



## ***2016 ANNUAL REPORT***

**DIRECTORS' REPORT**

**CONSOLIDATED FINANCIAL STATEMENTS  
AND EXPLANATORY NOTES**

**BASICNET S.P.A. FINANCIAL STATEMENTS  
AND EXPLANATORY NOTES**

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## CORPORATE BOARDS of BasicNet S.p.A.

### Board of Directors

Marco Daniele Boglione	<b>Chairman</b>
Daniela Ovazza Franco Spalla	<b>Vice Chairpersons</b>
Giovanni Crespi	<b>Chief Executive Officer</b>
Paola Bruschi Paolo Cafasso Elisa Corgi <sup>(1)</sup> Alessandro Gabetti Davicini Renate Hendlmeier <sup>(1)</sup> Adriano Marconetto <sup>(1)</sup> Carlo Pavesio Elisabetta Rolando	<b>Directors</b>

(1) Independent Directors

### Remuneration Committee

Carlo Pavesio Elisa Corgi Renate Hendlmeier Adriano Marconetto Daniela Ovazza	<b>Chairman</b>
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### Control and Risks Committee

Renate Hendlmeier Elisa Corgi Adriano Marconetto	<b>Chairman</b>
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### Board of Statutory Auditors

Maria Francesca Talamonti	<b>Chairman</b>
Massimo Boidi Carola Alberti	<b>Statutory Auditors</b>
Fabio Pasquini Giulia De Martino	<b>Alternate Auditors</b>

### Independent Audit Firm

**PricewaterhouseCoopers S.p.A.**

*"We bring together a large number of entrepreneurs across the world for a common goal. We manage all the critical data along the supply chain. We earn service commissions for approx. one-third of the added value generated by the entire process, capitalising all the enhanced value of the trademarks from the development of sales. We achieve this through continually sourcing state-of-the-art software technologies and peerless internet integration to manage all the processes of our business".*

Marco Boglione, 1999

Dear Shareholders,

2016 featured a highly uncertain international political climate and a complex general economic environment. Against this backdrop, the Group:

- majorly stepped up communication and sponsorship investment both in Italy and overseas in support of the growth and international development of the Brands, beginning with the upcoming collections;
- extended and supplemented its technical-functional clothing range with the distribution of Briko® brand products;
- streamlined its Italian customer base - even sacrificing revenues - to achieve better Brand positioning;
- continued to open directly managed sales points, with related retail spend.

The 2016 Key Financial Highlights were as follows:

- *aggregate sales* of Group brand products by the Global Network of commercial and productive licensees of Euro 740 million (Euro 532.7 million concerning the commercial licensees and Euro 207.3 million the productive licensees) - up 1.3% on 2015.
- continued American (+45.4%) and European (+2.4%) market development, while slowdowns were apparent in certain Asian countries due to political instability and reduced consumer spending, impacting respective licensee revenues;
- *royalties and sourcing commissions* from aggregate sales of the commercial and productive licensees of Euro 46.4 million, in line with Euro 46.5 million in 2015;
- *direct sales*, almost entirely concerning the Italian licensee company BasicItalia S.p.A. and its subsidiary, of Euro 135.2 million - up 1% on the previous year;
- *EBITDA* of Euro 21.5 million, reducing 32.8% on Euro 32 million in 2015;
- *EBIT* of Euro 15.2 million (Euro 25.7 million in 2015), reducing 40.8% on the previous year;
- earnings before taxes (*EBT*) of Euro 14.9 million (Euro 26.4 million in 2015);
- *consolidated net profit* of Euro 10.3 million;
- *net debt* of Euro 49.5 million, increasing on Euro 45.4 million at the end of 2015 and a *debt/equity ratio* of 0.52 (0.49 at December 31, 2015), due to higher dividends distributed (approx. Euro 5.6 million compared to approx. 4 in 2015), treasury shares acquired for Euro 3.1 million (Euro 1.9 million in 2015) and net investments of approx. Euro 7.8 million (Euro 5 million in 2015).

Parent Company Key Financial Highlights:

- *EBIT* of Euro 8.9 million (Euro 10.5 million in 2015);
- net profit of Euro 7.4 million (Euro 12.1 million in 2015);
- net cash position of Euro 43 million, reducing 4.6% on 2015.

In relation to the “alternative performance indicators”, as defined by CESR/05-178b recommendation and Consob Communication DEM/6064293 of July 28, 2006, we provide below a definition of the indicators used in the present Directors' Report, as well as their reconciliation with the financial statement items:

- ***Commercial licensee aggregate sales:*** sales by commercial licensees, recognised by the BasicNet Group to the “royalties and sourcing commissions” account of the income statement;
- ***Productive licensee aggregate sales:*** sales by productive licensees, recognised by the BasicNet Group to the “royalties and sourcing commissions” account of the income statement;
- ***EBITDA:*** “operating result” before “amortisation and depreciation”.
- ***EBIT:*** “operating result”;
- ***Contribution margin on direct sales:*** “gross profit”;
- ***Net debt:*** total of current and medium/long-term financial payables, less cash and cash equivalents and other current financial assets.

## 2016 OPERATIONAL OVERVIEW AND EVENTS

### Commercial operations

The actions taken to develop the international presence of the Brands in 2016 included:

- for the Kappa® and Robe di Kappa® brands, new distribution agreements were signed for Vietnam, Cambodia and Laos, Albania, Romania, the Balkan countries and the United States for the new “Kappa Kontroll” line, distributed from spring 2017 and which will re-interpret in street terms a number of early 1980’s cult clothing items. Activities also focused on the renewal of contracts for Argentina, Cuba and Switzerland. For the Italian market, a new underwear distribution partner was identified;
- for the Superga® brand, new licenses were signed for the territories of Costa Rica, Ukraine and Switzerland. The agreements for Egypt, Lebanon, Singapore, Great Britain, Vietnam, Argentina, Turkey, China, Croatia, Hungary and Poland were renewed;
- for the K-Way® brand, operations focused on reaching agreements for the Chilean market. The distribution contract for the United Kingdom and Ireland was renewed.
- for the Briko® brand, commercial operations were launched with the signing of a distribution agreement for Spain, Andorra and Portugal.

### Group brand sales points

The development in many countries of the retail channel continued with new openings by licensees of K-Way® and Superga® mono-brand stores. At December 31, 2016, Group Brand stores in Italy numbered 203.

Following the new openings, Kappa® and Robe di Kappa® sales points of the licensees globally numbered 948 (of which 113 in Italy), while the Superga® brand had 170 sales points (of which 66 in Italy), with 37 K-Way® brand stores (25 in Italy).

### Briko® Brand

In March, BasicNet S.p.A. and Briko S.p.A. signed exclusive global distribution agreements to be operated by BasicNet for all Briko® brand products, with an option to acquire the brand by June 30, 2019. The maximum value of the option is Euro 3 million, as the pre-established amounts in the case of advance exercise.

The operations rolled out in the initial months of the Brand’s management were promising and highlight the investment’s suitability.

### AnziBesson® Brand

Last December, following the strategic concentration within the Kappa® brand of all winter sport collections, the Group sold to the Besson family 50% of the company which owns the *AnziBesson®* brand.

### New investments

The Group acquired through BasicVillage S.p.A. a property located in Turin, adjacent to the already owned headquarters. The purchase price was Euro 2 million, with the property covering 2,756 square metres.

### New loans

At year-end, BasicNet S.p.A. agreed a six-year medium/long-term loan of Euro 7.5 million with Banca Nazionale del Lavoro S.p.A. repayable over quarterly instalments. This operation permitted the purchase of the building outlined in the previous paragraph and rebalances the short and medium/long-term debt.

## Sponsorship and communication

### Kappa® Brand

The Kappa® brand is historically associated with high profile sponsorships.

Intense sponsorship activity continued both domestically and internationally, following on from the major investment last year in SSC Napoli by the Italian licensee, in the Leeds United football team for the English market, in Standard Liège Football Club for Belgium, in addition to Dtla and Becamex by the Vietnamese licensee.

In 2016, the Brazilian licensee signed a sponsorship agreement with Santos F.C.. The Brazilian team, which counts on its Facebook page alone nearly 3.5 million fans, will wear the new Kombat® jersey until 2018. Last December, the Kappa® Nicaraguan licensee signed a sponsorship with Nicaragua Real Esteli FC.

The English licensee signed a three-year agreement with the British Basketball League (BBL), representing an absolute first for English basketball, covering all men's and women's teams of the BBL and WBL (Women's BBL) organisations and all men's, women's and junior British international teams.

The French licensee began its sponsorship of Montpellier Hérault Rugby Club, of the Swiss Rugby Federation and of Toronto Wolfpack, in addition to renewing until 2020 the sponsorship of Rugby Union Bordeaux Bègles.

The Kappa® sponsored athletes participating in the Rio Olympics and Paralympic achieved excellent results: the Italian Fencing Federation, the Italian Judo Karate and Martial Arts Federation, the Italian Rowing Federation, the Italian Canoe and Kayak Federation and the Italian Golf Federation.

Ahead of its natural conclusion, the important contract between the BasicNet Group and the Italian Winter Sports Federation was renewed until 2022.

With this new sponsorship agreement, Italian Winter Sports Federation (FISI) athletes – after Sochi 2014 and PyeongChang 2018 – will participate also at the Beijing 2022 Winter Olympics, wearing in competition the Kappa® logo and other Group brands.

In addition, this agreement includes the sponsorship and non-exclusive licensing of Briko® brand helmets, masks and eyewear (held by BasicNet), equipping also a number of FISI team members.

In terms of events, Kappa® in Italy sponsors the “Kappa Futur Festival” and the “Movement Torino Music Festival”, which have a growing appeal in the electronic music world, welcoming thousands of young people from across the globe to Turin.

### Superga® Brand

For the Superga® brand, following on from the numerous co-branding initiatives with leading stylists and prestigious international clothing and footwear brands already in place, initiatives were rolled out with the New York store Del Toro for the DT X Superga collection, with “Esibizionismo” for the Esibizionismo X Superga collection, launched by Superga UK with the model Esom who, after being the face of the *Q1Q2* Superga campaign in Asia, created a 2750 model personalised with their name.

Following on from the London actor and model Jack Guinness and the designer Charlie Casely-Hayford, known as one of the most elegant men in Great Britain, the new Superga Ambassador is the blogger Trevor Stuurman.

### K-Way® Brand

Further to the many initiatives developed and finalised for the creation of the capsule collection, new collaborations were undertaken with IKKS for children's jackets to be distributed in France, Belgium, the Netherlands, Luxembourg, Switzerland, Spain and online, with the Parisian concept store Colette for the K-WAY X les(Art)ists collection and with the luxury brand created by Alessandro Dell'Acqua.

### Briko® Brand

Peter Fill is the first athlete in the history of the Italian Winter Sport Federation, sponsored by Kappa®, to win the World Men's downhill World Cup and is the new face of the brand until 2018 for Briko® eyewear, helmets and masks.



**2016 FINANCIAL PERFORMANCE OVERVIEW****THE GROUP****BasicNet Group Key Financial Highlights**

The condensed income statement for the year is reported below:

<i>(In Euro thousands)</i>	<b>FY 2016</b>	<b>FY 2015</b>	<b>Changes</b>
Group Brand Aggregate Sales by the Network of commercial and productive licensees *	739,979	730,523	9,456
Royalties and sourcing commissions	46,424	46,547	(123)
Consolidated direct sales	135,183	133,941	1,242
EBITDA **	21,502	32,049	(10,547)
EBIT **	15,241	25,709	(10,468)
Group Net Profit	10,305	16,760	(6,455)
Basic earnings per share	0.1839	0.2953	(0.1114)

\* Data not audited

\*\* For the definition of the indicators reference should be made to paragraph 4 of the present Report

**Commercial and financial analysis**

The breakdown of sales and production revenues generated through the global Group licensees was as follows:

	<b>FY 2016</b>	<b>FY 2015</b>	<b>Changes</b>	
<i>(In Euro thousands)</i>				
<b>Aggregate Sales of the Group licensees *</b>	<b>Total</b>	<b>Total</b>	<b>Total</b>	<b>%</b>
Commercial Licensees	532,702	516,691	16,011	3.10
Productive Licensees (sourcing centers)	207,277	213,832	(6,555)	(3.07)
<b>Total</b>	<b>739,979</b>	<b>730,523</b>	<b>9,456</b>	<b>1.29</b>

\* Data not audited

The regional breakdown of commercial licensee aggregate sales was as follows:

	FY 2016		FY 2015		Changes	
<i>(In Euro thousands)</i>						
<b>Aggregate Sales of the Group Commercial licensees *</b>	<b>Total</b>	<b>%</b>	<b>Total</b>	<b>%</b>	<b>Total</b>	<b>%</b>
Europe	332,785	62.5%	324,982	62.9%	7,803	2.4%
The Americas	43,880	8.2%	30,182	5.8%	13,698	45.4%
Asia and Oceania	96,681	18.2%	99,509	19.3%	(2,828)	(2.8%)
Middle East and Africa	59,356	11.1%	62,018	12.0%	(2,662)	(4.3%)
<b>Total</b>	<b>532,702</b>	<b>100.00%</b>	<b>516,691</b>	<b>100.0%</b>	<b>16,011</b>	<b>3.1%</b>

\* Data not audited

and of the productive licensees:

	FY 2016		FY 2015		Changes	
<i>(In Euro thousands)</i>						
<b>Aggregate Sales of the Group Productive licensees *</b>	<b>Total</b>	<b>%</b>	<b>Total</b>	<b>%</b>	<b>Total</b>	<b>%</b>
Europe	18,574	8.9%	13,918	6.5%	4,656	33.5%
The Americas	14,846	7.2%	4,310	2.0%	10,536	244.5%
Asia and Oceania	173,441	83.7%	195,180	91.3%	(21,739)	(11.1%)
Middle East and Africa	416	0.2%	424	0.2%	(8)	(2.0%)
<b>Total</b>	<b>207,277</b>	<b>100.00%</b>	<b>213,832</b>	<b>100.0%</b>	<b>(6,555)</b>	<b>(3.1%)</b>

\* Data not audited

**Commercial licensee aggregate sales** of Euro 532.7 million increased 3.1% at current exchange rates, from Euro 516.7 million in 2015.

The sales of the main Group brands through the network of Commercial Licensees was as follows:

<i>(In Euro thousands)</i>	FY 2016		FY 2015		Changes	
Kappa & Robe di Kappa	360,426	67.7%	349,062	67.7%	11,364	3.3%
Superga	113,634	21.3%	116,470	22.6%	(2,836)	(2.4%)
K-Way	53,909	10.1%	50,243	9.7%	3,666	7.3%

\* Data not audited

Kappa® and Robe di Kappa® revenues grew overall 3.3%.

Excellent American market performance (+54.4%) following a number of new licenses becoming fully operational, including those for Costa Rica and Chile, in addition to the development of more mature markets (Argentina and Brazil). This latter benefitted from Kappa®/Santos F.C. joint brand sales associated with the football team's new sponsorship.

The European market saw sales growth in Scandinavia and Russia, while certain markets contracted, including Great Britain and the Balkan countries, which slowed amid a transition from the recently replaced former licensees.

Asia - which substantially remains stable - saw good growth in India and Vietnam, while Thai and Hong Kong sales slowed due to political instability and a drop in Chinese tourism.

The Middle Eastern and African markets were affected most by the political instability.

The Superga® brand grew in the Americas (+42.7%), in particular in the United States, while the licenses for the territories of Chile, Colombia and Panama became fully operational.

In Europe, growth was seen in Germany (+42.6%), Northern Europe (+56.3%) and the Netherlands (+89.1%), while slowdowns were evident in Turkey and Greece due to political instability in the former case and economic difficulties in the latter. In Italy, where the brand distribution channels were restructured, thereby sacrificing some revenues in favour of better brand positioning, revenues reduced 10.7%.

The Asian market was also hit by the interruption to the license held by the Indian licensee due to disagreements on commercial methods and the slowdown on the Chinese and Hong Kong and South Korean markets. Overall, the Brand reported a 2.4% contraction on the previous year.

The K-Way® brand (+7.3%) reported its strongest commercial growth in Asia (+37.4%), with development of the Japanese market and improved South Korean sales. Growth was 6.2% in Europe (Italian, French and Belgium market development).

The Briko® brand acquired under license in the second quarter of the year, returned (mainly in Italy) revenues of approx. Euro 4.2 million since its acquisition under license.

The *sales of the productive licensees* (Sourcing Centers) are only made to commercial licensees or entities within the "operated by BasicNet" scope. The production licenses issued to the Sourcing Centers, differing from those issued to the commercial licensees, do not have regional limitations, but are rather based on technical production and business competences. Product sales by the Sourcing Centers to commercial licensees are made in advance of those made by the latter to the end customer.

As a result of increased revenues, *consolidated royalties* and *sourcing commissions*, and therefore not including the royalties of the directly-held Italian licensees, amounted to Euro 46.4 million, substantially in line with the previous year.

**Total sales** of the investee BasicItalia S.p.A and its subsidiary BasicRetail S.r.l amounted to Euro 135.2 million - up 1% on Euro 133.9 million in 2015. This result is even more impressive in view of the contracting Italian market and distribution network selection which saw a portion of revenues sacrificed as certain commercial channels are not reflective of brand positioning - in particular for the Superga® brand.

The *contribution margin on sales* was Euro 54.3 million, substantially in line with Euro 54.8 million in 2015. The revenue margin was 40.1% (40.9% in 2015), impacted by the strengthening of the US Dollar against the Euro in terms of the cost of sales.

**Other income**, amounting to Euro 2.2 million compared to Euro 4 million in 2015, includes indemnities received against brand counterfeiting and unauthorised usage actions and royalties from sales by licensees of Group brand promotional products.

**Investments in communication** and **overhead costs** report the following movements:

- **sponsorship and media investment** of Euro 24.3 million rose 25.6% on the previous year following the agreement of new sponsorships, in particular with SSC Napoli, US Sassuolo and Leeds United FC in the second half of the previous year, confirming the major investment focused on Brand development. Billboard and newspaper and magazine campaigns were also launched to boost communications in support of the Kappa®, Superga® and K-Way® brands, while significant funding was allocated particularly on the overseas markets to a number of licensees for communication and endorsement operations with an international impact (World Wide Strategic Advertising);
- **personnel costs** increased from Euro 18.9 million to Euro 19.7 million, accounting for 14.6% of revenues (increasing on 14.1% in 2015), due to new hires (38 more employees than in 2015), principally in the retail area;

- **selling, general and administrative costs and royalties expenses** amounted to Euro 37.4 million, increasing 6.8% on 2015. Of these, selling costs (due to the altered mix), new directly managed sales point lease charges, trade fairs and exhibition and marketing and media expenses increased. These latter, in particular, rose approx. Euro 1.2 million (+66.3% on 2015), resulting in an overall increase in communication costs to Euro 6.1 million (+29% on 2015).

**EBITDA** of Euro 21.5 million decreased 32.8% (Euro 32 million in 2015).

**Amortisation and depreciation** amounted to Euro 6.3 million. The account includes amortisation and write-downs for certain key money recognised to third parties on Italian sales points for Euro 354 thousand.

**EBIT** amounted to Euro 15.2 million (Euro 25.7 million in 2015).

The 2015 figure included net exchange gains of approx. Euro 3 million from the hedging of US Dollar purchases, which were particularly effective due to the sudden rise in the value of the US Dollar in the year. Again in 2016 hedges were maximised and against more contained currency fluctuations still generated net exchange gains of Euro 1.2 million. Financial charges in service of the debt of Euro 1.6 million reduced Euro 0.6 million on 2015 due to more competitive funding costs.

The **consolidated pre-tax profit** was Euro 14.9 million (Euro 26.4 million in 2015).

**Consolidated net profit**, after current and deferred taxes of approx. Euro 4.6 million, amounted to Euro 10.3 million compared to Euro 16.8 million in 2015, decreasing 38.7%.

The 2016 tax rate reduced on 2015 with the entry into force of the “Patent Box” intellectual property tax break which the Group company brand licensees applied for at the end of the previous year. The rule, as applicable to Group companies, establishes that a part of the potential tax benefit is subject to Tax Agency authorisation through a ruling for which an application has been presented. The benefits from this tax break are not yet apparent as the application is currently under consideration by the Tax Agency. The portion of the benefit not subject to the ruling however has been recognised, also relating to 2015, improving the tax charge overall by approx. Euro 1.2 million.

#### Segment information

The Financial Highlights by Group segment were as follows:

- **“Licenses and brands”**: concerns the management of the commercial licensee network and the sourcing centers by BasicNet S.p.A. and the Group company license holders.  
Commercial development in the year enabled the Parent Company and the Brand owning companies to generate royalties and sourcing commissions of approx. Euro 58.4 million, compared to Euro 58.5 million. The 2016 EBIT of Euro 14.9 million compares with Euro 22.1 million in 2015. The segment net profit in 2016 was approx. Euro 10.5 million.
- **“Proprietary Licensees”**: comprising BasicItalia S.p.A. and its subsidiary BasicRetail S.r.l.. The segment reported commercial growth of 1% on the previous year. Sales increased from Euro 133.5 million in 2015 to Euro 134.8 million in 2016. The contribution margin on sales was Euro 54.3 million, compared to Euro 55 million in 2015. The revenue margin was 40.2% (41.2% in 2015), impacted by the strength of the US Dollar against the Euro in terms of the cost of sales. Personnel costs increased on the previous year due to the development of retail operations and the opening of a number of outlet center sales points. Communication investments were also significantly stepped up and related to advertising campaigns and sponsorship activities. The segment reports a loss of approx. Euro 0.3 million, compared to a profit of Euro 1.8 million in the previous year.
- **“Property”**: relating to the building at Largo Maurizio Vitale 1, Turin, reports a profit of Euro 153 thousand compared to Euro 275 thousand in 2015. The segment portfolio was added to during the year with the purchase of a building adjacent to that already held, as outlined in the opening paragraphs of this Report.

The financial statements by segment are reported at Note 7 of the Notes to the consolidated financial statements.

**Balance sheet overview**

The changes in the balance sheet are reported below:

<i>(In Euro thousands)</i>	<b>December 31, 2016</b>	<b>December 31, 2015</b>	<b>Changes</b>
Property	23,226	21,951	1,275
Brands	34,103	34,208	(105)
Non-current assets	25,469	25,015	454
Current assets	130,392	123,998	6,394
<b>Total Assets</b>	<b>213,190</b>	<b>205,172</b>	<b>8,018</b>
Group shareholders' equity	94,880	92,511	2,369
Non-current liabilities	26,430	26,449	(19)
Current liabilities	91,880	86,212	5,668
<b>Total liabilities and shareholders' equity</b>	<b>213,190</b>	<b>205,172</b>	<b>8,018</b>

**Financial position**

⇒ Consolidated figures

<i>(In Euro thousands)</i>	<b>December 31, 2016</b>	<b>December 31, 2015</b>	<b>Changes</b>
Net financial position – Short-term	(27,945)	(24,796)	(3,149)
Financial payables – Medium-term	(19,914)	(19,021)	(893)
Finance leases	(1,600)	(1,545)	(55)
<b>Total net financial position</b>	<b>(49,459)</b>	<b>(45,362)</b>	<b>(4,097)</b>
Net Debt/Equity ratio (Net financial position/Shareholders' equity)	0.52	0.49	0.03

The movements in *fixed assets* relate to investments, amounting to Euro 7.8 million, for the development of software programmes for Euro 2.1 million, EDP and furniture and fittings for Euro 2.4 million, expenses incurred for the management of proprietary brands, goodwill and store improvements for Euro 1.3 million and the previously mentioned property investment for Euro 2 million. The assets are depreciated for a total Euro 6.3 million.

**Consolidated net debt**, including finance leases (Euro 1.6 million) and property loans (Euro 9.6 million), increased from Euro 45.4 million at December 31, 2015 to Euro 49.5 million at December 31, 2016, with dividends distributed of approx. Euro 5.6 million, investments in the year of approx. Euro 7.8 million and treasury share investments of Euro 3.1 million.

In November, Banca Nazionale del Lavoro S.p.A. issued a medium-term loan of Euro 7.5 million. The six-year loan, amortising quarterly, without covenants and with an advanced repayment facility, will support developmental investment, in addition to optimising the overall debt duration. The loan is guaranteed by a second level mortgage on the BasicVillage property and a first level mortgage on the newly acquired building, for whose purchase it was partially utilised.

The **debt/equity** ratio at December 31, 2016 increased to 0.52 (0.49% at December 31, 2015), including the mortgage loans on property acquired.

## **THE PARENT COMPANY**

### **BasicNet S.p.A. Key Financial Highlights**

The parent company condensed income statement compared to the previous year is reported below:

<i>(In Euro thousands)</i>	<b>FY 2016</b>	<b>FY 2015</b>	<b>Changes</b>
Royalties and sourcing commissions	27,366	27,327	39
Direct sales and other income	9,218	8,963	255
EBITDA *	11,048	12,618	(1,570)
EBIT *	8,874	10,544	(1,670)
Dividends from subsidiaries	1,500	5,400	(3,900)
Net Profit	7,421	12,070	(4,649)

\* For the definition of the indicators reference should be made to paragraph 4 of the present Report

The results of the separate financial statements of the Parent Company reflect the developments of the overall activity as described within the consolidated financial statements and with specific reference to the activities undertaken on the international markets.

**Royalties and sourcing commissions** of Euro 27.4 million grew 0.1% on 2015.

**Direct sales and other income** amounted to Euro 9.2 million, up Euro 255 thousand on the previous year. Other income principally refers to payments for intercompany assistance services charged to the subsidiaries BasicItalia S.p.A., Basic Trademark S.A. (approx. Euro 5.2 million), Superga Trademark S.A. and Basic Village S.p.A..

In 2016, **selling, general and administrative expenses**, including those in support of marketing and international media activity, rose approx. Euro 1.9 million - in further support of communication and structural investment and also following the direct development of the Briko® brand undertaken by BasicNet.

**EBIT** decreased 15.2% to Euro 8.9 million, following amortisation and depreciation of Euro 2.2 million.

During the year, the subsidiary Basic Properties B.V. distributed dividends of Euro 1.5 million, against 5.4 million in 2015 which included also dividends from Basic Trademark S.A.. This latter has not distributed advances on the dividend in 2016 due to the increased communication investment support for BasicItalia S.p.A. and other Network licensees.

The application of the impairment test on the value of the investments did not result in any adjustments.

On the basis of the above items, the **net profit** amounted to approx. Euro 7.4 million, after income taxes of Euro 3.2 million.

**Balance sheet overview**

<i>(In Euro thousands)</i>	<b>December 31, 2016</b>	<b>December 31, 2015</b>	<b>Changes</b>
Non-current assets	5,776	5,562	214
Brands	8,106	8,096	10
Investments	36,230	36,345	(115)
Current assets	86,194	83,056	3,138
<b>Total assets</b>	<b>136,306</b>	<b>133,059</b>	<b>3,247</b>
Shareholders' Equity	86,786	88,049	(1,263)
Non-current liabilities	14,642	13,302	1,340
Current liabilities	34,878	31,708	3,170
<b>Total liabilities and shareholders' equity</b>	<b>136,306</b>	<b>133,059</b>	<b>3,247</b>

<i>(In Euro thousands)</i>	<b>December 31, 2016</b>	<b>December 31, 2015</b>	<b>Changes</b>
Net financial position – Short-term	(9,820)	(7,353)	(2,467)
Financial payables – Medium-term	(11,875)	(9,375)	(2,500)
Finance leases	(85)	(68)	(17)
<b>Financial position with third parties</b>	<b>(21,780)</b>	<b>(16,796)</b>	<b>(4,984)</b>
Group financial receivables/(payables)	64,757	61,852	2,905
<b>Financial position with the Group</b>	<b>64,757</b>	<b>61,852</b>	<b>2,905</b>
<b>Total net financial position</b>	<b>42,977</b>	<b>45,056</b>	<b>(2,079)</b>

Medium/long-term loans include contractual clauses, specific guarantees and restrictions on shareholder control.

The **non-current assets** include investments in the year, principally relating to the strategic IT sector, for approx. Euro 1.8 million and the purchase of plant and equipment for Euro 0.6 million. The value of tangible and intangible assets are recorded net of amortisation and depreciation for the year of Euro 2.2 million.

**Shareholders' Equity** at December 31, 2016 was Euro 86.8 million (Euro 88 million in 2015), following the distribution in 2016 of dividends for Euro 5.6 million and the acquisition of treasury shares for approx. Euro 3.1 million.

The **net cash position** was Euro 43 million, reducing on Euro 45 million in 2015.

## **RECONCILIATION BETWEEN CONSOLIDATED NET PROFIT AND PARENT COMPANY NET PROFIT**

The reconciliation at December 31, 2016 between the Parent Company net equity and result and the consolidated net equity and result is reported below.



<i>(In Euro thousands)</i>	<b>Net Profit</b>	<b>Shareholders' Equity</b>
<b>Financial statements of BasicNet S.p.A.</b>	<b>7,421</b>	<b>86,786</b>
Result and net equity of the consolidated companies and value at equity	4,384	8,094
Elimination of the dividends received by the Parent Company	(1,500)	-
<b>Group consolidated financial statements</b>	<b>10,305</b>	<b>94,880</b>

## THE BASICNET SHARE PRICE

The Share Capital of BasicNet S.p.A. consists of 60,993,602 ordinary shares of a nominal value of Euro 0.52 each.

The key stock market figures for the years 2016 and 2015 are reported in the following table:

	<b>31/12/2016</b>	<b>31/12/2015</b>
<b>SHARE PRICE INFORMATION</b>		
Earnings per share	0.1839	0.2953
Net equity per share	1.556	1.517
Price per share/Net equity per share	2.154	3.198
Dividend per share <sup>(1)</sup>	0.0600	0.1000
Pay out ratio <sup>(1) (2)</sup>	32.3%	33.6%
Dividend Yield <sup>(1) (3)</sup>	1.79%	2.06%
Price at year-end	3.350	4.850
Maximum price in year	4.820	4.940
Minimum price in year	2.600	2.220
Stock market capitalisation (in thousands of Euro)	204,329	295,819
Total number of shares	60,993,602	60,993,602
Shares outstanding	56,029,468	56,751,534

(1) dividends on the 2016 figures on the basis of the proposal for the allocation of the result to the Shareholders' AGM

(2) percentage of consolidated net profit distributed as dividend

(3) ratio between the dividend and the share price on the last day of the financial year

The list of parties holding, directly or indirectly, more than 5% of the share capital (the significance threshold established by Article 120, paragraph 2 of Legs. Decree No. 58 of 1998 for BasicNet which is classified as a "Small-Medium sized enterprise" as per Article 1, letter w-quater 1) of Legs. Decree No. 58 of 1998), represented by shares with voting rights, according to the shareholders' register, supplemented by the communications received in accordance with Article 120 of Legislative Decree No. 58 of 1998 and other information held by the company, is as follows:



Shareholder	Holding
Marco Daniele Boglione <sup>(*)</sup>	37.076%
BasicNet S.p.A.	9.006%
Wellington Management Group LLP	6.148%
Kairos Partners SGR S.p.A.	5.036%

<sup>(\*)</sup> held indirectly through BasicWorld S.r.l. for 36.565% and for the residual 0.511% directly.

## PRINCIPAL RISKS AND UNCERTAINTIES

The BasicNet Group is subject to a variety of strategic, market and financial risks, as well as general business operational risks.

### Strategic risks

These risks arise from factors that may comprise the value of the trademarks that the Group implements through its Business System. The Group requires the capacity to identify new business opportunities and markets and appropriate licensees for each market. The Group monitors the activities of its licensees and detects any problems on-line in the management of the brands in the various regions. However, as the commercial license contracts usually establish the advance payment of guaranteed minimum royalties, economic conditions on certain markets may impact the financial capacity of certain licensees, temporarily reducing royalties, particularly where such licensees had previously exceeded the guaranteed minimums.

### Risks associated with economic conditions

The Group retains that its Business System has the flexibility needed to swiftly respond to changes in customers' tastes and to limited and localised consumer slowdown. However, the Group may be exposed to economic crisis and social and general unrest, which may impact on consumer trends and the general economic outlook.

### Currency risk

The Group is exposed to currency risk on merchandise purchases or royalty income from commercial licensees and sourcing centre commissions not within the Eurozone. These transactions are mainly in US Dollars and marginally in UK Sterling and Japanese Yen.

The risks on fluctuations of the US Dollar on purchases are measured, preliminary, in the preparation of the budgets and finished products price lists, so as to adequately cover the impact of these fluctuations on sales margins.

Subsequently, royalty income and sourcing commissions from sales are utilised to cover purchases in foreign currencies, within the normal activities of the Group centralised treasury management.

For the foreign currency purchases not covered by foreign currency receipts, or in the case of significant time differences between receipts and payments, forward purchase and sales contracts (flexi-term) are underwritten.

The Group does not undertake derivative financial instruments for speculative purposes.

**Credit risk**

Group trade receivables derive from licensee royalty income, sourcing center commissions billed and sales of finished products.

Royalty trade receivables are largely secured by bank guarantees, corporate sureties, letters of credit, guarantee deposits, or advance payment, provided by licensees.

Sourcing commission receivables are covered by the payables of the subsidiary company BasicItalia S.p.A. to the sourcing centres.

Receivables from Italian footwear and apparel retailers within the subsidiary BasicItalia S.p.A. are monitored continually by the credit department of the company alongside specialised legal recovery firms and regional credit bodies throughout the country, commencing from the customer order. Receivables from franchising brand stores are settled weekly in line with sales and do not present substantial insolvency risk.

**Liquidity risk**

The sector in which the Group operates is exposed to seasonal factors, which impact upon the timing of goods procurement compared to sales, in particular where the products are acquired on markets with favourable production costs and where the lead times are however much longer. These seasonal factors also impact upon the Group's financial cycle of the commercial operations on the domestic market.

Short-term debt to finance working capital needs comprises "import financing" and "self-liquidating bank advances" secured by the order backlog. The Group manages the liquidity risk through close control on operating working capital with specific attention on inventories, receivables, trade payables and treasury management, with real-time operational reporting indicators or, for some information, at least on a monthly basis, reporting to Senior Management.

**Interest rate risk**

The interest fluctuation risks of some medium-term loans were hedged with conversion of the variable rate into fixed rates (swaps).

**Risks relating to legal and tax disputes**

The Group may be involved in legal and tax disputes, concerning specific issues and in various jurisdictions. Considering the uncertainties relating to these issues, it is difficult to predict with precision any future payments required. In addition, the Group has instigated legal action for the protection of its Trademarks, and of its products, against counterfeit products. The cases and disputes against the Group often derive from complex legal issues, which are often subject to varying degrees of uncertainty, including the facts and circumstances relating to each case, jurisprudence and different applicable laws.

In the normal course of business, management consults with its legal consultants and experts in fiscal matters. The Group accrues a liability against disputes when it considers it is probable that there will be a financial payment made and when the amount of the losses arising can be reasonably estimated.

At the beginning of March 2017, the Finance Police began an ordinary tax audit on BasicNet, which will concern the direct and indirect tax declarations from the year 2012.

The principal disputes involving the Group are described in Explanatory Note 48 of the Consolidated Financial Statements and are summarised below.

**A.S. Roma contract termination**

The dispute was taken by BasicItalia S.p.A. against A.S. Roma S.p.A. and Soccer S.a.s. Brand Management S.r.l., which on November 23, 2012 communicated the unilateral advance resolution of the team sponsorship, agreed with duration until June 30, 2017, for presumed non-compliance and, in particular, defects in the materials supplied. BasicItalia S.p.A., considering the reasons for the resolution unfounded, instigated an ordinary court procedure requesting compensation for significant damage incurred. A.S. Roma S.p.A. and Soccer S.a.s. appealed against the request of BasicItalia S.p.A. and counterclaimed requesting compensation for presumed damage.

Proceedings are currently in the opening phases; the opinions of the Court Appointed Expert and the Court Technical Assistant are being drawn up and the judge fixed the hearing for the examination of findings for May 26, 2017. In addition, BasicItalia S.p.A. began proceedings against Soccer S.a.s., a debtor of BasicItalia S.p.A., for the provision of goods related to the sponsorship and against which an injunction against Soccer

S.a.s. was issued on January 22, 2013. Following the opposition of Soccer S.a.s., the hearing initially established for June 10, 2016 was postponed to March 22, 2017.

In addition, following the above termination of the contract, A.S. Roma sought to enforce payment of the surety granted by BNL S.p.A. in favour of BasicItalia S.p.A. for a maximum amount of Euro 5.5 million which guaranteed commitments undertaken by BasicItalia S.p.A. under the sponsorship agreement. Following the non-payment by BNL S.p.A., A.S. Roma petitioned the Rome Court to enforce a payment order against BNL for the full guaranteed amount. As a result of this procedure, in which BasicItalia S.p.A. (together with the parent company BasicNet S.p.A.) was joined as a party by BNL, the Rome Court, with judgement of December 7, 2013, rejected all applications by A.S. Roma, considering the enforcement illegitimate. This sentence was not challenged by A.S. Roma and the sentence is final.

On December 20, 2013, A.S. Roma again requested payment of the above-mentioned surety and, following the refusal of BNL to meet this new request, presented an appeal before the Rome Court on February 20, 2014. With judgement of December 15, 2014, the Rome Court rejected all requests made by A.S. Roma. A.S. Roma appealed against this decision before the Rome Appeals Court with subpoena dated February 10, 2015. The preliminary hearing, fixed for June 8, 2015, was postponed to June 10, 2015. On June 8, 2015, both BasicItalia S.p.A. and BNL put forward the rejection of the appeal and the confirmation of the first level judgment. The hearing held on June 10, 2015 sent the case for the establishment of conclusions on July 4, 2018.

#### **SUBSEQUENT EVENTS TO THE YEAR-END AND OUTLOOK**

In February, the subsidiary BasicItalia agreed a loan with Banco BPM of four-year duration for Euro 2 million, repayable in quarterly instalments and in support of retail sector investment.

In general, Group operating results are expected to be strong in the first half of 2016 based on the order book and expected royalties and sourcing commissions.

This forecast is subject to the general market performance, which is shrouded by a degree of economic and political uncertainty, as reflected in consumption figures and particularly by the currency price fluctuations.

\* \* \*

## PROPOSAL TO THE SHAREHOLDERS' AGM FOR THE ALLOCATION OF THE NET PROFIT FOR THE YEAR

### Financial Statements at December 31, 2016, Directors' Report. Resolutions thereon.

Dear Shareholders,

in the presentation for the approval of the Shareholders' Meeting for the 2016 Financial Statements and the relative Directors' Report we propose the allocation of the net profit of Euro 7,421,258.94 as follows:

- to the Legal reserve	Euro	371,062.95
- to each of the 55,500,805 ordinary shares in circulation (excluding the 5,492,797 treasury shares held at March 22, 2017), a dividend of Euro 0.06 before withholding taxes for an amount of	Euro	3,330,048.30
- to retained earnings the residual amount, equal to	Euro	3,720,147.69

The dividend will be paid from May 24, 2017, with record date of May 23, 2017 and coupon date (No. 10) of May 22, 2017.

We also propose that, if at the dividend coupon date the number of shares with dividend rights is lower than indicated above due to any share buy-backs by the company, the relative dividend will be allocated to retained earnings, as will any rounding made on payment.

We propose therefore the following:

#### MOTION

the Shareholders' AGM of BasicNet S.p.A., having reviewed the 2016 results, the Directors' Report and having noted the Board of Statutory Auditors' Report and that of the Independent Audit Firm PricewaterhouseCoopers S.p.A.,

#### RESOLVES

to approve the Directors' Report and the Financial Statements at December 31, 2016, in relation to each individual part and in its entirety, in addition to the proposal for the allocation of the Net Profit of Euro 7,421,258.94 and the dividend proposal.

Turin, March 22, 2017

for the Board of Directors

**The Chairman**

Marco Daniele Boglione

## THE GROUP AT A GLANCE

The BasicNet Group operates in the causal and sportswear leisurewear, footwear and accessories sector principally through the brands Kappa®, Robe di Kappa®, K-Way®, Superga®, Jesus Jeans®, Lanzerà® and Sabelt®, and since April 2016 with the global license for the Briko® brand. Group activities involve driving brand enhancement and product distribution through a global network of licensees. This business network is defined as the “Network”. And from which the name BasicNet derives. The *Network* of licensees encompasses all key markets worldwide.

BasicNet S.p.A. is the parent company of the Group – with headquarters in Turin - listed on the Italian Stock Exchange.

## STRENGTHS

The strengths of the Group are founded on the strategic priorities since its inception which encompass:

1. *Brand positioning*
2. *The Business System*
3. *Web integration*

### 1. Brand positioning

The Basic Group brands form part of the informal and casual clothing sector, which has experienced significant growth since the 1960's and continues to develop with the “liberalisation” of clothing trends.



is a practical sportswear brand, serving active and fast-paced individuals, who in their sporting activity require highly-functional clothing, while displaying a youthful, colourful and original look. The Kappa® collections include also footwear and accessories for sport, designed to ensure peak performance. The Kappa® brand sponsors major clubs globally across a wide range of sports, in addition to many national sporting federations, particularly in Italy.



is the brand for those who in their free-time and informal professional activity seek to wear modern, high-quality sportswear at accessible prices. The brand serves energetic, modern individuals, open to an ever-changing world.



is the leisure footwear and accessories brand, designed for those seeking comfort, while demanding a fashionable, colourful and stylish look and high quality. The Superga® collections serve the needs of a wide cross-section of customers, within every age category.



exceptional waterproof clothing: classic, modern, high-technological and functional content and in a wide range of colours. In addition to the original jackets with heat-sealing zips, storable in their pouch and produced with waterproof and wind-protecting warm and breathable materials, the collections include also fashion-oriented clothing and accessories which are identically practical and functional.



is the jeans brand, created in 1971 by the youthful Maurizio Vitale and Oliviero Toscani.



is the football clothing and footwear brand. The brand was acquired by the Basic Group primarily as an operating platform for its introduction into the United States.



is the high-end leisure, sport and formal occasion footwear brand, emerging from the racing and automobile world. The brand is positioned in the fashion segment. Since October 2011, the Basic Group has held 50% of the fashion categories (clothing and footwear) of the brand and is also a global licensee.



the Italian brand of cutting edge technical sporting products, in particular for cycling, skiing and running: eyewear, helmets, masks, accessories, underwear and clothing for professionals and enthusiasts. Briko®'s mission is to use the explosive energy of the brand to create iconically designed products for athletes and sportspeople requiring performance and safety without compromises.

## 2. The Business System

The BasicNet Group has developed around a “network” business model, targeting licensees as the ideal partner for the development, distribution and sourcing of its products globally, choosing partners which act not only as a product supplier, but as an integrated supplier of services, i.e. a business development partner.

Innovative, flexible and modular, the Business System of BasicNet has enabled the Group to grow quickly, although maintaining a lean and agile structure: a large enterprise centered around many businesses on a fully web-based network integrated IT platform designed to maximise information flows through real time sharing.

The Business System was drawn up and structured to develop both internal lines (new licensees and new markets) and external lines (new brands developed or acquired and new business lines).

The functioning of the Business System is very simple. The Parent Company BasicNet S.p.A. controls the strategic activities:

- product research and development;
- global marketing;
- Information Technology, i.e. the creation of new software for the online management of all supply chain processes;

- co-ordination of production and commercial activity information flows on the licensees' Network;
- strategic finance.

Licensees, according to region or goods category, distribute products to retailers, carry out local marketing, regional logistics and working capital funding.

The licensees involved in BasicNet brand finished product management (sourcing centres) apply a similar model and distribute to commercial licensees in their respective areas.

As part of the Business System development, the Group has also established a direct customer sale system, currently developed by the Italian licensee, called *plug@sell*<sup>®</sup>. The model comprises a web-based integrated sales management system, with a platform which simply manages all daily activities at the store in real time, from orders to stock management, to accounting and training of staff (pre-opening and ongoing), through class-based and online training.

As part of the retail project of BasicRetail S.r.l. (a company entirely held by BasicItalia S.p.A.), the various brands have been developed around the three principal retail levels, through which the Group sells directly to the public in Italy:

- (LEVEL I): Brands Stores located in city centres, high streets or shopping centres with specific franchising agreements;
- (LEVEL II): Brand Outlets located in Outlet Villages;
- (LEVEL III) Discount Stores: located in "out-of-town" commercial or industrial parks.

The formats have been developed in order to ensure presence on a wide range of market segments.

### 3. Web Integration

The IT platform is one of the major strategic investments for the Group, with a high degree of focus in terms of staffing and centrality to Business System development.

This platform was designed and developed in a fully web integrated manner as the perfect communication tool between Network elements.

The Information Technology department is involved therefore in the design and rolling out of the data collation and transmission systems which link the BasicNet Network companies together and externally.

The business model therefore centres on e-processes, i.e. "com" divisions - each of which with a production input and exchanging or negotiating with the other divisions, exclusively through the online platform.

## **STRUCTURE OF THE GROUP**

The Basic Group comprises Italian and international operating companies within the following sectors:

- License management (Business System);
- Proprietary licensees;
- Property management.



The **Business System operating segment** includes the Parent Company BasicNet, the trademark holders of the Group, Basic Trademark S.A., Superga Trademark S.A., Fashion S.r.l., Jesus Jeans S.r.l. the services company BasicNet Asia Ltd. in Hong Kong, Basic Properties B.V. in the Netherlands and the sub-licensee Basic Properties America, Inc. in the USA.

In addition to the operations developed directly by BasicNet S.p.A., outlined above, the activities of the other companies concern the granting of the intellectual property rights of the BasicNet Group to licensees, administrating the contracts and managing the relative revenue streams.

The **proprietary licensees** are BasicItalia S.p.A. and its subsidiary BasicRetail S.r.l..

BasicItalia S.p.A. acts as a licensee for the usage and development of the intellectual property rights and of the products of all BasicNet brands for Italy. The company is the licensee and incubator for the testing of Group development projects.

The company holds a number of major sponsorship and merchandising contracts, some of which with international visibility, benefitting also the Group and the Network.

BasicRetail manages Group brand sales points within the franchising project.

**Property management** is carried out by Basic Village S.p.A.. The company owns the former Maglificio Calzificio Torinese production site. Restructured and preserved in 1998, the facilities house the BasicNet Group headquarters and numerous other Group and third party activities. At the end of 2016, the adjacent property was acquired, which is currently occupied by third parties at remunerated conditions.

## ***BUSINESS TARGETS***

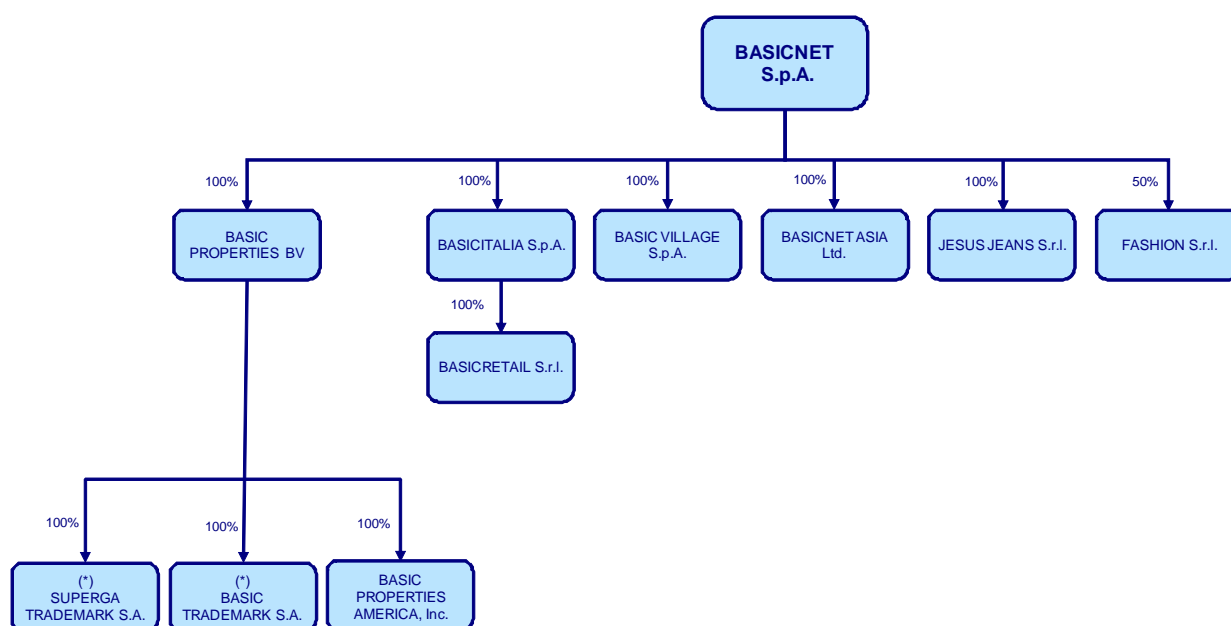
The Group objective is to extend its global leadership position through the strength of its brands.

The Group project centres on:

- the consolidation and expansion of the brands in areas with a pre-existing presence, supporting the growth of licensees through the Business System;
- extending the territorial coverage of the brands, through finding new qualified licensees - particularly for more recently acquired brands;
- the development of the *plug@sell*® shops, allowing licensees to improve market presence and to efficiently target end-consumers;
- the search for fresh investment and development opportunities on new markets.



The following chart sets out the organisational structure of the BasicNet Group:



(\*) Con sede di amministrazione in Italia

In the year subject to approval, the holding was sold to the shareholder already in possession of 50% of the investment in the company AnziBesson Trademark S.r.l..

