STONE ISLAND

Sportswear Company S.p.A.

Annual Report
as at 31 October 2020

Index

Directors' Report

DIRECTORS' REPORT

Letters to the Shareholders

Dear Shareholders,

The overriding event in 2020 has been the COVID-19 outbreak and it is therefore difficult to compare the results to previous years.

The March and April lockdown put not only the future of Sportswear Company seriously at risk, but also the entire textile, fashion and clothing sector - as impacting not only sales to retail in this specific period, but also the summer 2020 collection shipments, the production of the winter 2020 collection samples and the design of the summer 2021 collection. The company nevertheless managed to continue its main activities through remote working, while also co-ordinating production in Italy and overseas, supported by the close collaboration and major commitment and effort of its suppliers.

The operating and financial results are an exception within the marketplace, as 2020 sales were in line with 2019. EBITDA rose by Euro 2 million, although this increase is due to the first-time application of the new accounting standard IFRS16 - excluding which the margin inevitably dropped due to the impacts of the pandemic.

The brand's major success over recent years has resulted in clients not only confirming orders for winter 2020, but also to increase orders for the spring/summer 2021 collection.

The company however in March decided to cut approx. 20% of winter collection production to avoid a probable increase in full price unsold product inventory. The decision proved to be correct in view of recent and still ongoing events. In fact, stocks built up significantly and a higher allocation was made to the finished product and raw materials obsolescence provision. In order to clear this stock, outlet openings are scheduled for Marne-la-Vallée, for China Tianjin, in addition to another opening either in Italy or in the United States, which is further to the New York Woodbury opening in October.

Where possible, store rent reductions were negotiated during the lockdown period and the lay-off scheme was introduced both for store personnel and SPW personnel. In this latter case, the company decided to supplement 90% of personnel salary in cash.

Costs for communication, events and any other activities discouraged by the particular situation also reduced. It was decided to proceed however with investments which had already been approved - for example, in the Miami store and the Beijing stores, in addition to the new warehouse at the Ravarino headquarters.

Activities continue to improve product quality and production and the training of young technicians - key roles for the brand's future. In particular, the further development of quality protocols for the control of supplier processes and the development of new RFID/NFC technologies for the monitoring of production progress and handling is fundamental.

The activities on product, process and packaging sustainability continue apace and a common manager for social and environmental responsibility was appointed.

2021 forecasts are difficult to draw up, particularly in terms of the winter sales campaign which may be impacted by uncertainties not only regarding COVID and possible lockdowns, but also concerning the global economic crisis whose impacts shall particularly materialise next year.

The transaction reported in the "*Subsequent events and outlook*" paragraph involving the Moncler and Stone Island brands is the best antidote from this point of view to such an era-defining moment, bringing new resources and opportunities, with the possibility of tapping into altered markets and new consumption trends, while keeping the product and the consumer central to every project.

Group structure and composition

The Consolidated Financial Statements of the Sportswear Group at October 31, 2020 include the following companies:

Sportswear Company SpA	100%	Parent company that owns the Stone Island brand
Stone Island Retail Srl	100%	Company that operates DOS in Italy
Stone Island Paris	100%	Runs the DOS in France
Stone Island Germany Gmbh	100%	Company acting as Agent for Germany and Austria and operates DOS in Germany
Stone Island Antwerp BVBA	100%	Company that operates DOS in Belgium
Stone Island Amsterdam BV	100%	Company that operates DOS in the Netherlands
Stone Island USA Inc	100%	Sub Holding Company involved in the management of US companies
Stone Island NYC LLC	100%	Company that operates DOS in New York
Stone Island LA LLC	100%	Company that operates DOS in Los Angeles
Stone Island MIAMI LLC	100%	Company that will manage DOS in Miami
Stone Island WOODBURY LLC	100%	Company that will operate Outlet in New York
Stone Island Canada Inc	100%	Company that operates DOS in Canada
Stone Island China Co Ltd	100%	Company that operates DOS in Canada
Stone Island Logistics Srl	100%	Company undertaking logistics activities
Officina della Maglia Srl	75.1%	Company undertaking knitwear manufacturing

Introduction

As permitted by Article 40, paragraph 2 bis of Legislative Decree 127 of 09/04/91, Sportswear Company S.p.A. (hereafter the "Company" or 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, 2020 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, 2020, although impacted by the COVID pandemic, truly reflect operating and market developments and report Group EBITDA of Euro 74.8 million - 31% 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 (not applicable in the two years), equity incentive plans, and non-recurring costs and can be easily recalculated from the figures presented in the notes to the consolidated financial statements prepared in accordance with IFRS.

The tax charge for the year ended October 31, 2020 incorporates the tax benefits of the Patent Box for the present year, reducing on that recognised to the financial statements for the previous year, as such related to 4 fiscal years and therefore it is not possible to compare the tax rates of the two years.

The Group reported a net profit of Euro 42.4 million.

The reclassified key financial highlights are as follows:

Consolidated Income Statement (Euro '000)	**FY 2020**	**% Revenue**	**FY 2019**	**% Revenue**
Revenue	238,874	100%	236,922	100%
% growth	1%		24%	
Other income	2,266	0.9%	2,160	0.9%
Cost of sales	(102,192)	42.8%	(97,105)	41.0%
Gross Profit	**138,948**	**58.2%**	**141,977**	**59.9%**
Commercial selling expenses	(19,103)	8.0%	(18,685)	7.9%
Communication costs	(5,814)	2.4%	(7,596)	3.2%
Personnel expenses	(18,877)	7.9%	(18,029)	7.6%
Administrative expenses	(20,310)	8.5%	(24,753)	10.4%
EBITDA	**74,844**	**31.3%**	**72,914**	**30.8%**
% growth	3%		28%	
Amortisation & Depreciation	(12,281)	5.1%	(4,507)	1.9%
Non-recurring costs	(2,521)	1.1%	(230)	0.1%
Stock option plan	(5,784)	2.4%	(1,459)	0.6%
EBIT	**54,258**	**22.7%**	**66,718**	**28.2%**
% growth	-19%		26%	

Financial income (expense) & adj. financial assets	(1,875)	0.8%	(312)	0.1%
Profit before taxes	**52,383**	**21.9%**	**66,406**	**28.0%**
income taxes	(9,941)	4.2%	(1,884)	0.8%
tax impact	19%		3%	
Net profit, including minority interests	**42,442**	**17.8%**	**64,522**	**27.2%**
Minorities	72	0.0%	71	0.0%
Group Net Profit	**42,370**	**17.7%**	**64,451**	**27.2%**
% growth	-34%		69%	

EBITDA pre IFRS 16	**67.735**	**28.4%**	**72,914**	**30.8%**
% growth	-7%		28%	

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

The estimate of the increased provisions for write-downs of inventory due to excess stock related to unsold items in the March-May 2020 lockdown period were reclassified to non-recurring costs. These higher provisions total Euro 2.4 million and are reported also in the Explanatory Notes to the consolidated financial statements at paragraph 3.3. The residual non-recurring costs (Euro 0.1 million) relate to social security contributions and salary costs that the Company was required to pay to former employees of one of its suppliers who had gone into bankruptcy.

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		**31/10/20**	**31/10/19**
ROE	Net Income / Net Capital	35.01%	63.07%
ROS	Operating Income / Revenue	22.71%	28.16%
ROI	Operating Income / Net Capital Employed	39.47%	74.13%

Operating performance of the Parent Company

The Financial Statements for the year ended October 31, 2020 faithfully reflect operating and market developments and report Parent Company EBITDA of Euro 66.2 million - 29.7% 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 (not applicable in the two years), 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 non-comparability of the tax rates for the two years is due to the reason outlined above for the consolidated figures.

The Parent Company reported a net profit of Euro 43.8 million.

The reclassified key financial highlights are as follows:

Parent Company Income Statement (Euro '000)	**FY 2020**	**% Revenue**	**FY 2019**	**% Revenue**
Revenue	223,012	100%	216,894	100%
% growth	3%		23%	
Other income	2,498	1.1%	2,507	1.2%
Cost of sales	(104,761)	47.0%	(97,209)	44.8%
Gross Profit	**120,743**	**54.1%**	**122,192**	**56.3%**
Commercial selling expenses	(18,919)	8.5%	(17,747)	8.2%
Communication costs	(5,659)	2.5%	(7,527)	3.5%
Personnel expenses	(13,557)	6.1%	(13,368)	6.2%
Administrative expenses	(16,450)	7.4%	(15,951)	7.4%
EBITDA	**66,164**	**29.7%**	**67,599**	**31.2%**
% growth	-2%		29%	
Amortisation & Depreciation	(3,491)	1.6%	(2,591)	1.2%
Non-recurring costs	(2,521)	1.1%	(230)	0.1%
Stock option plan	(5,784)	2.6%	(1,459)	0.6%
EBIT	**54,368**	**24.4%**	**63,319**	**29.2%**
% growth	-14%		26%	
Financial income/(expenses)	(882)	0.4%	153	0.1%
Profit before taxes	**53,486**	**24.0%**	**63,472**	**29.3%**
income taxes	(9,712)	4.4%	(955)	0.4%
tax impact	18%		2%	
Net profit of the Parent Company	**43,774**	**18.9%**	**62,517**	**28.8%**
% growth	-30%		73%	
EBITDA Adj pre IFRS 16	**65.244**	**29.3%**	**67,599**	**31.2%**
% growth	-3%		29%	

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

The nature and extent of non-recurring costs have been commented upon in the previous section on the consolidated figures.

The key earnings ratios are presented below:

Earnings ratios		**31/10/20**	**31/10/19**
ROE	Net Income / Net Capital	36.67%	62.04%
ROS	Operating Income / Revenue	24.38%	29.19%
ROI	Operating Income / Net Capital Employed	53.57%	73.84%

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 and with regards to which it is highlighted that from November 1, 2019 the Group has applied the new IFRS 16 on rights-of-use, with a consequent impact in terms of data comparability.

Reclassified Consolidated Balance Sheet Euro '000	31/10/2020	31/10/2019
Intangible fixed assets and equity investments	6,937	7,776
Property, plant & equipment	25,006	23,116
Right-of-use	66,937	-
Other net non-current assets/(liabilities)	6,194	4,389
Total net non-current assets/(liabilities)	**105,074**	**35,281**
Net working capital	73,670	66,706
Other net current assets/(liabilities)	(5,103)	(685)
Total net current assets/(liabilities)	**68,567**	**66,021**
Net capital employed (uses)	**173,641**	**101,302**
Net Financial Position	(19,254)	(24,071)
Net financial position IFRS 16	68,124	-
Post-employment benefits and other non-current provisions	4,029	3,303
Group Shareholders' Equity	120,346	121,691
Minority interest shareholders' equity	396	379
Total sources	**173,641**	**101,302**

Shareholders' equity increased due to the profit for the year of Euro 42.4 million, and decreased by Euro 43.9 million for dividends distributed during the year; at the end of the financial year, the Group's shareholders' equity totalled Euro 120.3 million and the net financial position at the same date was a cash position of Euro 19.3 million.

Consolidated net working capital at October 31, 2020 was 30.8% of revenue, as detailed below:

Net working capital Euro '000	31/10/2020	31/10/2019
Trade receivables	63,925	53,678
Inventories	40,219	38,497
Trade payables	(30,474)	(25,469)
Net working capital	**73,670**	**66,706**

The consolidated net financial position at October 31, 2020 was Euro 19.3 million compared to Euro 24.1 million at October 31, 2019, as detailed below. The net financial position does not include the debt for equity incentive plans amounting to Euro 7.2 million at October 31, 2020.

Net financial position Euro '000	31/10/2020	31/10/2019
Cash and banks	78,681	45,498

Long-term net financial debt	(27,694)	(13,753)
Short-term net financial debt	(31,694)	(7,510)
Other ST Financial receivables/payables	(7,303)	(39)
Other LT Financial receivables/payables	7,264	(125)
Net financial position	**19,254**	**24,071**

The consolidated cash flow statement for the years 2020 and 2019 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	31/10/2020	31/10/2019
EBITDA	**74,844**	**72,914**
Change in net working capital	(6,964)	(10,770)
Change in other current and non-current receivables/(payables)	(10,715)	(9,670)
Net investments	(5,789)	(8,128)
Net financial income/(expense)	(1,875)	(312)
Income taxes	(9,941)	(1,884)
Free Cash Flow	**39,560**	**42,150**
Dividends paid	(43,854)	(25,365)
Changes in shareholders' equity and other changes	(1,710)	506
Net Cash Flow	**(6,004)**	**17,291**
Net Financial Position IFRS 16	(1.187)	0
Opening Net Financial Position	(24,071)	(6,780)
Closing Net Financial Position	(19,254)	(24,071)
Changes in Net Financial Position	**(6,004)**	**17,291**

Free Cash Flow in 2020 amounted to Euro 39.6 million, compared to Euro 42.2 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 and with regards to which it is highlighted that from November 1, 2019 the Company has applied the new IFRS 16 on rights-of-use, with a consequent impact in terms of data comparability:

Reclassified Parent Company Balance Sheet Euro '000	31/10/2020	31/10/2019
Intangible fixed assets and equity investments	10,473	8,055
Property, plant & equipment	12,293	11,948
Right-of-use	7,738	0
Other net non-current assets/(liabilities)	4,740	3,241
Total net non-current assets/(liabilities)	**35,244**	**23,244**
Net working capital	75,301	75,386
Other net current assets/(liabilities)	(5,479)	(712)
Total net current assets/(liabilities)	**69,822**	**74,674**

Net capital employed (uses)	**105,066**	**97,918**
Net Financial Position	(26,239)	(24,754)
Net financial position IFRS 16	7,957	0
Post-employment benefits and other non-current provisions	3,999	3,305
Shareholders' Equity	119,349	119,367
Total sources	**105,066**	**97,918**

Shareholders' equity increased due to the profit for the year of Euro 43.8 million, and decreased by Euro 43.9 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, 2020 was 33.8% of revenue, as detailed below:

Net working capital Euro '000	31/10/2020	31/10/2019
Trade receivables	72,849	66,259
Inventories	36,587	35,088
Trade payables	(34,135)	(25,961)
Net working capital	**75,301**	**75,386**

The Parent Company's net financial position at October 31, 2020 was a cash position of Euro 26.2 million, compared with Euro 24.8 million at October 31, 2019, as detailed in the following table. The net financial position also includes financial receivables from subsidiaries (Euro 18.7 million at October 31, 2020 and Euro 11.8 million at October 31, 2019) 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 debt for share incentive plans amounting to Euro 7.2 million at October 31, 2020.

Net financial position Euro '000	31/10/2020	31/10/2019
Cash and banks	66,928	34,100
Long-term net financial debt	(11,552)	(5,794)
Short-term net financial debt	(29,180)	(3,556)
Other ST Financial receivables/payables	(7.220)	3
Other LT Financial receivables/payables	7.263	1
Net financial position	**26,239**	**24,754**

The parent company cash flow statement for the years 2020 and 2019 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	31/10/2020	31/10/2019
EBITDA	**66,164**	**67,599**
Change in net working capital	85	(14,310)

Change in other current and non-current receivables/(payables)	(3,576)	(7,892)
Net investments	(5,195)	(6,188)
Net financial income/(expense)	(882)	153
Income taxes	(9,712)	(955)
Free Cash Flow	**46,884**	**38,407**
Dividends paid	(43,754)	(25,265)
Changes in shareholders' equity and other changes	(1,864)	(568)
Net Cash Flow	**1,266**	**12,574**
Net Financial Position IFRS 16	(219)	0
Opening Net Financial Position	(24,754)	(12,180)
Closing Net Financial Position	(26,239)	(24,754)
Changes in Net Financial Position	**1,266**	**12,574**

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 0.5 million, structural works begun for the construction of a new building for Euro 0.8 million, machinery and equipment was acquired for a total of Euro 0.5 million, plant upgraded for Euro 0.3 million and furnishings acquired for the corners for a total of Euro 0.2 million. Significant investments were made for the opening of new stores in Miami (Euro 2.1 million), Beijing (Euro 0.4 million), Frankfurt (Euro 0.2 million) and Woodbury (Euro 0.2 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, essentially due to the delay in billing for the winter season 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, 2020 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, 2020, the Group had a net cash position of approx. Euro 19.3 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, 2020 for a theoretical total of Euro 21.6 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, 2020 subject to this risk are not significant.

In particular, the Group's exchange rates and net exposure at October 31, 2020 were as follows:

Foreign currency receivables	**total foreign currency**	**value in Euro**
US Dollars	6,120,039	5,231,697
Canadian Dollar	1,332,983	856,893
Chinese Renminbi	127,828	16,355

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 Key money. 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 2021 the Group can rely on a strengthened 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 2021, turnover forecasts are optimistic: the Spring-Summer 2021 season reported growth of 10%.
The Miami store opened in November 2020.
In November and December 2020, as a result of the governmental COVID pandemic measures and for limited time periods, a number of our stores were closed to direct sales to the public, with inevitable impacts on sales forecasts.
On December 7, 2020, a framework agreement was signed in Milan between the majority of the shareholders of Sportswear Company Spa and Moncler S.p.A regarding the company's entry to the Moncler Group. With this transaction, the two Italian brands strengthen their capacity to interpret the evolving culture of the new generations, consolidating their position within the new luxury segments.

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

The workforce of the Group companies at financial year-end numbered 328 (282 in the previous year).

