CONSOLIDATED & SEPARATE FINANCIAL STATEMENTS

AT DECEMBER 31, 2018

DIRECTORS' REPORT

CONSOLIDATED FINANCIAL STATEMENTS AND EXPLANATORY NOTES

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

Capitale Sociale Euro 31.716.673,04 i.v.
R.E.A. 631153 della C.C.I.A.A. di Torino
Numero Registro Imprese Torino
Partita I.V.A. e Codice Fiscale 04413650013

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CORPORATE BOARDS of BasicNet S.p.A.

Board of Directors

Marco Daniele Boglione	**Chairman**
Daniela Ovazza	**Vice Chairman**
Giovanni Crespi	**Chief Executive Officer**
Paola Bruschi Paolo Cafasso Elisa Corghi (1) Alessandro Gabetti Davicini Renate Hendlmeier (1) Adriano Marconetto (1) Carlo Pavesio Elisabetta Rolando Franco Spalla	**Directors**

(1) Independent Directors

Remuneration Committee

Carlo Pavesio	**Chairman**
Elisa Corghi Renate Hendlmeier Adriano Marconetto Daniela Ovazza	

Control and Risks Committee

Renate Hendlmeier	**Chairman**
Elisa Corghi Adriano Marconetto	

Board of Statutory Auditors

Maria Francesca Talamonti	**Chairman**
Sergio Duca Alberto Pession	**Statutory Auditors**
Giulia De Martino Maurizio Ferrero	**Alternate Auditors**

Independent Audit Firm

EY 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,

all commercial and earnings indicators were significantly up in 2018.

In commercial terms, Basic marketplace core revenues - royalties and sourcing commissions - grew 14.4% on the previous year to Euro 54.8 million. Direct market sales amounted to Euro 155.6 million, rising approx. 14.8% on the previous year.

The 2018 Key Financial Highlights:

- aggregate sales of Group products by the Global licensee Network of Euro 875.3 million, up 17% on 2017 (+18.8% at like-for-like exchange rates) - as follows:
  - commercial licensees of Euro 622.6 million, Euro 541.1 million in 2017, +15.1% at current exchange rates (+15.9% at like-for-like exchange rates);
  - productive licensees of Euro 252.7 million, compared to Euro 206.7 million in 2017, up 22.2% at current exchange rates, +26.5% at like-for-like exchange rates;
- significant European market growth (+16.5%). Continued American market development (+13.1%); recovery for Asian and Oceania (+12%) and Middle Eastern and African (+12.5%) markets;
- royalties and sourcing commissions from aggregate sales of the commercial and productive licensees of Euro 54.8 million, up 14.4% on Euro 47.9 million in 2017 (+16.5% at like-for-like exchange rates);
- *direct sales*, almost entirely from the Italian licensee BasicItalia S.p.A. and its subsidiary BasicRetail S.r.l., of Euro 155.6 million - growth of approx. 14.8% on Euro 135.6 million in the previous year;
- *consolidated revenues*, including royalties, sourcing commissions and sales of the Italian licensee BasicItalia S.p.A. and its subsidiary BasicRetail S.r.l., for 2018 amounted to Euro 210.4 million (+14.7% on Euro 183.5 million for 2017, +15.2% at like-for-like exchange rates).
- EBITDA of Euro 33 million, up 43.2% on Euro 23.1 million in 2017;
- EBIT of Euro 26.6 million (Euro 16.6 million in 2017), up 59.7% on the previous year;
- earnings before taxes (EBT) of Euro 25.4 million (Euro 15 million in 2017), rising almost 70%;
- consolidated net profit of Euro 21 million, +97.4% (Euro 10.6 million in 2017);
- net debt of Euro 51.7 million, reducing on Euro 61.5 million at the end of 2017. Treasury shares were acquired in the year for Euro 3.3 million, with dividends of Euro 3.3 million paid.

  Parent Company Key Financial Highlights:

  - EBIT of Euro 11.1 million (Euro 8.6 million in 2017);
  - net profit of Euro 13 million (Euro 4.5 million in 2017).

In addition to the Corporate Governance and Ownership Structure Report, this document also presents the Consolidated non-financial report as per Legislative Decree 254/2016. This document summarises the initiatives taken by the Group to operate its business ethically and responsibly, in order to engage all stakeholders in the objectives and results of the entire supply chain, also in social and environmental terms.

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 licensees or licensees:*** independent business owners, granted licenses to distribute Group brand products in their respective regions.
- ***Productive Licensees or sourcing centers:*** third-party firms to the Group. Their function is to manufacture and market merchandise and are located in various countries worldwide, depending on what type of goods they produce.
- ***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.
- ***Consolidated Revenues*** the sum of royalties, sourcing commissions and sales of the subsidiaries BasicItalia S.p.A. and BasicRetail S.r.l. and of the parent company BasicNet S.p.A.
- ***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.
- ***Basic earnings per share*** calculated as required by IFRS on the basis of the weighted average number of shares in circulation in the year.

THE GROUP AT A GLANCE

The BasicNet Group operates in the apparel, footwear and accessories sector through the brands Kappa®, Robe di Kappa®, K-Way®, Superga®, Briko®, Jesus® Jeans, Sabelt® and, since July 2017, Sebago®. 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.

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.

exceptional American footwear.
The brand, founded in Westbrook, Maine (USA) in 1946, takes its name from the nearby Sebago lake, which in the native American Abenaki language means "elongated water basin".
The brand launched with the famous "penny loafer", handmade in accordance with local tradition and over the years has continued with best sellers such as the Docksides® boat shoes.
On July 31, 2017, the brand became part of the BasicNet Group portfolio with a view to a medium-high bracket positioning, to be worn as a sporting yet classy style.
The Sebago® brand is now distributed across 90 markets worldwide.

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

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.

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 connected among themselves and with the parent company 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®. 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. TOS S.r.l. (owner of the Sebago® brand and incorporated in 2017), 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.

It 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, it acquired the building adjacent to via Padova 78, leased to third parties.

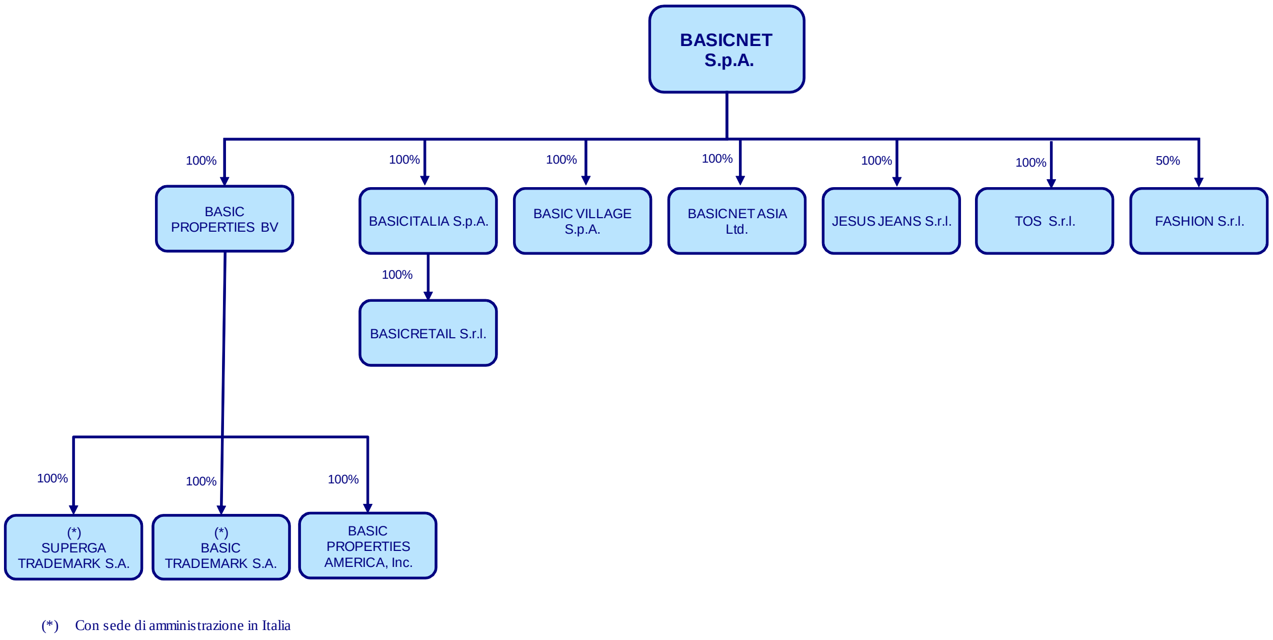
BUSINESS TARGETS

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

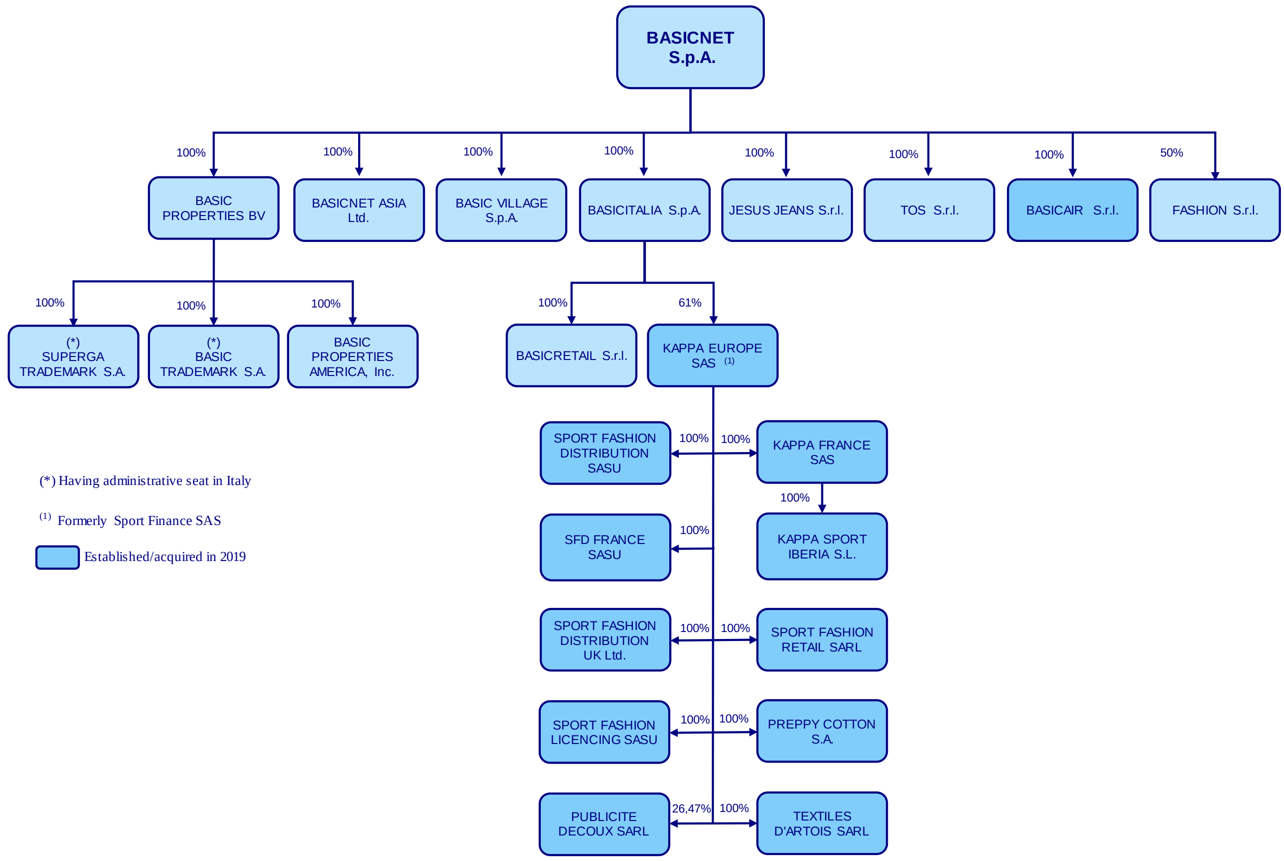
The Group project centres on:

- 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 BasicNet Group structure is presented below:



Following the transactions executed in January 2019 - outlined in the subsequent events section - the Group is structured as follows:



REGIONAL COMMERCIAL PERFORMANCES

As part of the measures introduced to develop the Brands internationally in 2018, growth was generally driven by the Kappa® brand, with the "*Authentic*" collections contributing strongly, while Superga® and K-Way® also performed well. The re-launch of the Sebago® brand was also substantially in line with expectations.

Robust **European market** growth (+16.5%) was strongly driven by the re-launch of Sebago® brand distribution, following its acquisition on July 31 last year, in addition to excellent Italian market growth for all brands, followed by France, the UK and Germany. Balkans' sales recovered markedly after the change of Kappa® and Robe di Kappa® brand licensee. The Superga® brand also performed well - in significant contrast to the contracting Italian market, while the K-Way® brand delivered growth on the back of full operability at its mono-brand stores, mainly located in Italy (28) and in France (16).