## HUMAN RESOURCES

At December 31, 2016, the Group headcount was 546, as follows:

Category	Human Resources at December 31, 2016				Human Resources at December 31, 2015			
	Number		Average age		Number		Average age	
	Male/ Female	Total	Male/ Female	Average	Male/ Female	Total	Male/Female	Average
Executives	18 / 10	28	46 / 49	47	17 / 9	26	47 / 48	47
Managers	-	-	-	-	1 / -	1	53 / --	53
White-collar	147 / 348	495	34 / 35	35	134 / 323	457	35 / 36	36
Blue-collar	13 / 10	23	46 / 43	45	14 / 10	24	45 / 42	43
Total	178 / 368	546	35 / 35	36	166 / 342	508	36 / 36	36

Source: BasicGuys.com

The increase principally relates to personnel involved in the management of the Group brand sales points.

The “BasicEducation” project continues to successfully train franchising employees and update the skills of Group employees, with a total of:

- 1,607 online training hours;
- 1,090 classroom training hours and 515 store-based training hours;
- 699 individuals trained (employees and franchisees).

Since 2004, the Group has introduced a number of initiatives to improve the work-life balance of employees: a) the creation of the “*Banca-ore*” (time bank) which facilitates flexible over-time management, b) reversible part time for workers with small children, c) the “*BasicCare*” desk handling payments to employees and routine commissions and d) the “*BasicGym*” which organises gymnastics courses for Group employees and partners.

In February 2012, BasicNet signed a memorandum of understanding with the Turin Municipality, under which all Basic Group employees may utilise the services of TorinoFacile, the online City services provider, without therefore leaving their work station. The corporate website [www.basic.net](http://www.basic.net) in fact allows employees to be recognised through their log-in details, without entering their tax code or other service access passwords, to request personal and civil status certificates, on their own behalf or for members of their nuclear family, or to book an appointment with the municipal technical offices.

The maintenance of workplace health and safety are values shared by all employees. In support of this commitment, the Parent Company and its subsidiaries prepared the “Risk evaluation document” in accordance with Legislative Decree No. 81/2008.

## INFORMATION ON THE ENVIRONMENT

Protecting the environment represents a key factor for the competitiveness and sustainability of the Group. This respect for the environment is firstly undertaken through compliance with regulatory requirements. Through the web integration, since 1999 the Group’s primary objective is to avoid the use of paper: in fact the IT platform is the only communication instrument between the elements within the Network, from procedural controls, to HR management, thus reducing paper consumption to minimal levels. The Group also utilises a scanner archive system throughout the operating cycle, for the majority of accounting records and ledgers and payroll management.

## OTHER INFORMATION

### TREASURY SHARES

Under the treasury share buy-back programme, authorised by the Shareholders’ AGM of April 28, 2016 and concluding at the date of the Shareholders’ AGM for the approval of the 2016 Annual Accounts, the company purchased until the date of today’s Board meeting 732,797 shares, amounting to 1.201% of the Share Capital. BasicNet today holds a total of 5,492,797 treasury shares (9.006% of the Share Capital), for a total investment of Euro 12.1 million.

The Company intends to continue the share buy-back programme in 2017 and proposes to the Shareholders’ Meeting to renew the authorisation. The proposal is submitted in order to provide the Company with a instrument to assist projects developed upon the strategic guidelines under which share swap opportunities are presented or as a guarantee for financing operations.

### STOCK OPTION PLANS

At the date of the present Report there are no stock option plans.

**SHARES HELD BY DIRECTORS AND STATUTORY AUDITORS**

The shares held by the Directors and Statutory Auditors are reported in the Remuneration Report, available together with the documentation for the 2017 Shareholders' AGM on the website [www.basicnet.com](http://www.basicnet.com), to which reference should be made.

**TRANSACTIONS WITH HOLDING COMPANIES, ASSOCIATES, OTHER INVESTMENTS AND RELATED PARTIES**

The transactions with related parties are not atypical or unusual and form part of the ordinary business activities of the companies of the Group. These transactions were at normal market conditions.

The information on transactions with related parties are presented in Note 40 of the financial statements.

The operations between Group companies, which substantially involve the purchase of goods and provision of services, under normal market conditions, are not of an atypical or unusual nature, but within the normal business activities of the companies of the Group and are eliminated on consolidation.

The effects deriving from transactions between BasicNet S.p.A. and its subsidiaries are reported in the financial statements of the Parent Company and in the explanatory notes to the financial statements.

The Italian Group companies took part in the tax consolidation of BasicNet S.p.A. as per Articles 117 and subsequent of the Income Tax Law - December 22, 1986 No. 917.

On October 29, 2010, the Board of Directors approved the related parties transactions procedure, which was updated in October 2016 and is summarised in the Corporate Governance and Ownership Report. The procedure is also available in its full version on the internet site of the Group ([www.basicnet.com](http://www.basicnet.com)) in the section "Corporate Governance BasicNet".

**Governance of subsidiaries outside of the European Union**

In accordance with Article 36, restated by Article 39, paragraph 3 of the Markets' Regulation, the company and its subsidiaries utilise administrative-accounting systems which enable the provision to the public of the financial statements used for the purposes of the preparation of the consolidated financial statements of the companies falling within the scope of this regulation and permit management and the auditors of the Parent Company to access the data necessary for preparation of the consolidated financial statements.

The conditions of the above-stated Article 36, letters a), b) and c) of the Markets' Regulation issued by Consob are therefore complied with.

The composition of the Board of Directors of the companies is available on the website [www.basicnet.com/ilgruppo/organisociali](http://www.basicnet.com/ilgruppo/organisociali).

**RESEARCH AND DEVELOPMENT**

The Group research and development activity is based on two pillars:

- product research on the development of casual and leisurewear sportswear and footwear together with all the related activity, from material sourcing, creative styling and design, production specification, prototype and sample creation;
- IT research in terms of electronic data processing and transmission systems through the internet platform interconnecting Network licensees and externally, to develop all the opportunities arising concerning new technologies to speed up data transfer and therefore business efficiency.

Product research costs are expensed in the year in which they generate revenues from sales, or royalties from the relative collections.

IT development costs, mainly product development software by external consultants under the supervision of internal staff and protected by copyright, are capitalised and amortised over 5 years from when the programmes become operative.

## CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURE REPORT

The Corporate Governance and Share Ownership Report, hereafter summarised, is available in its full version on the Group website ([www.basicnet.com](http://www.basicnet.com)) in the section “Corporate Governance BasicNet).

### 1. COMPANY PROFILE

The Governance of BasicNet S.p.A. is represented by the Shareholders' AGM, the Board of Directors and the Board of Statutory Auditors.

The Shareholders' Meetings represent all of the Shareholders who resolve, in ordinary and extraordinary session, on the matters required by law and by the Company By-Laws.

The Board of Directors was appointed by the Shareholders' AGM of April 28, 2016. The Board of Directors, at the meeting held subsequent to the Shareholders' AGM, set up internally the Control and Risks Committee and the Remuneration Committee.

The financial statements are audited by an audit firm in accordance with the provisions of law.

### 2. DISCLOSURE ON THE OWNERSHIP STRUCTURE AT MARCH 22, 2017 (as per Article 123-bis, paragraph 1, of the CFA)

#### a) Share capital structure (as per Article 123-bis, paragraph 1, letter a), CFA)

The Share capital, fully subscribed and paid-in, amounts to Euro 31,716,673.04 and is comprised of 60,993,602 ordinary shares with a value of Euro 0.52 each.

At the date of the present Report, the Company holds 5,492,797 treasury shares, equal to 9.006% of the share capital.

The Company has not issued other financial instruments that attribute the right to subscribe to new share issues.

No share-based incentive plans have been introduced which would resulted in an increase, including through scrip issues, of the share capital.

#### b) Restriction on the transfer of shares (as per article 123-bis, paragraph 1, letter b), CFA)

At the date of the present Report, there are no restrictions on the transfer of shares.

#### c) Significant holdings (as per article 123-bis, paragraph 1, letter c), CFA)

With reference to Article 1, letter *w-quater* 1) of the CFA<sup>1</sup>, BasicNet qualifies as a “Small- Medium-size enterprise” (SME) The significance threshold is 5% of the share capital with voting rights. The list of parties holding, directly or indirectly, more than 5% of the share capital according to the shareholders' register, supplemented by the communications received in accordance with Article 120 of Legislative Decree No. 58 of 1998 and other information held by the company, is as follows:

<sup>1</sup> Article 1 CFA *w-quater*.1) “SME”: subject to that established by other legal provisions, small-medium-size enterprises, issuers of listed shares, whose revenues also before admission to trading, are under Euro 300 million, or who have a market capitalisation of under Euro 500 million. Listed issuers who have exceeded both these thresholds for three consecutive years are not considered SME's. Consob regularly issues the enacting provisions of this letter, including the disclosure means which issuers are required to comply with in relation to the acquisition or loss of SME's status. Consob, on the basis of information provided by issuers, publishes the list of SME's on its website.

Shareholder	% of ordinary & voting share capital	Note
Marco Boglione	37.076%	Held indirectly through BasicWorld S.r.l. for 36.565% and for the residual 0.511% directly.
BasicNet	9.006%	Treasury shares in portfolio.
Wellington Management Group, LLP	6.148%	Discretionary savings management.
Kairos Partners SGR S.p.A.	5.036%	

- d) Shares which confer special rights (as per Article 123-bis, paragraph 1, letter d), CFA)  
There are no securities which confer special control rights.
- e) Employee participation rights: method of exercise of voting rights (as per Article 123-bis, paragraph 1, letter e), CFA)  
There is no share participation programme for employees.
- f) Voting restrictions (as per article 123-bis, paragraph 1, letter f), CFA)  
There are no restrictions on voting rights. The issuer has exclusively issued ordinary shares; each share provides one vote (Article 6 of the By-Laws). Article 21 of the By-Laws excludes the right to withdrawal with regards to motions concerning the extension of the company's duration or the introduction or the removal of restrictions on the circulation of equities.
- g) Shareholder agreements (as per article 123-bis, paragraph 1, letter g), CFA)  
At the date of the present Report, there are no agreements between Shareholders.
- h) Change of control clause (as per Article 123-bis, paragraph 1, letter h), of the CFA) and statutory provisions on public purchase offers (as per Articles 104, paragraph 1-ter and 104-bis, paragraph 1)  
The contractual conditions of the loans in place at the date of the present Report include typical clauses for such loans, such as the maintenance of some conditions concerning the holding of the majority shareholder of the Company.

#### Statutory provisions in relation to Takeovers

The Extraordinary Shareholders' Meeting of April 29, 2011 approved, among other matters, the change to Article 16 of the Company By-Laws – Powers of the Board of Directors and legal representation – in order to recognise to the Board of Directors the right to undertake, at any moment and without prior authorisation of the Shareholders' Meeting, defensive measures in the case of public offers or exchanges, pursuant to Article 104 of the CFA, as amended by Article 1 of Legislative Decree No. 146 of September 25, 2009. In particular Article 16 includes two paragraphs as follows:

- “the Board of Directors, and any Executive Boards, also have the right to undertake, without a Shareholders' Meeting authorisation, all acts and operations against the objectives of a public share or exchange offer, from the moment in which the communication in which the decision or the obligation arises to promote the offer was made public until the termination or expiry of the offer”.

- “the Board of Directors, and any Executive Boards, also has the right to implement decisions, not yet implemented in full or in part and which are not within the scope of the normal activities of the company, undertaken before the communication as described above and whose implementation could negate the achievement of the objectives of the offer”.

i) Power to increase the Share Capital and authorisation to purchase treasury shares (as per Article 123-bis, paragraph 1, letter m), CFA)

- Powers to increase the Share Capital

The Board of Directors do not have powers to increase the Share Capital pursuant to Article 2443 of the Civil Code.

- Authorisation of share buy-back plan

The Shareholders' AGM of April 28, 2016 approved, for a period of twelve months, or until the next Shareholders' AGM to approve the 2016 Annual Accounts, the authorisation to purchase and utilise a maximum number of shares, which taking into account those already held by the Company, does not exceed the limits permitted by law, for a maximum expected financial commitment of Euro 3.5 million. Based on this authorisation the Company, at the date of the Report, had acquired 732,797 shares, equal to 1.2% of the Share Capital. BasicNet today holds a total of 5,492,797 treasury shares (9% of the Share Capital), for a total investment of Euro 12.1 million.

l) Direction and co-ordination activities (as per Article 2497 and subs. of the Civil Code)

BasicNet S.p.A. is not subject to management and coordination pursuant to Article 2497 and thereafter of the Civil Code and has full authority to implement its general and operating strategies.

BasicNet S.p.A. considers that it is not subject to the management and coordination of BasicWorld S.r.l., a company which holds 36.565% of the share capital, also with reference to Article 37 of the Consob Markets Regulation:

1. there are no rules which permit the limitation of independent decisions of BasicNet S.p.A., either in contractual form or through organisational procedures;
2. it does not have in place with BasicWorld S.r.l. any centralised treasury arrangement;
3. the Control and Risks Committee exclusively comprises Independent Directors.

Pursuant to Article 2497-bis of the Civil Code the directly and indirectly held Italian Group subsidiaries have identified BasicNet S.p.A. as the party which exercises management and coordination of their activities. This activity involves oversight of the general strategic directives and in the definition and amendment of the Internal Governance and Control model, and the sharing of the Ethics Code adopted at Group level. In addition, the coordination involves the central management within BasicNet S.p.A. of the Treasury, personnel, corporate affairs, operating control and Information Technology services.

These activities permit both economies scale and adequate coordination and operational control.

m) Other information

It is noted that:

- the disclosures required by Article 123-bis, paragraph 1, letter 1) (“the agreements between the company and directors – which provide for indemnity in the case of dismissal without just cause or in the case in which the employment services cease after a public offer”) are contained in the Remuneration Report pursuant to Article 123-ter of the CFA, available on the company's website [www.basicnet.com/contenuti/datifinanziari/assembleeazionisti.asp](http://www.basicnet.com/contenuti/datifinanziari/assembleeazionisti.asp);

- the disclosures required by Article 123-bis, paragraph 1, letter l) of the CFA (“applicable regulations concerning the appointment and replacement of directors, in addition to the amendment of the by-laws if differing from applicable law and regulations) are illustrated in the Board of Directors section (Section 4.1).

### 3. COMPLIANCE (as per Article 123-bis, paragraph 2, letter a), CFA)

The Corporate Governance system adopted by BasicNet S.p.A. incorporates the rules and procedures within the Company’s By-Laws and provisions of law, which outlines the system of management and control of the Company and of the Group.

This is mainly based on the principles and recommendations contained in the Self-Governance Code of listed companies issued by Borsa Italiana, available on the website Borsa Italiana (<http://www.borsaitaliana.it/comitato-corporate-governance/homepage/homepage.htm>).

The Annual Report, which is published on the website [www.basicnet.com/contenuti/corporate/corporategovernance.asp](http://www.basicnet.com/contenuti/corporate/corporategovernance.asp) illustrates the **Governance** structure of the Group, as well as the level of compliance of the corporate governance system with the recommendations of the Self-Governance Code issued by Borsa Italiana S.p.A..

In line with Recommendation EU No. 208/2014 and paragraph IV of the “Guidelines and transitory system” of the Self-Governance Code provides facts and explanations, where any application principles or criteria were unexpected.

BasicNet S.p.A., nor its strategic subsidiaries, are subject to laws in force outside Italy which affect the corporate governance structure.

## 4. BOARD OF DIRECTORS

### 4.1 APPOINTMENT AND REPLACEMENT (as per Article 123-bis, paragraph 1, letter l), CFA)

The norms applied in the appointment and replacement of the Directors are in line with legislative and regulatory provisions and Article 13 of the Company By-Laws, in relation to which reference should be made to the company’s website [www.basicnet.com/contenuti/gruppo/statuto.asp](http://www.basicnet.com/contenuti/gruppo/statuto.asp).

The Company is administered by a Board of Directors, made up of between five and fifteen members, including non-shareholders. The Shareholders’ Meeting, before their appointment, establishes the number of members of the Board of Directors and the duration of office in accordance with that permitted by law.

The procedure for appointment as per Article 13 provides:

- for filing, at the registered office of the Company, within the terms required by regulatory provisions, of the slates of candidates with indication of the shareholders presenting the candidates and the overall shareholding held, together with disclosure on the personal and professional details of the candidates;
- that the minority shareholders that either alone, or together with other shareholders, holding voting rights not lower than that required by current regulations, will be reserved the appointment of one Director. For 2017, as in previous years, this percentage was 4.5% (Consob Resolution No. 19856 of January 25, 2017);
- that the procedure for electing the Directors shall be as follows: i) from the slate which obtained the highest number of votes, based on the progressive order with which they are listed in the slate, all the members necessary are elected to fill the number of Directors established for the Shareholders’ Meeting, while ensuring the gender balance provisions are complied with, except 1; ii) from the slate which obtained in the Shareholders’ Meeting the second highest number of votes one member is elected of the Board of Directors as the first candidate on this slate;



- consideration is not taken of the slates which have not obtained at least the number required by the Company By-Laws for the presentation of the slates;
- should two slates receive the same number of votes, a second vote of the entire Shareholders' Meeting is taken to decide between them with the candidate being elected through a simple majority of the votes. In the case of presentation of only one slate, or in the case of no slate presented, the Shareholders' Meeting deliberates in accordance with the statutory majority.

Should one or more vacancies occur on the Board, Article 2386 of the Civil Code shall be applied, as follows:

- a. the Board of Directors appoints the replacements from the same slate to which the previous directors belonged, choosing where necessary a replacement considered independent as per applicable law, with the shareholders' meeting voting upon such by statutory majority, respecting this principle;
- b. when the above-mentioned slate does not contain candidates not previously elected or, where required, candidates considered independent as per applicable law, the Board of Directors makes the replacement without satisfying the previous point a). by statutory majority;
- c. when the above-mentioned slate does not contain candidates not previously elected or, where required, candidates such as to ensure compliance with the applicable gender equality legislation, the Board of Directors makes the replacement without satisfying the previous point a)., as does the Shareholders' Meeting, also by statutory majority.

#### Executive directors succession plans

The Board of Directors, in view of the ownership structure and the allocation of duties, decided not to adopt succession plans for any replacement of the Executive Directors, not considering it necessary to identify parties or criteria for their selection in advance of the need to replace an executive director.

#### 4.2. COMPOSITION OF THE BOARD OF DIRECTORS (as per Article 123-bis, paragraph 2, letter d), CFA)

The Board of Directors in office, comprising 12 members, was appointed by the Shareholders' Meeting of April 28, 2016, which elected:

- from the slate filed by the shareholder BasicWorld S.r.l., which held 22,071,666 shares, equal to 36.187% of the share capital, 11 Directors, as: Marco Boglione – Chairman, Paola Bruschi, Paolo Cafasso, Giovanni Crespi, Alessandro Gabetti Davicini, Renate Hendlmeier, Adriano Marconetto, Daniela Ovazza, Carlo Pavesio, Elisabetta Rolando and Franco Spalla;
- from the slate filed by the legal firm Trevisan & Associati on behalf of a number of shareholders, holding a total of 5,210,113 shares, equal to 8.542% of the share capital, 1 Director, as Ms. Elisa Corghi.

The duration of office is established as three years and therefore until the Shareholders' AGM called for the approval of the 2018 Annual Accounts.

The Board of Directors, which met following the Shareholders' AGM:

- reconfirmed Daniela Ovazza as the Vice Chairman of the Board of Directors and appointed Franco Spalla as the new Vice Chairman, with the duty to assist the Chairman on special or strategic projects;
- appointed Giovanni Crespi as Chief Executive Officer;
- ascertained the independence of the Directors: Elisa Corghi, Renate Hendlmeier and Adriano Marconetto;
- appointed to the Remuneration Committee: the Non-Executive Director Carlo Pavesio, as Chairman, the Non-Executive Vice Chairman Daniela Ovazza and the Independent Directors Renate Hendlmeier and Adriano Marconetto;



- appointed to the Control and Risks Committee the Independent Directors Elisa Corghi, as Chairman, Renate Hendlmeier and Adriano Marconetto;
- reconfirmed the Director Paolo Cafasso as the Executive Officer for Financial Reporting.

At the subsequent meeting of May 13, 2016, the Board of Directors noted the appointment of the new members of the Control and Risks Committee, which in order to ensure the continuity of work of the Committee, unanimously agreed on the proposition to the Board to appoint the Director Renate Hendlmeier as Chairperson.

At the meeting of February 15, 2017, the Board of Directors called the non-executive and independent Director Elisa Corghi to sit on the Remuneration Committee.

The Board of Directors, in its current composition, complies with the “gender quota” rules under Law No. 120 of July 12, 2011 and Article 144-*undecies* 1 of the Issuers’ Regulation. Therefore, the Board of Directors of BasicNet S.p.A. has had in place at least two female directors since listing.

A brief curriculum vitae of the members of the Director in office, with indication of the offices held in other listed companies or companies of significant size is listed below.

The curriculum vitae of the Directors in office are also available on the website of the company at [www.basicnet.com/contenuti/gruppo/organisocialisocieta.asp](http://www.basicnet.com/contenuti/gruppo/organisocialisocieta.asp).

*Marco Daniele Boglione* – Chairman of the Board of Directors (Director since 1984)

Born in 1956, he is the Group’s founder. After experience with Maglificio Calzificio Torinese S.p.A., he has been an entrepreneur since 1985.

He is also a Board member of subsidiary companies. He is the Chief Executive Officer of BasicWorld S.r.l., a Director of the Piedmont Foundation for cancer research (non-profit) and Chairman of the Piedmont Oncological Foundation. He is a Board member of the Turin General Industrial Union. In June 2011, he was appointed a “Cavaliere al Merito del Lavoro” (Italian State Recognition) by the President of the Republic Giorgio Napolitano and since June 2014 has been a member of the Council of the Piedmont section of the “Cavalieri del Lavoro”.

*Daniela Ovazza* – Vice Chairman – Member of the Remuneration Committee (Director since 1994)

Born in 1956, he graduated in Economics and Commerce in Turin, joining the business world in 1984.

He is a Director of TESA S.p.A., Non-Executive Director of C.L.S. S.p.A. and a Director of CGT Truck S.p.A..

*Franco Spalla* – Vice Chairman (Director since 2001)

Born in 1952, he graduated in Company Management from the University of Turin.

He is also a Board member of subsidiary companies. He is an Independent Director and member of the Control and Risks Committee of Intek Group S.p.A., a company listed on the Milan Stock Exchange. Between 1998 and 2011 he was the Chief Executive Officer of Fenera Holding S.p.A. and the Chief Executive of BasicNet S.p.A. between 2002 and April 2016.

*Giovanni Crespi* – Chief Executive Officer (Director since 2007).

Born in 1959, he obtained a degree in Political Science. He began his career in the publishing sector. Between 1986 and 1990 he was the assistant to the General Manager of the publishing group Fabbri, Bompiani, Sonzogno and Etas Group S.p.A. and publisher of the Etas brand. From 1990 to 1991 the General Manager of Eurolibri Rusconi Editore S.p.A., from 1991 to 1999 Vice Chairman and General Manager of “The Walt Disney Company Italy S.p.A.”. From 1999 to 2003 he was the Chief Executive Officer and General Manager of the Istituto Geografico De Agostini S.p.A., from 2003 to 2006 the

Chairman of Rodale International and since 2008 has been the Chairman and Chief Executive Officer of Rhiag Group S.p.A.. Until the end of 2015, he was an Independent Director of Innovest S.p.A. and a Director of Sirti S.p.A., HIIT S.p.A. and of UnoPiù S.p.A..

He is also a Board member of subsidiary companies.

*Paola Bruschi* – Director (Director since 2007).

Born in 1967, he graduated in Economics and Commerce. He has worked with BasicNet since 1993 and currently acts as the Vice President Organisation and is a member of the Supervisory Board and the Director in charge of the internal control and risk management system.

He periodically attends the presentation of case studies at the Economics and Commerce faculty of Turin, the Corporate Administration School, ISTUD courses, School of Management of the Milan Polytechnic.

*Paolo Cafasso* – Director (Director since 1995).

Born in 1956, he graduated in Economics and Commerce, and qualified as a certified accountant and auditor. Between 1980 and 1994 he was an auditor with Arthur Andersen & Co., servicing the main clients in the Turin area, particularly in the industrial and commercial sector. He has worked with the Group since 1994 and, in addition to executive roles at other Group companies, is the Vice President Finance, CFO and Executive Officer for Financial Reporting.

*Elisa Corghi* – Independent Director - Member of the Control and Risks Committee and the Remuneration Committee (Director since 2016)

Born in 1972, she graduated in Economics and Commerce. She gained useful experience as the brand manager at the marketing departments of Barilla Alimentare and Kraft Foods, with involvement in the drafting and management of the best seller marketing plans for both enterprises. Subsequently, she dedicated herself for over ten years to the financial analysis of consumer sector listed companies (Recordati, Diasorin, Amplifon, Parmalat, Autogrill, Campari, Indesit Company, De'Longhi, Saeco), as primary responsibility, and for luxury sector companies (Luxottica, Tod's, Brunello Cucinelli, Ferragamo, Bulgari), as secondary responsibility, acting as a senior sell-side analyst at Intermonte SIM, a leading Italian market operator, of which she was a partner. In this role, she was involved in the development of forecast models and the fundamental valuation of listed companies, the drafting of the investment case and the investment recommendations to sales and institutional clients, organisation and involvement in roadshows to support contact between the top management of listed client companies and the managers of domestic, UK and US investment funds. Recently, she worked with a digital start-up in the fashion - clothing sector and initiated and participated in the due diligence for a luxury sector M&A.

She is an independent director of the listed company Tecnoinvestimenti S.p.A. and a Director of Corneliani S.p.A..

*Alessandro Gabetti Davicini* – Director (Director since 2010).

Born in 1965. He has acted as the General Manager of Lactalis Italia S.p.A. and Strategic Development Director of the Galbani Group.

Currently, he is an Executive Director of Fenera Holding S.p.A., Director of Fenera Equity Investments S.r.l., Director of Tosetti Value S.r.l., Director of SDM S.r.l., Director of FDAH (Forno d'Asolo Holding), the Sole Director of Pantarei S.r.l. and the Vice Chairman of Francesco Franchi S.p.A..

*Renate Hendlmeier* – Independent Director - Chairperson of the Control and Risks Committee and member of the Remuneration Committee (Director since 2015)

She was born in Plattling in 1957. She was the CFO of the Basic Group between 1987 and 1999 and thereafter headed and coordinated the Basic Group's property management activities between 1999 and 2003, while being involved in corporate reorganisation between 2004 and 2006.

She currently holds corporate and voluntary positions with an international association based in Turin.

*Adriano Marconetto* – Independent Director - member of the Control and Risks Committee and the Remuneration Committee (Director since 2007).

Born in 1961, he is an entrepreneur focused in the technology start up sector. Between 1995 and 1999 he was the Marketing Director of BasicNet and subsequently the co-founder and Chairman of the Board of Directors of Vitaminic S.p.A., until 2003; between 2005 and 2012 he founded and subsequently acted as the CEO of the company Electro Power System S.p.A. In 2012 he founded and managed the company ProxToMe, Inc. and took on the role of Executive Chairman. In 2015, he founded the company YAR S.r.l., of which he is CEO. He is involved in various non-profit activities.

*Carlo Pavesio* – Director - Chairman of the Remuneration Committee (Director since 1994)

Born in 1956, graduating in law and achieving a Masters of Laws (LL.M.) in 1980 at the London School of Economics. He completed an “internship” in 1980-1981 with the Economic Commission of the European community legal service in Brussels and was the “Visiting Foreign Lawyer” in 1985-1986.

He is a Senior Partner with the legal firm Pavesio and Associati, previously a partner with Allen & Overy and with Brosio Casati e Associati. His experience is principally centred on legal and non-legal questions and corporate and contractual law for Italian and foreign clients. He is specialised in M&A operations, joint ventures and corporate restructuring, in addition to generational transfer, governance and trusts. He also has experience in arbitration and disputes.

Currently, he is the Chairman of the Board of Directors of BasicWorld S.r.l., Fenera Holding S.p.A., Società Reale Mutua di Assicurazioni, Italiana Assicurazioni S.p.A., Farmaceutici Procemsa S.p.A. (Vice Chairman), Tosetti Value SIM S.p.A., BasicItalia S.p.A., P. Fiduciaria s.r.l., Simon Fiduciaria S.p.A. and Francesco Franchi S.p.A. and is a member of the Supervisory Board of the Piedmont Oncological Foundation. For many years, he has been an active member and officer of the IBA - International Bar Association and is a member of the Directive Committee of the Piedmont Chamber of Commerce. He is a Member of the Board for Relations between Italy and the United States. He is an Honorary Consul of the Republic of Panama. He is Chairman of the Piedmont Arbitration Board.

*Elisabetta Rolando* – Director (Director since 2013).

Born in 1960, working from 1989 to 1992 as an assistant to the President of Football Sports Merchandise (S.p.A.) (now BasicNet S.p.A.), from 1994 to 1997 Director of the company Mad Cap S.r.l., specialised in the production of promotional clothing and accessories and thereafter from 1997 to 1999 commercial manager at Swingster Europe S.p.A., a subsidiary of BasicNet specialised in corporate merchandise, and from 1999 at the BasicNet Group as a senior manager.

Currently within the Group, she is the Executive Chairperson of BasicItalia S.p.A. and of BasicRetail S.r.l..

*Maximum number of offices held in other companies*

The Board of Directors does not consider it necessary to limit the maximum number of offices which each Director may hold, also in view of the consistently high participation of all members at meetings of the Board of Directors.

*Induction Programme*

The Directors, in practice, have the facility to participate in meetings subsequent to their appointment and during their mandate with the Chairman and Management, in order to remain updated on corporate affairs and relevant changes. They also continually have access to financial and operational information from the BasicManagement portal.

#### 4.3 ROLE OF THE BOARD OF DIRECTORS (as per Article 123-bis, paragraph 2, letter d), CFA)

The Board in 2016 met seven times, with meetings lasting on average two and a half hours and with full attendance on all occasions of the Board.

In January 2017, the company published its financial calendar which established the days for the five Board meetings for 2017, for the review of the preliminary results, the approval of the 2016 separate and consolidated financial statements, the approval of the half-year report and the review of the quarterly disclosure to the market. As established by Article 82-ter of the Issuers' Regulation, the same press release confirmed the company's position on the publication of additional financial disclosure. In particular, BasicNet announced that it will continue to publish the quarterly results on a voluntary basis, until any differing assessment. The quarterly results communicated to the market shall comprise a summary of the commercial performance by Brand and by region and a presentation of the key commercial indicators (compared with those for the same period of the previous year). The Quarterly disclosure shall be published in a press release to be issued on conclusion of the Board of Directors' meetings called to approve the above results.

The calendar is available on the website [www.basicnet.com](http://www.basicnet.com).

On February 15, the first meeting was held, which reviewed the 2016 preliminary results.

The documentation concerning the matters under discussion is generally sent in advance to the Directors and Statutory Auditors. In accordance with the Code, the Board of Directors, considering the operating dynamics of the Company and the Group, identified the period of two days as appropriate for the sending of preliminary meeting material, except in the cases of urgency. The above-stated deadline was complied with for Board meetings in 2016.

The Chairman ensures that the handling of each matter on the Agenda is allocated the necessary time to ensure constructive debate, considering debate among the Board as useful for the motions to be considered.

Executives of the company may participate at the Board meetings, on the invitation of the Chairman, where there is a need to provide guidance on the matters on the Agenda. In 2016, the Vice President Sales and the Vice President Sourcing participated at a meeting of the Board, who respectively contributed with regards to the activities of the commercial and productive licensees. The Directors and the Statutory Auditors of BasicNet were in addition invited to participate at a meeting of the Board of Directors of the subsidiary BasicItalia for details upon the operating performance of the subsidiary, which represents a significant portion of Group operations.

The Board is invested with the widest powers deemed appropriate in order to achieve the Company's aims and objectives, with the sole exception of those that are expressly reserved for the Shareholders' Meeting by law.

As recommended by the Self-Governance Code, the Board of Directors, among other matters:

- a. reviews and approves the strategic and financial plans of the Company and of the Group, defines the organisational structure of the Companies of the Group and the corporate governance system of BasicNet. The implementation of the plan is usually reviewed at the meetings called for the approval of the interim financial statements;
- b. verifies the mapping of the corporate risks and their control. This activity seeks to evaluate the risk in defining the development potential of the Group over the medium/long-term; in this regard, during the Board of Directors meetings, detailed disclosure is provided on the activities carried out and upon the major operations executed by BasicNet S.p.A. and the Group companies. The Board examines from time to time significant operations carried out by the Issuer or the subsidiaries, also when such are within the powers conferred to the Chairman or the Chief Executive Officer.

The following significant operations are within the remit of the Board of Directors: the acquisition and/or sale of company shares, companies, business units or brands of a value greater than Euro 4 million, the signing of sponsorship contracts with an annual cost of greater than Euro 5 million, debt operations of a value greater than 60% of the consolidated net equity, the granting of any guarantees, obligatory or secured by patronage letters (with the exception of subsidiaries) greater than Euro 4 million. Article 16 of the By-Laws assigns to the Board of Directors the remit to consider, in accordance with Articles 2505 and 2505-bis of the Civil Code, the merger by incorporation of one or more companies in which all shares or in which at least 90% of all shares are held; the opening or closing of secondary offices; the indication of Directors with powers to represent the company; the amendment of the By-Laws in line with regulatory provisions; the reduction of the share capital in the case of shareholder withdrawal; the transfer of the registered office within the national territory. In addition, in accordance with the first paragraph of Article 2410 of the Civil Code, the Board of Directors may approve the issue of bonds;

- c. evaluates the adequacy of the organisational, administration and accounting system of the Company and of its subsidiaries with strategic importance, which has been implemented by the Executive Directors with particular reference to the internal control and risk management system. In addition to the companies holding the brands, the strategic companies are BasicItalia S.p.A., which is the Italian licensee of the Group, and BasicRetail S.r.l., which manages the Group's retail operations. Continuity in the composition of the Board of Directors of the companies of the Group has facilitated, in fact, the functions of control, timely disclosure and coordination of instructions to the subsidiaries;
- d. assigns and revokes the delegation of powers to the Executive Directors, establishing the limits and manner of exercising such power and the frequency of reporting, normally not less than three months, through which the Executive Directors must report to the Board on the activities undertaken in relation to the powers conferred, in accordance with Article 13 of the Company By-Laws;
- e. evaluates the general operational performance, taking into account, in particular, the information received from executives, as well as periodically comparing the results with the budgets;
- f. examines and approves the company and its subsidiaries' operations prior to being carried out, when these operations have a significant strategic, economic, or financial importance for the Company, paying particular attention to the situations in which one or more directors have an interest on their own behalf or on behalf of third parties, and, in general, transactions with related parties.

At the Board meeting of March 22, 2017, the Board of Directors, having received suggestions from directors participating at the individual committees and in view of the consistent presence of all Directors at the meetings, in addition to the extensive contributions to the discussions, considered the size, composition and functioning of the Board and its committees as appropriate with regards to their respective competences for the achievement of the objectives of BasicNet S.p.A. and the Group. The



clarity and timeliness of the information prepared by the Chief Executive Officer concerning Board meetings, as well as the periodic updating on regulatory provisions and duties of the Directors, enabled the Directors to undertake their duties in a knowledgeable and informed manner. The number of Executive and Non-Executive Directors is also considered appropriate, also in terms of the independent directors.

The Board in addition examines, on a half-yearly basis, the report of the Control and Risks Committee illustrating the findings of their activities and controls and their opinion on the adequacy of the internal control system. At the meeting of March 22, 2017, the Board noted the substantially positive opinion of the Committee, also in view of the supplementation, development and coordination activities in 2017 regarding the control system, suggested by the Committee and by the Board of Statutory Auditors. For this purpose, the 2017 budget allocated to the Control and Risks Committee was increased.

The Shareholders' AGM of April 28, 2016, on the appointment of the Board, permitted the Directors elected not to be restricted by a non-competitive clause, as per Article 2390 of the Civil Code. The Directors are however requested, both on the acceptance of office and during the period of their office and thereafter, to report in a timely manner to the Board of Directors operating appointments in competing groups.

#### 4.4. EXECUTIVE BOARDS

The Board of Directors at the meeting of April 28, 2016 reconfirmed Daniela Ovazza as the Vice Chairman of the Board of Directors and appointed as a new Vice Chairman Franco Spalla and Giovanni Crespi as the Chief Executive Officer. The Chairman of the Board of Directors was appointed by the Shareholders' AGM held on the same date.

In accordance with Article 13 of the By-Laws, the Vice Chairman executes the role of Chairman in the case of the latter's absence.

The Board of Directors on April 28, 2016, in addition to assigning the new Vice Chairman Franco Spalla the role of assisting the Chairman upon special or strategic projects, granted management powers to the Chairman and the Chief Executive Officer, as outlined below:

- to the Chairman, Marco Boglione, all powers for ordinary and extraordinary administration with sole signature, within a limit of Euro 4 million for the acquisition and/or sale of quotas or shares in companies, enterprises, business units or brands, Euro 5 million with reference to the annual cost of sponsorship contracts, 60% of the consolidated net capital of the Company, in relation to financing operations and Euro 4 million for the granting of all secured and unsecured guarantees and patronage letters (with the exception of the subsidiary companies);
- to the CEO, Giovanni Crespi, all powers for ordinary and extraordinary administration with sole signature, within a limit of Euro 3 million for the acquisition and/or sale of quotas or shares in companies, enterprises, business units or brands, Euro 3.5 million with reference to the annual cost of sponsorship contracts, 50% of the consolidated net capital of the Company, in relation to financing operations and Euro 3 million for the granting of all secured and unsecured guarantees and patronage letters (with the exception of the subsidiary companies).

At the same meeting, the Director Paolo Cafasso was conferred, as Group Finance Director, executive powers for the administrative and financial management of the Company.

At the date of the present Report there are no interlocking directorates.

#### *Chairman of the Board of Directors*

The Board Meeting of April 28, 2016 noted that the accumulation of offices of Chairman and Executive Director of Marco Boglione was justified within the Corporate Governance practice of business continuity, in that he is the founder of the Group and has always been directly involved in the activities of the Company.

As already illustrated at point 2.C of the present Report, Mr. Marco Boglione holds 22,383,334 shares, equal to 37.076% of the share capital, of which 22,302,501 shares, equal to 36.565% of the share capital, indirectly through the subsidiary held 90.58%, BasicWorld S.r.l. and, directly, 311,668 shares, equal to 0.511% of the share capital.

*Executive committee (as per Article 123-bis, paragraph 2, letter d), CFA)*

The Board of Directors did not set up an Executive Committee.

*Reporting to the Board*

The Executive Boards reported to the Board and the Board of Statutory Auditors at their meetings, at least on a quarterly basis, with regards to the activities carried out in the exercise of their powers, on the general operating performance and the outlook and also on the most significant operations undertaken by the company and its subsidiaries.

#### 4.5. OTHER EXECUTIVE DIRECTORS

In addition to the Chairman Marco Boglione, the Chief Executive Officer Giovanni Crespi, the Directors Paola Bruschi, Vice President Organization, Paolo Cafasso, Group Chief Financial Officer and Elisabetta Rolando, Executive Chairperson of the Board of Directors of the subsidiary BasicItalia S.p.A. are Group Executive Directors.

#### 4.6 INDEPENDENT DIRECTORS

The Board of Directors includes three Independent Directors: Elisa Corgi, Renate Hendlmeier and Adriano Marconetto.

The Board of Directors on their respective appointment to office and in the Board meeting of March 22, 2017 assessed, on the basis of their declarations, the independence of the Directors Elisa Corgi, Renate Hendlmeier and Adriano Marconetto, both in relation to the requirements of Consob regulations and the criteria of the Self-Governance Code. With regards to the criteria at Article 3.C.1 letter e) of the Self-Governance Code, the Director Adriano Marconetto considered that his holding of the position since 2007 and therefore for more than nine years does not affect his independence.

No specific meetings of the independent Directors are planned, however they may meet independently where considered necessary or beneficial at the margins of the Control and Risks Committee meetings, of which they are all members.

The criteria and procedures were reviewed by the Board of Statutory Auditors. For the year 2016, the Board of Statutory Auditors communicated the results of these controls in the report of the Board of Statutory Auditors to the Shareholders' AGM.

#### 4.7 LEAD INDEPENDENT DIRECTOR

The Self-Governance Code recommends the appointment of a lead independent director by the Board of Directors where the Chairman controls the Issuer or is the main executive in charge of operations.

The Board meeting of April 28, 2016 considered that the accumulation of offices of Chairman and Executive Director by Mr. Marco Boglione was justified in view of the need to ensure the strategic and operating continuity of the Group, as he is the Group's founder and has also always been directly involved in the company's operations. The Board in addition considered, also in light of the composition of the Board of Directors, in addition to the size and organisational structure of the company, that this concentration of offices does not affect his impartiality and balance as the Chairman of the Board of Directors, and that the information flows with non-executive directors and the Board of Statutory Auditors, overseen by the Chairman and the Chief Executive Officer, are complete and timely, therefore not requiring the appointment of a Lead Independent Director. At the meeting of March 22, 2017, the Control and Risks Committee on reviewing the company's Governance,

confirmed the Board's position, considering that (i) the Chairman is not the only executive in charge of company management, (ii) powers are also allocated to other members of the Board of Directors and (iii) the Chairman controls the issuer, although commits to open a constructive dialogue with the Independent Directors.

## 5. HANDLING OF CORPORATE INFORMATION

The Board approved the procedure for the handling of confidential information, subsequently updated with the regulations on Market Abuse. The procedure has recently been updated (in 2016) to incorporate new provisions introduced by the Regulation of the European Parliament and Council of April 16, 2014 No. 596/2014 (MAR).

This procedure contains the regulations for the internal management and external communication of confidential documents and insider information, for the management of delayed disclosure, in addition to the setting up and management, based on a specific IT procedure, of the Register for persons with access to insider information.

Since April 1, 2016, the Internal Dealing Code has been applicable, updated in 2016 to incorporate new provisions of the Regulation of the European Parliament and Council of April 16, 2014 No. 596/2014. The Code governs the procedures for disclosure to the market on operations on BasicNet S.p.A. shares by "Significant Persons" of the Group, as identified by Article 144 and thereafter of the CFA.

The procedure is available on the website: [www.basicnet.com/contenuti/gruppo/internaldealing.asp](http://www.basicnet.com/contenuti/gruppo/internaldealing.asp).

In 2016, five Internal Dealing communications were published concerning operations carried out on the BasicNet share (three communications concerning purchases made by BasicWorld S.r.l., a company of which the Chairman Marco Boglione is the majority shareholder, and one communication concerning purchases made by the Chief Executive Officer Giovanni Crespi).

## 6. INTERNAL COMMITTEES TO THE BOARD (as per Article 123-bis, paragraph 2, letter d) CFA)

The Board meeting of April 28, 2016 appointed the Remuneration Committee and the Internal Control and Risk Committee. Since October 28, 2016, the Control and Risks Committee has also been the Related Party Transactions Committee.

The Board did not set up, as illustrated below, an Appointments Committee or other committees.

## 7. APPOINTMENTS COMMITTEE

In line with evaluations made in the past, the Board of Directors, also in view of the size and shareholding of the Company, did not consider it necessary to set up an Appointments Committee for the nomination of Directors, also given that, in accordance with Article 13 of the Company By-Laws, the Directors are elected through a slate voting mechanism. In addition, the Board of Directors retain that considerations on the size and composition of the Board of Directors, proposals to nominate candidates as Directors in the event of co-optation and succession planning of Executive Directors, fall within the remit of the entire Board of Directors and as such may be discussed and approved within the Board meetings.

## 8. REMUNERATION COMMITTEE

Composition and Operation of the Remuneration Committee (as per Article 123-bis, paragraph 2, letter d) CFA)

At the Board meeting of April 28, 2016, the Board appointed the Remuneration Committee composed of the Non-Executive Directors Carlo Pavesio - Chairman, Daniela Ovazza and the Non-executive and independent directors Renate Hendlmeier and Adriano Marconetto.

At the meeting of February 15, 2017, the Board of Directors called the non-executive and independent Director Elisa Corghi to sit on the Committee.



The Chairman of the Committee, Carlo Pavesio, has knowledge and experience of remuneration policies, having held this position also in other companies.

The Board considers that the Committee adequately undertakes its duties, formulating proposals in line with the objectives and performance of the Group.

The proposals of the Committee have always been approved by the Board of Statutory Auditors and the Independent Directors.

The Directors usually do not attend the meetings in which the proposals are presented to the Board relating to their remuneration.

The work of the Committee is usually recorded by the Chairman Carlo Pavesio, who provides information on the content of the discussions at the next appropriate Board meeting.

The Committee's duties include the presentation to the Board of proposals for the drawing up of a general policy for the remuneration of executive directors and senior executives, evaluating periodically, on the preparation of the annual remuneration report, the adequacy and the overall consistency and concrete application of the general policy adopted for the remuneration of Executive Directors and Senior Directors, referring in this latter regard to the information received from the Chief Executive Officer, monitoring the application of the decisions adopted by the Board itself, verifying in particular, where necessary, the effective achievement of the prefixed objectives.

The Committee has access to the information and departments necessary for the carrying out of its remit. The Committee did not utilise external consultants and does not avail of a specific expenses budget for the execution of its duties.

The Committee in 2016 met on two occasions to draw up a bonus remuneration proposal for the 2015 results, to be granted to executive directors in light of the Group results for 2015 and to draw up an Executive Director remuneration proposal on the basis of the powers granted at the Board meeting of May 13, 2016, in consideration of the appointment of the new Board of Directors and Executive Boards.

## 9. REMUNERATION OF DIRECTORS

For further information on the present section reference should be made to the significant parts of the Remuneration Report published pursuant to Article 123-ter of the CFA.

On March 22, 2017, the Board, with the favourable opinion of the Control and Risks Committee, as the Related Parties Committee, approved the BasicNet S.p.A. Remuneration Report available on the company website, together with the Shareholders' AGM documentation, at [www.basicnet.com/contenuti/datifinanziari/assembleeazionisti.asp](http://www.basicnet.com/contenuti/datifinanziari/assembleeazionisti.asp).

In summary, the Remuneration Policy adopted requires the Shareholders' Meeting to approve the annual remuneration of all Board members; the remuneration of the Directors holding specific offices and for the members of the Internal Committees of the Board is determined by the Board of Directors, pursuant to Article 2389 of the Civil Code, on the proposal of the Remuneration Committee and with the favourable opinion of the Board of Statutory Auditors.

For the Executive Directors, the remuneration policy of the Group to date has not provided for the fixing of performance objectives on which variable remuneration is based. Usually additional remuneration identified by the Board of Directors is granted, on the proposal of the Remuneration Committee and with the favourable opinion of the Board of Statutory Auditors. This amount is identified on approval of the preliminary results where advances for the key financial indicators are reported on the previous year. For these reasons, it was decided not to defer the variable part, nor undertake contractual agreements which enable the company to request the repayment, in full or in part, of the variable components of remuneration.

The Group structure does not provide for senior executives, with the exception of the Directors of BasicNet and the Chairman of BasicItalia.

The Board establishes in addition the remuneration of the members of the Committees, of the Supervisory Board, of the Internal Auditor and of the Executive in charge in the preparation of corporate accounting documents; for these latter two positions, no incentive mechanisms are provided for.

No stock option plans have been established for Directors.

Indemnity of the directors in case of dismissal and termination of employment following a public purchase offer (as per Art. 123 bis, para. 1, letter i) of the CFA)

The disclosures required by Article 123-bis, paragraph 1, letter 1) (“the agreements between the company and directors – which provide for indemnity in the case of dismissal without just cause or in the case in which the employment services cease after a public offer”) are contained in the remuneration report pursuant to Article 123-ter of the CFA, available on the company’s website [www.basinet.com/contenuti/dati/finanziari/assembleeazionisti.asp](http://www.basinet.com/contenuti/dati/finanziari/assembleeazionisti.asp).

## 10. CONTROL AND RISKS COMMITTEE

Composition and operation of the control and risks committee (as per Article 123-bis, paragraph 2, letter d) CFA)

The Control and Risks Committee was appointed at the Board meeting of April 28, 2016. The Committee is composed of three Independent Directors: Renate Hendlmeier – Chairperson, Elisa Corghi and Adriano Marconetto. On their appointment the Board considered that the members had adequate accounting and financial experience.

In 2016, the Committee met four times and had regular access to the corporate documents requested and principally reviewed:

- the reports prepared by the Internal Auditor and the Supervisory Board;
- the updating of the risk self-assessment document;
- the implementation of new procedures;
- the application of new compliance and disclosure regulations;
- the significant information relating to the company performance.

The Committee also met with the Independent Audit Firm to evaluate the correct application of the accounting standards and their uniformity in the preparation of the consolidated financial statements. Finally, on the conclusion of the process it assessed the results reported by the audit firm.

The Committee has met three times in 2017. Also in light of its new composition, it reviewed the main procedures.

The Committee meetings, which were all documented in company records, held for a duration of approx. 2 hours, were attended by - in addition to the Committee members - the Finance Director and Group Executive Officer for Financial Reporting, Paolo Cafasso, the Internal Audit Head, the Vice President Organization Paola Bruschi, the Chairman of the Board of Statutory Auditors, another statutory auditor and the Chairman of the Supervisory Board. The Chairman of the Committee provides information on the content of discussions at the next appropriate Board meeting.

From October 28, the Control and Risks Committee is also the Related Party Transactions Committee. This Committee is tasked with expressing the opinions required by Article 7 and 8 of the Consob Regulation approved with motion No. 17221 of March 12, 2010 and subsequent amendments on significant and less significant transactions with related parties.

### *Duties attributed to the Internal Control and Risks Committee*

The Committee proposes to the Board of Directors on the appointment, revocation and remuneration of the internal audit manager, as well as on the adequacy of the resources available for these duties.