For the Board of Directors

The Chairman

Dr. Carlo Rivetti

Consolidated Financial Statements

CONSOLIDATED INCOME STATEMENT

(Euro '000)	Note	FY 2020	FY 2019
Revenue	4.1	238,874	236,922
Other income	4.2	2,266	2,160
Total Revenue		**241,140**	**239,082**
Purchase costs (including changes in inventories)	4.3	(65,759)	(60,196)
Service costs	4.4	(81,565)	(80,149)
Lease and rental costs	4.5	(707)	(6,524)
Personnel expenses	4.6	(24,661)	(19,488)
Amortisation & depreciation	4.7	(12,281)	(4,507)
Doubtful debt provision	4.8	(695)	(198)
Provisions for risks and charges	4.9	0	0
Other operating charges	4.10	(1,214)	(1,302)
Total Costs		**(186,882)**	**(172,364)**
Operating profit		**54,258**	**66,718**
Financial income	4.11	144	120
Financial expenses	4.11	(1,466)	(722)
Exchange gains and losses	4.11	(757)	180
Total financial income and expenses		**(2,079)**	**(422)**
Adjustment to financial assets	4.12	204	110
Profit before taxes		**52,383**	**66,406**
Income taxes	4.13	(9,941)	(1,884)
Net profit, including minority interests		**42,442**	**64,522**
Minorities	5.12	72	71
Group Net Profit		**42,370**	**64,451**

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT

(Euro)	Note	FY 2020	FY 2019
Net profit (A)		**42,442**	**64,522**
Actuarial gains/(losses) IAS 19		37	(132)
Tax effect of gains and losses		(9)	36
Total other gains/(losses) that cannot be subsequently reclassified to the income statement (B)	5.12	**28**	**(96)**
Gains/(losses) on hedging derivatives		(60)	4
Tax effect of gains/(losses)		14	(1)
Gain/(loss) from translation of financial statements of foreign companies		114	(24)
Total other gains/(losses) that may subsequently be reclassified to the income statement (C)	5.12	**68**	**(21)**
Total other profit/(loss) net of tax effect (B+C)		**96**	**(117)**
Total comprehensive income		**42,538**	**64,405**

CONSOLIDATED BALANCE SHEET

(Euro '000) **ASSETS** **NON-CURRENT ASSETS**	**Note**	**FY 2020**	**FY 2019**
Intangible assets	5.1	6,116	7,159
Property, plant & equipment	5.2	25,006	23,116
Right-of-use	5.2	66,937	-
Investments in associates	5.3	821	617
Non-current tax receivables	5.8	0	279
Other non-current assets	5.4	203	287
Other non-current financial assets	5.10	20	19
Deferred tax assets	5.5	6,139	3,966
TOTAL NON-CURRENT ASSETS		**105,242**	**35,443**
CURRENT ASSETS			
Inventories	5.6	40,219	38,497
Trade receivables	5.7	63,925	53,678
Tax receivables	5.8	8,613	7,430
Other current assets	5.9	2,981	3,298
Other current financial assets	5.10	23	12
Cash and cash equivalents	5.11	78,681	45,498
TOTAL CURRENT ASSETS		**194,442**	**148,413**
TOTAL ASSETS		**299,684**	**183,856**

LIABILITIES & SHAREHOLDERS' EQUITY			
SHAREHOLDERS' EQUITY			
Share Capital	5.12	10,000	10,000
Other Reserves	5.12	67,976	47,240
Net profit for the year	5.12	42,370	64,451
Group share capital and reserves		**120,346**	**121,691**
Minority interest reserves	5.12	324	308
Minority interest profit	5.12	72	71
Minorities capital and reserves		**396**	**379**
TOTAL SHAREHOLDERS' EQUITY		**120,742**	**122,070**
NON-CURRENT LIABILITIES			
Post-employment benefits	5.18	2,792	2,253
Provisions for risks and charges	5.19	1,237	1,050
Non-current bank payables	5.14	27,694	13,770
Other non-current financial liabilities	5.17	104	1,586
Non-current financial liabilities IFRS16	5.17	61,140	-
Deferred tax liabilities	5.5	148	143
TOTAL NON-CURRENT LIABILITIES		**93,115**	**18,802**
CURRENT LIABILITIES			
Trade payables	5.13	30,474	25,469
Current bank payables	5.14	31,694	7,520
Other current financial liabilities	5.17	7,326	41
Current financial liabilities IFRS16		6,984	-
Tax payables	5.15	1,333	1,483
Other current liabilities	5.16	8,016	8,471
TOTAL CURRENT LIABILITIES		**85,827**	**42,984**
TOTAL LIABILITIES		**299,684**	**183,856**

CASH FLOW STATEMENT

	Note	FY 2020	FY 2019
CASH FLOW FROM OPERATING ACTIVITIES:			
Net profit		42,442	64,522
Adjustments for:			
Income taxes	4.13	9,941	1,884
Financial income and expense	4.11	2,079	422
Amortisation	5.1	1,506	1,617
Depreciation	5.2	3,232	2,890
Right-of-use depreciation	5.2	7,543	
Write-down/(Revaluations) of equity investments	4.12	(204)	(110)
Net change in provisions for risks and charges		187	(205)
Net change in post-employment benefit provision		567	478
Gain/(loss) from translation of financial statements of foreign companies		102	(24)
Operating cash flow before changes in working capital	**6.1**	**67,395**	**71,474**
Change in inventories		(1,722)	(8,799)
Change in trade and other receivables (including current tax receivables)		(19,642)	(10,328)
Change in trade and other payables (including current tax payables)		4,405	359
Income taxes		(9,662)	(1,884)
Cash flow generated/(absorbed) from changes in working capital	**6.2**	**(26,621)**	**(20,652)**
Cash flow generated/(absorbed) from operating activities		**40,774**	**50,822**
CASH FLOW FROM BUSINESS COMBINATIONS:			
Price paid for acquisitions		0	(1,985)
Cash and cash equivalents from acquisition		0	404
Cash flow generated/(absorbed) from business combinations	**6.3**	**0**	**(1,581)**
CASH FLOW FROM INVESTING ACTIVITIES			
(Investments)/Disposals of intangible assets and goodwill	5.1	(463)	(1,090)
(Investments) /Disposals of property, plant and equipment	5.2	(5,122)	(6,723)
(Investments)/Disposals of equity investments	5.3	0	(14)
Net change in other non-current assets		84	(203)
Cash flow generated/(absorbed) from investing activities	**6.4**	**(5,501)**	**(8,030)**

CASH FLOW FROM FINANCING ACTIVITIES			
Net change in current financial assets		(85)	4
Net change in non-current financial assets		0	0
Net change other current and non-current financial liabilities	5.17	(1,482)	1,623
Change in payables to banks and other current lenders	5.14	31,469	(114)
Change in payables to banks and other non-current lenders	5.14	13,941	(2,668)
Dividends paid	5.12	(43,854)	(25,365)
Treasury share purchases		0	0
Financial income and expense		(2,079)	(312)
Minority interests		0	408
Cash flow generated/(absorbed) from financing activities	**6.5**	**(2,090)**	**(26,424)**
Increase/(Decrease) in cash and cash equivalents		**33,183**	**14,787**
Opening cash & cash equivalents		45,498	30,711
Closing cash & cash equivalents		78,681	45,498
Change in cash and cash equivalents		**33,183**	**14,787**

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY

(Euro '000)	Notes	Share capital	Legal reserve	Rev. Res. Law 342/00	Rev. Res. Law 158/08	Extraord. reserve	Other Reserves	IAS FTA Reserve	IAS 19 Reserve	Hedge Accounting Reserve	Translation reserve	Profit/ (loss)	Net result	Group Shareholders' Equity	Min. Interest share. equity	Total consolidated shareholders' equity
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**
Reclassification reserve	5.12					10,771						27,434	(38,205)	0		0
Change in consolidation scope														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												64,451	64,451	71	64,522
At 31/10/2019		**10,000**	**2,039**	**7,560**	**4,718**	**34,201**	**28**	**(1,787)**	**(202)**	**0**	**(3)**	**686**	**64,451**	**121,691**	**379**	**122,070**
Allocation of the result for the year	5.12					18,763						45,688	(64,451)	0		0
Change in consolidation scope	5.12													0		0
Dividends allocated	5.12											(43,754)		(43,754)	(100)	(43,854)
Change IAS 19 reserve	5.12								28					28		28
Change in Hedge accounting reserve	5.12									(46)				(46)		(46)
Other movements	5.12										114	(57)		57	45	102
Profit for the year	5.12												42,370	42,370	72	42,442
At 31/10/2020		**10,000**	**2,039**	**7,560**	**4,718**	**52,964**	**28**	**(1,787)**	**(174)**	**(46)**	**111**	**2,563**	**42,370**	**120,346**	**396**	**120,742**

Consolidated Financial Statements
Explanatory Notes

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, 2020 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, 2020 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, 2020 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 financial statements of the Group include the following tables - unchanged on the previous year:

- 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 Significant events in 2020 and going concern

The beginning of 2020 featured the global coronavirus (COVID-19) outbreak, with the World Health Organisation declaring a "global pandemic" in March in view of the growing number of countries recording infections. Following the initial reporting of COVID-19 cases in Asia (beginning in China in January), the virus spread to Europe, with the first case officially recorded in Italy on February 21. It subsequently spread to the Americas - particularly the United States and Brazil.
The global health crisis prompted governments to introduce increasingly restrictive measures, including restrictions on travel, the isolation of individuals and the suspension of non-essential production and commercial activity, with the key objective of fighting the spread of the virus and protecting public health.
These exceptional measures had major social and economic impacts and also hindered the Group's revenue and earnings growth.
Sales were hit by the stringent measures imposed by governments across the world to limit the spread of COVID-19 - and particularly by the temporary closure of some stores. Due to this unforeseeable event, surplus inventory built up and led to non-recurring write-downs on items.
Faced with this environment, the Group reacted quickly to the emergency, benefitting from its ability to foresee and interpret the knock-on effects of these changes and introducing far-reaching operating measures.
The Group companies in this regard complied with the lockdowns imposed by the local authorities, proactively adopting all measures necessary to protect the health of its employees and to mitigate the impact of the emergency.
In particular, protocols were introduced to protect workers, such as - for example - the use of personal protection equipment and the introduction of social distancing measures, sanitation procedures, remote working and other safety measures.
Considering the current situation shaped by the economic and social effects of the COVID-19 outbreak and the uncertainty on its duration, it is difficult to make forecasts on the future impacts of the pandemic.
In terms of potential liquidity risks, the Directors, in view of the financial resources currently available to the Group and the operating forecasts for the coming year, do not consider the impact of these events shall give rise to the risk that the Group may be unable to meet its obligations on time, while neither giving rise to uncertainties on the Group's going concern.

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.
In terms of the company's going concern, reference should be made to the previous paragraph.

The consolidated financial statements are presented in thousands of Euro, which is the currency of the economies in which the Group mainly operates.

2. BASIS OF CONSOLIDATION

2.1 Consolidation scope

The consolidated financial statements at October 31, 2020 include the financial statements of Sportswear Company S.p.A. (hereafter also the "Company" or the "Parent Company") and the companies 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 Name	Location	Share capital (in Euro)	% held 2020
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
Stone Island Germany Gmbh	Munich - Germany	525,000	100
Stone Island Antwerp Bvba	Antwerp - Belgium	400,000	100
Stone Island Amsterdam BV	Amsterdam (Netherlands)	25,000	100
Stone Island USA Inc	Delaware, New Jersey - USA	2,220,103	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 WOODBURY LLC	New York	448,652	100
Stone Island Canada Inc	Toronto - Canada	331,763	100
Stone Island China CO. Ltd.	Shanghai, Beijing - China	2,500,000	100
Stone Island Logistics Srl	Ravarino (Mo) - Italy	50,000	100
Officina della Maglia Srl	Mirandola (Mo) - Italy	10,000	75.10

The only associated company, measured using the equity method at October 31, 2020, is as follows:

Company Name	Location	Share capital (in Euro)	% held 2020
Starcolor S.r.l.	Modena - Italy	41,600	24

The changes in the Group's consolidation scope compared to the Annual Financial Report at October 31, 2019 are as follows:

- incorporation during the year of the companies Stone Island WOODBURY LLC, Stone Island China CO. Ltd. and Stone Island Logistics Srl;
- exit from the scope of the company Stone Island Retail Germany Gmbh following its merger into the parent company Stone Island Germany Gmbh.

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 carried out 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 2020 and 2019 are shown below:

Currency	**2020**		**2019**	
	Average	**Year-end**	**Average**	**Year-end**
US Dollar	1.1268	1.1698	1.1242	1.1154
Canadian Dollar	1.5153	1.5556	1.4814	1.4673
Chinese Renminbi	8.0371	7.8158	-	-

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.

(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 on the initial application of IFRS) or production cost 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 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".

Right-of-use assets

Assets subject to lease contracts are recognised by recording a "right-of-use" to assets and a liability represented by the present value of the payments due for the lease. The "right-of-use" is depreciated on a straight-line basis over the duration of the lease contract, applying the same depreciation rates presented below, or the related useful economic-technical life, where shorter. On the effective lease date, defined as the date on which the lessor makes the underlying asset available to the lessee, the book value of the "right-of-use" includes the amount of the initial measurement of the lease liability, the payments due on the lease made on or before the effective date, and any other initial direct costs.
The initial measurement of the lease liability as per the preceding paragraph includes fixed lease payments, variable payments that depend on an index or rate, and the exercise price of the purchase option, where there is a reasonable certainty of its exercise.

This accounting method is mainly applied to the following categories of assets subject to leases: civil and industrial buildings, vehicles, EDP and hardware equipment.

The Group applies the option granted by IFRS 16 - Leases to record as cost, on an accruals basis, the lease contract charges i) of short duration (i.e. less than 12 months), ii) concerning low-value assets (i.e. individually less than Euro 5,000, when new).

The asset for the right-of-use is subsequently depreciated on a straight-line basis from the effective date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group at the end of the lease term. In this case, the asset for the right-of-use will be depreciated over the useful life of the underlying asset, determined on the same basis as that of property and equipment. In addition, the asset for the right-of-use is regularly reduced by any impairment losses and adjusted to reflect any changes arising from subsequent valuations of the lease liability.
The Group assesses the lease liabilities at the present value of payments due for lease charges not settled at the commencement date, discounting them according to the implied lease interest rate.
The payments due for the lease included in the valuation of the lease liability include:
• fixed payments (including substantially fixed payments);
• lease payments that depend on an index or rate, initially measured using an index or rate at the effective date;
• the amounts expected to be paid as security
on the residual value;
• payments due for the lease during an optional renewal period if the Group has reasonable assurance that it will exercise the renewal option, and penalties for early termination of the lease, unless the Group has reasonable assurance that it will not terminate the lease early.

Subsequent to the effective date, the lease liability is measured by applying the amortised cost criterion. Thereafter, it may be restated (i.e. the cash flows of the lease change as a result of the original contractual terms) or amended (i.e. changes in the subject or in the consideration not provided for under the original contractual terms) with adjustments to the "right-of-use".

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 their recognition value is verified adopting the criteria indicated under the "Loss in value of assets" paragraph.

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 due beyond one year, non-interest bearing or which mature interest below lower 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 and 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 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:

• Amortised 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

<u>Financial assets</u>

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 contractual right to receive the cash flows from the asset, but assumes a contractual obligation to pay the cash flows 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 valued 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.

<u>Financial liabilities</u>

A financial liability is derecognised from the financial statements when the underlying liability is settled, cancelled or fulfilled.
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 available distribution channels or through those due to open shortly (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. Where such indications exist, the recoverable amount of these assets is estimated to determine any impairment 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

Cash Plan

In accordance with IFRS 2 and in relation to the specific characteristics of the stock option plan approved by the Parent Company in 2019, 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.

Equity Plan (currently not applicable)

IFRS 2 also defines equity-settled share-based payment transactions, in which the entity receives goods or services as consideration for its equity instruments (including shares and share options).
Goods and/or services acquired or received by the company in connection with an equity-settled transaction are recognised to the financial statements as assets (where meeting the relative requirements) or as a cost, with a corresponding increase in shareholders' equity. The standard requires the company to measure the goods and/or services acquired or received and the corresponding increase in shareholders' equity on the basis of the fair value of the goods and/or services, unless the fair value may not be reliably estimated. In this case, the fair value of the goods and/or services should be estimated indirectly by referring to the fair value of the equity instruments granted.

Where the equity instruments only vest on conclusion of a specified service period, the company should assume that the services provided by the counterparty as consideration for these instruments will be received in the future, during the vesting period. The company should recognise the services provided by the counterparty (recognition of cost) in the vesting period, simultaneous to their provision, with a corresponding increase in shareholders' equity.
Where the equity instruments vest immediately, the counterparty does not have to complete a specified service period before acquiring unconditional ownership of such instruments. In this case, at the grant date, the company must consider the services as received with a corresponding increase in shareholders' equity.
The fair value of the equity instruments granted is estimated based on market prices, where available, or, in the absence of such prices, using appropriate valuation techniques.
IFRS2 states that the company should recognise goods or services received in the vesting period based on the best available estimate of the number of financial instruments that are expected to vest but, where necessary, should revise such an estimate in light of subsequent information indicating that the number of instruments that will vest differs from previous estimates. On the vesting date, the enterprise revises the estimate to recognise an amount equal to the number of equity instruments that have actually vested.

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 goods expected to be returned, the Group in accordance with IFRS 15 adjusts revenues in full and recognises a liability for refunds, recharging the cost to inventories.
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.
They are measured at the tax rates that are expected to apply to the period when the temporary difference is reversed.
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, while taking into account, however, that the economic effects caused by the COVID-19 pandemic increase the degree of subjectivity of the estimates of certain items, such as, primarily, inventories:

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; in the case of goodwill, this check is carried out at least annually. The verification of the existence of the above-mentioned indicators requires the Directors to make valuations based on the information available within the Group and from the market, as well as 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. The inventory obsolescence provision therefore reflects management's best estimate of the impairment expected on past-season collection items, taking into account the possibility of their sale through differing distribution channels.

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.

Returns provision
The returns provision reflects Management’s estimate on the valuation of the assets deriving from product return forecasts, without considering replacement returns, and the relative liability for future repayments.

