounting rate; the revision of estimates are recognised in the same income statement captions in which the provision was recognised, when the liability relates to property, plant and equipment (for example dismantling and reclamation), and in the asset account to which it refers.

Revenue recognition

Revenues from customer contracts are recorded according to a five-step model:

o identify the contract with a customer;
o identify the performance obligations in the contract;
o determine the transaction price;
o allocate the price to the performance obligations in the contract;
o recognise revenue when (or as) the entity satisfies a performance obligation.

Revenue is recorded on the transfer of all of the risks and charges deriving from the ownership of the assets transferred.
Revenue is shown net of any adjusting items (returns, discounts and rebates) and does not include value added tax and any other sales tax.
Sales in the wholesale channel are recognized when the finished product is shipped to the end customer as this moment essentially reflects the transfer of ownership with its risks and rewards. The provision for returns and discounts is estimated on the basis of forecasts, taking into account historical trends. For the goods expected to be returned, the Company adjusts revenue and records a liability for refunds. The right to return an asset (and the corresponding adjustment of the cost of sales) is also recognised for the right to receive the goods from the customer.

Sales in the retail channel are recognised on the date of direct sale of the asset to the end customer.

Dividends

They are recorded when the right of the shareholders to receive the payment arises.

Recognition of costs

The costs for the acquisition of goods and services are recognised when their amount may be reliably established. The costs for the acquisition of goods are recognised on delivery based on contracts in place identifying the moment of transfer of the related risks and rewards. Service costs are recognised at the moment of receipt of the services.

Financial income and expenses

Interest income and expenses are recorded on an accruals basis on the interest matured on the net value of the relative financial assets and liabilities and utilising the effective interest rate.

Income taxes

Income taxes for the year represent the sum of current and deferred taxation.
Income taxes are calculated based on a realistic estimate of the tax charge, in accordance with the accruals principle and applicable tax laws.
In particular, deferred tax assets and liabilities are also included in the financial statements. Deferred tax assets and liabilities derive from temporary differences between the carrying amount of the assets and liabilities and the respective tax values.
Deferred tax assets are recorded for the probable amount of their expected future recovery.
The recoverability of deferred tax assets is verified at the end of each year and any part for which the recovery is no longer probable is recognised in the Income Statement.
The benefits from carried forward tax losses are recognised only if it is considered probable that in future years positive results will be achieved such as to reabsorb the losses.
Deferred tax assets and liabilities are determined with the tax rates that are expected to be applied in the years when the temporary differences are realised or settled.
Deferred tax assets and liabilities are classified respectively to non-current assets and liabilities. The amount of the offsetting, when positive, is recorded in the account "Deferred tax assets", if the amount is a liability, the amount is recorded under "Deferred tax liabilities".
The tax assets and liabilities, both current and deferred, are offset when due to the same tax authorities, if the reversal period is the same and if a legal right to offsetting exists.

Transactions in foreign currencies

Receivables and payables originally expressed in currencies other than the operational currency of the company which records the receivable/payable (foreign currencies) are translated into the operational currency of this company at the historical rates at the transaction date. The differences arising on receipts and payments in foreign currencies are recorded in the income statement. At the date of the preparation of the financial statements, the receivables and payables in foreign currencies are translated at exchange rates in force at that date with the recording of any changes in the value of the receivables/payables in the income statement (unrealised exchange gains and losses).

Segment information

Since the Company is not listed, it has chosen the option not to provide information on operating segments, as allowed by IFRS 8.

Use of estimates

The preparation of the financial statements requires Management of the Company to make accounting estimates based on complex and/or subjective opinions; these estimates are based on past experience and assumptions considered reasonable and realistic on the basis of the information available at the moment of the estimate. The utilisation of these accounting estimates impacts the value of the assets and liabilities and the information on the contingent assets and liabilities at the balance sheet date, as well as the amount of the revenues and costs in the period. The final outcome of the accounts in the financial statements which use the above-mentioned estimates and assumptions may differ from those reported in the financial statements due to the uncertainty which characterises the assumptions and the conditions upon which the estimates are based.

The aspects which require greater subjectivity by the Directors in the preparation of the estimates and for which a change in the underlying conditions or the assumptions may have a significant impact on the financial statements are briefly described below:

Impairments
In accordance with the accounting standards applied by the Company, the tangible and intangible assets with definite life are verified to ascertain if there has been a loss in value which is recorded by means of a write-down, when it is considered there will be difficulties in the recovery of the relative net book value through use. The verification of the existence of the above-mentioned difficulties requires the Directors to make valuations based on the information available within the Company and from the market, as well as from historical experience. In addition, when it is determined that there may be a potential reduction in value, the Company determines this through using the most appropriate technical valuation methods available. The correct identification of the indicators of the existence of a potential reduction in value as well as the estimates for their determination depends on factors which may vary over time impacting upon the valuations and estimates made by the Directors.

Depreciation of property, plant & equipment
The cost of property, plant and equipment is depreciated on a straight-line basis on the estimated useful life of the asset. The useful life of the tangible fixed assets of the Company is determined by the Directors when the fixed assets are purchased. This is based on the historical experiences for similar fixed assets, market conditions and considerations relating to future events which could have an impact on the useful life, such as changes in technology. Therefore, the effective useful life may be different from the estimated useful life. The Company periodically evaluates technological and sector changes to update the residual useful life. This periodic update could result in a change in the depreciation period and therefore in the depreciation charge in future years.

Inventory valuation and obsolescence provision
The Company values inventory at the lower of the purchase price and the estimated realisable value, based on market trends and expectations on the future realisation of the value of the inventories. Where the actual market conditions are less favourable than the expectations, the value of the inventories may be written down.

Doubtful debt provision
In order to determine the appropriate level of the doubtful debt provisions, the recovery of the receivables is assessed based on the solvency of each debtor. The quality of the estimates depends on the availability of updated information on the solvency of the debtor.

Deferred tax assets
Deferred tax assets are recorded on the basis of expected income in future years and also taking into account the amount and time horizon of the temporary differences that generate the deferred tax provision. The valuation of the expected income in order to record the deferred tax asset depends upon factors which may change over time and result in significant effects on the valuation of this asset.

Provisions for risks and charges
Provisions are recorded in the financial statements when the Company has a current obligation that is the result of a past event and it is probable that the obligation must be met. Provisions are made based on the best estimate of the cost of fulfilling the obligation at the reporting date, and are discounted when the effect is significant. The explanatory notes provide information on the existence of possible liabilities against which no provision has been made in the financial statements.

Actuarial calculation of the defined benefit plans: the estimates, and demographic and economic/financial assumptions adopted, with the support of the valuations of an expert actuary, in the actuarial calculation for the determination of the defined benefit plans in relation to employment benefits subsequent to the employment period, are shown below:

Annual inflation rate	Probability of the employee leaving the Company	Probability of post-employment benefit advances
1.5% for 2019 and 2018	Frequency of 3.8% for 2019 and 2018	1.7% for 2019 and 2018

Finally, the rate curve for corporate securities with an AA rating was used for actuarial valuations.

Fair value stock options: the Company adopts Stock Option Plans as an incentive instrument. The beneficiaries of the current plan is the Company's Management and provides for a right to receive, without consideration and subject to certain conditions, special category shares of the Company.
In accordance with IFRS 2, the Company estimates the financial expense from the above plan by evaluating:
- the probability of occurrence of the events that condition the right to receive the shares and the probability that these can be converted into cash;
- the fair value of the option rights assigned. This value was determined with reference to the date on which the option rights were assigned by the Board of Directors with the assistance of an independent expert.

This assessment depends on factors that may vary over time and are not subject to the control of the Directors.

IFRS accounting standards, amendments and interpretations applied from January 1, 2018

In view of the fact that the financial year ended on October 31, 2019, the application of the accounting standards is deferred compared to the calendar year.

The following IFRS standards, amendments and interpretations were applied for the first time by the Company from November 1, 2018:

• On May 28, 2014, the IASB published "IFRS 15 Revenue from Contracts with Customers" which, together with additional clarifications published on April 12, 2016, replaces IAS 18 Revenue and IAS 11 Construction Contracts, in addition to the 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 establishes a new revenue recognition model, which will apply to all contracts with clients, with the exception of those falling under the application of other IAS/IFRS such as leasing, insurance contracts and financial instruments. The essential issues for the recognition of revenue according to the new model are:
o identify the contract with a customer;
o identify the performance obligations in the contract;
o determine the transaction price;
o allocate the price to the performance obligations in the contract;
o recognise revenue when (or as) the entity satisfies a performance obligation.

The Company applied IFRS 15 retroactively with cumulative effect at the date of first application, November 1, 2018, although there was no effect on shareholders' equity at that date. Therefore, the figures at October 31, 2018 were not restated i.e. they were presented as per IAS 18, IAS 11 and the relative interpretations.
The following tables summarise the effects of the application of IFRS 15 on the individual items concerned in the balance sheet at October 31, 2019 and in the income statement for the year 2019. In particular, the figures for 2019 have been restated below in accordance with the previous accounting treatment adopted by the Company, in order to allow better comparability of the figures for the two years with the same accounting rules.

BALANCE SHEET

ASSETS	Note	FY 2019	Reclassifications	FY 2019 Restated	FY 2018
NON-CURRENT ASSETS					
Intangible assets	4.1	2,345,824		2,345,824	2,786,744
Property, plant and equipment	4.2	11,947,620		11,947,620	11,932,171
Investments in subsidiaries and associates	4.3	5,708,856		5,708,856	1,687,216
Non-current tax receivables	4.8	279,160		279,160	279,160
Other non-current assets	4.4	51,550		51,550	51,529
Other non-current financial assets	4.10	7,885,111		7,885,111	10,175,349
Deferred tax assets	4.5	2,911,060		2,911,060	2,141,696
TOTAL NON-CURRENT ASSETS		**31,129,181**	**0**	**31,129,181**	**29,053,865**
CURRENT ASSETS					
Inventories	4.6	35,088,204	(1,128,000)	33,960,204	25,982,955
Trade receivables	4.7	66,258,624		66,258,624	54,178,024
Tax receivables	4.8	6,084,993		6,084,993	2,755,661
Other current assets	4.9	2,249,931		2,249,931	1,394,518
Other current financial assets	4.10	3,956,480		3,956,480	1,981,352
Cash and cash equivalents	4.11	34,099,874		34,099,874	23,958,868
TOTAL CURRENT ASSETS		**147,738,106**	**(1,128,000)**	**146,610,106**	**110,251,378**
TOTAL ASSETS		**178,867,287**	**(1,128,000)**	**177,739,287**	**139,305,243**