In commercial terms, new K-Way® brand licensing contracts were agreed for Austria and Germany, for the Briko® brand for Belgium, the Netherlands, Luxembourg and Switzerland (this latter extended along with the renewal of the Austria and Germany license) and for the Sebago® brand for Norway, Albania, Bosnia and Herzegovina, Croatia, Montenegro, Serbia, Slovenia, Ireland and the United Kingdom.
New sponsorships included for the Kappa® brand the Spanish football teams Real Betis Balompié and Cultural y Deportiva Leonesa and two three-year agreements with the French rugby team Castres Olympique and the Welsh Pontypridd – RFC by the French licensee. The Italian licensee reconfirmed for an additional three years its sponsorship which began in 2009 of the Italian Judo, Karate and Martial Arts Federation and signed a five-year contract for the sponsorship of Empoli F.C.. It will also sponsor for the coming four seasons the Fiat Torino Auxilium basketball team.
Briko®'s sponsorship of the ski champion Peter Fill was renewed for two years, while new two-year sponsorship of the Norwegian alpine ski World cup athletes Maren Skjoeld, Rasmus Windingstad and Bjornar Neteland were agreed, who will be kitted out in Briko® helmets and eyewear. The new agreement with the cycling team Ird Modena Squadra Corse is highlighted.
A co-branding initiative for Kappa® was launched with Antonia X. Superga®'s main collaborations involved Philosophy by Lorenzo Serafini, the stylist Marco De Vincenzo, the blogger Lizzy van der Ligt and the Norwegian brand Mads Norgaard. The first capsule collection with Highsnobiety was also launched.
Finally, for the K-Way® Brand the capsule collections developed through co-branding with Dsquared2, with the Italian stylist Simone Guidarelli and with the AMI brand by Alexandre Mattiussi were presented, while the first K-Way® X Kappa® collaboration was launched.
The Kappa® and Superga® collections celebrating the ninetieth birthday of Mickey Mouse are highlighted.

The **Americas market** overall grew 13.1%, despite the weakening of a number of local currencies against the Euro which impacted the very strong commercial results, both for the Kappa® brand (mainly on the North American market) and for the Superga® brand, which reported growth across the continent.
New licenses for the Canada and United States markets for the Briko® and Sebago® brands took effect in the year.
In terms of communication, during New York Fashion week Superga® and the 10 Corso Como concept store presented a new capsule collection and new co-branding with the first avocado bar in Brooklyn was launched: Superga® X Avocaderia.

Asia and Oceania reported growth of 12%, with the Kappa® brand contributing very strongly following the recovery of the Asian market with the opening of new sales points and a focus on marketing, while the Australian market grew significantly amid a strong start for the "Authentic" label license.
Superga® sales were also buoyant, particularly in Australia, Indonesia and Singapore, with the broadening of the distribution network and a stepping up of local marketing, while in China supported by the new licensee, principally on the Tmall platform. K-Way® also performed well, principally in Taiwan and Japan.
New Kappa® licenses for Taiwan, for Superga® for Japan and for K-Way® and Sebago® for the Australia, Fiji, New Zealand, Samoa and Tonga markets also took effect.

In terms of communications, co-branding initiatives were also launched for the Asian market with the Korean brand Charms X Kappa®. The English model and fashion designer Alexa Chung was the face of the first half-year campaign and also launched a capsule collection "Superga x ALEXACHUNG" in Los Angeles and Seoul.

The **Middle East and Africa** grew 12.5% on 2017. The strong performance of the South African licensee for Kappa® is highlighted, reporting sport and lifestyle segment growth - and of the South African licensee for Superga®. A license agreement for the distribution of the Kappa® brand in Morocco was signed in the year and, also for Kappa®, a four-year sponsorship for the Tunisian Football Federation by the French licensee began. Superga® South Africa launched Superga® X PICHULIK, the new co-branding for the South African market originating from the collaboration with the jewellery creator Katherine Mary Pichulik.

Group brand sales points

At December 31, Kappa® and Robe di Kappa® mono-brand stores and shop in shops opened by licensees globally numbered 915 (of which 107 in Italy), with Superga® mono-brand stores and shop in shops totalling 274 (of which 56 in Italy), along with 50 K-Way® sales points (of which 28 in Italy). plug@sell® store revenues at like-for-like consolidation scope grew 3% on 2017.

2018 FINANCIAL PERFORMANCE OVERVIEW

THE GROUP

BasicNet Group Key Financial Highlights

The condensed income statement for the year is reported below:

(Euro thousands)	FY 2018	FY 2017	Changes	%
Group Brand Aggregate Sales by the Network of commercial and productive licensees *	875,260	747,871	127,389	17.0%
Royalties and sourcing commissions	54,832	47,924	6,909	14.4%
Consolidated direct sales	155,615	135,583	20,032	14.8%
EBITDA **	33,030	23,060	9,969	43.2%
EBIT **	26,581	16,642	9,939	59.7%
Group Net Profit	21,014	10,646	10,368	97.4%
Basic earnings per share**	0.4048	0.1925	0.212	110.3%

* *Data not audited*

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

Commercial and financial analysis

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

(In Euro thousands) **Aggregate Sales of the Group licensees ***	**FY 2018** Total	**FY 2017** Total	**Changes** Total	%
Commercial Licensees	622,590	541,127	81,463	*15.0%*
Productive Licensees (sourcing centers)	252,670	206,744	45,926	*22.2%*
Total	**875,260**	**747,871**	**127,389**	***17.0%***

* *Data not audited*

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

(In Euro thousands) **Aggregate Sales of the Group Commercial licensees ***	**FY 2018** Total	%	**FY 2017** Total	%	**Changes** Total	%
Europe	408,899	*65.7%*	351,028	*64.9%*	57,870	*16.5%*
The Americas	58,963	*9.5%*	52,135	*9.6%*	6,828	*13.1%*
Asia and Oceania	96,837	*15.6%*	86,499	*16.0%*	10,338	*12.0%*
Middle East and Africa	57,891	*9.3%*	51,465	*9.5%*	6,426	*12.5%*
Total	**622,590**	***100.0%***	**541,127**	***100.0%***	**81,463**	***15.0%***

* *Data not audited*

and of the productive licensees:

(In Euro thousands) **Aggregate Sales of the Group Productive licensees ***	**FY 2018** Total	%	**FY 2017** Total	%	**Changes** Total	%
Europe	18,738	*7.4%*	14,636	*7.1%*	4,102	*28.0%*
The Americas	15,241	*6.0%*	13,539	*6.5%*	1,702	*12.6%*
Asia and Oceania	218,155	*86.3%*	178,279	*86.2%*	39,876	*22.4%*
Middle East and Africa	536	*0.2%*	290	*0.1%*	246	*85.2%*
Total	**252,670**	***100.0%***	**206,744**	***100.0%***	**45,926**	***22.2%***

* *Data not audited*

Commercial licensee aggregate sales of Euro 622.6 million were up 15% at current exchange rates, from Euro 541.1 million in the previous year; continental level growth is commented upon in the introductory paragraphs to this Report.

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. The growth - particularly strong in the fourth quarter - is a good indicator of revenue development for the first quarter of the subsequent year.

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 54.8 million (+14.4% on Euro 47.9 million in the previous year). Growth at like-for-like exchange rates was 16.5%.

Overall ***sales*** were Euro 155.6 million (Euro 135.6 million in 2017). Growth of 14.8% was supported also by the launch of Sebago® brand (acquired in July 2017) shoe sales, Kappa® brand sales growth driven by the "Authentic" label and a turnaround for the Superga brand, which reaped the rewards from the repositioning of distribution undertaken in previous years. The ***contribution margin*** on sales of Euro 64.1 million rose approx. 17.5% on 2017. The revenue margin was 41.2% (40.2% in 2017). The higher margin derives from both an improved revenue mix and the strengthening of the Euro against the US Dollar in the first half of the year, benefitting the majority foreign currency purchases.

Other income of Euro 3.1 million includes rental income, condominium income and other non-recurring income which is the source of fluctuations from period to period.

Sponsorship and media spend of Euro 25.7 million increased 4.2% (Euro 24.6 million in 2017), confirming the strong support for brand sales. Significant contributions were given to communication and endorsement operations with an international impact particularly on the overseas markets (World Wide Strategic Advertising).

Personnel costs increased from Euro 21.1 million in 2017 to Euro 23.1 million in 2018 due to new hires (31 employees more than 2017), mainly in the marketing and product research and development areas.

Overhead costs, i.e. ***Selling*** and ***general and administrative costs*** and ***royalties expenses*** amounted to Euro 40.2 million, increasing 7.8% on Euro 37.3 million in 2017.

EBITDA of Euro 33 million grew 43.2% (Euro 23.1 million in 2017).

Amortisation and depreciation amounted to Euro 6.5 million. The account includes amortisation and write-downs for certain key money recognised to third parties on Italian sales points for Euro 627 thousand.

EBIT amounted to Euro 26.6 million (Euro 16.6 million in 2017).

Consolidated net financial charges/income, including exchange gains and losses, reported a charge of Euro 1.2 million, compared to Euro 1.6 million in the previous year. The difference relates to currency movements, reporting net charges of Euro 23 thousand, compared to charges of Euro 589 thousand in the previous year. Financial charges in service of the debt of Euro 1.1 thousand increased Euro 150 thousand on 2017, which benefitted from financial income equating to the difference from a VAT reimbursement awaited since 2012.

The ***consolidated pre-tax profit*** was Euro 25.4 million (Euro 15.1 million in 2017).

Consolidated net profit, after current and deferred taxes of approx. Euro 4.4 million, amounted to Euro 21 million (compared to Euro 10.6 million in the previous year - increasing 97.4%).

At year-end, an agreement was also signed with the Tax Agency for the application of the intellectual property tax breaks (Patent Box) for BasicNet S.p.A., and in April an agreement was signed for Basic Trademark S.A. which follows on from that signed previously for Superga Trademark S.A., completing the tax break application process for the Group. The agreements, with retrospective effect from 2015 for that covered by the ruling procedure, give rise to a one-off prior tax benefit of Euro 2.5 million, reducing the tax charge accruing in the year, in addition to the tax benefit of Euro 1.7 million.
Deferred taxes assessed against tax changes in the year and the recovery of prior year taxes had a negative impact of 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 68.4 million, compared to Euro 59.7 million. The 2018 EBIT of Euro 20.8 million compares with Euro 16 million in 2017. The segment net profit increased by 129.9% to Euro 18.1 million in 2018, from Euro 7.9 million in 2017.
- ***"Proprietary licensees"***: consisting of BasicItalia S.p.A. and of its subsidiary BasicRetail S.r.l. The segment report sales of Euro 153.7 million, +14% on the previous year (Euro 134.8 million). The contribution margin on sales increased to Euro 64.6 million in 2018 from Euro 54.5 million in 2017. The revenue margin was 42% (40.4% in 2017). 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. The segment reports a net profit of Euro 2.7 million, against a net loss of Euro 0.5 million in 2017.
- ***"Property":*** property management reported a profit of Euro 228 thousand (Euro 298 thousand in 2017).

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:

(Euro thousands)	**December 31, 2018**	**December 31, 2017**	**Changes**
Property	21,583	22,292	(710)
Brands	47,124	46,822	302
Non-current assets	24,438	24,995	(557)
Current assets	142,368	125,427	16,941
Total assets	**235,513**	**219,536**	**15,977**
Group shareholders' equity	112,937	97,011	15,925
Non-current liabilities	29,392	33,350	(3,960)
Current liabilities	93,184	89,175	4,010
Total liabilities and shareholders' equity	**235,513**	**219,536**	**15,977**

Capital expenditure in the year amounted to Euro 5.8 million, following IT programme investment (Euro 1.9 million), EDP and furniture and fitting spending (Euro 2.4 million), for commercial goodwill on sales points (Euro 0.4 million) and for own brand management (Euro 0.3 million), with the residual concerning property improvements and other minor items.

The increase in current assets relates to trade receivables increasing less than proportionally than revenues, while finished product inventories reduced; current liabilities increased in terms of amounts due to suppliers, following increased operations.

Financial position

⇒Consolidated figures

(Euro thousands)	**December 31, 2018**	**December 31, 2017**	**Changes**
Net financial position – Short-term	(29,464)	(33,050)	3,586
Financial payables – Medium-term	(21,394)	(27,439)	6,045
Finance leases	(823)	(991)	168
Total net financial position	**(51,681)**	**(61,480)**	**9,799**
Net Debt/Equity ratio (Net financial position/Shareholders' equity)	0.46	0.63	(0.18)

Consolidated net debt, including medium-term loans and finance leases (Euro 22.2 million) and property loans (Euro 6.4 million), decreased from Euro 61.5 million at December 31, 2017 to approx. Euro 51.7 million at December 31, 2018. Dividends were distributed of Euro 3.3 million in the year, with investment of Euro 5.8 million and treasury shares acquired for Euro 3.3 million. Operations generated self-funding of Euro 21.9 million.

The ***debt/equity*** ratio at December 31, 2018 increased to 0.46 (0.63 at December 31, 2017).