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
The provisions are recorded in the financial statements when the Group has a present obligation resulting from 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
1.2% for 2020 and 1.5% for 2019	Frequency of 3.8% for 2020 and 2019	1.7% for 2020 and 2019

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

Lease liabilities and right-of-use assets
The Group records the right-of-use asset and the lease liability. Right-of-use assets are initially measured at cost, and subsequently at cost net of depreciation and cumulative impairments, while adjusted to reflect lease liability revaluations.
The Group assesses the lease liabilities at the present value of payments due for lease charges not settled at the commencement date, discounting them according to an interest rate which takes account of the duration of the leasing contracts, of the currency in which they are denominated, the economic environment in which the contract was signed and of the credit adjustment.
The lease liability is subsequently increased by the interest maturing on this liability and reduced for payments due on the lease and is revalued in the case of changes to future payments on leasing deriving from a change in the index or rate, in the case of a change to the amount which the Group expects to pay as guarantee on the residual value or where the Group changes its assessment on the exercise or otherwise of a purchase, renewal or termination option.
The Group estimated the lease duration contracts in which it acts as lessee and which have renewal options. The Group assessment upon the existence or otherwise of a reasonable certainty of exercising the option influences the estimate of the lease duration, impacting significantly the amount of the lease liabilities and the right-of-use assets recognised.

IFRS accounting standards, amendments and interpretations applied from November 1, 2019

In view of the fact that the Group closed its financial year on October 31, 2020, the application of the accounting standards is deferred with respect to the calendar year; consequently, the IFRS standards applicable from January 1, 2019 will be applied by the Group starting from the consolidated financial statements at October 31, 2021.

The following IFRS accounting standards, amendments and interpretations were applied for the first time by the Group from November 1, 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 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 for leases: 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. This standard does not contain significant amendments for lessors.
This standard is applied by the Group from November 1, 2019.
As per IFRS 16 a contract contains a lease when the client has the right to control the use of the identified asset for an established period of time in exchange for consideration. This concept is substantially different from the concept of "risks and benefits" to which significant attention is paid in IAS 17 and IFRIC 4.

In adopting IFRS 16, the Group has applied the exemption granted by paragraph IFRS 16.5(a) in relation to short-term leases, in particular of properties held under lease.
Likewise, the Group opted 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;
- Furniture and fittings.

For such contracts, the introduction of IFRS 16 entailed the recognition of the financial liability associated with the lease and relevant right of use. Rather, the lease payments are taken to the income statement on a straight-line basis over the term of the relevant contracts.

In addition, with regard to the transition rules, the Group opted 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, 2019;
- 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 Group applied the standard retrospectively, and therefore to recognise the cumulative effect of the application of the standard in shareholders' equity with effect from November 1, 2019 (not restating the 2019 comparative figures), in accordance with IFRS 16 C7-C13. In particular, with regard to lease contracts previously classified as operating leases, the Group recognised the following:

- a financial liability, 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 impact of adopting IFRS 16 as of the transition date of November 1, 2019, and the effects of applying this standard on the consolidated financial statements at October 31, 2020, from both a balance sheet and an income statement perspective:

Euro thousands

ASSETS	***01/11/2019***	***31/10/2020***
Non-current assets		
Right-of-use Buildings	*Euro 72,037*	*Euro 66,840*

Right-of-use Motor vehicles	*Euro 146*	*Euro 97*
Total	**Euro 72,183**	**Euro 66,937**
Current assets		
Tax receivables		*Euro 320*
Prepayments	*Euro -233*	
Total	**Euro -233**	
TOTAL ASSETS	**Euro 71,950**	**Euro 67,257**
SHAREHOLDERS' EQUITY & LIABILITIES		
Non-current liabilities		
Financial liabilities for non-current leases	*Euro 65,797*	*Euro 61,140*
Current liabilities		
Financial liabilities for current leases	*Euro 6,153*	*Euro 6,984*
Net Equity		
Net Profit/(loss)		*Euro -878*
Translation reserve		*Euro 11*
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**Euro 71,950**	**Euro 67,257**

INCOME STATEMENT	***01/11/2019***	***31/10/2020***
Rentals	*0*	*Euro 7,109*
Depreciation	*0*	*Euro -7,543*
Interest expense	*0*	*Euro -764*
Income taxes	*0*	*Euro 320*
Total effect on the result for the year	**-**	**Euro -878**

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:

- 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 Group 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: since most lease contracts entered into by the Group do not include an implicit interest rate, the discount rate to be applied to future lease payments has been taken as the risk-free rate in each country in which the contracts were entered into, with maturities commensurate with the term of the specific lease contract, plus the specific credit spread of the Group.

- On June 7, 2017, the IASB published the interpretation IFRIC 23 "Uncertainty over Income Tax Treatments", which clarifies the application of the requirements for recognition and measurement in IAS 12 - "Income taxes" in the case of uncertainty on the treatment of income taxes.

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 was applied from November 1, 2019 and had no impact on the Group.

• The IASB published on October 12, 2017 an amendment to IFRS 9 "Prepayment Features with Negative Compensation". 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 application of the new amendment did not result in any adjustments to the Group's balance sheet.

• 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 in the case of loans which remain in place even after the qualifying asset is ready for use or for sale, these become part of the overall financing utilised to calculate the borrowing costs.

The adoptions of these amendments do not have any effects on the Group financial statements.

• On February 7, 2018, the IASB published amendments to IAS 19 "Plant Amendment, Curtailment or Settlement". The document clarifies how an entity should record an amendment (i.e. a curtailment or a settlement) to 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 adoption of this amendment does not have effects 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, 2020, although early application is permitted. The directors do not expect these amendments to have a significant impact on the Group consolidated 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, 2020.

• 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.

- On March 29, 2018, the IASB published an amendment to "references to the Conceptual Frameworks in IFRS Standards" with the objective of improving both the definitions of "assets" and "liabilities" and the process for their measurement, elimination and presentation. The document also clarifies key concepts such as identifying the readers of the financial statements and their objectives, and also discusses the issue of prudence and uncertainty in assessments for financial statement disclosure. These amendments will be applied from January 1, 2020. Early application is however permitted. The directors do not expect this amendment to have a significant impact on the Group financial statements.

- The IASB on September 26, 2019 published the amendment entitled "Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmarks Reform". The same amendment to IFRS 9 - Financial Instruments and IAS 39 - Financial Instruments: Recognition and Measurement, in addition to IFRS 7 - Financial Instruments: Disclosures. In particular, the amendment changes some of the requirements for the application of hedge accounting, establishing temporary derogations in order to mitigate the impact from the uncertainty of the IBOR reform on future cash flows in the period prior to its completion. The amendment also requires companies to provide additional information in their financial statements on their coverage ratios which are directly impacted by the uncertainties generated by the reform and to which the above derogations apply.
The amendments shall enter into force on January 1, 2020, although companies may opt to apply them earlier.
The directors do not expect this amendment to have a significant impact on the Group financial statements.

- On January 23, 2020, the IASB published the amendment to IAS 1 "Presentation of Financial Statements: Classification of Liabilities as Current or Non-current" in order to clarify the presentation of liabilities in the financial statements of companies. Specifically:
  - they clarify that the classification of liabilities between current and non-current should be based on the rights existing at the end of the reporting period, and in particular the right to defer payment for at least 12 months;
  - they clarify that classification is not affected by expectations about the entity's decision to exercise its right to defer payment related to a liability;
  - they clarify that payment refers to the transfer to the counterparty of cash, equity instruments, other assets or services.
  - The new amendment applies from January 1, 2023, with the IASB deciding to postpone the application date, previously scheduled for January 1, 2022.

- On May 14, 2020, the IASB published the following amendments:
  - Amendments to IFRS 3 "Business Combinations": the purpose of the amendments is to update the reference in IFRS 3 to the revised version of the Conceptual Framework, without changing the provisions of IFRS 3.
  - Amendments to IAS 16 "Property, Plant and Equipment": the purpose of the amendments is not to allow the amount received from the sale of goods produced during the testing phase of the asset to be deducted from the cost of the asset. These sales revenues and related costs will therefore be recognised to the income statement.
  - Amendments to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets": the amendment clarifies that in estimating the possible onerousness of a contract, all costs directly defendants to the contract must be considered. Accordingly, the assessment of whether a contract is onerous includes not only incremental costs (such as the cost of direct material used in processing), but also all costs that the enterprise may not avoid because it has entered into the contract (such as, for example, the share of personnel expenses and depreciation of machinery used to perform the contract).
  - Annual Improvements 2018-2020: the amendments were made to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples of IFRS 16 Leases.

All the amendments will enter into force from January 1, 2022. The Directors do not expect these amendments to have a significant impact on the Group financial statements.

- On May 28, 2020, the IASB published an amendment called "Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4)". The amendments allow the temporary exemption from the application of IFRS 9 to be extended until January 1, 2023. The amendments will enter into force from January 1, 2021. The directors do not expect this amendment to have a significant impact on the Group financial statements.

- On May 28, 2020, the IASB published an amendment called "Covid-19 Related Rent Concessions (Amendment to IFRS 16)". The document establishes for lessees the option to account for the reductions in rents connected with COVID-19 without having to assess, through the analysis of contracts, whether the definition of lease modification of IFRS 16 has been complied with. Therefore, lessees applying this option will be able to account for the effects of rent reductions directly in the income statement on the effective date of the reduction. This amendment is applicable to financial statements beginning on June 1, 2020, except for the possibility of early application to financial statements beginning on January 1, 2020. The directors do not expect this amendment to have a significant impact on the Group 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:	31/10/2020	31/10/2019
Sales Italy	66,911	60,844
Overseas	141,172	138,341
Sales Points of sale	31,588	38,152
Other revenues	78	7
Reversal estimate returns	(1,571)	(696)
Release estimated returns 2019	696	-
Utilisation returns risk provision	-	274
Total	**238,874**	**236,922**

The Sportswear Group in the year increased its revenue by 1%, despite the significant impact from the COVID-19 pandemic in terms of the store closure periods and the impact on consumption.
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 recognises as a reduction in revenues the estimated credit notes relating to expected returns from the sale of products to third parties and as a reduction in the cost of sales the estimated cost relating to such returns, with consequent recharge to inventories. The increase in the estimate of returns is mainly due to the market dynamics influenced by the COVID-19 pandemic.

Revenues by region	31/10/20	31/10/19
Italy	66,945	70,030
Europe (excl. Italy)	124,294	115,905
The Americas	21,024	23,365
Rest of the World	26,611	27,622
Total	**238,874**	**236,922**

4.2 Other income

	31/10/2020	31/10/2019
Rental income	20	28
Recovery legal expenses	17	19
Income from royalties	0	0
Recovery of expenses for damages and quality issues	275	231
Grants Law 296/06 research and development	513	462
Prior year income	70	74
Other revenues and income	1,371	1,346
Total	**2,266**	**2,160**

The item "other revenues and income", in addition to the discounts on store rentals following negotiations with owners and in view of the lockdown period for Euro 166 thousand, 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)

	31/10/2020	31/10/2019
Raw materials and semi-finished goods	21,189	20,492
Finished products	43,140	44,697
Ancillary materials	112	86
Packaging	72	88
Advertising material	1,995	2,318
Other purchases	1,093	1,298
Change in inventories	(1,842)	(8,783)
Total	**65,759**	**60,196**

The increase in the account compared to the previous year is due to the loss in margin as a result of the pandemic, which is mainly seen in the change in inventories, significantly affected by the increase in the finished products and raw materials obsolescence provision (totalling Euro 5,365 thousand), due to the building up of stock as a result of the mandatory store closures during the spring lockdown. The estimated impact of COVID on the finished products and raw materials obsolescence provision at October 31, 2020 was Euro 2,437 thousand (respectively Euro 2,241 thousand for finished products and Euro 196 thousand for raw materials).

4.4 Service costs

	31/10/2020	31/10/2019
Utilities	484	501
Maintenance	455	465
Transport	8,550	8,673
Outsourcing	38,409	36,385
External warehouse management	4,120	4,743
Commissions and accessory charges	7,165	7,541
Advertising	3,819	5,278
Royalties and stylistic fees	735	871
Insurance	833	522
Telephone	219	227
General consultancy	4,026	3,022
Legal consultancy	328	174
Directors' remuneration	671	649
Statutory auditors' fees and corporate expenses	127	116
Cleaning	407	348
Bank services	937	1,056
Other services	10,280	9,578
Total	**81,565**	**80,149**

The increase in outsourcing costs relates to the higher costs incurred for production cancellations as a result of the pandemic, while the increase in consultancy is partly due to the new activities planned for the development of distribution on the Asian and American markets.

4.5 Rental, leasing and similar costs

	31/10/2020	31/10/2019
general rents	344	6,131
car rentals	153	245
CED operating leases	137	137
other leases	73	11
Total	**707**	**6,524**

The item rental, leasing and similar costs in 2020, amounting to Euro 701 thousand (Euro 6,524 thousand in 2019), refers to property rental accessory costs of Euro 344 thousand (Euro 6,131 thousand in 2019), IT systems of Euro 137 thousand (Euro 137 thousand in 2019) and long-term car rental fleet costs of Euro 153 thousand (Euro 245 thousand in 2019) and other rental costs of Euro 73 thousand (Euro 11 thousand in 2019).

The significant decrease in property rental costs is due to the initial application of IFRS 16, which resulted at October 31, 2020 in the reversal of rental costs of Euro 7,109 thousand, against the recognition to the balance sheet of the relative rights-of-use of the assets subject to lease and in the income statement of the relative higher depreciation. Lease costs, gross of the effects from the adoption of the new IFRS 16 standard, increased significantly compared to 2019 as twelve months of leases of stores opened during the previous year (Milan, Toronto, Frankfurt) were recognised, in addition to several months of leases of new stores (Woodbury, Shanghai and Miami).

4.6 Personnel expenses

As October 31, 2020, the Group had 328 employees (282 at October 31, 2019). Personnel expenses totalled Euro 24,661 thousand (Euro 19,488 thousand in 2019), including social security contributions of Euro 3,455 thousand (Euro 3,362 thousand in 2019), provisions for post-employment benefits of Euro 1,301 thousand (Euro 1,132 thousand in 2019) and costs related to stock option plans of Euro 5,784 thousand (Euro 1,459 thousand in 2019). A description of the incentive plans, whose impact underlies the change in the account on the previous year, is provided in Section 8.1.

	AVERAGE 2020	at October 31 2020	AVERAGE 2019	at October 31 2019
BLUE-COLLAR	22	21	23	25
SUPERVISORS	4	4	5	4
WHITE-COLLAR	272	294	222	244
EXECUTIVES	9	9	9	9
	307	**328**	**259**	**282**

4.7 Amortisation and depreciation of fixed assets

Amortisation and depreciation in 2020 amount to Euro 12,281 thousand, of which Euro 7,543 thousand related to the depreciation of rights-of-use following the application of the new IFRS 16. Amortisation and depreciation in 2019 amounted to Euro 4,507 thousand and did not include IFRS 16 depreciation.

4.8 Doubtful debt provision

The increase in the doubtful debt provision, which amounted to Euro 695 thousand in 2020 compared to Euro 198 thousand in 2019, is related to an estimate of losses on certain critical default positions at the American subsidiary.

4.9 Provision for risks and charges

In 2020, no provisions were recorded for future risks, as occurred in the previous year.

4.10 Other operating charges

The breakdown is as follows:

	31/10/2020	**31/10/2019**
Taxes and duties	192	300
Fiscal and contractual penalties	137	42
Losses due to damages	54	123
Gifts and donations	630	531
Prior year charges	70	64
Losses on receivables	27	0
Non-recurring charges	84	230
Other minor charges	20	12
Total	**1,214**	**1,302**

Non-recurring costs relate to social security contributions and salary costs that the Parent Company was required to pay to former employees of one of its suppliers who had gone into bankruptcy.

4.11 Financial income and expenses

The breakdown is as follows:

	31/10/2020	**31/10/2019**
Bank interest income	6	5
Interest on clients	64	78
Other interest income	42	4
Financial discounts	32	33
Financial Income	**144**	**120**
Interest from banks on advances	0	0
Bank interest on mortgages and other medium/long-term loans	(185)	(150)
other interest charges	(5)	(10)
discounts to clients	(495)	(546)
loan drawdown charges	(17)	(16)
financial interest expense IFRS16	(764)	
Financial Expenses	**(1,466)**	**(722)**
Exchange gains/(losses)	**(757)**	**180**
Total	**(2,079)**	**(422)**

4.12 Adjustment to financial assets

During the year, the holding in the associated company Starcolor Srl was revalued for a total of Euro 204 thousand (Euro 110 thousand in 2019) to account for its result for the year.

4.13 Income taxes

	31/10/2020	**31/10/2019**
Current taxes	12,034	12,681
Prior year taxes	79	(9,785)
Deferred tax charge/(income)	(2,172)	(1,012)
Total	**9,941**	**1,884**

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.

Prior year taxes at October 31, 2019 included in fact the tax credit from the tax benefits for the years 2016, 2017 and 2018 connected to the prior five-year agreement with the Italian Revenue Agency for access to the Patent Box tax benefits, while the Current income taxes account included the benefit calculated for the financial year ended October 31, 2019.

The income tax charge for the year is determined on the basis of current legislation and is estimated taking into account the Patent Box tax benefit calculated for the current year - the final year of the five-year agreement stated previously.

In 2020, the Sportswear Group booked a net increase in deferred tax assets of Euro 2,172 thousand, as shown in the relevant section and essentially as a result of the allocations made to the inventory obsolescence provisions.

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 2019 and 2020 and the closing balances of intangible assets are shown in the following tables:

Intangible assets	**Gross value**	**Accumulated amortisation**	**2020 Net value**	**2019 Net value**
Software	6,555	(4,783)	1,772	2,212
Key money	10,802	(6,996)	3,806	4,400
Goodwill	535	0	535	535
Other intangible assets	469	(469)	0	9
Assets in progress	3	0	3	3
	18,364	**(12,248)**	**6,116**	**7,159**

The movements in the individual asset categories are as follows:

Intangible assets	2018 Net Value	Increases	Decreases	Amortisation	2019 Net Value
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**

Intangible assets	2019 Net Value	Increases	Decreases	Amortisation	2020 Net Value
Software	2,212	462	0	(902)	1,772
Key money	4,400	0	1	(595)	3,806
Goodwill	535	0	0	0	535
Other intangible assets	9	0	0	(9)	0
Assets in progress	3	0	0	0	3
	7,159	**462**	**1**	**(1,506)**	**6,116**

Movements in "software" and in assets in progress relate to increases in costs incurred for the implementation of the Microsoft Dynamics AX management software, for the building of the virtual showroom and for the installation of the RFID software at the Parent Company.