LIABILITIES AND SHAREHOLDERS' EQUITY					
SHAREHOLDERS' EQUITY					
Share capital	4.12	10,000,000		10,000,000	10,000,000
Other Reserves	4.12	46,850,087		46,850,087	36,136,174
Net profit for the year	4.12	62,516,722		62,516,722	36,035,605
TOTAL SHAREHOLDERS' EQUITY		**119,366,809**	**0**	**119,366,809**	**82,171,779**
NON-CURRENT LIABILITIES					
Post-employment benefits	4.18	1,708,480		1,708,480	1,247,634
Provisions for risks and charges	4.19	1,596,805	1,466,000	3,062,805	2,338,696
Non-current bank payables	4.14	13,678,207		13,678,207	16,420,594
Other non-current financial liabilities	4.17	1,459,296		1,459,296	0
Deferred tax liabilities	4.5	0		0	0
TOTAL NON-CURRENT LIABILITIES		**18,442,788**	**1,466,000**	**19,908,788**	**20,006,924**
CURRENT LIABILITIES					
Trade payables	4.13	25,960,552	(2,594,000)	23,366,552	19,085,188
Current bank payables	4.14	7,509,338		7,509,338	7,510,978
Other current financial liabilities	4.17	0		0	3,670
Tax payables	4.15	513,862		513,862	4,811,241
Other current liabilities	4.16	7,073,938		7,073,938	5,715,463
TOTAL CURRENT LIABILITIES		**41,057,690**	**(2,594,000)**	**38,463,690**	**37,126,540**
TOTAL LIABILITIES		**178,867,287**	**(1,128,000)**	**177,739,287**	**139,305,243**

INCOME STATEMENT

	Note	FY 2019	Reclassifications	FY 2019 Restated	FY 2018
Revenue	3.1	216,894,336	1,128,000	218,022,336	176,061,110
Other income	3.2	2,506,803		2,506,803	1,806,708
Total Revenue		**219,401,139**	**1,128,000**	**220,529,139**	**177,867,818**
Cost of raw materials (including changes in inventories)	3.3	(62,872,068)	(1,128,000)	(64,000,068)	(53,504,231)
Service costs	3.4	(73,301,909)		(73,301,909)	(58,383,041)
Lease and rental costs	3.5	(1,176,552)		(1,176,552)	(1,208,153)
Personnel expenses	3.6	(14,826,947)		(14,826,947)	(11,496,755)
Amortisation & depreciation	3.7	(2,591,332)		(2,591,332)	(2,192,913)
Doubtful debt provision	3.8	(197,722)		(197,722)	(128,800)
Provisions for risks and charges	3.9	0		0	(44,829)
Other operating charges	3.10	(1,115,803)		(1,115,803)	(852,923)
Total Costs		**(156,082,333)**	**(1,128,000)**	**(157,210,333)**	**(127,811,645)**
Operating profit		**63,318,806**	**0**	**63,318,806**	**50,056,173**
Financial income	3.11	683,892		683,892	302,834
Financial expenses	3.11	(711,974)		(711,974)	(604,462)
Exchange gains and losses	3.11	180,702		180,702	261,988
Total financial income and expenses		**152,620**	**0**	**152,620**	**(39,640)**
Adjustment to financial assets	3.12	0		0	0
Profit before taxes		**63,471,426**	**0**	**63,471,426**	**50,016,533**
Income taxes	3.13	(954,704)		(954,704)	(13,980,928)
Net profit		**62,516,722**	**0**	**62,516,722**	**36,035,605**

Previously, the Company recognised an estimate of the lower margin relating to expected returns from the sale of products as a reduction in revenues and a corresponding provision for risks under liabilities. In accordance with IFRS 15, the Company recognises as a reduction in revenues the estimated credit notes relating to expected returns from the sale of products and as a reduction in the cost of sales the estimated cost relating to such returns. In the balance sheet, the amount corresponding to the sales value of the expected returns is recorded as an increase in Trade payables and the amount corresponding to the cost of the returned items is recorded under Inventories.

- On July 24, 2014, the IASB published IFRS 9 – Financial Instruments: recognition and measurement. The document incorporates the results of the IASB project to replace IAS 39. The new standard must be applied for financial statements beginning on or after January 1, 2018.

The standard introduces new criteria for the classification and measurement of financial assets and liabilities. In particular for financial assets the new standard utilises a single approach based on the management method of financial instruments and on the contractual cash flow characteristics of the financial assets in order to determine the measurement criteria, replacing the various rules established by IAS 39. For financial liabilities however the standard is amended with regard to the accounting treatment of the fair value changes of a financial liability designated as a financial liability at fair value through profit or loss, in the case in which these changes relate to changes in the credit rating of the issuer of the liability. According to the new standard, these changes must be recorded to "Other comprehensive income" and no longer to the income statement. In addition, in the non-substantial changes to financial liabilities it is no longer permitted to record the economic effects of the renegotiation on the residual duration of the payable modifying the effective interest rate at that date, but it is necessary to record the relative effect in the income statement.

In relation to impairment, the new standard requires that the doubtful debts estimate is based on the expected losses model (and not on the incurred losses model under IAS 39), utilizing supporting information, available without unreasonable charges or effort, which includes historic, current and projected figures. The standard establishes that this impairment model applies to all financial instruments, therefore financial assets valued at amortized cost, those valued at fair value through other comprehensive income and receivables deriving from rental contracts and trade receivables.

In fact, this standard introduces a new model of hedge accounting to adjust the requirements under the current IAS 39, which on occasion are considered too stringent and inappropriate to reflect the risk management policies of the company. The main amendments of the document relate to:
o increased number of transactions eligible for hedge accounting, in particular including also the risks of non-financial assets/liabilities eligible to be managed in hedge accounting;
o the change in the accounting method of the forward contracts and options when considered in a hedge accounting relationship in order to reduce the volatility of the income statement;
o the amendments to the effectiveness test through the replacement of the current methods based on the 80-125% parameter with the principle of the "economic relationship" between the item hedged and the hedge instrument; in addition, a retrospective evaluation of the effectiveness of the hedge relationship will no longer be required;

The greater flexibility of the new accounting rules is offset by the additional disclosure requirements on the risk management activities of the company.

This standard is effective as of January 1, 2018. The application of the new standard did not have a significant impact on the Company's financial statements.

- On June 20, 2016, the IASB published the amendment to IFRS 2 "Classification and measurement of share-based payment transactions" which contains clarifications upon the recognition of the effects of vesting conditions in the presence of cash-settled share-based payments, on the classification of share-based payments with characteristics of net settlement and the recognition of the amendments to the terms and conditions of a share-based payment which changes the classification from cash-settled to equity-settled. The amendments were applied from November 1, 2018: The amendment has been taken into account in determining the accounting treatment for share-based incentive plans subscribed during the year.

• On December 8, 2016, the IASB published the document "Annual Improvements to IFRSs 2014-2016 Cycle" which partially reflects the amendments to some standards within the annual improvements process. The principal changes relate to:

- IFRS 1 First-Time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters. The amendment was applied from January 1, 2018 and concerns the elimination of certain short-term exemptions under paragraphs E3-E7 of Appendix E of IFRS 1 as the benefit of these exemptions is now considered exhausted.
- IAS 28 Investments in Associates and Joint Ventures – Measuring investees at fair value through profit or loss: an investment-by-investment choice or a consistent policy choice. The amendment clarifies that the option for a venture capital organization or similarly qualifying entities (e.g. a mutual investment fund or similar entity) to measure investments in associates and joint ventures at fair value through profit or loss (rather than through application of the equity method) is exercised for each individual investment on initial recognition. The amendment has been applied from November 1, 2018.
- IFRS 12 Disclosure of Interests in Other Entities – Clarification of the scope of the Standard. The amendment clarifies the scope of application of IFRS 12, specifying that the disclosure required by the standard, with the exception of that under paragraphs B10-B16, applies to all investments which are classified as held-for-sale, held-for-distribution to shareholders or as discontinued operations as per IFRS 5. The amendment has been applied from November 1, 2018.

The adoption of these amendments does not have any effects on the separate financial statements.

• On December 8, 2016, the IASB published the amendment to IAS 40 "Transfers of Investment Property". These amendments clarify the requirement necessary for the transfers of a building to, or from, investment property. In particular, an entity shall reclassify a building to, or from, investment property only when there is a clear indication of a change in the use of the building. This change must be attributable to a specific event that has occurred and shall not therefore be limited to only a change in intention by management of the entity. These amendments have been applied from November 1, 2018. The adoption of these amendments does not have any effects on the separate financial statements.

• On December 8, 2016, the IASB published the interpretation "Foreign Currency Transactions and Advance Consideration (IFRIC Interpretation 22)". The interpretation provides guidelines for transactions in foreign currencies where advances or non-monetary payments on account are recorded in the financial statements (against cash received/paid), before the recognition of the relative asset, cost or revenue. This document provides indications on how an entity should determine the date of a transaction, and consequently, the exchange rate to be utilised concerning operations in foreign currencies concerning payments made or received in advance.
The interpretation clarifies that the transaction date is the earlier of: (a) the date when the advance or down-payment received is recognised in the entity's financial statements; and (b) the date when the asset, cost or revenue (or part of it) is recognised in the financial statements (resulting in a reversal of the advance or down-payment received).
Where numerous payments or receipts in advance are made, a specific settlement date should be identified for each. IFRIC 22 was applied from November 1, 2018. The adoption of this interpretation does not have any effect on the separate financial statements.

Accounting standards, amendments and interpretations approved by the European Union, but not yet applied and adopted in advance by Sportswear at October 31, 2019.

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

• On January 13, 2016, the IASB published the new standard IFRS 16 Leases, which replaces IAS 17 – Leases, as well as the 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 a lease and introduces a criterion based on control (right of use) over an asset in order to differentiate lease contracts from service contracts. It identifies the following differentiating features: identification of the asset, the right to replacement of the asset, the right to obtain substantially all of the economic benefits from use of the asset and the right to direct the use of the underlying asset.
It establishes a single model to recognise and measure leasing contracts for the lessee, which provides also for the recognition of operating leases under assets with a related financial payable. Meanwhile, the standard does not include any significant changes for lessors.
The standard will be effective from January 1, 2019, although advance application is permitted.

The Company completed its preliminary assessment of the potential impacts of the application of the new Standard as at the transition date (November 1, 2019). This process is divided into stages, including the full mapping and analysis of the contracts potentially including a lease in order to understand the main clauses of such contracts that are relevant to IFRS 16.

The implementation process for the Standard, involving set-up of the IT infrastructure for the accounting management of the Standard and the alignment of the administrative and control processes applicable to the critical areas governed by the Standard, is in the process of being completed. This process is expected to be completed in early 2020.
The Company has elected to apply the Standard retrospectively, and therefore to recognise the cumulative effect of the application of the Standard in other comprehensive income with effect from November 1, 2019, in accordance with IFRS 16:C7-C13. In particular, with regard to lease contracts previously classified as operating leases, the Company will measure the items below as follows:

- financial assets at the present value of the residual future payments at the transition date, discounted according to the incremental borrowing rate applicable to each contract at the transition date;
- a right of use equal to the value of the financial liability at the transition date, net of any prepayments and accruals associated with the lease carried in the balance sheet at the reporting date of these financial statements.