THE PARENT COMPANY

BasicNet S.p.A. Key Financial Highlights

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

(Euro thousands)	**FY 2018**	**FY 2017**	**Changes**
Royalties and sourcing commissions	33,730	28,165	5,565
Direct sales and other income	10,840	9,425	1,415
EBITDA *	13,485	10,868	2,616
EBIT *	11,105	8,633	2,471
Dividends from subsidiaries	2,150	1,850	300
Net Profit	12,954	4,508	8,447

* *For the definition of the indicators reference should be made to Page 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 33.7 million grew 19.8% on 2017.

Direct sales and other income amounted to Euro 10.8 million (Euro 9.4 million in 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., Superga Trademark S.A., Basic Village S.p.A., Jesus Jeans S.r.l. and TOS S.r.l.

In 2018, ***selling, general and administrative expenses***, including contributions in support of marketing and international media activity, rose approx. Euro 1.3 million - in support of communications and the development of the new brands through the business system.

EBIT amounted to Euro 11.1 million (Euro 8.6 million in 2017), following amortisation and depreciation of Euro 2.4 million.

During the year, the subsidiary Basic Properties B.V. distributed dividends of approx. Euro 2.1 million, up on Euro 1.8 million in 2017.

On the basis of the above items, the ***net profit*** amounted to Euro 13 million, after income taxes of Euro 276 thousand.

Balance sheet overview

(Euro thousands)	**December 31, 2018**	**December 31, 2017**	**Changes**
Non-current assets	5,952	6,144	(192)
Brands	9,803	9,710	93
Investments	33,656	33,275	382
Current assets	88,247	84,131	4,116
Total assets	**137,658**	**133,260**	**4,398**
Shareholders' Equity	91,771	85,381	6,389
Non-current liabilities	20,089	23,310	(3,221)
Current liabilities	25,798	24,569	1,229
Total liabilities and shareholders' equity	**137,658**	**133,260**	**4,398**

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

Non-current assets include investments in the year for the purchase of moulds and EDP for Euro 0.9 million, and of IT equipment for Euro 1.5 million. The value of tangible and intangible assets are recorded net of amortisation and depreciation for the year of Euro 2.4 million.

Shareholders' Equity at December 31, 2018 was Euro 91.7 million (Euro 85.4 million in 2017), following the distribution in 2018 of dividends for Euro 3.3 million and the acquisition of treasury shares for approx. Euro 3.3 million.

Financial position

(Euro thousands)	**December 31, 2018**	**December 31, 2017**	**Changes**
Net financial position – Short-term	(10,324)	(8,468)	(1,856)
Financial payables – Medium-term	(15,938)	(19,875)	3,938
Finance leases	(104)	(126)	23
Financial position with third parties	**(26,365)**	**(28,469)**	**2,104**
Group financial receivables/(payables)	55,484	60,267	(4,783)
Financial position with the Group	**55,484**	**60,267**	**(4,783)**
Total net financial position	**29,119**	**31,798**	**(2,679)**

The ***net cash position*** of Euro 29.1 million reduced on Euro 31.8 million in 2017.

RECONCILIATION BETWEEN CONSOLIDATED NET PROFIT AND PARENT COMPANY NET PROFIT

The reconciliation at December 31, 2018 between the Parent Company net equity and result and the consolidated net equity and result is reported below.

(Euro thousands)	**Net Profit**	**Shareholders' Equity**
Financial statements of BasicNet S.p.A.	**12,954**	**91,771**
Result and net equity of the consolidated companies and value at equity	10,209	21,164
Elimination of the dividends received by the Parent Company	(2,150)	-
Group consolidated financial statements	**21,014**	**112,934**

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 2018 and 2017 are reported in the following table:

	31/12/2018	31/12/2017
SHARE PRICE INFORMATION		
Earnings per share	0.4048	0.1925
Dividend per share (1)	0.1200	0.0600
Pay-out ratio (1) (2)	30.8%	30.7%
Dividend Yield (1) (3)	2.71%	1.63%
Price at year-end	4.43	3.68
Maximum price in year	4.98	4.05
Minimum price in year	4.24	3.15
Stock market capitalization (in thousands of Euro)	270,202	224,456
Total number of shares	60,993,602	60,993,602
Shares outstanding	54,409,070	55,308,514

(1) dividends on the 2018 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 (*)	33.639%
BasicNet S.p.A.	11.486%
Francesco Boglione	6.275%
Kairos Partners SGR S.p.A.	5.531%

(*) held indirectly through BasicWorld S.r.l. for 33.128% 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.

Licensee network operating risks
The adoption of a licensee network system has enabled the Group brands to expand and quickly enter new markets. The Group monitors the activities of its licensees and detects any problems on-line in the management of the brands in the various regions. The most important factor of the system is therefore to guarantee the capacity to identify new business opportunities and markets and appropriate licensees for each market. The main risk is therefore the undertaking of licensees not equipped for the task and the particular local market.
The Group has adopted specific measures to assess licensees and for the drawing up of contracts to offset this risk, including:

- the parallel use of Group management and specialised local information sources to identify and negotiate with licensees;
- the use of license contracts based on a standard consolidated over time, prepared by outside international or local specialised legal experts to handle any exceptions, amendments or integrations, established through negotiations or for compliance with local rules;
- the use of three/five-year license contracts which include way-out clauses for underperforming licensees.

The Group in addition in 2012 put in place the ".com"" BasicAudit for the control, verification and analysis of licensee operational compliance, identifying any discrepancies in their operations, developing contractual clauses requiring the annual preparation of certified statements by the International Auditing Firm to certify the data sent to the Group, and carrying out specific controls at licensee offices.

Risks related to BasicNet Group production
BasicNet carries out extensive selection and monitoring activities on the Sourcing Centers i.e. licensee businesses managing the production flows of Group brand finished products, which are distributed by the commercial licensees within their respective areas and has developed an IT platform which directly connects the productive and commercial licensees.
The theoretical risks identified with regards to the Sourcing Centers are:

- the possibility that the Sourcing Centers fail to identify producers who can guarantee the required quality standards of BasicNet for product packaging;
- the trust risk regarding the Sourcing Centers, which may hinder the correct identification of product costs;
- compliance risk concerning the international rules governing labour contracts and ecological and safety compliance, which may impact the international image of the Group brands.

BasicNet has put in place specific operating mechanisms to correctly manage these risks, including:

- a selection of Sourcing Centers based on an assessment of the technical requirements to satisfy Group needs in terms of quality, volumes and production times (contained in the "Sourcing Agreement"), in addition to the financial solidity of the manufacturer, assessed through specific onsite visits and repeated on a consistent basis;
- the use of anti-trust controls that require that strategic products be produced by at least two or three Sourcing Centers. Moreover, after five years orders are switched to a new sourcing centre, and we make sure that no factory devotes more than half of its productive capacity to our Group's brand-name products.
- the use of contracts with Sourcing Centers stipulating the commitment of the contracting parties to comply with local and international labour and ecological regulations and the signing of a commitment to comply with the Code of Conduct and the Forbidden Chemicals Agreement;
- the Sourcing Center operational cash flows are finally subject to checks by BasicAudit.

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

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

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

Souring 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 the brand stores under franchises are paid weekly, related to their sales and do not present substantial insolvency risks.

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.
The main disputes in which the Group is involved are summarised below.

A.S. Roma contract termination

At December 31, 2018, the following disputes between BasicItalia S.p.A., AS Roma S.p.A. and Soccer S.a.s. di Brand Management S.r.l. were pending before the Rome Court: following the unilateral termination of the technical sponsorship contract at the end of 2012, which essentially concerned the reciprocal request for image damages following the rescission, in addition to the payment of miscellaneous and other mutual amounts under the contract.

Following the negotiations in November and December 2018 to reach an amicable settlement regarding the pending cases, on January 8, 2019, BasicItalia, AS Roma and Soccer S.a.S. signed a settlement stipulating the renouncement of the cases brought regarding mutual demands on image rights, the balance of Soccer S.a.s. for prior unpaid supplies of approx. Euro 1.6 million and the payment in settlement of Euro 1.5 million by AS Roma to BasicItalia. An agreement has not yet been reached on the mutual claims on the last sponsorship instalment, subsequent to the rescission date and of a similar amount of damages from early rescission, claimed by BasicItalia and as covered by the contract.

The effects of the settlement agreement accrue to financial year 2019 and shall be included in the relative financial statements. An initial tranche of the consideration agreed above was received on signing the agreement.

Subsequent liabilities are not expected to arise for the BasicNet Group regarding the dispute in terms of that not yet agreed.

K-WAY disputes in China

The dispute with the Chinese company Taizhou Boyang, owner of the K-WAY brand in China, is in progress.

The dispute has arisen on two fronts: one by which BasicNet S.p.A. is defending before the Chinese authorities the validity of its K-WAY registration for weather-proof clothing items, subject to a non-use cancellation request heard at the second level of judgment, and the right to sell in China K-WAY brand weather-proof clothing items, in addition to its right to produce all clothing items (weather-proof and non-weather-proof) in China and export to countries where K-WAY brands are registered, as in 2018 Taizhou Boyang began proceedings against a number of Sourcing Centers and against BasicNet regarding its Chinese registrations.

On the other, BasicNet S.p.A. took a series of actions in 2018 against Taizhou Boyang before the Chinese authorities to obtain discontinuation of the use of any K-WEY and K-WAY brands, a declaration of bad faith, in addition to the cancellation of the K-WEY and K-WAY brand registrations, previously registered by Taizhou Boyang for non-weather-proof clothing and footwear.

Tax disputes

In the initial months of 2018, a tax dispute with the Tax Agency began, following the inspection by the Finance Police for the years 2012 to 2017. In the tax assessment, the Agency alleges the partial non-deductibility of the Post-employment benefit provision accrual made for the Executive Boards for the years 2012 to 2014, on the basis of an interpretation of the rules governing Post-employment benefits for employees, in the total absence of specific tax rules. The Tax Agency is claiming approx. Euro 360 thousand for IRES, in addition to penalties and interest. Not agreeing with the Tax Agency's interpretation and noting also favourable jurisprudence in similar cases, the company presented an appeal for all of the years subject to assessment.

On December 28, 2018, a tax assessment was received from the Tax Agency by the subsidiary Basic Properties America, Inc., with registered office in New York - USA, following checks on BasicNet by the Finance Police in 2017, on the basis of the alleged tax inversion claimed by the latter against the US subsidiary. The assessments concern financial years 2011, 2012 and 2013, alleging tax evasion in Italy for approx. Euro 3.6 million, in addition to interest and penalties. Tax assessments were also received by BasicTrademark S.A. and SupergaTrademark S.A. for the alleged evasion of VAT for approx. Euro 1 million, on the basis that the royalties paid by Basic Properties America, Inc., for tax purposes considered an Italian company, to these two companies should have been subject to VAT.

The Group does not consider the arguments in support of that advanced by the Tax Agency as founded, considering, among the technical arguments, that the recent judgment of the Court of Cassation of December 21, 2018 clearly established that for the bringing of a case of tax inversion it is necessary that the corporate vehicle is purely artificial, an argument which is not sustainable with regards to Basic Properties America, Inc. In effect, the company was acquired by the Group in 1997 and has operated as a commercial company in the United States for a number of years and operates on the American continent with its own structure, suitable for the undertaking of sub-licensing activities and subject to tax in the United States, which is not a low-taxation country. All measures necessary to resolve the dispute are being considered with our tax consultants, considering those most appropriate for the company.

OTHER INFORMATION

HUMAN RESOURCES AND THE ENVIRONMENT

Human resources and the environment are explored in specific sections of the Consolidated non-financial report as per Legislative Decree 254/2016, respectively at paragraphs 3 and 4, to which reference should be made.

TREASURY SHARES

Under the treasury share buy-back programme, authorised by the Shareholders' AGM of April 24, 2018 and concluding at the date of the Shareholders' AGM for the approval of the 2018 Annual Accounts, at the date of this report 629,843 treasury shares had been acquired (1.032% of the Share Capital). BasicNet today holds a total of 7,005,822 treasury shares (11.486% of the Share Capital), for a total investment of Euro 18 million.
The Company intends to continue the share buy-back programme in 2019 and proposes to the Shareholders' Meeting to renew the authorisation. The proposal is submitted in order to provide the Company with an 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.

OPT-OUT REGIMES

The Board of Directors of BasicNet decided on 19/12/2012, in accordance with Consob motion No. 18079 of January 20, 2012, to apply the opt-out as per Article 70, paragraphs 8 and 71, paragraph 1-*bis* of the Issuers' Regulation, applying therefore the exception from publication of the required disclosure documents concerning significant merger, spin-off, share capital increase through conferment of assets in kind, acquisition, and sales operations.

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 2019 Shareholders' AGM on the website 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 39 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 - Pres. Decree 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 Group website (www.basicnet.com in the section "BasicNet Corporate Governance").

Governance of subsidiaries outside of the European Union
In accordance with Article 15 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 16, 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.

RESEARCH & DEVELOPMENT

In keeping with its economic goals and its responsibility to its stakeholders, the Group regards research and innovation as key to its growth and success.
The Group's research and development activity focuses on three main fields of inquiry:

- product research aimed at developing collections of athletic and casual apparel and footwear;
- IT research aimed at developing data collection and transmission systems;
- research and development of communication and marketing guidelines.