In particular, the Committee supports the Board of Directors as follows:

- evaluates, together with the Executive Officer for Financial Reporting and following the approval of the independent audit firm and the board of statutory auditors, the correct application of the accounting standards and their uniformity in the preparation of the consolidated financial statements;
  - expresses opinions on specific aspects concerning the identification of the principal corporate risks;
  - examines the periodic reports, concerning the evaluation of the internal control and management of risks system and prepared by the internal audit department;
  - monitors the independence, adequacy, efficacy and efficiency of the internal audit department;
  - may request the internal audit department to carry out verifications on specific operational areas, simultaneously communicating such to the Chairman of the Board of Statutory Auditors;
  - at least every six months, at the time of the approval of the annual and half-yearly accounts, reports to the board on the work carried out and the adequacy of the internal control system;
- in the case in which the Board becomes aware of prejudicial events, supports with appropriate preparatory activity the assessments and decisions of the Board of Directors concerning the management of such events.

The Committee has access to the information and departments for undertaking their duties and may request the Board of Directors the assistance of external consultants.

At the meeting of March 22, 2017, the Board of Directors increased the annual budget available to the Committee and the Internal Control and Risk Management System, considering it more appropriate to handle the supplementation, development and coordination of control procedures suggested by the Committee.

## 11. INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

The internal control and risk system involves the processes that monitor the efficiency of the company operations, the reliability of the information provided to the corporate boards and the market, compliance with legislation and regulations and the protection of the company's assets. It in addition contributes to conducting business activity in line with the objectives defined by the Board, supporting the undertaking of knowledgeable decisions.

The Board of Directors oversees the Internal Control and Risk Management system, defining the guidelines and periodically verifying the adequacy and effective functioning, ensuring that the principal corporate risks are identified and adequately managed.

The Board of Directors verifies that the risks to which BasicNet and its subsidiaries are exposed are correctly identified, managed and monitored in line with the Group's strategic objectives.

This activity, carried out with the support of the Director in charge of the Internal Control and Risk Management System and the Control and Risks Committee, seeks to evaluate the risk in defining the development potential of the Group. The Board has not established general numeric parameters to identify the nature and the level of risk compatible with the Group's strategic objectives, but from time to time reviews any significant operations carried out by the Issuer or the subsidiaries, also when such are within the scope of powers conferred to the Chairman or the Chief Executive Officer.

The Ethics Code, the Sourcing Center Ethics Code which includes social compliance principles and the organisational, management and control Model as per Legislative Decree 231/2001 and subsequent integrations, are an integral part of the internal control and risk management system. The rules of conduct contained in the model, continually evolving, integrate and strengthen the corporate control system through the preparation and continual updating of the related procedures.

The Internal Auditing department verifies the overall adequacy, efficiency and effectiveness of the internal control and risk management system, in particular, considering that some departments are centralised at the Parent Company, it contributes to the verification of the correctness and functioning of the reporting process with the strategic subsidiary companies, as well as the verification of the adequacy of the reporting system to ensure the quality of the reports of the various company departments.

In order to ensure oversight on the Group directives and strategies some Directors of BasicNet S.p.A. are also members of the Board of Directors of the subsidiaries.

In terms of the assessment of the internal control and risk management system, the Board of Directors on March 22, 2017 considered that the system is substantially appropriate to oversee the typical business risks associated with the main operating activities. In particular, it decided to carry out, on the suggestion of the Control and Risks Committee and the Board of the Statutory Auditors, in 2017 supplementation of the main control procedures, in support of coordination, development and sustainability within a single integrated model.

Control and risk management system in relation to the financial reporting process (as per Article 123-bis, paragraph 2, letter b), of the CFA)

#### 1) Introduction

The internal control and risk management system in relation to the financial reporting process (hereafter the System) is the set of overall rules and corporate procedures adopted by the various company departments to permit, through an adequate identification process of the principal risks related to the preparation and dissemination of financial information, the reaching of the corporate objectives of true and fair disclosure.

The System seeks to provide reasonable certainty that the financial reporting – including consolidated reporting - communicated to the public is reliable, fair, true and timely, providing the users with a true and fair representation of the operational facts, permitting the issue of the declarations required by law that they correspond to the documented results, accounting records and underlying accounting entries of the facts and of the communications of the company to the market and also relative interim financial reporting, as well as the adequacy and effective application of the administrative and accounting procedures during the period to which the accounting documents refer (Annual Accounts and Half-Year Report) and in accordance with applicable international accounting standards.

For the completion of the System, a risk assessment was undertaken in order to identify and evaluate the risk areas which could arise such as to compromise the achievement of the control objectives and the efficacy of disclosure provided by the corporate boards and to the market. The risk assessment also took into account the risk of fraud. The identification and evaluation process was undertaken with reference to the entire Company and at process level. Once the risks were identified an evaluation was undertaken, considering both qualitative and quantitative aspects and the identification of specific controls in order to reduce the risk related to the non-achievement of the objectives of the System to an acceptable level, both at Company and process level.

#### 2) Description of the principal characteristics of the risk management and internal control system in place in relation to financial disclosure.

The System provides for:

- a set of rules and procedures for the preparation of financial statements and monthly reporting and a financial calendar for an efficient exchange of information between the Parent Company and its subsidiaries;
- an identification and assessment process of the major Group companies and of the principal company processes for the preparation of the income statement and balance sheet, through qualitative and quantitative analysis;

- a process of identification and evaluation of the principal risks of errors of the accounting and financial information, based on a control process, implemented on a company web platform with levels of protected access, which flags any errors;
- a process of periodic evaluation of the adequacy and effective application of controls, this latter monitored directly by the Executive responsible for financial reporting. The risk and internal control management system relating to financial reporting is coordinated and managed by the Executive Officer for Financial Reporting, in concert with the Internal Audit department, for the verification of control system operations.

The Executive Officer periodically reports to the Board of Statutory Auditors and the Control and Risks Committee on the adequacy, also in organisational terms, and on the reliability of the administrative-accounting system, on the activities carried out and on the efficacy of the internal control system with regards to financial reporting risks.

#### 11.1 EXECUTIVE IN CHARGE OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

The Executive Director Paola Bruschi was appointed at the meeting of April 28, 2016 to oversee the Control and Risks Committee.

Within this role Paola Bruschi oversees the functioning of the internal control and risk management system, identifying the principal corporate risks (operational, financial and compliance), implementing the guidelines defined by the Board and supervises the planning, realisation and the management of the internal control and risk management system, constantly verifying the overall adequacy, efficiency and effectiveness, also with reference to the operating conditions and current legislative and regulatory requirements.

#### 11.2 INTERNAL AUDIT DEPARTMENT MANAGER

The responsibility to verify the overall adequacy, efficiency and effectiveness of the internal control and risk management System was assigned to the Internal Audit department. In particular, considering that some departments are centralised at the Parent Company, this department contributes to the verification of the correctness and functioning of the reporting process with the strategic subsidiary companies, as well as to the verification of the adequacy of the reporting system to ensure the quality of the reports of the various company departments.

On appointment, the Board also determined the remuneration for this office, considered in line with the structure of the Group.

The Internal Audit manager, who does not report to any operating department, has access to all information considered necessary to carry out the role. The manager reports to the Control and Risks Committee, the Board of Statutory Auditors and the executive director responsible for the functioning of the internal control and risk management system, at the Committee meetings.

The control activity is principally concentrated on monitoring the principal profitability indicators of some Group companies, through an online reporting instrument on the company's portal. This report constitutes an important monitoring instrument in real-time of the accounting activities and business performance: the data is available for each Group company and analysed by individual account item.

The Internal Auditor assesses the adequacy of the IT systems and the reliability of information available in view of the complexity of the operating environment, the size and the territorial reach of the company and verifies the adequacy of the organisational processes adopted by the company for the physical, logistical and organisational security of the IT system. The Internal Auditor also operates in support of other control system actors involved in the issues of compliance and risk management, in order to ensure compliance with law and to monitor the exposure level and vulnerability of the company to risks. The Internal Audit department was awarded to an external company Progesa S.r.l. which has no corporate ties to the Group. The activities were outsourced as it was considered that the head of the company, who had already undertaken similar work within the Group, had the necessary



attributes to undertake such work efficiently within the Group, on an independent and professional basis.

### 11.3 ORGANISATION MODEL PURSUANT TO LEGISLATIVE DECREE 231/2001

The company adopted an “Organisation and management model as per Legislative Decree No. 231/2001”, which is continually updated in line with the introduction of new offenses under the framework regulation.

The provisions of the Model complete the Group Ethics Code and the Ethics Code for the Sourcing Centers, which set out the rules and ethical responsibilities for the conducting of business and relations between the company and the various interest holders. The model, continually evolving, integrates and strengthens the corporate control system through the preparation and continual updating of the related procedures. It also provides for a disciplinary system which appropriately sanctions non-compliance with the measures and principles contained in the above-stated documents.

For the effective dissemination of the Ethics Code and of the organisation and control model these were published on the company's website [www.basicnet.com/contenuti/corporate/codiceetico.asp](http://www.basicnet.com/contenuti/corporate/codiceetico.asp) in the area dedicated to Group employee time-keeping. The Ethics Code is presented on a video to all new employees of the Group and to all consultants.

The Board of Directors at the meeting of April 28, 2016 reconfirmed the Supervisory Board (OdV) as Giuliana Baronio (outside consultant involved in BasicNet Corporate Affairs), Paola Bruschi (Board member and Director in charge of the Internal control and risk management system) and Mario Sillano (Director of the company Progesa with involvement in Internal Audit). The Supervisory Board is tasked with overseeing the correct functioning of the Model and updates. The Supervisory Board reports on at least a half-yearly basis to the Control and Risks Committee and to the Board of Statutory Auditors.

### 11.4 INDEPENDENT AUDIT FIRM

The audit is carried out by an independent audit firm registered in the relevant registrar. The Shareholders' Meeting of April 30, 2008 appointed the audit firm PricewaterhouseCoopers S.p.A.. The appointment concludes with the approval of the 2016 Annual Accounts.

In August 2016, two pieces of legislation entered into force, one at domestic level (Legislative Decree No. 135 of July 17, 2016) and one at EU level (Regulation (EC) No. 537/2014), both concerning the auditing of accounts. In particular, the European Regulation establishes that the Boards of Statutory Auditors of listed companies, on conclusion of a selection procedure prepared and conducted by the company, identifies at least two possible alternatives and expresses its preference for one. The proposal to the Shareholders' Meeting for the assigning of the new appointment will include therefore the recommendation and the preference expressed by the Board of Statutory Auditors.

Under the new regulatory provisions, at the end of 2016 a procedure for the carrying out and selection of offers, approved by the Board of Directors, the invitation letter to candidates, which includes the means by which the candidates should present their offer and a rating model to measure the key features of the offers received through scoring assigned to each, were prepared. The indication of the key features was made in line with best international practice, favouring the quality and reliability of work of the audit firm to be appointed. The model comprises a technical section, measuring the qualitative characteristics of the offers received, and a financial section which assesses the financial aspects.

### 11.5 EXECUTIVE OFFICER FOR FINANCIAL REPORTING

The Board meeting of April 28, 2016 confirmed for three years, with the favourable opinion of the Board of Statutory Auditors, the Executive Officer for Financial Reporting as the Director Mr. Paolo Cafasso, Group Finance Director. Paolo Cafasso holds many years of experience in the administrative, financial and control areas, as well as the qualifications required by law for the holding of the office of Director.

In the undertaking of his duties Mr. Paolo Cafasso has the power to approve the corporate procedures impacting upon the financial statements, on the consolidated financial statements and on other documents which may be audited, and may participate in the design of the IT systems which impact upon the financial position of the company; he may avail of an adequate organisational structure to undertake his activities, utilising internal resources available and, where necessary, outsourcing; he may also, where necessary, utilise the financial resources of the company, providing adequate information to the Board of Directors, and he may utilise the Internal Audit department for the mapping and analysis of processes and the execution of specific controls.

The Executive Officer periodically reports to the Control and Risks Committee and the Board of Statutory Auditors on the activities carried out and collaborates on an ongoing basis with the Independent Audit firm.

#### 11.6 COORDINATION OF THE PARTIES INVOLVED IN THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

The information generated within the internal control system called BasicManagement and risk management shared on the web in a dedicated operating control section. The meetings of the Control and Risks Committee, attended usually by the internal control and risk management manager, the Executive Responsible, the Internal Audit Manager, the Supervisory Board and at least one member of the Board of Statutory Auditors, provide an opportunity for the parties involved in the system to meet and coordinate.

#### 12. DIRECTORS INTERESTS AND TRANSACTIONS WITH RELATED PARTIES

The Board of Directors, in accordance with Consob Regulation No. 17221 of March 12, 2010 adopted, with the favourable opinion of the Independent Directors, the procedure for transactions with related parties. The procedure was subsequently updated in October 2016 in order to be more flexible, over time, to differing organisational features and the size of the company. The main amendments concern:

- the General Principles - Article 2 “scope” and Article 4 of the Procedures - “Approval of transactions with related parties”, to which paragraph 4.2.1. was added, which establishes procedures for the approval of significant transactions where the company exceeds the limit for minor transactions.

BasicNet is identified, for the purposes of the Consob Regulation incorporating related party transaction provisions, as a “smaller company” (companies presenting both assets written to the balance sheet and revenues as per the last approved consolidated financial statements not in excess of Euro 500 million) and, therefore, utilises a simplified system for the approval of significant transactions whereby the rules for the approval of less significant transactions are applied;

- Amendments to Article 3 introduction - “Related Party Transactions Committee”.

In relation to the presence of two or more Independent Directors on the Board, Article 3 was redrawn, providing for the setting up of a Related Parties Transactions Committee comprising three independent and non-executive Directors. This function was assigned to the Control and Risks Committee.

The approval of the transactions with related parties is the responsibility of, both in relation to significant transactions, as BasicNet falls within the application of Article 3, paragraph 1, letter f) of the Related Party Regulations, and in relation to minor transactions, to the Board of Directors, or the Executive Board, provided they are not a related party in the transaction, within the limits of their delegated powers, with prior non-binding opinion of the Independent Directors.

In general, exempted from the procedure, in addition to all the matters expressly indicated by the Related Party Regulation issued by Consob, are insignificant operations (amounts not above Euro 150 thousand), provided they are undertaken at market or standard conditions within the ordinary operations of the business and of the related financial activities; the operations concluded with or between subsidiaries, including joint ventures, by BasicNet, provided in the subsidiary companies

there are no counterparties in the operation that have interests, qualified as significant, of other related parties of the Company; the operations with associates provided that the associated company counterparties in the operation do not have interests, qualified as significant, of other related parties of the Company.

Significant interest is not considered to exist by the mere sharing of one or more Directors or one or more senior management responsibilities between BasicNet and the companies of the subsidiary.

A procedure was implemented which transmits an alert mail through the “basic procurement” order system when an order is uploaded to the web for a related party, identified on the basis of declarations received from related parties or parties closely linked to them (members of the Board of Directors and Board of Statutory Auditors) and by the database management system.

As outlined in the chapter concerning remuneration, the Board, with the favourable opinion of the Independent Directors and the Board of Statutory Auditors, in 2016 passed motions on two occasions concerning the remuneration of executive directors. In 2015, no resolutions were presented to the Board of Directors concerning transactions with related parties.

The procedure is available on the company's website:  
[www.basicnet.com/contenuti/corporate/particorrelate.asp](http://www.basicnet.com/contenuti/corporate/particorrelate.asp).

### 13. APPOINTMENT OF STATUTORY AUDITORS

The regulation applicable for the appointment of the members of the Board of Statutory Auditors is in accordance with legislative and regulatory provisions and Article 17 of the Company By-Laws, in relation to which reference should be made to the company's website [www.basicnet.com](http://www.basicnet.com) at [www.basicnet.com/contenuti/gruppo/statuto.asp](http://www.basicnet.com/contenuti/gruppo/statuto.asp).

The Board of Statutory Auditors consists of three standing and two alternate members.

As the minority shareholders, as identified by the legal and regulatory provisions, are reserved the election of a Statutory Auditor and an Alternate Auditor, the procedure at Article 17 of the By-Laws provides that the appointment of the Board of Statutory Auditors takes place on the basis of slates presented by Shareholders, in which the candidates are listed by progressive numbering.

The slate is composed of two sections: one for the candidates for the office of Standing Auditor and the other for candidates for the office of Alternate Auditor. The slates must be drawn up so as to ensure that the resultant Board of Statutory Auditors complies with the applicable gender balance regulations in force.

Only shareholders which individually or together with other Shareholders hold shares with voting rights representing the share capital percentage required by the Company, which will be indicated in the call notice of the Shareholders' Meeting for the approval of the Board of Statutory Auditors, may present slate.

Together with the filing of slates the Shareholders must present or deliver to the registered office of the company documentation declaring the ownership of the number of shares with voting rights necessary for the presentation of the slate.

Each shareholder, in addition to shareholders belonging to the same group, in accordance with Article 2359 of the Civil Code and the parties belonging to, also through subsidiaries, a shareholder agreement in accordance with Article 122 of Legislative Decree No. 58 of February 24, 1998, may not present, nor vote upon, nor through nominees of trust companies, more than one slate.

In the case of violation of this rule no consideration is taken on the vote of the shareholder on any list;

Each candidate can be presented only on one slate at the risk of being declared ineligible.

Candidates may not be included on the slates if they already hold a greater number of Statutory Auditor positions than permitted by the regulatory or legal provisions. The outgoing statutory auditors may be re-elected.



In accordance with Article 1, paragraph 3, of the Ministry for Justice Decree No. 162 of March 30, 2000

the sectors closely related to those in which the Company operates are:

- for the research, development, styling, production and sale of products and services, in particular textile products, clothing, footwear, eyewear, leatherwear, sporting equipment and goods, in addition to accessories for these sectors;
- for the management and development of brands.

The areas closely related to the company's sector are:

- industrial, commercial and tax law, in addition to economics and business, accountancy and corporate finance.

The slates accompanied by exhaustive disclosure on the personal and professional characteristics of the candidates, with indication of the presenting shareholders and the overall share capital percentage held, in addition to the declaration of shareholders other than those who hold, also jointly, a controlling or relative majority holding, declaring the absence of connecting relationships as per the applicable regulations, with these latter, must be filed at the registered office of the company by the deadline established by applicable legislative and regulatory provisions.

Together with each slate, within the regulatory and legally established timeframe, a declaration in which the individual candidates accept their candidature, must be filed at the company's registered office, stating under their own responsibility, the inexistence of reasons for ineligibility and incompatibility, as well as the existence of the requisites for the respective assignments, in addition to those required for directorships held in other companies.

Slates presented that do not comply with all of the above formalities are considered as not presented.

The procedure for electing Statutory Auditors are as follows:

- a. from the slate which obtained the highest number of votes in the shareholders' meeting, based on the progressive order on the slate, 2 standing members and 1 alternate member are elected;
- b. from the slate which obtained the second highest number of votes at the shareholders' meeting, the remaining standing members and the other alternate member are elected, based on the progressive order on the slate.

The Chairman of the Board of Statutory Auditors is the first candidate indicated on the slate that obtained the second highest number of votes.

In the case of parity of votes between slates, the candidates from the slate having a higher equity investment are elected or, subordinately, with the greater number of shareholders.

In the case of presentation of only one slate, all candidates will be taken from that slate, with the Chairman the first listed on the slate.

Where it is not possible to proceed with the appointment according to the above system, the Shareholders' Meeting deliberates by statutory majority.

Where his/her legal requisites no longer exist, the statutory auditor must leave office.

In the case of the replacement of a statutory auditor, including the Chairman, where possible the Alternate Auditor belonging to the same slate as the discontinuing auditor joins the board and in the case of the replacement a Statutory auditor elected from the minority slate, the first candidate on the minority slate receiving the second highest number of votes joins the board in their place. In the cases in which a replacement results in non-compliance with the legally established gender balance criteria, the Board of Statutory Auditors shall be supplemented.

For the supplementation of the Board of Statutory Auditors:

- for the supplementation of the Statutory Auditors from the majority slate the appointment is made through a relative majority of the share capital represented at the Shareholders' Meeting, choosing from among the candidates indicated on the majority slate, ensuring that the composition of the Board of Statutory Auditors complies with the legally-required gender balance provisions;
- for the supplementation of the Statutory Auditors from the minority slate, including the Chairman of the Board of Statutory Auditors, the appointment is made through a relative majority of the share capital represented at the Shareholders' Meeting, choosing from among the candidates indicated on the minority slate, ensuring that the composition of the Board of Statutory Auditors complies with the legally-required gender balance provisions;
- for the simultaneous supplementation of the Statutory Auditors, elected both from the majority slate and minority slate, including the Chairman of the Board of Statutory Auditors, the appointment is made through a relative majority of the share capital represented at the Shareholders' Meeting, choosing from among the candidates indicated both on the majority slate and on the minority slate, of a number of Statutory Auditors equal to the number of which whose mandate concludes from the same slate, ensuring that the composition of the Board of Statutory Auditors complies with the legally-required gender balance provisions.

Where it is not possible to proceed in accordance with the previous paragraph, the Shareholders' Meeting to supplement the Board of Statutory Auditors votes according to a relative majority of the share capital represented at the Shareholders' Meeting, while ensuring that the right to representation of the minority has been complied with, in addition to the regulatory required gender balance provisions.

14. COMPOSITION AND OPERATION OF THE BOARD OF STATUTORY AUDITORS (as per Article 123-*bis*, paragraph 2, letter d) CFA)

The Board of Statutory Auditors was appointed by the Shareholders' AGM of April 28, 2016, which elected:

- from the slate filed by the shareholder BasicWorld S.r.l., which holds 22,071,666 shares, equal to 36.187% of the share capital, Messrs. Massimo Boidi and Carola Alberti – Statutory Auditors and Fabio Pasquini - Alternate Auditor;
- from the slate filed by the legal firm Trevisan & Associati on behalf of a number of shareholders, holding a total of 5,210,113 shares, equal to 8.542% of the share capital, Ms. Maria Francesca Talamonti - Chairman of the Board of Statutory Auditors and Giulia De Martino, Alternate Auditor.

The composition of the Board of Statutory Auditors has been in line with the “gender quota” required by the new Consob regulation since the company's listing.

Each member of the Board of Statutory Auditors has declared on appointment to hold the good standing and professional requirements in accordance with law and the Company By-Laws.

The outcome of this recognition was reported in the press release issued by the company subsequent to appointment.

The Board of Statutory Auditors verified the independence of their members based on the criteria of the new Self-Governance Code, confirming to the Board of Directors at the meeting of March 22, 2017 the independence of their members in accordance with the above-mentioned Code.

The documentation filed for the purposes of the appointment, including the updated curriculum vitae of the statutory auditors, is available at [www.basicnet.com/contenuti/gruppo/organisocialisocieta.asp](http://www.basicnet.com/contenuti/gruppo/organisocialisocieta.asp).

A brief curriculum vitae of the members of the Board of Statutory Auditors in office, with indication of the offices held within the Group or in other listed companies or companies of significant size is listed below.

*Maria Francesca Talamonti* – Chairperson of the Board of Statutory Auditors (Statutory Auditor since 2016)

Born in Rome in 1978. She graduated in Economics and Commerce from the LUISS Guido Carli University in 2002. She has been enrolled to the Accountants Register of Rome since 2006 and the Auditors' Register since 2007. Holding a Doctorate in Business Economics, she is currently teaching planning and control under a substitute contract at the Unitelma Sapienza Computing University and has a supplementary contract at the Business and Management Department of the LUISS Guido Carli University of Rome.

Since 2006, she has worked as a freelance corporate, accounting and finance consultant; she is a Statutory Auditor for companies belonging to Groups headed by listed companies.

She is an independent Director of Elettra Investimenti S.p.A (an Aim Italia listed company), the Chairperson of the Board of Statutory Auditors of Servizi Aerei S.p.A. and a Statutory Auditor of Costiero Gas Livorno S.p.A., Driver Servizi Retail S.p.A., Raffineria Milazzo S.c.p.A. and Romairport S.p.A..

*Carola Alberti* – Statutory Auditor (Statutory Auditor since 1999)

Born in 1957, she qualified as a Certified Accountant in 1985 and as an auditor in 1990. She has been enrolled at the Court-appointed Technical Consultants register since 1997 and on the Experts' Register of the Turin Court since 1999.

Since March 1983 she has been an associate with the Studio Boidi & Partners firm in Turin.

Her professional activities concern tax and corporate consultancy, principally with companies and groups, and assistance and consultancy in the tax dispute field.

Within the Group, he is a Statutory Auditor of BasicVillage S.p.A..

She holds the office of Statutory Auditor of Ekipo S.p.A., Statutory Auditor of Erre Esse S.p.A., Statutory Auditor of Italcables S.p.A. in liquidation and Statutory Auditor of BasicWorld S.r.l.

*Massimo Boidi* – Chairman of the Board of Statutory Auditors (Statutory Auditor since 1989)

Born in 1955. Since 1981 he has acted as a Certified Accountant and since 1988 an auditor. He was a Professor at the Faculty of Economics of the Turin University for "Legal, fiscal and regulatory issues" for the level 1 Masters in Private Banking for the year 2010-2011. Since 1980, he has collaborated also with the Economic Law Institute, also at the Economics Faculty, where he continues to act as the resident expert on Commercial Law. He is a member of the Board of the Turin Certified Accountant Association for the 2017-2020 period and a co-manager of the "231/2001 Working Group" of the Association.

He is a Director overseeing the "Corporate Controls" area of the Turin-Ivrea-Pinerolo Certified Accountant Association and since April 2013 Chairman of the Board of Directors of "Synergia Consulting Group S.r.l.", a professional alliance of 14 of the most cited Italian commercial research centres, located throughout Italy.

His professional activities principally include tax and corporate consultancy, both domestically and internationally, acting as the Chairman of the Board of Statutory Auditors or as a Statutory Auditor or a member of the Supervisory Board for a number of companies.

Collaborates, in addition, with specialised sector magazines, publishing Articles relating to tax, legal, and corporate liability issues concerning companies the entities.

He has been the speaker in the same sector at a large number of conventions and research conferences.

Within the Group, he is Chairman of the Board of Statutory Auditors of BasicItalia S.p.A. and BasicVillage S.p.A..

He holds the position of Vice Chairman of Assofiduciaria, Chairman of the Board of Directors of Assoservizi Fiduciari S.r.l. a sole shareholder company, Chairman of the Board of Directors of Torino Fiduciaria Fiditor S.r.l., Statutory Auditor of Autoliv Italia S.p.A. with sole shareholder, Statutory Auditor of Michelin Italia S.p.A., Chairman of the Board of Statutory Auditors of BasicWorld S.r.l., Chairman of the Board of Statutory Auditors of Casco Imos S.r.l. with sole shareholder, Chairman of the Board of Statutory Auditors of DB Cargo Italia S.r.l., sole Statutory Auditor of DB Cargo Italy S.r.l. with sole shareholder, Chairman of the Board of Statutory Auditors of Dytech – Dynamic Fluid Technologies S.p.A. with sole shareholder, Chairman of the Board of Statutory Auditors of Ekipo S.p.A., Chairman of the Board of Statutory Auditors of Erre Esse S.p.A., Chief Executive Officer of Fidicont S.r.l., Statutory Auditor of Finpat S.p.A., Chairman of the Board of Statutory Auditors of Fondazione Stadio Filadelfia, sole statutory auditor of GJP S.r.l. with sole shareholder, Chairman of the Board of Statutory Auditors of Jacobacci & Partners S.p.A., Chairman of the Board of Statutory Auditors of Litmat S.p.A., Chairman of the Board of Statutory Auditors of Quinto S.p.A. with sole shareholder, Statutory Auditor of Sangiorgio Costruzioni S.p.A., of Suzuki Italia S.p.A. with sole shareholder, Chairman of the Board of Statutory Auditors of ITW Italy Holding S.r.l., Chairman of the Board of Statutory Auditors of ITW Lys Fusion S.r.l. with sole shareholder and Chairman of the Management Board of Porsche Club Piedmont and Valle d'Aosta.

*Giulia De Martino* – Alternate Auditor (on Board of Statutory Auditors since 2016)

Born in 1978. She graduated in Economics from the LUISS Guido Carli University in 2001. In March 2001, she won a scholarship to study a Business Economics Doctorate at University Roma Tre. She has been enrolled at the Rome Accountants' Register since 2005.

In 2007, she received a Doctorate in Company Economics from the Roma Tre University presenting the thesis "Business Combinations under IFRS 3 and the new draft of IFRS 3 Amendments". She has held and holds the position of statutory auditor at leading non-listed Italian companies.

She is an Independent Director of Elettra Investimenti S.p.A. (an Aim Italia listed company), a Statutory Auditor of Saipem S.p.A., Anas Internazionale S.p.A., Quadrilatero Marche and Umbria S.p.A., Armonia SGR S.p.A., Autostrade del Molise S.p.A., e-geos S.p.A., Eni Trading e Shipping S.p.A., Raffinerie Gela S.p.A., Agi S.p.A., EniAdifn S.p.A., Parentope Finanza di Progetto - ScpA and the Chairperson of the Board of Statutory Auditors of Novasim S.p.A. in liquidation. She is also a member of the Oversight Committee, on the appointment of the Bank of Italy, of Credito Cooperativo Interprovinciale Veneto in l.c.a., Valore Italia Holding di partecipazioni S.p.A. and Independent Private Bankers sim S.p.A.

*Fabio Pasquini* – Alternate Auditor (on Board of Statutory Auditors since 1999)

Born in 1953, he qualified as a certified accountant and auditor. He acts principally in the tax and corporate consultancy fields, both domestically and internationally, and in the tax planning field, acting as a Director and member of the Board of Statutory Auditors on a number of companies and bodies.

Expert in problem issues relating to the acquisition and sale of enterprises and companies.

Appointed to assist and represent contributors in tax disputes before the tax commissions.

Within the group, he is a Statutory Auditor of BasicItalia S.p.A..

He holds the office of Statutory Auditor of Autoliv Italia S.p.A. with sole shareholder, Statutory Auditor of Jacobacci & Partners S.p.A., Chairman of the Board of Directors of Fidicont S.r.l., Chairman of the Board of Statutory Auditors of Sangiorgio Costruzioni S.p.A., Chairman of the Board of Statutory Auditors of S.p.A. Michelin Italiana, Chairman of the Board of Statutory Auditors of Eataly s.r.l., Statutory Auditor of Tipo S.r.l., Chairman of the Board of Statutory Auditors of Clubitaly s.r.l. and Chief Executive Officer of Torino Fiduciaria Fiditor S.r.l.

The Statutory Auditors, within their duties, acquired information also through meetings with the independent audit firm, with the Supervisory Board and through attending the Control and Risks Committee meetings.

The Statutory Auditors may participate in meetings subsequent to their appointment and during their mandate with the Chairman and Management, in order to remain updated on corporate affairs and developments. They also continually have access to financial and operational information from the BasicManagement portal.

The Statutory Auditor who, on his/her own behalf or that of third parties, has an interest in a determined transaction of the issuer informs the other statutory auditors and the Chairman of the Board, in a timely and comprehensive manner, regarding the nature, terms, origin and extent of his/her interest. This event however has never occurred.

As already indicated in the preceding paragraphs, the Board of Statutory Auditors, in undertaking its activities, liaise with the Internal Audit department and the Control and Risks Committee.

The Shareholders' AGM on appointment established the remuneration of the Statutory Auditors, as a fixed amount, in line with that of the previous mandate and with the role covered and the commitment required, in addition to the size of the company.

## 15. RELATIONS WITH SHAREHOLDERS

The Chairman and Chief Executive Officer actively undertake dialogue with shareholders and the financial analysts following the company. The Chief Executive Officer acts also as the Investor Relations Manager.

Dialogue with investors has been supported since listing through continuous updates of the website [www.basicnet.com](http://www.basicnet.com), on which financial information of interest to Shareholders in general may be found (Annual Reports and periodic reports, press releases and notices, presentations), in addition to updated data and documents concerning Corporate Governance and regulated information (composition of the Corporate Boards, the By-Laws, the Shareholders' Meeting regulation, the Ethics Code and the Corporate Governance and Ownership Structure Report). The press releases relating to the Brands and Companies of the Group are also available.

## 16. Shareholder Meetings (pursuant to Article 123-bis, paragraph 2, letter c), CFA.

The shareholders' meetings provide opportunities to meet and communicate with the shareholders. During the Shareholders' Meetings the Chairman and the Chief Executive Officer provide the Shareholders with all the necessary information for the undertaking of resolutions.

The Ordinary Shareholders' Meetings undertake their duties in accordance with Article 2364 of the Civil Code and the Extraordinary Shareholders' Meetings in accordance with Article 2365 of the Civil Code.

In accordance with Article 2365, paragraph 2 of the Civil Code, the Board of Directors was conferred the following duties:

- resolutions, in accordance with Articles 2505 and 2505-bis of the Civil Code, concerning the merger by incorporation of one or more companies in which all shares or in which at least 90% of all shares are held;
- the opening and closing of secondary offices;
- indication of which Directors may represent the company;
- modify the company By-laws in compliance with law;
- the reduction of the share capital in the case of return of shares by shareholders;
- the transfer of the registered office in the national territory.

In accordance with Article 2410, first paragraph of the Civil Code, any issue of bonds is decided by the Directors.

The Board of Directors, and any Executive Boards, also have the right to undertake, without a Shareholders' Meeting authorisation, all acts and operations against the objectives of a public share or exchange offer, from the moment in which the communication in which the decision or the obligation arises to promote the offer was made public until the termination or expiry of the offer.

The Board of Directors, and any Executive Boards, also has the right to implement decisions, not yet implemented in full or in part and which are not within the scope of the normal activities of the company, undertaken before the communication as described above and whose implementation could negate the achievement of the objectives of the offer. The Shareholders' Meeting (June 30, 2000, and for supplementation and/or modifications subsequently on April 30, 2011) approved the Shareholders' Meetings Regulations in order to permit the orderly functioning of the meetings and to guarantee the right of each shareholder to take the floor on matters under discussion. The Shareholders' Meeting regulations are available on the Company website:

[www.basicnet.com/contenuti/gruppo/regolamento.asp](http://www.basicnet.com/contenuti/gruppo/regolamento.asp).

As per Article 2 of the Shareholder' Meeting Regulation, those holding shares in accordance with applicable legislation and the by-laws, or their proxies or representatives, may attend and speak at the Shareholders' Meetings. Proof of personal identity is required for attendance at the Shareholders' Meeting. Unless otherwise indicated in the Call Notice, the personal identification and the verification of the right to attend takes place at the location of the Shareholders' Meeting at least one hour before the time fixed for the meeting.

Attendees are assured the possibility to follow and take part in the discussion and to exercise their right to vote using the technical methods established on each occasion by the Chairman: usually time is allowed for contributions by shareholders after the presentation of each matter on the Agenda.

All Directors generally attend the Shareholders' Meetings. The Board of Directors is available to Shareholders to provide the necessary information for the undertaking of fully informed decisions.

During the year, there were no significant changes in the shareholders structure of the Issuer.

17. FURTHER CORPORATE GOVERNANCE PRACTICES (as per Article 123-bis, paragraph 2, letter a), CFA)

There are no corporate governance practices further to those indicated in the previous points applied by the Issuer, other than those required by legislation and regulation.

18. CHANGES SUBSEQUENT TO THE YEAR-END

The changes, with regards to the composition of the Remuneration Committee, were described in the relative chapters.

In addition, at the Board meeting of March 22, 2017, the Statutory Auditors Massimo Boidi and Carola Alberti and the Alternate Auditor Fabio Pasquini, appointed by the Shareholders' AGM of April 28, 2016, from the majority slate presented by the shareholder BasicWorld S.r.l., presented, with effect from this Shareholders' AGM, their resignation from the Board of Statutory Auditors of BasicNet S.p.A.. The Shareholders' AGM called for April 27, 2017 shall therefore consider the supplementation of the Board of Statutory Auditors, through the appointment of two Statutory Auditors and an Alternate Auditor.

For the Board of Directors

**The Chairman**

Marco Daniele Boglione



**CONSOLIDATED FINANCIAL STATEMENTS  
AND EXPLANATORY NOTES OF THE BASICNET GROUP  
AT DECEMBER 31, 2016**

**CONSOLIDATED FINANCIAL STATEMENTS AND EXPLANATORY NOTES**

In accordance with Consob Resolution No. 15519 of July 27, 2006 the transactions with related parties are described at Note 45.

**BASICNET GROUP CONSOLIDATED INCOME STATEMENT**

(In Euro thousands)

		FY 2016		FY 2015		Changes	
	Note		%		%		%
Consolidated direct sales	(8)	135,183	100.00	133,941	100.00	1,242	0.93
Cost of sales	(9)	(80,923)	(59.86)	(79,126)	(59.08)	(1,797)	(2.27)
<b>GROSS MARGIN</b>		<b>54,260</b>	<b>40.14</b>	<b>54,815</b>	<b>40.92</b>	<b>(555)</b>	<b>(1.01)</b>
Royalties and sourcing commissions	(10)	46,424	34.34	46,547	34.75	(123)	(0.26)
Other income	(11)	2,226	1.65	3,980	2.97	(1,754)	(44.07)
Sponsorship and media costs	(12)	(24,285)	(17.96)	(19,342)	(14.44)	(4,943)	(25.56)
Personnel costs	(13)	(19,681)	(14.56)	(18,881)	(14.10)	(800)	(4.24)
Selling, general and administrative costs, royalties expenses	(14)	(37,442)	(27.70)	(35,070)	(26.18)	(2,372)	(6.76)
Amortisation & Depreciation	(15)	(6,261)	(4.63)	(6,340)	(4.73)	79	1.25
<b>EBIT</b>		<b>15,241</b>	<b>11.27</b>	<b>25,709</b>	<b>19.19</b>	<b>(10,468)</b>	<b>(40.72)</b>
Net financial income (charges)	(16)	(353)	(0.26)	734	0.55	(1,087)	(148.09)
Share of profit/(loss) of investments valued at equity	(17)	52	(0.04)	(59)	(0.04)	111	188.14
<b>PROFIT BEFORE TAXES</b>		<b>14,940</b>	<b>11.05</b>	<b>26,384</b>	<b>19.70</b>	<b>(11,444)</b>	<b>(43.38)</b>
Income taxes	(18)	(4,635)	(3.43)	(9,624)	(7.19)	4,989	51.84
<b>NET PROFIT</b>		<b>10,305</b>	<b>7.62</b>	<b>16,760</b>	<b>12.51</b>	<b>(6,455)</b>	<b>(38.51)</b>
<b>Of which:</b>							
- Shareholders of BasicNet S.p.A.		<b>10,305</b>	<b>7.62</b>	<b>16,760</b>	<b>12.51</b>	<b>(6,455)</b>	<b>(38.51)</b>
- Minority interests		-	-	-	-	-	-
<b>Earnings per share</b>	(19)						
- basic		<b>0.1839</b>		<b>0.2953</b>		<b>(0.1114)</b>	<b>(37.72)</b>
- diluted		<b>0.1839</b>		<b>0.2953</b>		<b>(0.1114)</b>	<b>(37.72)</b>



**CONSOLIDATED COMPREHENSIVE INCOME STATEMENT***(In Euro thousands)*

	<i>Note</i>	<b>FY 2016</b>	<b>FY 2015</b>
<b><i>Profit for the year (A)</i></b>		<b>10,305</b>	<b>16,760</b>
Effective portion of the Gains/(losses) on cash flow hedges		687	330
Re-measurement of post-employment benefits (IAS 19) (*)		9	84
Gains/(losses) from translation of accounts of foreign subsidiaries		227	667
Tax effect on other profits/(losses)		(167)	(114)
<b><i>Total other gains/(losses), net of tax effect (B)</i></b>	<b>(31)</b>	<b>756</b>	<b>967</b>
<b>Total Comprehensive Profit (A)+(B)</b>		<b>11,061</b>	<b>17,727</b>
<b>Total Comprehensive Profit attributable to:</b>			
– Shareholders of BasicNet S.p.A.		11,061	17,727
- Minority interests		-	-

*(\*) items which may not be reclassified to the profit and loss account*

**BASICNET GROUP CONSOLIDATED BALANCE SHEET***(In Euro thousands)*

<b>ASSETS</b>	<b>Note</b>	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Intangible assets	(20)	41,728	41,513
Goodwill	(21)	10,052	10,245
Property, plant and equipment	(22)	30,497	28,769
Equity invest. & other financial assets	(23)	264	307
Interests in joint ventures	(24)	257	340
<b>Total non-current assets</b>		<b>82,798</b>	<b>81,174</b>
Net inventories	(25)	47,208	49,025
Trade receivables	(26)	58,066	46,701
Other current assets	(27)	10,223	12,178
Prepayments	(28)	7,579	7,756
Cash and cash equivalents	(29)	5,707	6,971
Derivative financial instruments	(30)	1,609	1,367
<b>Total current assets</b>		<b>130,392</b>	<b>123,998</b>
<b>TOTAL ASSETS</b>		<b>213,190</b>	<b>205,172</b>
<b>LIABILITIES</b>	<b>Note</b>	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Share capital		31,717	31,717
Reserve for treasury shares in portfolio		(11,890)	(8,823)
Other reserves		64,748	52,857
Net Profit		10,305	16,760
Minority interests		-	-
<b>TOTAL SHAREHOLDERS' EQUITY</b>	(31)	<b>94,880</b>	<b>92,511</b>
Provisions for risks and charges	(32)	42	45
Loans	(33)	21,514	20,566
Employee and Director benefits	(34)	2,863	4,108
Deferred tax liabilities	(35)	1,084	717
Other non-current liabilities	(36)	927	1,013
<b>Total non-current liabilities</b>		<b>26,430</b>	<b>26,449</b>
Bank payables	(37)	33,652	31,767
Trade payables	(38)	31,699	25,151
Tax payables	(39)	15,749	17,421
Other current liabilities	(40)	7,559	7,738
Accrued expenses	(41)	2,169	2,637
Derivative financial instruments	(42)	1,052	1,498
<b>Total current liabilities</b>		<b>91,880</b>	<b>86,212</b>
<b>TOTAL LIABILITIES</b>		<b>118,310</b>	<b>112,661</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>213,190</b>	<b>205,172</b>

**CONSOLIDATED CASH FLOW STATEMENT OF THE BASICNET GROUP***(In Euro thousands)*

	December 31, 2016	December 31, 2015
<b>A) OPENING SHORT-TERM BANK DEBT</b>	<b>(16,761)</b>	<b>(24,349)</b>
<b>B) CASH FLOW FROM OPERATING ACTIVITIES</b>		
Net Profit	10,305	16,760
Amortisation & Depreciation	6,261	6,340
Result of companies valued under the equity method	(52)	59
Changes in working capital:		
. (Increase) decrease in trade receivables	(11,365)	(2,772)
. (Increase) decrease in inventories	1,817	(2,728)
. (Increase) decrease in other receivables	832	1,015
. Increase (decrease) in trade payables	6,548	(4,991)
. Increase (decrease) in other payables	(2,041)	(3,123)
Net change in post-employment benefits	(164)	(188)
Others, net	286	747
	<b>12,427</b>	<b>11,119</b>
<b>C) CASH FLOW FROM INVESTING ACTIVITIES</b>		
Investments in fixed assets:		
- tangible assets	(4,794)	(1,683)
- intangible assets	(3,292)	(3,375)
- financial assets	-	-
Realisable value for fixed asset disposals:		
- tangible assets	74	75
- intangible assets	-	-
- financial assets	178	-
	<b>(7,834)</b>	<b>(4,983)</b>
<b>D) CASH FLOW FROM FINANCING ACTIVITIES</b>		
Lease contracts (repayments)	54	(215)
New medium/long term loans	7,500	15,000
Loan repayments	(8,035)	(7,406)
Acquisition of treasury shares	(3,067)	(1,948)
Dividend payments	(5,622)	(3,979)
	<b>(9,170)</b>	<b>1,452</b>
<b>E) CASH FLOW IN THE YEAR</b>	<b>(4,577)</b>	<b>7,588</b>
<b>F) CLOSING SHORT-TERM BANK DEBT</b>	<b>(21,338)</b>	<b>(16,761)</b>

Interest paid for the year amounts to respectively Euro 517 thousand in 2016 and Euro 660 thousand in 2015, while income taxes paid in the year amount respectively to Euro 6.4 million in 2016 and Euro 6.3 million in 2015.

**STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY***(In Euro thousands)*

	Share Capital	Treas. shares	Retained earnings	Translation reserve	Remeas. Reserve IAS 19	Cash Flow Hedge Reserve	Net Result	Total Group Net Equity
<b>Balance at December 31, 2014</b>	<b>31,717</b>	<b>(6,875)</b>	<b>43,001</b>	<b>1,026</b>	<b>(263)</b>	<b>(332)</b>	<b>12,437</b>	<b>80,711</b>
Allocation of result as per Shareholders' AGM resolution of April 27, 2015								
- Retained earnings		-	8,458	-	-	-	(8,458)	-
- Dividends distributed		-	-	-	-	-	(3,979)	(3,979)
Acquisition of treasury shares		(1,948)	-	-	-	-	-	(1,948)
2015 Result		-	-	-	-	-	16,760	16,760
Other comprehensive income items:								
- Gains/(losses) recorded directly to translation reserve		-	-	667	-	-	-	667
- Gains/(losses) recorded directly to equity for IAS 19 re-measurement		-	-	-	61	-	-	61
- Gains recorded directly to cash flow hedge reserve		-	-	-	-	239	-	239
<i>Total comprehensive income</i>		-	-	667	61	239	16,760	17,727
<b>Balance at December 31, 2015</b>	<b>31,717</b>	<b>(8,823)</b>	<b>51,459</b>	<b>1,693</b>	<b>(202)</b>	<b>(93)</b>	<b>16,760</b>	<b>92,511</b>
Allocation of result as per Shareholders' AGM resolution of April 28, 2016								
- Retained earnings		-	11,135	-	-	-	(11,135)	-
- Dividends distributed		-	-	-	-	-	(5,625)	(5,625)
Acquisition of treasury shares		(3,067)	-	-	-	-	-	(3,067)
2016 Result		-	-	-	-	-	10,305	10,305
Other comprehensive income items:								
- Gains/(losses) recorded directly to translation reserve		-	-	227	-	-	-	227
- Gains/(losses) recorded directly to equity for IAS 19 re-measurement		-	-	-	6	-	-	6
- Gains recorded directly to cash flow hedge reserve		-	-	-	-	523	-	523
<i>Total comprehensive income</i>		-	-	227	6	523	10,305	11,061
<b>Balance at December 31, 2016</b>	<b>31,717</b>	<b>(11,890)</b>	<b>62,594</b>	<b>1,920</b>	<b>(196)</b>	<b>430</b>	<b>10,305</b>	<b>94,880</b>

**CONSOLIDATED NET CASH POSITION***(In Euro thousands)*

	December 31, 2016	December 31, 2015
Cash and cash equivalents	5,707	6,971
Bank overdrafts and bills	(8,014)	(4,266)
Import advances	(19,031)	(19,466)
<i>Sub-total net liquidity available</i>	<i>(21,338)</i>	<i>(16,761)</i>
Short-term portion of medium/long-term loans	(6,607)	(8,035)
<b>Short-term net financial position</b>	<b>(27,945)</b>	<b>(24,796)</b>
Intesa loan	(5,625)	(9,375)
Basic Village property loan	(5,700)	(6,900)
BasicItalia property loan	(2,339)	(2,746)
BNL Loan	(6,250)	-
Leasing payables	(1,600)	(1,545)
<i>Sub-total loans and leasing</i>	<i>(21,514)</i>	<i>(20,566)</i>
<b>Consolidated Net Financial Position</b>	<b>(49,459)</b>	<b>(45,362)</b>

The statement required by Consob Communication No. 6064293 of July 28, 2006 is reported below.

	December 31, 2016	December 31, 2015
A. Cash	116	68
B. Other cash equivalents	5,591	6,903
C. Securities held for trading	-	-
<b>D. Cash &amp; cash equivalents (A)+(B)+(C)</b>	<b>5,707</b>	<b>6,971</b>
<b>E. Current financial receivables</b>	<b>-</b>	<b>-</b>
F. Current bank payables	(27,046)	(23,732)
G. Current portion of non-current debt	(6,607)	(8,035)
H. Other current financial payables	-	-
<b>I. Current financial debt (F)+(G)+(H)</b>	<b>(33,653)</b>	<b>(31,767)</b>
<b>J. Net current financial debt (I)-(E)-(D)</b>	<b>(27,946)</b>	<b>(24,796)</b>
K. Non-current bank payables	(21,514)	(20,566)
L. Bonds issued	-	-
M. Fair value of hedges (cash flow hedges)	556	(131)
<b>N. Non-current financial debt (K)+(L)+(M)</b>	<b>(20,958)</b>	<b>(20,697)</b>
<b>O. Net financial debt (J)+(N)</b>	<b>(48,904)</b>	<b>(45,493)</b>

The net financial debt differs from the consolidated net financial position for the fair value of the interest and currency hedging operations - cash flow hedges (Notes 30 and 42).

## EXPLANATORY NOTES

### 1. GENERAL INFORMATION

BasicNet S.p.A. – with registered office in Turin, listed on the Italian Stock Exchange since November 17, 1999 and its subsidiaries, operate in the sports and casual clothing, footwear and accessories sector through the brands Kappa, Robe di Kappa, Jesus Jeans, Lanzera, K-Way, Superga and Sabelt, and since April 1, 2016 has held the global license for the Briko brand. Group activities involve the development of the value of the brands and the distribution of their products through a global network of independent licensees.

The duration of BasicNet S.p.A. is fixed by the company by-laws until December 31, 2050.

The publication of the consolidated financial statements of BasicNet as at December 31, 2016 was approved by the Board of Directors on March 22, 2017.

### 2. FORM AND CONTENT

The main accounting principles adopted in the preparation of the consolidated financial statements and Group financial reporting are described below.