The following table shows the estimated impact of the adoption of IFRS 16 at the transition date:

Euro millions

ASSETS	***Impact at the transition date (01/11/2019)***
Non-current assets	
Right of Use Buildings	*Euro 6.061*
Right of use Motor vehicles	*Euro 146*
Total	**Euro 6.207**
Current assets	
Prepaid expenses	Euro -76
Total	**Euro -76**
TOTAL ASSETS	**Euro 6.131**
SHAREHOLDERS' EQUITY & LIABILITIES	
Non-current liabilities	
Financial liabilities for non-current leases	*Euro 5.517*
Current liabilities	
Financial liabilities for current leases	*Euro 614*

Total Liabilities	**Euro 6.131**

The value of non-current assets relating to operating lease contracts was increased by the balance of prepaid expenses recorded as at October 31, 2019 for an amount equal to Euro 76 thousand.
In adopting IFRS 16, the Company intends to make use of the exemption granted in paragraph IFRS 16:5(a) in relation to short-term leases for motor vehicles.
Likewise, the Company intends to opt for the exemption permitted under IFRS 16:5(B) with regard to lease contracts for which the underlying asset qualifies as a "low-value asset" (i.e., the asset underlying the lease contract does not exceed Euro 5,000 when new). The contracts for which the exemption has been applied primarily fall within the following categories:

- Computers, telephones and tablets;
- Printers;
- Other electronic devices;

For such contracts, the introduction of IFRS 16 will not entail the recognition of the financial liability associated with the lease and relevant right of use. Rather, the lease payments will be taken to the income statement on a straight-line basis over the term of the relevant contracts.

In addition, with regard to transition rules, the Company intends to opt for the following practical expedients available in the event of the selection of the modified retrospective transition method:

- Classification of contracts set to expire within 12 months of the transition date as short-term leases. The lease payments for such contracts will be taken to the income statement on a straight-line basis;
- Exclusion of the initial direct costs from the measurement of the right of use at November 1, 2020.
- Use of the information available at the transition date to determine the lease term, with particular regard to the exercise of extension and early termination options.

The transition to IFRS 16 introduces some elements of professional judgment that entail the definition of certain accounting policies and the use of assumptions and estimates with regard to the lease term and the definition of the incremental borrowing rate. The main ones are summarised below:

- the Company has decided not to apply IFRS 16 for contracts containing a lease where the underlying asset is an intangible asset;
- Lease term: the Company has analysed all of its lease contracts and has identified the lease term for each of them – this is the non-cancellable period together with the effects of any extension or early termination options whose exercise is considered reasonably certain. In more detail, for properties, this determination considered the specific facts and circumstances of each asset. For other categories of assets, mainly company cars and equipment, the Company generally concluded that it was improbable that any extension or early termination clauses would be exercised, in light of the normal practice followed by the Company;
- Definition of the incremental borrowing rate: as most of the lease contracts entered into by the Company do not include an implied rate of interest, the discount rate to be applied to future lease/rental payments was determined as the risk-free rate of each country where the contracts have been signed, with maturities commensurate to the duration of the specific lease agreement, as increased by the specific Credit Spread of the Company.

Reconciliation with the lease commitments

In order to illustrate the impacts from the initial application of the standard, the following table reconciles future commitments regarding lease contracts and the impact from the adoption of IFRS 16 at November 1, 2019.

Reconciliation of lease commitments
Euro millions

	November 1, 2019
Commitments for operating leases at October 31, 2019	***Euro 6.929***
Short-term lease charges (exemption)	*Euro -48*
Low-value lease charges (exemption)	*Euro -136*
Non-lease components included in liabilities	*Euro -187*
Undiscounted financial liability for leases at November 1, 2019	***Euro 6.558***
Discounting effect	*Euro 427*
Financial liabilities for leases at November 1, 2019	***Euro 6.131***

- The IASB published an amendment to IFRS 9 "Prepayment Features with Negative Compensation" on October 12, 2017. This document specifies that instruments which provide for an advance repayment could comply with the Solely Payments of Principal and Interest ("SPPI") test also in the case where the "reasonable additional compensation" to be paid in the event of advance repayment is a "negative compensation" for the lender. The amendment applies from January 1, 2019, although early application is permitted. The Directors do not expect these amendments to have a significant impact on the company's financial statements.

- The IASB published the interpretation IFRIC 23 "Uncertainty over Income Tax Treatments" on June 7, 2017. The document addresses the issue of uncertainty over income tax treatments. In particular, the interpretation requires an entity to analyse uncertain tax treatments (individually or collectively, depending on their characteristics), always assuming that the tax authority will examine the tax position in question, with access to all relevant information. If the entity believes it is improbable that the tax authorities will accept the tax treatment followed, the entity shall reflect the effect of the uncertainty on the measurement of its current and deferred income taxes. In addition, the document does not contain any new disclosure obligations, but underlines that an entity should establish whether it will be necessary to provide information on considerations made by management and the relative uncertainty concerning the accounting of income taxes, in accordance with IAS 1.
The new interpretation applies from January 1, 2019, although early application is permitted. The Directors do not expect this interpretation to have a significant impact on the company's financial statements.

- Amendment to IAS 28 "Long-term Interests in Associates and Joint Ventures" (published on October 12, 2017)". This document clarifies the necessity to apply IFRS 9, including the requirements related to impairment, to the other long-term interests in associates and joint ventures which do not apply the equity method. The amendment applies from January 1, 2019, although early application is permitted. The Directors do not expect these amendments to have a significant impact on the financial statements of the Company.

- On December 12, 2017 the IASB published the document "Annual Improvements to IFRSs 2015-2017 Cycle" which reflects the amendments to some standards within the annual improvements process. The principal changes relate to:
• IFRS 3 Business Combinations and IFRS 11 Joint Arrangements: the amendment clarifies that when an entity obtains control of a business which represents a joint operation, it must remeasure its previous holding in the business. This process however is not required in relation to obtaining joint control.
• IAS 12 Income Taxes: the amendment clarifies that all the tax effects related to dividends (including the payments on financial instruments classified within equity) must be recognised in line with the transaction which generated these profits (profit or loss, OCI or net equity).
• IAS 23 Borrowing costs: the amendment clarifies that loans that remain in place even after the related qualifying asset is ready for use or sale shall become part of the total loans used to calculate borrowing costs.
The amendments are applicable from January 1, 2019, although advance application is permitted.

- Amendment to IAS 19 "Plan Amendment, Curtailment or Settlement" (published on February 7, 2018). The document clarifies that an entity must recognise a change (i.e. a curtailment or a settlement) of a defined benefit plan. The amendment requires the entity to update its assumptions and to remeasure the net liability or asset resulting from the plan. The amendments clarify that after the occurrence of this event, an entity utilises updated assumptions to measure the current service cost and interest for the remainder of the period. The amendments are applicable from January 1, 2019, although advance application is permitted. The Directors do not expect these to have a significant impact on the company's financial statements.

- On October 31, 2018, the IASB published the document "Definition of Material (Amendments to IAS 1 and IAS 8)". The document modified the definition of "material" in IAS 1 – Presentation of Financial Statements and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors. The amendment aims to provide a more specific definition of "material" and introduce the concept of "obscured information" alongside the concepts of omitted or misstated information previously included in the two amended Standards. The amendment clarifies that information is obscured if it is described in a way that results in an effect for the primary users of the financial statements similar to that which would have resulted if the information in question had been omitted or misstated. The amendments will be applied from January 1, 2020. The Directors do not expect these to have a significant impact on the company's financial statements.

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

The following standards, updates and amendments to IFRS are in the course of approval by the relevant European Union bodies (already approved by the IASB), in addition to the following interpretations (already approved by IFRS IC):

- IFRS 17 - insurance contracts. IFRS 17 requires insurance liabilities to be measured at current settlement value and provides a more consistent measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the objective of principle-based accounting for insurance contracts. IFRS 17 will replace IFRS 4 from January 1, 2021. The directors are currently assessing the possible effects from the introduction of these amendments on the separate financial statements.

- On October 22, 2018, the IASB published the document "Definition of a Business (Amendments to IFRS 3)". The document provides certain clarifications on the definition of a business for the purposes of the proper application of IFRS 3. In particular, the amendment clarifies that while a business normally yields an output, the existence of an output is not strictly necessary to identify a business when there is an integrated set of activities and assets. However, in order to meet the definition of a business, an integrated set of activities and assets must include, at minimum, an input and a substantial process that together contribute significantly to the capacity to create output. For this purpose, the IASB has replaced the term "capacity to create output" with "capacity to contribute to the creation of output" to clarify that a business may exist even without all the inputs and processes necessary to create an output.

The amendment also introduced an optional test ("concentration test") for an entity to determine whether a set of activities and assets acquired is not a business. If the test yields a positive result, the set of activities and assets acquired does not constitute a business and the Standard does not require further verification. If the test yields a negative result, the entity must conduct additional analyses of the activities and assets acquired to identify the presence of a business. To this end, the amendment adds numerous examples illustrating IFRS 3 with the aim of ensuring an understanding of the practical application of the new definition of a business in specific cases. The amendments apply to all business combinations and acquisitions of activities after January 1, 2020, although advance application is permitted.

For the following amendments to the standards and interpretations the approval process is suspended:

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 September 11, 2014 to resolve a conflict between the two standards in relation to the sale of an asset or a subsidiary to an associate or joint venture, applicable from January 1, 2016. The amendments introduced provide that in the event of the sale or contribution of assets or of a subsidiary to an associate or joint venture, the gain or loss to be recognised in the financial statements of the transferor/transferee is to be determined in relation to the classification of the assets or subsidiary sold/transferred as a business, as defined by IFRS 3. Where the sale/contribution represents a business, the entity should recognise the gain or loss on the entire share previously held; while, on the contrary, it should recognise the share of the gain or loss concerning the stake still held by the entity which must be eliminated.

3 Comments on the Income Statement

3.1 Revenue

Breakdown by revenue channel:	**31/10/2019**	**31/10/2018**
Sales Italy	60,812,503	48,774,619
Sales Overseas	129,153,218	105,833,561
Sales Subsidiaries	22,550,718	16,481,235
Sales Points of sale	6,016,203	4,908,435
Other revenues	5,694	8,260
Reversal estimate returns	(2,594,000)	0
Returns risk provision	0	(950,000)
Utilisation returns risk provision	950,000	1,005,000
Total	**216,894,336**	**176,061,110**

Revenue reported strong growth in the year (+23.2%), continuing the trend evident in previous years.
Sales to subsidiaries are regulated at market conditions and refer to the sale of goods to Stone Island Retail S.r.l. for all Italian stores, SPW Germany for the Munich store, Stone Island Retail Germany for the Sylt, Hamburg and Frankfurt stores, Stone Island Antwerp for the Antwerp store, Stone Island Amsterdam for the Amsterdam store and Stone Island USA Inc for sales in America.
In accordance with IFRS 15, the Company from the current year recognises as a reduction in revenues the estimated credit notes relating to expected returns from the sale of products and as a reduction in the cost of sales the estimated cost relating to such returns.