Goodwill at October 31, 2020 amounted to Euro 535 thousand and refers to the difference arising from the acquisition of control of Officina della Maglia s.r.l. in the previous year.

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 test carried out at October 31, 2020 were positive and, therefore, no write-down was made.

5.2 Property, plant and equipment and rights-of-use

The opening balances, movements in 2019 and 2020 and the closing balances of property, plant and equipment are shown in the following tables:

Property, plant & equipment	**Gross value**	**Accumulated Depreciation**	**2020 Net value**	**2019 Net value**
Land and buildings	10,898	(2,874)	8,024	8,267
Plant & machinery	5,788	(3,787)	2,001	2,148
Equipment	3,296	(2,620)	676	555
Furniture and fittings	6,816	(4,029)	2,787	2,913
Leasehold improvements	14,222	(3,872)	10,350	8,813
Other assets	886	(543)	343	320
Assets in progress	825	0	825	100
	42,731	**(17,725)**	**25,006**	**23,116**

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

at October 31, 2019

Property, plant & equipment gross value	**31/10/18**	**Increases**	**Decreases**	**Cge. in consol. scope**	**Other movements**	**31/10/19**
Land and buildings	9,389	348		1,114		10,851
Plant & 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 & equipment accumulated depreciation	**31/10/18**	**Deprec.**	**Decreases**	**Cge. in consol. scope**	**Other movements**	**31/10/19**
Land and buildings	1,802	336		445	1	2,584
Plant & 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 & equipment net value	**31/10/18**	**Increases**	**Decreases**	**Cge. in consol. scope**	**Other movements**	**31/10/19**
Land and buildings	7,587	348	(336)	669	(1)	8,267
Plant & 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				100
	19,283	**5,949**	**(2,895)**	**736**	**43**	**23,116**

at October 31, 2020

Property, plant & equipment gross value	**31/10/19**	**Increases**	**Decreases**	**Other movements**	**31/10/20**
Land and buildings	10,851	47			10,898
Plant & machinery	5,642	301	(109)	(46)	5,788
Equipment	2,832	466	(3)	1	3,296
Furniture and fittings	6,320	566	(2)	(68)	6,816
Leasehold improvements	11,337	2,976		(91)	14,222
Other assets	730	83		73	886
Assets in progress	100	825		(100)	825
	37,812	**5,264**	**(114)**	**(231)**	**42,731**

Property, plant & equipment accumulated depreciation	**31/10/19**	**Depreciation**	**Decreases**	**Other movements**	**31/10/20**
Land and buildings	2,584	290			2,874
Plant & machinery	3,494	402	(109)		3,787
Equipment	2,277	346	(3)		2,620
Furniture and fittings	3,407	655	(1)	(32)	4,029
Leasehold improvements	2,524	1,406		(58)	3,872
Other assets	410	133			543
	14,696	**3,232**	**(113)**	**(90)**	**17,725**

Property, plant & equipment net value	**31/10/19**	**Increases**	**Decreases**	**Other movements**	**31/10/20**
Land and buildings	8,267	47	(290)	0	8,024
Plant & machinery	2,148	301	(402)	(46)	2,001
Equipment	555	466	(346)	1	676
Furniture and fittings	2,913	566	(656)	(36)	2,787
Leasehold improvements	8,813	2,976	(1,406)	(33)	10,350
Other assets	320	83	(133)	73	343
Assets in progress	100	825	0	(100)	825
	23,116	**5,264**	**(3,233)**	**(141)**	**25,006**

The increase in land and buildings relates to the cost incurred for the purchase of a building plot in Ravarino, on which construction work has begun for the new warehouse building at the Parent Company's headquarters.
The increases in plant, machinery and equipment are mainly related to the Parent Company's RFID project.

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

The movements of the other assets are mainly due to the purchase of IT equipment for new stores.

The other movements column shows the exchange rate differences relating to the consolidation of the American, Canadian and Chinese companies, as well as some minor reclassifications.

Assets in progress mainly concern the costs incurred for the construction of the new Ravarino Building, to be completed in the subsequent year.

at October 31, 2020

Right-of-use gross value	NA	Increases	Decreases	Other movements	31/10/2020
Right-of-use Buildings	-	74,222		0	74,222
Right-of-use Motor vehicles	-	201	(10)	0	191
	-	**74,423**	**(10)**	**0**	**74,413**

Right-of-use accumulated depreciation	NA	Depreciation	Decreases	Other movements	31/10/2020
Right-of-use Buildings	-	7,439		(57)	7,382
Right-of-use Motor vehicles	-	104	(10)		94
	-	**7,543**	**(10)**	**(57)**	**7,476**

Right-of-use net value	NA	Increases	Decreases	Other movements	31/10/2020
Right-of-use Buildings	-	74,222	(7,439)	56	66,840
Right-of-use Motor vehicles	-	201	(104)	0	97
	-	**74,423**	**(7,543)**	**56**	**66,937**

The application of IFRS 16 resulted in the recognition at November 1, 2019 of rights-of-use to non-current assets.

The initial net carrying amount was Euro 66,936 thousand and principally concerns the initial application of IFRS 16 on the lease contracts of the buildings and vehicles used for company operations.

There are no indicators of impairment requiring an impairment test.

5.3 Investments in associates

A breakdown follows:

Movements in associates	Country	% held	book value at 31/10/19	2020 Changes	book value at 31/10/20
Starcolor Srl	Italy	24%	617	204	821
Net total			**617**	**204**	**821**

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 203 thousand relate to security deposits and mainly refer to the amounts paid on leases of the Paris, Cannes, Toronto and Miami stores.

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 '19			REABSORPTIONS '20			INCREASES '20			TAX: DEFERRED '20		
Deductible differences	Assess.	Rate	Tax	Assess.	Rate	Tax	Assess.	Rate	Tax	Assess.	Rate	Tax
Raw mat. inv. write-down provision	1,669	27.9%	466		27.9%	0	171	27.9%	48	1,840	27.9%	513
Fin. prod. inv. write-down provision	4,016	27.9%	1,120		27.9%	0	5,195	27.9%	1,449	9,211	27.9%	2,569
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	91	27.9%	25	74	27.9%	21		27.9%	0	17	27.9%	7
Provisions for risks & future charges	0	27.9%	0		27.9%	0		27.9%	0	0	27.9%	0
Provisions for returns	394	27.9%	113	394	27.9%	110	875	27.9%	244	875	27.9%	245
Other deferred deduction costs	454	24.0%	109	454	24.0%	109	505	24.0%	121	505	24.0%	121
Amortisation of trademarks	1,016	27.9%	283	30	27.9%	8	14	27.9%	4	1,000	27.9%	279
Depreciation of revalued buildings & plant	61	27.9%	17		27.9%	0		27.9%	0	61	27.9%	17
Fiscal deficit Stab Org France	0	33.3%	0		33.3%	0		33.3%	0	0	33.3%	0
IAS 38 - reversal intangible assets	256	27.9%	71	22	27.9%	6		27.9%	0	234	27.9%	65
Goodwill ex SI Retail	206	27.9%	57		27.9%	0	30	27.9%	8	236	27.9%	65
Goodwill ex SI Rome	164	27.9%	46		27.9%	0	31	27.9%	9	195	27.9%	55
Goodwill Milan	42	27.9%	12		27.9%	0	35	27.9%	10	77	27.9%	22
IFRS16	0	27.9%			27.9%		651	27.9%	182	651	27.9%	178
Stock Profit	4,535	27.9%	1,265	4,535	27.9%	1,265	5,810	27.9%	1,621	5,810	27.9%	1,621
TOTAL DEFERRED TAXES WITH EFFECT ON INCOME STATEMENT	14,184		3,891	5,509		1,519	13,317		3,696	21,992		6,064
IAS 19 – Post-employment benefits	268	27.9%	75	38	24.0%	9		24.0%	0	230	24.0%	60
IFRS 9 - Cash flow hedge derivatives	0	24.0%	0		24.0%	0	60	24.0%	14	60	24.0%	15
TOTAL DEFERRED TAXES WITH EFFECT ON COMPREHENSIVE INCOME STATEMENT	268		75	38		9	60		14	290		75
TOTAL DEFERRED TAX ASSETS	14,452		3,966	5,547		1,528	13,377		3,710	22,282		6,139

DESCRIPTION	TAX: DEFERRED '19			REABSORPTIONS '20			INCREASES '20			TAX: DEFERRED '20		
Goodwill SI Amsterdam	70	25.00%	17		25.00%	0	8	25.00%	2	78	25.00%	15
Goodwill SPW Germany	229	27.9%	64		27.9%	0		27.9%	0	229	27.9%	64
Leasing Knitwear Workshop	224	27.9%	62		27.9%	0	32	27.9%	9	256	27.9%	69
TOTAL DEFERRED TAX ASSETS	523		143	0		0	40		11	563		148

	31/10/2019	31/10/2020
Total deferred tax assets	3,823	5,991

The Sportswear Group recorded total net deferred tax assets of Euro 5,991 thousand, corresponding to 100% of the amount of the tax asset as at October 31, 2020.

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

The Parent Company has no tax losses carried forward.

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

5.6 Inventories

The breakdown of inventories is shown in the table below:

Inventories	**31/10/20**	**31/10/19**
Raw materials	8,257	7,403
Products in work-in-progress	12,865	13,089
Finished products	30,152	23,688
Gross inventory	**51,274**	**44,180**
Raw materials obsolescence provision	(1,846)	(1,668)
Finished products obsolescence provision	(9,209)	(4,015)
Net total	**40,219**	**38,497**

The overall increase in the value of work-in-progress is due to the delay of Spring Summer 2021 production, while the increase in finished products is due to the delay in Autumn Winter 2020 shipments and the increase in returns for the Spring Summer 2020 season. The effects reported above are direct consequences of the pandemic effect in this fiscal 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 COVID lockdown, which mainly impacted inventories in the Spring Summer 2020 season.

The estimate of the finished products obsolescence provisions is mainly based, beginning with an analysis of disposals in the present year, on the currently available disposal channel sales forecasts, in addition to the additional outlets which the Group expects to open over the coming year through operating plans which have already been drawn up or are being drafted. The unexpected nature of the COVID-19 pandemic has given rise to uncertainties upon the effective final outcome of the disposals, although management considers the assumptions adopted for this estimate as reasonable.

5.7. Trade receivables

Trade receivables	**31/10/20**	**31/10/19**
Trade customers	65,948	55,294
Doubtful debt provision	(2,023)	(1,616)
Total trade receivables	**63,925**	**53,678**

The breakdown by maturity is as follows:

	Balance 31/10/20	**Maturing**	**Past due**					
			0-30 days	**30-60 days**	**60-90 days**	**90-120 days**	**120-360 days**	**over 360 days**
Trade receivables	65,948	55,545	6,207	2,075	691	488	194	748
Doubtful debt provision	(2,023)							
Total trade receivables	**63,925**	**55,545**	**6,207**	**2,075**	**691**	**488**	**194**	**748**

The increase in trade receivables is essentially due to the timing delay of winter season invoicing.

Losses on receivables were recorded totalling Euro 26.5 thousand in the year under review. The doubtful debt provision of the Parent Company 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, while that of the American subsidiary was increased to take into account a number of critical default positions.

It is considered that this sum is adequate to cover the risk of doubtful debts at October 31, 2020. 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, 2019

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

at October 31, 2020

	31/10/19	Provision	Utilizations	31/10/20
Doubtful debt provision	1,616	695	(288)	2,023

The table below provides a regional breakdown of trade receivables.

Receivables by region	**31/10/20**
Italy	34,442
Europe (excl. Italy)	12,080
The Americas	7,536
Rest of the World	11,890
Total	**65,948**

In line with previous years, the Group did not factor receivables, with the exception of the reverse factoring transaction at October 31, 2020 amounting to Euro 4,816 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	**31/10/20**	**31/10/19**
VAT Receivables	2,828	2,761
Direct taxes	5,176	4,164
Other receivables	609	505
Total current tax receivables	**8,613**	**7,430**

Non-current tax receivables	**31/10/20**	**31/10/19**
Tax repayment request	0	279
Tax receivables (non-current)	**0**	**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.

During the year, tax repayment requests relating to the lower IRES for the years 2007-2011 were collected by the Parent Company. They were 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	**31/10/20**	**31/10/19**
Advances to suppliers	1,546	1,263
Receivables from agents	51	57
Leg. Decree 57-12 earthquake contribution	0	666
Prepayments and accrued income	1,044	1,034
Other receivables	340	278
Total other current assets	**2,981**	**3,298**

Advances to suppliers mainly refer to advances to subcontractors for the production of the 2021 summer season garments and credit notes to be received from suppliers.

The Parent Company collected 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.

5.10 Other current and non-current financial assets

Other current financial assets	**31/10/20**	**31/10/19**
Other current financial assets	23	12
Financial Instruments - Assets	0	0
Total other current financial assets	**23**	**12**

Other non-current financial assets	**31/10/20**	**31/10/19**
Other non-current financial assets	18	17
Investments in other companies	2	2
Total other non-current financial assets	**20**	**19**

As at October 31, 2020 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.

At October 31, 2020, the Company and the Group had not undertaken forward currency purchase contracts.

5.11 Cash and cash equivalents

At October 31, 2020 cash and cash equivalents amounted to Euro 78,681 thousand (Euro 45,498 thousand at October 31, 2019) and is entirely represented by liquid bank deposits.

5.12 Shareholders' Equity

As October 31, 2020, 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 2020 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 IAS 39. For further details on movements during the year, reference should be made to the comprehensive income statement.

Dividends were paid in 2020 amounting to Euro 43,854 thousand (Euro 25,365 thousand in 2019).

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	**119,350**	**43,775**
Difference between the book value of the consolidated companies and the related book net equity	2,200	(369)
Elimination of unrealised loss deriving from transactions between Group companies, net of the related tax effect	(4,184)	(917)
Elimination of provisions for returns and IC customer indemnities, net of related tax effects	1,761	411
Reversal of inter-company dividends	0	(300)
Other changes (net of any tax effects)	1,220	(229)
Net effect of consolidation adjustments in thousands of Euro	**120,346**	**42,370**
Minority interest net equity and net profit	396	72
Group Consolidated Financial Statements at October 31, 2020	**120,742**	**42,442**

5.13 Trade payables

Trade payables amounted to Euro 30.5 million at October 31, 2020 (Euro 25.5 million at October 31, 2019) 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	**31/10/20**	**31/10/19**
current payables	0	22
loans	31,694	7,498
Total current bank payables	**31,694**	**7,520**

Non-current bank payables	**31/10/20**	**31/10/19**
loans	27,694	13,770
Total non-current bank payables	**27,694**	**13,770**

Total bank payables	**59,388**	**21,290**

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

Movements in bank payables (Euro '000)	**31/10/2019**	**New**	**Repayments**	**Amortised costs**	**Reclassifications**	**31/10/2020**
current payables	22		(22)			0
loans	7,498	3,544	(7,880)		28,532	31,694
Total current payables	**7,520**	**3,544**	**(7,902)**	**0**	**28,532**	**31,694**
loans	13,770	42,456	0		(28,532)	27,694
Total non-current payables	**13,770**	**42,456**	**0**	**0**	**(28,532)**	**27,694**
	21,290	**46,000**	**(7,902)**	**0**	**0**	**59,388**

During the year, medium-term loans totalling Euro 46 million were acquired (of which Euro 15 million at 18 months, Euro 5 million at 24 months and Euro 26 million at 36 months) to meet the new investment and possible working capital requirements strictly linked to the uncertainties that have arisen in the market due to COVID.

Contracts for certain loans require compliance with operating and financial indicators, all of which had been complied with at October 31, 2020.

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	**31/10/20**	**31/10/19**
current tax payables	567	904
employee withholding taxes	443	432
consultant withholding taxes	95	84
other tax payables	228	63
Total tax payables	**1,333**	**1,483**

5.16 Other current liabilities

Other current liabilities	**31/10/20**	**31/10/19**
Payables to customers	37	927
Other payables	646	409
Employee payables	2,951	2,664
Payables to agents	2,612	2,710
Social security institutions	379	363
Deferred income Leg. Decree No. 57-12 contribution	877	948
Other accruals and deferred income	514	450
Total other current liabilities	**8,016**	**8,471**

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)

Other current financial liabilities of Euro 14,310 thousand essentially concern (i) for Euro 6,984 thousand payables for the short-term portion of right-of-use contracts and include the recognition, in accordance with IFRS 16, of the present value of future payments due for the lease (ii) for Euro 7,244 thousand the payable to employees for the share incentive plan, as outlined at paragraph 8.1.

Other non-current financial liabilities totalled Euro 61,244 thousand and concerned essentially for Euro 61,140 thousand the payable for the long-term portion of right-of-use contracts recognised according to IFRS 16 and for Euro 60 thousand derivative financial instrument liabilities.

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	**31/10/20**	**31/10/19**
opening net obligation	2,253	1,603
Interest on bonds	0	0
Current cost	1,301	1,132
Payments	(799)	(350)
Actuarial gains/(losses)	37	(132)
closing net obligation	**2,792**	**2,253**

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	**31/10/20**	**31/10/19**
Pension and similar	1,237	1,050
Provision for taxes and duties	0	0
Total provisions for risks and charges	**1,237**	**1,050**

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, 2020.

• The provision for taxes and duties was fully utilised in 2020and at October 31, 2020 no provision was required.

The following tables detail the movements of the provisions:

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)		NA
Provision for taxes and duties	45		(45)		0
Total provisions	**879**	**176**	**(5)**	**0**	**1,050**

at October 31, 2020

Movements provisions for risks and charges	**31/10/19**	**Provision**	**Utilizations**	**Other move.**	**31/10/20**
pension and similar provision	1,050	187	0		1,237
Provision for taxes and duties	0		0		0
Total provisions	**1,050**	**187**	**0**	**0**	**1,237**

There are no ongoing legal or tax disputes that could give rise to significant liabilities for the Group which are not reflected in the financial statements and which require reporting in these notes.

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 67,395 thousand, a deterioration on the previous year (Euro 71,474 thousand at 31/10/2019).