This document has been prepared in accordance with IFRS issued by the International Accounting Standards Board (IASB) and approved by the European Union. IFRS refers to all the revised International Accounting Standards (IAS) and all of the interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”) - previously known as the Standing Interpretations Committee (“SIC”).

The financial statements are prepared under the historical cost convention (modified where applicable for the valuation of certain financial instruments), as well as on the going concern assumption.

The Group consolidated financial statements include the financial statements at December 31, 2016 of BasicNet S.p.A. and all the Italian and foreign companies in which the Parent Company holds control - directly or indirectly. For the financial statements of the US, Asian and Dutch subsidiaries, which utilise local accounting standards, as not obliged to adopt IAS/IFRS, the appropriate adjustments were made for the preparation of the consolidated financial statements in accordance with international accounting standards.

The accounting policies utilised for the preparation of the Consolidated Financial Statements at December 31, 2016 are the same as those utilised for the previous year.

#### **Accounting standards, amendments and interpretations applied from January 1, 2016**

As per IAS 8 - *Accounting Standards, Changes in Accounting Estimates and Errors*, the IFRS in effect from January 1, 2016 are indicated and briefly illustrated below.

Amendments to IFRS 11 *Joint Arrangements: Accounting for the acquisition of investments in Joint Arrangements*: on November 24, 2015, EU Regulation No. 2015/2173 was issued, enacting at European level some limited amendments to IFRS 11. The amendments add new guidelines on the calculation of the acquisition of an investment in a joint operation, whose activities constitute a business (as defined by IFRS 3 - *Business Combinations*).

Amendments to IAS 16 - *Property, plant and equipment* and IAS 38 - *Intangible Assets*: on December 2, 2015, EU Regulation No. 2015/2231 was issued, enacting at European level some limited modifications to IAS 16 and IAS 38. The amendments to both standards establish that an asset should not be depreciated based on the revenues to be generated over a set period, as, according to IASB, revenues generated by an asset generally reflect factors other than the consumption of the economic benefits deriving from the asset.

Improvements to IFRS (2012-2014 cycle): on December 16, 2015 EU Regulation 2015/2343 was issued and enacted at EU level a number of improvements to IFRS for the period 2012-2014, as follows:

- *IFRS 5 - Non-current assets held for sale and discontinued operations*: it was clarified that where a non-current asset (or disposal group) is reclassified from “held for sale” to “held for distribution” or vice versa, this reclassification does not constitute an amendment to a sales or distribution plan and therefore should not be recognised as such;
- *IFRS 7 - Financial instruments: additional disclosure*: for service contracts, if an entity transfers a financial asset to third parties and the conditions of IAS 39 are complied with for the elimination of the asset, the amendment to IFRS 7 requires that disclosure of any residual involvement which the entity may still have in relation to the transferred asset is reported;
- *IAS 19 - Employee Benefits*: the standard requires that the discount rate used for post-employment benefit obligations must be calculated on the basis of the market yields of leading corporate bonds and in Countries in which there is no “deep market” for such bonds, the market yields of government securities must be used. The amendment establishes that in evaluating the existence of a “deep market” for leading company bonds, the market must be considered at currency level and not at individual Country level;
- *IAS 34 - Interim financial statements*: the amendment clarifies how information in the interim financial statements may be supplemented by other information available in other sections of the Interim Financial Statements (e.g. Directors’ Report) through referencing.

Amendments to IAS 1 - Presentation of financial statements - Disclosure initiatives: on December 19, 2015, EU Regulation No. 2015/2406 was issued, enacting at European level some limited modifications to IAS 1. In particular, the amendments, which are part of a wider improvement initiative for the presentation and disclosure of financial statements, include the following updates:

- *Materiality*: it is established that this concept applies to financial statements in their totality and that the inclusion of immaterial information may affect the utility of financial disclosure;
- *De-aggregation and subtotals*: it is established that separate income statement, comprehensive income statement and balance sheet accounts may be de-aggregated;
- *Structure of the notes*: entities are granted a certain degree of discretion in setting the order of presentation of the notes, while not affecting the comprehensibility or comparability of financial statements;
- *Investments valued at equity*: in the comprehensive income statement it is necessary to divide the parts that may be reclassified to the separate income statement from those that may not.

Amendments to IFRS 10, IFRS 12, IAS 28 - Investment entities: on September 23, 2016, EU Regulation No. 2016/1703 was issued which made amendments to IFRS 10 - *Consolidated Financial Statements*, IFRS 12 - *Disclosure on investments in other entities* and IAS 28 - *Investments in associates and joint ventures*. These amendments, published in the *Investment Entities: application of the consolidation exception* document set out the requirements for the accounting of investment entities and provide exemptions for particular situations. More specifically, the amendments made to IFRS 10 confirm the exemption from the preparation of the consolidated financial statements for an intermediate parent which is not an investment entity controlled by an investment entity.

The adoption of these amendments did not have any significant impacts on the Consolidated Financial Statements at December 31, 2016.

### **New Standards and Interpretations adopted by the EU, but not yet effective**

**IFRS 15 - Revenues from contracts with customers:** on October 29, 2016, EU Regulation No. 2016/1905 was issued, enacting at European level *IFRS 15 - Revenue from contracts with customers* and the relative amendments. IFRS 15 replaces IAS 18 - *Revenues*, IAS 11 - *Construction contracts* and the relative interpretations on the recognition of revenues, comprising IFRIC 13 - *Customer loyalty programmes*, IFRIC 15 - *Agreements for the construction of real estate*, IFRIC 18 - *Transfers of assets from customers* and SIC 31 *Revenues - barter transactions involving advertising services*. The application of the new standard from January 1, 2018 involves, alternatively, a method for the recalculation of all comparative periods presented in the financial statements (“complete retrospective method”) and a “simplified” method involving the recognition of the cumulative effect of the first application of the standard in adjustment of the opening shareholders’ equity of the period in which the new standard is adopted, leaving unchanged the data for all comparative periods presented. The new standard, which requires the recognition of revenues on the transfer of control of the goods or services to customers at an amount which reflects the consideration which is expected to be received in exchange for these products or services, introduces a five step method to analyse the transactions and define the method for recognising revenues concerning both the timing of recognition (“point in time”/“over time”) and the relative amount. The Group does not expect the adoption of this standard to have material impacts on the recognition and valuation of its revenues.

**IFRS 9 - Financial Instruments:** on November 29, 2016, Regulation EC No. 2016/2067 was issued, which incorporated at EU level IFRS 9 - *Financial Instruments* concerning the classification, measurement and cancellation of financial asset/liabilities, the reduction in value of financial instruments, in addition to the accounting of hedges. IFRS 9, which should be applied from January 1, 2018 (i) amends the classification and valuation model of financial assets; (ii) introduces the expected credit losses concept among the variables to be considered in the valuation and write-down of financial assets; (iii) amends the hedge accounting provisions. The Group does not expect the adoption of this standard to have material impacts on the valuation of its assets, liabilities, costs and revenues.

### **New Accounting Standards and interpretations issued by the IASB and not yet enacted by the EU**

At the date of the present consolidated financial statements, the following new Standards/Interpretations were issued by IASB, although still not approved by the EU:

- IFRS 16 - *Leasing*, applicable from January 1, 2019 with a complete retrospective or simplified approach, as described above with regards to IFRS 15. IFRS 16 replaces IAS 17 - *Leasing* and the relative interpretations IFRIC 4 - *Determining whether an arrangement contains a lease*, SIC 15 - *Operating leases - Incentives*, SIC 27 - *Evaluating the substance of transactions in the legal form of a lease*. IFRS 16, from the viewpoint of the lessee, provides for all leasing contracts, whether concerning operating or finance leases, the recognition to the balance sheet of a liability, represented by the present value of future leases, against the recording to assets of a usage right of the assets leased. Leasing contracts of 12 months or less and low asset value leases may be excluded from application of IFRS 16. The main impacts from application of the new standard on the financial statements are the following: a) balance sheet, higher non-current assets due to the recognition of the usage right of the leased asset, with counter-entry of financial payables; b) income statement, inclusion of the amortisation of the usage right of the asset leased and of the financial charges for interest, compared to the present operating lease charges.
- Amendments to IFRS 10 – *Consolidated financial statements* and IAS 28 - *Investments in associates and joint ventures*, sales and conferment of assets between an investor and an associate/joint venture, applicable deferred to be determined.
- Amendments to IAS 12 - *Income taxes*, recognition of deferred tax assets on losses not realised, applicable from January 1, 2017.
- Amendments to IAS 7 - *Cash flow statement, disclosure initiatives*, applicable from January 1, 2017.



- Amendments to IFRS 2 – *Classification and measurement of share-based payments*, applicable from January 1, 2018.
- Clarifications to IFRS 15 - *Revenue from contracts with customers*, applicable from January 1, 2018.
- Improvements to IFRS (2014-2016 cycle) - *Amendments to IFRS 12 and IAS 28*, applicable respectively from January 1, 2017 and January 1, 2018.
- IFRIC 22 - *Foreign currency transactions and advance consideration*, applicable from January 1, 2018.
- Amendments to IAS 40 - *Investment property*, applicable from January 1, 2018.

The Group will adopt these new standards, amendments and interpretations, according to the scheduled application dates; currently, no significant impacts are expected from these amendments, with the exception of those concerning IFRS 16 - *Leasing*, described above.

### 3. **FORMAT OF THE FINANCIAL STATEMENTS**

The BasicNet Group presents its income statement by nature of cost items; the assets and liabilities are classified as current or non-current. The cash flow statement was prepared applying the indirect method. The format of the consolidated financial statements applied the provisions of Consob Resolution No. 15519 of July 27, 2006 and Notice No. 6064293 of July 28, 2006 on financial disclosure requirements. With reference to Consob Motion No. 15519 of July 27, 2006, transactions with related parties are described in Note 45 of the consolidated financial statements.

### 4. **CONSOLIDATION PRINCIPLES**

The consolidated financial statements were prepared including the financial statements at December 31, 2016 of the Group companies included in the consolidation scope, appropriately adjusted in accordance with the accounting principles adopted by the Parent Company.

The consolidated financial statements of the BasicNet Group are presented in Euro thousands, where not otherwise stated; the Euro is the functional currency of the Parent Company and the majority of the consolidated companies.

Financial statements in currencies other than the Euro are translated into the Euro applying the average exchange rate for the year for the income statement and the exchange rate at the date of the operation in the case of significant non-recurring transactions. The balance sheet accounts are translated at the year-end exchange rate. The differences arising from the translation into Euro of the financial statements prepared in currencies other than the Euro are recorded in a specific reserve in the Comprehensive Income Statement.

The exchange rates applied are as follows (for 1 Euro):

Currency	FY 2016		FY 2015	
	Average	At year end	Average	At year end
US Dollar	1.1026	1.0541	1.1041	1.0887
HK Dollar	8.5582	8.1751	8.5590	8.4376
Japanese Yen	120.1608	123.4000	133.5853	131.0700
UK Sterling	0.8205	0.8562	0.7240	0.7340

The criteria adopted for the consolidation were as follows:

- a) the assets and liabilities, as well as the income and charges of the financial statements consolidated under the line-by-line method are included in the financial statements of the Group, without consideration of the holding in the subsidiary. The carrying value of the investments are eliminated against the relative net equity of the subsidiaries. As all companies included in the consolidation scope are wholly-owned, minority interest equity was not allocated or minority interest share of profit/(loss);
- b) the positive differences resulting from the elimination of the investments against the book net equity at the acquisition date is allocated to the higher values attributed to the assets and liabilities acquired, and the residual part to goodwill. On the first-time adoption of IFRS, the Group has chosen not to apply *IFRS 3 - Business combinations* in retrospective manner for the acquisitions made prior to January 1, 2004;
- c) the payables/receivables, costs/revenues between consolidated companies and the gains/losses resulting from inter-company operations are eliminated, as are the effects of mergers and the sale of business units between companies in the consolidation scope.

As illustrated in Attachment 2, at December 31, 2016 the Group is comprised solely of subsidiaries owned directly or indirectly by the Parent Company BasicNet S.p.A., or jointly controlled; there are no associated companies or investments in structured entities or joint arrangements in the Group.

Control exists where the Parent Company BasicNet S.p.A. simultaneously:

- exercises decision-making power over the investee, i.e. has the capacity to manage its main activities, therefore those activities which have a significant impact on the investee's results;
- has the right to variable profits or losses from its investment in the entity;
- has the capacity to utilise its decision-making power to establish the amount of profits devolving from its investment in the entity.

The existence of control is verified where events or circumstances indicate an alteration to one or more of the three factors determining control.

Investments in associates and joint ventures are consolidated at equity, as established respectively by IAS 28 - *Investments in associates and joint ventures* and by IFRS 11 – *Joint arrangements*.

An associate is a company in which the Group holds at least 20% of voting rights or exercises significant influence - however not control or joint control - on the financial and operational policies. A joint venture is a joint control agreement, in which the parties who jointly hold control maintain rights on the net assets of the entity. Joint control concerns the sharing, under an agreement, of the control of economic activities, which exists only where the decisions regarding such activities requires unanimity by all parties sharing control.

Associates and joint ventures are consolidated from the date in which significant influence or joint control begins and until the discontinuation of such. Under the equity method, the investment in an associated company or a joint venture is initially recognised at cost and subsequently the carrying amount is increased or decreased to recognise the associated company's share of the profit or loss after the date of acquisition. The share of profits (losses) of the investment is recognised to the consolidated income statements. Dividends received from the investee reduce the book value of the investment.

If the share of losses of an entity in an associate or a joint venture is equal to or greater than its interest in the associate or joint venture the entity discontinues the recognition of its share of further losses. After the investor's interest is reduced to zero, additional losses are provisioned and a liability is recognised, only to the extent that the investor has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture. If the associate or the joint venture subsequently reports profits, the investor resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

**Consolidation Scope**

The consolidation scope includes the Parent company BasicNet S.p.A. and the Italian and foreign subsidiaries in which BasicNet S.p.A. exercises direct, or indirect, control. Attachment 2 contains a list of consolidated companies under the line-by-line method, as well as the complete list of Group companies, registered office, corporate purpose, share capital and direct and indirect holdings.

**Information by business segment and geographic area**

Three operating segments were identified within the BasicNet Group: i) license and brand management, (ii) proprietary licensee and (iii) property management. The relevant information is reported in Note 7.

The information by geographic area has significance for the Group in relation to royalty income and direct sales, and therefore was included for the two respective items. The breakdown of licensee aggregate sales by geographic area, from which the royalties derive, is reported in the Directors' Report.

**5. ACCOUNTING POLICIES**

The present financial statements were prepared on the going concern basis, and in accordance with the accruals principle.

The main accounting policies adopted for the preparation of the consolidated financial statements at December 31, 2016, in line with those utilised in the previous year, are disclosed below.

**Revenue recognition**

Revenues derive from Group operations in the ordinary course of business and comprise revenues from sales and services. Revenues are recognised net of sales tax, returns and discounts.

Revenues are recognised in accordance with the probability that the Group will receive economic benefits and the amount can be measured reliably. In particular, revenues from the sale of goods are recognised when the significant risks and benefits of the ownership of the goods are transferred to the buyer, the sales price has been agreed or determinable and collection of the receivable is expected. This moment corresponds with the transfer of ownership which coincides, normally, with the shipping or delivery of the goods and in some exceptional cases with the delayed delivery according to the specific instructions from the client. Sales to Group brand stores managed by third parties, on consignment, are recognised on the sale of the goods by the store to the final consumer, in accordance with *IAS 18 – Revenues*.

Royalties and sourcing commissions are recognised on an accruals basis in accordance with the underlying contracts.

**Recognition of costs and expenses**

Costs and expenses are recognised in accordance with the accruals principle.

Costs associated with sponsorship contracts paid each year are recognised in line with the contractual conditions.

Cost relating to the preparation and presentation of sample collections are recognised in the income statement in the year in which the sales of the relative collections are realised. Any differences are recorded through accruals.

Advertising campaign costs undertaken to drive orders by the salesforce, in accordance with current interpretations of IAS/IFRS, are directly expensed at the moment of the campaign, rather than in correlation to the relative revenues, which will only be recognised on the subsequent shipment of the orders received, although this second method better illustrates the correlation with the advertising campaign activity.

**Interest income and expenses, and income and charges**

Interest income and expenses and other income and expenses are recorded and shown in the financial statements on the accrual basis.

In accordance with IAS 23 – *Borrowing costs*, the financial charges directly attributable to the purchase, construction and production of the asset which requires a significant amount of time before use or sale are capitalised together with the value of the asset. Such an event has not arisen up to the present moment for the Group. If these conditions are not met the financial charges are expensed directly to the income statement.

**Translation of balances in foreign currencies**

The receivables and payables originally expressed in foreign currencies are translated into Euro at the exchange rate when the transaction originated. Exchange differences arising on collections and payments in foreign currencies are recorded in the income statement.

Revenues and income, costs and charges related to currency transactions are recorded at the exchange rate at the transaction date.

At the end of the period, the assets and liabilities valued in foreign currencies, with the exception of fixed assets, are recorded at the exchange rates at the balance sheet date and the relative gains or losses on exchange are recorded in the income statement.

**Income taxes**

Current income taxes include all the taxes calculated on the assessable income of the Group. Income taxes are recognised in profit and loss, except where they relate to items charged or credited directly to equity, in which case the tax effect is also recognised directly in equity.

Other taxes not related to income, such as taxes on property and share capital, are included under operating charges.

Deferred taxes are calculated on all the temporary differences arising between the assessable income of an asset or liability and the relative book value in the consolidated financial statements. Deferred tax assets, including those relating to losses carried forward, for the portion not offset by deferred tax liabilities, are recognised only for those amounts for which it is probable there will be future assessable income to recover the amounts. Deferred tax assets and liabilities are determined with the tax rates that are expected to be applied, in accordance with the regulations of the countries in which the Group operates, in the years in which the temporary differences will be realised or settled. The deferred tax assets and liabilities are offset when the income tax is applied by the same fiscal authority and when there is a legal right of compensation.

The Parent Company adhered to the tax consolidation in accordance with Article 117 and thereafter of the CFA – Presidential Decree No. 917 of December 22, 1986 together with all of the wholly-owned Italian subsidiary companies. Other taxes not related to income, such as taxes on property and share capital, are included under operating charges.

**Earnings per share/ Diluted earnings per share**

Earnings per share is calculated dividing the profit or loss attributable to the shareholders of the Parent Company by the weighted average ordinary shares in circulation during the period.

The diluted earnings per share is calculated dividing the profit or loss attributable to the shareholders of the Parent Company by the average weighted number of shares outstanding, taking into account the effects of all the potential ordinary shares with dilution effects. In 2016, there were no diluting effects on the shares.

**Provisions and contingent liabilities**

The Group may be involved in legal and tax disputes, concerning specific issues and in various jurisdictions. Considering the uncertainties relating to these issues, it is difficult to predict with certainty any future payments required. In addition, the Group has instigated legal disputes for the protection of its Trademarks, and of its products, against counterfeit products. The cases and disputes against the Group often derive from complex legal issues, which are often subject to varying degrees of uncertainty, including the facts and circumstances relating to each case, jurisprudence and different applicable laws.

In the normal course of business, Management consults with its legal consultants and experts on legal matters.

The Group accrues a liability against disputes when it considers it is probable that there will be a financial payment made and when the amount of the losses arising can be reasonably estimated.

The contingent liabilities are not recorded in the financial statements, but are reported as a disclosure in the Notes (Note 48) unless the probability of payment is remote. In accordance with paragraph 10 of *IAS 37 – Provisions, contingent liabilities and contingent assets* a contingent liability is (a) a possible obligation which derives from past events and whose existence will be confirmed only on the occurrence or otherwise of one or more future uncertain events, not entirely under the control of the enterprise, or (b) a current obligation which derives from past events but which cannot be recorded in the financial statements as the payment is improbable or cannot be reliably estimated.

**Use of estimates**

The preparation of the financial statements and the relative notes in application of IFRS require that management make estimates and assumptions on the values of the assets and liabilities in the financial statements and on the information relating to the assets and contingent liabilities at the balance sheet date. The actual results may differ from such estimates.

Estimates are utilised to measure intangible and tangible assets subject to impairment tests, in addition to recognise provisions on doubtful debts, inventory obsolescence, amortisation and depreciation, the write-down of assets, employee benefits and income taxes.

The estimates and assumptions are reviewed periodically and the effects of all variations are immediately recognised in the income statement.

**Intangible assets**

An intangible asset is a non-monetary asset, identifiable and without physical substance, controllable and capable of generating future economic benefits. Intangible assets are recognised 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. Amortisation begins when the asset is available for use and is recognised on a straight-line basis over the residual estimated useful life of the asset.

**Software**

Software acquired and IT programmes developed internally are amortised over five years, while the costs incurred to maintain or upgrade the original operational standard are expensed in the year and are not capitalised.

**Development Costs**

Development costs are capitalised when the capacity to generate future economic benefits is demonstrated and the other conditions required by *IAS 38 – Intangible assets* are satisfied.

**Brands and patents**

The brands Kappa, Robe di Kappa, Superga and K-Way are considered intangible assets with indefinite useful life; as such these assets are not amortised but subject to an impairment test at least annually. This depends on the strategic positioning reached whereby it is not currently possible to predict a time limit on the generation of future cash flow streams.

The brands Lanzera and Jesus Jeans, which have not yet reached a position similar to those of the principal brands, are amortised over a period of 20 years. The Sabelt brand was incorporated into the value of the investment, recognised at equity and also amortised over 20 years.

The patent rights are amortised over ten years.

#### Other intangible assets

Other intangible assets recognised on acquisition are recorded separately from goodwill, if their fair value can be determined on a reliable basis. They are amortised according to market conditions and generally within the period in which control of the asset is exercised.

#### Goodwill

In the case of business combinations, the assets, the liabilities and the contingent liabilities acquired and identifiable are recorded at their fair value at the date of acquisition. The positive difference between the acquisition cost and the portion held by the Group of the present value of the assets and liabilities is classified as goodwill and recorded in the financial statements as an intangible asset. Any negative difference (“negative goodwill”) is recognised in the income statement at the date of acquisition.

Goodwill is not amortised, but is subject annually, or more frequently if specific events or circumstances indicate the possibility of having incurred an impairment, to verifications of any reduction in value, as provided by *IAS 36 Reduction in value of assets*. After initial recognition, goodwill is measured at cost less any loss in value. The impairment of goodwill may not be written back.

This category includes the amounts paid by the Group to sub-enter into the contractual positions of directly managed and franchising stores (key money). This commercial goodwill, where related to commercial positions of value, is recognised to the consolidated financial statements as an intangible assets with indefinite useful life, and subject to an impairment test at least once a year, or more frequently in the presence of impairment indicators, comparing the book value with the higher between the value in use and the fair value less selling costs, with this latter also determined in view of valuations made by independent experts. Commercial goodwill relating to other positions is amortised over the duration of the relative rental contract.

#### Property, plant and equipment

Property, plant and equipment are recorded at purchase or production costs, including accessory charges and direct and indirect costs, for the amount reasonably attributable to the assets.

Subsequent expenditures are only capitalised where they increase the future economic benefits of the asset to which they relate. All other expenditures are expensed as incurred.

Property, plant and equipment are amortised on a straight-line basis over the estimated useful life of each asset. The depreciation rates by asset category are shown below:

<b>Description</b>	<b>Estimated useful life years</b>
Property	33
Plant and machinery	8
Furniture and furnishings	5-8
Motor vehicles	4
EDP	5-8

Fixed assets which at the balance sheet date are lower than the book value are recorded at this lower value, which however may not be maintained at this value in subsequent periods if the reasons for the adjustment no longer exist.

Ordinary maintenance costs are fully charged to the income statement.



Advances and costs for property, plant and equipment in progress which are not yet utilised in the operating activities are reported separately.

The historic value of land is not depreciated.

#### Leased assets

Property, plant and equipment acquired through finance lease contracts are recognised under the finance method as per IAS 17 – *Leasing* and recorded under assets at the purchase price decreased by depreciation.

The depreciation of these assets is reflected in the consolidated financial statements applying the same criteria as for the fixed assets to which the lease contracts refer.

Within liabilities a payable is recorded, under short-term and medium term, towards the leasing company; the lease payments are reversed from expenses for the use of third party assets and the financial charges for the period are recognised on an accruals basis.

#### Impairments

The carrying value of the assets of the Group are measured at each reporting date to determine whether there has been a loss in value, in which case an estimate is made of the recoverable value of the asset. A loss in value (impairment) is recorded in the income statement when the carrying value of an asset or a cash-generating unit exceeds its recoverable value.

The indefinite intangible assets (including goodwill) are tested annually and whenever there is an indication of a possible loss, in order to determine whether a loss in value has occurred.

#### Measuring recoverable amount

The recoverable value of a non-financial asset is the higher of the fair value less costs to sell and the value in use. For the determination of the value in use, the future cash flows are discounted utilising a rate which reflects the current market value of money and of the related risks of the activity. In the case of activities which do not generate cash flows sufficiently independent, it is necessary to calculate the recoverable value of the cash-generating unit to which the asset belongs.

The establishment of the CGU's (Cash Generating Units) within the Group is based on the assessment of results and definition of strategies by management, in addition to the business model adopted. The Group identifies the CGU's as follows: 1) the property complex at Largo Maurizio Vitale 1 in Turin called the "Basic Village", held by the subsidiary of the same name and since year-end also the new adjacent building acquired; 2) the brands within the "licenses and brands" sector; 3) the Group brand sales points and the national licensing business as a whole, within the "proprietary licensees" sector, comprising BasicItalia S.p.A. and its subsidiary.

#### Write-back of value

The value is recovered when changes take place in the valuations to determine the recoverable value excluding goodwill. The recoverable value is recorded in the income statement adjusting the book value of the asset to its recoverable value. This latter must not be above the value which would have been determined, net of depreciation, if no loss in value of the asset had been recorded in previous years.

#### Investments

Investments in associates and joint ventures are measured under the equity method. The share of cost exceeding the net equity of the investee at the acquisition date is treated in a similar manner as that described for the consolidation criteria.

The non-consolidated investments other than associates and joint ventures, non-listed, are measured under the cost method less any losses in value, as their fair value may not be reliably determined. The original value is restored in future years should the reason for the write-down no longer exist.

Financial assets consist of loans are recorded at their estimated realisable value.



**Net inventories**

Inventory is valued under the average weighted cost method.

Inventories are measured at the lower of purchase or production cost and their net realisable value.

Inventories include incidental charges and direct and indirect costs that can be reasonably allocated. Obsolete and slow-moving inventories are written down in relation to their possible utilisation or realisable value.

**Trade receivables**

Receivables recorded under current assets are stated at their nominal value, which substantially coincides with the amortised cost. The initial value is subsequently adjusted to take into account any write-downs which reflect the estimate of the losses on receivables, determined based on a specific provision on doubtful debts and a general provision based on past experience. Medium/long-term receivables which include an implicit interest component are discounted utilising an appropriate market rate. Receivables transferred without recourse, in which all the risks and benefits substantially are transferred to the factoring company, are reversed in the financial statements at their nominal value.

**Cash and cash equivalents**

The liquid assets principally relate to current bank accounts and cash. They are recorded for amounts effectively available at year end.

The cash equivalents are invested in highly liquid temporary financial instruments.

**Accrued income and prepaid expenses**

The account includes amounts related to two accounting periods, in accordance with the accruals concept.

**Treasury shares**

Treasury shares are recognised as a deduction from equity. The original cost of the treasury shares and the revenues deriving from any subsequent sale are recognised as equity movements.

**Provisions for risks and charges**

Provisions for risks and charges are recorded in the balance sheet only when a legal or implicit obligation exists deriving from a past event that determines the commitment of resources to produce economic benefits for their compliance and a reliable estimate of the amount can be determined.

**Employee benefits**

The Post-Employment Benefit in accordance with Italian legislation is quantified as a defined benefit plan and is measured in accordance with the “Projected Unit Credit Method”.

From January 1, 2007, this liability refers exclusively to the portion of the Post-Employment Benefit, matured up to December 31, 2006, which following the complementary pension reform (Legislative Decree No. 252 of December 5, 2005) continues to constitute an obligation of the company. Following the entry into force of the above-mentioned reform as enacted by Law No. 296 of December 27, 2006 (2007 Finance Law), the liability, as concerning services already completely matured, was restated without applying the pro-rata of the employment service and without considering, in the actuarial calculation, the components relating to future salary increases.

On June 16, 2011, the IASB issued an amendment to IAS 19 *Employee Benefits*. The new version of IAS 19 requires, in particular, for post-employment benefits, the recognition of the changes of the actuarial gains/losses under other items of the Comprehensive Income Statement.

The cost relating to employment services for the companies of the Group with less than 50 employees, as well as the interest on the “time value” component in the actuarial calculations will remain in the profit and loss account.

The portion of the Post-Employment Benefit paid to a supplementary pension fund is considered a defined contribution plan as the obligation of the company towards the employee ceases with the payment of the amount matured to the funds. Also the portion of the Post-Employment Benefit paid to the INPS Treasury fund is recorded as a defined contribution plan.

### **Payables**

Financial payables are recorded at their amortised cost. The book value of the trade and other payables, recognised at nominal value which approximates the amortised cost, at the balance sheet date approximates their fair value.

### **Cash flow hedges and accounting of relative operations**

The BasicNet Group utilises financial instruments to hedge interest rates on some loans and to hedge against fluctuations in the Euro/USD exchange rates on the purchases of products for sale, not adequately hedged by royalties and sourcing commission income.

These instruments are initially recorded at their fair value, and subsequently measured according to whether they are “hedged” or “not hedged” as per IAS 39.

It is recalled that the BasicNet Group does not undertake derivative contracts for speculative purposes.

The hedging may be of two types:

- Fair value hedges;
- Cash flow hedges.

The BasicNet Group, before signing a hedge contract, undertakes a close examination of the relationship between the hedge instrument and the item hedged, in view of the objectives to reduce the risk, also evaluating the existence and the continuation over the life of the financial instrument of the effectiveness requirements, necessary for the hedge accounting.

After their initial recognition, they are accounted as follows:

a) Fair value hedges

The changes in their fair value are recognised in the income statement, together with the changes in the fair value of the relative assets and liabilities hedged.

b) Cash flow hedges

The part of the profit or loss of the hedge instrument, considered effective, is recorded directly in the comprehensive income statement; the non-effective part is however recorded immediately in the income statement.

The accumulated amounts in the comprehensive income statement are recorded in the income statement in the year in which the scheduled hedge operation matures or the instrument hedged is sold, or when the effectiveness requirements for hedge accounting no longer exist.

c) Derivative financial instruments which do not have the effectiveness requirements for hedge accounting

The derivative financial instruments which do not comply with the requirements of IAS 39 for the identification of the hedge, where present, are classified in the category of financial assets and liabilities measured at fair value through the profit and loss account. The group does not utilise financial instruments not for hedging purposes.

### **Hierarchy of Fair Value according to IFRS 7**

IFRS 7 requires that the classification of financial instruments measured at fair value is determined based on the quality of the input sources used in the valuation.

The IFRS 7 classification implies the following hierarchy:

- *level 1*: determination of fair value based on prices listed (“unadjusted”) in active markets for identical assets or liabilities;
- *level 2*: determination of fair value based on other inputs than the listed prices included in “level 1” but which are directly or indirectly observable. This category includes the instruments with which the Group mitigates the risk deriving from fluctuations in interest rates and currencies;
- *level 3*: determination of fair value based on valuation models whose input is not based on observable market data (“unobservable inputs”). There are no financial instruments measured in this manner.

## 6. **OTHER INFORMATION**

The subsequent events to the end of the year and the outlook for the current year are reported in the Directors’ Report.

**EXPLANATORY NOTES TO THE INCOME STATEMENT****(IN EURO THOUSANDS UNLESS OTHERWISE STATED)****7. DISCLOSURE BY OPERATING SEGMENT**

The BasicNet Group identifies three operating segments:

- “Licenses and Brands”, which involves the management of overseas licensees and “sourcing centres” by the following Group companies: BasicNet S.p.A., Basic Properties B.V., Basic Properties America, Inc., BasicNet Asia Ltd., Basic Trademark S.A., Superga Trademark S.A., Jesus Jeans S.r.l. and Fashion S.r.l.. Last December, following the strategic concentration within the Kappa brand of all winter sport collections, the Group sold to the Besson family 50% of the company which owns the AnziBesson brand.
- “Proprietary licensees”, which involves the direct management of the sales channels, both in terms of sales to retail and consumers, through BasicItalia S.p.A. (proprietary licensee) and its subsidiary BasicRetail S.r.l;
- “Property”, which involves the management of the building at Turin – Largo Maurizio Vitale 1, known as “Basic Village” and the adjacent building acquired at the end of 2016.

<i>December 31, 2016</i>	<b>Licenses and brands</b>	<b>Proprietary licensees</b>	<b>Property</b>	<b>Inter-segment eliminations</b>	<b>Consolidated</b>
Direct sales – third parties	697	134,484	2	-	135,183
<i>Direct sales – inter-segment</i>	<i>2,004</i>	<i>280</i>	<i>1</i>	<i>(2,285)</i>	-
(Cost of sales – third parties)	(2,373)	(78,548)	(2)	-	(80,923)
<i>(Cost of sales – inter-segment)</i>	<i>(52)</i>	<i>(1,947)</i>	-	<i>1,999</i>	-
<b>GROSS MARGIN</b>	<b>276</b>	<b>54,269</b>	<b>1</b>	<b>(286)</b>	<b>54,260</b>
Royalties and sourcing commissions – third parties	46,424	-	-	-	46,424
<i>Royalties and sourcing commissions – inter-segment</i>	<i>11,961</i>	-	-	<i>(11,961)</i>	-
Other income - third parties	659	881	686	-	2,226
<i>Other income – inter-segment</i>	<i>301</i>	<i>12,135</i>	<i>2,782</i>	<i>(15,218)</i>	-
(Sponsorship and media costs – third parties)	(5,715)	(18,570)	-	-	(24,285)
<i>(Sponsorship and media costs – inter-segment)</i>	<i>(12,168)</i>	<i>(7)</i>	-	<i>12,174</i>	-
(Personnel costs – third parties)	(8,901)	(10,747)	(33)	-	(19,681)
<i>(Personnel costs – inter-segment)</i>	-	-	-	-	-
(Selling, general and administrative costs, royalties expenses – third parties)	(13,370)	(22,366)	(1,706)	-	(37,442)
<i>(Selling, general and administrative costs, royalties expenses – inter-segment)</i>	<i>(2,197)</i>	<i>(13,043)</i>	<i>(50)</i>	<i>15,290</i>	-
Amortisation & Depreciation	(2,355)	(3,014)	(892)	-	(6,261)
<b>EBIT</b>	<b>14,915</b>	<b>(462)</b>	<b>788</b>	<b>-</b>	<b>15,241</b>
Financial income – third parties	748	1,761	-	-	2,509
<i>Financial income – inter-segment</i>	<i>223</i>	-	-	<i>(223)</i>	-
(Financial charges – third parties)	(1,008)	(1,384)	(470)	-	(2,862)
<i>(Financial charges – inter-segment)</i>	-	<i>(222)</i>	<i>(1)</i>	<i>223</i>	-
(Investment impairments – third parties)	-	-	-	-	-
<i>(Investment impairments – inter-segment)</i>	-	-	-	-	-
Share of profit/(loss) of investments	52	-	-	-	52
<i>(Share of profit/(loss) of investments - inter-segment)</i>	-	-	-	-	-
<b>PROFIT/(LOSS) BEFORE TAXES</b>	<b>14,930</b>	<b>(307)</b>	<b>317</b>	<b>-</b>	<b>14,940</b>
Income taxes	(4,449)	(22)	(164)	-	(4,635)
<b>NET PROFIT/(LOSS)</b>	<b>10,481</b>	<b>(329)</b>	<b>153</b>	<b>-</b>	<b>10,305</b>
<i>Significant non-cash items:</i>					
Amortisation & Depreciation	(2,355)	(3,014)	(892)	-	(6,261)
Write-downs	-	-	-	-	-
<b>Total non-cash items</b>	<b>(2,355)</b>	<b>(3,014)</b>	<b>(892)</b>	<b>-</b>	<b>(6,261)</b>
<b>Investments in non-current assets</b>	<b>(2,433)</b>	<b>(5,629)</b>	<b>-</b>	<b>-</b>	<b>(8,062)</b>
<i>Segment assets and liabilities:</i>					
<b>Assets</b>	<b>188,913</b>	<b>111,944</b>	<b>18,094</b>	<b>(105,762)</b>	<b>213,190</b>
<b>Liabilities</b>	<b>80,675</b>	<b>98,671</b>	<b>13,238</b>	<b>(74,273)</b>	<b>118,310</b>

<i>December 31, 2015</i>	<b>Licenses and brands</b>	<b>Proprietary licensees</b>	<b>Property</b>	<b>Inter-segment eliminations</b>	<b>Consolidated</b>
Direct sales – third parties	752	133,187	2	-	133,941
<i>Direct sales – inter-segment</i>	<i>1,513</i>	<i>295</i>	<i>2</i>	<i>(1,810)</i>	<i>-</i>
(Cost of sales – third parties)	(2,153)	(76,971)	(2)	-	(79,126)
<i>(Cost of sales – inter-segment)</i>	<i>(44)</i>	<i>(1,474)</i>	<i>-</i>	<i>1,518</i>	<i>-</i>
<b>GROSS MARGIN</b>	<b>68</b>	<b>55,037</b>	<b>2</b>	<b>(292)</b>	<b>54,815</b>
Royalties and sourcing commissions – third parties	46,547	-	-	-	46,547
<i>Royalties and sourcing commissions – inter-segment</i>	<i>11,938</i>	<i>2</i>	<i>-</i>	<i>(11,940)</i>	<i>-</i>
Other income - third parties	2,352	1,014	614	-	3,980
<i>Other income – inter-segment</i>	<i>301</i>	<i>9,203</i>	<i>2,752</i>	<i>(12,256)</i>	<i>-</i>
(Sponsorship and media costs – third parties)	(5,259)	(14,083)	-	-	(19,342)
<i>(Sponsorship and media costs – inter-segment)</i>	<i>(9,244)</i>	<i>(6)</i>	<i>-</i>	<i>9,250</i>	<i>-</i>
(Personnel costs – third parties)	(8,850)	(10,031)	-	-	(18,881)
<i>(Personnel costs – inter-segment)</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
(Selling, general and administrative costs, royalties expenses – third parties)	(11,258)	(22,214)	(1,598)	-	(35,070)
<i>(Selling, general and administrative costs, royalties expenses – inter-segment)</i>	<i>(2,217)</i>	<i>(12,971)</i>	<i>(50)</i>	<i>15,238</i>	<i>-</i>
Amortisation & Depreciation	(2,261)	(3,204)	(875)	-	(6,340)
<b>EBIT</b>	<b>22,117</b>	<b>2,747</b>	<b>845</b>	<b>-</b>	<b>25,709</b>
Financial income – third parties	1,989	4,893	-	-	6,882
<i>Financial income – inter-segment</i>	<i>193</i>	<i>-</i>	<i>-</i>	<i>(193)</i>	<i>-</i>
(Financial charges – third parties)	(1,519)	(4,090)	(539)	-	(6,148)
<i>(Financial charges – inter-segment)</i>	<i>-</i>	<i>(193)</i>	<i>-</i>	<i>193</i>	<i>-</i>
Share of profit/(loss) of investments	(59)	-	-	-	(59)
<i>(Share of profit/(loss) of investments - inter-segment)</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<b>PROFIT BEFORE TAXES</b>	<b>22,721</b>	<b>3,357</b>	<b>306</b>	<b>-</b>	<b>26,384</b>
Income taxes	(8,004)	(1,589)	(31)	-	(9,624)
<b>NET PROFIT</b>	<b>14,717</b>	<b>1,768</b>	<b>275</b>	<b>-</b>	<b>16,760</b>
<i>Significant non-cash items:</i>					
Amortisation & Depreciation	(2,261)	(3,204)	(875)	-	(6,340)
Write-downs	-	-	-	-	-
<b>Total non-cash items</b>	<b>(2,261)</b>	<b>(3,204)</b>	<b>(875)</b>	<b>-</b>	<b>(6,340)</b>
<b>Investments in non-current assets</b>	<b>(3,007)</b>	<b>(2,222)</b>	<b>(95)</b>	<b>-</b>	<b>(5,324)</b>
<i>Segment assets and liabilities:</i>					
<b>Assets</b>	<b>185,731</b>	<b>108,679</b>	<b>17,196</b>	<b>(106,434)</b>	<b>205,172</b>
<b>Liabilities</b>	<b>78,231</b>	<b>95,393</b>	<b>12,702</b>	<b>(73,665)</b>	<b>112,661</b>

The 2016 segment results compared with the previous year are reported below:

<b>“LICENSES AND BRANDS” SEGMENT</b>	<b>2016</b>	<b>2015</b>	<b>Changes</b>
Direct sales – third parties	697	752	(55)
<i>Direct sales – inter-segment</i>	<i>2,004</i>	<i>1,513</i>	<i>491</i>
(Cost of sales – third parties)	(2,373)	(2,153)	(220)
<i>(Cost of sales – inter-segment)</i>	<i>(52)</i>	<i>(44)</i>	<i>(8)</i>
<b>GROSS MARGIN</b>	<b>276</b>	<b>68</b>	<b>208</b>
Royalties and sourcing commissions – third parties	46,424	46,547	(123)
<i>Royalties and sourcing commissions – inter-segment</i>	<i>11,961</i>	<i>11,938</i>	<i>23</i>
Other income - third parties	659	2,352	(1,693)
<i>Other income – inter-segment</i>	<i>301</i>	<i>301</i>	<i>-</i>
(Sponsorship and media costs – third parties)	(5,715)	(5,259)	(456)
<i>(Sponsorship and media costs – inter-segment)</i>	<i>(12,168)</i>	<i>(9,244)</i>	<i>(2,924)</i>
(Personnel costs – third parties)	(8,901)	(8,850)	(51)
<i>(Personnel costs – inter-segment)</i>	<i>-</i>	<i>-</i>	<i>-</i>
(Selling, general and administrative costs, royalties expenses – third parties)	(13,370)	(11,258)	(2,112)
<i>(Selling, general and administrative costs, royalties expenses – inter-segment)</i>	<i>(2,197)</i>	<i>(2,217)</i>	<i>20</i>
Amortisation & Depreciation	(2,355)	(2,261)	(94)
<b>EBIT</b>	<b>14,915</b>	<b>22,117</b>	<b>(7,202)</b>
Financial income – third parties	748	1,989	(1,241)
<i>Financial income – inter-segment</i>	<i>223</i>	<i>193</i>	<i>30</i>
(Financial charges – third parties)	(1,008)	(1,519)	511
<i>(Financial charges – inter-segment)</i>	<i>-</i>	<i>-</i>	<i>-</i>
Share of profit/(loss) of investments	52	(59)	111
<i>(Share of profit/(loss) of investments - inter-segment)</i>	<i>-</i>	<i>-</i>	<i>-</i>
<b>PROFIT BEFORE TAXES</b>	<b>14,930</b>	<b>22,721</b>	<b>(7,791)</b>
Income taxes	(4,449)	(8,004)	3,555
<b>NET PROFIT</b>	<b>10,481</b>	<b>14,717</b>	<b>(4,236)</b>
<i>Significant non-cash items:</i>			
Amortisation & Depreciation	(2,355)	(2,261)	(94)
Write-downs	-	-	-
<b>Total non-cash items</b>	<b>(2,355)</b>	<b>(2,261)</b>	<b>(94)</b>
<b>Investments in non-current assets</b>	<b>(2,433)</b>	<b>(3,007)</b>	<b>574</b>
<i>Segment assets and liabilities:</i>			
<b>Assets</b>	<b>188,913</b>	<b>185,731</b>	<b>3,182</b>
<b>Liabilities</b>	<b>80,675</b>	<b>78,231</b>	<b>2,444</b>



<b>“PROPRIETARY LICENSES” SEGMENT</b>	<b>2016</b>	<b>2015</b>	<b>Changes</b>
Direct sales – third parties	134,484	133,187	1,297
<i>Direct sales – inter-segment</i>	280	295	(15)
(Cost of sales – third parties)	(78,548)	(76,971)	(1,577)
<i>(Cost of sales – inter-segment)</i>	(1,947)	(1,474)	(473)
<b>GROSS MARGIN</b>	<b>54,269</b>	<b>55,037</b>	<b>(768)</b>
Royalties and sourcing commissions – third parties	-	-	-
<i>Royalties and sourcing commissions – inter-segment</i>	-	2	(2)
Other income - third parties	881	1,014	(133)
<i>Other income – inter-segment</i>	12,135	9,203	2,932
(Sponsorship and media costs – third parties)	(18,570)	(14,083)	(4,487)
<i>(Sponsorship and media costs – inter-segment)</i>	(7)	(6)	(1)
(Personnel costs – third parties)	(10,747)	(10,031)	(716)
<i>(Personnel costs – inter-segment)</i>	-	-	-
(Selling, general and administrative costs, royalties expenses – third parties)	(22,366)	(22,214)	(152)
<i>(Selling, general and administrative costs, royalties expenses – inter-segment)</i>	(13,043)	(12,971)	(72)
Amortisation & Depreciation	(3,014)	(3,204)	190
<b>EBIT</b>	<b>(462)</b>	<b>2,747</b>	<b>(3,209)</b>
Financial income – third parties	1,761	4,893	(3,132)
<i>Financial income – inter-segment</i>	-	-	-
(Financial charges – third parties)	(1,384)	(4,090)	2,706
<i>(Financial charges – inter-segment)</i>	(222)	(193)	(29)
Share of profit/(loss) of investments	-	-	-
<i>(Share of profit/(loss) of investments - inter-segment)</i>	-	-	-
<b>PROFIT/(LOSS) BEFORE TAXES</b>	<b>(307)</b>	<b>3,357</b>	<b>(3,664)</b>
Income taxes	(22)	(1,589)	1,567
<b>NET PROFIT/(LOSS)</b>	<b>(329)</b>	<b>1,768</b>	<b>(2,097)</b>
<i>Significant non-cash items:</i>			
Amortisation & Depreciation	(3,014)	(3,204)	190
Write-downs	-	-	-
<b>Total non-cash items</b>	<b>(3,014)</b>	<b>(3,204)</b>	<b>190</b>
<b>Investments in non-current assets</b>	<b>(5,629)</b>	<b>(2,222)</b>	<b>(3,407)</b>
<i>Segment assets and liabilities:</i>			
<b>Assets</b>	<b>111,944</b>	<b>108,679</b>	<b>3,265</b>
<b>Liabilities</b>	<b>98,671</b>	<b>95,393</b>	<b>3,278</b>

<b>“REAL ESTATE” SEGMENT</b>	<b>2016</b>	<b>2015</b>	<b>Changes</b>
Direct sales – third parties	2	2	-
<i>Direct sales – inter-segment</i>	<i>1</i>	<i>2</i>	<i>(1)</i>
(Cost of sales – third parties)	(2)	(2)	-
<i>(Cost of sales – inter-segment)</i>	<i>-</i>	<i>-</i>	<i>-</i>
<b>GROSS MARGIN</b>	<b>1</b>	<b>2</b>	<b>(1)</b>
Royalties and sourcing commissions – third parties	-	-	-
<i>Royalties and sourcing commissions – inter-segment</i>	<i>-</i>	<i>-</i>	<i>-</i>
Other income - third parties	686	614	72
<i>Other income – inter-segment</i>	<i>2,782</i>	<i>2,752</i>	<i>30</i>
(Sponsorship and media costs – third parties)	-	-	-
<i>(Sponsorship and media costs – inter-segment)</i>	<i>-</i>	<i>-</i>	<i>-</i>
(Personnel costs – third parties)	(33)	-	(33)
<i>(Personnel costs – inter-segment)</i>	<i>-</i>	<i>-</i>	<i>-</i>
(Selling, general and administrative costs, royalties expenses – third parties)	(1,706)	(1,598)	(108)
<i>(Selling, general and administrative costs, royalties expenses – inter-segment)</i>	<i>(50)</i>	<i>(50)</i>	<i>-</i>
Amortisation & Depreciation	(892)	(875)	(17)
<b>EBIT</b>	<b>788</b>	<b>845</b>	<b>(57)</b>
Financial income – third parties	-	-	-
<i>Financial income – inter-segment</i>	<i>-</i>	<i>-</i>	<i>-</i>
(Financial charges – third parties)	(470)	(539)	69
<i>(Financial charges – inter-segment)</i>	<i>(1)</i>	<i>-</i>	<i>(1)</i>
Share of profit/(loss) of investments	-	-	-
<i>(Share of profit/(loss) of investments - inter-segment)</i>	<i>-</i>	<i>-</i>	<i>-</i>
<b>PROFIT BEFORE TAXES</b>	<b>317</b>	<b>306</b>	<b>11</b>
Income taxes	(164)	(31)	(133)
<b>NET PROFIT</b>	<b>153</b>	<b>275</b>	<b>(122)</b>
<i>Significant non-cash items:</i>			
Amortisation & Depreciation	(892)	(875)	(17)
Write-downs	-	-	-
<b>Total non-cash items</b>	<b>(892)</b>	<b>(875)</b>	<b>(17)</b>
<b>Investments in non-current assets</b>	<b>-</b>	<b>(95)</b>	<b>95</b>
<i>Segment assets and liabilities:</i>			
<b>Assets</b>	<b>18,094</b>	<b>17,196</b>	<b>898</b>
<b>Liabilities</b>	<b>13,238</b>	<b>12,702</b>	<b>536</b>

The Group operating performance and therefore of the respective segments is outlined in detail in the Directors' Report. The segment performances may be summarised as follows:

- The “Licenses and brands” segment reports royalties and sourcing commissions of Euro 58.4 million for 2016, substantially in line with the previous year. The segment net profit totalled Euro 10.5 million, compared to Euro 14.7 million in 2015. The decrease is due to other income deriving from a non-recurring indemnity received in the previous year, but in particular from the major investment spend in marketing to support the campaigns and sponsorships concluded by major licensees, in particular in Italy, whose returns are expected with the launch of new collections. The increase in *selling, general and administrative* expenses principally concerns commercial consultancy costs related to the increased communication spend;
- the “Proprietary Licensees” segment, comprising BasicItalia S.p.A. and its subsidiary BasicRetail S.r.l., reported revenue growth (+1%) on the previous year. The contribution margin on sales was Euro 54.3 million, substantially in line with Euro 55 million in 2015. The revenue margin was 40.2% (41.2% in 2015), impacted by the movement of the US Dollar against the Euro in terms of the cost of sales. Personnel costs increased on the previous year due to the development of retail operations and the opening of a number of outlet center sales points. Communication investments were also significantly stepped up and related to advertising campaigns and sponsorship activities. The segment reports a loss of approx. Euro 329 thousand compared to a profit of Euro 1.8 million in the previous year;
- the “Property” segment reports a profit of Euro 153 thousand, compared to Euro 275 thousand in 2015.