Revenue by region (Euro 000)	**31/10/19**	**31/10/18**
Italy	61,211	50,220
Europe (excl. Italy)	113,353	96,532
The Americas	16,582	10,851
Rest of the World	25,748	18,458
Total	**216,894**	**176,061**

3.2 Other income

	31/10/2019	**31/10/2018**
Rental income	27,878	32,655
Recovery legal expenses	19,204	14,974
Recovery expenses for compensation for damages and quality issues	230,580	116,103
Grants Law 296/06 research and development	461,718	118,312
Prior year income	66,513	54,436
Recharges to subsidiaries	718,245	470,653
Other revenue and income	982,665	999,575
Total	**2,506,803**	**1,806,708**

The item "other revenues and income" includes all recharges of the Company to the subsidiaries for services and/or materials supplied, revenues from sales of various materials, such as shop fittings and corners opened during the year, and the recovery of transport costs that are charged to customers.

3.3 Purchase costs (including changes in inventories)

	31/10/2019	31/10/2018
Raw materials and semi-finished goods	18,068,763	16,227,889
Finished products	51,542,362	41,212,455
Ancillary materials	284,374	309,638
Packaging	87,350	47,072
Advertising material	965,758	964,782
Other purchases	1,028,710	626,728
Change in inventories	(9,105,249)	(5,884,333)
Total	**62,872,068**	**53,504,231**

Overall, there was an increase in raw materials and finished products sold, which is directly related to the increase in revenues.

3.4 Service costs

	31/10/2019	31/10/2018
Utilities	313,042	281,378
Maintenance	280,519	500,917
Transport	6,450,079	4,911,770
Outsourcing	32,189,642	25,751,436
External warehouse management	4,743,057	3,864,750
Commissions and accessory charges	8,807,069	7,261,514
Advertising	6,481,792	4,363,631
Royalties and stylistic fees	829,777	945,735
Insurance	424,079	372,718
Telephone	153,819	148,879
General consultancy	2,308,527	1,468,331
Legal consultancy	147,627	47,558
Directors remuneration	589,687	579,355
Statutory auditor remuneration	39,307	38,698
Cleaning	149,833	148,042
Bank services	370,132	283,143
Other services	9,023,921	7,415,186
Total	**73,301,909**	**58,383,041**

The increase in outsourcing costs is related to the growth in revenues.

3.5 Rental, leasing and similar costs

The item rental, leasing and similar costs in 2019, amounting to Euro 1,177 thousand (Euro 1,208 thousand in 2018), refers to property rental costs of Euro 812 thousand (Euro 865 thousand in 2018), IT systems of Euro 136 thousand (Euro 125 thousand in 208) and long-term car rental fleet costs of Euro 219 thousand (Euro 211 thousand in 2018) and other rental costs of Euro 9 thousand (Euro 8 thousand in 2018).

3.6 Personnel expenses

As at October 31, 2019 the Company had 182 employees (160 as at October 31, 2018). Personnel expenses totalled Euro 14,827 thousand (Euro 11,497 thousand in 2018), including social security contributions of Euro 2,770 thousand (Euro 2,364 thousand in 2018), provisions for post-employment benefits and retention costs of Euro 1,040 thousand (Euro 630 thousand in 2018) and costs related to stock option plans of Euro 1,459 thousand (a description of the incentive plans is provided in Section 7.1).

	AVERAGE 2019	**October 31 2019**	**AVERAGE 2018**	**October 31 2018**
BLUE COLLAR	18	19	14	16
FOREMEN	5	4	5	5
WHITE-COLLAR	141	150	128	130
EXECUTIVES	9	9	8	9
	173	**182**	**155**	**160**

3.7 Amortisation and depreciation of fixed assets

Amortisation and depreciation amounted to Euro 2,591 thousand in 2019 (Euro 2,193 thousand in 2018).

3.8 Doubtful debt provision

The doubtful debt provision in 2019 amounted to Euro 198 thousand (Euro 129 thousand in 2018).

3.9 Provision for risks and charges

No provisions were recorded for future risks in 2019.

3.10 Other operating charges

The breakdown is as follows:

	31/10/2019	**31/10/2018**
Taxes and duties	184,143	181,861
Fiscal and contractual penalties	41,237	15,039
Losses due to damages	123,034	142,579
Gifts and donations	472,882	448,832
Prior year charges	56,548	51,402
Losses on receivables	0	0
Non-recurring charges	230,329	0
Other minor charges	7,630	13,210
Total	**1,115,803**	**852,923**

Non-recurring charges relate to a settlement agreement for the release of a portion of the property owned by the Company.

3.11 Financial income and expenses

The breakdown is as follows:

	31/10/2019	**31/10/2018**
Interest income from subsidiaries	166,924	187,735

Dividends from subsidiaries and associates	396,400	0
Bank interest income	5,331	7,327
Interest on customers	78,080	81,989
Other interest income	2,681	4,030
Financial discounts	34,477	21,754
Financial Income	**683,893**	**302,835**
Interest from banks on advances	(73)	(401)
Bank interest on mortgages and other medium/long-term loans	(150,040)	(131,384)
Other interest charges	(27)	(2,001)
Discounts to clients	(545,709)	(448,103)
Loan drawdown charges	(16,126)	(22,573)
Financial income	**(711,975)**	**(604,462)**
Exchange gains/(losses)	**180,702**	**261,987**
Total	**152,620**	**(39,640)**

Interest income from subsidiaries relates to interest charged on loans granted. Dividends includes Euro 300 thousand from the subsidiary Officina della Maglia Srl and Euro 96 thousand from the associated company Starcolor Srl. Financial discounts relate to payments in advance of contractual due dates with our suppliers.

3.12 Adjustment to financial assets

No value adjustments were made to financial assets during the year.

3.13 Income taxes

	31/10/2019	**31/10/2018**
Current taxes	11,501,663	14,131,366
Prior year taxes	(9,791,523)	(57,037)
Deferred tax charge/(income)	(755,436)	(93,401)
Total	**954,704**	**13,980,928**

Income taxes represent the amount for current income taxes, prior year taxes and deferred taxes. The tax rate for the year is not comparable with the previous year due to the tax benefits commented on below.

Firstly, prior year taxes include the tax credit from the tax benefits for the years 2016, 2017 and 2018 connected to the prior agreement with the Italian Revenue Agency for access to the Patent Box tax benefits. This five-year agreement was signed before October 31, 2019.

Secondly, the income tax charge for the year is determined on the basis of current legislation and is calculated taking into account the Patent Box tax benefit calculated for the current year.

In 2018/2019 the Company booked a net increase in deferred tax assets of Euro 755,436, as shown in the relevant section.

It should be noted that, following Legislative Decree No. 344 of December 12, 2003, which introduced group taxation for corporate groups pursuant to Article 117 and thereafter of Presidential Decree No. 197 of December 22, 1986 ("the National Tax Consolidation"), this is exercised jointly with the directly controlled company Stone Island Retail Srl.

The reconciliation between the theoretical tax charge, applying the Company's theoretical tax rate, and the actual tax charge is shown in the following table:

Reconciliation of tax charge theoretical - actual (Euro '000)	**Assessable 2019**	**Tax 2019**	**% 2019**	**Assessable 2018**	**Tax 2018**	**% 2018**
Profit before taxes	63,471			50,017		
Theoretical tax rate		**(15,233)**	**24.0%**		**(12,004)**	**24.0%**
Temporary differences	3,214	(771)	1.2%	525	(126)	0.3%
Permanent differences	(603)	145	-0.2%	9	(2)	0.0%
Permanent Difference Patent Box	(25,179)	6,043	-9.5%			
IRAP		(1,708)	2.7%		(1,975)	3.9%
Prior year taxes		9,792	-15.4%		57	-0.1%
Other differences		22	0.0%		(24)	0.0%
Deferred tax charge/income recognised to P&L		755	-1.2%		93	-0.2%
Income Taxes at actual rate		**(955)**	**1.5%**		**(13,981)**	**28.0%**

4. Notes to the Balance Sheet

4.1 Intangible assets

The opening balances, movements in 2018 and 2019 and the closing balances of intangible assets are shown in the following tables:

Intangible assets	**Gross value**	**Accumulated amortisation**	**2019 Net value**	**2018 Net value**
Software	6,700,320	(4,488,488)	2,211,832	2,394,474
Key money	2,262,002	(2,137,045)	124,957	373,673
Other intangible assets	927,404	(921,069)	6,335	15,897
Assets in progress	2,700	0	2,700	2,700
	9,892,426	**(7,546,602)**	**2,345,824**	**2,786,744**

The movements in the individual asset categories are as follows:

Intangible assets	**2017 Net value**	**Increases**	**Decreases**	**Amortisation**	**2018 Net value**
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
Assets in progress	626,123		(623,423)		2,700
	2,600,262	**1,839,038**	**(623,423)**	**(1,029,133)**	**2,786,744**

Intangible assets	**2018 Net value**	**Increases**	**Decreases**	**Amortisation**	**2019 Net value**
Software	2,394,474	687,663		(870,305)	2,211,832
Key money	373,673			(248,716)	124,957

Other intangible assets	15,897			(9,562)	6,335
Assets in progress	2,700				2,700
	2,786,744	**687,663**	**0**	**(1,128,583)**	**2,345,824**

Movements in "software" and assets in progress relate to increases in costs incurred for the implementation of the Microsoft Dynamics AX management software.