These fields of inquiry – the pursuit of which involves most internal personnel – translate into three main types of research and development activities:

- creating and designing products to suit market needs and the performance specifications set by clients for articles of apparel;
- designing and testing the software and mobile applications that comprise the IT platform, taking account of the needs expressed by licensees;
- drafting and implementing global marketing communication guidelines to be circulated to licensees for the development of local marketing.

Creating garment models and designs
This category includes product research aimed at developing collections of athletic and casual apparel and footwear, from material research to the styling and graphical design of garments, the identification of specific production techniques and the creation of garment prototypes and samples. BasicNet develops models and designs for all of the Group's brands with the goal of marketing products that provide high added value and are strongly appreciated by consumers for their aesthetic qualities, such as their colour, materials and shape. Designs and models are validated through prototyping (in some cases involving the use of 3D printers), which allows designs to be shared with licensees and Sourcing Centers, often – and most importantly – before actual production begins. In particular, concepts are created, basic designs are prepared and prototypes are produced for all unique, individual designs and models. Early designs form a "meta-collection" which then becomes a "mega-collection" (a set of approved articles) on the basis of feedback from the various licensees. Mega-collections are sold to various distributors over the Web. Product research costs are expensed in the year in which they generate revenues from sales, or royalties from the relative collections.

New software development
This category includes 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.

The software and mobile applications developed fall into three major categories by intended use:

- software and applications used in business management (enterprise resource planning - ERP), i.e. vertical IT solutions for various company functions that can be automated and/or monitored within a business, thus allowing users to operate in a uniform, integrated environment;
- e-commerce software and applications, i.e. highly innovative business solutions that meet a wide range of needs in terms of interface, marketing of products and samples (including visual components, designs and "virtual fashion shows") and marketing solutions;
- Web-integration software and applications, i.e. innovative platforms and management systems based on Web interfaces (online management), intended for use in communication between network members.

This type of software is generally used in specific functional areas to carry out activities such as selecting, negotiating and entering into licence agreements, managing the procurement of goods and services, managing e-commerce sales, managing all administrative activities, managing workplace health and safety obligations, managing cash flows, preparing and reviewing budgets for management, managing institutional and commercial communication, carrying out sponsorship activities and activities involved in designing new collections and making them available to network member companies.

Brand exploitation and sponsorship

This category includes research regarding communication and marketing, i.e. the means that licensees use to inform end users of their products and what sets them apart from the competition or the state of the art, as well as to advertise their products and brands. Communication and marketing contribute to brand value and drive sales by increasing brand visibility, supporting positive views or perceptions of brands and increasing customer loyalty. It follows that in order for a brand to grow in the long term, marketing must be appropriately organized so as to satisfy the needs of an increasingly large audience and to take account of multiple objectives. BasicNet S.p.A. is responsible for setting the Group's commercial strategy and managing the proper combination of distribution and development channels for the e-commerce platform to meet the needs of third parties in all segments of the market. Local licensees are responsible for carrying out marketing activities in accordance with the Group's guidelines. The activity performed by BasicNet S.p.A. in this regard is thus attributable to the following communication channels: promotion of sales, public relations, advertising and interactive marketing.

Research and development are performed by a team of approximately 75 members.

In conducting business, the BasicNet Group is committed to ensuring ethical, transparent relations with all of its stakeholders, and with its shareholders, employees and business partners in particular. Development of BasicNet's business is centered on compliance with laws and regulations, combating bribery and corruption, ethical values and respect for human rights. The following Corporate Governance and Ownership Structure Report and Consolidated Non-Financial Report are key to ensuring transparency and responsibility towards all of the Group's stakeholders.

SUBSEQUENT EVENTS TO THE YEAR-END AND OUTLOOK

Settlement with AS Roma S.p.A. and Soccer S.a.s.

At the beginning of January 2019, a settlement was reached between AS Roma S.p.A. and Soccer S.a.s. di Brand Management S.r.l., in closure of some of the disputes in progress. The effects are described in the previous paragraph "Risks relating to legal and tax disputes".

Incorporation of BasicAir S.r.l.

Also in January 2019, the company BasicAir S.r.l was incorporated, entirely held by BasicNet S.p.A.. The company thereafter acquired a used Cessna Citation VII aircraft, for an amount of Euro 1.2 million, in addition to purchase and recondition charges.

The acquisition of this asset is strategic for the Group in consideration of current development opportunities, boosted by the recent acquisition of the French licensee, the Kappa Europe project and the targeting of European Group store openings over the coming 5 years. Quick and easy travel in Europe may in fact create an extraordinary development opportunity for BasicNet in terms of business development for the main brands on the broader European market, the strategic development of the direct distribution of BasicItalia S.p.A., with the extension also to Europe of plug@sell operations, and also for the corporate integration of the new recently acquired French Group based in Nantes.

Acquisition of Sport Finance SAS and its subsidiaries

At the end of January, the acquisition was completed by BasicItalia S.p.A. of 41% of the company Sport Finance SAS, based in Nantes - France and parent company of a Group of Kappa licensees in the territories of France, UK, Switzerland, Spain and Portugal. The shares were purchased for consideration of Euro 2.1 million, paid to a number of French financial institutions holding the shares. A share capital increase reserved to BasicItalia S.p.A. was thereafter subscribed for up to 61% of the share capital, for a total value of Euro 2.8 million, settled through the conversion of receivables held by the BasicNet Group for royalties, transferred to BasicItalia and therefore for an overall investment of Euro 4.9 million. The minority shareholding, amounting to 9,463 shares out of 24,264, for 39% of the post-increase share capital, is held by the founder of Sport Finance who will continue to act as chairman and chief financial officer.

BasicItalia S.p.A., with the support of BasicNet S.p.A.'s patronage letter, guarantees the repayment by June 30, 2019 of the convertible bonds issued by ex Sport Finance and subscribed by the institutions selling the shares, with new funding, for approx. Euro 2.3 million, through a direct loan or one obtained from the banks.

In 2018, the Sport Finance Group returned Kappa® brand revenues of over Euro 60 million. The management under license of other brands not owned by the BasicNet Group and not conflicting with the Kappa brand, resulted in the delivery of overall revenues of approx. Euro 74 million.

The transaction marks the start of the strategic campaign to strengthen the Group licensees, with the objective of creating Kappa Europe: a new licensee which will be the model for other licensees, as "Powered by BasicNet" and operating on Kappa's main and largest market, i.e. Europe. Sport Finance was therefore renamed Kappa Europe SAS.

The set of agreements signed for the acquisition with the current minority shareholders also stipulate a lock-up period on the corporate structure until July 31, 2024, except for the exercise of the put and call options. These options shall be exercisable during two windows in 2021 and 2024, at variable prices, on the achievement of the pre-fixed objectives based on normal economic-financial indicators, and which may be settled in cash or through parent company shares. The relative liability shall be valued for the purposes of preparing the 2019 half-year financial statements and recognised thereto.

Outlook

In general, Group operating results are expected to be strong in the first half of the year 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 by currency price fluctuations.

The strategic development projects of the Group are bolstered by the recent acquisition by BasicItalia of control of the Sport Finance Group, now Kappa Europe, exclusive licensee of BasicNet for the Kappa® and Robe di Kappa® brands in France, Portugal, Spain, Morocco, Switzerland, Belgium and the United Kingdom. "Powered by BasicNet" will drive the speed and reliability of the new entities' operations, leveraging on a highly competitive window for the Kappa® and Robe di Kappa® brands. The major development of the brands on the main markets will also continue.

* * *

PROPOSAL TO THE SHAREHOLDERS' MEETING FOR THE ALLOCATION OF THE NET PROFIT FOR THE YEAR

Dear Shareholders,

in the presentation for the approval of the Shareholders' Meeting for the 2018 Financial Statements and the relative Directors' Report we propose the allocation of the net profit of Euro 12,954,413.75 as follows:

-	to the Legal reserve	Euro	647,720.69
-	to each of the 53,987,780 ordinary shares in circulation (excluding the 7,005,822 treasury shares held at March 8, 2019), a dividend of Euro 0.12 before withholding taxes for an amount of	Euro	6,478,533.60
-	to retained earnings the residual amount, equal to	Euro	5,828,159.46

The dividend will be paid from May 22, 2019, with record date of May 21, 2019 and coupon date (No. 12) of May 20, 2019.

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 2018 results, the Directors' Report and having noted the Board of Statutory Auditors' Report and that of the Independent Audit Firm EY S.p.A.,

RESOLVES

to approve the Directors' Report and the Financial Statements at December 31, 2018, in relation to each individual part and in its entirety, in addition to the proposal for the allocation of the Net Profit of Euro 12,954,413.75 and the dividend proposal.

Turin, March 8, 2019

for the Board of Directors

The Chairman

Marco Daniele Boglione

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 in the section "Corporate Governance BasicNet).

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.

For introductive Paragraph 1. please refer to the full Corporate Governance and Ownership Structure Report available on Group website www.basicnet.com.

2. DISCLOSURE ON THE OWNERSHIP STRUCTURE AT MARCH 19, 2018
(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 7,005,822 treasury shares, equal to 11.486% 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[1], 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:

[1] 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	33.639%	Held indirectly through BasicWorld S.r.l. for 33.128% and for the residual 0.511% directly.
BasicNet S.p.A.	11.486%	Treasury shares in portfolio.
Francesco Boglione	6.275%	Held indirectly thorugh Francesco Boglione S.r.l. for 1.719%, with the residual 4.566% held directly.
Kairos Partners SGR S.p.A.	5.531%	

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 24, 2018 approved, for a period of twelve months, or until the next Shareholders’ AGM to approve the 2018 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 629,843 shares, equal to 1.032% of the Share Capital. BasicNet today holds a total of 7,005,822 treasury shares (11.486% of the Share Capital), for a total investment of Euro 18 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 co-ordination of BasicWorld S.r.l., a company which holds 33.128% of the share capital, as the holding company has significant investments in other companies, also with reference to Article 16 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;
- the information 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"*) is 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 website (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 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

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 2018, as in previous years, this percentage was 4.5% (Consob Resolution No. 3 of January 24, 2019);

- 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.

<u>Executive director succession plans</u>

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), and d bis of the CFA)

The mandate of the Board of Directors currently in office, appointed by the Shareholders' AGM of April 28, 2016, will conclude at the Shareholders' AGM called to approve the 2018 Annual Accounts, and comprises twelve members, as indicated in the following table:

Members	Office	Slate M/m (*)	Years of service since first appointment (**)	No. Appointments (***)
Marco Boglione	Chairman	M	1999	
Daniela Ovazza	Non-executive Vice Chairman Member of the Remuneration Committee	M	1999	2
Giovanni Crespi	Chief Executive Officer	M	2007	--
Paola Bruschi	Director	M	2007	--
Paolo Cafasso	Director	M	1999	--
Elisa Corghi	Independent and non-executive director Member of the Remuneration Committee and of the Control and Risks Committee	m	2016	3
Alessandro Gabetti	Non-Executive Director	M	2010	2
Renate Hendlmeier	Independent and non-executive director Chairman of the Control and Risks Committee and member of the Remuneration Committee	M	2015	--
Adriano Marconetto	Independent and non-executive director Member of the Remuneration Committee and of the Control and Risks Committee	M	2007	--
Carlo Pavesio	Non-Executive Director Chairman of the Remuneration Committee	M	1999	5
Elisabetta Rolando	Director	M	2013	--
Franco Spalla	Director	M	2001	2

* In this column M/m is indicated according to whether the director was elected by the majority (M) or minority (m) slate. Quorum for the presentation of slates 4.5%.

(**) This column indicates the date of first appointment of directors since the company's listing (November 17, 1999).

(***) This column indicates the number of offices a Director or Statutory Auditor holds in other companies listed on regulated markets, including foreign markets, in holding, banking, insurance or large enterprises (other than those with BasicNet Group companies).

The curriculum vitaes of the Directors in office are also available on the website of the company at www.basicnet.com/contenuti/gruppo/organisocialisocieta.asp.
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.

Diversity policies

The Board of Directors of BasicNet at the meeting of November 13, 2018 established that:

- application of the new rules and regulations and the statutory provisions guarantee a sufficiently broad diversity profile within the administration and control boards;
- the adoption of a diversity policy shall have greater effect where the Board itself presents also a slate of candidates for the renewal of positions, an undertaking which BasicNet has not yet considered;
- the choice of appropriate professionals to sit on the Board of Directors is the duty of the shareholders - both minority and majority - on the basis of the slates presented;
- decided not to adopt additional diversity policies other than those statutorily-required or recommended under the Self-Governance Code.

Female members of the Board of Directors currently occupy 33% of the total seats. In terms of age, 8% of members are between 30 and 50 years of age, while 92% of members are over 50 years of age.

The Issuer has not adopted any measures to promote equal treatment and gender equality within the corporate boards. In reality, discrimination does not exist within the Group: out of 596 employees, 395 are females and of 29 executives, 10 are females.

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 2018 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 2019, the company published its financial calendar which established the days for the five Board meetings for 2019, for the review of the preliminary results, the approval of the 2018 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, BasicNet 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 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.

On January 29, the first meeting regarding the update of corporate affairs as per Article 150 of the CFA and Article 13 of the By-Laws was held.