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 26,621 thousand (negative Euro 20,652 thousand in 2019), mainly due to the increase in inventories and trade receivables in relation to the increase in turnover.

6.3. Cash flow from business combinations.

During the present year, there were no business combinations that generated cash flows.

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.
Investment activities absorbed a total of Euro 5,501 thousand in resources (Euro 8,030 thousand in 2019).

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 on the one hand by the increase in payables to lenders and on the other by the dividends paid to shareholders.
Financing activities absorbed a total of Euro 2,090 thousand (Euro 26,424 thousand in 2019).

7. Commitments

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

	31/10/2020	31/10/2019
SURETIES	**7,186**	**8,073**
- 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	158	150
- Crevalcore Warehouse	30	0
- Amanpulo	4,311	5,236

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

No risk profiles emerged on the commitments outstanding at financial year-end.

8. Disclosure on related party transactions – IAS 24

The transactions between 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 Company.

The following tables reports the Balance Sheet and Income Statement amounts affected by the transactions of the Parent Company with related parties, as established 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, 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**

at October 31, 2020

Costs Revenues with Related Parties	**Commercial Costs**	**Financial Costs**	**Commercial Revenues**	**Financial Revenues**
Amanpulo Srl	472	0	0	0
Amandari Srl	2	0	0	0
	474	**0**	**0**	**0**

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

As in the previous year, at October 31, 2020, there were no receivables or payables with related companies.

8.1 Stock option plan

On June 28, 2019, the Board of Directors of the Parent Company approved an incentive plan ("Incentive Plan") in favour of Group management, broken down into two separate tranches ("Tranche I and Tranche II") and with differing vesting features. The Incentive Plan grants a right to receive, free of charge, subject to certain conditions, special class shares of the Parent Company, with limited voting rights, for a maximum number of 96,800 shares.

In addition, the agreements between the parties provide for cross call and put 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 both Tranches of the Incentive Plan, once the rights to obtain them have matured, with consequent payment by the Company of their fair value. The existence of these options establishes both tranches of the Incentive Plan as "cash settled" and consequently, at each balance sheet date, the fair value of the two Tranches must be estimated and the difference compared with the amount recorded at the end of the previous year to the income statement, following an updated of the estimate for the likelihood of fulfilling the conditions for the vesting of the Incentive Plan; from a balance sheet point of view, as per IFRS, the Group recognises a financial liability as the existence of the put option establishes an unconditional obligation for the Parent Company to settle possible requests of the assignees to exercise this right, independently whether such right is exercised or not, in cash upon maturity of both of the tranches of the Plan.

As at October 31, 2019, a liability for Tranche I of the Incentive Plan of Euro 1,459 thousand was recognised, on the basis of an independent expert's appraisal and following a valuation process that established that the fulfilment of the vesting conditions of Tranche I, based on the maintenance of professional services over a certain period of time and as per the vesting percentages set out in the agreement, was likely and that fulfilment of the Tranche II conditions, exclusively based on their achievement over a certain time period and under the certain financial conditions of events such as the listing or sale of the Parent Company ("Exit"), was not likely with reference to which, therefore, no accounting recognition was made this year.

In accordance with the accounting rules indicated above, the estimate of the vesting probability and the fair value of the two Tranches as at October 31, 2020 was updated based on the information available at that date. This valuation process was based on the fact that by that date negotiations had begun for the transfer of the Parent Company's share capital, subsequently emerging in a framework agreement setting the terms for the business combination by which the Parent Company and therefore the Group will become part of the Moncler Group; this agreement was announced to the market in the press release of December 7, 2020, which also sets out the financial terms and the enterprise valuation of the Group, which reflects that already established in the negotiations ongoing at October 31, 2020. As a result of this valuation process, it is considered highly likely that the rights of the entire Incentive Plan, including Tranche II, will vest in the first half of 2021, and the update of the fair value of the two tranches was necessarily based on the valuation attributed to the Group in the above-mentioned capital transaction.

From an accounting point of view, the above-mentioned valuation process resulted in the recognition to the income statement, as the portion of personnel expense pertaining to the year ended October 31, 2020, of a total amount of Euro 5.8 million, established as follows:

- the portion pertaining to Tranche II (Euro 3.8 million), the vesting of which is subject to the beneficiaries' continued provision of service at the effective Exit date, was established by estimating the vesting period from the date of approval of the Incentive Plan to that expected for the Exit's effectiveness (June 30, 2021) and therefore accounting for the pro-quota amount matured at October 31, 2020, while the portion that will vest subsequent to this date will be recognised to the following year's financial statements.
- the share pertaining to Tranche I (Euro 2 million) was calculated considering the vesting percentage at October 31, 2020 as set out in the agreement between the parties and therefore accounting also the pro-quota amount at that date.

The financial liability at October 31, 2020 (Euro 7,244 thousand), which also includes the portion of fair value recorded at October 31, 2019, has been classified as current as it is considered probable that this liability will be settled within 12 months, as stated above with regards to the expected effective Exit date.

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

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 of Euro 38.8 million. The Parent Company has overdraft facilities granted and not used at October 31, 2020 for a theoretical total of Euro 21.6 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.

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 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, 2020 subject to this risk are not significant.

In particular, the Parent Company's exchange rates and net exposure at October 31, 2020 were as follows:

Foreign currency receiv.	**total foreign currency**	**value in Euro**
US Dollars	6,120,039	5,231,697
Canadian Dollar	1,332,983	856,893
Chinese Renminbi	127,828	16,355

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.

At October 31, 2020, the Group did not have forward currency purchase contracts in place.

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, 2020, 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:

	31/10/2020	**31/10/2019**
Board of Directors remuneration	539	534
Statutory auditors' remuneration	39	39
Independent audit firm fees	49	49
Total	**627**	**622**

11. Subsequent events

For an outline of the events subsequent to year-end, reference should be made to the "Subsequent events and outlook" paragraph of the Directors' Report.

Separate Financial Statements

INCOME STATEMENT

	Note	FY 2020	FY 2019
Revenue	3.1	223,011,908	216,894,336
Other income	3.2	2,497,804	2,506,803
Total Revenue		**225,509,712**	**219,401,139**
Cost of raw materials (including changes in inventories)	3.3	(71,080,524)	(62,872,068)
Service costs	3.4	(75,592,689)	(73,301,909)
Lease and rental costs	3.5	(295,830)	(1,176,552)
Personnel expenses	3.6	(19,340,769)	(14,826,947)
Amortisation & depreciation	3.7	(3,491,174)	(2,591,332)
Doubtful debt provision	3.8	(264,385)	(197,722)
Provisions for risks and charges	3.9	0	0
Other operating charges	3.10	(1,076,120)	(1,115,803)
Total Costs		**(171,141,491)**	**(156,082,333)**
Operating profit		**54,368,221**	**63,318,806**
Financial income	3.11	604,174	683,892
Financial expenses	3.11	(775,286)	(711,974)
Exchange gains and losses	3.11	(710,836)	180,702
Total financial income and expenses		**(881,948)**	**152,620**
Adjustment to financial assets	3.12	0	0
Profit before taxes		**53,486,273**	**63,471,426**
Income taxes	3.13	(9,712,067)	(954,704)
Net Profit		**43,774,206**	**62,516,722**

COMPREHENSIVE INCOME STATEMENT

	Note	FY 2020	FY 2019
Net profit (A)		**43,774,206**	**62,516,722**
Actuarial gains/(losses) IAS 19		19,921	(81,741)
Tax effect of gains and losses		(12,055)	22,060
Total other gains/(losses) that cannot be subsequently reclassified to the income statement (B)	4.12	**7,866**	**(59,681)**
Gains/(losses) on hedging derivatives		(60,323)	3,670
Tax effect of gains/(losses)		14,477	(881)
Total other gains/(losses) that may subsequently be reclassified to the income statement (C)	4.12	**(45,846)**	**2,789**
Total other profit/(loss) net of tax effect (B+C)		**(37,980)**	**(56,892)**
Total comprehensive income		**43,736,226**	**62,459,830**

BALANCE SHEET

ASSETS	Note	FY 2020	FY 2019
NON-CURRENT ASSETS			
Intangible assets	4.1	1,788,296	2,345,824
Property, plant and equipment	4.2	12,292,781	11,947,620
Right-of-use	4.2	7,738,069	-
Investments in subsidiaries and associates	4.3	8,684,315	5,708,856
Non-current tax receivables	4.8	0	279,160
Other non-current assets	4.4	50,242	51,550
Other non-current financial assets	4.10	16,161,510	7,901,901
Deferred tax assets	4.5	4,691,058	2,911,060
TOTAL NON-CURRENT ASSETS		**51,406,271**	**31,145,971**
CURRENT ASSETS			
Inventories	4.6	36,586,518	35,088,204
Trade receivables	4.7	72,848,881	66,258,624
Tax receivables	4.8	7,510,618	6,084,993
Other current assets	4.9	1,571,573	2,249,931
Other current financial assets	4.10	2,537,659	3,966,902
Cash and cash equivalents	4.11	66,927,666	34,099,874
TOTAL CURRENT ASSETS		**187,982,915**	**147,748,528**
TOTAL ASSETS		**239,389,186**	**178,894,499**

LIABILITIES & SHAREHOLDERS' EQUITY

SHAREHOLDERS' EQUITY			
Share Capital	4.12	10,000,000	10,000,000
Other Reserves	4.12	65,575,229	46,850,087
Net profit for the year	4.12	43,774,206	62,516,722
TOTAL SHAREHOLDERS' EQUITY		**119,349,435**	**119,366,809**
NON-CURRENT LIABILITIES			
Post-employment benefits	4.18	2,137,240	1,708,480
Provisions for risks and charges	4.19	1,861,592	1,596,805
Non-current bank payables	4.14	27,693,677	13,694,997
Other non-current financial liabilities	4.17	60,323	1,459,296
Non-current financial liabilities IFRS16	4.17	7,102,939	-
Deferred tax liabilities	4.5	0	0
TOTAL NON-CURRENT LIABILITIES		**38,855,771**	**18,459,578**
CURRENT LIABILITIES			
Trade payables	4.13	34,134,864	25,960,552
Current bank payables	4.14	31,694,085	7,519,760
Other current financial liabilities	4.17	7,243,762	0
Current financial liabilities IFRS16		853,579	-
Tax payables	4.15	494,396	513,862
Other current liabilities	4.16	6,763,294	7,073,938
TOTAL CURRENT LIABILITIES		**81,183,980**	**41,068,112**
TOTAL LIABILITIES		**239,389,186**	**178,894,499**

CASH FLOW STATEMENT

Euro	Note	FY 2020	FY 2019
CASH FLOW FROM OPERATING ACTIVITIES:			
Net profit		43,774,206	62,516,722
Adjustments for:			
Income taxes		9,712,067	954,704
Financial income and expense	3.11	881,948	(152,620)
Amortisation	4.1	1,014,922	1,128,583
Depreciation	4.2	1,416,771	1,462,749
Right-of-use depreciation	4.2	1,059,481	-
Net change in provisions for risks and charges		264,787	(741,891)
Net change in post-employment benefit provision		436,626	401,165
Operating cash flow	**5.1**	**58,560,808**	**65,569,412**
Change in inventories	4.6	(1,498,314)	(9,105,249)
Change in trade and other receivables		(9,958,732)	(17,034,730)
Change in trade and other payables		7,844,202	3,936,460
Income taxes paid		(9,431,422)	(954,704)
Cash flow generated/(absorbed) from changes in working capital	**5.2**	**(13,044,266)**	**(23,158,223)**
Cash flow generated/(absorbed) from operating activities		**45,516,542**	**42,411,189**
CASH FLOW FROM INVESTING ACTIVITIES			
(Investments)/Disposals of intangible assets and goodwill		(457,393)	(687,663)
(Investments) /Disposals of property, plant and equipment		(1,761,930)	(1,478,198)
(Investments)/Disposals of equity investments		(2,975,462)	(4,021,640)
Cash flow generated/(absorbed)	**5.3**	**(5,194,785)**	**(6,187,501)**

CASH FLOW FROM FINANCING ACTIVITIES			
Net change in current financial assets		1,383,398	(1,982,761)
Net change in non-current financial assets		(8,259,609)	2,273,448
Net change in current and non-current financial liabilities		5,844,789	1,455,626
Change in payables to banks and other current lenders		24,174,325	8,782
Change in payables to banks and other non-current lenders		13,998,680	(2,725,597)
Dividends paid		(43,753,600)	(25,264,800)
Financial income and expense		(881,948)	152,620
Cash flow generated/(absorbed)	**5.4**	**(7,493,965)**	**(26,082,682)**
Increase/(Decrease) in cash and cash equivalents		**32,827,792**	**10,141,006**
Opening cash & cash equivalents		34,099,874	23,958,868
Closing cash & cash equivalents		66,927,666	34,099,874
Change in cash and cash equivalents		**32,827,792**	**10,141,006**

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Notes	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	Gains/(Losses) carr. forward	Profit/ (Loss)	Total
At 1/11/2018		**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**
Reclassification reserve	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
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**
Allocation of the result for the year	4.12					18,763,122					43,753,600	(62,516,722)	0
Dividends allocated	4.12										(43,753,600)		(43,753,600)
Change IAS 19 reserve	4.12								7,866				7,866
Change in Hedge accounting reserve	4.12									(45,845)			(45,845)
Other movements	4.12					(1)							(1)
Profit for the year	4.12											43,774,206	43,774,206
Profits - carried forward	4.12												0
At 31/10/2020		**10,000,000**	**2,038,774**	**7,559,535**	**4,718,301**	**52,964,203**	**27,945**	**(1,569,269)**	**(118,415)**	**(45,845)**	**0**	**43,774,206**	**119,349,435**

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 2020 financial year, operating activities proceeded as planned and no events occurred 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 2020 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, 2020 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 financial statements of the Company include the following tables - unchanged on the previous year:

- 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 Significant events in 2020 and going concern

The beginning of 2020 featured the global coronavirus (COVID-19) outbreak, with the World Health Organisation declaring a "global pandemic" in March in view of the growing number of countries recording infections. Following the initial reporting of COVID-19 cases in Asia (beginning in China in January), the virus spread to Europe, with the first case officially recorded in Italy on February 21. It subsequently spread to the Americas - particularly the United States and Brazil.
The global health crisis prompted governments to introduce increasingly restrictive measures, including restrictions on travel, the isolation of individuals and the suspension of non-essential production and commercial activity, with the key objective of fighting the spread of the virus and protecting public health.
These exceptional measures had major social and economic impacts and also hindered the Company's revenue and earnings growth.
Sales were hit by the stringent measures imposed by governments across the world to limit the spread of COVID-19 - and particularly by the temporary closure of some stores. Due to this unforeseeable event, surplus inventory built up and led to non-recurring write-downs on items.
Faced with this environment, the Company reacted quickly to the emergency, benefitting from its ability to foresee and interpret the knock-on effects of these changes and introducing far-reaching operating measures.
The Company in this regard complied with the lockdowns imposed by the local authorities, proactively adopting all measures necessary to protect the health of its employees and to mitigate the impact of the emergency.
In particular, protocols were introduced to protect workers, such as - for example - the use of personal protection equipment and the introduction of social distancing measures, sanitation procedures, remote working and other safety measures.
Considering the current situation shaped by the economic and social effects of the COVID-19 outbreak and the uncertainty on its duration, it is difficult to make forecasts on the future impacts of the pandemic.
In terms of potential liquidity risks, the Directors, in view of the financial resources currently available to the Company and the operating forecasts for the coming year, do not consider the impact of these events shall give rise to the risk that the Company may be unable to meet its obligations on time, while neither giving rise to uncertainties on the Company's going concern.

1.5 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.

In terms of the company's going concern, reference should be made to the previous paragraph.

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 on the initial application of IFRS) or production cost 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 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".

Right-of-use assets

Assets subject to lease contracts are recognised by recording a "right-of-use" to assets and a liability represented by the present value of the payments due for the lease. The "right-of-use" is depreciated on a straight-line basis over the duration of the lease contract, applying the same depreciation rates presented below, or the related useful economic-technical life, where shorter. On the effective lease date, defined as the date on which the lessor makes the underlying asset available to the lessee, the book value of the "right-of-use" includes the amount of the initial measurement of the lease liability, the payments due on the lease made on or before the effective date, and any other initial direct costs. The initial measurement of the lease liability as per the preceding paragraph includes fixed lease payments, variable payments that depend on an index or rate, and the exercise price of the purchase option, where there is a reasonable certainty of its exercise.

This accounting method is mainly applied to the following categories of assets subject to leases: civil and industrial buildings, vehicles, EDP and hardware equipment.

The Company applies the option granted by IFRS 16 - Leases to record as cost, on an accruals basis, the lease contract charges i) of short duration (i.e. less than 12 months), ii) concerning low-value assets (i.e. individually less than Euro 5,000, when new).

The asset for the right-of-use is subsequently depreciated on a straight-line basis from the effective date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company at the end of the lease term. In this case, the asset for the right-of-use will be depreciated over the useful life of the underlying asset, determined on the same basis as that of property and equipment. In addition, the asset for the right-of-use is regularly reduced by any impairment losses and adjusted to reflect any changes arising from subsequent valuations of the lease liability.
The Company assesses the lease liabilities at the present value of payments due for lease charges not settled at the commencement date, discounting them according to the implied lease interest rate.
The payments due for the lease included in the valuation of the lease liability include:
• fixed payments (including substantially fixed payments);
• lease payments that depend on an index or rate, initially measured using an index or rate at the effective date;
• the amounts expected to be paid as security
on the residual value;
• payments due for the lease during an optional renewal period if the Company has reasonable assurance that it will exercise the renewal option, and penalties for early termination of the lease, unless the Company has reasonable assurance that it will not terminate the lease early.

Subsequent to the effective date, the lease liability is measured by applying the amortised cost criterion. Thereafter, it may be restated (i.e. the cash flows of the lease change as a result of the original contractual terms) or amended (i.e. changes in the subject or in the consideration not provided for under the original contractual terms) with adjustments to the "right-of-use".

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 their recognition value is verified adopting the criteria indicated under the "Loss in value of assets" paragraph.