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

4.2 Property, plant and equipment

The opening balances, movements in 2018 and 2019 and the closing balances of property, plant and equipment are shown in the following tables:

Property, plant & equipment	**Gross value**	**Accumulated depreciation**	**2019 Net value**	**2018 Net value**
Land and buildings	9,737,258	(2,072,241)	7,665,017	7,586,257
Plant and machinery	5,421,512	(3,378,323)	2,043,189	1,984,427
Equipment	1,768,276	(1,595,775)	172,501	261,584
Furniture and fittings	2,790,188	(1,526,499)	1,263,689	1,084,927
Leasehold improvements	1,255,601	(632,534)	623,067	791,777
Other assets	434,356	(254,199)	180,157	223,199
	21,407,191	**(9,459,571)**	**11,947,620**	**11,932,171**

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

At October 31, 2018

Property, plant and equipment gross value	**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 in progress	0				0
	17,880,777	**2,284,824**	**(236,435)**	**0**	**19,929,166**

Property, plant and equipment accumulated depreciation	**31/10/2017**	**Depreciation**	**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 value	**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
	10,881,336	**2,284,824**	**(1,233,989)**	**0**	**11,932,171**

At October 31, 2019

Property, plant and equipment gross value	**31/10/2018**	**Increases**	**Decreases**	**Other movements**	**31/10/2019**
Land and buildings	9,388,662	348,596			9,737,258
Plant and machinery	4,916,561	507,724	(2,773)		5,421,512
Equipment	1,644,580	123,696			1,768,276
Furniture and fittings	2,390,812	401,495		(2,119)	2,790,188
Leasehold improvements	1,186,462	69,139			1,255,601
Other assets	402,089	30,148		2,119	434,356
Assets in progress	0				0
	19,929,166	**1,480,798**	**(2,773)**	**0**	**21,407,191**

Property, plant and equipment accumulated depreciation	**31/10/2018**	**Depreciation**	**Decreases**	**Other movements**	**31/10/2019**
Land and buildings	1,802,405	269,835		1	2,072,241
Plant and machinery	2,932,134	446,362	(174)	1	3,378,323
Equipment	1,382,996	212,779			1,595,775
Furniture and fittings	1,305,885	221,091		(477)	1,526,499
Leasehold improvements	394,685	237,849			632,534
Other assets	178,890	74,833		476	254,199
	7,996,995	**1,462,749**	**(174)**	**1**	**9,459,571**

Property, plant and equipment net value	**31/10/2018**	**Increases**	**Decreases**	**Other movements**	**31/10/2019**
Land and buildings	7,586,257	348,596	(269,835)	(1)	7,665,017
Plant and machinery	1,984,427	507,724	(448,961)	(1)	2,043,189
Equipment	261,584	123,696	(212,779)	0	172,501
Furniture and fittings	1,084,927	401,495	(221,091)	(1,642)	1,263,689
Leasehold improvements	791,777	69,139	(237,849)	0	623,067
Other assets	223,199	30,148	(74,833)	1,643	180,157
Assets in progress	0	0	0	0	0
	11,932,171	**1,480,798**	**(1,465,348)**	**(1)**	**11,947,620**

The increases in buildings and plant relate to the costs incurred for the seismic upgrading of the Ravarino building and the replacement of fixtures in the office building and the replacement and installation of new machinery in our internal dyehouse. We also acquired a garment dyeing and centrifuging machine which was placed directly at one of our suppliers.

The increase in equipment and furnishings is mainly related to the fitting out of the corners in Copenhagen, Rotterdam and Milan and the fitting out of the showroom at our agent in New York.

The increases in leasehold improvements are due to the new layout of the Castel Romano outlet.

The movements of the other assets are mainly due to the purchase of photocopiers and cash registers.

4.3 Equity investments in subsidiary and associated companies

A breakdown follows:

Investments in subsidiaries	**Country**	**% held**	**book value**	**NE subsidiary**
Stone Island Retail Srl	Italy	100%	1,137,534	4,020,057
SPW Germany GmbH	Germany	100%	0	1,705,807
Stone Island Antwerp Bvba	Belgium	100%	400,000	18,964
Stone Island Retail Germany Gmbh	Germany	100%	25,000	387,813
Stone Island Amsterdam BV	Netherlands	100%	25,000	707,225
Stone Island Usa Inc	USA	100%	1,794,643	(332,448)
Officina della Maglia Srl	Italy	75.1%	1,985,000	1,525,768
Stone Island Canada Inc	Canada	100%	331,763	236,349
Total subsidiaries			**5,698,940**	
Investments in associated companies				
Starcolor Srl	Italy	24%	9,916	
Net total			**5,708,856**	

Equity investments have been recorded at purchase cost, including any incidental costs, written down for impairment.
The net equity of the associated company Starcolor Srl is significantly higher than the carrying amount of the investment.

During the current year, a 75.1% stake was acquired in Officina della Maglia Srl for Euro 1,985 thousand, with a capital injection in Stone Island USA Inc for USD 1.9 million, while the company Stone Island Canada Inc was incorporated with a share capital of CAD 500 thousand:

Movements in subsidiaries	**Country**	**book value at 31.10.2018**	**2019 Changes**	**book value at 31.10.2019**
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	1,704,877	1,794,644
Officina della Maglia Srl	Italy	0	1,985,000	1,985,000
Stone Island Canada Inc	Canada	0	331,763	331,763

		1,677,300	**4,021,640**	**5,698,940**

Movements in associated companies	**Country**	**book value at 31.10.2018**	**2019 Changes**	**book value at 31.10.2019**
Starcolor Srl	Italy	9,916	0	9,916
Net total		**1,687,216**	**4,021,640**	**5,708,856**

The company SPW Germany Gmbh based in Munich, operating as an agent for orders in the German and Austrian region and as a sales outlet in Munich, in 2019 reported a profit of Euro 1,029 thousand.

Stone Island Antwerp Bvba, based in Antwerp, in 2019 recorded a profit of Euro 37 thousand.

Stone Island Retail Germany Gmbh, based in Munich and with sales outlets in Sylt, Hamburg and Frankfurt, in 2019 reported a profit of Euro 174 thousand.

Stone Island Amsterdam Bv, based in Amsterdam, in 2019 recorded a profit of Euro 102 thousand.

The US company operating as a wholesale distributor for the USA and as points of sale in New York and Los Angeles in 2019 reported a profit of USD 125 thousand (Euro 111 thousand).

Officina della Maglia Srl with head office in Mirandola (Mo) carries out knitting activities. The investment was acquired at the end of December 2018 and in 2019 recorded a profit of Euro 289 thousand.
The Toronto-based company Stone Island Canada Inc., incorporated in May 2019 and which has not yet started commercial activities, closed the current year with a loss of CAD 153 thousand (Euro 103 thousand).

The Company's Directors do not believe that there are any indicators of permanent impairment of the value of equity investments and, consequently, it was not necessary to carry out any impairment test.

Financial information relating to subsidiaries is detailed in the following tables:

					31/10/18
Key Financial Highlights (Euro/000)	**Assets**	**Liabilities**	**Net Equity**	**Revenues**	**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)	10,205	(412)
Net total	**26,721**	**24,350**	**2,371**	**33,330**	**2,560**

					31/10/19
Key Financial Highlights (Euro/000)	**Assets**	**Liabilities**	**Net Equity**	**Revenues**	**Profit/(loss)**
Stone Island Retail Srl	13,270	9,250	4,020	17,818	1,046
SPW Germany GmbH	4,510	2,804	1,706	4,647	1,029
Stone Island Antwerp Bvba	726	707	19	913	37
Stone Island Retail Germany Gmbh	2,746	2,358	388	3,035	174
Stone Island Amsterdam BV	1,618	911	707	2,314	102
Stone Island Usa Inc	9,726	10,058	(332)	15,043	111
Officina della Maglia Srl	3,928	2,402	1,526	7,170	289
Stone Island Canada Inc	2,908	2,672	236	0	(103)
Net total	**39,432**	**31,162**	**8,270**	**50,940**	**2,685**

4.4 Other non-current assets

Non-current assets of Euro 52 thousand relate to security deposits and mainly refer to the amounts paid on leases of the Paris and Cannes stores.

4.5 Deferred tax assets

Deferred tax assets only include the temporary differences arising between the carrying values of assets and liabilities in the Balance Sheet and the corresponding values recognised for tax purposes.

DESCRIPTION	TAX: DEFERRED '18			REABSORPTIONS '19			INCREASES '19			TAX: DEFERRED '19		
Deductible differences	**Assess.**	**Rate**	**Tax**	**Assess.**	**Rate**	**Tax**	**Assess.**	**Rate**	**Tax**	**Assess.**	**Rate**	**Tax**
Raw mat. inv. write-down provision	1,636,044	27.9%	456,456		27.9%	0	32,059	27.9%	8,944	1,668,103	27.9%	465,401
Fin. prod. inv. write-down provision	1,893,962	27.9%	528,415		27.9%	0	2,120,549	27.9%	591,633	4,014,511	27.9%	1,120,049
Doubtful debt provision not-deductible	1,280,205	24.0%	307,249	0	24.0%	0	0	24.0%	0	1,280,205	24.0%	307,249
Agent supp. ind. provision not-deductible	440,112	27.9%	122,791	3,389	27.9%	946	0	27.9%	0	436,723	27.9%	121,846
Provision for risks and charges	0	27.9%	0	0	27.9%	0	0	27.9%	0	0	27.9%	0
Provisions for returns	950,000	27.9%	265,050	950,000	27.9%	265,050	1,466,000	27.9%	409,014	1,466,000	27.9%	409,014
Other deferred deduction costs	514,700	24.0%	123,528	514,700	24.0%	123,528	454,603	24.0%	109,105	454,603	24.0%	109,105
Amortisation of trademarks and goodwill	920,668	27.9%	256,866	30,361	27.9%	8,471	124,484	27.9%	34,731	1,014,791	27.9%	283,127
Depreciation of revalued buildings & plant	61,984	27.9%	17,294	0	27.9%	0	0	27.9%	0	61,984	27.9%	17,294
Tax deficit in year PERM. EST.	21,756	33.3%	7,251	21,756	33.3%	7,251	0	33.3%	0	0	33.3%	0
IAS 38 - reversal intangible assets	116,745	27.9%	32,572	0	27.9%	0	0	27.9%	0	116,745	27.9%	32,572
TOTAL DEFERRED TAXES WITH EFFECT ON INCOME STATEMENT	7,836,177		2,117,472	1,520,206		405,246	4,197,695		1,153,427	10,513,666		2,865,657
IAS 19 – Post-employment benefits	83,665	27.9%	23,343		27.9%	0	79,068	27.9%	22,060	162,733	27.9%	45,403
IFRS 9 - cash flow hedge derivatives	3,670	24.0%	881	3,670	24.0%	881		24.0%	0	0	24.0%	0
TOTAL DEFERRED TAXES WITH EFFECT ON COMPREHENSIVE INCOME STATEMENT	87,335		24,224	3,670		881	79,068		22,060	162,733		45,403
TOTAL DEFERRED TAX ASSETS	7,923,512		2,141,696	1,523,876		406,127	4,276,763		1,175,487	10,676,399		2,911,060

	31/10/2018	31/10/2019
Total deferred tax assets	2,141,696	2,911,060

The Company recorded total deferred tax assets of Euro 2,911 thousand, corresponding to 100% of the amount of the tax asset as at October 31, 2019, as there are no doubts on the probable recovery of this amount.

There are no deferred tax liabilities in the financial statements under analysis.

The Company has no tax losses carried forward.

In view of the operating performance for the year and the outlook, the Company's Directors do not believe that there are any issues regarding the recoverability of the deferred tax assets.