## 8. CONSOLIDATED DIRECT SALES

The breakdown of “consolidated direct sales” by geographic area is reported below:

	FY 2016	FY 2015
Italy	126,301	124,758
EU countries other than Italy	5,943	6,047
Rest of the World	2,939	3,136
<b>Total consolidated direct sales</b>	<b>135,183</b>	<b>133,941</b>

Direct sales revenues relate to merchandise sold by BasicItalia S.p.A. and BasicRetail S.r.l., both through National and Regional Servicing Centres and directly to the public (Euro 134.8 million) and by BasicNet S.p.A. for sample merchandise sales (Euro 0.4 million). Sales on the home market accounted for 93.4%, while approx. 4.4% of sales were in other EU countries, with the remaining approx. 2.2% outside the EU. Sales outside of Italy are related to commercial activities in countries not yet subject to specific licensing contracts, by the licensee companies of the Group.

**9. COST OF SALES**

	<b>FY 2016</b>	<b>FY 2015</b>
Goods purchased – Overseas	57,677	60,593
Goods purchased – Italy	6,799	5,669
Samples purchased	1,798	1,632
Accessories purchased	120	156
Freight charges and accessory purchasing cost	7,105	8,290
Packaging	449	409
Changes in inventory of raw materials, ancillary, consumables and goods	1,817	(2,728)
Cost of outsourced logistics	4,138	3,868
Others	1,020	1,237
<b>Total cost of sales</b>	<b>80,923</b>	<b>79,126</b>

“Goods purchased” refer to the finished products acquired by BasicItalia S.p.A.. Sample purchases were made by BasicNet S.p.A. for resale to the licensees.

The increase in the cost of sales is commented upon in the paragraph concerning the “Proprietary licensees” segment at Note 7. Inventories reduced on the previous year.

**10. ROYALTIES AND SOURCING COMMISSIONS**

“Royalties and sourcing commissions” refer to royalty fees for the brand licenses in the countries where the licenses have been assigned, or recognised to authorised sourcing centres for the production and sale of group brand products by commercial licensees.

The changes in the year are commented upon in the Directors’ Report.

The breakdown by region is reported below:

	<b>FY 2016</b>	<b>FY 2015</b>
Europe (EU and non-EU)	18,785	20,123
The Americas	5,149	4,492
Asia and Oceania	18,950	18,163
Middle East and Africa	3,540	3,769
<b>Total</b>	<b>46,424</b>	<b>46,547</b>

The changes at brand level and regional level are commented upon in the Directors’ Report.

**11. OTHER INCOME**

	<b>FY 2016</b>	<b>FY 2015</b>
Rental income	422	382
Recovery of condominium expenses	206	205
Income from promo sales	170	448
Other income	1,428	2,945
<b>Total other income</b>	<b>2,226</b>	<b>3,980</b>

The “recovery of condominium expenses” concerns the recharge to lessees of utility costs.

“Income from promo sales” refer to income from the right to use trademarks for commercialisation of products in promotion activities, which are of a non-recurring nature.

“Other income” includes prior year accruals’ reversals, the recharge of expenses to third parties and other indemnities against counterfeiting and unauthorised usage protection actions. In 2015, this included Euro 1 million received as a commercial indemnity, of a non-recurring nature.

**12. SPONSORSHIP AND MEDIA COSTS**

	<b>FY 2016</b>	<b>FY 2015</b>
Sponsorship and marketing	21,082	16,522
Advertising	2,626	2,060
Promotional expenses	577	760
<b>Total sponsorship and media costs</b>	<b>24,285</b>	<b>19,342</b>

The account “sponsorship” refers to communication investments incurred directly to which the Group contributes, described in detail in the Directors’ Report. The increase on 2015 principally concerns the sponsorship of SSC Napoli, agreed in 2015, with full effect for financial year 2016.

“Advertising” refers to billboard advertising and press communication campaigns. These costs increased in the first half-year on the previous year, particularly in terms of Superga and K-Way brand support costs.

Promotional expenses concern gifts of products and advertising material, not relating to specific sponsorship contracts.

**13. PERSONNEL COSTS**

	<b>FY 2016</b>	<b>FY 2015</b>
Wages and salaries	14,394	13,672
Social security charges	4,370	4,290
Post-employment benefits	917	919
<b>Total</b>	<b>19,681</b>	<b>18,881</b>

The number of employees at the reporting date, by category, is reported in the table below:

	Human Resources at December 31, 2016				Human Resources at December 31, 2015			
	Number		Average age		Number		Average age	
	Male/Female	Total	Male/Female	Average	Male/Female	Total	Male/Female	Average
Executives	18 / 10	28	46 / 49	47	17 / 9	26	47 / 48	47
Managers	-	-	-	-	1 / -	1	53 / --	53
White-collar	147 / 348	495	34 / 35	35	134 / 323	457	35 / 36	36
Blue-collar	13 / 10	23	46 / 43	45	14 / 10	24	45 / 42	43
Total	178 / 368	546	35 / 35	36	166 / 342	508	36 / 36	36

The increase principally concerns personnel involved in the management of Group brand sales points. The average number of Employees in 2016 was 521, comprising 26 executives, 1 senior manager, 471 white-collar employees and 23 blue-collar employees.

#### 14. SELLING, GENERAL AND ADMINISTRATIVE COSTS AND ROYALTIES EXPENSES

	FY 2016	FY 2015
Selling and royalty service expenses	9,090	8,239
Rental, accessory and utility expenses	9,931	9,901
Commercial expenses	4,714	3,316
Directors and Statutory Auditors emoluments	3,407	3,527
Doubtful debt provision	3,472	2,859
Other general expenses	6,828	7,228
<b>Total selling, general and administrative costs, and royalties expenses</b>	<b>37,442</b>	<b>35,070</b>

“Selling and royalty service expenses” principally include commissions to agents of the subsidiary BasicItalia S.p.A. and royalties on sports team merchandising contracts and co-branding operations.

“Commercial expenses” include costs relating to selling activities, comprising trade fairs and exhibitions, communication costs for advertising campaigns, stylists, graphics and commercial and travel expenses. The increase is related to the higher investment in communications in the year.

“Directors and Statutory Auditors emoluments”, for offices held at the date of the present Report, approved by the Shareholders’ AGM and the Board of Directors’ meetings of April 28, 2016, are in line with the company remuneration policy, pursuant to Article 78 of Consob Regulation No. 11971/97 and subsequent amendments and integrations, and are reported in the Remuneration Report pursuant to Article 123-ter of the CFA, which is available on the company’s website [www.basicnet.com](http://www.basicnet.com) Shareholder’ Meeting 2016 section, to which reference should be made.

The account “other general expenses” includes legal and professional fees, bank charges, other taxes, consumption materials, hire charges, and corporate and other minor expenses. The reduction is mainly due to lower legal and professional consultant costs in the year.

**15. AMORTISATION & DEPRECIATION**

	<b>FY 2016</b>	<b>FY 2015</b>
Amortisation	3,269	3,318
Depreciation	2,992	3,022
<b>Total amortisation &amp; depreciation</b>	<b>6,261</b>	<b>6,340</b>

Amortisation on intangible assets includes Euro 354 thousand of key-money write-down relating to some sales points closed or for which the decision to close has been made, within a normal rotation of less profitable sales point in favour of the opening of new locations or more appropriate operational strategies.

**16. NET FINANCIAL INCOME (CHARGES)**

	<b>FY 2016</b>	<b>FY 2015</b>
Interest income	1	8
Current account interest	(523)	(709)
Commercial interest expenses	(25)	(58)
Interest on medium/long term loans	(774)	(991)
Property lease interest	(72)	(82)
Other	(193)	(402)
<b>Total financial income and charges</b>	<b>(1,586)</b>	<b>(2,234)</b>
Exchange gains	2,501	6,874
Exchange losses	(1,268)	(3,906)
<b>Net exchange gains/(losses)</b>	<b>1,233</b>	<b>2,968</b>
<b>Total financial income/(charges)</b>	<b>(353)</b>	<b>734</b>

Financial charges reduced following the general reduction in interest rates. Net exchange gains of Euro 1.2 million are reported, particularly due to hedges (flexi-term) on the US Dollar undertaken in the previous year. The reduction of the gains is due to the reduced fluctuation of the US Dollar in 2016 compared to the previous year.

**17. SHARE OF PROFIT/(LOSS) OF INVESTMENTS VALUED AT EQUITY**

The account, introduced following the application of *IFRS 11 – Joint arrangements*, reflects the effect on the consolidated result for the period of the valuation at equity of the joint ventures Fashion S.r.l. and AnziBesson Trademark S.r.l. (Note 24). 50% of AnziBesson Trademark S.r.l. was sold last December to the other shareholder, the Besson family, for consideration of Euro 150 thousand, resulting in a gain of Euro 80 thousand, also recognised to this income statement account.



**18. INCOME TAXES**

Income taxes comprises current taxes of Euro 5.7 million (of which Euro 0.9 million for IRAP), deferred tax charges of Euro 0.2 million and the recognition of a benefit of Euro 1.2 million related to application of the “Patent Box”. Of this, approx. Euro 0.7 million concerns 2015.

It should be noted that the benefit attributable to the application of the recent “Patent Box” regulation was limited to the part not subject to review by the Tax Agency and for which an application was presented within the terms established by the relative notices; it should also be noted that the Tax Agency undertook the “review activities in which it was established that BasicNet S.p.A., Basic Trademark S.A. and Superga Trademark S.A. are within the scope of the subsidy, with the formal substance verified of the obligatory elements for access to the optional system and the applications therefore declared admissible”.

**19. EARNINGS PER SHARE**

The basic earnings per share, for 2016, is calculated dividing the net result attributable to the shareholders of the Group by the weighted average number of ordinary shares outstanding during the year:

(in Euro)	<b>FY 2016</b>	<b>FY 2015</b>
Net profit attributable to owners of the Parent	10,304,820	16,759,819
Weighted average number of ordinary shares	56,029,468	56,751,534
Basic earnings per ordinary share	0.1839	0.2953

At December 31, 2016, there were no “potentially diluting” shares outstanding, therefore the diluted earnings per shares coincide with the earnings per share.

The change in the weighted average number of ordinary shares outstanding between 2015 and 2016 relates to the number of treasury shares acquired in the year.

**EXPLANATORY NOTES TO THE BALANCE SHEET**

(IN EURO THOUSANDS UNLESS OTHERWISE STATED)

**ASSETS****20. INTANGIBLE ASSETS**

	Dec. 31, 2016	Dec. 31, 2015	Changes
Concessions, brands and similar rights	34,439	34,521	(82)
Software development	4,570	4,509	61
Other intangible assets	2,678	2,450	228
Industrial patents	41	33	8
<b>Total intangible assets</b>	<b>41,728</b>	<b>41,513</b>	<b>215</b>

The changes in the original costs of the intangible assets were as follows:

	Concessions, brands & similar rights	Software development	Other intangible assets	Industrial patents	Total
<b>Historic cost at 1.1.2015</b>	<b>46,722</b>	<b>35,752</b>	<b>8,186</b>	<b>53</b>	<b>90,713</b>
<i>Additions</i>	<i>192</i>	<i>2,569</i>	<i>639</i>	<i>28</i>	<i>3,428</i>
<i>Disposals &amp; other changes</i>	<i>118</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>118</i>
<i>Write-downs</i>	<i>-</i>	<i>(268)</i>	<i>-</i>	<i>-</i>	<i>(268)</i>
<b>Historic cost at 31.12.2015</b>	<b>47,032</b>	<b>38,053</b>	<b>8,825</b>	<b>81</b>	<b>93,991</b>
<i>Additions</i>	<i>248</i>	<i>2,113</i>	<i>731</i>	<i>15</i>	<i>3,107</i>
<i>Disposals &amp; other changes</i>	<i>23</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>23</i>
<i>Write-downs</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<b>Historic cost at 31.12.2016</b>	<b>47,303</b>	<b>40,166</b>	<b>9,556</b>	<b>96</b>	<b>97,121</b>

The changes in the relative accumulated amortisation provisions were as follows:

	Concessions, brands and similar rights	Software development	Other intangible assets	Industrial patents	Total
<b>Acc. Amort. at 1.1.2015</b>	<b>(12,173)</b>	<b>(31,439)</b>	<b>(5,875)</b>	<b>(42)</b>	<b>(49,529)</b>
<i>Amortisation &amp; Depreciation</i>	<i>(338)</i>	<i>(2,105)</i>	<i>(500)</i>	<i>(6)</i>	<i>(2,949)</i>
<i>Disposals and other changes</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>Write-downs</i>					
<b>Acc. Amort. at 31.12.2015</b>	<b>(12,511)</b>	<b>(33,544)</b>	<b>(6,375)</b>	<b>(48)</b>	<b>(52,478)</b>
<i>Amortisation</i>	<i>(353)</i>	<i>(2,052)</i>	<i>(503)</i>	<i>(7)</i>	<i>(2,915)</i>
<i>Disposals and other changes</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<b>Acc. Amort. at 31.12.2016</b>	<b>(12,864)</b>	<b>(35,596)</b>	<b>(6,878)</b>	<b>(55)</b>	<b>(55,393)</b>

The net book value of intangible assets is reported below:

	<b>Concessions, brands and similar rights</b>	<b>Software development</b>	<b>Other intangible assets</b>	<b>Industrial patents</b>	<b>Total</b>
<b>Opening net book value at January 1, 2015</b>	<b>34,549</b>	<b>4,313</b>	<b>2,311</b>	<b>11</b>	<b>41,184</b>
<i>Additions</i>	<i>192</i>	<i>2,569</i>	<i>639</i>	<i>28</i>	<i>3,428</i>
<i>Disposals and other changes</i>	<i>118</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>118</i>
<i>Amortisation</i>	<i>(338)</i>	<i>(2,105)</i>	<i>(500)</i>	<i>(6)</i>	<i>(2,949)</i>
<i>Write-downs</i>	<i>-</i>	<i>(268)</i>	<i>-</i>	<i>-</i>	<i>(268)</i>
<b>Closing net book value at December 31, 2015</b>	<b>34,521</b>	<b>4,509</b>	<b>2,450</b>	<b>33</b>	<b>41,513</b>
<i>Additions</i>	<i>248</i>	<i>2,113</i>	<i>731</i>	<i>15</i>	<i>3,107</i>
<i>Disposals and other changes</i>	<i>23</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>23</i>
<i>Amortisation</i>	<i>(353)</i>	<i>(2,052)</i>	<i>(503)</i>	<i>(7)</i>	<i>(2,915)</i>
<i>Write-downs</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<b>Closing net book value at December 31, 2016</b>	<b>34,439</b>	<b>4,570</b>	<b>2,678</b>	<b>41</b>	<b>41,728</b>

The increase in “concessions, brands and similar rights” is due to the capitalisation of costs incurred for the registration of trademarks in new European countries, for renewals and extensions and for the purchase of software licenses. The reduction relates to the amortisation in the year of the brands Lanzeria, whose net value is approx. Euro 0.8 million, and Jesus Jeans, whose net value is approx. Euro 0.1 million, amortised over 20 years, as they have not yet reached a market positioning equal to those of the principal brands.

The Kappa, Robe di Kappa, Superga and K-Way brands are considered intangible assets with indefinite useful life and as such are subject to an impairment test at least annually.

At December 31, 2016, the Kappa and Robe di Kappa brands report a book value of Euro 4 million (Euro 2.1 million net of fiscal amortisation), with the Superga brand reporting a book value of Euro 21 million (approx. Euro 15.5 million net of fiscal amortisation); the K-Way brand was valued at Euro 8.1 million (Euro 4.6 million net of fiscal amortisation).

The impairment test on the book value of the brands was carried out in line with previous years, discounting the royalty net cash flows estimated from the brands in the period 2017-2021. For the years beyond the fifth year a terminal value was calculated on the net royalty cash flow of the fifth year, with a growth rate of 1.5%. These net cash flows were discounted at the weighted average cost of capital (WACC) equal to 6.0% (6.5% in 2015), determined with reference to the following parameters, taken from the principal financial information websites:

- Sector Beta: the parameter, indicator of the sector risk, amounts to 1.2 (1.18 in 2015).
- Market Risk Premium (MRP): amounts to 6% (6.25% in 2015), unchanged compared to the previous year, and represents the difference between the return on the investments without risk and the return of the investments with risk.
- Risk Free Rate (RFR): amounts to 1.45% (1.75% in 2015), in line with the return on ten-year State bonds.

- Debt cost: amounts to 2.0%, (2.72% in 2015).
- Debt (40%)/equity (60%) ratio, unchanged compared to the previous year.

Following the impairment test no write-down is required of the book value of the brands. The value in use of brands so calculated, in line with previous years, significantly exceeded their book value.

The book value of the Sabelt brand, for which the Group is licensee for the “fashion” categories alone, held through the joint venture, is included in the value of the investment.

The account “software development” increased approx. Euro 2.1 million for investments and decreased Euro 2 million for amortisation in the year.

The account “other intangible assets” principally includes investments related to the franchising project, with investment of Euro 0.7 million and amortisation in the year of Euro 0.5 million.

## 21. GOODWILL

	Dec. 31, 2016	Dec. 31, 2015	Changes
Goodwill	10,052	10,245	(192)
<b>Total goodwill</b>	<b>10,052</b>	<b>10,245</b>	<b>(192)</b>

The account “goodwill” includes the goodwill arising on the business combination with the Spanish licensee (Euro 6.7 million) and the French licensee (Euro 1.2 million), in addition to goodwill paid for the acquisition of retail outlets, known as key money (Euro 2.2 million).

The Group verifies the recovery of the goodwill at least on an annual basis or more frequently when there is an indication of a loss in value. For impairment tests, the goodwill arising from the business combination of the Spanish and French licensees is allocated to the CGU’s identified as the Kappa and Robe di Kappa brands.

The net cash flow from the lowest cash generating unit was discounted at the average weighted costs (WACC) equal to 6% (6.5% in 2015) (Note 20).

The net debt is deducted from the discounted cash flow, where present, as well as the value of the net assets of the lowest cash generating unit, excluding goodwill. The result is compared with the book value of the goodwill.

The significant gains made by the Kappa and Robe di Kappa CGU’s within the “licenses and brands” sector, to which this goodwill is allocated, did not require sensitivity analyses.

Relating to the key money, the impairment test was undertaken comparing their book value, corresponding to the price paid on acquisition by the Group, with the higher between the value in use, calculated discounting the cash flows from the stores to the WACC (Note 20), and the market values. The impairment test undertaken at December 31, 2016 did not result in further write-downs than those allocated to some sales points closed or for which the decision to close has been made, amounting to Euro 353 thousand, within a normal rotation of less profitable sales point in favour of the opening of new locations or more appropriate operational strategies.

**22. PROPERTY, PLANT AND EQUIPMENT**

	<b>Dec. 31, 2016</b>	<b>Dec. 31, 2015</b>	<b>Changes</b>
Property	23,226	21,951	1,275
Furniture and other assets	5,043	4,646	397
Plant and machinery	463	348	115
EDP	1,568	1,653	(85)
Industrial and commercial equipment	197	171	26
<b>Total property, plant and equipment</b>	<b>30,497</b>	<b>28,769</b>	<b>1,728</b>

The changes in the historical cost of property, plant and equipment were as follows:

	<b>Property</b>	<b>Furniture and other assets</b>	<b>Plant and machinery</b>	<b>EDP</b>	<b>Industrial and commercial equipment</b>	<b>Total</b>
<b>Historic cost at 1.1.2015</b>	<b>34,671</b>	<b>13,278</b>	<b>1,253</b>	<b>12,183</b>	<b>844</b>	<b>62,229</b>
<i>Additions</i>	<i>22</i>	<i>904</i>	<i>117</i>	<i>575</i>	<i>65</i>	<i>1,683</i>
<i>Disposals and other changes</i>	<i>-</i>	<i>(34)</i>	<i>(36)</i>	<i>(14)</i>	<i>-</i>	<i>(84)</i>
<b>Historic cost at 31.12.2015</b>	<b>34,693</b>	<b>14,148</b>	<b>1,334</b>	<b>12,744</b>	<b>909</b>	<b>63,828</b>
<i>Additions</i>	<i>2,231</i>	<i>1,545</i>	<i>285</i>	<i>656</i>	<i>76</i>	<i>4,793</i>
<i>Disposals and other changes</i>	<i>-</i>	<i>(61)</i>	<i>(15)</i>	<i>3</i>	<i>-</i>	<i>(73)</i>
<b>Historic cost at 31.12.2016</b>	<b>36,924</b>	<b>15,632</b>	<b>1,604</b>	<b>13,403</b>	<b>985</b>	<b>68,548</b>

The changes in the relative accumulated depreciation provisions were as follows:

	<b>Property</b>	<b>Furniture and other assets</b>	<b>Plant and machinery</b>	<b>EDP</b>	<b>Industrial and commercial equipment</b>	<b>Total</b>
<b>Acc. Deprec. at 1.1.2015</b>	<b>(11,817)</b>	<b>(8,493)</b>	<b>(821)</b>	<b>(10,224)</b>	<b>(691)</b>	<b>(32,046)</b>
<i>Depreciation</i>	<i>(923)</i>	<i>(1,021)</i>	<i>(165)</i>	<i>(867)</i>	<i>(47)</i>	<i>(3,023)</i>
<i>Disposals and other changes</i>	<i>(2)</i>	<i>12</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>10</i>
<b>Acc. Deprec. at 31.12.2015</b>	<b>(12,742)</b>	<b>(9,502)</b>	<b>(986)</b>	<b>(11,091)</b>	<b>(738)</b>	<b>(35,059)</b>
<i>Depreciation</i>	<i>(956)</i>	<i>(1,087)</i>	<i>(155)</i>	<i>(744)</i>	<i>(50)</i>	<i>(2,992)</i>
<i>Disposals and other changes</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<b>Acc. Deprec. at 31.12.2016</b>	<b>(13,698)</b>	<b>(10,589)</b>	<b>(1,141)</b>	<b>(11,835)</b>	<b>(788)</b>	<b>(38,051)</b>

The net book value of property, plant and equipment was as follow:

	Property	Furniture and other assets	Plant and machinery	EDP	Industrial and commercial equipment	Total
<b>Opening net book value at January 1, 2015</b>	<b>22,854</b>	<b>4,785</b>	<b>432</b>	<b>1,959</b>	<b>153</b>	<b>30,183</b>
<i>Additions</i>	22	904	117	575	65	1,683
<i>Depreciation</i>	(923)	(1,021)	(165)	(867)	(47)	(3,023)
<i>Disposals and other changes</i>	(2)	(22)	(36)	(14)	-	(74)
<b>Closing net book value at December 31, 2015</b>	<b>21,951</b>	<b>4,646</b>	<b>348</b>	<b>1,653</b>	<b>171</b>	<b>28,769</b>
<i>Additions</i>	2,231	1,545	285	656	76	4,793
<i>Depreciation</i>	(956)	(1,087)	(155)	(744)	(50)	(2,992)
<i>Disposals and other changes</i>	-	(61)	(15)	3	-	(73)
<b>Closing net book value at December 31, 2016</b>	<b>23,226</b>	<b>5,043</b>	<b>463</b>	<b>1,568</b>	<b>197</b>	<b>30,497</b>

“Property” includes the value of the buildings at Strada della Cebrosa 106, Turin, headquarters of BasicItalia S.p.A. and at Largo Maurizio Vitale 1, Turin, headquarters of the Parent Company. The increase in property is due to improvements in the year and particularly the acquisition by the company BasicVillage S.p.A. of a building located in Turin, adjacent to the company’s owned headquarters. The purchase price was Euro 2 million.

Total gross investments in the year amounted to Euro 4.8 million, principally relating to - in addition to the above-stated property investments - the acquisition of furniture and EDP for the opening of new stores.

The net book value of property, plant and equipment acquired according to the finance lease formula is reported below:

	Net value at December 31, 2016	Net value at December 31, 2015
Furniture and other assets	2,240	1,856
EDP	727	821
Equipment	-	33
<b>Total</b>	<b>2,967</b>	<b>2,710</b>

## 23. EQUITY INVESTMENTS AND OTHER FINANCIAL ASSETS

	Dec. 31, 2016	Dec. 31, 2015	Changes
Other receivables, guarantees	264	307	(43)
<b><i>Total financial receivables</i></b>	<b>264</b>	<b>307</b>	<b>(43)</b>
<b>Total investments &amp; other financial assets</b>	<b>264</b>	<b>307</b>	<b>(43)</b>

“Other receivables, guarantees” principally refer to deposits on real estate property.

**24. INVESTMENTS IN JOINT VENTURES**

	<b>Dec. 31, 2016</b>	<b>Dec. 31, 2015</b>	<b>Changes</b>
Investments in:			
- Joint ventures	257	340	(83)
<b>Total investments in joint ventures</b>	<b>257</b>	<b>340</b>	<b>(83)</b>

Investments in joint ventures concern the value of the investment in Fashion S.r.l. of Euro 257 thousand, held 50%. The company owns the Sabelt brand. From January 1, 2014, this category of investment has been valued at equity, as per IFRS 11. At December 31, 2015, the account included also the investment in AnziBesson Trademark S.r.l., sold to the Besson family in December.

**25. NET INVENTORIES**

	<b>Dec. 31, 2016</b>	<b>Dec. 31, 2015</b>	<b>Changes</b>
Finished products and goods for resale	50,854	52,039	(1,185)
Inventory obsolescence provision	(3,646)	(3,014)	(632)
<b>Total net inventories</b>	<b>47,208</b>	<b>49,025</b>	<b>(1,817)</b>

Finished inventories include goods in transit at the balance sheet date which at December 31, 2016 amount to approx. Euro 2.1 million compared to Euro 1.7 million at December 31, 2015, goods held at Group brand stores for Euro 10.4 million, compared to Euro 10.5 million at December 31, 2015 and goods to be shipped against orders, to be delivered at the beginning of the following year, for Euro 11.2 million compared to Euro 8.6 million at December 31, 2015.

Finished product inventories decreased on the previous year due to the destocking carried out, principally through the outlets and directly managed spaces.

Inventories are valued under the weighted average cost method and net of the obsolescence provision considered reasonable for a prudent valuation of inventories, which recorded the following changes during the year:

	<b>2016</b>	<b>2015</b>
<b>Inventory obsolescence provision at 1.1</b>	<b>3,014</b>	<b>3,213</b>
Provisions in the year	1,874	670
Utilisations	(1,242)	(869)
<b>Inventory obsolescence provision at 31.12</b>	<b>3,646</b>	<b>3,014</b>



**26. TRADE RECEIVABLES**

	<b>Dec. 31, 2016</b>	<b>Dec. 31, 2015</b>	<b>Changes</b>
Gross value	65,756	52,390	13,366
Doubtful debt provision	(7,690)	(5,689)	(2,001)
<b>Total trade receivables</b>	<b>58,066</b>	<b>46,701</b>	<b>11,365</b>

“Trade receivables” refer for Euro 40.9 million to goods sold by proprietary licensees (compared to Euro 31.2 million at December 31, 2015) and for which a doubtful debt provision was recorded of Euro 4.8 million (Euro 4.1 million at December 31, 2015), for Euro 24.6 million to royalties and sourcing commissions (Euro 21.3 million at December 31, 2015) against which a doubtful debt provision was recorded of Euro 2.8 million (Euro 1.7 million at December 31, 2015) and Euro 0.2 million other receivables (Euro 0.06 million at December 31, 2015).

The increase in the gross value of receivables at December 31, 2016 compared to the previous year is partly due to increased proprietary licensee revenues, concentrated in the fourth quarter of 2016, compared to the same period of 2015 (approx. Euro 5 million, 15.4%) and in particular in the month of December. With regards to this aspect, we highlight in addition that in the initial working days of 2017 approx. Euro 6.8 million of receivables with maturity on December 31, 2016 (a holiday) were received and recognised.

The receivables are recorded at their realisable value through a doubtful debt provision based on estimated losses on disputes and/or overdue receivables as well as a general provision.

The movements during the year were as follows:

	<b>2016</b>	<b>2015</b>
<b>Doubtful debt provision at 1.1</b>	<b>5,689</b>	<b>5,687</b>
Provisions in the year	3,476	2,859
Utilisations	(1,475)	(2,857)
<b>Doubtful debt provision at 31.12</b>	<b>7,690</b>	<b>5,689</b>

All amounts are due within 12 months.

The maturity of the receivables is as follows:

	<b>Dec. 31, 2016</b>	<b>Dec. 31, 2015</b>
Receivables not overdue and not written down	38,587	30,598
Receivables written down, net of provision	7,178	3,969
Overdue and not written down	12,301	12,134
<b>Total</b>	<b>58,066</b>	<b>46,701</b>

The overdue receivables and not written down principally include one debtor overdue between 0-6 months.

The utilisations of the provision are related to the write off of long outstanding amounts and are made when the legal documentation of the loss has been received. The provisions are made on the basis of the review of individual positions. Overdue receivables not written down are normally recovered in the period immediately after the maturity date and in any case are subject to specific risk evaluations. The

doubtful debt provision, in addition, includes provisions made on the basis of historical insolvency analyses which are considered appropriate in terms of the generic risk estimates of non-recovery of positions which currently are not considered critical.

## 27. OTHER CURRENT ASSETS

	Dec. 31, 2016	Dec. 31, 2015	Changes
Tax receivables	8,981	9,599	(618)
Other receivables	1,242	2,579	(1,337)
<b>Total other current assets</b>	<b>10,223</b>	<b>12,178</b>	<b>(1,955)</b>

“Tax receivables” principally include VAT receivables of Euro 3.1 million, corporate income taxes paid on account of Euro 0.8 million and withholding taxes on royalties of Euro 5.1 million.

“Other receivables” principally includes payments to suppliers (Euro 0.06 million) and the premium paid to the insurance company against Directors Termination Indemnities, to be paid to the Chairman of the Board of Directors, as approved by the Board of Directors on May 13, 2016, on the indication of the Shareholders’ AGM and the proposal of the Remuneration Committee and with the favourable opinion of the Board of Statutory Auditors, on conclusion of his role for Euro 0.5 million and other minor credit items for the residual.

## 28. PREPAYMENTS

	Dec. 31, 2016	Dec. 31, 2015	Changes
Expenses pertaining to future Collections	4,690	4,756	(66)
Sponsorship and media	1,991	2,246	(255)
Other	898	754	144
<b>Total prepayments</b>	<b>7,579</b>	<b>7,756</b>	<b>(177)</b>

The “expenses pertaining to future Collections” include the creative personnel costs, samples, merchandising costs and sales catalogues, relating to new Collections to be brought to the market, as well as presentations costs for the relative sales meetings.

The “sponsorship costs” relate to the annual amount contractually defined by the parties, which is partially invoiced in advance during the sports season, compared to the timing of the services.

The “other prepayments” include various costs for samples, services, utilities, insurance and other minor amounts incurred by the companies of the Group.

## 29. CASH AND CASH EQUIVALENTS

	Dec. 31, 2016	Dec. 31, 2015	Changes
Bank and postal deposits	5,591	6,903	(1,312)
Cash in hand and similar	116	68	48
<b>Total cash and cash equivalents</b>	<b>5,707</b>	<b>6,971</b>	<b>(1,264)</b>

“Bank deposits” refer to temporary current account balances principally due to receipts from clients. In particular, they are held at: BasicItalia S.p.A. (Euro 2.2 million), BasicRetail S.r.l. (Euro 0.8 million), BasicNet S.p.A. (Euro 1.2 million), Basic Properties America Inc. (Euro 0.7 million) and, for the difference, the other Group companies (Euro 0.7 million).

Against the agreement signed with Intesa Sanpaolo S.p.A. (described in Note 43), Euro 246 thousand is included in bank deposits and restricted as guarantee on loans provided by the bank to third parties, owners of the Group’s franchising stores.

### 30. DERIVATIVE FINANCIAL INSTRUMENTS

	Dec. 31, 2016	Dec. 31, 2015	Changes
Derivative financial instruments	1,609	1,367	242
<b>Total derivative financial instruments</b>	<b>1,609</b>	<b>1,367</b>	<b>242</b>

The account includes the market value at December 31, 2016 of the currency hedge instruments on US Dollars (cash flow hedge), subscribed with primary credit institutions; the instrument utilised, called flexi term, operates in the form of forward currency purchases on a portion of the estimated currency needs for the purchase of goods on foreign markets, to be made in 2017 and 2018, on the basis of the goods orders already sent to suppliers, or still to be made but included in the budget for the year. At December 31, 2016, commitments were in place on estimated future purchases, for USD 37 million, divided into 10 operations with variable maturities in 2017 and 2018 at fixed exchange rates between USD/Euro 1.089 and USD/Euro 1.15, with a weighted average exchange rate of the purchases equal to USD/Euro 1.1149. During 2016, forward purchase operations were utilised for USD 46.95 million and the relative effects were recognised to the income statement.

**SHAREHOLDERS' EQUITY & LIABILITIES****31. SHAREHOLDERS' EQUITY**

	<b>Dec. 31, 2016</b>	<b>Dec. 31, 2015</b>	<b>Changes</b>
Share capital	31,717	31,717	-
Treasury shares	(11,890)	(8,823)	(3,067)
Other reserves	64,748	52,857	11,891
Net Profit	10,305	16,760	(6,455)
Minority interests	-	-	-
<b>Total Shareholders' Equity</b>	<b>94,880</b>	<b>92,511</b>	<b>2,369</b>

The “share capital” of the Parent Company, amounting to Euro 31,716,673.04, is divided into 60,993,602 ordinary shares of Euro 0.52 each, fully paid-in.

In May 2016, as approved by the Shareholders' AGM of BasicNet S.p.A. of April 28, 2016, in relation to the allocation of the 2015 net profit, a dividend of Euro 0.1 per share was distributed to each of the ordinary shares in circulation, for a total pay-out of approx. Euro 5.6 million.

During the year 924,240 treasury shares were acquired in accordance with Shareholders' Meetings motions, which together with the 4,500,000 shares held at the end of the previous year, totalled 5,424,240 at December 31, 2016 (8.89% of the Share Capital).

The account “other reserves” comprises:

- The “cash flow hedge reserve”, negative for Euro 431 thousand, changed in the year due to the fair value measurement of cash flow hedges held at December 31, 2016;
- The “*re-measurement reserve for defined benefit plans (IAS 19)*”, negative for Euro 195 thousand, refers to the changes in the actuarial gains/losses (“*re-measurement*”). The valuation is shown net of the tax effect;
- the “*currency conversion reserve*”, positive for Euro 1.9 million, entirely concerns conversion differences into Euro of the financial statements of the US and Asian subsidiaries;
- “*retained earnings*” amount to Euro 62.6 million, increasing compared to the end of the previous year by Euro 11.6 million.

The reconciliation at December 31, 2016 between the net equity and net result of the Parent Company and the net equity and consolidated net result of the Group is reported in the Directors' Report.

The other gains and losses recorded directly to equity in accordance with *IAS 1 – Presentation of financial statements* are reported below.

	Dec. 31, 2016	Dec. 31, 2015	Changes
Effective part of the Gains/(losses) on cash flow instruments generated in the period (currency hedges)	397	74	323
Effective part of the Gains/(losses) on cash flow instruments generated in the period (interest rate hedges)	290	256	34
<b>Effective part of the Gains/losses on cash flow hedge instruments</b>	<b>687</b>	<b>330</b>	<b>357</b>
Re-measurement of defined benefit plans (IAS 19) (*)	9	84	(75)
Gains/(losses) from translation of accounts of foreign subsidiaries	227	667	(440)
Tax effect relating to the Other items of the comprehensive income statement	(167)	(114)	(53)
<b>Total other gains/(losses), net of tax effect</b>	<b>756</b>	<b>967</b>	<b>(211)</b>

(\*) items which may not be reclassified to the profit and loss account

The tax effect relating to Other gains/(losses) is as follows:

	December 31, 2016			December 31, 2015		
	Gross value	Tax Charge/Benefit	Net value	Gross value	Tax Charge/Benefit	Net value
Effective part of Gains/losses on cash flow hedge instruments	687	(165)	522	330	(91)	239
Gains/(losses) for re-measurement of defined benefit plans (IAS 19) (*)	9	(2)	7	84	(23)	61
Gains/(losses) from translation of accounts of foreign subsidiaries	227	-	227	667	-	667
<b>Total other gains/(losses), net of tax effect</b>	<b>923</b>	<b>(167)</b>	<b>756</b>	<b>1,081</b>	<b>(114)</b>	<b>967</b>

(\*) items which may not be reclassified to the profit and loss account

**32. PROVISIONS FOR RISKS AND CHARGES**

	Dec. 31, 2016	Dec. 31, 2015	Changes
Provisions for risks and charges	42	45	(3)
<b>Total provisions for risks and charges</b>	<b>42</b>	<b>45</b>	<b>(3)</b>

The provision for risks and charges relates to the Agents Termination Indemnity Provision (FIRR) in BasicItalia S.p.A..

**33. LOANS**

The changes in the loans during the year are shown below:

	31/12/2015	Repayments	New loans	31/12/2016	Short-term portion	Medium/long-term portion
BNL loan	-	-	7,500	7,500	(1,250)	6,250
Intesa loan	13,125	(3,750)	-	9,375	(3,750)	5,625
Basic Village property loan	8,100	(1,200)	-	6,900	(1,200)	5,700
BasicItalia property loan	3,153	(407)	-	2,746	(407)	2,339
UBI Banca loan	2,678	(2,678)	-	-	-	-
<b>Balance</b>	<b>27,056</b>	<b>(8,035)</b>	<b>7,500</b>	<b>26,521</b>	<b>(6,607)</b>	<b>19,914</b>

The maturity of the long-term portion of loans is highlighted below:

	Dec. 31, 2016	Dec. 31, 2015	Changes
Medium/long term loans:			
- due within 5 years	17,052	15,802	1,250
- due beyond 5 years	2,862	3,219	(357)
<b>Total medium/long-term loans</b>	<b>19,914</b>	<b>19,021</b>	<b>893</b>
Leasing payables	1,600	1,545	55
<b>Total leasing payables (maturity within 5 years)</b>	<b>1,600</b>	<b>1,545</b>	<b>55</b>
<b>Total loans</b>	<b>21,514</b>	<b>20,566</b>	<b>948</b>

The medium/long-term loans are comprised for Euro 6.9 million of the residual value of the loan provided by the Unicredit Group, for the purchase of the “BasicVillage” building located at Largo Maurizio Vitale, 1, Turin (“BasicVillage Property Loan”), for Euro 2.7 million the residual loan from Mediocredito Italiano S.p.A. (Intesa Sanpaolo S.p.A.) for the purchase of the building of BasicItalia S.p.A. located at Strada Cebrosa, 106 (“BasicItalia Property Loan”), for Euro 9.4 million the residual loan from Intesa SanPaolo issued in April 2015 (“Intesa Loan”) and for Euro 7.5 million the new medium/long-term loan issued by Banca Nazionale del Lavoro S.p.A. in November 2016 (“BNL Loan”), of six year duration and repayable in quarterly installments.

The “BasicVillage property loan” granted by the Unicredit Group was for the acquisition of the building “BasicVillage” at Largo M. Vitale 1, Turin. The loan was granted in September 2007 for Euro 18 million at a variable rate converted into a fixed rate (Note 42). Against this loan there is a mortgage on the property and a surety from the parent company BasicNet S.p.A. with maturity in September 2022.

The “BasicItalia Loan” granted by Banca Intesa Sanpaolo S.p.A. was for the purchase of the building “BasicItalia” at Strada Cebrosa 106, Turin. The loan was granted in October 2008 for Euro 6 million with repayment of the capital in quarterly constant instalments and maturity at September 2023. The loan is guaranteed by a mortgage on the property and by a surety from the parent company BasicNet S.p.A..

The “Intesa Loan” was issued in April 2015 for Euro 15 million and is of four-year duration, repayable in quarterly instalments at a quarterly Euribor rate plus 185 basis points. In July 2015, the variable Euribor rate was converted (under an interest rate swap) into a fixed rate of 0.23% annually. The loan will support developmental investments, in addition to optimising the duration of loans undertaken; it is supported by a pledge on Superga Trademark S.A. shares.

The contractual conditions do not include financial covenants. The loan contract stipulates the maintenance of a number of ownership conditions concerning BasicNet S.p.A. and BasicWorld S.r.l., the majority shareholder of BasicNet S.p.A., and in particular:

- the maintenance by Mr. Marco Daniele Boglione (either directly or indirectly) of at least 51% of the share capital of Basic World S.r.l., a company which holds 36.076% of BasicNet S.p.A. shares and is the largest shareholder;
- that the total shareholding, direct or indirect, of BasicWorld S.r.l. in the share capital of BasicNet S.p.A., does not reduce under the above-cited stake;
- the maintenance, either directly or indirectly, by BasicNet S.p.A. of full ownership of Superga Trademark S.A..

The “BNL Loan” was disbursed in November 2016 for Euro 7.5 million; it has six-year duration and is repayable in quarterly instalments at a quarterly Euribor rate increased by 95 basis points. The contractual conditions do not include financial covenants. The loan contract stipulates the maintenance of a number of ownership conditions concerning BasicNet S.p.A., in particular that the overall investment (direct or indirect) of BasicWorld S.r.l. in BasicNet S.p.A. should not reduce below 36%. The loan is supported by a second level mortgage on the BasicVillage building in Turin and a first level mortgage on the adjacent building, acquired at the end of the year.

At December 31, 2016, the credit lines available from the banking system (bank overdrafts, commercial advances, medium/long-term loans, import financing, leasing and letters of credit), amounted to Euro 187.1 million, broken down as follows:

<i>(in Euro millions)</i>	<b>Dec. 31, 2016</b>	<b>Dec. 31, 2015</b>
Cash facility	126.6	94.7
Factoring	1.5	1.5
Letters of credit and swaps	28.9	20.4
Medium/long term loans	26.5	27.1
Property leases	3.6	3.6
<b>Total</b>	<b>187.1</b>	<b>147.3</b>

The average interest paid for the BasicNet Group in the year is reported in Note 37.



**34. EMPLOYEE AND DIRECTOR BENEFITS**

The account includes the post-employment benefits for employees of Euro 2.5 million and the termination indemnities of Directors of Euro 0.3 million.

The changes in the year of the post-employment benefit liability were as follows:

	Dec. 31, 2016			Dec. 31, 2015		
	Defined benefit plans	Defined contrib. plans	Total	Defined benefit plans	Defined contrib. plans	Total
<b>Change in the balance sheet:</b>						
Net liabilities recognised at the beginning of the year	2,508	-	2,508	2,573	-	2,573
Interest	46	-	46	46	-	46
Pension cost, net of withholdings	147	772	919	161	746	907
Benefits paid	(164)	-	(164)	(188)	-	(188)
Payments to the INPS treasury fund	-	(438)	(438)	-	(284)	(284)
Payments to other supplementary pension fund	-	(334)	(334)	-	(462)	(462)
Actuarial gain/(losses)	(9)	-	(9)	(84)	-	(84)
<b>Net liabilities recognised in the accounts</b>	<b>2,528</b>	<b>-</b>	<b>2,528</b>	<b>2,508</b>	<b>-</b>	<b>2,508</b>
<b>Change in the income statement:</b>						
Interest	46	-	46	46	-	46
Pension Cost	154	772	926	166	746	912
<b>Total charges/(income) for post-employment benefits</b>	<b>200</b>	<b>772</b>	<b>972</b>	<b>212</b>	<b>746</b>	<b>958</b>

The account “defined benefit plans” includes the present value of the liabilities in the Italian companies of the Group towards employees in accordance with Article 2120 of the Civil Code. Based on the regulatory changes in 2007, the sums matured prior to January 1, 2007 to employees are recognised as defined benefit plans in accordance with IAS 19 – *Employee benefits*; those matured subsequent to this date are on the other hand recognised as defined contribution plans in accordance with the same standard.

Within the Group there are no other defined benefit plans.

The actuarial valuation of the Post-Employment Benefit is prepared based on the “matured benefits” method through the Projected Unit Credit Method in accordance with IAS 19. Under this method the valuation is based on the average present value of the pension obligations matured based on the employment service up to the time of the valuation, without projecting the remuneration of the employee in accordance with the regulatory modifications introduced by the Pension Reform.

The revaluations of the amounts at the option date for all of the companies and the benefits matured and not allocated to complementary pension schemes for businesses with less than 50 employees are recorded under post-employment benefit. In accordance with IAS 19, this provision was recorded as a “Defined benefit plans”. The actuarial model for the measurement of the post-employment benefit is based on various assumptions of a demographic and financial nature.

The sensitivity analysis carried out on the basis of the following variables: 1) inflation rate +0.25%/-0.25%, 2) discount rate +0.25%/-0.25%, 3) turnover rate +1%/-1% shows non-material impacts of less than Euro 50 thousand.

The principal assumptions of the model concerning the actuarial valuations relating to personnel costs are:

	<b>Dec. 31, 2016</b>	<b>Dec. 31, 2015</b>
discount rate	1.79%	2.25%
inflation rate:	1.50%	For 2016: 1.50% For 2017: 1.80% For 2018: 1.70% For 2019: 1.60% From 2020 onwards: 2.00%
annual increase in post-employment benefit	2.625%	For 2016: 2.625%  For 2017: 2,850% For 2018: 2.775% For 2019: 2.700% From 2020 onwards: 3.00%
annual increase in salaries:	1.00%	Up to 10 years service: 3.00%  Above 10 years service: 1.00%

The change in the annual discount rate reflects the decrease in the yields of the “corporate bonds” of the basket utilised (Iboxx Eurozone Corporate) at the balance sheet date.

### 35. **DEFERRED TAX LIABILITIES**

“Deferred tax liabilities” are reported net of deferred tax assets:

	<b>Dec. 31, 2016</b>	<b>Dec. 31, 2015</b>	<b>Changes</b>
Deferred tax liabilities	1,084	717	367
<b>Total deferred tax liabilities</b>	<b>1,084</b>	<b>717</b>	<b>367</b>

The net amount of approx. Euro 1 million represents the balance between the deferred tax assets and liabilities as illustrated in the table.

The 2016 Stability Law (Law 208/2015), published in the Official Gazette of December 30, 2015, introduced a reduction to the IRES rate from 27.5% to 24% from January 1, 2017. This change in the rate was already incorporated into the calculation of deferred taxes for the previous year, in line with paragraph 47 of IAS 12, which establishes the utilisation of the tax rates applicable in the year in which the asset shall be realised or the generating liability settled.

Deferred tax assets principally relate to non-deductible doubtful debt provisions (approx. Euro 1.4 million), non-deductible inventory obsolescence provisions (approx. Euro 0.9 million), provisions generated from the temporary differences arising from the accounting of the IFRS adjustments (approx. Euro 25 thousand), non-deductible interest (Euro 100 million) and other temporary non-deductible charges (Euro 0.6 million). Deferred tax assets were recorded, considering recovery probable on the basis of future earnings expectations, also in view of their possible utilisation in consideration of national tax consolidation agreements between the following companies of the Group - Italian or with administrative office in Italy: BasicNet S.p.A., BasicItalia S.p.A., Basic Village S.p.A., BasicRetail S.r.l., Jesus Jeans S.r.l., Basic Trademark S.A., Superga Trademark S.A. and Basic Properties B.V.

Deferred tax liabilities refer to the tax effects deriving from the application of the IFRS international accounting standards, with particular reference to the accounting of goodwill amortisation not tax deductible (Euro 0.4 million), different treatment of depreciation calculated for statutory and fiscal purposes on the owned buildings of the subsidiaries Basic Village S.p.A. and BasicItalia S.p.A.. (Euro 1.3 million), in addition to Euro 3 million relating to the tax amortisation of the trademarks and other minor amounts.

The derivatives defined as cash flow hedges and valued at fair value result in the relative tax being recorded directly in the “comprehensive income statement” and not in the “income statement”. They amount to Euro 135 thousand.

The same treatment is adopted for the tax effect relating to the actuarial gain/losses, recorded since January 1, 2013, in accordance with IAS 19 Revised.