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 due beyond one year, non-interest bearing or which mature interest below lower 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 and 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 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:

- Amortised 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

<u>Financial assets</u>
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.

<u>Financial liabilities</u>
A financial liability is derecognised from the financial statements when the underlying liability is settled, cancelled or fulfilled.

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 available 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. Where such indications exist, the recoverable amount of these assets is estimated to determine any impairment 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

Cash Plan

In accordance with IFRS 2 and in relation to the specific characteristics of the stock option plan approved by the Company, 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.

Equity Plan (currently not applicable)

IFRS 2 also defines equity-settled share-based payment transactions, in which the entity receives goods or services as consideration for its equity instruments (including shares and share options).
Goods and/or services acquired or received by the company in connection with an equity-settled transaction are recognised to the financial statements as assets (where meeting the relative requirements) or as a cost, with a corresponding increase in shareholders' equity. The standard requires the company to measure the goods and/or services acquired or received and the corresponding increase in shareholders' equity on the basis of the fair value of the goods and/or services, unless the fair value may not be reliably estimated. In this case, the fair value of the goods

and/or services should be estimated indirectly by referring to the fair value of the equity instruments granted.
Where the equity instruments only vest on conclusion of a specified service period, the company should assume that the services provided by the counterparty as consideration for these instruments will be received in the future, during the vesting period. The company should recognise the services provided by the counterparty (recognition of cost) in the vesting period, simultaneous to their provision, with a corresponding increase in shareholders' equity.
Where the equity instruments vest immediately, the counterparty does not have to complete a specified service period before acquiring unconditional ownership of such instruments. In this case, at the grant date, the company must consider the services as received with a corresponding increase in shareholders' equity.
The fair value of the equity instruments granted is estimated based on market prices, where available, or, in the absence of such prices, using appropriate valuation techniques.
IFRS2 states that the company should recognise goods or services received in the vesting period based on the best available estimate of the number of financial instruments that are expected to vest but, where necessary, should revise such an estimate in light of subsequent information indicating that the number of instruments that will vest differs from previous estimates. On the vesting date, the enterprise revises the estimate to recognise an amount equal to the number of equity instruments that have actually vested.

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 is 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 goods expected to be returned, the Company in accordance with IFRS 15 adjusts revenues in full and recognises a liability for customer refunds, recognising the cost of production to inventories.
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.
They are measured at the tax rates that are expected to apply to the period when the temporary difference is reversed.
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, while taking into account, however, that the economic effects caused by the COVID-19 pandemic increase the degree of subjectivity of the estimates of certain items, such as, primarily, inventories:

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. The inventory obsolescence provision therefore reflects management's best estimate of the impairment expected on past-season collection items, taking into account the possibility of their sale through differing distribution channels.

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.

Returns provision
The returns provision reflects Management's estimate on the valuation of the assets deriving from product return forecasts and the relative liability for future repayments.

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
1.2% for 2020 and 1.5% for 2019	Frequency of 3.8% for 2020 and 2019	1.7% for 2020 and 2019

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

Lease liabilities and right-of-use assets
The Company records the right-of-use asset and the lease liability. Right-of-use assets are initially measured at cost, and subsequently at cost net of depreciation and cumulative impairments, while adjusted to reflect lease liability revaluations.
The Company assesses the lease liabilities at the present value of payments due for lease charges not settled at the commencement date, discounting them according to an interest rate which takes account of the duration of the leasing contracts, of the currency in which they are denominated, the economic environment in which the contract was signed and of the credit adjustment.
The lease liability is subsequently increased by the interest maturing on this liability and reduced for payments due on the lease and is revalued in the case of changes to future payments on leasing deriving from a change in the index or rate, in the case of a change to the amount which the Company expects to pay as guarantee on the residual value or where the Company changes its assessment on the exercise or otherwise of a purchase, renewal or termination option.

The Company estimated the duration of the lease contracts in which it acts as lessee and which have renewal options. The Company assessment upon the existence or otherwise of a reasonable certainty of exercising the option influences the estimate of the lease duration, impacting significantly the amount of the lease liabilities and the right-of-use assets recognised.

IFRS accounting standards, amendments and interpretations applied from November 1, 2019

In view of the fact that the Company closed its financial year on October 31, 2020, the application of the accounting standards is deferred with respect to the calendar year; consequently, the IFRS standards applicable from January 1, 2019 will be applied by the Company starting from the financial statements at October 31, 2021.

The following IFRS accounting standards, amendments and interpretations were applied for the first time by the Company from November 1, 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 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 for leases: 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. This standard does not contain significant amendments for lessors.
This standard is applied by the Company from November 1, 2019.
As per IFRS 16 a contract contains a lease when the client has the right to control the use of the identified asset for an established period of time in exchange for consideration. This concept is substantially different from the concept of "risks and benefits" to which significant attention is paid in IAS 17 and IFRIC 4.

In adopting IFRS 16, the Company has applied the exemption granted by paragraph IFRS 16.5(a) in relation to short-term leases, in particular of properties held under lease.
Likewise, the Company opted 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;
- Furniture and fittings.

For such contracts, the introduction of IFRS 16 entailed the recognition of the financial liability associated with the lease and relevant right of use. Rather, the lease payments are taken to the income statement on a straight-line basis over the term of the relevant contracts.

In addition, with regard to the transition rules, the Company opted 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, 2019;
- 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 Company applied the standard retrospectively, and therefore to recognise the cumulative effect of the application of the standard in shareholders' equity with effect from November 1, 2019 (not restating the 2019 comparative figures), in accordance with IFRS 16 C7-C13. In particular, with regard to "lease" contracts previously classified as operating leases, the Company recognises them 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 impact of adopting IFRS 16 as of the transition date of November 1, 2019, and the effects of applying this standard on the financial statements at October 31, 2020, from both a balance sheet and an income statement perspective, gross of the relative tax effects:

Euro thousands

ASSETS	*01/11/2019*	*31/10/2020*
Non-current assets		
Right-of-use Buildings	*Euro 6,061*	*Euro 7,641*
Right-of-use Motor vehicles	*Euro 146*	*Euro 97*
Total	**Euro 6,207**	**Euro 7,738**
Current assets		
Tax receivables		*Euro 58*
Prepayments	*Euro -76*	
Total	**Euro -76**	
TOTAL ASSETS	**Euro 6,131**	**Euro 7,796**
SHAREHOLDERS' EQUITY & LIABILITIES		
Non-current liabilities		
Financial liabilities for non-current leases	*Euro 5,517*	*Euro 7,103*
Current liabilities		
Financial liabilities for current leases	*Euro 614*	*Euro 853*
Net Equity		
Net Profit		*Euro -160*
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**Euro 6,131**	**Euro 7,796**

INCOME STATEMENT	*01/11/2019*	*31/10/2020*
Rentals	*0*	*Euro 919*

Depreciation	*0*	*Euro -1,059*
Interest expense	*0*	*Euro -78*
Income taxes		*Euro 58*
Total effect on the result for the year	**-**	**Euro -160**

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:

- 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.

• On June 7, 2017, the IASB published the interpretation IFRIC 23 "Uncertainty over Income Tax Treatments", which clarifies the application of the requirements for recognition and measurement in IAS 12 - "Income taxes" in the case of uncertainty on the treatment of income taxes.

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 was applied from November 1, 2019 and had no impact on the Company's financial statements.

• The IASB published on October 12, 2017 an amendment to IFRS 9 "Prepayment Features with Negative Compensation". 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 application of the new amendment did not result in any adjustments to the Company's balance sheet.

• 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 in the case of loans which remain in place even after the qualifying asset is ready for use or for sale, these become part of the overall financing utilised to calculate the borrowing costs.

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

• On February 7, 2018, the IASB published amendments to IAS 19 "Plant Amendment, Curtailment or Settlement". The document clarifies how an entity should record an amendment (i.e. a curtailment or a settlement) to 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 adoption of this amendment does not have effects 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, 2020, although early application is permitted. The Directors do not expect these amendments to have a significant impact on the company's 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, 2020.

• 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 Company's financial statements.

• On March 29, 2018, the IASB published an amendment to "references to the Conceptual Frameworks in IFRS Standards" with the objective of improving both the definitions of "assets" and "liabilities" and the process for their measurement, elimination and presentation. The document also clarifies key concepts such as identifying the readers of the financial statements and their objectives, and also discusses the issue of prudence and uncertainty in assessments for financial statement disclosure. These amendments will be applied from January 1, 2020. Early application is however permitted. The Directors do not expect this amendment to have a significant impact on the Company's financial statements.

• The IASB on September 26, 2019 published the amendment entitled "Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmarks Reform". The same amendment to IFRS 9 - Financial Instruments and IAS 39 - Financial Instruments: Recognition and Measurement, in addition to IFRS 7 - Financial Instruments: Disclosures. In particular, the amendment changes some of the requirements for the application of hedge accounting, establishing temporary derogations in order to mitigate the impact from the uncertainty of the IBOR reform on future cash flows in the period prior to its completion. The amendment also requires companies to provide additional information in their financial statements on their coverage ratios which are directly impacted by the uncertainties generated by the reform and to which the above derogations apply.
The amendments shall enter into force on January 1, 2020, although companies may opt to apply them earlier.

The Directors do not expect this amendment to have a significant impact on the Company's financial statements.

- On January 23, 2020, the IASB published the amendment to IAS 1 "Presentation of Financial Statements: Classification of Liabilities as Current or Non-current" in order to clarify the presentation of liabilities in the financial statements of companies. Specifically:
  - they clarify that the classification of liabilities between current and non-current should be based on the rights existing at the end of the reporting period, and in particular the right to defer payment for at least 12 months;
  - they clarify that classification is not affected by expectations about the entity's decision to exercise its right to defer payment related to a liability;
  - they clarify that payment refers to the transfer to the counterparty of cash, equity instruments, other assets or services.
  - The new amendment applies from January 1, 2023, with the IASB deciding to postpone the application date, previously scheduled for January 1, 2022.

- On May 14, 2020, the IASB published the following amendments:
  - Amendments to IFRS 3 "Business Combinations": the purpose of the amendments is to update the reference in IFRS 3 to the revised version of the Conceptual Framework, without changing the provisions of IFRS 3.
  - Amendments to IAS 16 "Property, Plant and Equipment": the purpose of the amendments is not to allow the amount received from the sale of goods produced during the testing phase of the asset to be deducted from the cost of the asset. These sales revenues and related costs will therefore be recognised to the income statement.
  - Amendments to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets": the amendment clarifies that in estimating the possible onerousness of a contract, all costs directly defendants to the contract must be considered. Accordingly, the assessment of whether a contract is onerous includes not only incremental costs (such as the cost of direct material used in processing), but also all costs that the enterprise may not avoid because it has entered into the contract (such as, for example, the share of personnel expenses and depreciation of machinery used to perform the contract).
  - Annual Improvements 2018-2020: the amendments were made to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples of IFRS 16 Leases.

  All the amendments will enter into force from January 1, 2022. The Directors do not expect these amendments to have a significant impact on the Company's financial statements.

- On May 28, 2020, the IASB published an amendment called "Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4)". The amendments allow the temporary exemption from the application of IFRS 9 to be extended until January 1, 2023. The amendments will enter into force from January 1, 2021. The Directors do not expect this amendment to have a significant impact on the Company's financial statements.

- On May 28, 2020, the IASB published an amendment called "Covid-19 Related Rent Concessions (Amendment to IFRS 16)". The document establishes for lessees the option to account for the reductions in rents connected with COVID-19 without having to assess, through the analysis of contracts, whether the definition of lease modification of IFRS 16 has been complied with. Therefore, lessees applying this option will be able to account for the effects of rent reductions directly in the income statement on the effective date of the reduction. This amendment is applicable to financial statements beginning on June 1, 2020, except for the possibility of early application to financial statements beginning on January 1, 2020. The Directors do not expect this amendment 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 of the company.

- 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:	31/10/2020	31/10/2019
Sales Italy	66,894,201	60,812,503
Sales Overseas	133,458,688	129,153,218
Sales Subsidiaries	19,887,504	22,550,718
Sales Points of sale	4,513,319	6,016,203
Other revenues	15,196	5,694
Reversal estimate returns	(4,351,000)	(2,594,000)
Release estimated returns 2019	2,594,000	-
Utilisation returns risk provision	-	950,000
Total	**223,011,908**	**216,894,336**

The revenue comparison highlights an increase of 2.8%, despite the significant impact from the COVID-19 pandemic in terms of the store closure periods and the impact on consumption.

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, Stone Island Germany for the stores in Munich, Sylt, Hamburg and Frankfurt, Stone Island Antwerp for the Antwerp store, Stone Island Amsterdam for the Amsterdam store, Stone Island USA Inc for sales in America, Stone Island Canada Inc for the Toronto store and Stone Island China for the Shanghai store.
In accordance with IFRS 15, the Company from the previous year has recognised 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, with the consequent recharge of this cost to inventories. The increase in the estimate of returns is mainly due to the market dynamics influenced by the COVID-19 pandemic.

Breakdown of revenue by region (Euro 000)	31/10/20	31/10/19
Italy	60,935	61,211
Europe (excl. Italy)	119,418	113,353
The Americas	15,894	16,582
Rest of the World	26,765	25,748
Total	**223,012**	**216,894**

3.2 Other income

	31/10/2020	31/10/2019
Rental income	20,007	27,878
Recovery legal expenses	17,203	19,204
Income from royalties	0	0
Recovery expenses for compensation for damages and quality issues	275,364	230,580
Grants Law 296/06 research and development	513,370	461,718
Prior year income	72,974	66,513
Recharges to subsidiaries	835,358	718,245
Other revenues and income	763,528	982,665
Total	**2,497,804**	**2,506,803**

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)

	31/10/2020	31/10/2019
Raw materials and semi-finished goods	18,286,053	18,068,763
Finished products	52,032,796	51,542,362
Ancillary materials	285,318	284,374
Packaging	63,432	87,350
Advertising material	1,000,432	965,758
Other purchases	910,807	1,028,710
Change in inventories	(1,498,314)	(9,105,249)
Total	**71,080,524**	**62,872,068**

The increase in the account compared to the previous year is due to the change in inventories, significantly affected by the increase in the finished products and raw materials obsolescence provision (totalling Euro 5,365 thousand), due to the building up of stock as a result of the mandatory store closures during the spring lockdown. The estimated impact of COVID on the finished products and raw materials obsolescence provision at October 31, 2020 was Euro 2,437 thousand (respectively Euro 2,241 thousand for finished products and Euro 196 thousand for raw materials).

3.4 Service costs

	31/10/2020	31/10/2019
Utilities	285,626	313,042
Maintenance	284,150	280,519
Transport	6,467,125	6,450,079
Outsourcing	33,852,815	32,189,642
External warehouse management	4,752,946	4,743,057
Commissions and accessory charges	9,051,955	8,807,069
Advertising	4,743,179	6,481,792
Royalties and stylistic fees	717,784	829,777
Insurance	701,956	424,079
Telephone	140,327	153,819
General consultancy	3,288,495	2,308,527
Legal consultancy	129,822	147,627
Directors' remuneration	593,793	589,687
Statutory auditor remuneration	38,556	39,307
Cleaning	150,200	149,833
Bank services	385,044	370,132
Other services	10,008,916	9,023,921
Total	**75,592,689**	**73,301,909**

The increase in outsourcing costs relates to the higher costs incurred for production cancellations as a result of the pandemic, while the increase in consultancy is partly due to the new activities planned for the development of distribution on the Asian and American markets.

3.5 Rental, leasing and similar costs

The item rental, leasing and similar costs in 2020, amounting to Euro 296 thousand (Euro 1,177 thousand in 2019), refers to property rental accessory costs of Euro 19 thousand (Euro 812 thousand in 2019), IT systems of Euro 136 thousand (Euro 136 thousand in 2019) and long-term car rental fleet costs of Euro 131 thousand (Euro 219 thousand in 2019) and other rental costs of Euro 10 thousand (Euro 9 thousand in 2019).

The significant decrease in property rental costs is due to the initial application of IFRS 16, which resulted at October 31, 2020 in the reversal of rental costs of Euro 919 thousand, against the recognition to the balance sheet of the relative rights-of-use of the assets subject to lease and in the income statement of the relative higher depreciation. Rental costs, gross of the effects from the adoption of the new IFRS 16 standard, are in line with the previous year.

3.6 Personnel expenses

At October 31, 2020, the Company had 190 employees (182 at October 31, 2019). Personnel expenses totalled Euro 19,341 thousand (Euro 14,827 thousand in 2019), including social security contributions of Euro 2,764 thousand (Euro 2,770 thousand in 2019), provisions for post-employment benefits and retention costs of Euro 1,167 thousand (Euro 1,040 thousand in 2019) and costs related to stock option plans of Euro 5,784 thousand (Euro 1,459 thousand in 2019). A description of the incentive plans, whose impact underlies the change in the account on the previous year, is provided in Section 7.1.

	AVERAGE 2020	**at October 31 2020**	**AVERAGE 2019**	**at October 31 2019**
BLUE-COLLAR	22	21	18	19
SUPERVISORS	4	4	5	4
WHITE-COLLAR	155	156	141	150
EXECUTIVES	9	9	9	9
	190	**190**	**173**	**182**

3.7 Amortisation and depreciation of fixed assets

Amortisation and depreciation in 2020 amount to Euro 3,491 thousand, of which Euro 1,059 thousand related to the depreciation of rights-of-use following the application of the new IFRS 16. Amortisation and depreciation in 2019 amounted to Euro 2,591 thousand.

3.8 Doubtful debt provision

The doubtful debt provision in 2020 amounted to Euro 264 thousand (Euro 198 thousand in 2019).

3.9 Provision for risks and charges

In 2020, no provisions were recorded for future risks, as occurred in the previous year.

3.10 Other operating charges

The breakdown is as follows:

	31/10/2020	**31/10/2019**
Taxes and duties	139,516	184,143
Fiscal and contractual penalties	137,260	41,237

Losses due to damages	54,461	123,034
Gifts and donations	548,674	472,882
Prior year charges	60,716	56,548
Losses on receivables	26,514	0
Non-recurring charges	84,000	230,329
Other minor charges	24,979	7,630
Total	**1,076,120**	**1,115,803**

Non-recurring costs relate to social security contributions and salary costs that the Company was required to pay to former employees of one of its suppliers who had gone into bankruptcy.