4.6 Inventories

The breakdown of inventories is shown in the table below:

Inventories	**31/10/19**	**31/10/18**
Raw materials	6,839,017	6,966,336
Products in work-in-progress	11,830,492	8,581,431
Finished products	20,973,309	13,965,194
Gross inventory	**39,642,818**	**29,512,961**
Returns IFRS15	1,128,000	0
Raw materials obsolescence provision	(1,668,103)	(1,636,044)
Finished products obsolescence provision	(4,014,511)	(1,893,962)
Net total	**35,088,204**	**25,982,955**

The overall increase in the value of work-in-progress and finished products is due to the increase in turnover compared to the previous year.

The finished products in the stores in Paris and Cannes are measured at the average cost of production.

The raw materials obsolescence provision also takes into account the value of slow-moving codes whose estimated use will be diluted over time.

The increase in the finished products obsolescence provision is linked to the increase in the quantity of inventories of items from previous seasons; the increase in these inventories is a normal consequence of the increase in turnover.

The estimate of the raw materials and finished products obsolescence provisions takes into account the extent of the destruction and sale of stock during the year, as well as, with regard to finished products, the disposal channels available to the Company.

4.7. Trade receivables

Trade receivables	**31/10/19**	**31/10/18**
Trade customers	53,271,834	46,321,837
Subsidiaries	14,540,039	9,350,210
Doubtful debt provision	(1,553,249)	(1,494,023)
Total trade receivables	**66,258,624**	**54,178,024**

The breakdown by maturity is as follows:

(Euro 000)	**Balance 31/10/19**	**Maturing**	**Past due**					
			0-30 days	**30-60 days**	**60-90 days**	**90-120 days**	**120-360 days**	**over 360 days**
Trade receivables	53,272	43,306	5,666	2,015	1,204	488	140	453
Receivables from subsidiaries	14,540	14,540						
Doubtful debt provision	(1,553)							
Total net trade receivables	**66,259**	**57,846**	**5,666**	**2,015**	**1,204**	**488**	**140**	**453**

The increase in trade receivables is in line with the increase in turnover.

No losses on receivables were recorded in the year under review. The doubtful debt provision was maintained in line with that allocated in the previous year also due to the continuation of extended credit terms granted to a foreign distributor. It is considered that this sum is adequate to cover the risk of doubtful debts at October 31, 2019. In this respect, we recall that part of the export turnover is guaranteed by an insurance contract, which allows partial coverage of claims, with the exception of payments against letter of credit or advances, which are inherently without risk.

The movements in the doubtful debt provision are as follows:

At October 31, 2018

	31/10/17	Provision	Utilizations	31/10/18
Doubtful debt provision	1,462,845	128,801	(97,623)	1,494,023

At October 31, 2019

	31/10/18	Provision	Utilizations	31/10/19
Doubtful debt provision	1,494,023	197,722	(138,496)	1,553,249

The table below provides a regional breakdown of trade receivables.

Receivables by region (Euro 000)	31/10/19
Italy	36,541
Europe (excl. Italy)	14,486
The Americas	5,002
Rest of the World	11,783
Total	**67,812**

In line with previous years, the Company did not factor receivables, with the exception of the reverse factoring transaction at October 31, 2019 amounting to Euro 3,603 thousand, which was carried out at the specific request of an Italian customer and provides the Company with a collection guarantee within a contractually defined period. In relation to this contract, the Company has not exercised its right to request advances on the sums transferred.

4.8 Current and non-current tax receivables

Current tax receivables	31/10/19	31/10/18
VAT Receivables	1,732,628	2,517,075
Direct taxes	3,851,271	443
Other receivables	501,094	238,143
Total current tax receivables	**6,084,993**	**2,755,661**

Non-current tax receivables	31/10/19	31/10/18
Tax repayment request	279,160	279,160
Tax receivables (non-current)	**279,160**	**279,160**

The IRES and IRAP (corporate and regional income taxes) advances paid during the year have been reclassified as a direct deduction of the related tax payables.

The tax repayment request refers to the lower IRES for the years 2007-2011 requested for reimbursement as a result of the deductibility of IRAP related to the cost of employment and similar, pursuant to Legislative Decree No. 201/2011 converted into Law No. 214 of December 22, 2011.

4.9 Other current assets

Other current assets	31/10/19	31/10/18
Advances to suppliers	1,261,467	280,293
Receivables from agents	56,804	62,114
Leg. Decree 57-12 earthquake contribution	572,720	664,136
Prepayments and accrued income	334,764	374,897
Other receivables	24,176	13,079
Total other current assets	**2,249,931**	**1,394,518**

Advances to suppliers mainly refer to advances to subcontractors for the production of the 2020 summer season garments and credit notes to be received from suppliers.

The receipt of the residual receivable relating to the contribution provided for by Legislative Decree 57/2012 and subsequent for the reconstruction of production buildings for the areas affected by the earthquakes of May 20 and May 29, 2012 is expected during 2020.

4.10 Other current and non-current financial assets

Other current financial assets	31/10/19	31/10/18
Loans to subsidiaries	3,953,341	1,978,213
Financial Instruments - Assets	0	0
Other current financial assets	3,139	3,139
Total other current financial assets	**3,956,480**	**1,981,352**

Other non-current financial assets	31/10/18	31/10/17
Loans to subsidiaries	7,883,562	10,173,800
Investments in other companies	1,549	1,549
Total other non-current financial assets	**7,885,111**	**10,175,349**

Other financial assets mainly include receivables from subsidiaries for loans, at market rates, provided by the Company in order to financially support the subsidiaries for the initial investments necessary for the restructuring of the sales outlets and the time needed to achieve economic equilibrium.

The table below shows the movements in 2019 and 2018:

	31/10/19			31/10/18		
Euro '000	Opening value	Change	Closing value	Opening value	Change	Closing value
Stone Island Retail Srl	1,005	501	1,506	1,508	(503)	1,005
SPW Germany GmbH	2,049	(407)	1,642	3,079	(1,030)	2,049
Stone Island Antwerp	706	(300)	406	706	0	706
Stone Island Amsterdam	0	0	0	305	(305)	0
Stone Island Ret. Germany	973	(129)	844	1,097	(124)	973
Stone Island USA Inc	7,419	(1,343)	6,076	5,297	2,122	7,419
Stone Island Canada Inc	0	1,363	1,363	0	0	0
Total	**12,152**	**(315)**	**11,837**	**11,992**	**160**	**12,152**

In particular, during the year ended October 31, 2019, new loans were provided to the subsidiary Stone Island Canada Inc. for the start-up of the Toronto retail store and to Stone Island Retail Srl to support the cost of setting up the new store in Milan. Stone Island Antwerp, Stone Island Retail Germany, SPW Germany and Stone Island USA Inc. have partially repaid loans received in previous years.

As at October 31, 2019 there were no assets for derivative financial instruments.

The Company hedges the exchange risk associated to the purchases in US Dollars of raw materials and outsourcing in foreign currencies. In consideration of this, the Company utilises hedging instruments, attempting to fix and maintain the exchange rate at a level in line with budget forecasts.

4.11 Cash and cash equivalents

At October 31, 2019 cash and cash equivalents amounted to Euro 34,100 thousand (Euro 23,959 thousand at October 31, 2018) and is entirely represented by liquid bank deposits.

4.12 Shareholders' Equity

As October 31, 2019 the subscribed and paid-in share capital amounted to Euro 10,000,000 and consists of 9,680,000 shares with no par value.

The movements in shareholders' equity for 2019 and the comparative period are described in the statement of changes in shareholders' equity, to which reference should be made.

Dividends were paid in 2019 amounting to Euro 25,264 thousand (Euro 15,294 thousand in 2018).

The table below shows the breakdown of Shareholders' Equity, on the basis of their origin, distributability and availability, in compliance with the provisions of paragraph 7-*bis* of Article 2427 of the Italian Civil Code:

Information on reserves	**Amount**	**Possibility utilisation**	**Distributable**	**Non-distributable**
Share capital	10,000,000			
Reserves:	0			
Legal Reserve	2,038,774	B		2,038,774
Reval. Law 342/2000 Reserve	7,559,535	A,B,C	7,559,535	
Reval. Law 158/08 Reserve	4,718,301	A,B,C	4,718,301	
Extraordinary Reserve	34,201,082	A,B,C	34,201,082	
Exchange Gains Reserve	27,945			27,945
FTA Reserve	(1,569,269)			(1,569,269)
IAS 19 Reserve	(126,281)			(126,281)
Hedge Accounting Reserve	0			0
Total Reserves:	**46,850,087**		**46,478,918**	**371,169**

Key: A capital increase - B loss coverage - C distributable to shareholders

The First-Time Adoption Reserve, negative for Euro 1,569 thousand, refers to the effects on shareholders' equity at November 1, 2015 deriving from the first-time adoption of IFRS. Pursuant to Article 7, paragraph 6, Legislative Decree No. 38/2005, this reserve can only be reduced in accordance with the provisions of paragraphs 2 and 3 of the Italian Civil Code. If the reserve is used to cover losses, no profits may be distributed until the reserve has been reinstated or reduced proportionately following a motion of the extraordinary shareholders' meeting.

The IAS 19 Reserve includes the recognition of actuarial gains/(losses) on defined employee benefit liabilities, as required by IAS 19. For further details on movements during the year, reference should be made to the comprehensive income statement.

The Hedge Accounting Reserve includes the recognition of the positive/(negative) fair value of hedging derivatives, as required by IFRS 9. For further details on movements during the year, reference should be made to the comprehensive income statement.

4.13 Trade payables

Trade payables amounted to Euro 26 million at October 31, 2018 (Euro 19.1 million at October 31, 2018) and refer to short-term obligations to suppliers of goods and services. Payables relate to short-term payable positions and there are no amounts due beyond 12 months.

4.14 Bank payables (current and non-current)

Current bank payables	**31/10/19**	**31/10/18**
current payables	21,681	1,895
loans	7,498,079	7,524,939
amortised costs for loans	(10,422)	(15,856)
Total current bank payables	**7,509,338**	**7,510,978**

Non-current bank payables	**31/10/19**	**31/10/18**
loans	13,694,997	16,443,076
amortised costs for loans	(16,790)	(22,482)
Total non-current bank payables	**13,678,207**	**16,420,594**

Total bank payables	**21,187,545**	**23,931,572**

The following table shows the movements during the year under review:

Movements in bank payables (Euro '000)	**31/10/18**	**New loans**	**Repay.**	**Amortised costs**	**Reclass.**	**31/10/19**
current payables	2	22	(2)			22
loans	7,525		(7,525)		7,498	7,498
amortised costs for loans	(16)		6			(10)
Total current payables	**7,511**	**22**	**(7,521)**	**0**	**7,498**	**7,510**
loans	16,443	5,000	(250)		(7,498)	13,695
amortised costs for loans	(22)		5			(17)
Total non-current payables	**16,421**	**5,000**	**(245)**	**0**	**(7,498)**	**13,678**
	23,932	**5,022**	**(7,766)**	**0**	**0**	**21,188**

There are no financial payables due beyond 5 years.