The deferred tax assets and liabilities recognised and their impact are reported in the table below:

	Dec. 31, 2016			Dec. 31, 2015			Changes 2016/2015
	Amount of temporary differences	Rate %	Tax effect	Amount of temporary differences	Rate % (*)	Tax effect	
<b><u>Deferred tax assets:</u></b>							
- Excess doubtful debt provision not deductible	(5,994)	24.00%	(1,439)	(5,074)	27.50%-24,00%	(1,235)	(204)
- Inventory obsolescence provision	(3,646)	24.00%	(903)	(3,014)	27.50%-24,00%	(777)	(126)
- ROL surplus	(455)	24.00%	(109)	(455)	27.50%-24,00%	(125)	16
- Charges temporarily non-deductible	(2,147)	27.90%	(592)	(2,681)	31.40%-27,90%	(813)	221
- Effect IAS 19 – Employee Benefits	(105)	24.00%	(25)	(121)	27.50%-24,00%	(29)	4
<b>Total</b>	<b>(12,348)</b>		<b>(3,068)</b>	<b>(11,344)</b>		<b>(2,979)</b>	<b>(89)</b>
<b><u>Deferred tax liabilities:</u></b>							
- Dividends not received	75	24.00%	18	-	27.50%-24,00%	-	18
- Prudent exchange differences, net	56	24.00%	13	294	27.50%-24,00%	81	(68)
- Amortisation/Depreciation tax basis	10,700	27.90%	2,985	8,518	31.40%-27,90%	2,377	609
- Effect IAS 38 – plant costs	16	27.90%	4	7	31.40%-27,90%	2	2
- Effect of IAS 17 - finance leases and other tax differences on buildings	2,117	27.90%	591	2,813	31.40%-27,90%	793	(203)
- Effect IAS 39 – financial instruments	556	24.00%	134	(131)	27.50%-24,00%	(31)	166
- Effect IFRS 3 – goodwill amortisation	1,411	27.90%	407	1,624	31.40%-27,90%	474	(67)
<b>Total</b>	<b>14,931</b>		<b>4,153</b>	<b>13,125</b>		<b>3,696</b>	<b>457</b>
Net deferred tax liability (asset)	2,583		1,084	1,780		717	368
Deferred tax asset relating to fiscal losses	-		-	-		-	-
<b>Deferred tax liability (asset) as per financial statements</b>			<b>1,084</b>			<b>717</b>	<b>368</b>

(\*) The differing rates concern the adjustment of the IRES rate applicable from 2017, on the temporary differences to be realised or settled subsequently to 2016.

**36. OTHER NON-CURRENT LIABILITIES**

	<b>Dec. 31, 2016</b>	<b>Dec. 31, 2015</b>	<b>Changes</b>
Guarantee deposits	927	1,013	(86)
<b>Total other non-current liabilities</b>	<b>927</b>	<b>1,013</b>	<b>(86)</b>

The “guarantee deposits” include the guarantees received from licensees, to cover the minimum royalties guaranteed contractually.

**37. BANK PAYABLES**

	<b>Dec. 31, 2016</b>	<b>Dec. 31, 2015</b>	<b>Changes</b>
Bank payables due within one year:			
- short-term portion of medium/long-term loans	6,607	8,035	(1,428)
- bank overdrafts and bills	8,014	4,266	3,748
- import advances	19,031	19,466	(435)
<b>Total bank payables</b>	<b>33,652</b>	<b>31,767</b>	<b>1,885</b>

The portion of medium/long-term loans due within one year is included under short-term bank debt as described in Note 33.

The changes in the financial position are commented upon in the Directors’ Report. Interest due matured at the end of the year on short and medium/long-term loans is reported in the account “bank payables”.

Cash advances refer to temporary utilisation by the Parent Company BasicNet S.p.A., for Group treasury needs.

The financial debt by interest rate at December 31, 2016 is as follows:

	<b>Interest Rate</b>		<b>Total</b>
	<b>Fixed</b>	<b>Variable</b>	
Short-term	12,030	21,622	33,652
Medium/long term	11,325	10,189	21,514
<b>Total</b>	<b>23,355</b>	<b>31,811</b>	<b>55,166</b>

The average variable rate of medium/long-term loans is 2.69%, while the short-term rate ranges between 0.24% and 0.77%.

**38. TRADE PAYABLES**

The “trade payables” are payable in the short-term and increased by approx. Euro 6.5 million compared to December 31, 2015, following the commercial activity of the Group in the year and particularly the final quarter. At the date of these financial statements there are no initiatives for the suspension of supplies, payment injunctions or executive actions by creditors against BasicNet S.p.A. or other companies of the Group.

Trade payables are normally settled between 30 and 120 days. The book value of trade payables equates the relative fair value.

**39. TAX PAYABLES**

The breakdown of this account is shown in the following table:

	Dec. 31, 2016	Dec. 31, 2015	Changes
Tax payables:			
Income taxes	1,363	6,043	(4,680)
Withholding taxes	53	48	5
Employee contributions	543	511	32
Non-recurring tax charges	569	2,850	(2,281)
Group VAT	13,221	7,969	5,252
<b>Total tax payables</b>	<b>15,749</b>	<b>17,421</b>	<b>(1,672)</b>

The non-recurring tax charges concern the total payable to the Tax Agency, definitively established in May 2014 following the notification of the final tax assessments which the Group settled on appeal in 2012, against which a provision had been made. For the payable of Euro 0.6 million, a net payment was made of Euro 0.4 million, considering the VAT receivables of Euro 0.2 million, included in the Tax Receivables account (Note 27), whose recovery is correlated to the above-mentioned instalments.

The Group VAT payable at December 31, 2016 was settled by the approval date of these financial statements.

**40. OTHER CURRENT LIABILITIES**

	Dec. 31, 2016	Dec. 31, 2015	Changes
Accrued expenses	626	588	38
Other payables	6,933	7,150	(217)
<b>Total other current liabilities</b>	<b>7,559</b>	<b>7,738</b>	<b>(179)</b>

The account “accrued expenses” principally includes deferred employee remuneration.

The “other payables” at December 31, 2016 principally include employee and director remuneration and expenses (Euro 3 million), payable in the subsequent month, related social security charges (Euro 1 million), other related liabilities (Euro 0.2 million), royalty payment on accounts from licensees (Euro 0.1 million) and other miscellaneous amounts Euro (2.6 million).

**41. DEFERRED INCOME**

	Dec. 31, 2016	Dec. 31, 2015	Changes
Royalties	885	829	56
Sponsored goods revenues	1,173	1,540	(367)
Other deferred income	111	268	(157)
<b>Total deferred income</b>	<b>2,169</b>	<b>2,637</b>	<b>(468)</b>

The “sponsored goods revenues” relates to the invoicing of sponsored merchandise, which contractually partially refers to the period after the reporting date, with corresponding prepayments recorded under assets for sponsoring costs.

**42. DERIVATIVE FINANCIAL INSTRUMENTS**

	Dec. 31, 2016	Dec. 31, 2015	Changes
Derivative financial instruments	1,052	1,498	(446)
<b>Total derivative financial instruments</b>	<b>1,052</b>	<b>1,498</b>	<b>(446)</b>

The account includes the adjustments to market value of the interest rate hedging operations on the “Basic Village property loan” (Note 33), signed with a leading financial counterparty, which converted the variable interest rates into fixed interest rates.

The adjustments to the market value of the interest rate hedging operations on the “Intesa Loan” (Note 33) were also incorporated, which converted the variable Euribor quarterly rate into a fixed annual rate of 0.23% (cash flow hedge), in addition to a spread.

A negative equity reserve was recorded of approx. Euro 431 thousand, net of the tax effect.

In the case of the Interest Rate Swap (IRS) agreed by the Group, the specific hedge of the variable cash flow realised at market conditions, through the signing of the fix/flo IRS perfectly hedges the item to which the original cash flows stem, as in this case, and continues to be considered effective.

**43. GUARANTEES GIVEN**

With reference to the guarantees and commitments of the Group with third parties reference should be made to Note 33.

In February 2010, Intesa Sanpaolo S.p.A. and BasicItalia S.p.A. signed an agreement which would permit access to subsidised finance for the start-up of franchising stores of the Group, against which a portion of the loan is guaranteed and the purchase of assets in leasing in the case of non-compliance of the store owner. For its part, BasicItalia S.p.A. has the contractual right to sub-enter into the management of the stores, in the event that the store owner does not comply with the loan and/or leasing repayments. At December 31, 2016, the deposit amounted to Euro 246 thousand and leasing guarantees amount to Euro 1.6 million.

In accordance with that outlined above guarantees were granted of Euro 0.6 million by credit institutions in favour of the lessees of the stores of BasicRetail S.r.l. directly undertaking retail sales of the Group products.

Further commitments were undertaken by the subsidiary BasicItalia S.p.A. relating to the opening of import credit documentation (credit letters) for goods, through some Credit Institutions, totalling Euro 18 million (Euro 19.7 million at December 31, 2015), in addition to a surety issued by a leading bank in guarantee of the contractual commitments related to a sponsorship contract for Euro 6.5 million.

The future rental commitments to be honoured on contractual expiry indicatively amount to Euro 10.7 million concerning the rental of the outlets and the directly managed sales points. The average duration of the rental contracts is 8 years.

The shares of the subsidiary Superga Trademark S.A. are subject to a pledge in favour of Intesa Sanpaolo S.p.A. in guarantee of the loan issued in April 2015.

#### 44. CLASSIFICATION OF THE FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The principal risks and uncertainties of the Group activities are described in the Directors' Report.

The financial instruments of the BasicNet Group include:

- cash and cash equivalents and bank overdrafts;
- medium/long-term loans and lease financing;
- derivative financial instruments;
- trade payables and receivables.

It is recalled that the Group only subscribes to cash flow hedges, to hedge against interest and currency risks.

In accordance with the requirements of IFRS 7 in relation to financial risks, the types of financial instruments present in the financial statements, with indication of the valuation criteria applied, are reported below:

	Financial instruments at fair value recorded through:		Financial instruments at amortised cost	Non-listed investments valued at cost	Book value at 31.12.2016
	P&L	Shareholders' Equity			
<b>Assets:</b>					
Equity invest. & other financial assets	-	-	-	264	<b>264</b>
Trade receivables	-	-	58,066	-	<b>58,066</b>
Other current assets	-	-	10,223	-	<b>10,223</b>
Derivative financial instruments	-	1,609	-	-	<b>1,609</b>
<b>Liabilities:</b>					
Medium/long-term loans	-	-	21,514	-	<b>21,514</b>
Bank payables	-	-	33,652	-	<b>33,652</b>
Trade payables	-	-	31,699	-	<b>31,699</b>
Other current liabilities	-	-	7,559	-	<b>7,559</b>
Derivative financial instruments	-	1,053	-	-	<b>1,053</b>

The financial risk factors, identified in *IFRS 7 – Financial instruments: additional disclosures*, are described below:

- the risk that the fair value or the future cash flows of a financial instrument fluctuate following changes in market prices ("*market risk*"). The market risk includes the following risks: price, currency and interest rates:



- a. the risk that the fair value or the future cash flows of a financial instrument fluctuate following changes in market prices (other than changes determined from interest rate or currency risk), whether the changes are determined by specific factors related to the financial instrument or its issuer, or whether it is due to factors which influence all similar financial instruments traded on the market (“*price risk*”);
- b. the risk that the fair value or the future cash flows of a financial instrument fluctuate following changes in currency prices (“*currency risk*”);
- c. the risk that the fair value or the future cash flows of a financial instrument fluctuate following changes in market interest rates (“*interest rate risk*”);
- the risk that one of the parties that signs a contract of a financial nature does not comply with an obligation (“*credit risk*”);
- the risk that an entity has difficulty in complying with the obligations associated with the financial liabilities (“*liquidity risk*”);
- the risk that the loans within the companies of the Group contain clauses which allow the counterparties to request the creditor on the occurrence of certain events or circumstances the immediate repayment of the sums granted and not yet due, generating a liquidity risk (“*default risk*”).

### **Price risk**

The Group is exposed to the risk of fluctuations of commodity prices relating to raw materials (wool, cotton, rubber, synthetic fibre etc.) incorporated in the finished products which BasicItalia S.p.A. acquires on international markets, as well as fluctuations in the cost of oil which influences transport costs.

The Group does not hedge these risks as not directly dealing with raw materials but only finished products and is exposed for the part of the increase which cannot be transferred to the final consumer if the market and competitive conditions do not permit such.

### **Currency risk**

The BasicNet Group has subscribed the majority of its financial instruments in Euro which corresponds to its functional and presentation currency. Operating on the international market the group is also exposed to fluctuations in exchange rates, principally the US Dollar against the Euro.

At December 31, 2016, unrealised exchange gains were recorded of Euro 308 thousand, while unrealised exchange losses were recorded of Euro 65 thousand, for a net exchange gain of Euro 243 thousand.

At the reporting date, there were 10 hedge operations on US Dollar fluctuations, totalling USD 37 million; the relative effects are illustrated in the account “Derivative financial instruments”, at Notes 30 and 42.

Group Management considers that the management and containment policies adopted for this risk are adequate.

All medium/long-term loans and leasing contracts are in Euro, therefore they are not subject to any currency risk.

**Interest rate risk**

The composition of the gross financial debt between fixed and variable interest rates at December 31, 2016 is shown below:

	<b>Dec. 31, 2016</b>	<b>%</b>	<b>Dec. 31, 2015</b>	<b>%</b>
Fixed rate	23,355	42.30%	21,312	47.00%
Variable rate	31,811	57.70%	24,050	53.00%
<b>Gross debt</b>	<b>55,166</b>	<b>100.00%</b>	<b>45,362</b>	<b>100.00%</b>

The interest rate fluctuation risks of some medium/term loans were hedged with conversion of the variable rate into fixed rates, as described in Note 42. On the remaining part of the debt, the Group is exposed to fluctuation risks.

Where at December 31, 2016 the interest rate on long/term loans at that date were 100 basis points higher (or lower) compared to the actual rates, there would be a higher financial charges (lower), before the tax effect, respectively of Euro +150 thousand and Euro -150 thousand.

**Credit Risk**

The doubtful debt provision (Note 26) which includes provisions against specific credit positions and a general provision on an historical analysis of receivables, represents approx. 11.7% of trade receivables at December 31, 2016.

**Liquidity risk**

Liquidity risk is mitigated in the short-term period by the significant generation of cash realised by the “licenses and trademarks” segment, by the significant positive net working capital, and by the overall credit lines provided by the banking system (Note 33).

The table below illustrates the cash flow timing of payments on medium/long-term debt.

	<b>Book value</b>	<b>Future interest income/ (expense)</b>	<b>Contractual cash flows</b>	<b>Within 1 year</b>	<b>From 1 to 5 years</b>	<b>Beyond five years</b>
BNL loan	7,500	150	7,650	1,295	5,100	1,255
Intesa loan	9,375	272	9,647	3,918	5,729	-
BasicVillage property loan	6,900	1,268	8,168	1,595	5,645	928
BasicItalia property loan	2,746	201	2,946	463	1,756	728
Lease payables	1,600	63	1,663	794	869	-
<b>Total financial liabilities</b>	<b>28,121</b>	<b>1,954</b>	<b>30,075</b>	<b>8,065</b>	<b>19,099</b>	<b>2,911</b>

**Default risk and debt covenants**

The risk that the loans within the companies of the Group contain clauses (covenants) which allow the counterparties to request the creditor on the occurrence of certain events or circumstances the immediate repayment of the sums granted and not yet due, generating a liquidity risk.

The loans in place at the reporting date are not subject to financial covenants.

**45. INTERCOMPANY TRANSACTIONS AND TRANSACTIONS WITH RELATED COMPANIES**

The transactions between the Parent Company and its subsidiaries and between the subsidiaries were within the normal operating activities of the Group and were concluded at normal market conditions. The balance sheet and income statement effects of the transactions are eliminated in the consolidation process. Based on the information received from the companies of the Group there were no atypical or unusual operations.

BasicNet S.p.A., and, as consolidating companies, BasicItalia S.p.A., BasicRetail S.r.l., Basic Village S.p.A., Jesus Jeans S.r.l., Basic Trademark S.A., Superga Trademark S.A. and Basic Properties B.V. have adhered to the national fiscal regime as per Article 177/129 of the CFA.

The transactions with related parties for the year ended December 31, 2016 are reported below:

	<b>Investments</b>	<b>Trade receivables</b>	<b>Trade Payables</b>	<b>Other Income</b>	<b>Costs</b>
Interests in joint ventures:					
- Fashion S.r.l.	257	-	6	2	-
Remuneration of Boards and Senior Executives and other related parties	-	-	-	-	5,816

The remuneration concerns emoluments and all other payments, pension-related or social security deriving from the role of Director or Statutory Auditor in BasicNet S.p.A. and the other companies within the consolidation scope.

In relation to the other related parties, we highlight the legal consulting activities undertaken by Studio Legale Pavesio e Associati and by Studio Legale Cappetti, of the Director Carlo Pavesio and the consultancy undertaken by Pantarei S.r.l. in which the Director Alessandro Gabetti Davicini is Sole Director, concluding in the year, and of Studio Boidi & Partners, of which the Statutory Auditor Massimo Boidi is a 35% owner. These transactions, not material compared to the overall values, were at market conditions. The collections owned by BasicNet S.p.A., which are utilised for media events, shows, press gatherings together with the Brands and/or products of the Group, are subject to a renewable put and call agreement with BasicWorld S.r.l, at a price equal to the costs incurred for their acquisition, in addition to interest. This agreement was signed based on the eventual interest of BasicNet S.p.A. to sell this equipment to guarantee the complete recovery of the costs incurred, including financial charges, utilising in the meantime the benefits which derive from such communication instruments for their brands and/or products and, by BasicWorld S.r.l., of the purchase, to avoid that such a collection which would be lost.

**46. SUBSEQUENT EVENTS**

They are described in the Directors' Report.

**47. CONSOB NO. DEM/6064293 OF JULY 28, 2006**

Pursuant to Consob Communication DEM/6064293 of July 28, 2006, we report that there were no non-recurring significant operations during the year.

**48. CONTINGENT LIABILITIES/ASSETS**

The BasicNet Group is involved in some legal disputes of a commercial nature which are not expected to give rise to significant liabilities.

**A.S. Roma contract termination**

The dispute was taken by BasicItalia S.p.A. against A.S. Roma S.p.A. and Soccer S.a.s. Brand Management S.r.l., which on November 23, 2012 communicated the unilateral advance resolution of the team sponsorship, agreed with duration until June 30, 2017, for presumed non-compliance and, in particular, defects in the materials supplied. BasicItalia S.p.A., considering the reasons for the resolution unfounded, instigated an ordinary court procedure requesting compensation for significant damage incurred. A.S. Roma S.p.A. and Soccer S.a.s. appealed against the request of BasicItalia S.p.A. and counterclaimed requesting compensation for presumed damage. Proceedings are currently in the opening phases; the opinions of the Court Appointed Expert and the Court Technical Assistant are being drawn up and the judge fixed the hearing for the examination of findings for May 26, 2017. In addition, BasicItalia S.p.A. began proceedings against Soccer S.a.s., a debtor of BasicItalia S.p.A., for the provision of goods related to the sponsorship and against which an injunction against Soccer S.a.s. was issued on January 22, 2013. Following the opposition of Soccer S.a.s., the hearing initially established for June 10, 2016 was postponed to March 22, 2017.

In addition, following the above termination of the contract, A.S. Roma sought to enforce payment of the surety granted by BNL S.p.A. in favour of BasicItalia S.p.A. for a maximum amount of Euro 5.5 million which guaranteed commitments undertaken by BasicItalia S.p.A. under the sponsorship agreement. Following the non-payment by BNL S.p.A., A.S. Roma petitioned the Rome Court to enforce a payment order against BNL for the full guaranteed amount. As a result of this procedure, in which BasicItalia S.p.A. (together with the parent company BasicNet S.p.A.) was joined as a party by BNL, the Rome Court, with judgement of December 7, 2013, rejected all applications by A.S. Roma, considering the enforcement illegitimate. This sentence was not challenged by A.S. Roma and the sentence is final.

On December 20, 2013, A.S. Roma again requested payment of the above-mentioned surety and, following the refusal of BNL to meet this new request, presented an appeal before the Rome Court on February 20, 2014. With judgement of December 15, 2014, the Rome Court rejected all requests made by A.S. Roma. A.S. Roma appealed against this decision before the Rome Appeals Court with subpoena dated February 10, 2015. The preliminary hearing, fixed for June 8, 2015, was postponed to June 10, 2015. On June 8, 2015, both BasicItalia S.p.A. and BNL put forward the rejection of the appeal and the confirmation of the first level judgment. The hearing held on June 10, 2015 sent the case for the establishment of conclusions on July 4, 2018.

For the Board of Directors

**The Chairman**

Marco Daniele Boglione

## ATTACHMENT 1

**DISCLOSURE PURSUANT TO ARTICLE 149 DUODECIÈS OF THE CONSOB ISSUER'S REGULATION**

<b>Type of service</b>	<b>Service provider</b>	<b>Company</b>	<b>Fees earned 2016</b>
Audit	PricewaterhouseCoopers S.p.A.	Parent Company BasicNet S.p.A. Subsidiaries	55,460 148,692
Certification services	PricewaterhouseCoopers S.p.A.	Parent Company BasicNet S.p.A.	-
Other services	PricewaterhouseCoopers S.p.A. network	Parent Company BasicNet S.p.A.	37,800
<b>Total</b>			<b>241,952</b>

**ATTACHMENT 2**  
**Page 1 of 2**

**COMPANIES INCLUDED IN THE CONSOLIDATION UNDER THE LINE-BY-LINE METHOD**

	<b>Registered office</b>	<b>Corporate purpose</b>	<b>Share capital</b>	<b>Parent company holding (%)</b>
<b><u>PARENT COMPANY</u></b>				
<b>BasicNet S.p.A.</b>				
<b><u>Directly held subsidiaries:</u></b>				
- Basic Properties B.V.	Amsterdam (NL)	Sub-license concession of patent rights to local licensees.	EURO 18,160	100
- Basic Village S.p.A. - single shareholder company	Turin (Italy)	Building mgt. at Largo M. Vitale, 1.	EURO 412,800	100
- BasicItalia S.p.A. single shareholder company	Turin (Italy)	Italian licensor, direct stores of BasicNet Group.	EURO 7,650,000	100
- BasicNet Asia Ltd.	Hong Kong (China)	Control activity of the licensees and sourcing centre in Asia.	HKD 10,000	100
- Jesus Jeans S.r.l. single shareholder company	Turin (Italy)	Owner of the Jesus Jeans brand.	EURO 10,000	100
<b><u>Indirectly held subsidiaries:</u></b>				
<b>– through Basic Properties B.V.</b>				
- Basic Trademark S.A.	Luxembourg	Owner of some brands of the BasicNet Group.	EURO 1,250,000	100
- Superga Trademark S.A.	Luxembourg	Owner of the brand Superga.	EURO 500,000	100 <sup>(1)</sup>
- Basic Properties America, Inc.	Richmond (Virginia – USA)	Sub-license of the brands for the US, Canada and Mexico markets.	USD 8,469,157.77	100
<b>– through BasicItalia S.p.A.</b>				
- BasicRetail S.r.l. - single shareholder company	Turin (Italy)	Management of outlets owned by the Group.	EURO 10,000	100

<sup>(1)</sup> shares subject to pledges with voting rights at Extraordinary Shareholders' Meeting for Banca IntesaSanpaolo S.p.A. in guarantee of the loan issued in April 2015.

**ATTACHMENT 2**  
**Page 2 of 2**

**COMPANIES INCLUDED IN THE CONSOLIDATION UNDER THE EQUITY METHOD**

	Registered office	Corporate purpose	Share capital	Holding (%)
<b>- through BasicNet S.p.A.</b>				
- Fashion S.r.l.	Turin (Italy)	Owner of the Sabelt brand under a joint-venture	EURO 100,000	50 <sup>(2)</sup>

<sup>(2)</sup> the remaining 50% of the investment is held by the Marsiaj family



**ATTACHMENT 3****DECLARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO  
ARTICLE 154-BIS PARAGRAPH 5 AND 5-BIS OF LEGISLATIVE DECREE NO. 58 OF  
FEBRUARY 24, 1998 “FINANCIAL INTERMEDIATION ACT”**

The undersigned Marco Daniele Boglione as Executive Chairman, Giovanni Crespi as CEO, and Paolo Cafasso as Executive Officer for Financial Reporting of BasicNet S.p.A., affirm, and also in consideration of Article 154-*bis*, paragraphs 3 and 4, of Legislative Decree No. 58 of February 24, 1998:

the adequacy for company operations and the effective application, of the administrative and accounting procedures for the preparation of the 2016 consolidated financial statements.

In addition, we declare that the consolidated financial statements:

- a) corresponds to the underlying accounting documents and records;
- b) were prepared in accordance with International Financial Reporting Standards adopted by the European Union, and also in accordance with Article 9 of Legislative Decree No. 38/2005 and provide a true and fair representation of the balance sheet, financial position and results of the Issuer and of the consolidated companies;
- c) the Directors' Report includes a reliable analysis on the performance and operating result as well as the situation of the Issuer, together with a description of the risks and uncertainties to which they are exposed.

Marco Daniele Boglione  
**Chairman**

Giovanni Crespi  
**Chief Executive Officer**

Paolo Cafasso  
**Executive Officer for Financial Reporting**

**FINANCIAL STATEMENTS  
AND EXPLANATORY NOTES OF BASICNET S.P.A.  
AT DECEMBER 31, 2016**

**BASICNET S.p.A. – INCOME STATEMENT**

(in Euro)

	<i>Note</i>	<b>FY 2016</b>	<b>FY 2015</b>	<b>Changes</b>
Direct sales	(7)	2,720,502	2,286,295	434,207
Cost of sales	(8)	(2,424,751)	(2,196,923)	(227,828)
<b>GROSS MARGIN</b>		<b>295,751</b>	<b>89,372</b>	<b>206,379</b>
Royalties and sourcing commissions	(9)	27,365,918	27,327,466	38,452
Other income	(10)	6,496,698	6,676,569	(179,871)
Sponsorship and media costs	(11)	(490,214)	(736,803)	246,589
Personnel costs	(12)	(8,421,972)	(8,400,063)	(21,909)
Selling, general and administrative costs, royalties expenses	(13)	(14,198,499)	(12,338,483)	(1,860,016)
Amortisation & Depreciation	(14)	(2,173,738)	(2,074,281)	(99,457)
<b>EBIT</b>		<b>8,873,944</b>	<b>10,543,777</b>	<b>(1,669,833)</b>
Net financial income (charges)	(15)	190,102	368,870	(178,768)
Dividends	(16)	1,500,000	5,400,000	(3,900,000)
Income/(charges) from investments	(17)	20,573	-	20,573
<b>PROFIT BEFORE TAXES</b>		<b>10,584,619</b>	<b>16,312,647</b>	<b>(5,728,028)</b>
Income taxes	(18)	(3,163,360)	(4,242,378)	1,079,018
<b>NET PROFIT</b>		<b>7,421,259</b>	<b>12,070,269</b>	<b>(4,649,010)</b>

**BASICNET S.p.A. – COMPREHENSIVE INCOME STATEMENT***(in Euro)*

	<i>Note</i>	<b>FY 2016</b>	<b>FY 2015</b>	<b>Changes</b>
<b><i>Profit for the year (A)</i></b>		<b>7,421,259</b>	<b>12,070,269</b>	<b>(4,649,010)</b>
Effective portion of the Gains/(losses) on cash flow hedges		15,007	(44,677)	59,685
Re-measurement of post-employment benefits (IAS 19) (*)		(10,067)	43,559	(53,627)
Tax effect on other profits/(losses)		(949)	(9)	(940)
<b><i>Total other gains/(losses), net of tax effect (B)</i></b>	<b>(27)</b>	<b>3,990</b>	<b>(1,127)</b>	<b>5,118</b>
<b>Total Comprehensive Profit (A)+(B)</b>		<b>7,425,249</b>	<b>12,069,142</b>	<b>(4,643,892)</b>

*(\*) items which may not be reclassified to the profit and loss account*

**BASICNET S.p.A. – BALANCE SHEET***(in Euro)*

<b>ASSETS</b>	<i>Note</i>	<b>Dec. 31, 2016</b>	<b>Dec. 31, 2015</b>
Intangible assets	(19)	12,112,176	12,115,030
Plant, machinery and other assets	(20)	1,769,559	1,543,269
Equity invest. & other financial assets	(21)	36,229,867	36,344,846
<b>Total non-current assets</b>		<b>50,111,602</b>	<b>50,003,145</b>
Net inventories	(22)	807,897	774,484
Trade receivables	(23)	10,619,378	9,437,124
Other current assets	(24)	69,575,678	67,733,114
Prepayments	(25)	3,954,103	3,952,268
Cash and cash equivalents	(26)	1,236,975	1,159,243
Derivative financial instruments		-	-
<b>Total current assets</b>		<b>86,194,031</b>	<b>83,056,233</b>
<b>TOTAL ASSETS</b>		<b>136,305,633</b>	<b>133,059,378</b>
<b>LIABILITIES</b>	<i>Note</i>	<b>Dec. 31, 2016</b>	<b>Dec. 31, 2015</b>
Share capital		31,716,673	31,716,673
Treasury shares		(11,889,813)	(8,822,881)
Other reserves		59,537,548	53,085,199
Net Profit		7,421,259	12,070,269
<b>TOTAL SHAREHOLDERS' EQUITY</b>	(27)	<b>86,785,667</b>	<b>88,049,260</b>
Provisions for risks and charges		-	-
Loans	(28)	11,960,323	9,442,672
Employee and Director benefits	(29)	1,614,436	2,922,988
Deferred tax liabilities	(30)	308,095	60,135
Other non-current liabilities	(31)	759,414	876,210
<b>Total non-current liabilities</b>		<b>14,642,268</b>	<b>13,302,005</b>
Bank payables	(32)	11,057,007	8,512,581
Trade payables	(33)	4,757,626	4,362,692
Tax payables	(34)	14,736,086	14,180,091
Other current liabilities	(35)	4,077,183	4,120,067
Accrued expenses	(36)	182,732	450,611
Derivative financial instruments	(37)	67,064	82,071
<b>Total current liabilities</b>		<b>34,877,698</b>	<b>31,708,113</b>
<b>TOTAL LIABILITIES</b>		<b>49,519,966</b>	<b>45,010,118</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>136,305,633</b>	<b>133,059,378</b>

**BASICNET S.p.A. – CASH FLOW STATEMENT***(in Euro)*

	Dec. 31, 2016	Dec. 31, 2015
<b>A) OPENING SHORT-TERM BANK DEBT</b>	<b>(924,763)</b>	<b>(739,092)</b>
<b>B) CASH FLOW FROM OPERATING ACTIVITIES</b>		
Net Profit for the year	7,421,259	12,070,269
Amortisation & Depreciation	2,173,738	2,074,281
Gains on sale of equity investments	(20,573)	-
Changes in working capital:		
- (increase) decrease in trade receivables	(1,182,254)	(1,691,489)
- (increase) decrease in inventories	(33,413)	(14,552)
- (increase) decrease in other receivables	(3,144,399)	(13,635,671)
- increase (decrease) in trade payables	394,934	(8,692)
- increase (decrease) in other payables	376,398	285,381
Net change in post-employment benefits	(41,580)	(53,873)
Others, net	22,002	31,010
	<b>5,966,112</b>	<b>(943,336)</b>
<b>C) CASH FLOW FROM INVESTING ACTIVITIES</b>		
Investments in fixed assets:		
- tangible assets	(608,641)	(500,390)
- intangible assets	(1,788,712)	(2,055,715)
- financial assets	(21)	-
Realisable value for fixed asset disposals:		
- tangible assets	178	232
- intangible assets	-	-
- financial assets	135,573	-
	<b>(2,261,623)</b>	<b>(2,555,873)</b>
<b>D) CASH FLOW FROM FINANCING ACTIVITIES</b>		
Lease contracts (repayments)	17,650	39,595
Repayments of medium/long term loans	(6,428,565)	(5,799,110)
Undertaking of medium/long term loans	7,500,000	15,000,000
Treasury shares	(3,066,932)	(1,947,845)
Distribution of dividends	(5,621,910)	(3,979,102)
	<b>(7,599,757)</b>	<b>3,313,538</b>
<b>E) CASH FLOW IN THE YEAR</b>	<b>(3,895,268)</b>	<b>(185,671)</b>
<b>F) CLOSING SHORT-TERM BANK DEBT</b>	<b>(4,820,031)</b>	<b>(924,763)</b>

Interest paid for the year amounts to respectively Euro 301 thousand in 2016 and Euro 362 thousand in 2015, while income taxes paid in the year amounted to Euro 5.9 million in 2016 and Euro 5.4 million in 2015.

**BASICNET S.p.A. - STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY***(in Euro)*

	Number shares	Share capital	Treasury Shares	Legal Reserve	Treasury shares in portfolio reserve	Reserves		Retained earnings	Net profit	Total
						Remeas. Reserve IAS19	Cash Flow Hedge reserve			
							Other reserves			
<b>Balance at December 31, 2014</b>	<b>60,993,602</b>	<b>31,716,673</b>	<b>(6,875,036)</b>	<b>3,957,743</b>	<b>6,875,036</b>	<b>(93,544)</b>	<b>(27,946)</b>	<b>36,244,458</b>	<b>10,109,631</b>	<b>81,907,015</b>
Allocation of result as per Shareholders' AGM resolution of April 27, 2015										
- Legal reserve			-	505,482	-	-	-	-	(505,482)	-
- Retained earnings			-	-	-	-	-	5,625,097	(5,625,097)	-
- Distribution of dividends			-	-	-	-	-	-	(3,979,052)	(3,979,052)
Acquisition of treasury shares			(1,947,845)	-	1,947,845	-	-	(1,947,845)	-	(1,947,845)
2015 Result			-	-	-	-	-	-	12,070,269	12,070,269
Other comprehensive income statement items:										
- Gains/(losses) recorded directly to cash flow hedge reserve			-	-	-	-	(32,708)	-	-	(32,708)
- Gains/(losses) recorded directly to equity for IAS 19 re-measurement			-	-	-	31,581	-	-	-	31,581
<i>Total comprehensive income</i>			-	-	-	31,581	(32,708)	-	12,070,269	12,069,142
<b>Balance at Dec. 31, 2015</b>	<b>60,993,602</b>	<b>31,716,673</b>	<b>(8,822,881)</b>	<b>4,463,225</b>	<b>8,822,881</b>	<b>(61,963)</b>	<b>(60,654)</b>	<b>39,921,710</b>	<b>12,070,269</b>	<b>88,049,260</b>
Allocation of result as per Shareholders' AGM resolution of April 28, 2016										
- Legal reserve			-	603,513	-	-	-	-	(603,513)	-
- Retained earnings			-	-	-	-	-	5,844,846	(5,844,846)	-
- Distribution of dividends			-	-	-	-	-	-	(5,621,910)	(5,621,910)
Acquisition of treasury shares			(3,066,932)	-	3,066,932	-	-	(3,066,932)	-	(3,066,932)
2016 Result			-	-	-	-	-	-	7,421,259	7,421,259
Other comprehensive income statement items:										
- Gains/(losses) recorded directly to cash flow hedge reserve			-	-	-	-	11,290	-	-	11,290
- Gains/(losses) recorded directly to equity for IAS 19 re-measurement			-	-	-	(7,300)	-	-	-	(7,300)
<i>Total comprehensive income</i>			-	-	-	(7,300)	11,290	-	7,421,259	7,425,249
<b>Balance at Dec. 31, 2016</b>	<b>60,993,602</b>	<b>31,716,673</b>	<b>(11,889,813)</b>	<b>5,066,738</b>	<b>11,889,813</b>	<b>(69,263)</b>	<b>(49,364)</b>	<b>42,699,624</b>	<b>7,421,259</b>	<b>86,785,667</b>



**BASICNET S.p.A. – NET FINANCIAL POSITION***(in Euro)*

	<b>Dec. 31, 2016</b>	<b>Dec. 31, 2015</b>
Cash and cash equivalents	1,236,975	1,159,243
Bank overdrafts and bills	(6,057,006)	(2,084,006)
<i>Sub-total net liquidity available</i>	<i>(4,820,031)</i>	<i>(924,763)</i>
Short-term portion of medium/long-term loans	(5,000,000)	(6,428,575)
<b>Short-term net financial position – third parties</b>	<b>(9,820,031)</b>	<b>(7,353,338)</b>
Intesa loan	(5,625,000)	(9,375,000)
BNL loan	(6,250,000)	-
Medium/long lease payables	(85,323)	(67,672)
<i>Sub-total loans and leasing – third parties</i>	<i>(11,960,323)</i>	<i>(9,442,672)</i>
<b>Net financial position - third parties</b>	<b>(21,780,354)</b>	<b>(16,796,010)</b>
Group financial receivables / (payables)	64,757,307	61,852,006
<b>Net Financial Position - Group</b>	<b>64,757,307</b>	<b>61,852,006</b>
<b>Total net financial position</b>	<b>42,976,953</b>	<b>45,055,996</b>

The statement required by Consob Communication No. 6064293 of July 28, 2006 is reported below.

	<b>Dec. 31, 2016</b>	<b>Dec. 31, 2015</b>
A. Cash	11,315	12,808
B. Other cash equivalents	1,225,660	1,146,436
C. Securities held for trading	-	-
<b>D. Cash &amp; cash equivalents (A)+(B)+(C)</b>	<b>1,236,975</b>	<b>1,159,244</b>
<b>E. Current financial receivables</b>	<b>-</b>	<b>-</b>
F. Current bank payables	(6,057,006)	(2,084,006)
G. Current portion of non-current debt	(5,000,000)	(6,428,575)
H. Other Group financial receivables/ (payables)	64,757,307	61,852,006
<b>I. Current financial debt (F)+(G)+(H)</b>	<b>53,700,301</b>	<b>53,339,425</b>
<b>J. Net current financial debt (I)-(E)-(D)</b>	<b>54,937,276</b>	<b>54,498,669</b>
K. Non-current bank payables	(11,960,323)	(9,442,672)
L. Bonds issued	-	-
M. Fair value of hedges (cash flow hedges)	(67,064)	(82,071)
<b>N. Non-current financial debt (K)+(L)+(M)</b>	<b>(12,027,387)</b>	<b>(9,524,743)</b>
<b>O. Net financial debt (J)+(N)</b>	<b>42,909,889</b>	<b>44,973,926</b>

The net debt differs from the Parent Company net financial position for the fair value of the interest and currency hedging operations - cash flow hedges (Note 38).

**BASICNET S.p.A. – 2016 INCOME STATEMENT PREPARED AS PER CONSOB RESOLUTION NO. 15519 OF JULY 27, 2006**
*(in Euro)*

	<b>FY 2016</b>		<b>FY 2015</b>	
		<i>Of which related parties Note 40</i>		<i>Of which related parties Note 40</i>
Direct sales	2,720,502	2,023,329	2,286,295	1,534,262
Cost of sales	(2,424,751)	(52,395)	(2,196,923)	(6,823)
<b>GROSS MARGIN</b>	<b>295,751</b>		<b>89,372</b>	
Royalties and sourcing commissions	27,365,918	6,344,739	27,327,466	6,005,656
Other income	6,496,698	6,057,700	6,676,569	6,058,284
Sponsorship and media costs	(490,214)	(33,080)	(736,803)	(255,044)
Personnel costs	(8,421,972)		(8,400,063)	
Selling, general and administrative costs, royalties expenses	(14,198,499)	(3,092,730)	(12,338,483)	(3,053,203)
Amortisation & Depreciation	(2,173,738)		(2,074,281)	
<b>EBIT</b>	<b>8,873,944</b>		<b>10,543,777</b>	
Net financial income (charges)	190,102	516,250	368,870	597,816
Dividends	1,500,000	1,500,000	5,400,000	5,400,000
Income/(charges) from investments	20,573		-	
<b>PROFIT BEFORE TAXES</b>	<b>10,584,619</b>		<b>16,312,647</b>	
Income taxes	(3,163,360)		(4,242,378)	
<b>NET PROFIT</b>	<b>7,421,259</b>		<b>12,070,269</b>	

**BASICNET S.p.A. – BALANCE SHEET AS AT DECEMBER 31, 2016 PREPARED AS PER CONSOB RESOLUTION NO. 15519 OF JULY 27, 2006**

(in Euro)

ASSETS	Dec. 31, 2016		Dec. 31, 2015	
		<i>Of which Related Parties Notes 21 &amp; 24</i>		<i>Of which Related Parties Notes 21 &amp; 24</i>
Intangible assets	12,112,176		12,115,030	
Plant, machinery and other assets	1,769,559		1,543,269	
Equity invest. & other financial assets	36,229,867	36,219,489	36,344,846	36,244,488
Deferred tax assets	-		-	
<b>Total non-current assets</b>	<b>50,111,602</b>		<b>50,003,145</b>	
Net inventories	807,897		774,484	
Trade receivables	10,619,378		9,437,124	
Other current assets	69,575,678	68,130,795	67,733,114	64,944,986
Prepayments	3,954,103		3,952,268	
Cash and cash equivalents	1,236,975		1,159,243	
Derivative financial instruments	-		-	
<b>Total current assets</b>	<b>86,194,031</b>		<b>83,056,233</b>	
<b>TOTAL ASSETS</b>	<b>136,305,633</b>		<b>133,059,378</b>	

LIABILITIES	Dec. 31, 2016		Dec. 31, 2015	
		<i>Of which Related Parties Note 35</i>		<i>Of which Related Parties Note 35</i>
Share capital	31,716,673		31,716,673	
Treasury shares	(11,889,813)		(8,822,881)	
Other reserves	59,537,548		53,085,199	
Net Profit	7,421,259		12,070,269	
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>86,785,667</b>		<b>88,049,260</b>	
Provisions for risks and charges	-		-	
Loans	11,960,323		9,442,672	
Employee and Director benefits	1,614,436		2,922,988	
Deferred tax liabilities	308,095		60,135	
Other non-current liabilities	759,414		876,210	
<b>Total non-current liabilities</b>	<b>14,642,268</b>		<b>13,302,005</b>	
Bank payables	11,057,007		8,512,581	
Trade payables	4,757,626		4,362,692	
Tax payables	14,736,086		14,180,091	
Other current liabilities	4,077,183	1,159,392	4,120,067	1,077,590
Accrued expenses	182,732		450,611	
Derivative financial instruments	67,064		82,071	
<b>Total current liabilities</b>	<b>34,877,698</b>		<b>31,708,113</b>	
<b>TOTAL LIABILITIES</b>	<b>49,519,966</b>		<b>45,010,118</b>	
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>136,305,633</b>		<b>133,059,378</b>	

**BASICNET S.p.A. – CASH FLOW STATEMENT AS AT DECEMBER 31, 2016 PREPARED AS PER CONSOB RESOLUTION NO. 15519 OF JULY 27, 2006**

(in Euro)

	Dec. 31, 2016	Dec. 31, 2015
	<i>Of which related Parties</i>	<i>Of which related parties</i>
<b>A) OPENING SHORT-TERM BANK DEBT</b>	<b>(924,763)</b>	<b>(739,092)</b>
<b>B) CASH FLOW FROM OPERATING ACTIVITIES</b>		
Net Profit	7,421,259	12,070,269
Amortisation & Depreciation	2,173,738	2,074,281
Gains on sale of equity investments	(20,573)	
Changes in working capital:		
- (increase) decrease in trade receivables	(1,182,254)	(1,691,489)
- (increase) decrease in inventories	(33,413)	(14,552)
- (increase) decrease in other receivables	(3,144,399)	(3,185,809) (13,635,671) (14,138,860)
- increase (decrease) in trade payables	394,934	(8,692)
- increase (decrease) in other payables	376,398	81,802 285,381 (1,341,854)
Net change in post-employment benefits	(41,580)	(53,873)
Others, net	22,012	31,010
	<b>5,966,122</b>	<b>(943,336)</b>
<b>C) CASH FLOW FROM INVESTING ACTIVITIES</b>		
Investments in fixed assets:		
- tangible assets	(608,641)	(500,390)
- intangible assets	(1,788,712)	(2,055,715)
- financial assets	(21)	-
Realisable value for fixed asset disposals:		
- tangible assets	168	232
- intangible assets	-	-
- financial assets	135,573	-
	<b>(2,261,633)</b>	<b>(2,555,873)</b>
<b>D) CASH FLOW FROM FINANCING ACTIVITIES</b>		
Lease contracts (repayments)	17,650	39,595
Repayments of medium/long term loans	(6,428,565)	(5,799,110)
New medium/long term loans	7,500,000	15,000,000
Treasury shares	(3,066,932)	(1,947,845)
Distribution of dividends	(5,621,910)	(3,979,102)
	<b>(7,599,757)</b>	<b>3,313,538</b>
<b>E) OPERATIONS NOT GENERATING CASH FLOWS</b>		
Conversion of financial receivables into investments		
- receivables from subsidiaries	-	-
- equity investments	-	-
	-	-
<b>E) CASH FLOW IN THE YEAR</b>	<b>(3,895,268)</b>	<b>(185,670)</b>
<b>F) CLOSING SHORT-TERM BANK DEBT</b>	<b>(4,820,031)</b>	<b>(924,763)</b>

The undersigned herewith declares that the present financial statements reflect the underlying accounting entries.

For the Board of Directors

**The Chairman**

Marco Daniele Boglione

## EXPLANATORY NOTES

### 1. GENERAL INFORMATION

BasicNet S.p.A. – with registered office in Turin, listed on the Italian Stock Exchange since November 17, 1999, in addition to its main function of Parent Company, manages the Network, providing the know-how for the use of the Group brands, undertaking research and development of the services and new products for the best utilisation of the brands, as well as undertaking activities of conception, development and communication and the Groups' Information Technology systems. The Company coordinates and provides subsidiaries with administration, finance and control, IT and payroll management services.

The duration of BasicNet S.p.A. is fixed by the company by-laws until December 31, 2050.

The publication of the financial statements of BasicNet S.p.A. for the year ended December 31, 2016 was approved by the Board of Directors on March 22, 2017. The final approval of the accounts is the responsibility of the Shareholders' Meeting.

### 2. ACCOUNTING STANDARDS FOR THE PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements for the year 2016 were prepared in accordance with IFRS issued by the International Accounting Standards Board ("IASB") and approved by the European Union at the date of the present document. IFRS refers to all the revised International Accounting Standards (IAS), and all of the interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") - previously known as the Standing Interpretations Committee ("SIC").

The financial statements are prepared under the historical cost convention, modified where applicable for the measurement of certain financial instruments, as well as on the going concern assumption.

The accounting principles utilised in the financial statements are the same as those utilised in the previous year.

#### Accounting standards, amendments and interpretations applied from January 1, 2016

As per IAS 8 - *Accounting Standards, Changes in Accounting Estimates and Errors*, the IFRS in effect from January 1, 2016 are indicated and briefly illustrated below.

Amendments to IFRS 11 *Joint Arrangements: Accounting for the acquisition of investments in Joint Arrangements*: on November 24, 2015, EU Regulation No. 2015/2173 was issued, enacting at European level some limited amendments to IFRS 11. The amendments add new guidelines on the calculation of the acquisition of an investment in a joint operation, whose activities constitute a business (as defined by IFRS 3 - *Business Combinations*).

Amendments to IAS 16 - *Property, plant and equipment* and IAS 38 - *Intangible Assets*: on December 2, 2015, EU Regulation No. 2015/2231 was issued, enacting at European level some limited modifications to IAS 16 and IAS 38. The amendments to both standards establish that an asset should not be depreciated based on the revenues to be generated over a set period, as, according to IASB, revenues generated by an asset generally reflect factors other than the consumption of the economic benefits deriving from the asset.

Improvements to IFRS (2012-2014 cycle): on December 16, 2015 EU Regulation 2015/2343 was issued and enacted at EU level a number of improvements to IFRS for the period 2012-2014, as follows:

- *IFRS 5 - Non-current assets held for sale and discontinued operations*: it was clarified that where a non-current asset (or disposal group) is reclassified from "held for sale" to "held for distribution" or vice versa, this reclassification does not constitute an amendment to a sales or distribution plan and therefore should not be recognised as such;

- *IFRS 7 - Financial instruments: additional disclosure:* for service contracts, if an entity transfers a financial asset to third parties and the conditions of IAS 39 are complied with for the elimination of the asset, the amendment to IFRS 7 requires that disclosure of any residual involvement which the entity may still have in relation to the transferred asset is reported;
- *IAS 19 - Employee Benefits:* the standard requires that the discount rate used for post-employment benefit obligations must be calculated on the basis of the market yields of leading corporate bonds and in Countries in which there is no “deep market” for such bonds, the market yields of government securities must be used. The amendment establishes that in evaluating the existence of a “deep market” for leading company bonds, the market must be considered at currency level and not at individual Country level;
- *IAS 34 - Interim financial statements:* the amendment clarifies how information in the interim financial statements may be supplemented by other information available in other sections of the Interim Financial Statements (e.g. Directors’ Report) through referencing.

Amendments to IAS 1 - Presentation of financial statements - Disclosure initiatives: on December 19, 2015, EU Regulation No. 2015/2406 was issued, enacting at European level some limited modifications to IAS 1. In particular, the amendments, which are part of a wider improvement initiative for the presentation and disclosure of financial statements, include the following updates:

- *Materiality:* it is established that this concept applies to financial statements in their totality and that the inclusion of immaterial information may affect the utility of financial disclosure;
- *De-aggregation and subtotals:* it is established that separate income statement, comprehensive income statement and balance sheet accounts may be de-aggregated;
- *Structure of the notes:* entities are granted a certain degree of discretion in setting the order of presentation of the notes, while not affecting the comprehensibility or comparability of financial statements;
- *Investments valued at equity:* in the comprehensive income statement it is necessary to divide the parts that may be reclassified to the separate income statement from those that may not.

Amendments to IFRS 10, IFRS 12, IAS 28 - Investment entities: on September 23, 2016, EU Regulation No. 2016/1703 was issued which made amendments to IFRS 10 - *Consolidated Financial Statements*, IFRS 12 - *Disclosure on investments in other entities* and IAS 28 - *Investments in associates and joint ventures*. These amendments, published in the *Investment Entities: application of the consolidation exception* document set out the requirements for the accounting of investment entities and provide exemptions for particular situations. More specifically, the amendments made to IFRS 10 confirm the exemption from the preparation of the consolidated financial statements for an intermediate parent which is not an investment entity controlled by an investment entity.