3.11 Financial income and expenses

The breakdown is as follows:

	31/10/2020	**31/10/2019**
Interest income from subsidiaries	159,760	166,924
Dividends from subsidiaries and associates	300,400	396,400
Bank interest income	6,303	5,331
Interest on clients	63,612	78,080
Other interest income	41,640	2,681
Financial discounts	32,459	34,477
Financial Income	**604,174**	**683,893**
Interest from banks on advances	0	(73)
Bank interest on mortgages and other medium/long-term loans	(184,657)	(150,040)
Other interest charges	(10)	(27)
Discounts to clients	(495,422)	(545,709)
Loan drawdown charges	(16,863)	(16,126)
Financial expense (IFRS16)	(78,334)	-
Financial Expenses	**(775,286)**	**(711,975)**
Exchange gains/(losses)	**(710,836)**	**180,702**
Total	**(881,948)**	**152,620**

Interest income from subsidiaries relates to interest charged on loans granted. Dividends include Euro 300 thousand from the subsidiary Officina della Maglia S.r.l.. 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

	31/10/2020	31/10/2019
Current taxes	11,410,918	11,501,663
Prior year taxes	(6,896)	(9,791,523)
Substitute taxes	85,621	
Deferred tax charge/(income)	(1,777,576)	(755,436)
Total	**9,712,067**	**954,704**

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.

Prior year taxes at October 31, 2019 included in fact the tax credit from the tax benefits for the years 2016, 2017 and 2018 connected to the prior five-year agreement with the Italian Revenue Agency for access to the Patent Box tax benefits, while the Current income taxes account included the benefit calculated for the financial year ended October 31, 2019.

The income tax charge for the year is always determined on the basis of current legislation, but is estimated taking into account the Patent Box tax benefit calculated for the current year - the final year of the five-year agreement stated previously.

In 2020, the Company booked a net increase in deferred tax assets of Euro 1,777,576, as shown in the relevant section and essentially as a result of the allocations made to the inventory obsolescence provisions.

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 2020**	**Tax 2020**	**% 2020**	**Assessable 2019**	**Tax 2019**	**% 2019**
Profit before taxes	53,486			63,471		
IRES theoretical tax rate		**(12,837)**	**24.0%**		**(15,233)**	**24.0%**
Temporary differences	6,833	(1,640)	3.1%	3,214	(771)	1.2%
Permanent differences	(623)	150	-0.3%	(603)	145	-0.2%
Permanent Difference Patent Box	(20,238)	4,857	-9.1%	(25,179)	6,043	-9.5%
IRAP		(2,029)	3.8%		(1,708)	2.7%
Prior year taxes		7	0.0%		9,792	-15.4%
Other differences		2	0.0%		22	0.0%
Deferred tax charge/income recognised to P&L		1,778	-3.3%		755	-1.2%
Income Taxes at actual rate		**-9,712**	**18.2%**		**-955**	**1.5%**

4. Notes to the Balance Sheet

4.1 Intangible assets

The opening balances, movements in 2019 and 2020 and the closing balances of intangible assets are shown in the following tables:

Intangible assets	Gross value	Accumulated amortisation	2020 Net value	2019 Net value
Software	7,157,713	(5,390,591)	1,767,122	2,211,832
Key money	2,262,002	(2,243,528)	18,474	124,957
Other intangible assets	927,404	(927,404)	0	6,335
Assets in progress	2,700	0	2,700	2,700
	10,349,819	**(8,561,523)**	**1,788,296**	**2,345,824**

The movements in the individual asset categories are as follows:

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**

Intangible assets	2019 Net value	Increases	Decreases	Amortisation	2020 Net value
Software	2,211,832	457,393		(902,103)	1,767,122
Key money	124,957			(106,483)	18,474
Other intangible assets	6,335			(6,335)	0
Assets in progress	2,700				2,700
	2,345,824	**457,393**	**0**	**(1,014,921)**	**1,788,296**

Movements in "software" relate to increases mainly in costs incurred for the implementation of the Microsoft Dynamics AX management software, for the building of the virtual showroom and for the installation of the RFID software.

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

There are no indicators of impairment requiring an impairment test.

4.2 Property, plant and equipment and rights-of-use

The opening balances, movements in 2019 and 2020 and the closing balances of property, plant and equipment are shown in the following tables:

Property, plant & equipment	**Gross value**	**Accumulated depreciation**	**2020 Net value**	**2019 Net value**
Land and buildings	9,784,410	(2,347,484)	7,436,926	7,665,017
Plant & machinery	5,555,860	(3,648,396)	1,907,464	2,043,189
Equipment	2,159,632	(1,829,315)	330,317	172,501
Furniture and fittings	3,028,039	(1,769,016)	1,259,023	1,263,689
Leasehold improvements	1,284,703	(839,674)	445,029	623,067
Other assets	447,803	(333,265)	114,538	180,157
Assets in progress	799,484	0	799,484	0
	23,059,931	**(10,767,150)**	**12,292,781**	**11,947,620**

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

at October 31, 2019

Property, plant & 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 & 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 & 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 & 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 & 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 & 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
	11,932,171	**1,480,798**	**(1,465,348)**	**(1)**	**11,947,620**

at October 31, 2020

Property, plant & equipment gross value	**31/10/2019**	**Increases**	**Decreases**	**Other movements**	**31/10/2020**
Land and buildings	9,737,258	47,151		1	9,784,410
Plant & machinery	5,421,512	243,320	(108,971)	(1)	5,555,860
Equipment	1,768,276	391,354		2	2,159,632
Furniture and fittings	2,790,188	234,673	(220)	3,398	3,028,039
Leasehold improvements	1,255,601	29,102			1,284,703
Other assets	434,356	16,846		(3,399)	447,803
Assets in progress	0	799,484			799,484
	21,407,191	**1,761,930**	**(109,191)**	**1**	**23,059,931**

Property, plant & equipment accumulated depreciation	**31/10/2019**	**Deprec.**	**Decreases**	**Other movements**	**31/10/2020**
Land and buildings	2,072,241	275,243			2,347,484
Plant & machinery	3,378,323	379,044	(108,971)		3,648,396
Equipment	1,595,775	233,540			1,829,315
Furniture and fittings	1,526,499	241,522	(220)	1,215	1,769,016
Leasehold improvements	632,534	207,140			839,674
Other assets	254,199	80,281		(1,215)	333,265
	9,459,571	**1,416,770**	**(109,191)**	**0**	**10,767,150**

Property, plant & equipment net value	**31/10/2019**	**Increases**	**Decreases**	**Other movements**	**31/10/2020**
Land and buildings	7,665,017	47,151	(275,243)	1	7,436,926
Plant & machinery	2,043,189	243,320	(379,044)	(1)	1,907,464
Equipment	172,501	391,354	(233,540)	2	330,317
Furniture and fittings	1,263,689	234,673	(241,522)	2,183	1,259,023
Leasehold improvements	623,067	29,102	(207,140)	0	445,029
Other assets	180,157	16,846	(80,281)	(2,184)	114,538
Assets in progress	0	799,484	0	0	799,484
	11,947,620	**1,761,930**	**(1,416,770)**	**1**	**12,292,781**

The increase in land and buildings relates to the cost incurred for the purchase of a building plot in Ravarino, on which construction work has begun for the new warehouse building.

The increases in plant, machinery and equipment are essentially related to the RFID project.

The increase in equipment and furnishings is mainly related to the fitting out of the corners in Berlin, Gothenburg and Warsaw.

Assets in progress concern the costs incurred for the construction of the new Ravarino Building, to be completed in the subsequent year.

at October 31, 2020

Right-of-use gross value	**31/10/2019**	**Increases**	**Decreases**	**Other movements**	**31/10/2020**
Right-of-use Buildings	0	8,596,568		0	8,596,568
Right-of-use Motor vehicles	0	200,982	(9,742)	0	191,240
	0	**8,797,550**	**(9,742)**	**0**	**8,787,808**

Right-of-use accumulated depreciation	**31/10/2019**	**Depreciation**	**Decreases**	**Other movements**	**31/10/2020**
Right-of-use Buildings	0	955,183			955,183
Right-of-use Motor vehicles	0	104,298	(9,742)		94,556
	0	**1,059,481**	**(9,742)**	**0**	**1,049,739**

Right-of-use net value	**01/11/2019**	**Increases**	**Decreases**	**Other movements**	**31/10/2020**
Right-of-use Buildings	0	8,596,568	(955,183)	0	7,641,385
Right-of-use Motor vehicles	0	200,982	(104,298)	0	96,684
	0	**8,797,550**	**(1,059,481)**	**0**	**7,738,069**

The application of IFRS 16 resulted in the recognition at November 1, 2019 of rights-of-use to non-current assets.

The initial net carrying amount was Euro 6,936 thousand and principally concerns the initial application of IFRS 16 on the lease contracts of the buildings and vehicles used for company operations.

There are no indicators of impairment requiring an impairment test.

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%	1,137,533	3,323,609
Stone Island Germany Gmbh	Germany	100%	25,000	2,093,621
Stone Island Antwerp Bvba	Belgium	100%	400,000	26,368
Stone Island Amsterdam BV	Netherlands	100%	25,000	821,497

Stone Island Usa Inc	USA	100%	2,220,103	(110,436)
Officina della Maglia S.r.l.	Italy	75.1%	1,985,000	1,389,556
Stone Island Canada Inc	Canada	100%	331,763	236,349
Stone Island Logistics S.r.l.	Italy	100%	50,000	228,213
Stone Island China Co. Ltd	China	100%	2,500,000	2,495,736
Total subsidiaries			**8,674,399**	
Investments in associated companies				
Starcolor S.r.l.	Italy	24%	9,916	
Net total			**8,684,315**	

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

The following transactions took place during the fiscal year:

- merger of Stone Island Retail Germany Gmbh into Stone Island Germany Gmbh (formerly SPW Germany Gmbh), increasing its share capital by Euro 25 thousand;
- share capital increase of Stone Island USA Inc for a total of USD 500 thousand;
- incorporation of the company Stone Island Logistic S.r.l. and Stone Island China Co. Ltd, respectively with a share capital of Euro 50 thousand and Euro 2,500 thousand.

Movements in subsidiaries	**Country**	**book value at 31.10.2019**	**2020 Changes**	**book value at 31.10.2020**
Stone Island Retail Srl	Italy	1,137,533	0	1,137,533
Stone Island Antwerp Bvba	Belgium	400,000	0	400,000
Stone Island Germany Gmbh	Germany	25,000	0	25,000
Stone Island Amsterdam BV	Netherlands	25,000	0	25,000
Stone Island Usa Inc	USA	1,794,644	425,459	2,220,103
Officina della Maglia S.r.l.	Italy	1,985,000	0	1,985,000
Stone Island Canada Inc	Canada	331,763	0	331,763
Stone Island Logistics S.r.l.	Italy	0	50,000	50,000
Stone Island China Co Ltd	China	0	2,500,000	2,500,000
		5,698,940	**2,975,459**	**8,674,399**

Movements in associated companies	**Country**	**book value at 31.10.2019**	**2020 Changes**	**book value at 31.10.2020**
Starcolor S.r.l.	Italy	9,916	0	9,916
Net total		**5,708,856**	**2,975,459**	**8,684,315**

The company Stone Island Germany Gmbh based in Munich, operating as an agent for orders in the German and Austrian region and as a sales outlet in Munich, Sylt, Hamburg and Frankfurt, in 2020 reported a profit of Euro 1,101 thousand.

Stone Island Antwerp Bvba, based in Antwerp, in 2020 recorded a profit of Euro 7 thousand.

Stone Island Amsterdam Bv, based in Amsterdam, in 2020 recorded a profit of Euro 114 thousand.

The US company operating as a wholesale distributor for the USA and as sales points in New York and Los Angeles Woodbury in 2020 reported a profit of USD 483 thousand (Euro 430 thousand). The US companies, held by Stone Island Usa Inc, reported a total loss of USD 1.3 million.

Officina della Maglia S.r.l. with head office in Mirandola (Mo) carries out knitting activities. The company reported a net profit of Euro 264 thousand in 2020.

The Toronto-based company Stone Island Canada Inc., incorporated in May 2019 and which began commercial activities in 2020, closed the current year with a loss of CAD 276 thousand (Euro 182 thousand).

The companies incorporated during the period, Stone Island Logistic S.r.l. and Stone Island China Co. Ltd, respectively closed the 2020 financial year with a profit of Euro 179 thousand and a loss of RMB 322 thousand (Euro 40 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:

					31/10/19
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 S.r.l.	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**

					31/10/20
Key Financial Highlights (Euro/000)	**Assets**	**Liabilities**	**Net Equity**	**Revenues**	**Profit/(loss)**
Stone Island Retail Srl	31,811	28,488	3,323	13,823	(717)
Stone Island Germany Gmbh	6,138	2,943	3,195	8,186	1,101
Stone Island Antwerp Bvba	578	552	26	763	7
Stone Island Amsterdam BV	1,302	481	821	1,959	114
Stone Island Usa Inc	14,560	14,670	(110)	12,012	(1,226)
Officina della Maglia S.r.l.	4,165	2,775	1,390	9,066	264
Stone Island Canada Inc	2,538	2,487	51	1,116	(182)
Stone Island Logistics S.r.l.	468	240	228	385	179
Stone Island China Co Ltd	3,339	839	2,500	149	(40)
Net total	**64,899**	**52,396**	**11,424**	**47,459**	**(500)**

4.4 Other non-current assets

Non-current assets of Euro 50 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 '19			REABSORPTIONS '20			INCREASES '20			TAX: DEFERRED '20		
Deductible differences	**Assess.**	**Rate**	**Tax**	**Assess.**	**Rate**	**Tax**	**Assess.**	**Rate**	**Tax**	**Assess.**	**Rate**	**Tax**
Raw mat. inv. write-down provision	1,668,103	27.9%	465,401	0	27.9%	0	170,502	27.9%	47,570	1,838,605	27.9%	512,971
Fin. prod. inv. write-down provision	4,014,511	27.9%	1,120,049	0	27.9%	0	5,194,968	27.9%	1,449,396	9,209,479	27.9%	2,569,445
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	436,723	27.9%	121,846	0	27.9%	0	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	1,466,000	27.9%	409,014	1,466,000	27.9%	409,014	2,445,000	27.9%	682,155	2,445,000	27.9%	682,155
Other deferred deduction costs	454,603	24.0%	109,105	454,603	27.9%	126,834	504,817	24.0%	121,156	504,817	24.0%	121,156
Amortisation of trademarks and goodwill	1,014,791	27.9%	283,127	30,166	27.9%	8,416	13,745	27.9%	3,835	998,370	27.9%	278,545
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.	0	33.3%	0	0	33.3%	0	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	10,513,666		2,865,657	1,950,769		544,264	8,329,032		2,304,112	16,891,929		4,643,233
IAS 19 - Post-employment benefits	162,733	27.9%	45,403	23,784	24.0%	5,708		24.0%	0	138,949	24.0%	33,348
IFRS 9 - cash flow hedges derivatives	0	24.0%	0	0	24.0%	0	60,323	24.0%	14,477	60,323	24.0%	14,477
TOTAL DEFERRED TAXES WITH EFFECT ON COMPREHENSIVE INCOME STATEMENT	162,733		45,403	23,784		5,708	60,323		14,477	199,272		47,825
TOTAL DEFERRED TAX ASSETS	10,676,399		2,911,060	1,974,553		549,972	8,389,355		2,318,589	17,091,200		4,691,058

	31/10/2019	31/10/2020
Total deferred tax assets	2,911,060	4,691,058

The Company recorded total deferred tax assets of Euro 4,691 thousand, corresponding to 100% of the amount of the tax asset as at October 31, 2020.

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 doubts regarding the recoverability of the deferred tax assets.

4.6 Inventories

The breakdown of inventories is shown in the table below:

Inventories	**31/10/20**	**31/10/19**
Raw materials	7,546,574	6,839,017
Products in work-in-progress	12,169,064	11,830,492
Finished products	26,012,964	20,973,309
Gross inventory	**45,728,602**	**39,642,818**
Returns IFRS15	1,906,000	1,128,000
Raw materials obsolescence provision	(1,838,605)	(1,668,103)
Finished products obsolescence provision	(9,209,479)	(4,014,511)

Net total	**36,586,518**	**35,088,204**

The overall increase in the value of work-in-progress is due to the delay of Spring Summer 2021 production, while the increase in finished products is due to the delay in Autumn Winter 2020 shipments and the increase in returns for the Spring Summer 2020 season. The effects reported above are direct consequences of the pandemic effect in this fiscal 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 COVID lockdown, which mainly impacted inventories in the Spring Summer 2020 season. The estimate of the finished products obsolescence provisions is mainly based, beginning with an analysis of disposals in the present year, on the currently available disposal channel sales forecasts, in addition to the additional outlets which the company expects to open over the coming year through operating plans which have already been drawn up or are being drafted. The unexpected nature of the COVID-19 pandemic has given rise to uncertainties upon the effective final outcome of the disposals, although management considers the assumptions adopted for this estimate as reasonable.

4.7. Trade receivables

Trade receivables	**31/10/20**	**31/10/19**
Trade customers	62,766,154	53,271,834
Subsidiaries	11,627,317	14,540,039
Doubtful debt provision	(1,544,590)	(1,553,249)
Total trade receivables	**72,848,881**	**66,258,624**

The breakdown by maturity is as follows:

(Euro 000)	Balance 31/10/20	Maturing	Past due 0-30 days	30-60 days	60-90 days	90-120 days	120-360 days	over 360 days
Trade receivables	62,766	53,513	5,412	2,022	664	213	194	748
Receivables from subsidiaries	11,627	11,627						
Doubtful debt provision	(1,545)							
Total net trade receivables	**72,848**	**65,140**	**5,412**	**2,022**	**664**	**213**	**194**	**748**

The increase in trade receivables is essentially due to the timing delay of winter season invoicing.