The documentation concerning the matters under discussion is 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. In this case, the documentation is distributed at the latest during the meeting and sent by e-mail on its conclusion. The above-stated deadline was always complied with for Board meetings in 2018.

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 2018, the Chief Executive Officer of BasicItalia and the Vice President Sales attended the two Board of Directors' meetings of BasicNet.

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 economic 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.

The Board of Directors at the meeting of March 8, 2019 considered the functioning of the Board and its Committees, in addition to its composition and size, taking account also of the professional qualifications, experience - also of a managerial nature - and the gender balance of its members, in addition to their years of services, as established by the Self-Governance Code.

In this regard, the Board considers that the choice of appropriate professionals to sit on the Board of Directors is the duty of the shareholders - both minority and majority - on the basis of the slates presented. In line with that outlined above, but in particular on the invitation of the Chair of the Board to each director, so that at any time they can present suggestions to improve the operation and function of the Board and its Committees with a view to ongoing improvement, the Board considered that its self-assessment, or the same activity assigned to an outsourcer, is a formal undertaking and not a substantial act, therefore deeming it unnecessary to carry out a specific activity.

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. 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 8, 2019, the Board noted the substantially positive opinion of the Committee, also in view of the supplementation, development and coordination activities undertaken during 2017-2018 regarding the control system. At the same meeting the Board approved the audit plan for 2019 and confirmed the budget available to the Internal Control System.

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 (leaving office with effect from October 31, 2017), 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 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 20,517,733 shares, equal to 33.639% of the share capital, of which 20,206,065 shares, equal to 33.128% of the share capital, indirectly through the wholly-owned subsidiary 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, Elisabetta Rolando, Executive Chairperson of the Board of Directors of the subsidiary BasicItalia S.p.A., Franco Spalla, Chief Executive Officer of Jesus Jeans S.r.l. and Chairman of BasicProperties B.V. are Executive Directors.

4.6 INDEPENDENT DIRECTORS

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

The Board of Directors on their respective appointment to office and in the Board meeting of March 8, 2019 assessed, on the basis of their declarations, the independence of the Directors Elisa Corghi, 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. In relation to that outlined above, the Board confirms the continued independence of its members. In particular, the holding of office for more than nine years by Director Marconetto is not considered to create a conflict, while in fact consolidated knowledge of company operations, the support operations to the Board and the absence of specific relations with the company are considered as positive factors which underlie the capacity for independence and unconflicted judgment.
As stated in the report to the Shareholders' Meeting called for the approval of 2018 Annual Accounts, the Board of Statutory Auditors has verified the correct application of the criteria and procedures adopted by the Board of Directors to assess the independence of its members.

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.

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 also considers the information flows with non-executive directors and the Board of Statutory Auditors, overseen by the Chairman and the Chief Executive Officer, to be complete and timely and therefore does not require the appointment of a Lead Independent Director, 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 commits to open a constructive dialogue with the Independent Directors. The Control and Risks Committee, whose members are also all independent directors of BasicNet, re-examining the issue, considered that, and assessed that sufficient opportunities for communication and meeting exist for the independent directors and therefore the need to appoint a lead independent director as a contact point to coordinate and represent their requests and contributions was not necessary, given that the flows of communication with the Board of Directors and the Chairman of the Board of Directors should not change in substance following appointment. On this basis, it was decided not to appoint a lead independent director, preferring to maintain all of the current communication channels between the independent directors, the other directors and the statutory auditors and the Chairman of the Board of Directors open and active, recognising the importance of this exchange.

5. PROCESSING OF CORPORATE INFORMATION

The Board approved the procedure for the handling of confidential information, subsequently updated with the regulations on Market Abuse. The policy was updated on February 9, 2018, incorporating the Guidelines upon the management of inside information published by Consob in October 2017.

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 and a Register of persons possessing "relevant 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.

In 2018, an Internal Dealing communication was published concerning transactions carried out on the BasicNet share (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

The Board of Directors on a number of occasions assessed the possibility of setting up an internal remuneration committee, also in view of the focus on the matter in the letter of December 2017 of the Chairperson of the Corporate Governance Committee. In line with evaluations made in the past, the Board of Directors did not consider it necessary to set up an Appointments Committee for the nomination of Directors, 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 the 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.

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

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. In consideration of that stated above, as the Committee avails of company means and structures, specific resources were not assigned.

The Committee in 2018 met on two occasions to review the draft of the Remuneration Report to be presented to the Shareholders' Meeting and to recommended to the Board of Directors the provisioning, in the 2018 income statement, of an amount to be allocated as a bonus to the top management of the Group companies, on the basis of the 2018 result and in accordance with year-end forecasts, without significant differences. The Chairman of the Board of Statutory Auditors attends all meetings of the Committee.

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 8, 2019, 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.

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.

In addition to executive directors of BasicNet, in relation to new appointments assigned, two new strategic directors were identified in the person of the Vice President Sales and the Chief Executive Officer of BasicItalia S.p.A..

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.basicnet.com/contenuti/datifinanziari/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.

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 met on five occasions in 2018 (on one occasion only as a Related Parties Committee), undertaking the following activities:

- examined the update to the Document for the identification and assessment of risk;
- examined the adjustment and application of new compliance and disclosure regulations. In this regard, it examined the update of the company privacy policies in view of the new regulatory framework;
- examined the update of the company procedures;
- monitored the advancement of the Integrated Controls System project, launched at the beginning of 2017;
- examined the reports prepared by Internal Auditing and the Supervisory Board;
- examined the results of the audit process of the financial statements and the correct utilisation of the accounting policies applied and their uniformity in the preparation of the consolidated financial statements;
- examined the methodology used to prepare the Consolidated non-financial report and the Corporate Governance and Ownership Structure Report.
- drew up the Control and Risks Committee Reports and reported to the Board of Directors on activities carried out.
- noted the key performance information;
- expressed a positive opinion on the ongoing improvements with regards to the timing and adequacy of pre-board disclosure.

The Chairperson of the Board of Statutory Auditors, Maria Francesca Talamonti and, in relation to the matters considered, according to the attendances reported for each meeting in the minutes of the Committee meetings, the CFO and Executive Responsible for Financial Reporting of the Group, Paolo Cafasso, the Director in charge of the internal control and risk management system, in addition to the members of the Supervisory Board, Paola Bruschi, the Internal Auditing Manager and member of the Supervisory Board, Mario Sillano, the member of the Supervisory Board Giuliana Baronio, the partners and members of the companies appointed to audit the Group, attended the meetings of the Committee (all minuted), of an average duration of approx. two and a half hours. Four meetings were held jointly with the Board of Statutory Auditors.
The Control and Risks Committee is also the Related Party Transactions Committee. In this role, it reviewed the transactions with Studio Pavesio ed Associati and Studio Boidi & Partners.

In the carrying out of its duties, the Committee has full access to the information and to the relevant departments necessary. The budget assigned to the Committee and the Internal Control System was used to appoint outside consultants in order to update and review some processes regarding the Integrated controls system, also in support of Internal Audit activities.

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.

The Group is in addition cognisant of the importance that correct operational information has for the market, investors and the community in general. For this reason, in view of the transparency required for conducting business, the Group considers transparency as an objective in relations with all stakeholders. In this regard, the Group communicates with the market and investors in compliance with the criteria of correctness, clarity and equal access to information. Also with shareholders, all outside communication of documents and information concerning the Group should be based on compliance with law and applicable regulations.

In terms of the assessment of the internal control and risk management system, the Board of Directors on March 8, 2019 considered that the system is substantially appropriate to oversee the typical business risks associated with the main operating activities.

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 Aril 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 Auditing 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 Auditing 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.

Internal Audit 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. It 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 Auditing function was awarded to an external company Progesa S.a.s. 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. The updating and review of some Integrated Control systems continued in 2018, also in support of Internal Audit activities.

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

As part of the Internal Control and Risk Management System, the parent company BasicNet and BasicItalia S.p.A. have adopted an "Organisation and management model as per Legislative Decree No. 231/2001" (hereafter also the "231 Model"), 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 Conduct 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.

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 and in the area dedicated to Group employee time-keeping.

In preparing the Model, account was taken of the existing and operating control systems and policies at the company and considered appropriate, in addition to the Ethics Code, as an integral part of the Model: the Internal Dealing Conduct Policy, the related party transactions policy. 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.

The Board of Directors at the meeting of April 28, 2016 confirmed the members of the Supervisory Board. 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. In 2018, the Supervisory Board met 4 times.

Ethics Code

The Ethics Code is presented on a video to all new employees of the Group and to all consultants.

In 2018, 187 hours of training were provided with regards to the receipt and application of the Ethics Code, both through classroom and e-Learning platform training, for 678 participations in Italy (approx. 100% of the average workforce in 2018), of which 27 executives, 630 white-collar and 21 blue-collar employees.

The BasicNet Group Ethics Code was updated and approved, in its latest version, by the Board of Directors at the meeting of October 2017. The Code is designed to control the conduct of the addressees, identified as the members of the Boards of Directors and Boards of Statutory Auditors, in addition to all BasicNet Group personnel, collaborators and consultants, suppliers and all others acting in the name of and/or on behalf of the BasicNet Group. As reported in this document, the BasicNet Group, in pursuing its objectives, considers a number of conduct principles as critical, including:

- a commitment to internally and externally comply with the laws applicable in the states in which operations are carried out, in addition to the ethical principles of transparency, correctness and fairness in the conducting of business;
- to refrain from illegal or improper conduct (against the community, the public authorities, clients, personnel, investors and competitors) in the pursuit of business objectives;
- to establish organisational tools to prevent the violation of the principles of legality, transparency, correctness and fairness by personnel and collaborators and oversee compliance with these principles;
- to assure the market, investors and the community in general, while protecting the competitivity of the respective businesses, of full transparency in operations;
- to commit to the promotion of fair competition in support of its interest and that of all market operators and the stakeholders in general;
- to pursue excellence and market competitiveness, offering clients high quality services which efficiently meet their demands;
- to protect and support personnel;
- to responsibly employ resources with a view to sustainable development, respect for the environment and the rights of future generations;
- to protect workplace health and safety conditions and consider human rights as a fundamental aspect of business activity.

The Group does not justify in any way the adoption of conduct conflicting with law and these principles. In this regard, the Supervisory Board oversees compliance with the Ethics Code, promptly reporting to the Control and Risks Committee and the Board of Directors any violations thereof. All stakeholders may report in writing and anonymously any violation or suspected violation of the Ethics Code to the Supervisory Board. Violation of the principles of the Code may result in sanctions.
For the effective dissemination of the Ethics Code and of the organisation and management model as per Leg. Decree 231/2001, these were published on the company's website www.basicnet.com/contenuti/corporate/codiceetico.asp in the area dedicated to Group employee time-keeping.

Ethic Code of Conduct for Sourcing Centers

The Ethic Code of Conduct for Sourcing Centers is a document that establishes the minimum requirements for the working conditions that must be met by all Sourcing Centers selected by the BasicNet Group or by affiliated companies. The Group is committed to ensuring that each link in the production chain complies fully with the principles and conditions enunciated in the Ethic Code of Conduct. Accordingly, Sourcing Centers are always liable for full compliance with the Ethic Code of Conduct by their suppliers.
Through the Code, BasicNet encourages its business partners to adopt the highest international standards of ethics and best practices in business. Respect for human rights and international labour standards – including the fundamental conventions of the International Labour Organization and the

Universal Declaration of Human Rights – were taken as an inspiration and foundation, and many of the guidelines included in the Ethic Code of Conduct were based on them. BasicNet reserves the right to stop doing business with Sourcing Centers that are incapable of complying - or reluctant to do so - with the principles and conditions enshrined in the Ethic Code of Conduct. The principles cited in the Ethic Code of Conduct for Sourcing Centers include:

- a ban on the use by Sourcing Centers of child under 15 age labour and an incentive for them to verify the age of their workers, keep proof of such verification and comply with all laws and regulations governing working hours and the general conditions of labour;
- a ban on the use by Sourcing Centers of involuntary labour, defined as work or service done by any person under threat, subject to penalty in the event of non-compliance, where a worker does

not offer service voluntarily, a category that includes mandatory, forced prison labour under a binding contract;
- a ban on the use by Sourcing Centers of corporal punishment or any other form of intimidation or physical or mental coercion of its workers;
- a requirement that Sourcing Centers comply with all laws and regulations applicable to the conduct of their business, including the principles set out above. All references to "applicable laws and regulations" in the Ethic Code of Conduct extend to national and local codes, rules and regulations, as well as to voluntary treaties relevant to the sector.

Other principles enunciated in the Ethic Code of Conduct with which Sourcing Centers must comply include non-discrimination, the protection of health and safety, environmental protection and freedom of association. BasicNet is committed to full and complete compliance with laws and regulations applicable to its business activity and expects that Sourcing Centers will cooperate fully and with due diligence in fulfilling this pledge.