Amendments to IAS 17 - Separate financial statements: on December 23, 2015, Regulation EC No. 2015/2441 was issued, introducing a number of amendments to IAS 27 - *Separate financial statements* entitled “equity method in the separate financial statements”; these amendments permit the option to apply the equity method, described in IAS 28 - *Investments in associates and joint ventures*, for the accounting in the separate financial statements of investments in subsidiaries, associates and joint ventures, rather than at cost or as per IAS 39/IFRS 9.

The adoption of these amendments did not have any significant impacts on the Consolidated Financial Statements at December 31, 2016.

### **New Standards and Interpretations adopted by the EU, but not yet effective**

**IFRS 15 - Revenues from contracts with customers:** on October 29, 2016, EU Regulation No. 2016/1905 was issued, enacting at European level *IFRS 15 - Revenue from contracts with customers* and the relative amendments. IFRS 15 replaces IAS 18 - *Revenues*, IAS 11 - *Construction contracts* and the relative interpretations on the recognition of revenues, comprising IFRIC 13 - *Customer loyalty programmes*, IFRIC 15 - *Agreements for the construction of real estate*, IFRIC 18 - *Transfers of assets from customers* and SIC 31 *Revenues - barter transactions involving advertising services*. The application of the new standard from January 1, 2018 involves, alternatively, a method for the recalculation of all comparative periods presented in the financial statements (“complete retrospective method”) and a “simplified” method involving the recognition of the cumulative effect of the first application of the standard in adjustment of the opening shareholders’ equity of the period in which the new standard is adopted, leaving unchanged the data for all comparative periods presented. The new standard, which requires the recognition of revenues on the transfer of control of the goods or services to customers at an amount which reflects the consideration which is expected to be received in exchange for these products or services, introduces a five step method to analyse the transactions and define the method for recognising revenues concerning both the timing of recognition (“point in time”/“over time”) and the relative amount. The company does not expect the adoption of this standard to have material impacts on the recognition and valuation of its revenues.

**IFRS 9 - Financial Instruments:** on November 29, 2016, Regulation EC No. 2016/2067 was issued, which incorporated at EU level IFRS 9 - *Financial Instruments* concerning the classification, measurement and cancellation of financial asset/liabilities, the reduction in value of financial instruments, in addition to the accounting of hedges. IFRS 9, which should be applied from January 1, 2018 (i) amends the classification and valuation model of financial assets; (ii) introduces the expected credit losses concept among the variables to be considered in the valuation and write-down of financial assets; (iii) amends the hedge accounting provisions. The company does not expect the adoption of this standard to have material impacts on the valuation of its assets, liabilities, costs and revenues.

### **New Accounting Standards and interpretations issued by the IASB and not yet enacted by the EU**

At the date of the present consolidated financial statements, the following new Standards/Interpretations were issued by IASB, although still not approved by the EU:

- IFRS 16 - *Leasing*, applicable from January 1, 2019 with a complete retrospective or simplified approach, as described above with regards to IFRS 15. IFRS 16 replaces IAS 17 - *Leasing* and the relative interpretations IFRIC 4 - *Determining whether an arrangement contains a lease*, SIC 15 - *Operating leases - Incentives*, SIC 27 - *Evaluating the substance of transactions in the legal form of a lease*. IFRS 16, from the viewpoint of the lessee, provides for all leasing contracts, whether concerning operating or finance leases, the recognition to the balance sheet of a liability, represented by the present value of future leases, against the recording to assets of a usage right of the assets leased. Leasing contracts of 12 months or less and low asset value leases may be excluded from application of IFRS 16. The main impacts from application of the new standard on the financial statements are the following: a) balance sheet, higher non-current assets due to the recognition of the usage right of the leased asset, with counter-entry of financial payables; b) income statement, inclusion of the amortisation of the usage right of the asset leased and of the financial charges for interest, compared to the present operating lease charges.
- Amendments to IFRS 10 – *Consolidated financial statements* and IAS 28 - *Investments in associates and joint ventures*, sales and conferment of assets between an investor and an associate/joint venture, applicable deferred to be determined.
- Amendments to IAS 12 - *Income taxes*, recognition of deferred tax assets on losses not realised, applicable from January 1, 2017.
- Amendments to IAS 7 - *Cash flow statement, disclosure initiatives*, applicable from January 1, 2017.



- Amendments to IFRS 2 – *Classification and measurement of share-based payments*, applicable from January 1, 2018.
- Clarifications to IFRS 15 - *Revenue from contracts with customers*, applicable from January 1, 2018.
- Improvements to IFRS (2014-2016 cycle) - *Amendments to IFRS 12 and IAS 28*, applicable respectively from January 1, 2017 and January 1, 2018;
- IFRIC 22 - *Foreign currency transactions and advance consideration*, applicable from January 1, 2018.
- Amendments to IAS 40 - *Investment property*, applicable from January 1, 2018.

The company will adopt these new standards, amendments and interpretations, according to the scheduled application dates; currently, no significant impacts are expected from these amendments, with the exception of those concerning IFRS 16 - *Leasing*, described above.

### 3. **FORMAT OF THE FINANCIAL STATEMENTS**

BasicNet S.p.A. presents its income statement by nature of cost items; the assets and liabilities are classified between current and non-current. The cash flow statement was prepared applying the indirect method. The format of the financial statements applied the provisions of Consob Resolution No. 15519 of July 27, 2006 and Notice No. 6064293 of July 28, 2006 on financial disclosure requirements.

### 4. **ACCOUNTING POLICIES**

The present financial statements were prepared on the going concern basis, and in accordance with the accruals principle. The financial statements are presented in Euro and all values are rounded into thousands of Euro.

The main accounting policies adopted in the preparation of the financial statements at December 31, 2016 are disclosed below:

#### **Revenue recognition**

Revenues are recognised in accordance with the probability that the company will receive economic benefits and the amount can be determined reliably. Revenues are recognised net of returns, discounts and allowances.

In particular, revenues from the sale of goods are recognised when the significant risks and benefits of the ownership of the goods are transferred to the buyer, the sales price has been agreed or determinable and collection of the receivable is expected. This moment generally corresponds with the transfer of ownership which coincides, normally, with the shipping or delivery of the goods.

Royalties and sourcing commissions are recognised on an accruals basis in accordance with the underlying contracts.

#### **Recognition of costs and expenses**

Costs and expenses are recognised in accordance with the accruals principle.

Cost relating to the preparation and presentation of sample collections are recognised in the income statement in the year in which the sales of the relative collections are realised. Any differences are recorded through accruals.

#### **Interest income and expenses, and income and charges**

Interest income and expenses and other income and expenses are recorded and shown in the financial statements on the accrual basis.

In accordance with IAS 23 – *Borrowing costs*, the financial charges directly attributable to the purchase, construction and production of the asset which requires a significant amount of time before use or sale are capitalised together with the value of the asset. Such an event has not arisen up to the present

moment for the company. If these conditions are not met the financial charges are expensed directly to the income statement.

### **Dividends**

#### **Dividends received**

Dividends from investees are recognised in the income statement when the right to receive the dividend is established.

#### **Dividends distributed**

Dividends distributed are represented as changes in shareholders' equity in the year in which the Shareholders' Meeting approves the distribution and payment.

### **Translation of balances in foreign currencies**

The receivables and payables originally expressed in foreign currencies are translated into Euro at the exchange rate when the transaction originated. Exchange differences arising on collections and payments in foreign currencies are recorded in the income statement.

Revenues and income, costs and charges related to currency transactions are recorded at the exchange rate at the transaction date.

At the end of the period, the assets and liabilities valued in foreign currencies, with the exception of fixed assets, are recorded at the exchange rates at the balance sheet date and the relative gains or losses on exchange are recorded in the income statement.

### **Income taxes**

Income taxes include all the taxes calculated on the assessable income of the Company. Taxes on income are recognised in profit and loss, except where they relate to items charged or credited directly to equity, in which case the tax effect is also recognised directly in equity.

Other taxes not related to income, such as taxes on property and share capital, are included under operating charges.

Deferred taxes are calculated on all the temporary differences arising between the assessable income of an asset or liability and the relative book value in the financial statements, with the exception of the goodwill not fiscally deductible and of those differences deriving from investments in subsidiaries for which a write-down is not expected in the future.

Deferred tax assets on fiscal losses and unutilised tax credits carried forward are recognised only for those amounts for which it is probable there will be future assessable income to recover the amounts. The deferred tax assets and liabilities are offset when the income tax is applied by the same fiscal authority and when there is a legal right of compensation.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the temporary difference is reversed.

The Company adhered to the tax consolidation in accordance with Article 117 and thereafter of the CFA – Presidential Decree No. 917 of December 22, 1986 together with all of the wholly-owned Italian subsidiary companies. BasicNet S.p.A. acts as the consolidating company and calculates a single assessable base for the Group of companies adhering to the national tax consolidation and therefore benefits from the possibility of offsetting assessable income with assessable losses in a single tax declaration.

### **Earnings per share/Diluted earnings per share**

In accordance with paragraph 4 of IAS 33 – *Earnings per share*, this latter is only presented at consolidated financial statement level.

### **Provisions and contingent liabilities**

BasicNet S.p.A. may be involved in legal and tax disputes, concerning specific issues and in various jurisdictions. Considering the uncertainties relating to these issues, it is difficult to predict with certainty any future payments required. In addition, the Company has instigated legal disputes for the protection of its Trademarks, and of its products, against counterfeit products. The cases and disputes against the Company often derive from complex legal issues, which are often subject to varying degrees of uncertainty, including the facts and circumstances relating to each case, jurisprudence and different applicable laws.

In the normal course of business, Management consults with its legal consultants and experts on legal matters.

The Company accrues a liability against disputes when it considers it is probable that there will be a financial payment made and when the amount of the losses arising can be reasonably estimated.

The contingent liabilities are not recorded in the financial statements, but are reported as a disclosure in the Notes unless the probability is remote. In accordance with paragraph 10 of *IAS 37 – Provisions, contingent liabilities and contingent assets* a contingent liability is (a) a possible obligation which derives from past events and whose existence will be confirmed only on the occurrence or otherwise of one or more future uncertain events, not entirely under the control of the enterprise, or (b) a current obligation which derives from past events but which cannot be recorded in the financial statements as the payment is improbable or cannot be reliably estimated.

### **Use of estimates**

The preparation of the financial statements and the relative notes in application of IFRS require that management make estimates and assumptions on the values of the assets and liabilities in the financial statements and on the information relating to the assets and contingent liabilities at the balance sheet date. The actual results may differ from such estimates.

Estimates are utilised to measure intangible and tangible assets subject to impairment tests, in addition to recognise provisions on doubtful debts, inventory obsolescence, amortisation and depreciation, the write-down of assets, employee benefits and income taxes.

The estimates and assumptions are reviewed periodically and the effects of all variations are immediately recognised in the income statement.

### **Intangible assets**

An intangible asset is a non-monetary asset, identifiable and without physical substance, controllable and capable of generating future economic benefits. Intangible assets are recognised 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. Amortisation begins when the asset is available for use and is recognised on a straight-line basis over the residual estimated useful life of the asset.

#### **Software**

Software acquired and IT programmes developed internally are amortised over five years, while the costs incurred to maintain or upgrade the original operational standard are expensed in the year and are not capitalised.

#### **Development Costs**

Development costs are capitalised when the capacity to generate future economic benefits is demonstrated and the other conditions required by *IAS 38 – Intangible assets* are satisfied.

#### **Brands and patents**

The brand K-Way is considered an intangible asset with indefinite useful life, in line with that at Group level for the principal brands, Kappa, Robe di Kappa and Superga; as such these assets are not amortised but subject to an impairment test at least annually. This depends on the strategic positioning

reached whereby it is not currently possible to predict a time limit on the generation of future cash flow streams.

The patent rights are amortised over ten years.

#### Other intangible assets

Other intangible assets recognised on acquisition are recorded separately from goodwill, if their fair value can be determined on a reliable basis. They are amortised according to market conditions and generally within the period in which control of the asset is exercised.

#### Goodwill

In the case of business combinations, the assets, the liabilities and the contingent liabilities acquired and identifiable are recorded at their fair value at the date of acquisition. The positive difference between the acquisition cost and the portion of the present value of the assets and liabilities is classified as goodwill and recorded in the financial statements as an intangible asset. Any negative difference (“negative goodwill”) is recognised in the income statement at the date of acquisition.

Goodwill is not amortised, but is subject annually, or more frequently if specific events or circumstances indicate the possibility of having incurred an impairment, to verifications of any reduction in value, as provided by *IAS 36 Reduction in value of assets*. After initial recognition, goodwill is measured at cost less any loss in value. The impairment of goodwill may not be written back.

#### Plant, machinery and other assets

Plant and equipment are recorded at purchase or production costs, including accessory charges and direct and indirect costs, for the amount reasonably attributable to the assets.

Subsequent expenditures are only capitalised where they increase the future economic benefits of the asset to which they relate. All other expenditures are expensed as incurred.

Plant and equipment are amortised on a straight-line basis over the estimated useful life of each asset. The depreciation rates by asset category are shown below:

<b>Description</b>	<b>Estimated useful life years</b>
Plant and machinery	8
Furniture and furnishings	5-8
Motor vehicles	4
EDP	5-8

Fixed assets which at the balance sheet date are lower than the book value are recorded at this lower value, which however may not be maintained at this value in subsequent periods if the reasons for the adjustment no longer exist.

Ordinary maintenance costs are fully charged to the income statement.

Advances and costs for property, plant and equipment in progress which are not yet utilised in the operating activities are reported separately.

#### Leased assets

Property, plant and equipment acquired through finance lease contracts are recognised under the finance method as per *IAS 17 – Leasing* and recorded under assets at the purchase price decreased by depreciation.

The depreciation of these assets is reflected in the financial statements applying the same criteria as for the fixed assets to which the lease contracts refer.

Within liabilities a payable is recorded, under short-term and medium term, towards the leasing company; the lease payments are reversed from expenses for the use of third party assets and the financial charges for the period are recognised on an accruals basis.

### **Impairments**

The carrying value of the assets of the Company are measured at each reporting date to determine whether there has been a loss in value, in which case an estimate is made of the recoverable value of the asset. A loss in value (impairment) is recorded in the income statement when the carrying value of an asset or a cash-generating unit exceeds its recoverable value.

The indefinite intangible assets (including goodwill) are tested annually and whenever there is an indication of a possible loss, in order to determine whether a loss in value has occurred.

### **Measuring recoverable amount**

The recoverable value of a non-financial asset is the higher of the fair value less costs to sell and the value in use. For the determination of the value in use, the future cash flows are discounted utilising a rate which reflects the current market value of money and of the related risks of the activity. In the case of activities which do not generate cash flows sufficiently independent, it is necessary to calculate the recoverable value of the cash-generating unit to which the asset belongs.

### **Write-back of value**

The value is recovered when changes take place in the valuations to determine the recoverable value. The recoverable value is recorded in the income statement adjusting the book value of the asset to its recoverable value. This latter must not be above the value which would have been determined, net of depreciation, if no loss in value of the asset had been recorded in previous years.

### **Equity invest. & other financial assets**

#### **Investments in subsidiaries, associates and joint ventures**

In the separate financial statements of BasicNet S.p.A. the investments in subsidiaries, associates and joint ventures are recorded at cost, adjusted for any loss in value; the cost includes any directly attributable accessory charges. The positive difference, arising on purchase, between the acquisition cost and the share of net equity of the investment of the Company is, therefore, included in the carrying value of the investment.

Where there is an indication of a loss, the carrying value of the investment must be compared with the recoverable value, represented by the higher between the fair value, net of selling costs, and the value in use. For non-listed investments, the fair value is determined with reference to binding sales agreement. The value in use is determined discounting the expected cash flows from the investment at the weighted average cost of capital, net of the financial debt. The cash flows are determined on the basis of reasonable and identifiable assumptions, represented by the best estimates of the future economic conditions.

Where an impairment loss exists, it is recognised immediately through the income statement. Where the reasons for the write-down no longer exist, the value of the investment is restored within the limit of the original cost through the income statement.

Where the share of losses pertaining to the company in the investment exceeds the carrying value of the investment, the value of the investment is written down and the share of further losses is recorded as a provision under liabilities if the Company has the obligation to cover such losses.

#### **Other investments**

Investments other than those in subsidiaries, associated companies and joint ventures are recognised under non-current assets or current assets if held within the equity of the Company for a period, respectively, of greater than, or not greater than, 12 months.

On acquisition, they are classified to the following categories:

- “financial assets available-for-sale” within non-current or current assets;
- “fair value assets with changes to the book value to the income statement”, within current assets if held-for-trading.

The other investments classified as “financial assets available-for-sale” are measured at fair value; the change to the values of these investments are recognised to a net equity reserve through the other comprehensive income statement items, which will be reversed to the income statement on sale or impairment.

Other non-listed investments classified as “financial assets available-for-sale” for which the fair value may not be reliably estimated are valued at cost, adjusted for impairments to the income statement, according to IAS 39 – *financial instruments: recognition and measurement*.

The reduction in value of other investments classified as “financial assets available-for-sale” may not be subsequently reversed.

Changes in the value of other investments classified as “financial assets at fair value with changes recorded in the income statement” are recognised directly to the Income Statement.

#### Other financial assets

Financial assets consist of loans are recorded at their estimated realisable value.

#### Net inventories

Inventory is valued under the average weighted cost method.

Inventories are measured at the lower of purchase or production cost and their net realisable value.

Inventories include incidental charges and direct and indirect costs that can be reasonably allocated. Obsolete and slow-moving inventories are written down in relation to their possible utilisation or realisable value. When in future periods the reasons for the write-down no longer exist, they are restored to the original value.

#### Receivables and other current assets

Receivables recorded under current assets are stated at their nominal value, which substantially coincides with the amortised cost. The initial value is subsequently adjusted to take into account any write-downs which reflect the estimate of the losses on receivables, determined based on a specific provision on doubtful debts and a general provision based on past experience. Medium/long-term receivables which include an implicit interest component are discounted utilising an appropriate market rate. Receivables transferred without recourse, in which all the risks and benefits substantially are transferred to the factoring company, are reversed in the financial statements at their nominal value.

#### Cash and cash equivalents

The liquid assets principally relate to current bank accounts and cash. They are recorded for amounts effectively available at year end.

The cash equivalents are invested in highly liquid temporary financial instruments.

#### Accruals and prepayments

The account includes amounts related to two accounting periods, in accordance with the accruals concept.

#### Treasury shares

Treasury shares are recognised as a deduction from equity. The original cost of the treasury shares and the revenues deriving from any subsequent sale are recognised as equity movements.



**Provisions for risks and charges**

Provisions for risks and charges are recorded in the balance sheet only when a legal or implicit obligation exists deriving from a past event that determines the commitment of resources to produce economic benefits for their compliance and a reliable estimate of the amount can be determined.

**Employee benefits**

The Post-Employment Benefit in accordance with Italian legislation is quantified as a defined benefit plan and is measured in accordance with the “Projected Unit Credit Method”.

From January 1, 2007, this liability refers exclusively to the portion of the Post-Employment Benefit, matured up to December 31, 2006, which following the complementary pension reform (Legislative Decree No. 252 of December 5, 2005) continues to constitute an obligation of the company. Following the entry into force of the above-mentioned reform as enacted by Law No. 296 of December 27, 2006 (2007 Finance Law), the liability, as concerning services already completely matured, was restated without applying the pro-rata of the employment service and without considering, in the actuarial calculation, the components relating to future salary increases.

On June 16, 2011, the IASB issued an amendment to IAS 19 *Employee Benefits*. The new version of IAS 19 requires, in particular, for post-employment benefits, the recognition of the changes of the actuarial gains/losses under other items of the Comprehensive Income Statement. The cost relating to employment services, as well as the interest on the “time value” component in the actuarial calculations remain in the profit and loss account.

The portion of the Post-Employment Benefit paid to a supplementary pension fund is considered a defined contribution plan as the obligation of the company towards the employee ceases with the payment of the amount matured to the funds. Also the portion of the Post-Employment Benefit paid to the INPS Treasury fund is recorded as a defined contribution plan.

**Payables**

Financial payables are recorded at their nominal value which approximates the amortised cost. The book value of the trade and other payables at the balance sheet date approximates their fair value.

**Cash flow hedges and accounting of relative operations**

BasicNet S.p.A. utilises financial instruments to hedge interest rate fluctuations on some loans.

These instruments are initially recorded at their fair value, and subsequently measured according to whether they are “hedged” or “not hedged” as per IAS 39.

It is recalled that the BasicNet S.p.A. does not undertake contracts for speculative purposes.

The hedging may be of two types:

- Fair value hedges;
- Cash flow hedges.

BasicNet S.p.A., before signing a hedge contract, undertakes a close examination of the relationship between the hedge instrument and the item hedged, in view of the objectives to reduce the risk, also evaluating the existence and the continuation over the life of the derivative financial instrument of the effectiveness requirements, necessary for the hedge accounting.

After their initial recognition, the derivatives are accounted as follows:

a) Fair value hedges

The changes in their fair value are recognised in the income statement, together with the changes in the fair value of the relative assets and liabilities hedged.

The Company does not utilise fair value hedge instruments.

b) Cash flow hedges

The part of the profit or loss of the hedge instrument, considered effective, is recorded directly in the comprehensive income statement; the non-effective part is however recorded immediately in the income statement. The accumulated amounts in the comprehensive income statement are recorded in the income statement in the year in which the scheduled hedge operation matures or the instrument hedged is sold, or when the effectiveness requirements for hedge accounting no longer exist.

c) Derivative financial instruments which do not have the effectiveness requirements for hedge accounting

The derivative financial instruments which do not comply with the requirements of IAS 39 for the identification of the hedge, where present, are classified in the category of financial assets and liabilities measured at fair value through the profit and loss account.

Hierarchy of Fair Value according to IFRS 7

IFRS 7 requires that the classification of financial instruments measured at fair value is determined based on the quality of the input sources used in the valuation.

The IFRS 7 classification implies the following hierarchy:

- *level 1*: determination of fair value based on prices listed (“unadjusted”) in active markets for identical assets or liabilities;
- *level 2*: determination of fair value based on other inputs than the listed prices included in “level 1” but which are directly or indirectly observable. This category includes the instruments with which the Company mitigates the risk deriving from fluctuations in interest rates and currencies;
- *level 3*: determination of fair value based on valuation models whose input is not based on observable market data (“unobservable inputs”).

**5. OTHER INFORMATION**

The subsequent events to the end of the year and the outlook for the current year are reported in the Directors’ Report.



**EXPLANATORY NOTES (IN EURO)****6. DISCLOSURE BY OPERATING SEGMENT**

As the Company simultaneously publishes the separate and consolidated financial statements, the operating segment information is provided only for the consolidated financial statements in accordance with IFRS 8 – *Operating segments*.

**7. DIRECT SALES**

The direct sales of products undertaken by the Company refer only to samples of clothing and footwear to licensees. The breakdown of sample sales is as follows:

	<b>FY 2016</b>	<b>FY 2015</b>
Net sales to third parties	697,174	752,033
Net sales to subsidiaries	2,023,328	1,534,262
<b>Total direct sales</b>	<b>2,720,502</b>	<b>2,286,295</b>

Sales to subsidiaries are detailed in Note 40.

The breakdown of direct sales by geographic area is reported below:

	<b>FY 2016</b>	<b>FY 2015</b>
Italy	2,066,737	1,590,414
Europe	357,809	368,470
The Americas	118,244	165,876
Asia and Oceania	171,872	156,143
Middle East and Africa	5,840	5,392
<b>Total</b>	<b>2,720,502</b>	<b>2,286,295</b>

The direct sale of samples reported a Euro 509 thousand increase, following increased orders from licensees.

**8. COST OF SALES**

The breakdown of the cost of sales is as follows:

	<b>FY 2016</b>	<b>FY 2015</b>
Samples purchased	1,671,284	1,400,173
Freight charges and accessory purchasing cost	389,468	372,637
Change in inventory of raw materials, ancillary, consumables and goods	(33,413)	(14,552)
Prototypes purchases and development	338,180	366,536
Other	59,232	72,129
<b>Total cost of sales</b>	<b>2,424,751</b>	<b>2,196,923</b>

The breakdown of the sample purchases and accessory purchases by geographic area is reported below:

	<b>FY 2016</b>	<b>FY 2015</b>
Asia and Oceania	1,197,019	1,095,859
Italy	282,059	212,368
Europe	144,036	30,642
The Americas	43,968	41,912
Middle East and Africa	4,203	19,392
<b>Total</b>	<b>1,671,284</b>	<b>1,400,173</b>

Sample purchases were made by BasicNet S.p.A. for resale to the licensees. The increase is principally related to higher sales and increased costs related to the development of new prototypes.

**9. ROYALTIES AND SOURCING COMMISSIONS**

The breakdown of royalties and sourcing commissions by geographic area is reported below.

	<b>FY 2016</b>	<b>FY 2015</b>
Europe	12,359,428	13,407,574
The Americas	2,246,060	1,820,469
Asia and Oceania	11,819,530	11,056,477
Middle East and Africa	940,900	1,042,946
<b>Total</b>	<b>27,365,918</b>	<b>27,327,466</b>

Royalty income comprises fees on licenses for know-how and the development of the Group brand collections, in addition to royalties for the use of the K-Way brand. Sourcing commissions stem from usage rights of the know-how and are charged to the licensee producers on the sales made by them to the licensees of the *Network*.

The increase relates to the commercial developments described in the Directors' Report, based on the consolidated figures, whose effects are reflected also in the Company figures.

**10. OTHER INCOME**

	<b>FY 2016</b>	<b>FY 2015</b>
Assistant services to Group companies	6,057,700	6,058,284
Other income	438,998	618,285
<b>Total other income</b>	<b>6,496,698</b>	<b>6,676,569</b>

The “revenues for assistant services to Group companies” originates from assistance and consultancy in administration and finance, payroll, commercial contract agreements and IT services provided by the Parent Company to the subsidiaries BasicItalia S.p.A., Basic Village S.p.A., Basic Trademark S.A., Superga Trademark S.A., Jesus Jeans S.r.l and Fashion S.r.l..

“Other income” in 2016 included a contribution of Euro 250 thousand for the co-branding operation with FCA Italy S.p.A. for the Panda K-Way, Euro 31 thousand for contributions to the Premium Berlin trade fair invoiced to the German licensee, Euro 95 thousand from co-branding operations and Euro 36 thousand of prior year income, in addition to minor amounts.

**11. SPONSORSHIP AND MEDIA COSTS**

	<b>FY 2016</b>	<b>FY 2015</b>
Communication contributions	39,190	291,737
Promotional expenses	46,055	33,265
Advertising	404,969	411,801
<b>Total sponsorship and media costs</b>	<b>490,214</b>	<b>736,803</b>

The decrease of Euro 247 thousand principally concerned the reduced communication contributions granted to commercial licensees compared to the previous year.

**12. PERSONNEL COSTS**

	<b>FY 2016</b>	<b>FY 2015</b>
Salaries and wages	6,057,645	5,995,888
Social security charges	1,979,865	2,022,745
Post-employment benefits	384,462	421,430
<b>Total</b>	<b>8,421,972</b>	<b>8,400,063</b>

Personnel costs include all charges relating to the provision of employment services of BasicNet S.p.A.. The changes in the headcount during the year were as follows:

Category	Human Resources at December 31, 2016				Human Resources at December 31, 2015			
	Number		Average age		Number		Average age	
	Male/Female	Total	Male/Female	Average	Male/Female	Total	Male/Female	Average
Executives	15 / 8	23	46 / 49	47	13 / 8	21	47 / 48	47
Managers	- / -	-	- / -	-	1 / -	1	53 / -	53
White-collar	56 / 104	160	36 / 38	37	52 / 100	152	37 / 39	38
Blue-collar	1 / 2	3	36 / 44	41	1 / 2	3	35 / 43	40
Total	72 / 114	186	38 / 39	39	67 / 110	177	39 / 39	39

The average number of Employees in 2016 was 182, comprising 21 executives, 1 senior manager, 157 white-collar employees and 3 blue-collar employees.

### 13. SELLING, GENERAL AND ADMINISTRATIVE COSTS, AND ROYALTIES EXPENSES

The breakdown of service costs is presented in the table below:

	FY 2016	FY 2015
Commercial expenses	3,367,312	2,521,131
Rental, accessory and utility expenses	3,364,995	3,299,212
Directors and Statutory Auditors emoluments	2,892,952	2,857,821
Doubtful debt provision	500,678	180,000
Sales services	475,132	288,487
Other general expenses	3,597,430	3,191,832
<b>Total royalties passive</b>	<b>14,198,499</b>	<b>12,338,483</b>

“Commercial expenses” include costs related to the commercial activities, travel expenses and consulting costs for stylistic and graphic material and increased approx. Euro 800 thousand, related to additional consultancy for the development of new products and increased travel for new market development.

“Rental charges” principally relate to the offices of the company, owned by the subsidiary Basic Village S.p.A.

The company’s remuneration policy, as well as Directors and Statutory Auditors emoluments for the offices held, pursuant to Article 78 of Consob Regulation No. 11971/97 and thereafter are reported in the Remuneration Report pursuant to Article 123-ter of the CFA (reported net of tax charges) which is available on the company’s website [www.basicnet.com/contenuti/datifinanziari/assembleeazionisti.asp](http://www.basicnet.com/contenuti/datifinanziari/assembleeazionisti.asp), to which reference should be made.

“Sales services” include expenses for exporting samples in addition to “royalties’ charges” principally relating to co-branding operations.

The “doubtful debt provision” of Euro 501 thousand follows an improved estimate of the risk of non-payment of receivables due. The increase relates to credit positions with a number of licensees, whose contracts terminated during the year.

The account “other general expenses” includes legal and professional fees, bank charges, other taxes, consumption materials, hire charges, and corporate and other minor expenses. The increase is due to greater recourse to legal and professional consultants.

#### 14. AMORTISATION & DEPRECIATION

Depreciation of fixed assets includes depreciation on finance lease assets.

	<b>FY 2016</b>	<b>FY 2015</b>
Amortisation	1,791,566	1,753,275
Depreciation	382,172	321,006
<b>Total amortisation &amp; depreciation</b>	<b>2,173,738</b>	<b>2,074,281</b>

The increase in the year reflects the investments made in previous years.

#### 15. NET FINANCIAL INCOME (CHARGES)

	<b>FY 2016</b>	<b>FY 2015</b>
Interest on bank deposits	136	187
Intercompany interest income	516,251	597,816
Current account interest	(108,792)	(56,798)
Interest on medium/long term loans	(242,348)	(372,747)
Medium/long term loan charges	(47,093)	(42,690)
Other interest charges	(63,597)	(81,113)
<b>Total financial income and charges</b>	<b>54,557</b>	<b>44,655</b>
Exchange gains	443,576	967,092
Exchange losses	(308,031)	(642,877)
<b>Net exchange gains/(losses)</b>	<b>135,545</b>	<b>324,215</b>
<b>Total financial income/(charges)</b>	<b>190,102</b>	<b>368,870</b>

“Intercompany interest income” derives from operations during the year and regulated through intercompany accounts, remunerated at market rates.

“Interest on medium/long-term loans” refers to the amortising loan obtained from UBI Banca in the second half of 2013 and the Intesa Sanpaolo loan obtained last year.

“Exchange gains realised” in 2016 amounted to Euro 325 thousand and “exchange losses realised” amounted to Euro 248 thousand. The translation of credit and debit balances at year-end resulted in the recognition of “non-realised exchange losses” of Euro 60 thousand and “non-realised exchange gains” of Euro 118 thousand.

**16. DIVIDENDS**

The subsidiary Basic Properties B.V. approved in the year the distribution of a dividend to BasicNet of Euro 1.5 million, based on the dividends in turn received from the entirely held subsidiaries Superga Trademark S.A. and Basic Properties America Inc..

**17. INCOME/(CHARGES) FROM INVESTMENTS**

The account includes the gain from the sale of the 50% holding in AnziBesson Trademark S.r.l. to the Besson family.

**18. INCOME TAXES**Current income tax

Income taxes overall amounted to Euro 2.9 million, of which IRAP for Euro 0.5 million, IRES for Euro 2.8 million and other amounts for Euro 0.2 million, while also including the benefits related to the “Patent Box” regulation of Euro 0.6 million.

It should be noted that the benefit attributable to the application of the recent “Patent Box” regulation was limited to the part not subject to review by the Tax Agency and for which an application was presented within the terms established by the relative notices; it should also be noted that the Tax Agency undertook the “review activities in which it was established that BasicNet is within the scope of the subsidy, with the formal substance verified of the obligatory elements for access to the optional system and the application therefore declared admissible”.

The reconciliation between the theoretical and actual rate is shown below:

	Dec. 31, 2016		Dec. 31, 2015	
<b>Ordinary rate applicable</b>		<b>27.50%</b>		<b>27.50%</b>
Pre-tax result (current and deferred)	10,584,619		16,312,647	
Theoretical tax on statutory result		2,910,770		4,485,978
Effect of increases (decreases) to the ordinary rate:				
. non-deductible sales rep. expenses	471,128		384,806	
. non-deductible (exempt) depreciation/amortisation	16,385		16,034	
. vehicle management expenses	235,067		258,307	
. prior year expenses/income non-deductible (exempt)	25,364		(87,135)	
. exempt dividends	(1,429,904)		(5,130,000)	
. other differences	272,280		255,493	
Assessable income	10,174,939		12,010,152	
Total current IRES		2,798,108		3,302,792
<b>Effective rate</b>		<b>26.44%</b>		<b>20.25%</b>
<b>Difference between theoretical and actual rate</b>		<b>(1.06%)</b>		<b>(7.25%)</b>

<b>Reconciliation current IRAP</b>	<b>Dec. 31, 2016</b>		<b>Dec. 31, 2015</b>	
Ordinary rate applicable		3.90%		3.90%
Assessable IRAP	20,865,573		22,006,167	
Theoretical tax charge		813,757		858,241
Effect of increases (decreases) to the ordinary rate:				
- vehicle management expenses	11,113		10,329	
- prior year expenses/income non-deductible (exempt)	475,313		149,944	
- depreciation/amortisation for tax purposes	(606,345)		(606,345)	
- tax amnesty	(8,188,990)		(7,744,343)	
- other permanent differences	462,011		31,866	
- temporary differences on which deferred taxes have not been provisioned:	(25,000)		(25,000)	
Assessable IRAP restated	12,993,675		13,822,618	
<b>Effective tax</b>		<b>506,753</b>		<b>539,082</b>
<b>Effective rate</b>		<b>2.43%</b>		<b>2.45%</b>
<b>Difference between theoretical and actual rate</b>		<b>(1.47%)</b>		<b>(1.45%)</b>

Deferred taxes

“Income taxes” include Euro 247 thousand against the provision of deferred taxes on differences between the book value and tax value of the assets/liabilities.

The 2016 Stability Law (Law 208/2015), published in the Official Gazette of December 30, 2015, introduced a reduction to the IRES rate from 27.5% to 24% from January 1, 2017. This change in the rate was already incorporated into the calculation of deferred taxes for the previous year, in line with paragraph 47 of IAS 12, which establishes the utilisation of the tax rates applicable in the year in which the asset shall be realised or the generating liability settled.

**EXPLANATORY NOTES TO THE BALANCE SHEET (IN EURO)****ASSETS****19. INTANGIBLE ASSETS**

The breakdown of intangible assets at December 31, 2016 compared to the previous year-end and the movements during the year are reported in the table below:

	<b>Dec. 31, 2016</b>	<b>Dec. 31, 2015</b>	<b>Changes</b>
Concessions, brands and similar rights	8,367,231	8,365,117	2,114
Other intangible assets	3,341,519	3,361,995	(20,476)
Intangible assets in progress	362,436	354,525	7,911
Industrial patents & intellectual property rights	40,990	33,393	7,597
<b>Total intangible assets</b>	<b>12,112,176</b>	<b>12,115,030</b>	<b>(2,854)</b>

The changes in the original costs of the intangible assets were as follows:

	<b>Concessions, brands, and similar rights</b>	<b>Other intangible assets</b>	<b>Intangible assets in progress</b>	<b>Industrial patents</b>	<b>Total</b>
<b>Historic cost at 1.1.2015</b>	<b>12,401,068</b>	<b>26,476,600</b>	<b>268,377</b>	<b>53,347</b>	<b>39,199,392</b>
<i>Additions</i>	<i>117,049</i>	<i>1,556,486</i>	<i>354,525</i>	<i>27,655</i>	<i>2,055,715</i>
<i>Reclass.</i>	<i>-</i>	<i>268,377</i>	<i>(268,377)</i>	<i>-</i>	<i>-</i>
<b>Historic cost at 31.12.2015</b>	<b>12,518,117</b>	<b>28,301,463</b>	<b>354,525</b>	<b>81,002</b>	<b>41,255,107</b>
<i>Additions</i>	<i>149,684</i>	<i>1,261,936</i>	<i>362,436</i>	<i>14,656</i>	<i>1,788,712</i>
<i>Reclass.</i>	<i>-</i>	<i>354,525</i>	<i>(354,525)</i>	<i>-</i>	<i>-</i>
<b>Historic cost at 31.12.2016</b>	<b>12,667,801</b>	<b>29,917,924</b>	<b>362,436</b>	<b>95,658</b>	<b>3,043,819</b>

The changes in the relative accumulated depreciation provisions were as follows:

	<b>Concessions, brands, and similar rights</b>	<b>Other intangible assets</b>	<b>Intangible assets in progress</b>	<b>Industrial patents</b>	<b>Total</b>
<b>Acc. Amort. at 1.1.2015</b>	<b>(4,009,683)</b>	<b>(23,335,133)</b>	<b>-</b>	<b>(41,986)</b>	<b>(27,386,802)</b>
<i>Amortisation</i>	<i>(143,317)</i>	<i>(1,604,335)</i>	<i>-</i>	<i>(5,623)</i>	<i>(1,753,275)</i>
<b>Acc. Amort. at 31.12.2015</b>	<b>(4,153,000)</b>	<b>(24,939,468)</b>	<b>-</b>	<b>(47,609)</b>	<b>(29,140,077)</b>
<i>Amortisation</i>	<i>(147,150)</i>	<i>(1,636,937)</i>	<i>-</i>	<i>(7,059)</i>	<i>(1,791,566)</i>
<b>Acc. Amort. at 31.12.2016</b>	<b>(4,300,570)</b>	<b>(23,576,405)</b>	<b>-</b>	<b>(54,668)</b>	<b>(30,930,643)</b>



The changes in intangible assets during 2016 are shown in the table below:

	<b>Concessions, brands, and similar rights</b>	<b>Other intangible assets</b>	<b>Intangible assets in progress</b>	<b>Industrial patents</b>	<b>Total</b>
<b>Opening net book value at 1.1.2015</b>	<b>8,391,385</b>	<b>3,141,467</b>	<b>268,377</b>	<b>11,361</b>	<b>11,812,590</b>
<i>Additions</i>	<i>117,049</i>	<i>1,556,486</i>	<i>354,525</i>	<i>27,655</i>	<i>2,055,715</i>
<i>Reclass.</i>	<i>-</i>	<i>268,377</i>	<i>(268,377)</i>	<i>-</i>	<i>-</i>
<i>Amortisation</i>	<i>(143,317)</i>	<i>(1,604,335)</i>	<i>-</i>	<i>(5,623)</i>	<i>(1,753,275)</i>
<b>Closing net book value at 31.12.2015</b>	<b>8,365,117</b>	<b>3,361,995</b>	<b>354,525</b>	<b>33,393</b>	<b>12,115,030</b>
<i>Additions</i>	<i>149,684</i>	<i>1,261,936</i>	<i>362,436</i>	<i>14,656</i>	<i>1,788,712</i>
<i>Reclass.</i>	<i>-</i>	<i>354,525</i>	<i>(354,525)</i>	<i>-</i>	<i>-</i>
<i>Amortisation</i>	<i>(147,570)</i>	<i>(1,636,937)</i>	<i>-</i>	<i>(7,059)</i>	<i>(1,791,566)</i>
<b>Closing net book value at 31.12.2016</b>	<b>8,367,231</b>	<b>3,341,519</b>	<b>362,436</b>	<b>40,990</b>	<b>12,112,176</b>

At December 31, 2016, the intangible assets report investments of Euro 1.8 million, amortisation of approx. Euro 1.8 million; there were no significant disposals during the year.

The increase in “concession, brands and similar rights” is due to costs incurred for the registration of brands in new countries, for renewals and extensions and for the purchase of license software.

The brand K-Way has a book value of Euro 8.1 million at December 31, 2016. In view of the strategic positioning reached by the brand, where there is currently no predictable time frame for the generation of future cash flow streams, it is considered an intangible asset with indefinite useful life.

The impairment test on the book value of the brand was carried out in line with previous years, discounting the royalty net cash flows estimated from the brand in the period 2017-2021. For the years beyond the fifth year a terminal value was calculated on the net royalty cash flow of the fifth year, with a growth rate of 1.5%. These net cash flows were discounted at the weighted average cost of capital (WACC) equal to 6.0% (6.5% in 2015), determined with reference to the following parameters, taken from the principal financial information websites:

- Sector Beta: the parameter, indicator of the sector risk, amounts to 1.2 (1.18 in 2015).
- Market Risk Premium (MRP): amounts to 6.0% (6.25% in 2015), unchanged compared to the previous year, and represents the difference between the return on the investments without risk and the return of the investments with risk.
- Risk Free Rate (RFR): amounts to 1.45% (1.75% in 2015), in line with the return on ten-year State bonds.
- Debt cost: amounts to 2.0%, (2.72% in 2015).
- Debt (40%)/equity (60%) ratio, unchanged compared to the previous year.

Following the impairment test, no write-down was required on the brand, whose value in use, in line with previous years, comfortably exceeded the book value.

The breakdown of “other intangible assets” is as follows:

	<b>Dec. 31, 2016</b>	<b>Dec. 31, 2015</b>	<b>Changes</b>
Software development	3,322,297	3,334,861	(12,564)
Other intangible assets	19,222	27,134	(7,912)
<b>Total other intangible assets</b>	<b>3,341,519</b>	<b>3,361,995</b>	<b>(20,476)</b>

The account increased Euro 1.6 million, principally due to the implementation of new software programmes realised internally and decreased Euro 1.6 million due to the amortisation for the year.

## 20. **PLANT, MACHINERY AND OTHER ASSETS**

The breakdown of plant, machinery and other assets at December 31, 2016 compared to the previous year is shown in the table below:

	<b>Dec. 31, 2016</b>	<b>Dec. 31, 2015</b>	<b>Changes</b>
Plant and machinery	52,508	56,895	(4,387)
Industrial and commercial equipment	94,994	63,166	31,828
Other assets	1,622,057	1,423,208	198,849
<b>Total plant, machinery and other assets</b>	<b>1,769,559</b>	<b>1,543,269</b>	<b>226,290</b>

The changes in the historical cost of plant, machinery and other assets were as follows:

	<b>Plant and machinery</b>	<b>Industrial &amp; commercial equipment</b>	<b>Other assets</b>	<b>Total</b>
<b>Historic cost at 1.1.2015</b>	<b>174,112</b>	<b>260,995</b>	<b>6,273,759</b>	<b>6,708,866</b>
<i>Additions</i>	<i>34,091</i>	<i>33,332</i>	<i>432,967</i>	<i>500,390</i>
<i>Divestments</i>	<i>-</i>	<i>-</i>	<i>(3,642)</i>	<i>(3,642)</i>
<b>Historic cost at 31.12.2015</b>	<b>208,203</b>	<b>294,327</b>	<b>6,703,084</b>	<b>7,205,614</b>
<i>Additions</i>	<i>14,810</i>	<i>53,435</i>	<i>540,395</i>	<i>608,640</i>
<i>Divestments</i>	<i>-</i>	<i>-</i>	<i>(2,457)</i>	<i>(2,457)</i>
<b>Historic cost at 31.12.2016</b>	<b>223,013</b>	<b>347,762</b>	<b>7,241,022</b>	<b>7,811,797</b>

The changes in the relative accumulated depreciation provisions were as follows:

	<b>Plant and machinery</b>	<b>Industrial &amp; commercial equipment</b>	<b>Other assets</b>	<b>Total</b>
<b>Acc. Deprec. at 1.1.2015</b>	<b>(143,694)</b>	<b>(213,678)</b>	<b>(4,987,377)</b>	<b>(5,344,749)</b>
<i>Depreciation</i>	<i>(7,614)</i>	<i>(17,483)</i>	<i>(295,908)</i>	<i>(321,005)</i>
<i>Divestments</i>	<i>-</i>	<i>-</i>	<i>3,409</i>	<i>3,409</i>
<b>Acc. Deprec. at 31.12.2015</b>	<b>(151,308)</b>	<b>(231,161)</b>	<b>(5,279,876)</b>	<b>(5,662,345)</b>
<i>Depreciation</i>	<i>(19,197)</i>	<i>(21,607)</i>	<i>(341,368)</i>	<i>(382,172)</i>
<i>Divestments</i>	<i>-</i>	<i>-</i>	<i>2,279</i>	<i>2,279</i>
<b>Acc. Deprec. at 31.12.2016</b>	<b>(170,505)</b>	<b>(252,768)</b>	<b>(5,618,965)</b>	<b>(6,042,238)</b>

The changes in the plant and machinery are shown in the table below:

	<b>Plant and machinery</b>	<b>Industrial &amp; commercial equipment</b>	<b>Other assets</b>	<b>Total</b>
<b>Opening net book value at 1.1.2015</b>	<b>30,418</b>	<b>47,317</b>	<b>1,286,382</b>	<b>1,364,117</b>
<i>Additions</i>	<i>34,091</i>	<i>33,332</i>	<i>432,967</i>	<i>500,390</i>
<i>Divestments</i>	<i>-</i>	<i>-</i>	<i>(233)</i>	<i>(233)</i>
<i>Depreciation</i>	<i>(7,614)</i>	<i>(17,483)</i>	<i>(295,908)</i>	<i>(321,005)</i>
<b>Closing net book value at 31.12.2015</b>	<b>56,895</b>	<b>63,166</b>	<b>1,423,208</b>	<b>1,543,269</b>
<i>Additions</i>	<i>14,810</i>	<i>53,435</i>	<i>540,395</i>	<i>608,640</i>
<i>Divestments</i>	<i>-</i>	<i>-</i>	<i>(178)</i>	<i>(178)</i>
<i>Depreciation</i>	<i>(19,197)</i>	<i>(21,607)</i>	<i>(341,368)</i>	<i>(382,172)</i>
<b>Closing net book value at 31.12.2016</b>	<b>52,508</b>	<b>94,994</b>	<b>1,622,057</b>	<b>1,769,559</b>

This account “other assets” consist of:

	<b>Dec. 31, 2016</b>	<b>Dec. 31, 2015</b>	<b>Changes</b>
EDP	505,362	448,697	56,665
Furnishings and fittings	308,909	297,296	11,613
Transport vehicles	63,487	11,060	52,427
Other assets	744,299	666,155	78,144
<b>Total other assets</b>	<b>1,622,057</b>	<b>1,423,208</b>	<b>198,849</b>

The investments in the year relate to the acquisition of furnishings and fittings for EDP for Euro 216 thousand, moulds for new products for Euro 161 thousand, plant for Euro 15 thousand and equipment and telephones of Euro 66 thousand and minor assets.

The account “other assets” includes the purchase cost of an IT collection comprising rare pieces which represents significant elements and representative of the IT revolution, in the 1970’s and 1980’s with the advent of the new personal computer. This collection is utilised in many events related to the promotion of the brands and logos of the Group. The account also includes the purchase cost of moulds for footwear, so that ownership is held in order to control the strategic stages of the production process utilised by the suppliers’ of finished products.

The net book value of property, plant and equipment acquired according to the finance lease formula is reported below:

	Net value at December 31, 2016	Net value at December 31, 2015
EDP	61,810	79,470
Motor vehicles	49,365	9,822
<b>Total</b>	<b>111,175</b>	<b>89,292</b>

The net book value at December 31, 2016 of property, plant and equipment acquired according to the finance lease formula relates to EDP for approx. Euro 62 thousand and motor vehicles for approx. Euro 49 thousand.

## 21. EQUITY INVESTMENTS AND OTHER FINANCIAL ASSETS

The list of investments and changes during the year are shown in Attachment 1 to the explanatory notes:

	Dec. 31, 2016	Dec. 31, 2015	Changes
Investments in:			
- Subsidiaries	35,754,488	35,754,488	-
- Joint ventures	465,000	490,000	(25,000)
- Other companies	128	128	-
<b><i>Total investments</i></b>	<b><i>36,219,616</i></b>	<b><i>36,244,616</i></b>	<b><i>(25,000)</i></b>
Receivables:			
- Joint Ventures	-	90,000	(90,000)
- Other receivables	10,251	10,230	21
<b><i>Total financial receivables</i></b>	<b><i>10,251</i></b>	<b><i>100,230</i></b>	<b><i>(89,979)</i></b>
<b>Total investments &amp; other financial assets</b>	<b>36,229,867</b>	<b>36,344,846</b>	<b>(114,979)</b>

Reference should be made to Attachment 1 for information on the book value of the investments in subsidiaries.

In line with the practice adopted by other large listed groups in Italy, BasicNet S.p.A. identifies in the negative differential between the share of net equity held in the subsidiary and its book value an indicator of an impairment for the investments of control in its financial statements. From this comparison, undertaken for all of the subsidiaries, it emerged the necessity to undertake an impairment test on the book value on the investment of the subsidiary BasicItalia S.p.A.

The test was undertaken comparing the book value of the investment with its value in use, determined through discounting the net cash flows from BasicItalia S.p.A. and its subsidiary, in the five year period 2017-2021, to the WACC (Note 19), deducting the total net debt of the sub-group. This impairment test did not result in the need for a write-down in the book value of the investment.