4.15 Tax payables

The following table shows the breakdown of tax payables recorded net of payments on account and withholding taxes:

Tax payables	**31/10/19**	**31/10/18**
current tax payables	87,076	4,431,890
employee withholding taxes	348,018	306,136
consultant withholding taxes	78,279	71,887
other tax payables	489	1,328
Total tax payables	**513,862**	**4,811,241**

The decrease in tax payables derives from the decrease in current tax payables (for more details see paragraph 3.13).

4.16 Other current liabilities

Other current liabilities	**31/10/19**	**31/10/18**
Payables to customers	926,777	62,601
Other payables	27,675	25,774
Employee payables	2,386,504	1,927,860
Payables to agents	2,449,717	2,258,925
Social security institutions	301,025	270,846
Deferred income Leg. Decree No. 57-12 contribution	947,697	1,109,772
Other accruals and deferred income	34,543	59,685
Total other current liabilities	**7,073,938**	**5,715,463**

Payables to customers represent credit notes to be issued to customers who have made a return of garments that are in transit at the reporting date.

Employees payables include the accruals for additional monthly salary, vacation days not yet taken, company bonuses and salaries to be paid.

Payables to agents consist of the portion of commissions accrued by agents but not yet invoiced.

Deferred income mainly relates to the contribution recognised by the Emilia-Romagna Region for damages suffered during the 2012 earthquake. The portion of this contribution referring to the capitalisable costs recorded in previous years was recognised in the income statement on a straight-line basis over the useful life of the assets.

4.17 Other financial liabilities (current and non-current)

There are no current financial liabilities (Euro 4 thousand at October 31, 2018 consisting of liabilities for derivative financial instruments).

Non-current financial liabilities refer to the liability to employees for the equity incentive plan, for a description of which see paragraph 7.1.

4.18 Post-employment benefit provision

This item includes the liability relating to post-employment benefits measured using the projected unit credit valuation method by an independent actuary in accordance with IAS 19.

The movements during the past two years of the post-employment benefit provision (which represents the entire value of the employee benefit provision), including the effects of the actuarial valuation of the provision, is as follows:

Post-employment benefit provision - movements	**31/10/19**	**31/10/18**
opening net obligation	1,247,634	1,288,147
Interest on bonds	0	0
Current cost	1,039,577	620,247
Payments	(499,663)	(615,168)
Actuarial gains/(losses)	(79,068)	(45,592)
closing net obligation	**1,708,480**	**1,247,634**

The criteria and actuarial assumptions used to calculate the provision are set out in the section Accounting Policies - Actuarial calculation of defined benefit pension plans in these Explanatory Notes.

From the sensitivity analysis, changes in the main actuarial assumptions do not result in significant changes in the provision.

4.19 Provision for risks and charges

Provisions for risks and charges	**31/10/19**	**31/10/18**
Pension and similar	1,381,805	1,128,867
Provisions for returns	0	950,000
Provision for taxes and duties	0	44,829
Provision to cover losses of investees	215,000	215,000
Total provisions for risks and charges	**1,596,805**	**2,338,696**

Provisions for risks and charges include the following changes:

- the agents' indemnity provision was increased by applying the regulations in force governing relations with commercial agents, as well as taking into account the negotiations underway with the agents at October 31, 2019.

- the provision for returns accrued at October 31, 2018 was fully utilised in the year ended October 31, 2019 against returns from previous seasons received. With reference to December 31, 2019, the item Provisions for returns does not include any liabilities as, given the application of IFRS 15, this item has been reclassified as described in paragraph 3.1.

- The provision for taxes and duties was used in full during the current year.

- The provision to cover losses of investees had been set aside prior to the date of transition to IFRS and, therefore, during the transition, the option was exercised to keep it recorded.

The following tables detail the movements of the provisions:

At October 31, 2018

Movements provisions for risks and charges	**31/10/17**	**Provision**	**Utilizations**	**Other move.**	**31/10/18**
Pension and similar provision	916,035	212,832			1,128,867
Provisions for returns	1,005,000	950,000	(1,005,000)		950,000
Provision for taxes and duties	0	44,829			44,829
Provision to cover losses of investees	215,000				215,000
Total provisions	**2,136,035**	**1,207,661**	**(1,005,000)**	**0**	**2,338,696**

At October 31, 2019

Movements provisions for risks and charges	**31/10/18**	**Provision**	**Utilizations**	**Other move.**	**31/10/19**
Pension and similar provision	1,128,867	257,784	(4,846)		1,381,805
Provisions for returns	950,000		(950,000)		0
Provision for taxes and duties	44,829		(44,829)		0
Provision to cover losses of investees	215,000				215,000
Total provisions	**2,338,696**	**257,784**	**(999,675)**	**0**	**1,596,805**

5. Notes to the Cash Flow Statement

5.1. Operating cash flow before changes in working capital

The gross operating cash flow represents group cash inflow from normal business activities and considers the net result adjusted for non-cash items (amortisation/depreciation, provisions, deferred taxes, etc.) and amounts which, to better represent their nature, are reclassified in the changes deriving from investing activities (financial income) and financing activities (financial expenses).
Gross operating cash flow before changes in working capital was positive at Euro 65,569 thousand, a significant improvement on the previous year (Euro 52,440 thousand in 2018).

5.2. Cash flow generated/(absorbed) from changes in working capital

This account reports the effect of net working capital on liquidity in terms of generation and absorption of cash. The overall change for the year was a negative Euro 23,158 thousand (Euro 27,344 thousand in 2018), mainly due to the increase in inventories, trade receivables and taxes paid in relation to the significant increase in turnover.

5.3. Cash flow from investing activities

The cash flow relating to property, plant and equipment mainly refers to the costs incurred for the fitting out of the Copenhagen, Rotterdam and Milan corners and the fitting out of the showroom at our agent in New York, of the new sales points in Tokyo and the corners in Rome, Moscow and Amsterdam and for the purchase of new machinery, while that relating to intangible assets refers to the costs incurred for the implementation of the management software. The most significant change concerns the investment in equity investments, as commented in paragraph 4.3.

Investing activities absorbed a total of Euro 6,188 thousand.

5.4. Cash flow from financing activities

This section of the Cash Flow Statement summarises the disbursements and receipts deriving from the financial management of the Company. The total change for the year was a negative Euro 26,083 thousand (Euro 5,878 thousand in 2018). The cash flow from financing activities was impacted by the decrease in payables to lenders and the dividends paid to shareholders, offset by the repayment of loans by subsidiaries.

6. Commitments

At the end of the year, the following commitments were outstanding:

	31/10/2019	31/10/2018
SURETIES	**6,731,912**	**1,495,612**
- subsidiaries	1,428,987	1,428,987
- other companies	5,302,925	66,625

Sureties to subsidiaries guarantee their respective lease agreements and in particular Euro 179,660 in favour of SPW Germany Gmbh for the Munich outlet and the Munich Showroom, Euro 1,113,174 in favour of Stone Island LA LLC for the Los Angeles outlet and Euro 136,153 in favour of Stone Island NYC LLC for the New York outlet.

Sureties to other companies include the lease of the sales outlet at the Castel Romano Outlet for Euro 66,625 and the commitments made during the year in favour of the related company Amanpulo Srl for a current account for Euro 10,000 and for the guarantee on the renovation of a building.

7. Disclosure on related party transactions – IAS 24

The transactions of the Company with related parties are not atypical or unusual and form part of the ordinary business activities of the Company.

The transactions, both of a trade and financial nature, with these entities were concluded at normal market conditions and all transactions were carried out in the interest of the Company.

The following tables report the Balance Sheet and Income Statement amounts relating to transactions of Sportswear Company S.p.A. with related parties, as required by IAS 24.

The transactions with the related parties Amanpulo Srl and Amandari Srl with which lease contracts are in place are shown below:

At October 31, 2018

Costs Revenues with Related Parties	Commercial Costs	Financial Costs	Commercial Revenues	Financial Revenues
Amanpulo Srl	(463,526)	0	0	0
Amandari Srl	(171,653)	0	0	0
	(635,179)	**0**	**0**	**0**

At October 31, 2019

Costs Revenues with Related Parties	Commercial Costs	Financial Costs	Commercial Revenues	Financial Revenues
Amanpulo Srl	(469,451)	0	0	0
Amandari Srl	(46,977)	0	0	0
	(516,428)	**0**	**0**	**0**

The lease contract with Amandari Srl was terminated during the current year.

As in the previous year, at October 31, 2019, there were no receivables or payables with related companies.

Transactions and balances with subsidiaries relate to commercial relationships, defined on the basis of market conditions in the same way as transactions with third parties, and are detailed as follows:

At October 31, 2018

Receivables Payables with Subsidiary Companies	Commercial Receivables	Financial Receivables	Commercial Payables	Financial Payables	Tax Receivables/ (payables)
Stone Island Retail Srl	4,394,524	1,004,512	0	0	530,544
Stone Island Paris (stable organ.)	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**

Costs Revenues with Subsidiary Companies	Commercial Costs	Financial Costs	Commercial Revenues	Financial Revenues

Stone Island Retail Srl	0	0	7,902,454	9,898
Stone Island Paris (stable organ.)	(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**

At October 31, 2019

Receivables Payables to Subsidiary Companies	**Commercial Receivables**	**Financial Receivables**	**Commercial Payables**	**Financial Payables**	**Tax Receivables/ (payables)**
Stone Island Retail Srl	6,336,051	1,505,905	0	0	359,051
Stone Island Paris (stable organ.)	1,180,647	308,567	(1,180,647)	(308,567)	0
SPW Germany GmbH	472,810	1,641,597	0	0	0
Stone Island Antwerp Bvba	237,025	406,100	0	0	0
Stone Island Retail Germany Gmbh	1,078,559	844,258	0	0	0
Stone Island Amsterdam BV	879,817	0	0	0	0
Stone Island Usa Inc	2,783,649	6,075,994	0	0	0
Stone Island NYC LLC	21,483	0	0	0	0
Stone Island LA LLC	22,836	0	0	0	0
Stone Island Canada Inc	1,165,707	1,363,048	0	0	0
Officina della Maglia Srl	0	0	(99,380)	0	0
	14,178,584	**12,145,469**	**(1,280,027)**	**(308,567)**	**359,051**

Costs Revenues with Subsidiary Companies	**Commercial Costs**	**Financial Costs**	**Commercial Revenues**	**Financial Revenues**
Stone Island Retail Srl	0	0	10,238,288	10,344
Stone Island Paris (stable organ.)	(1,783,075)	0	1,783,075	0
SPW Germany GmbH	(2,349,845)	0	1,079,357	56,918
Stone Island Antwerp Bvba	0	0	503,538	12,100
Stone Island Retail Germany Gmbh	0	0	1,796,133	12,004
Stone Island Amsterdam BV	0	0	1,428,150	0
Stone Island Usa Inc	0	0	7,859,675	76,613
Stone Island NYC LLC	0	0	37,347	0
Stone Island LA LLC	0	0	39,516	0
Stone Island Canada Inc	0	0	279,558	832
Officina della Maglia Srl	(7,043,713)	0	0	0
	(11,176,633)	**0**	**25,044,637**	**168,811**

Sportswear Company SpA takes part in the tax consolidation and is therefore responsible for tax liabilities and related interest, referring to the total income together with Stone Island Retail Srl.