To guarantee awareness of the Ethic Code of Conduct, Sourcing Centers are required to take appropriate measures to ensure that workers familiarize themselves with the contents of the Code of Conduct and to post the Ethic Code of Conduct, translated into the workers' local language, at each production facility in a highly visible location readily accessible to all workers. Sourcing Centers are also required to select their suppliers carefully and only to do business with suppliers that ensure respect for human rights and full compliance with the principles enshrined in the Ethic Code of Conduct. To ensure compliance, BasicNet is authorized to audit Sourcing Centers by conducting scheduled or unscheduled inspections of Sourcing Centers' facilities aimed at monitoring compliance with the Ethic Code of Conduct. During such inspections, BasicNet and its representatives may examine books and registers relating to employees and conduct private interviews of the Sourcing Center's employees. If a violation is found to have been committed, BasicNet and the Sourcing Center are required to agree on a Corrective Action Plan aimed at remedying the violation promptly. If a Sourcing Center commits repeated and/or deliberate violations of the Ethic Code of Conduct, BasicNet may take the necessary corrective measures, up to and including the cancellation of orders and/or termination of business arrangements with the Sourcing Center concerned.

Conflicts of interest and prevention of bribery and corruption

The Group has implemented a Legislative Decree No. 231/2001 Organization Model and specific internal procedures to establish ethical rules and responsibilities in the conduct of its business and in dealings with its various stakeholders (there are, for example, specific procedures for proper management of dealings with the public administration). In particular, operations are governed by procedures organized in a way that ensures that there is effective oversight by the individual company units (".coms") concerned. In particular, the Group always ensures clear, transparent and ethical relations with the public administration, in Italy and internationally. As stated in the Ethics Code, addressees of the Code should refrain from improperly influencing the decisions of the Public Administration by offering money or other benefits, such as employment or commercial opportunities in favour of public officials or those providing a public service, in addition to their family members. The Group companies may not provide direct or indirect contributions of any type, nor set up funds in support of public officials, except where permitted and in accordance with applicable law and regulations and on the condition that: (i) they are properly approved by the competent company functions, (ii) they are properly documented from an accounting and operating viewpoint, (iii) they do not put anyone in a position of conflict of interest. Untruthful statements may not be made to national or EU public bodies for the awarding of public funds, public grants or subsidised financing, or to obtain concessions, permits, licenses or other administrative acts. The direction of funds received from national or EU authorities as disbursements, contributions or financing for objectives other than those intended is prohibited. The altering of computer or IT systems or the manipulation of data contained therein in order to obtain unjust profit and causing damage to the Public Administration is prohibited. In commercial relations with the Public Administration, including also participation in public tenders, conduct should always be in compliance with law and proper commercial practice, while conduct which is undertaken to induce the committal of an offense in seeking advantage for the Group is expressly prohibited.

The financial reports, financial statements and corporate communications required by law and regulations should be prepared with clarity and present a true and fair view of the Group company financial statements. No payments (in any form) may be made in the interest of the Group in the absence of corresponding adequate documentation. Transactions with related parties, including inter-company transactions, should comply with the criteria of substantial and procedural correctness. Those undertaking transactions in conflict of interest are required to report such to their superior or in accordance with that set out in the adopted procedures. The internal control system concerns the control activities undertaken to protect company assets, effectively manage operations and clearly provide information on the Group financial statements, in addition to those activities undertaken to identify and contain company risks.

In addition, the company operates in compliance with applicable anti-money laundering regulations and the provisions issued by the Competent Authorities and for such purposes commits to refraining from undertaking suspect transactions from a correctness and transparency viewpoint.

As part of its efforts to prevent acts of bribery or corruption committed by or targeting Group personnel, the Group complies scrupulously with Italian and international legislation and has adopted a Legislative Decree No. 231/2001 Organization Model that establishes the general principles of the fight against bribery and corruption. All company activities and units are subject to the controls and verification relating to bribery and corruption mandated by the 231 Model.

Following the enactment of the new offence of “corruption between individuals” punished under paragraph three of Article 2635 of the Civil Code, the Supervisory Board decided to modify the Legislative Decree No. 231/2001 Organization Model so that management of the sales process was considered to be one of the Group's “sensitive” activities, especially as regards:

- authorization powers within the process;
- setting the price of sale;
- setting payment conditions and terms;
- setting client discounts;
- managing the tills of directly operated stores;
- managing returns.

Training in matters relating to Legislative Decree No. 231/2001 – which also extended to anti-bribery and corruption policies and procedures – came to 82 hours of training in 2018, involving 155 participants, broken down into 1 executive and 154 white-collar workers, all based in Italy.

Participants in training on anti-corruption policies		**2018**	**2017**
Executives (No.)		1	8
	% of total Executives*	3%	28.3%
White-collar (No.)		154	194
	% of total White-collar*	27%	39.6%
Blue-collar (No.)		-	8
	% of total Blue-collar*	--%	29.6%
Total (No.)		**155**	**210**
	% total Group*	**24.6%**	**38.5%**

**The percentages are calculated on the average workforce in Italy in 2018.*

In addition, a clause upon anti-corruption practices is present in the licensing contracts of all Sourcing Centers and Licensees (respectively Sourcing Agreements and Distribution Agreements).

Supervisory Board

The Board of Directors at the meeting of April 28, 2016 reconfirmed the members of the Supervisory Board as Giuliana Baronio, Paola Bruschi and Mario Sillano. The Supervisory Board is tasked with overseeing the correct functioning of the Model and updates. In 2017, in order to strengthen the

Supervisory Board an external lawyer Mr. Roberto Cota was appointed who became the chair of the body. 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' AGM of April 27, 2017 appointed EY S.p.A. to audit the accounts for the 2017-2025 period.

The proposal to the Shareholders' Meeting regarding the new appointments, in accordance with Legislative Decree No. 135 of July 17, 2016 and Regulation (EC) No. 537/2014, contained, on the outcome of a selection process created and carried out by the company, the recommendation and the preference expressed by the Board of Statutory Auditors.

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 Auditing 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 "procurements" 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.

The procedure is available on the company's website:
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 at 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, whose mandate shall conclude with the approval of the 2018 Annual Accounts, therefore comprises:

Name	**Office held on the Board**	**Slate M/m (*)**	**No. appointments (**)**
Maria Francesca Talamonti	Chairperson	m	1
Sergio Duca	Statutory Auditor	M	2
Alberto Pession	Statutory Auditor	M	-
Giulia De Martino	Alternate Auditor	m	3
Maurizio Ferrero	Alternate Auditor	M	1

(*) In this column M/m is indicated according to whether the director was elected by the majority (M) or minority (m) slate.

(**) Other Directorships or Auditorships held by a Statutory Auditor pursuant to Article 148-bisof Legislative Decree No. 58/1998 and the regulations included in Consob's Issuer Regulations. Full details of these additional offices are provided by Consob on their website pursuant to Article 144-quinquiesdeciesof Consob's Issuer Regulations.

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.

Diversity criteria and policies

Reference should be made to paragraph 4.1 concerning the Board of Directors.

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 April 27, 2017, subsequent to the appointment of the new members, and recently at the meeting of February 27, 2019, 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 vitaes of the statutory auditors, is available on the website www.basicnet.com/contenuti/gruppo/organisocialisocieta.asp.

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 Auditing 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 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. http://www.basicnet.com In 2018, communication was undertaken with analysts and investors, on the announcement to the market of the company's periodic results.

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.

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 be 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

No changes occurred.

19. CONSIDERATIONS ON THE LETTER OF DECEMBER 21, 2018 OF THE CHAIRMAN OF THE CORPORATE GOVERNANCE COMMITTEE

In December 2018, the letter of the Chairman of the Corporate Governance Committee (accompanying the "2017 Report on Corporate Governance developments for listed companies") was forwarded, as requested by the former, to the Chairman, to the Chief Executive Officer and to the Chairman of the Board of Statutory Auditors of BasicNet.

Subsequently, this documentation was communicated for the attention of the Control and Risks Committee of February 27, 2019 and the Board of Directors and Board of Statutory Auditors, at the meeting of March 8, 2019.

With regards to the Committee's recommendations, the Board decided the following:

- in terms of the pre-board disclosure recommendations, the Board - at the meeting of March 8, 2019 - accepted the suggestions received from the independent directors, committing to - where possible - improve the flow of pre-board disclosure, particularly with regards to corporate transactions;
- in terms of the recommendations concerning the assessment of the independence conditions, the Board considers that the Issuer is substantially compliant with such and, therefore, decided not to take any further initiatives in this regard (for the outcome of the recognition of independence activities, reference should be made to paragraph 4.6 of this Report);
- with regards to the other areas of suggested improvements and, in particular, greater transparency upon the means for the undertaking of the Board review and the strengthening of the link between variable remuneration and the medium and long-term objective parameters, the Board decided not to take any initiatives for the reasons indicated respectively at Paragraphs 4.3 of this Report and Section 1, point e) of the Remuneration Report.

On behalf of the Board of Directors

The Chairman

Marco Daniele Boglione

CONSOLIDATED NON-FINANCIAL REPORT DRAWN UP AS PER LEGS. DECREE 254/2016

Methodology

This document represents the consolidated non-financial report pursuant to Legislative Decree No. 254/2016 (hereinafter also referred to as the "Non-Financial Report" or the "Report") prepared by the BasicNet Group, comprising BasicNet S.p.A. and its subsidiaries (hereinafter also referred to as the "BasicNet Group", the "Group" or "BasicNet").

As a large undertaking, the BasicNet Group has prepared a Non-Financial Report to fulfil the obligations under Article 3 of Legislative Decree No. 254/2016, which transposed Directive 2014/95/EU into Italian law. Accordingly, this Report includes an account of the main policies applied by the undertaking, the management models and main activities carried out by the Group in 2018 with regard to the matters expressly cited in Legislative Decree No. 254/2016 (environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters). In particular, the matter of human rights is applied by the Group to its management of relations with the Group's personnel, Licensees, Sourcing Centers and suppliers, in accordance with the principles and values cited in the Ethics Code and Ethic Code of Conduct for Sourcing Centers. For further details on this matter, reference should be made to the sections "The promotion of the economic development of BasicNet's partners", "The supply chain" and "Diversity and equal opportunities" of this Report and to the section "Legislative Decree No. 231/2001 Organization Model" of the Corporate Governance and Ownership Structure Report. The main measures adopted by the Group to prevent bribery and corruption are described in the section "Conflicts of interest and prevention of bribery and corruption" of the Corporate Governance and Ownership Structure Report. The main risks relating to sustainability issues that have been identified – having to do with management of the network of licensees and associated with the production of the Group's products – are described in further detail in the Directors' Report in the "Main risks and uncertainties" section. The main warranty and innovation actions are outlined in the "Research and Development" section of the Directors' Report.

The purpose of the Report is to give an account of the Group's values, major initiatives and sustainability performance in 2018 that is consistent with its organizational structure (reporting period from January 1 to December 31, 2018). The 2017 non-financial report was approved on March 19, 2018.

As permitted by the options provided for in Article 5 of Legislative Decree No. 254/2016, the Non-Financial Report has been integrated into the Directors' Report. While ensuring an understanding of the Group's activity, performance, results and impact, some of the content of the Report that is expressly required by Legislative Decree No. 254/2016 is included in other sections of the Directors' Report ("Main risks and uncertainties", "The Group and its activity" and "Research and development") and in the "Corporate Governance and Ownership Structure Report" (in the sections "Board of Directors" and "Legislative Decree No. 231/2001 Organization Model").

The Non-Financial Report has been prepared in accordance with the new 2016 GRI Sustainability Reporting Standards published by the Global Reporting Initiative (GRI), according to the "core" option. An appendix to the Report includes a table of the GRI indicators covered as orientation for the reader.

In drafting the Non-Financial Report, reference was also made to the European Commission's *Guidelines on non-financial reporting*.

The contents and indicators subject to reporting were selected on the basis of the materiality analysis conducted in 2018 and presented in the Report, which permitted the identification of the aspects material to the Group and that could substantially influence stakeholders' assessments and decisions, in light of the topics cited in Legislative Decree No. 254/2016. The materiality analysis was in line with that reported in 2017.

In particular, the process of determining the content of the Report is based on the principles of materiality, stakeholder inclusion, completeness of information and the Group's operating context. With regard to the quality of the information reported, the principles of balance, accuracy, verifiability and comparability were observed.

The financial reporting scope is the same as for the BasicNet Group's 2018 Consolidated Financial Statements. The scope of the financial, social and environmental information included extends to the companies included in the BasicNet Group at December 31, 2018 and consolidated line-by-line in the Group's Consolidated Financial Statements. However, it should be noted that, while it does ensure a proper understanding of the enterprise's activity, the reporting scope of information and data relating to training and the environment extends largely to the Group's two Italian offices. These and any other minor limitations have been disclosed as appropriate in accordance with the reporting standard adopted.

Unless otherwise indicated, the figures and information presented in the Report refer to financial year 2018. This information has been provided with a comparison to 2017 to permit an assessment of the performance of the activities where possible. In the interest of full understanding, an account has also been given of measures taken in previous years that still apply to the Group's activities.

In the interest of a proper account of performance, and in order to ensure that the figures are reliable, the use of estimates has been kept to a minimum and any estimates presented have been based on the best available methods, as appropriately disclosed.

Turning to significant changes in the scope of consolidation during the period under review, TOS S.r.l. – the company that owns the Sebago brand, consolidated line-by-line as at December 31, 2018.