The book value of the subsidiary Basic Properties B.V., amounting to Euro 3.6 million at December 31, 2016, was unchanged compared to the previous year. The Dutch subsidiary, now only a sub-holding, in turn holds two controlling investments in Luxemburg companies owning the historic brands Kappa and Robe di Kappa and Superga, respectively Basic Trademark S.A. and Superga Trademark S.A.. For the purposes of the impairment test, the book value of the investment in the Dutch sub-holding was compared with the value in use of the brands held by the two subsidiaries, determined in accordance with the description at Note 19 of the consolidated financial statements. The impairment test did not give rise to any write-down.

The receivables from joint ventures in 2015 related to a shareholder loan in favour of AnziBesson Trademark S.r.l., with the investment in the company holding the Besson brand sold last December.

Other receivables refer to guarantee deposits.

## 22. NET INVENTORIES

The composition of the item is as follows:

	Dec. 31, 2016	Dec. 31, 2015	Changes
Finished products and goods for resale	1,840,672	1,667,759	172,913
<b>Gross value</b>	<b>1,840,672</b>	<b>1,667,759</b>	<b>172,913</b>
Inventory obsolescence provision	(1,032,775)	(893,275)	(139,500)
<b>Total net inventories</b>	<b>807,897</b>	<b>774,484</b>	<b>33,413</b>

“Inventories” includes samples to be sold to licensees. Inventories are valued under the weighted average cost method and net of the obsolescence provision considered reasonable for a prudent valuation of inventories of prior year sample collections. The movements in the provision during the year were as follows:

	2016	2015
<b>Inventory obsolescence provision at 1.1</b>	<b>893,275</b>	<b>1,012,775</b>
Provisions in the year	200,000	100,000
Utilisations	(60,500)	(219,500)
<b>Inventory obsolescence provision at 31.12</b>	<b>1,032,775</b>	<b>893,275</b>

The utilisation of the provision relates to the disposal of the excess samples from previous years.

## 23. TRADE RECEIVABLES

	Dec. 31, 2016	Dec. 31, 2015	Changes
Trade receivables - Italy	797,111	249,422	547,689
Trade receivables - Abroad	11,374,324	10,257,078	1,117,246
Doubtful debt provision	(1,552,057)	(1,069,376)	(482,681)
<b>Total trade receivables</b>	<b>10,619,378</b>	<b>9,437,124</b>	<b>1,182,254</b>

In particular, the breakdown of foreign receivables is as follows:

	<b>Dec. 31, 2016</b>	<b>Dec. 31, 2015</b>	<b>Changes</b>
Europe	2,789,785	2,270,958	518,827
The Americas	1,289,954	858,504	431,450
Asia and Oceania	7,192,777	7,024,256	168,521
Middle East and Africa	101,808	103,360	(1,552)
<b>Total</b>	<b>11,374,324</b>	<b>10,257,078</b>	<b>1,117,246</b>

“Trade receivables” were written down to their realisable value through the doubtful debt provision, although the majority of the receivables are secured by bank guarantees.

The provision at the end of the year represents a prudent estimate of the risk. The movements in the doubtful debt provision during the year were as follows:

	<b>2016</b>	<b>2015</b>
<b>Doubtful debt provision at 1.1</b>	<b>1,069,376</b>	<b>935,799</b>
Utilisation for administration procedures and other losses	(17,997)	(46,423)
Provisions in the year	500,678	180,000
<b>Doubtful debt provision at 31.12</b>	<b>1,552,057</b>	<b>1,069,376</b>

The utilisation of the provision relates to the write-off made on the certainty of the receivable irrecoverability and consequent tax deductibility of the loss. The increase relates to credit positions with a number of licensees, whose contracts terminated during the year.

The book value of receivables, all due within one year, is in line with their fair value.

The aging of the receivables is as follows:

<i>(In Euro thousands)</i>	<b>Dec. 31, 2016</b>	<b>Dec. 31, 2015</b>
Receivables not overdue and not written down	7,375	7,606
Receivables written down, net of provision	2,792	162
Overdue and not written down	453	1,669
<b>Total</b>	<b>10,620</b>	<b>9,437</b>

The overdue receivables and not written down include one debtor overdue between 0-6 months, which are expected to be settled in the near future.

**24. OTHER CURRENT ASSETS**

	<b>Dec. 31, 2016</b>	<b>Dec. 31, 2015</b>	<b>Changes</b>
Receivables from Group companies	68,130,795	64,944,986	3,185,809
Tax receivables	884,619	924,048	(39,429)
Other receivables	560,264	1,864,080	(1,303,816)
<b>Total other current assets</b>	<b>69,575,678</b>	<b>67,733,114</b>	<b>1,842,564</b>

The breakdown of “receivables from Group companies” is as follows:

	<b>Dec. 31, 2016</b>	<b>Dec. 31, 2015</b>	<b>Changes</b>
<i><u>Trade receivables</u></i>			
BasicItalia S.p.A.	704,412	543,235	161,177
Superga Trademark S.A.	20,833	20,833	-
Basic Trademark S.A.	458,334	458,334	-
Basic Properties B.V.	2,188,504	2,047,957	140,547
Anzi Besson Trademark S.r.l.	-	14,427	(14,427)
Jesus Jeans S.r.l.	1,405	8,194	(6,789)
<b>Total trade receivables</b>	<b>3,373,488</b>	<b>3,092,980</b>	<b>280,508</b>
<i><u>Financial receivables</u></i>			
BasicItalia S.p.A.	33,767,710	38,782,155	(5,014,445)
Basic Village S.p.A.	4,136,452	2,207,223	1,929,229
Superga Trademark S.A. for loan	13,921,782	17,240,476	(3,318,694)
Superga Trademark S.A.	4,094,209	1,238,547	2,855,662
Basic Trademark S.A.	6,134,001	1,075,739	5,058,262
BasicRetail S.r.l.	2,703,153	1,307,866	1,395,287
<b>Total financial receivables</b>	<b>64,757,307</b>	<b>61,852,006</b>	<b>2,905,301</b>
<b>Total</b>	<b>68,130,795</b>	<b>64,944,986</b>	<b>3,185,809</b>

Financial receivables originate from loans and advances for the cash needs of the subsidiaries within the centralised treasury management; these receivables are at market interest rates and vary in accordance with the financial cash flow needs within the Group.

No receivables have a residual duration of above 5 years.

The account “tax receivables” includes withholdings on royalties totalling Euro 533 thousand and Tax reimbursements due of Euro 277 thousand.

The account “other receivables” includes the premium paid to the insurance company against the Directors Termination Indemnities for the Chairman of the Board of Directors of Euro 500 thousand, as approved by the Shareholders’ Meeting for the 2016-2018 three-year mandate, as described in the Remuneration Report to which reference should be made and other minor amounts.

**25. PREPAYMENTS**

The table below shows the breakdown of the account:

	<b>Dec. 31, 2016</b>	<b>Dec. 31, 2015</b>	<b>Changes</b>
Prepaid expenses on 2017 collections	3,571,988	3,578,634	(6,646)
Royalty expenses	1,148	17,649	(16,501)
Telecommunications costs, new utilities	1,500	8,418	(6,918)
Insurance	35,579	59,177	(23,598)
Assistance and maintenance contract	125,031	53,972	71,059
Rentals, leases, hire and other	218,857	234,418	(15,561)
<b>Total prepayments</b>	<b>3,954,103</b>	<b>3,952,268</b>	<b>1,835</b>

Prepaid costs include creative personnel costs, sample costs for collections for which the corresponding sales revenues have not been realised and costs for trade fairs and exhibitions for future collections and the relative sales meetings.

**26. CASH AND CASH EQUIVALENTS**

	<b>Dec. 31, 2016</b>	<b>Dec. 31, 2015</b>	<b>Changes</b>
Bank and postal deposits	1,225,660	1,146,435	79,225
Cash and cash equivalents on hand	11,315	12,808	(1,493)
<b>Total cash and cash equivalents</b>	<b>1,236,975</b>	<b>1,159,243</b>	<b>77,732</b>

“Bank deposits” refer to temporary current account balances principally due to receipts from clients.



**SHAREHOLDERS' EQUITY & LIABILITIES****27. SHAREHOLDERS' EQUITY**

	<b>Dec. 31, 2016</b>	<b>Dec. 31, 2015</b>	<b>Changes</b>
Share capital	31,716,673	31,716,673	-
Treasury shares	(11,889,813)	(8,822,881)	(3,066,932)
Legal reserve	5,066,738	4,463,225	603,514
Treasury shares in portfolio reserve	11,889,813	8,822,881	3,066,932
Other reserves:			
- cash flow hedge reserve	(49,364)	(60,654)	11,290
- remeasurement reserve for defined benefit plans (IAS 19)	(69,263)	(61,963)	(7,300)
- retained earnings	42,699,624	39,921,710	2,777,914
Net profit	7,421,259	12,070,269	(4,649,010)
<b>Total Shareholders' Equity</b>	<b>86,785,667</b>	<b>88,049,260</b>	<b>(1,263,593)</b>

The account includes:

- The “legal reserve”, amounting to approx. Euro 5 million, which increased by approx. Euro 604 thousand following the allocation of the result for the previous year, as approved by the Shareholders' AGM of April 28, 2016;
- The “reserve for treasury shares in portfolio”, amounting to Euro 11.9 million, which equates to the carrying value of the BasicNet shares held in portfolio at year-end, and was set up through utilisation of the “Retained earnings” following the Shareholders' AGM resolution, which authorised the purchase of treasury shares;
- The “cash flow hedge reserve”, which changed in the year due to the fair value measurement of the derivative contracts defined as cash flow hedges held at December 31, 2016, relating to the conversion of the variable rate of the Intesa loan into a fixed rate. The market valuation of the cash flow hedge derivatives, described in Note 37, is shown net of the tax effect. This reserve is not available for distribution;
- The “*re-measurement reserve for defined benefit plans (IAS 19)*” refers to the changes in the actuarial gains/losses (“*re-measurement*”). The valuation is shown net of the tax effect. This reserve is not available for distribution;
- The “retained earnings”, which increased compared to the end of the previous year by Euro 2.8 million following the allocation of the result for the previous year, as approved by the Shareholders' AGM of April 28, 2016, net of the decrease for the acquisition of treasury shares.

The share capital of BasicNet S.p.A. amounted to Euro 31,716,673.04 (divided in 60,993,602 ordinary shares) of Euro 0.52 each fully paid in.

In May 2016, as approved by the Shareholders' AGM of BasicNet S.p.A. of April 28, 2016, in relation to the allocation of the 2015 net profit, a dividend of Euro 0.1 per share was distributed to each of the ordinary shares in circulation, for a total pay-out of approx. Euro 5.6 million.

Based on the share buy-back programme, at the reporting date the Company held 5,424,240 shares, equal to 8.89% of the share capital, for a total investment of approx. Euro 11.9 million. The weighted average number of shares outstanding in the year was 56,029,468.

The other gains and losses recorded directly in equity in accordance with IAS 1 are reported below and recognised to the Comprehensive Income Statement.

<i>(In Euro thousands)</i>	<b>Dec. 31, 2016</b>	<b>Dec. 31, 2015</b>	<b>Changes</b>
<i>Effective part of the Gains/losses on cash flow hedge instruments</i>	15	(45)	60
<i>Re-measurement of post-employment benefits (IAS 19) (*)</i>	(10)	44	(54)
<i>Tax effect relating to the Other items of the comprehensive income statement</i>	(1)	-	(1)
<b>Total other gains/(losses), net of tax effect</b>	<b>4</b>	<b>(1)</b>	<b>5</b>

(\*) items which may not be reclassified to the profit and loss account

The tax effect relating to “Other gain/losses” is as follows:

<i>(In Euro thousands)</i>	<b>December 31, 2016</b>			<b>December 31, 2015</b>		
	<b>Gross value</b>	<b>Tax Charge/ Benefit</b>	<b>Net value</b>	<b>Gross value</b>	<b>Tax Charge/ Benefit</b>	<b>Net value</b>
Effective part of Gains/losses on cash flow hedge instruments	15	(4)	11	(45)	12	(33)
Re-measurement of post-employment benefits (IAS 19) (*)	(10)	3	(7)	44	(12)	32
<b>Total other gains/(losses), net of tax effect</b>	<b>5</b>	<b>(1)</b>	<b>4</b>	<b>(1)</b>	<b>-</b>	<b>(1)</b>

(\*) items which may not be reclassified to the profit and loss account

The statement on the availability of the reserves at December 31, 2016 is show below:

**STATEMENT ON UTILISATION AND DISTRIBUTION OF RESERVES AS PER ART. 2427 OF THE C.C. NO.7 BIS**

	<b>Dec. 31, 2016</b>	<b>Dec. 31, 2015</b>	<b>Changes</b>
Share capital	<b>31,716,673</b>	31,716,673	-
Treasury shares	(11,889,813)	(8,822,881)	(3,066,932)
Share premium reserve	-	-	-
Legal reserve	B 5,066,738	4,463,225	603,514
IAS adjustment reserve	-	-	-
Reserve for treasury shares in portfolio	11,889,813	8,822,881	3,066,932
Ordinary reserve	-	-	-
Extraordinary reserve	-	-	-
Other reserves:			
Cash flow hedge reserve	D (49,364)	(60,654)	11,290
Remeasuring reserve of employee defined benefit plans (IAS 39)	D (69,263)	(61,963)	(7,300)
Retained earnings	A,B,C 42,699,624	39,921,710	2,777,914
Exchange gains reserve	-	-	-
Net Profit	7,421,259	12,070,269	(4,649,010)
<b>Total</b>	<b>86,785,667</b>	<b>88,049,260</b>	<b>(1,263,593)</b>

**Key: A: for share capital increase, B: for coverage of losses - C: for distribution to shareholders - D: non utilisable**

**28. LOANS**

The changes in the medium/long-term loans during the year are shown below:

<i>(In Euro thousands)</i>	<b>31/12/2015</b>	<b>New loans</b>	<b>Repayments</b>	<b>31/12/2016</b>	<b>Short-term portion</b>	<b>Medium/long-term portion</b>
“Intesa Loan”	13,125	-	3,750	9,375	3,750	5,625
“BNL Loan”	-	7,500	-	7,500	1,250	6,250
“UBI Banca Loan”	2,678	-	2,678	-	-	-
<b>Balance</b>	<b>15,803</b>	<b>7,500</b>	<b>6,428</b>	<b>16,875</b>	<b>5,000</b>	<b>11,875</b>

The maturity of the long-term portion of loans is highlighted below:

	<b>Dec. 31, 2016</b>	<b>Dec. 31, 2015</b>	<b>Changes</b>
Loans:			
- “Intesa Loan”	5,625,000	9,375,000	(3,750,000)
- “BNL Loan”	6,250,000	-	6,250,000
- Other lenders	85,323	67,672	17,651
<b>Total loans</b>	<b>11,960,323</b>	<b>9,442,672</b>	<b>2,517,651</b>

The “Intesa Loan” was issued in April 2015 by Intesa Sanpaolo S.p.A. for Euro 15 million of four-year duration, repayable in quarterly instalments at a quarterly Euribor rate plus 185 basis points. In July 2015, the variable Euribor rate was converted (under an interest rate swap) into a fixed rate of 0.23% annually. At December 31, 2016, the Superga loan was repaid for Euro 3.8 million, with a residual balance of Euro 9.4 million, of which Euro 3.8 million short-term. The loan is supported by a pledge on Superga Trademark S.A. shares.

The contractual conditions do not include financial covenants. The loan contract stipulates the maintenance of a number of ownership conditions concerning BasicWorld S.r.l., the majority shareholder of BasicNet S.p.A., and BasicNet S.p.A., and in particular:

- the maintenance by Mr. Marco Daniele Boglione (either directly or indirectly) of at least 51% of the share capital of Basic World S.r.l., a company which holds 37.076% of BasicNet S.p.A. shares and is the largest shareholder;
- that the total shareholding, direct or indirect, of BasicWorld S.r.l. in the share capital of BasicNet S.p.A., does not reduce under the above-cited stake;
- the maintenance, either directly or indirectly, by BasicNet S.p.A. of full ownership of Superga Trademark S.A..

The “BNL Loan” was disbursed in November 2016 for Euro 7.5 million; it has six-year duration and is repayable in quarterly instalments at a quarterly Euribor rate increased by 95 basis points. No financial covenants are stipulated, although the maintenance of a number of ownership conditions are required concerning BasicNet S.p.A., in particular that the overall investment (direct or indirect) of BasicWorld S.r.l. in BasicNet S.p.A. should not reduce below 36%. The loan is supported by a second level mortgage on the BasicVillage building in Turin and a first level mortgage on the adjacent building, acquired at the end of the year.

“Payables to other lenders” relate to the accounting of the capital line of finance leases recorded in the accounts under the finance method as per IAS 17.

For completeness of information we provide details of the medium/long-term loans by maturity.

	Dec. 31, 2016	Dec. 31, 2015	Changes
Medium/long term loans:			
- due within 5 years	10,937,500	9,375,000	1,562,500
- due beyond 5 years	937,500	-	937,500
<b>Total medium/long term loans</b>	<b>11,875,000</b>	<b>9,375,000</b>	<b>2,500,000</b>
Leasing payables	85,323	67,672	17,651
<b>Total leasing payables (maturity within 5 years)</b>	<b>85,323</b>	<b>67,672</b>	<b>17,651</b>
<b>Total loans</b>	<b>11,960,323</b>	<b>9,442,672</b>	<b>2,517,651</b>

## 29. EMPLOYEE AND DIRECTOR BENEFITS

The account includes the post-employment benefits for employees of Euro 1.3 million and the termination indemnities of Directors of Euro 0.3 million.

The changes in the year of the post-employment benefit liability were as follows:

	Dec. 31, 2016			Dec. 31, 2015		
	Defined benefit plans	Defined contrib. plans	Total	Defined benefit plans	Defined contrib. plans	Total
<b>Change in the balance sheet:</b>						
Net liabilities recognised at begin. of year	1,322,988	-	1,322,988	1,388,259	-	1,388,259
Interest	24,057	-	24,057	25,384	-	25,384
Pension cost, net of withholdings	(22,057)	413,041	390,984	21,386	390,613	411,999
Benefits paid	(41,581)	-	(41,581)	(53,873)	-	(53,873)
Payments to the INPS treasury fund	-	(147,443)	(147,443)	-	(104,013)	(104,013)
Payments to other supp. pension fund	-	(265,598)	(265,598)	-	(286,600)	(286,600)
- Actuarial gains/(losses)	10,067	-	10,067	(43,559)	-	(43,559)
Internal transfers to the Group	(12,372)	-	(12,372)	(14,609)	-	(14,609)
<b>Net liabilities recognised in the accounts</b>	<b>1,281,102</b>	<b>-</b>	<b>1,281,102</b>	<b>1,322,988</b>	<b>-</b>	<b>1,322,988</b>
<b>Change in the income statement:</b>						
Interest	24,057	-	24,057	25,383	-	25,383
Pension Cost	(18,267)	413,041	394,774	24,617	390,613	415,230
Actuarial gains/(losses)	-	-	-	-	-	-
<b>Total charges/(income) for post-employment benefits</b>	<b>5,790</b>	<b>413,041</b>	<b>418,831</b>	<b>50,000</b>	<b>390,613</b>	<b>440,613</b>

The account “employee benefits” includes the present value of the liabilities of the company in accordance with Article 2120 of the Civil Code. Based on the regulatory changes in 2007, the sums matured prior to January 1, 2007 to employees are recognised as defined benefit plans in accordance with IAS 19 – *Employee benefits*; those matured subsequent to this date are on the other hand recognised as defined contribution plans in accordance with the same standard.

Within the Company there are no other plans other than defined benefit plans. The actuarial valuation of the Post-Employment Benefit is prepared based on the “matured benefits” method through the Projected Unit Credit Method in accordance with IAS 19. Under this method the valuation is based on the average present value of the pension obligations matured based on the employment service up to the time of the valuation, without projecting the remuneration of the employee in accordance with the regulatory modifications introduced by the Pension Reform.

The actuarial model for the measurement of the post-employment benefit is based on various assumptions of a demographic and financial nature. The principal assumptions of the model concerning the actuarial valuations relating to personnel costs are:

	<b>Dec. 31, 2016</b>	<b>Dec. 31, 2015</b>
discount rate	1.79%	2.25%
inflation rate:	1.50%	1.50% for 2016 1.80 for 2017 1.70% for 2018 1.60% for 2019 2.00% from 2020 onwards
annual increase in post-employment benefit	2.625%	2.625% for 2016 2.850% for 2017 2.775% for 2018 2.700% for 2019 3.00% from 2020 onwards
annual increase in salaries:	1.00%	Up to 10 years service: 3.00% Above 10 years service: 1.00%

The change in the annual discount rate reflects the decrease in the yields of the “corporate bonds” of the basket utilised (Iboxx Eurozone Corporate) at the balance sheet date.

The sensitivity analysis carried out on the basis of the following variables: 1) inflation rate +0.25%/-0.25%, 2) discount rate +0.25%/-0.25%, 3) turnover rate +1%/-1% shows non-material impacts of less than Euro 25 thousand.

### 30. **DEFERRED TAX LIABILITIES**

The breakdown is shown below:

	<b>Dec. 31, 2016</b>	<b>Dec. 31, 2015</b>	<b>Changes</b>
Net deferred tax asset (liability)	308,095	60,135	247,960
<b>Total deferred tax liabilities</b>	<b>308,095</b>	<b>60,135</b>	<b>247,960</b>

The deferred tax assets and liabilities recognised and their impact are reported in the table below:

(in thousands of Euro)	Dec. 31, 2016			Dec. 31, 2015			Changes 2016/2015
	Amount of temporary differences	Rate %	Tax effect	Amount of temporary differences	Rate % (*)	Tax effect	
<i><u>Deferred tax assets:</u></i>							
- Excess doubtful debt provision not deductible	(1,070)	24.00%	(257)	(665)	27.50%-24,00%	(160)	(97)
- Inventory obsolescence provision	(1,033)	24.00%	(276)	(893)	27.50%-24,00%	(247)	(28)
- ROL surplus	(456)	24.00%	(109)	(455)	27.50%-24,00%	(125)	16
- Charges temporarily non-deductible	(178)	24.00%	(43)	(704)	27.50%-24,00%	(194)	151
- Effect IAS 39 – financial instruments	(67)	24.00%	(16)	(82)	27.50%-24,00%	(20)	4
<b>Total</b>	<b>(2,804)</b>		<b>(701)</b>	<b>(2,799)</b>		<b>(746)</b>	<b>45</b>
<i><u>Deferred tax liabilities:</u></i>							
- Dividends not received	75	24.00%	18	-	27.50%-24,00%	-	18
- Prudent exchange differences, net	59	24.00%	14	(4)	27.50%-24,00%	(1)	15
- Amortisation/Depreciation tax basis	3,488	27.90%	973	2,881	31.40%-27,90%	804	169
- Effect IAS 19 – Employee Benefits	15	24.00%	4	12	27.50%-24,00%	3	1
<b>Total</b>	<b>3,637</b>		<b>1,009</b>	<b>2,889</b>		<b>806</b>	<b>185</b>
Net deferred tax liability (asset)			308			60	
Deferred tax asset relating to fiscal losses			-	-		-	
<b>Deferred tax charge/(income) as per financial statements</b>			<b>308</b>	<b>-</b>		<b>60</b>	

(\*) The differing rates concern the adjustment of the IRES rate applicable from 2017, on the temporary differences to be realised or settled subsequently to 2016 (Note 18).

### 31. OTHER NON-CURRENT LIABILITIES

	Dec. 31, 2016	Dec. 31, 2015	Changes
Guarantee deposits	759,414	876,210	(116,796)
<b>Total other non-current liabilities</b>	<b>759,414</b>	<b>876,210</b>	<b>(116,796)</b>

The “guarantee deposits” include the guarantees received from licensees (in place of bank or corporate guarantees), to cover the minimum royalties guaranteed contractually. The movement concerns the agreement of new contract licenses and a decrease of Euro 216 thousand for the utilisation to cover overdue receivables.

**32. BANK PAYABLES**

	<b>Dec. 31, 2016</b>	<b>Dec. 31, 2015</b>	<b>Changes</b>
Bank payables due within one year:			
- short-term portion of medium/long-term loans	5,000,000	6,428,575	(1,428,575)
- bank overdrafts and bills	6,001,204	2,000,000	4,001,204
- interest expense on loans	55,803	84,006	(28,203)
<b>Total bank payables</b>	<b>11,057,007</b>	<b>8,512,581</b>	<b>2,544,426</b>

The average interest rates for BasicNet S.p.A. were:

	<b>Dec. 31, 2016</b>	<b>Dec. 31, 2015</b>
cash advances	0.69%	1.05%
medium-term loan	1.44%	2.40%

“Bank payables” include the short-term portion of loans, outlined at Note 28 and the relative interest matured and to be settled the following January.

Reference should be made to the Directors’ Report for the changes in the net financial positions.

**33. TRADE PAYABLES**

	<b>Dec. 31, 2016</b>	<b>Dec. 31, 2015</b>	<b>Changes</b>
Trade payables - Italy	3,746,535	3,701,963	44,572
Trade payables - Foreign	1,011,091	660,729	350,362
<b>Total trade payables</b>	<b>4,757,626</b>	<b>4,362,692</b>	<b>394,934</b>

“Trade payables” are all due in the short-term period.

In particular, the breakdown of foreign suppliers is as follows:

	<b>Dec. 31, 2016</b>	<b>Dec. 31, 2015</b>	<b>Changes</b>
Europe	260,164	151,894	108,270
The Americas	43,455	46,795	(3,340)
Asia and Oceania	697,770	458,040	239,730
Middle East and Africa	9,702	4,000	5,702
<b>Total</b>	<b>1,011,091</b>	<b>660,729</b>	<b>350,362</b>

At the date of the present report there are no initiatives for the suspension of supplies, payment injunctions or executive actions by creditors against BasicNet S.p.A.. No interest is charged on trade payables which are normally settled between 30 and 120 days. The carrying value of trade payables approximates their fair value.

### 34. **TAX PAYABLES**

The breakdown of this account is shown in the following table:

	<b>Dec. 31, 2016</b>	<b>Dec. 31, 2015</b>	<b>Changes</b>
Tax payables:			
IRES	1,210,492	5,580,084	(4,369,592)
Separate IRES	-	13,784	(13,784)
IRAP	-	301,519	(301,519)
Withholding taxes	9,752	7,770	1,982
VAT	13,221,367	7,968,879	5,252,488
Employee contributions	294,475	308,055	(13,580)
<b>Total tax payables</b>	<b>14,736,086</b>	<b>14,180,091</b>	<b>555,995</b>

The “IRES” and “IRAP” accounts relate to payables in the year.

The VAT payable is consequent of the transfers of balances by the companies within the Group VAT consolidation. The Group VAT payable at December 31, 2016 was settled by the approval date of these financial statements.

The “Non-recurring tax charge” was fully settled during the year.

### 35. **OTHER CURRENT LIABILITIES**

	<b>Dec. 31, 2016</b>	<b>Dec. 31, 2015</b>	<b>Changes</b>
Payables to Group companies	1,159,392	1,077,590	81,802
Other payables	2,646,478	2,792,354	(145,876)
Accrued expenses	271,313	250,123	21,190
<b>Total other current liabilities</b>	<b>4,077,183</b>	<b>4,120,067</b>	<b>(42,884)</b>

“Other payables” at December 31, 2016 principally include payables to social security institutions of Euro 502 thousand for the year 2016 and paid in 2017, employee, consultant and director payables of approx. Euro 1.5 million, which include vacation days matured at December 31, 2016 and other items of Euro 662 thousand. All payables are due within one year.

The “accruals” refer to employee costs for the 14th month of the year.



The breakdown of “Payables to Group companies”, entirely of a commercial nature, are shown below:

	Dec. 31, 2016	Dec. 31, 2015	Changes
Basic Village S.p.A.. with sole shareholder	77,417	63,256	14,161
BasicNet Asia Ltd.	256,178	198,987	57,191
Fashion S.r.l	6,199	4,481	1,718
Basic Properties America Inc.	819,598	810,866	8,732
<b>Total</b>	<b>1,159,392</b>	<b>1,077,590</b>	<b>81,802</b>

### 36. DEFERRED INCOME

	Dec. 31, 2016	Dec. 31, 2015	Changes
Royalties	182,732	200,611	(17,879)
Other income deferred to following year	-	250,000	(250,000)
<b>Total deferred income</b>	<b>182,732</b>	<b>450,611</b>	<b>(267,879)</b>

“Deferred income” for royalties refer to invoicing for revenues which will mature in the following year. “Other income” in the previous year included a contribution for the co-branding operation with FCA Italy S.p.A. for the construction of the Panda K-Way, which concluded in the year.

### 37. DERIVATIVE FINANCIAL INSTRUMENTS

	Dec. 31, 2016	Dec. 31, 2015	Changes
Derivative financial instruments	67,064	82,071	(15,007)
<b>Total</b>	<b>67,064</b>	<b>82,071</b>	<b>(15,007)</b>

The account at December 31, 2016 includes the adjustments to the market value of the interest rate hedging operations on the “Intesa Loan”, which converted the variable Euribor quarterly rate into a fixed annual rate of 0.23% (cash flow hedge), in addition to a spread of 185 basis points.

An equity reserve was recorded of Euro 49 thousand, net of the tax effect.

In the case of the Interest Rate Swap (IRS) agreed by the Company, the specific hedge of the variable cash flow realised at market conditions, through the signing of the fix/flo IRS perfectly hedges the item to which the original cash flows stem, as in this case, and continues to be effective.

**38. GUARANTEES GIVEN AND OTHER CONTINGENT ASSETS**

The details of the guarantees given are as follows:

	<b>Dec. 31, 2016</b>	<b>Dec. 31, 2015</b>	<b>Changes</b>
<i>Unsecured guarantees:</i>			
- Surety given on behalf of subsidiaries	52,200,000	43,750,000	8,450,000
- Other guarantees	-	86,756	(86,756)
<b>Total</b>	<b>52,200,000</b>	<b>43,836,756</b>	<b>8,363,244</b>

- Sureties given on behalf of subsidiaries

The sureties given on behalf of the subsidiaries refer for Euro 6.9 million to the guarantee given to the Unicredit Group on behalf of Basic Village S.p.A. against the loan granted in 2007 for the purchase of the building, guaranteed also by a first level mortgage on the building, for Euro 4.1 million to the guarantee given in 2008 by Intesa Sanpaolo S.p.A. on behalf of BasicItalia S.p.A. against 50% of the mortgage loan granted for the purchase of the building, Euro 6.5 million of a surety issued by a leading bank in guarantee of contractual commitments for a sponsorship contract and for the remainder, Euro 45.3 million, guarantees given on behalf of BasicItalia S.p.A., to various credit institutions, to guarantee the commercial credit lines.

- Other guarantees

This referred at December 31, 2016 to the joint commitments which BasicNet S.p.A. has with Basic Village S.p.A. and BasicItalia S.p.A. against the sureties given to the Turin Tax Administration following the request for reimbursement on VAT receivables within the Group VAT consolidation.

The shares of the subsidiary Superga Trademark S.A. are subject to a pledge in favour of Intesa Sanpaolo S.p.A. in guarantee of the loan issued in April 2015.

**39. CLASSIFICATION OF THE FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

The principal risks and uncertainties of the activities of the Company and of the Group and the activities undertaken to reduce them or avoid them, which are undertaken at Group level, are described in the Directors' Report.

The financial instruments of BasicNet S.p.A. include:

- cash and cash equivalents and bank overdrafts;
- medium/long-term loans;
- derivative financial instruments;
- trade payables and receivables.

It is recalled that the Company and the Group only subscribes to cash flow hedges, to hedge against interest and currency risks.

In accordance with the requirements of IFRS 7 in relation to financial risks, the types of financial instruments present in the financial statements, with indication of the valuation criteria applied, are reported below:

(In Euro thousands)	Financial instruments at fair value recorded through:		Financial instruments at amortised cost	Book value at 31.12.2016
	P&L	Shareholders' Equity		
<b>Assets:</b>				
Trade receivables	-	-	10,619	<b>10,619</b>
Other current assets	-	-	69,576	<b>69,576</b>
Derivative financial instruments	-	-	-	-
<b>Liabilities:</b>				
Medium/long-term loans	-	-	11,960	<b>11,960</b>
Trade payables	-	-	4,758	<b>4,758</b>
Other current liabilities	-	-	4,077	<b>4,077</b>
Derivative financial instruments	-	67	-	<b>67</b>

The financial risk factors, identified in *IFRS 7 – Financial instruments: additional disclosures*, are described below:

- the risk that the fair value or the future cash flows of a financial instrument fluctuate following changes in market prices (“*market risk*”). The market risk includes the following risks: currency, interest rates and price:
  - a. the risk that the fair value or the future cash flows of a financial instrument fluctuate following changes in currency prices (“*currency risk*”);
  - b. the risk that the fair value or the future cash flows of a financial instrument fluctuate following changes in market interest rates (“*interest rate risk*”);
  - c. the risk that the fair value or the future cash flows of a financial instrument fluctuate following changes in market prices (other than changes determined from interest rate or currency risk), whether the changes are determined by specific factors related to the financial instrument or its issuer, or whether it is due to factors which influence all similar financial instruments traded on the market (“*price risk*”);
- the risk that one of the parties that signs a contract of a financial nature does not comply with an obligation (“*credit risk*”);
- the risk that an entity has difficulty in complying with the obligations associated with the financial liabilities (“*liquidity risk*”);
- the risk that the loans within the companies of the Group contain clauses which allow the counterparties to request the creditor on the occurrence of certain events or circumstances the immediate repayment of the sums granted and not yet due, generating a liquidity risk (“*default risk*”).

### **Price risk**

The Company is exposed to the risk of fluctuations of commodity prices relating to raw materials (wool, cotton, rubber, synthetic fibre etc.) incorporated in the sample collections acquired on international markets, for resale to the licensees.

The Company does not hedge these risks as not directly dealing with raw materials but only finished products and the fluctuations can be transferred on to the final sales price.

### **Currency risk**

BasicNet S.p.A. has subscribed the majority of its financial instruments in Euro which corresponds to its functional and presentation currency. Operating on the international market the Company is also exposed to fluctuations in exchange rates, principally the US Dollar against the Euro.

In 2016, exchange gains were recorded of Euro 77 thousand, while unrealised exchange gains were recorded of Euro 59 thousand, for a net exchange gain of Euro 136 thousand (Note 15).

The Company undertakes hedging of the currency risks at Group level.

### **Interest rate risk**

The composition of the gross financial debt between fixed and variable interest rates at December 31, 2016 is shown below:

	<b>Dec. 31, 2016</b>	<b>%</b>	<b>Dec. 31, 2015</b>	<b>%</b>
Fixed rate	15,432,006	67.0%	15,183,392	84.6%
Variable rate	7,585,323	33.0%	2,771,862	15.4%
<b>Gross debt</b>	<b>23,017,329</b>	<b>100.00%</b>	<b>17,955,254</b>	<b>100.00%</b>

The interest rate fluctuation risks of the medium-term “Intesa Loan” was hedged with conversion of the variable rate into fixed rates; as described in Note 37 on the remaining part of the debt the Company is exposed to currency risk.

The interest on the short-term credit lines are on an average 0.68% in accordance with the type of lending, as illustrated in Note 32.

Where at December 31, 2016 the interest rate on long/term loans at that date were 100 basis points higher (or lower) compared to the actual rates, there would be a higher financial charges (lower), before the tax effect, respectively of Euro +111 thousand and Euro -111 thousand.

### **Credit Risk**

The doubtful debt provision (Note 23) which includes provisions against specific credit positions and a general provision on receivables not covered by guarantees, represents approx. 12.75% of trade receivables at December 31, 2016.

### **Liquidity risk**

Reference should to the Explanatory Notes of the consolidated financial statements.

The table below illustrates the cash flow timing of payments on medium/long-term debt:

<i>(in Euro thousands)</i>	<b>Book value</b>	<b>Future interest income/ (expense)</b>	<b>Contractual cash flows</b>	<b>Within 1 year</b>	<b>From 1 to 5 years</b>	<b>Beyond five years</b>
“BNL Loan”	7,500	150	7,650	1,295	5,100	1,255
“Intesa Loan”	9,375	272	9,647	3,918	5,729	-
Lease payables	85	4	89	45	44	-
<b>Total financial liabilities</b>	<b>16,960</b>	<b>426</b>	<b>17,386</b>	<b>5,258</b>	<b>10,873</b>	<b>1,255</b>

#### **Default risk and debt covenants**

The risk that the loans within the company contain clauses (covenants) which allow the counterparties to request the creditor on the occurrence of certain events or circumstances the immediate repayment of the sums granted and not yet due, generating a liquidity risk.

There are no covenants on the loans in place.

#### **40. TRANSACTIONS WITH HOLDING COMPANIES, ASSOCIATES, OTHER INVESTMENTS AND RELATED PARTIES**

The transactions undertaken by BasicNet S.p.A. with the companies belonging to the Group in the ordinary management and regulated at market conditions were:

- Organisational, commercial, IT, and administrative services in accordance with specific contracts;
- The granting of rights for the use of know-how developed on the products;
- the granting under license of the K-Way and Sabelt brands to the subsidiary BasicItalia S.p.A.;
- Financial support for the management of the centralised treasury, relations with credit institutions, granting of sureties;
- Commercial assistance, principally relating to the sale of clothing samples, catalogues and payment of commissions;
- Building rental for commercial use by Basic Village S.p.A.;
- Purchase of products by BasicItalia S.p.A. for gifts and promotional expenses;
- Financial income and charges matured on loans within the treasury centralised management system, at market rates.

The income statement effects deriving from these transactions are summarised as follows:

### **REVENUES**

<b>BasicNet Group companies</b>	<b>Direct sales</b>	<b>Other income</b>	<b>Royalty income</b>	<b>Financial income</b>	<b>Dividends</b>	<b>Total</b>
BasicItalia S.p.A.. with sole shareholder	2,004,199	251,200	6,344,739	221,535	-	<b>8,821,673</b>
Basic Trademark S.A.	-	5,500,000	-	-	-	<b>5,500,000</b>
Superga Trademark S.A.	-	250,000	-	294,117	-	<b>544,117</b>
Basic Properties B.V.	-	-	-	-	1,500,000	<b>1,500,000</b>
Basic Village S.p.A.. with sole shareholder	-	50,000	-	598	-	<b>50,598</b>
BasicNet Asia Ltd.	19,130	-	-	-	-	<b>19,130</b>
Jesus Jeans S.r.l. with sole shareholder	-	5,000	-	-	-	<b>5,000</b>
Fashion S.r.l.	-	1,500	-	-	-	<b>1,500</b>
<b>Total</b>	<b>2,023,329</b>	<b>6,057,700</b>	<b>6,344,739</b>	<b>516,250</b>	<b>1,500,000</b>	<b>16,442,018</b>

### **COSTS**

<b>BasicNet Group companies</b>	<b>Cost of sales</b>	<b>Cost per sponsor</b>	<b>Personnel costs</b>	<b>Selling, general and administrative costs, royalties expenses</b>	<b>Financial charges</b>	<b>Total</b>
Basic Village S.p.A.. with sole shareholder	-	-	-	1,992,897	-	<b>1,992,897</b>
BasicNet Asia Ltd.	-	-	-	899,087	-	<b>899,087</b>
BasicItalia S.p.A.. with sole shareholder	52,395	33,080	-	125,820	-	<b>211,295</b>
BasicRetail S.r.l. with sole shareholder	-	-	-	74,926	-	<b>74,926</b>
<b>Total</b>	<b>52,395</b>	<b>33,080</b>	<b>-</b>	<b>3,092,730</b>	<b>-</b>	<b>3,178,205</b>

A breakdown of the transactions with related parties with reference to the note to which they refer for the year 2016 is shown below:

	<b>Investments</b> (Note 21)	<b>Receivables</b> (Note 25)	<b>Payables</b> (Note 36)	<b>Revenues</b> (Note 41)	<b>Costs</b> (Note 41)
Subsidiaries	35,754,489	68,130,795	1,153,193	16,440,518	3,178,205
Interests in joint ventures:	465,000	-	6,199	1,500	-
Remuneration of Boards and Senior Executives and other related parties	-	-	-	-	4,130,181
<b>Total</b>	<b>36,219,489</b>	<b>68,130,795</b>	<b>1,159,392</b>	<b>16,442,018</b>	<b>7,308,386</b>

The remuneration concerns emoluments and all other payments, pension-related or social security deriving from the role of Director or Statutory Auditor in BasicNet S.p.A. and the other companies within the consolidation scope.

In relation to the other related parties, we highlight the legal consulting activities undertaken by Studio Legale Pavesio e Associati, of the Director Carlo Pavesio and the consultancy undertaken by Pantarei S.r.l. in which the Director Alessandro Gabetti Davicini is Sole Director and of Studio Boidi & Partners, of which the Chairman of the Board of Statutory Auditors is Massimo Boidi. These transactions, not material compared to the overall values, were at market conditions.

The collections owned by BasicNet S.p.A., which are utilised for media events, shows, press gatherings together with the Brands and/or products of the Group, are subject to a renewable put and call agreement with BasicWorld S.r.l, at a price equal to the costs incurred for their acquisition, in addition to interest. This agreement was signed based on the eventual interest of BasicNet S.p.A. to sell this equipment to guarantee the complete recovery of the costs incurred, including financial charges, utilising in the meantime the benefits which derive from such communication instruments for their brands and/or products and, by BasicWorld S.r.l., of the purchase, to avoid that such a collection which would be lost.

#### **41. CONSOB NO. DEM/6064293 OF JULY 28, 2006**

Pursuant to Consob Communication DEM/6064293 of July 28, 2006, we report that there were no non-recurring significant operations during the year.

#### **42. CONTINGENT LIABILITIES/ASSETS**

The BasicNet Group is involved in some legal disputes of a commercial nature which are not expected to give rise to significant liabilities.

Other disputes are described in the Explanatory Notes in the consolidated financial statements (Note 48).

For the Board of Directors

**The Chairman**

Marco Daniele Boglione

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**INVESTMENTS AT DECEMBER 31, 2016**

(in Euro)

Name/Registered office/ Share capital	Share capital	Amount of the net equity	Profit (loss) for the year	Quota held directly	Quota held indirectly	Pro quota net equity	Book value
<u>SUBSIDIARY COMPANIES</u>							
<b>BASICITALIA S.p.A.</b>							
<b>WITH SOLE SHAREHOLDER</b>							
<i>Strada della Cebrosa, 106</i>							
<i>10156 TURIN</i>							
Share Capital Euro 7,650,000	7,650,000	12,204,524	(628,648)	100.00	-	12,204,524	31,599,725
<b>BASICNET ASIA LTD.</b>							
<i>15 floor, Linkchart Centre</i>							
<i>No.2 Tai Yip Street</i>							
<i>Kwun Tong, Kowloon</i>							
<i>HONG KONG</i>							
Share capital HKD 10,000.	1,223	378,303	65,539	100.00	-	378,303	927
<b>BASICRETAIL S.r.l.</b>							
<b>WITH SOLE SHAREHOLDER</b>							
<i>Strada della Cebrosa, 106</i>							
<i>10156 TURIN</i>							
Share capital Euro 10,000	10,000	1,068,842	299,636	-	100.00	-	-
<b>BASIC PROPERTIES B.V.</b>							
<i>Herikerbergweg 200 – LunArena –</i>							
<i>Amsterdam Zuidoost</i>							
<i>THE NETHERLANDS</i>							
Share capital Euro 18,160	18,160	6,359,132	1,692,115	100.00	-	6,359,132	3,657,747
<b>BASIC PROPERTIES AMERICA, INC.</b>							
<i>c/o Corporation Service Company</i>							
<i>11 S 12th Street - PO BOX 1463 –</i>							
<i>Richmond VA 23218 – U.S.A.</i>							
Share capital USD 8,469,157.77	8,034,690	6,943,686	627,956	-	100.00	-	-
<b>BASIC TRADEMARK S.A.</b>							
<i>42-44 Avenue de la Gare</i>							
<i>L-1610 LUXEMBOURG</i>							
Share Capital Euro 1,250,000.	1,250,000	6,397,959	709,334	-	100.00	-	-
<b>BASIC VILLAGE S.p.A.</b>							
<b>WITH SOLE SHAREHOLDER</b>							
<i>Largo M. Vitale, 1</i>							
<i>10152 TURIN</i>							
Share capital Euro 412,800	412,800	4,856,478	153,425	100.00	-	4,856,478	414,715
<b>JESUS JEANS S.r.l.</b>							
<b>WITH SOLE SHAREHOLDER</b>							
<i>Largo M. Vitale, 1</i>							
<i>10152 TURIN</i>							
Share capital Euro 10,000	10,000	68,816	15,354	100.00	-	68,816	81,375
<b>SUPERGA TRADEMARK S.A.</b>							
<i>42-44 Avenue de la Gare</i>							
<i>L-1610 LUXEMBOURG</i>							
Share capital Euro 500,000	500,000	1,305,180	1,982,343	-	100.00	-	-



**ATTACHMENT 1**  
**Page 2 of 3**

Name/Registered office/Share capital	Share capital	Amount of the net equity	Profit (loss) for the year	Quota held directly	Quota held indirectly	Pro quota net equity	Book value
<i><u>JOINT VENTURES</u></i>							
<b>FASHION S.r.l.</b> C.so Stati Uniti, 41 10129 TURIN Share capital Euro 100,000	100,000	328,647	(75,375)	50.00	-	164,323	465,000

**ATTACHMENT 1**  
**Page 3 of 3**

**INVESTMENTS AT DECEMBER 31, 2016**

Name/Registered office/Share capital	31/12/2015 Book value	Acquisitions/ Incor.	Capital payments to cover losses	Impairment investments	Sales	31/12/2016 Book value	% held Parent
<u><b>HOLDINGS IN SUBSIDIARY COMPANIES</b></u>							
BasicItalia S.p.A.. with sole shareholder	31,599,725	-	-	-	-	31,599,725	100%
BasicNet Asia Ltd.	927	-	-	-	-	927	100%
Basic Properties B.V.	3,657,747	-	-	-	-	3,657,747	100%
Basic Village S.p.A.. with sole shareholder	414,715	-	-	-	-	414,715	100%
Jesus Jeans S.r.l. with sole shareholder	81,375	-	-	-	-	81,375	100%
<b>TOTAL SUBSIDIARY COMPANIES</b>	<b>35,754,488</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>35,754,488</b>	
<u><b>HOLDINGS IN JOINT VENTURES</b></u>							
AnziBesson Trademark S.r.l.	25,000	-	-	-	(25,000)	-	-
Fashion S.r.l.	465,000	-	-	-	-	465,000	50%
<b>TOTAL JOINT VENTURES</b>	<b>490,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(25,000)</b>	<b>465,000</b>	
<u><b>HOLDINGS IN OTHER COMPANIES:</b></u>							
Consortiums & other minor	128	-	-	-	-	128	
<b>TOTAL OTHER COMPANIES</b>	<b>128</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>128</b>	
<b>TOTAL INVESTMENTS</b>	<b>36,244,616</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(25,000)</b>	<b>36,219,616</b>	
<u><b>FINANCIAL RECEIVABLES</b></u>							
Other receivables (guarantees)	10,230	21	-	-	-	10,251	
Receivables from AnziBesson Trademark S.r.l.	90,000	-	-	-	(90,000)	-	
<b>TOTAL RECEIVABLES</b>	<b>100,230</b>	<b>21</b>	<b>-</b>	<b>-</b>	<b>(90,000)</b>	<b>10,251</b>	
<b>TOTAL INVESTMENTS AND OTHER FINANCIAL ASSETS</b>	<b>36,344,846</b>	<b>21</b>	<b>-</b>	<b>-</b>	<b>(115,000)</b>	<b>36,229,867</b>	

**ATTACHMENT 2****DECLARATION OF THE FINANCIAL STATEMENTS PURSUANT TO ARTICLE 154-BIS  
PARAGRAPH 5 AND 5-BIS OF LEGISLATIVE DECREE NO. 58 OF FEBRUARY 24, 1998  
“FINANCIAL INTERMEDIATION ACT”**

The undersigned Marco Daniele Boglione as Executive Chairman, Giovanni Crespi as CEO, and Paolo Cafasso as Executive Officer for Financial Reporting of BasicNet S.p.A., affirm, and also in consideration of Article 154-*bis*, paragraphs 3 and 4, of Legislative Decree No. 58 of February 24, 1998:

the adequacy for company operations and the effective application, of the administrative and accounting procedures for the preparation of the 2016 financial statements.

In addition, we certify that the financial statements:

- a) corresponds to the underlying accounting documents and records;
- b) were prepared in accordance with International Financial Reporting Standards adopted by the European Union and also in accordance with Article 9 of Legislative Decree 38/2005 and provide a true and fair representation of the balance sheet, financial position and results of the Issuer;
- c) the Directors' Report includes a reliable analysis on the performance and operating result as well as the situation of the Issuer, together with a description of the risks and uncertainties to which they are exposed.

Marco Daniele Boglione  
**Chairman**

Giovanni Crespi  
**Chief Executive Officer**

Paolo Cafasso  
**Executive Officer for Financial Reporting**

## ATTACHMENT 3

**DISCLOSURE PURSUANT TO ARTICLE 149 DUODECIES OF THE CONSOB ISSUER'S  
REGULATION**

<b>Type of service</b>	<b>Service provider</b>	<b>Company</b>	<b>Fees earned 2016</b>
Audit	PricewaterhouseCoopers S.p.A.	Parent Company BasicNet S.p.A. Subsidiaries	55,460 50,017
Certification services	PricewaterhouseCoopers S.p.A.	Parent Company BasicNet S.p.A.	-
Other services	PricewaterhouseCoopers S.p.A.	Parent Company BasicNet S.p.A.	37,800
<b>Total</b>			<b>143,277</b>