7.1 Stock option plan

On June 28, 2019, the Board of Directors approved an incentive plan in favour of management, through the assignment of a right to receive, free of charge, subject to certain conditions, special class shares of the Company, with limited voting rights, for a maximum number of 96,800 shares.

The agreements provide for cross put and call options in favour of the Company and the assignees of the shares, respectively, which determine the rights and obligations to purchase and sell the shares subject to the incentive plan, once the right to obtain them has matured, with consequent payment by the Company of their fair value.

The Company has appointed an independent appraiser to estimate the fair value of the incentive plan and, on the basis of this appraisal, has recognised in the income statement the portion of the cost for 2019, equal to Euro 1,459 thousand. In accordance with IFRS2 applicable to this case, the cost has been charged to personnel expenses.

From a financial point of view, the Company has recognised a non-current financial liability as the incentive plan in question has been classified as "cash-settled" since on the basis of the probabilistic forecasts drawn up by the Directors, it is considered that the most probable scenario is the activation of the put and call option mentioned above with consequent cash outlay.

8 Disclosure relating to financial instruments - IFRS risk analysis (liquidity, market, credit, commodities, etc.)

The activity of the Group is exposed to a variety of financial risks, including:

- Liquidity risk;

- Market risk;

- Credit risk.

In accordance with IFRS 7, the current section provides qualitative and quantitative information concerning the extent of these risks on the Company.

The principal risks are reported and discussed by the Company's top management so that measures are taken for their hedging, insurance and for the valuation of the residual risk.

8.1 Liquidity risk

A prudent liquidity risk policy implies maintaining adequate liquid assets and sufficient credit lines. It is the Company's policy to have credit lines available that can be used for cash requirements and immediately available within the limits of the credit lines granted.

8.2 Market risk

Based on the definition established by IFRS 7, the probability that the valuation of the fair value of the cash flows from the financial assets or liabilities may change following changes in the following elements was identified as a market risk:

- exchange rates (so-called currency risk);

- interest rates (so-called interest rate risk);

The objectives of the management of the market risks concern the monitoring, management and control, within acceptable limits, of the Company’s exposure to these risks and to the consequent economic and financial impact.

Currency rate risk

The Company's and the Group's receivables are not significantly exposed to risks arising from fluctuations in foreign exchange rates, since it operates in an international context in which transactions are conducted almost exclusively in euros. The balance sheet accounts at October 31, 2019 subject to this risk are not significant.

In particular, the Group's exchange rates and net exposure at October 31, 2019 were as follows:

Foreign currency receivables	total foreign currency	value in Euro
US Dollar	3,780,799	3,389,635
Canadian Dollar	2,674,826	1,822,958

The risk of fluctuations in foreign currencies, mainly the U.S. dollar, in terms of purchases, required Management to adopt a risk containment strategy better defined as a "hedge accounting policy," which consists of continuously hedging the risks related to purchases based on the amount of orders which must be settled in U.S. dollars. This behaviour can be classified as a "cash flow hedge" or rather a hedge of the risk of changes in future cash flows; these flows may relate to assets or liabilities in the financial statements or to highly probable future transactions. In compliance with IFRS 9, the portion of the gain or loss on the hedging instrument, which is considered effective for hedging purposes, has been recognised directly in the comprehensive income statement and in a specific equity reserve.

During the year ended October 31, 2019, the Company and the Group did not undertake forward currency purchase contracts.

Interest rate risk

The objective of the management of the interest rate risk is to ensure control of the financial costs and their volatility. This implies, through a mix of fixed and variable interest rates, the pre-determination of a part of the financial charges for a period in line with the structure of debt, which, in turn, should be in line with the Group's future cash flow streams.

The Company's debt is linked to variable interest rates against which it assesses on a case-by-case basis whether it would be appropriate to take out derivative hedging contracts, and fixed-rate loans.

The Company and the Group do not hold financial assets of a speculative nature and, in general, they do not have financial assets related to interest rate movements.

8.3 Credit risk

At October 31, 2019, the maximum exposure to credit risk is represented by the book value of trade receivables recognised in the financial statements.

This credit risk, which is theoretically significant, is mitigated by a careful assessment of customers' creditworthiness for the purposes of granting credit to individual customers and, lastly, there are no significant credit positions involving an excessive concentration of credit.

8.4 Assets and liabilities measured at amortised cost

Trade receivables and payables, time deposits, loans payable, mortgages and other liabilities and assets are measured at amortised cost. For trade receivables and payables, their carrying amount represents a reasonable approximation of their fair value.

9. Remuneration of the board of directors, board of statutory auditors and independent audit firm

The following table summarises the remuneration of the Board of Directors, the Board of Statutory Auditors and the Independent Audit Firm:

	31/10/2019	31/10/2018
Board of Directors remuneration	533,536	525,148
Statutory auditors' remuneration	39,307	38,698
Independent audit firm fees	48,818	48,576
Total	**621,661**	**612,422**

10. Proposal for the approval of the annual accounts and allocation of 2019 profit

The Board of Directors proposes to allocate the profit for the year amounting to Euro 62,516,721.70 as follows:

- distribution of a gross dividend of Euro 4.52 per ordinary share for a total of Euro 43,753,600 and with the remaining Euro 18,763,121.70 to the Extraordinary Reserve as the Legal Reserve has already reached the legal maximum.

Attachments

Deloitte & Touche S.p.A.
Piazza Malpighi, 4/2
40123 Bologna
Italia

Tel: +39 051 65811
Fax: +39 051 230874
www.deloitte.it

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, 2019, 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, 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

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.

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, 2019, 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, 2019 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 the Group as at October 31, 2019 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 21, 2020

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

Deloitte & Touche S.p.A.
Piazza Malpighi, 4/2
40123 Bologna
Italia

Tel: +39 051 65811
Fax: +39 051 230874
www.deloitte.it

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, 2019, 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, 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

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.

Deloitte.

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.

Deloitte.

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, 2019, 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, 2019 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, 2019 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 21, 2020

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

SPORTSWEAR COMPANY S.p.A.

Registered Office in Bologna - Galleria Cavour No. 4

Share Capital Euro 10,000,000 fully paid-in

Bologna company registration office and tax number 01046470371

Bologna Economic & Administrative Index No. 224649

BOARD OF STATUTORY AUDITORS' REPORT ON THE FINANCIAL STATEMENTS AT 31/10/2019

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

We firstly indicate that the company from the financial statements at 31/10/2017 has opted to voluntarily apply the International Accounting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Commission for the preparation of its financial statements and the consolidated financial statements.

In the year ended October 31, 2019, we monitored compliance with the law and the incorporation deed, the observance of the principles of sound administration and used the recommendations indicated in the "Rules of Conduct for the Board of Statutory Auditors" issued by the National Council of Chartered Accountants and Accounting Experts in the accomplishment of this task.

The following is an update of the work we have undertaken:

- we attended the Shareholders' Meetings and the Board of Directors Meetings and based on the available information we did not note any violations of law or the Company By-Laws, nor transactions which were imprudent, risk related, in potential conflict of interest or such as to compromise the integrity of the company assets;
- we obtained from the Directors disclosure on the performance and the outlook, in addition to major transactions in terms of their size and nature, carried out by the company and its subsidiaries and in relation to such we can reasonably assure that the

actions taken are in conformity with law and the by-laws of the company and were not imprudent, risk related, in potential conflict of interest or contrary to the motions passed by the Shareholders' Meeting, or such as to compromise the integrity of the company assets;

- from interactions with the independent audit firm no significant information warranting disclosure in the report became evident;
- we acquired knowledge and monitored the suitability of the company's organisational structure and its functioning, including through the gathering of information from the heads of company departments. In relation to this there are no matters to report upon;
- we evaluated and oversaw the adequacy of the administration and accounting system, with particular regard to the reliability of the structures and the capacity to accurately reflect business operations, through obtaining information from the managers of the respective departments, examining company documents and analysing the results of the work carried out by the independent audit firm. In relation to this there are no matters to report upon;
- there were no atypical and/or unusual transactions either with related parties, with group companies or with third parties. The inter-company ordinary transactions and those with related entities are regulated at normal market conditions and are indicated in the Directors' Report and in the explanatory notes by type, size, value and relative debit/credit balances at 31/10/2019;
- we acquired information from the Supervisory Board and no critical issues worth highlighting in this report emerged with respect to the Organisational Model adopted;
- we did not receive notices as per Article 2408 Civ. Code.;
- no petitions were made in accordance with Article 2409, paragraph 7 Civ. Code;
- we did not issue any opinions required by law.

We examined the financial statements for the year ended 31.10.2019 (comprising the balance sheet, the income statement, the cash flow statement and the explanatory notes), in regard to which we report the following:

- as our task is not to perform the legally-required audit, we verified the general preparation of the data, the general conformity to law in relation to the formation and structure - upon which there are no particular matters to report;

- the Board of Directors, in preparing the financial statements, has not deviated from the provisions of the law pursuant to Article 2423, paragraph five, of the Civil Code and the accounting policies comply with the International Accounting Standards (IAS/IFRS), which were applied in continuity with the previous year;

As required by Article 2428 of the Civil Code, the Directors' Report provides adequate information on the activities carried out during the year and adequately illustrates the transactions between your Company and its subsidiaries and also presents the outlook.

In relation to the supervision and controls undertaken, no significant matters arose which require reporting herein.

The Independent Audit Firm "Deloitte & Touche S.p.a.", appointed to undertake the legally-required audit of the financial statements for the year ended October 31, 2019, today issued its report without raising any issues or requests for disclosure.

In conclusion, taking the above into account and for all issues within our scope, there are no grounds to oppose the approval of the financial statements for the year ended 31/10/2019 and the proposed allocation of the result for the year drawn up by the Board of Directors in the Explanatory Notes.

Bologna, February 21, 2020

THE BOARD OF STATUTORY AUDITORS

Mr. Sergio Parenti

Ms. Antonella Vannucchi

Ms. Alessandra Tronconi