Losses on receivables were recorded totalling Euro 26.5 thousand 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, 2020. 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, 2019

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

at October 31, 2020

	31/10/19	Provision	Utilizations	31/10/20
Doubtful debt provision	1,553,249	264,385	(273,044)	1,544,590

The table below provides a regional breakdown of trade receivables.

Receivables by region (Euro 000)	**31/10/20**
Italy	37,652
Europe (excl. Italy)	18,435
The Americas	6,416
Rest of the World	11,890
Total	**74,393**

In line with previous years, the Company did not factor receivables, with the exception of the reverse factoring transaction at October 31, 2020 amounting to Euro 4,816 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	**31/10/20**	**31/10/19**
VAT Receivables	1,951,910	1,732,628
Direct taxes	5,008,867	3,851,271
Other receivables	549,841	501,094
Total current tax receivables	**7,510,618**	**6,084,993**

Non-current tax receivables	**31/10/20**	**31/10/19**
Tax repayment request	0	279,160
Tax receivables (non-current)	**0**	**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.

During the year, tax repayment requests relating to the lower IRES for the years 2007-2011 were collected. They were 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	**31/10/20**	**31/10/19**
Advances to suppliers	1,197,136	1,261,467
Receivables from agents	50,757	56,804
Leg. Decree 57-12 earthquake contribution	0	572,720
Prepayments and accrued income	257,423	334,764
Other receivables	66,257	24,177
Total other current assets	**1,571,573**	**2,249,931**

Advances to suppliers mainly refer to advances to subcontractors for the production of the 2021 summer season garments and credit notes to be received from suppliers.

The residual receivable was collected 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.

4.10 Other current and non-current financial assets

Other current financial assets	**31/10/20**	**31/10/19**
Loans to subsidiaries	2,514,131	3,953,341
Financial Instruments - Assets	0	0
Other current financial assets	23,528	13,561
Total other current financial assets	**2,537,659**	**3,966,902**

Other non-current financial assets	**31/10/20**	**31/10/19**
Loans to subsidiaries	16,142,000	7,883,562
Investments in other companies	19,510	18,339
Total other non-current financial assets	**16,161,510**	**7,901,901**

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 2020 and 2019:

	31/10/20			**31/10/19**		
Euro '000	**Opening Value**	**Change**	**Closing Value**	**Opening Value**	**Change**	**Closing Value**
Stone Island Retail Srl	1,506	3,004	4,510	,005	501	1,506
Stone Island Germany	2,486	(1,062)	1,424	3,022	(536)	2,486
Stone Island Antwerp	406	(4)	402	706	(300)	406
Stone Island Amsterdam	0	0	0	0	0	0
Stone Island USA Inc	6,076	3,994	10,070	7,419	(1,343)	6,076
Stone Island Canada Inc	1,363	887	2,250	0	1,363	1,363
Total	**11,837**	**6,819**	**18,656**	**12,152**	**(315)**	**11,837**

In particular, during the year ended October 31, 2020, new loans were provided to the subsidiary Stone Island Canada Inc. for the start-up of the Toronto retail store, to Stone Island Retail Srl to support the cost of setting up the new store in Milan and to Stone Island USA for the fitting out of the

Miami and Woodbury stores, while Stone Island Germany partially repaid the loans received in previous years.

As at October 31, 2020 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, 2020 cash and cash equivalents amounted to Euro 66,928 thousand (Euro 34,100 thousand at October 31, 2019) and is entirely represented by liquid bank deposits.

4.12 Shareholders' Equity

As October 31, 2020, 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 2020 and the comparative period are described in the statement of changes in shareholders' equity, to which reference should be made.

Dividends were paid in 2020 amounting to Euro 43,754 thousand (Euro 25,264 thousand in 2019).

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	52,964,203	A,B,C	52,964,203	
Exchange Gains Reserve	27,945			27,945
FTA Reserve	(1,569,269)			(1,569,269)
IAS 19 Reserve	(118,415)			(118,415)
Hedge Accounting Reserve	(45,845)			(45,845)
Total Reserves:	**65,575,229**		**65,242,039**	**333,190**

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 34.1 million at October 31, 2020 (Euro 26 million at October 31, 2019) 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	**31/10/20**	**31/10/19**
current payables	0	21,681
loans	31,694,085	7,498,079
Total current bank payables	**31,694,085**	**7,519,760**
Non-current bank payables	**31/10/20**	**31/10/19**
loans	27,693,677	13,694,997
Total non-current bank payables	**27,693,677**	**13,694,997**
Total bank payables	**59,387,762**	**21,214,757**

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

Movements in bank payables (Euro '000)	**31/10/2019**	**New Loans**	**Repayments**	**Reclassifications**	**31/10/2020**
current payables	22	0	(22)		0
loans	7,498	3,544	(7,805)	28,457	31,694
Total current payables	**7,520**	**3,544**	**(7,827)**	**28,457**	**31,694**
loans	13,695	42,456	0	(28,457)	27,694
Total non-current payables	**13,695**	**42,456**	**0**	**(28,457)**	**27,694**
	21,215	**46,000**	**(7,827)**	**0**	**59,388**

During the year, medium-term loans totalling Euro 46 million were acquired (of which Euro 15 million at 18 months, Euro 5 million at 24 months and Euro 26 million at 36 months) to meet the new investment and possible working capital requirements strictly linked to the uncertainties that have arisen in the market due to COVID.

Contracts for certain loans require compliance with operating and financial indicators, all of which had been complied with at October 31, 2020.

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	**31/10/20**	**31/10/19**
current tax payables	38,142	87,076
employee withholding taxes	363,945	348,018
consultant withholding taxes	91,765	78,279
other tax payables	544	489
Total tax payables	**494,396**	**513,862**

4.16 Other current liabilities

Other current liabilities	**31/10/20**	**31/10/19**
Payables to customers	314,883	926,777
Other payables	107,104	27,675
Employee payables	2,545,187	2,386,504
Payables for insurance	0	0
Payables to agents	2,572,571	2,449,717
Social security institutions	306,731	301,025
Deferred income Leg. Decree No. 57-12 contribution	877,039	947,697
Other accruals and deferred income	39,779	34,543
Total other current liabilities	**6,763,294**	**7,073,938**

Payables to customers concern advances received from clients against commitments already undertaken and established.

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)

Other current financial liabilities of Euro 8,097 thousand concern (i) for Euro 853 thousand payables for the short-term portion of finance lease contracts and include the recognition, in accordance with IFRS 16, of the present value of future payments due for the lease (ii) for Euro 7,244 thousand the payable to employees for the share incentive plan, as outlined at paragraph 7.1.

Other non-current financial liabilities totalled Euro 7,163 thousand and concerned for Euro 7,103 thousand the payable for the long-term portion of lease contracts recognised according to IFRS 16 and for Euro 60 thousand derivative financial instrument liabilities.

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	**31/10/20**	**31/10/19**
opening net obligation	1,708,480	1,247,634
Interest on bonds	0	0
Current cost	1,167,023	1,039,577
Payments	(714,479)	(499,663)
Actuarial gains/(losses)	(23,784)	(79,068)
closing net obligation	**2,137,240**	**1,708,480**

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	**31/10/20**	**31/10/19**
Pension and similar	1,646,592	1,381,805
Provisions for returns	0	0
Provision for taxes and duties	0	0
Provision to cover losses of investees	215,000	215,000
Total provisions for risks and charges	**1,861,592**	**1,596,805**

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, 2020.

- The provision for taxes and duties was fully utilised in 2020 and at October 31, 2020 no provision was required.

- 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, 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	0	(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**

at October 31, 2020

Movements provisions for risks and charges	31/10/19	Provision	Utilizations	Other move.	31/10/20
Pension and similar provision	1,381,805	264,787			1,646,592
Provision for taxes and duties	0				0
Provision to cover losses of investees	215,000				215,000
Total provisions	**1,596,805**	**264,787**	**0**	**0**	**1,861,592**

There are no ongoing legal or tax disputes that could give rise to significant liabilities for the Company which are not reflected in the financial statements and which require reporting in these notes.

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 58,561 thousand, a slight deterioration on the previous year (Euro 65,569 thousand at 31/10/2019).

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 13,044 thousand (Euro 23,158 thousand at 31/10/2019), mainly due to the increase in inventories and taxes.

5.3. Cash flow from investing activities

The cash flow relating to property, plant and equipment mainly refers to the costs incurred for the acquisition of a building plot in Ravarino, the expenses incurred to begin works on a new building, for the acquisition of plant and equipment for the RFID project and for the fitting out of the corners in Berlin, Warsaw and Gothenburg, while that concerning intangible assets relates to costs incurred for the installation of the operating software. The most significant change concerns the investment in equity investments, as commented in paragraph 4.3.

Investment activities absorbed a total of Euro 5,195 thousand in resources (Euro 6,188 thousand in 2019).

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 7,494 thousand (Euro 26,083 thousand at 31/10/2019). The cash flow from financing activities was impacted by the dividends paid to Shareholders, almost entirely offset by the drawdown of payables to lenders.

6. Commitments

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

	31/10/2020	31/10/2019
SURETIES	**6,225,154**	**6,731,912**
- subsidiaries	1,817,444	1,428,987
- other companies	4,407,710	5,302,925

Sureties to subsidiaries guarantee their respective lease agreements and in particular Euro 568,117 were in favour of Stone Island Germany Gmbh for the Munich, Sylt, Frankfurt and Hamburg stores and the Munich Showroom, Euro 1,113,174 in favour of Stone Island LA LLC for the Los Angeles store, Euro 136,153 in favour of Stone Island NYC LLC for the New York store and for Euro 148,225 Stone Island Amsterdam for the Amsterdam store.

Sureties to other companies include the lease of the sales outlet at the Castel Romano Outlet for Euro 66,625, the lease contract for the Crevalcore warehouse for Euro 30,000 and the commitments made during the previous 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.

No risk profiles emerged on the commitments outstanding at financial year-end.

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 Amanpour. 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, 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**

at October 31, 2020

Costs Revenues with Related Parties	**Commercial Costs**	**Financial Costs**	**Commercial Revenues**	**Financial Revenues**
Amanpulo Srl	(472,303)	0	0	0
Amandari Srl	(1,606)	0	0	0
	(473,909)	**0**	**0**	**0**

As in the previous year, at October 31, 2020, 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, 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**

at October 31, 2020

Receivables Payables to Subsidiary Companies	Commercial Receivables	Financial Receivables	Commercial Payables	Financial Payables	Tax Receivables/ (payables)
Stone Island Retail Srl	5,184,386	4,509,542	0	0	(246,074)
Stone Island Paris (stable organ.)	896,852	463,691	(920,104)	(463,691)	0
Stone Island Germany Gmbh	940,429	1,424,266	(314,885)	0	0
Stone Island Antwerp Bvba	120,246	402,328	0	0	0
Stone Island Amsterdam BV	495,798	0	(48,943)	0	0
Stone Island Usa Inc	3,140,456	10,070,059	(136,819)	0	0
Stone Island NYC LLC	12,622	0	0	0	0
Stone Island LA LLC	12,829	0	0	0	0
Stone Island MIAMI LLC	66,729	0	0	0	0
Stone Island WOODBURY LLC	22,474	0	0	0	0
Stone Island Canada Inc	271,355	2,249,936	0	0	0
Stone Island China Co Ltd	382,988	0	0	(1,500,000)	0
Stone Island Logistics Srl	74,170	0	(136,790)	0	0
Officina della Maglia Srl	0	0	(1,689,974)	0	0
	11,621,334	**19,119,822**	**(3,247,514)**	**(1,963,691)**	**(246,074)**

Costs Revenues with Subsidiary Companies	Commercial Costs	Financial Costs	Commercial Revenues	Financial Revenues
Stone Island Retail Srl	0	0	8,253,250	16,237
Stone Island Paris (stable organ.)	(1,505,599)	0	1,505,599	0
Stone Island Germany Gmbh	(2,468,824)	0	2,471,275	53,753
Stone Island Antwerp Bvba	(23,252)	0	365,230	7,706
Stone Island Amsterdam BV	(48,943)	0	1,024,132	0
Stone Island Usa Inc	(136,819)	0	7,205,327	71,651
Stone Island NYC LLC	0	0	20,430	0
Stone Island LA LLC	0	0	22,923	0
Stone Island MIAMI LLC	0	0	71,694	0
Stone Island WOODBURY LLC	0	0	22,474	0
Stone Island Canada Inc	0	0	667,850	10,413
Stone Island China Co Ltd	0	0	381,295	0
Stone Island Logistics Srl	(632,719)	0	60,795	0
Officina della Maglia Srl	(8,996,972)	0	0	0
	(13,813,127)	**0**	**22,072,273**	**159,760**

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 ("Incentive Plan") in favour of management, broken down into two separate tranches ("Tranche I and Tranche II") and with differing vesting features. The Incentive Plan grants 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.

In addition, the agreements between the parties provide for cross call and put 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 both Tranches of the Incentive Plan, once the rights to obtain them have matured, with consequent payment by the Company of their fair value. The existence of these options establishes both tranches of the Incentive Plan as "cash settled" and consequently, at each balance sheet date, the fair value of the two Tranches must be estimated and the difference compared with the amount recorded at the end of the previous year to the income statement, following an updated of the estimate for the likelihood of fulfilling the conditions for the vesting of the Incentive Plan; from a balance sheet point of view, as per IFRS, the Company recognises a financial liability as the existence of the put option establishes an unconditional obligation for the Company to settle possible requests of the assignees to exercise this right, independently whether such right is exercised or not, in cash upon maturity of both of the tranches of the Plan.

As at October 31, 2019, a liability for Tranche I of the Incentive Plan of Euro 1,459 thousand was recognised, on the basis of an independent expert's appraisal and following a valuation process that established that the fulfilment of the vesting conditions of Tranche I, based on the maintenance of professional services over a certain period of time and as per the vesting percentages set out in the agreement, was likely and that fulfilment of the Tranche II conditions, exclusively based on their achievement over a certain time period and under the certain financial conditions of events such as the listing or sale of the Company ("Exit"), was not likely with reference to which, therefore, no accounting recognition was made this year.

In accordance with the accounting rules indicated above, the estimate of the vesting probability and the fair value of the two Tranches as at October 31, 2020 was updated based on the information available at that date. This valuation process was based on the fact that by that date negotiations had begun for the transfer of the Company's share capital, subsequently emerging in a framework agreement setting the terms for the business combination by which the Company will become part of the Moncler Group; this agreement was announced to the market in the press release of December 7, 2020, which also sets out the financial terms and the enterprise valuation of the Company, which reflects that already established in the negotiations ongoing at October 31, 2020. As a result of this valuation process, it is considered highly likely that the rights of the entire Incentive Plan, including Tranche II, will vest in the first half of 2021, and the update of the fair value of the two tranches was necessarily based on the valuation attributed to the Company in the above-mentioned capital transaction.

From an accounting point of view, the above-mentioned valuation process resulted in the recognition to the income statement, as the portion of personnel expense pertaining to the year ended October 31, 2020, of a total amount of Euro 5.8 million, established as follows:

- the portion pertaining to Tranche II (Euro 3.8 million), the vesting of which is subject to the beneficiaries' continued provision of service at the effective Exit date, was established by estimating the vesting period from the date of approval of the Incentive Plan to that expected for the Exit's effectiveness (June 30, 2021) and therefore accounting for the pro-quota amount matured at October 31, 2020, while the portion that will vest subsequent to this date will be recognised to the following year's financial statements.
- the share pertaining to Tranche I (Euro 2 million) was calculated considering the vesting percentage at October 31, 2020 as set out in the agreement between the parties and therefore accounting also the pro-quota amount at that date.

The financial liability at October 31, 2020 (Euro 7,244 thousand), which also includes the portion of fair value recorded at October 31, 2019, has been classified as current as it is considered probable that this liability will be settled within 12 months, as stated above with regards to the expected effective Exit date.

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

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 of Euro 43.6 million. The Parent Company has overdraft facilities granted and not used at October 31, 2020 for a theoretical total of Euro 21.6 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.

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, 2020 subject to this risk are not significant.

In particular, the Group's exchange rates and net exposure at October 31, 2020 were as follows:

Foreign currency receiv.	**total foreign currency**	**value in Euro**
US Dollars	6,120,039	5,231,697
Canadian Dollar	1,332,983	856,893
Chinese Renminbi	127,828	16,355

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.

At October 31, 2020, the Company and the Group had not undertaken 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, 2020, 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:

	31/10/2020	**31/10/2019**
Board of Directors remuneration	538,768	533,536
Statutory auditors’ remuneration	38,556	39,307
Independent audit firm fees	49,000	48,818
Total	**626,324**	**621,661**

10. Subsequent events

For an outline of the events subsequent to year-end, reference should be made to the “Subsequent events and outlook” paragraph of the Directors’ Report.

11. Proposal for the approval of the annual accounts and allocation of 2020 profit

The Board of Directors proposes to allocate the profit for the year amounting to Euro 43,774,206.09 as follows:

- distribution of a gross dividend of Euro 1.7706612 per ordinary share for a total of Euro 17,140,000 and with the remaining Euro 26,634,206.09 to the Extraordinary Reserve as the Legal Reserve has already reached the legal maximum.

Attachments

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

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

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Sportswear Company S.p.A. and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at October 31, 2020, 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, 2020, 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, 2020, 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, 2020 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, 2020 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
December 22, 2020

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

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

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Sportswear Company S.p.A. (the "Company"), which comprise the statement of financial position as at October 31, 2020, 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, 2020, 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.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

The Directors of Sportswear Company S.p.A. are responsible for the preparation of the report on operations of the Company as at October 31, 2020, 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, 2020 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, 2020 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
December 22, 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 31/10/2020

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, 2020, 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 31/10/2020;
- 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 31.10.2020 (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, 2020, 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 31/10/2020 and the proposed allocation of the result for the year drawn up by the Board of Directors in the Explanatory Notes.

Bologna, December 22, 2020

THE BOARD OF STATUTORY AUDITORS

Mr. Sergio Parenti

Ms. Antonella Vannucchi

Ms. Alessandra Tronconi