The Non-Financial Report will be published annually.

The Non-Financial Report is also available on BasicNet's website, www.basicnet.comFor further information, please contact the e-mail address: affari.societari@basic.net.

This Report was approved by the Board of Directors of BasicNet S.p.A. on March 8, 2019, along with the Annual Financial Report.

The independent auditors EY give their opinion ("limited assurance engagement") according to the criteria indicated in standard ISAE 3000 Revised) on the compliance of this Report in a specific report that certifies the compliance of the information provided with Article 3, par. 10, of Legislative Decree No. 254/2016.

1. Sustainability for BasicNet

1.1 Stakeholders and materiality analysis

In its operations, BasicNet has always sought to create value for its shareholders and, more generally, all those who have a stake in the Group's business. Accordingly, as part of its pursuit of sustainability, in 2018 BasicNet mapped its main stakeholders, by conducting a thorough analysis of its business and with the participation of Group management. The goal was to identify the main groups that may be influenced by BasicNet's business, including with regard to the type of relationship with the Group in terms of dependence and influence. This mapping process – which resulted in the identification of nine main groups of stakeholders – was carried out in accordance with the international principles established by AA1000 Stakeholder Engagement Standard, AccountAbility (2015), and the GRI Sustainability Reporting Standards, 2016.

The main stakeholders include groups directly linked to business activities, such as *Group Resources, Investors, Shareholders and the Financial Community, the Public Sector, Governmental and Control Bodies* and *the Local Communities* in which the Group operates. Due to the specific nature of BasicNet's business system, Sourcing Centers and Licensees play a significant role. Both are commercial partners to the Group and belong to the broader category of clients and consumers (together with the stores involved in retail activities) and suppliers (a category which includes the Group's non-core suppliers of goods and services and Sourcing Centers, the core suppliers of the subsidiary and wholly-owned licensee

BasicItalia S.p.A.). In addition, the wholly-owned franchisee of the subsidiary BasicRetail S.r.l. is also highly important to the Group's business in Italy.

To ensure effective, uniform pursuit of its goals that makes the most of the roles and potential of its stakeholders, the Group participates in various trade associations (such as Federazione Manageritalia, the Turin chapter of ASCOM - Confcommercio and the Turin Industrial Union), in addition to promoting initiatives aimed at securing the internal involvement of its personnel (e.g., the initiative BasicPress.com, the Group's online press agency through which all resources are periodically informed of new developments and initiatives relating to the Group, along with the various social and athletic activities that are promoted at the Basic Village each year).

List of the BasicNet Group's stakeholders

With the aim of identifying the economic, environmental and social topics relevant to the Group and its stakeholders ("material" topics), in 2018 the BasicNet Group promoted the internal involvement of the top management by conducting a materiality analysis – a key process to the preparation of the Non-Financial Report. This analysis identified the material topics to be reported in this document, assessing them according to the principles set out in the GRI Standards: materiality, stakeholder inclusion, completeness of information and the Group's operating context.

Given the continuity of Group business, the materiality analysis was in line with that reported in 2017 and was consistent with the indications of the reporting standard and macro sector trends. The analysis resulted in the identification of 15 material topics, divided into five general categories (*Governance and Compliance*, *Economic Responsibility*, *Responsibility in the Value Chain*, *Social Responsibility and Environmental Responsibility*), for each of which the main stakeholders with the greatest involvement were identified. This overview represents a fundamental tool for the Group to set its priorities with regard to sustainability and to steer the actions to be pursued in this area.

List of the BasicNet Group's material topics and stakeholders involved

Category	Material aspect	Stakeholders involved
Governance and Compliance	Ethics and Compliance	Suppliers; Sourcing Centers; Licensees; Public Sector, government and control bodies
	Anti-corruption	Investors, Shareholders and the financial community; Suppliers; Sourcing Centers; Licensees; Public Sector; government and control bodies
Economic responsibility	Promotion of economic development	Sourcing Centers; Licensees; Franchisees; local communities
Responsibility in the Value Chain	R&D and Innovation	Sourcing Centers; Licensees; Customers and consumers
	Procurement practices	Suppliers; Sourcing Centers
	Data Security and Protection	Sourcing Centers; Licensees
	Prevention of Counterfeiting	Sourcing Centers; Licensees; Customers and consumers; Franchisees
	Customer Relations	Customers and consumers; Franchisees
Social Responsibility	Management and development of human resources	Group Resources; Franchisees
	Diversity and equal opportunities	Group Resources; Franchisees
	Worker Wellbeing	Group Resources; Franchisees
	Employee Health and Safety	Group resources; Suppliers; Sourcing Centers; Licensees; Franchisees
	Human Rights	Group resources; Suppliers; Sourcing Centers; Licensees; Franchisees
Environmental Responsibility	Efficient Use of Natural Resources	Public Sector, government and control bodies
	Environmental protection	Public Sector, government and control bodies; local communities

1.2 Promoting the economic development of BasicNet's partners

By analysing materiality, BasicNet discovered that its business model consists in offering business opportunities to a worldwide network of independent companies that do business with the Group, namely its manufacturing licensees (sourcing centers) and its commercial licensees (licensees). Accordingly, BasicNet is aware that the Group's economic growth is closely linked to the economic development of its licensees, and that this link represents an initial important factor of sustainability that is inherent to the nature of the Group's business.

Sourcing Centers are third-party firms to the Group. Their function is to manufacture and market merchandise and are located in various countries worldwide, depending on what type of goods they produce.

The BasicNet Group through a market place, uses a computerized platform, fully integrated into the network, that connects manufacturing licensees directly to commercial licensees, and offers licensees a coordination service that links supply to demand. Each licensee can choose at its discretion to which sourcing center it will issue its purchase order, in response to quotes issued by sourcing centres and published on the system. The platform permits the monitoring and aggregating of all transactions between Sourcing Centers and Licensees in order to benefit from economies of scale.

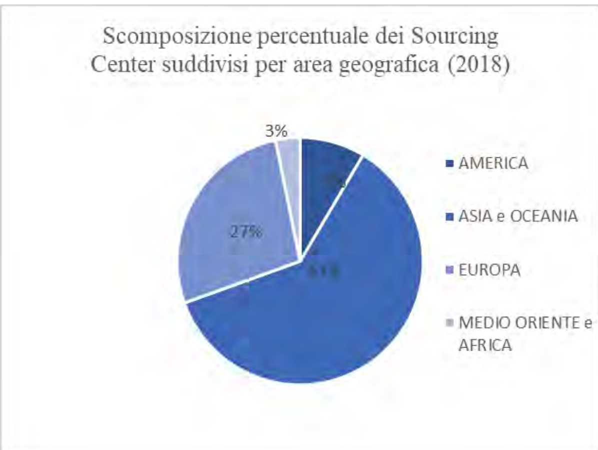
Selection and monitoring of sourcing centres is outsourced to a team of people specialised in manufacturing processes whose task is to select the sources of supply to be contracted and handle the flow of information generated by the relationship between them and the licensees. Licensees. The relationship with sourcing centres is governed by the "Sourcing Agreement", signed by the parties after identifying the most suitable sourcing centre and after performing a pre-contract analysis intended to assess its potential by gathering various kinds of information (company profile, business registration certificate, memorandum and articles of association, audited accounts). The manufacturers to which we outsource production are experienced specialists in their respective industries. They only devote part of their production capacity to the BasicNet sales network.

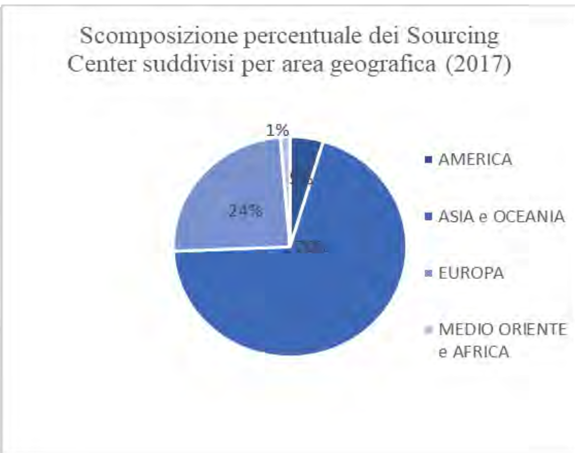
Sourcing agreements govern relations between the parties by setting forth the rules of conduct that the sourcing centre must observe concerning production, intellectual property, use of trademarks, their remuneration -- called a "sourcing commission" -- and reporting methods.

Sourcing agreements include clauses relating to social compliance, since the BasicNet Group adheres to, and encourages its commercial counterparts to comply with, the highest international ethical standards and practices of the business world. To make sure that these principles are effectively circulated, sourcing centres must read and sign the Code of Conduct and the Forbidden Chemical Agreement. The Code of Conduct is based on the basic conventions of the International Labour Organisation (ILO) and the Universal Declaration of Human Rights. It requires sourcing centres to comply with all applicable laws and regulations relating to respect for the individual and for human rights (the main ones concern child labour, involuntary labour and discrimination), as well as to health, safety and the environment. Sourcing centres must establish procedures - and actually execute them - for reporting to the local authorities any accidents caused by acts or omissions of the sourcing centres themselves. Sourcing centres must also comply with applicable laws and regulations regarding the manufacture and importation of products, and must commit to complying with the REACH Regulation (EC No. 1907/2006).

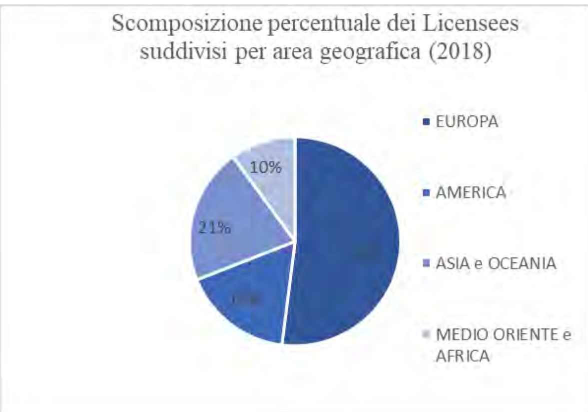
The Group is introducing additional transparency measures regarding certifications and over the course of the coming year, on the new web platform, will make available to the distribution Licensees all information concerning certifications which the production sources shall update promptly on the platform.

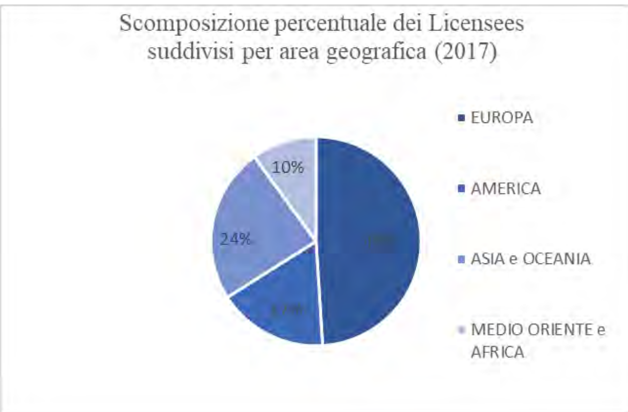
In 2018, the Group was supplied by a total of 187 sourcing centres, compared to 152 in 2017. Their facilities are located all over the world.





On the other hand, in 2018 there were 104 licensees, 14% more than in 2017 (91).





In addition to the group's licensee business, the Group also wishes to contribute to the economic well-being and growth of the communities in which it operates by providing effective high-tech services. As required by its Ethics Code, the relations that the Group maintains with local and national governments, as well as with supranational agencies, are based on full and effective cooperation, transparency and reciprocal respect for the counterparty's autonomy and for its economic goals. BasicNet puts these principles into practice by supporting social, cultural and educational activities. It also sponsors popular sports teams. There is an in-house team devoted to sponsoring, which handles all stages of sponsoring, from designing product quality and image, through selection of sources of supply of goods, to delivering them to the teams and managing participation in sports events.

2. Responsibility in the Value Chain

2.1 The supply chain

The Group distinguishes between its dealings with regular suppliers of goods and services ("non-core" suppliers) on the one hand, and its dealings with sourcing centres and licensees on the other, which are the Group's true commercial counterparts. As can be seen from a mapping of the Group's stakeholders, BasicNet's Business System distinguishes between its dealings with sourcing centres and Licensees considered as commercial partners, which includes the Group's *Customers and consumers*, and its sourcing centres, as core suppliers of the subsidiary BasicItalia SpA..

"Core" suppliers

BasicItalia SpA, a licensee that is a wholly-owned subsidiary, is structured in all respects like a commercial licensee for the use and development of intellectual property rights and merchandise bearing all BasicNet's trademarks for Italy. It purchases from the sourcing centre and distributes finished goods throughout the territory assigned to it. Accordingly, since there is no in-house production, the group's only core suppliers are the sourcing centres that supply products to the Group's subsidiary BasicItalia SpA.

BasicItalia SpA buys goods on a marketplace generated by tenders from sourcing centres selected by BasicNet depending on the technical requirements for satisfying the Group's needs in terms of quality, volumes and production times, as well as on the manufacturer's financial soundness. Repeated on-site inspections are made to assess the consistency of these variables over time.

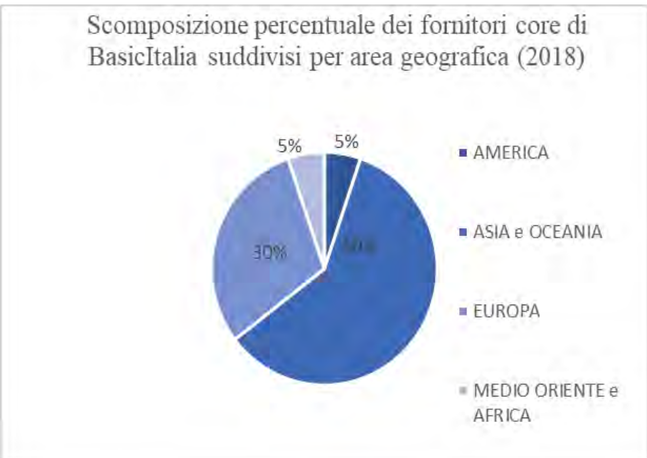
In this regard, a company called BasicNet Asia was formed with the task, among others, of handling relations with regional sourcing centres, so as to monitor their operations in order to ensure steady turnover of suppliers, and also to counter market power.

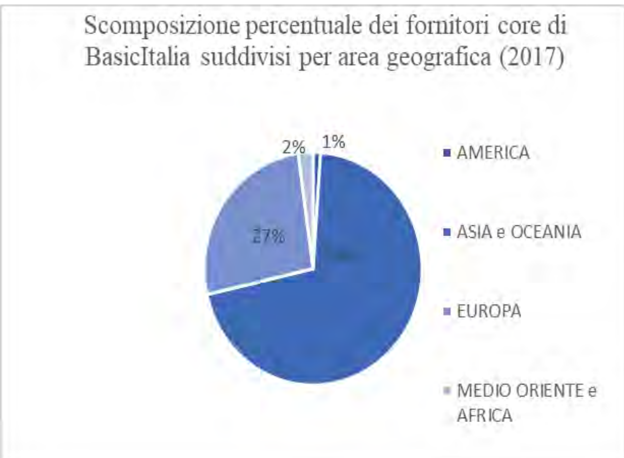
Sourcing contracts are based on a standard that arose over the years and was prepared by specialised outside lawyers. If individual contracts require exceptions, amendments or riders as a result of contractual agreements or to comply with local laws, these provisions are analysed beforehand by international lawyers or lawyers specialised in the licensee’s territory.

Anti-trust requirements are fulfilled by means of monitoring/control procedures and rules that require that strategic products be produced by at least two or three sourcing centres. Moreover, after five years orders are switched to a new sourcing centre, and we make sure that no factory devotes more than half of its productive capacity to our Group’s brand-name products. If these guidelines are not followed, a sourcing centre can be suspended temporarily, depending on each specific case.

Every sourcing centre that joins the Group’s network, regardless of whether it is one of BasicNet's Customers and consumers or a core supplier of BasicItalia SpA, must read and sign the Code of Conduct, which is based on the fundamental conventions of the International Labour Organisation (ILO), the Universal Declaration of Human Rights and the Forbidden Chemical Agreement.

In 2018, just as in the previous year, almost all sourcing centres supplying BasicItalia SpA are located in either Asia or Europe.





Suppliers of goods and services

Within the Group, goods and services are procured according to internal procedures that specify general principles for managing the supply chain responsibly and provide for the efficient planning and managing of purchases. In this regard, there is a division of roles within the Group, so that each ".com" (i.e. individual business unit) is assigned a specific role within the Group. One of the “.coms” sets requirements, another handles selection, another certification, another procurement of suppliers, while another certifies fulfilment or receipt of goods and payment. Purchasing office supplies (stationery, consumables, forms, etc.) that are considered "non-core" and purchasing services (assistance services, rentals, subscriptions, consultancy and others, etc.) are all handled through the company's online platform from the time of the request to obtaining approvals and billing.

Remuneration and amounts of any type paid to suppliers and consultants for supplies and professional appointments should be in line with market conditions and adequately documented. Corruption, unlawful favours, collusive conduct, the soliciting of advantages, the payment of material and immaterial benefits, in addition to other advantages for the purposes of influencing business agreements are prohibited and prosecuted. Gratuities of minor value considered as normal business practice are however permitted. Any conflicts of interest in choosing suppliers should be promptly reported to superiors.

The selection of suppliers of non-codified goods is handled by the relative “.com”. The purchase order is automatically sent for approval respectively by the direct superior and to the CFO or the CEO, depending on the order amount.

Suppliers and outside consultants are chosen on the basis of competence, professionalism, cost, correctness and transparency criteria. Suppliers should ensure compliance with law and applicable labour market practice in its country of residence, in addition to compliance with the Ethics Code and the Code of Conduct for Sourcing Centers.

BasicNet, when it allocates employees, services and supplies to contractors, is responsible for providing these parties with information on the specific risks present in the workplace where they are going to work, as well as for providing information on the applicable preventative and emergency measures related to their work in compliance with the provisions of Art. 26 of Legislative Decree 81/08. If outside suppliers are working continually on BasicNet's premises, BasicNet fills out the Uniform Risk Assessment Document (DUVRI), which is a single standard form, and evaluates the risk of interference among the contractors. Every supplier of labour and services must be approved beforehand by BasicNet after a professional and technical review pursuant to Legislative Decree 81/2008.

Whenever BasicNet places an order with a contractor, it evaluates the contractor on the basis of the following documents:

- Certificate of fulfilment of tax obligations (DURC);
- Certificate from the Chamber of Commerce;
- Sworn statement of professional competence pursuant to section 38, on the basis of section 26 Legislative Decree 81/2008;
- List of the names of contractor’s employees who will work on our premises, with a brief CV and the name of each worker’s superior at the workplace;
- The contractor must undertake to comply with the BasicNet Group’s Code of Ethics.

In 2018, the Group had, as last year, about 2,000 suppliers, for purchases not strictly related to core operations, approx. 90% of Italian origin. The main merchandise categories among the Group’s suppliers are: consumables, costs for events and sponsorships and software development.

2.2 Data protection

The Group protects the secrecy and confidentiality of any information relating to human resources, contractors and third parties that it may gather on account of their work or while they are performing it. Such protection is afforded by following IT procedures that govern the operation of information systems, and IT security procedures.

The privacy and information processing policies are set forth in the Ethics Code. They specify that people subject to the Code are barred from using any information about the company, or any documents, reports, drawings or other material that is not public for purposes unrelated to the performance of their duties.

Those who in the execution of their duties become aware of “inside information” or confidential information, as established by the applicable regulation, are held to maintain its confidentiality. With regards to that stated above, the external communication of confidential information should exclusively be made by authorised persons in accordance with Group procedures and - in any case - in compliance with applicable provisions and the principles of equal and concurrent information.

Addressees of the Ethics Code, in compliance with the “market abuse” regulations, should not utilise inside information to gain advantage of any type, whether directly or indirectly, immediate or future and whether personal or property related.

The Group has appointed an Information Security Manager (RSI) and outsourced management of its IT activities to a “.com” called BasicSystem. In order to ensure rigorous protection of company IT systems, the perimeter of the company network is protected by a sandwich of two firewalls that mitigate the risk of unauthorised access and tampering; remote access is assured by authorised VPN connections that are managed by the double firewall. Perimeter protection of the IT infrastructure is outsourced to a certified outside body, a SOC (Security Operation Centre) that conducts 24/7 monitoring of the entire network.

In addition, BasicNet has adopted an IT security protocol according to which all electronic records (i.e. work files) used in conducting company business are stored in suitable separate-access network folders. For each network folder a worldwide protection group has been designated to which each user is assigned. ".com" managers send to BasicSystem any requests for changes, inclusion or reassignment to a different group. All files saved onto company PCs are automatically deleted every 15 working days.

The Group has an official backup protocol for data on the company servers used to reboot and recover systems and network resources when breakdowns occur. Data are backed up every day, week and month. A duplicate of the data is stored in a safe close to the server facility.

In order to make users aware of the data security issue, newly hired staff must sign a copy of company security rules and receive online training on mandatory IT procedures. Furthermore, instruction videos are available on the company intranet that explain how to handle computers and software.

Italy's accession to the General Data Protection Regulation (GDPR - General Data Protection Regulation)

With the entry into force of Regulation (EC) 2016/679 of the European Parliament and of the Council of April 27, 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation), a need arose to implement within the Group's companies a data protection management arrangement with its own operating procedures and instructions, based on a proper risk assessment process for assessing threats to privacy.

The concept of "data protection by design" was introduced, which proposes the principle of incorporating privacy protection starting at the design stage of a business process. A parallel concept is that of "data protection by default" which consists in making technical and organisational changes to ensure that only those personal data are processed that are needed for each specific purpose of the processing.

In 2018, the "Processing Registry", the main privacy procedures, the "Data Protection Management Manual" and the "Disclosures" forms were completed for the purpose of adapting to the new Regulation. The DPO (Data Protection Officer) was also appointed for the companies BasicNet, BasicItalia and BasicRetail, as per the Regulation. In 2018, as part of the procedure set out for the integrated control system, checks were carried out on the correct application of the procedures and on the activities carried out to adjust the privacy management system to the Regulation on the requests of interested parties received by the Group and on the number of violations reported (no violations were reported in the year)

2.3 Consumer protection

The BasicNet Group constantly strives to comply with all consumer protection laws and regulations by paying close attention to its products, by combating counterfeiting, and by means of customer care, through privacy protection, return policies and customer loyalty.

BasicTrademark combats counterfeiting

BasicNet is in charge of all efforts to combat counterfeiting. It therefore constantly monitors the market. Reports of counterfeiting come indirectly from the local police, the treasury police and customs, but also directly from Italian and overseas customers and from the Group's network of licensees and their lawyers, who can get in touch with the Group on the "hunt the fake" tab on the BasicTrademark.com website and on the online sales websites. There are links for reporting counterfeit products on all the Group's e-commerce websites.
Each such report is processed individually by analysing samples and available information and then preparing expert opinions. In the event that preliminary investigations are needed in order to seize goods, BasicNet coordinates and manages these tasks, in addition to arranging for the removal or deletion and reassignment of illegal websites.
Monitoring and enforcement are supported by outside agencies responsible for this task, especially with respect to online counterfeiting.

BasicLabel labelling

Each product developed and marketed by BasicNet bears a label containing all information required by the various applicable Italian and overseas laws, and in particular by the Consumer Code (Legislative Decree 206/2005 and EU Regulation 1007/2011) that lists textile fibre names and governs the labelling and marking of the fibre components of textile products – in addition to the requirements that domestic law now imposes on each licensee. In addition, each label bears the order number entered by the licensee that, together with the other information on the label, allows BasicNet to check whether the merchandise is genuine and matches the goods on the market.

The BasicLabel project was created so as to reassure the end customer that the product they purchased is genuine and can be properly traced. For each product there is a QR code and a unique serial number that allows consumers to access information about the product they purchased by scanning its QR code or inserting its serial number on the website www.basiclabels.net
The BasicLabel project operates entirely online. Starting from the information of the items in BasicSamples and BasicSpecs (which are in charge, respectively, of determining and selling sample collections and of setting technical specifications), when acceptance of an order is confirmed through BasicFactory (the online order management platform for sourcing centres), the BasicLabels manufacturer automatically receives an order for as many labels as items have been ordered (plus buffer amounts), thus assuring tight control over the number of items manufactured.

The project was introduced for all K-Way products and for the iconic products of the other brands (in 2017 and 2018 the products of the main goods categories covered by unique label were approx. 15%).

3. Social Responsibility

3.1 BasicNet Group human resources

The Group recognises the central importance of human resources, in the firm belief that the principal factor determining the success of the business is the individual acting in a spirit of fairness and reciprocal trust. Accordingly, as stated in the Ethics Code, the Group undertakes to protect and develop its employees.

At December 31, 2018, the Group's workforce consisted of 596 employees, of which 97% worked in Italy. Most workers have full-time contracts. (502 of which 193 men and 309 women) while 94 workers are part-time, of which 91.5% are women. Most of the workers on part-time contracts are in retail sales as it is a seasonal business and many sales outlets are still start-ups. In addition, the Group sometimes hires temporary workers.

Workers by type of contract (No.)*		2018			2017		
		Male	Female	Total	Male	Female	Total
Italy		195	384	579	176	372	548
	Permanent	133	281	414	118	260	378
	Fixed term	62	103	165	58	112	170
Overseas		6	11	17	9	8	17
	Permanent	4	3	7	6	2	8
	Fixed term	2	8	10	3	6	9
Total		**201**	**395**	**596**	**185**	**380**	**565**
	of which:						
	Full-time	193	309	502	178	295	473
	Part-time	8	86	94	7	85	92

* Data on the total number of employees reflect only the headcount (non-FTE) of in-house staff at December 31.

In 2018, 182 new staff members (65 men and 117 women) were hired, reflecting the Group's steady growth, thanks to the stabilisation of the staff at the Sebago brand and the entry of Basic Properties America Inc. among foreign companies. Outgoing staff, most of them from retail, numbered 151 people, which yielded a staff turnover rate of 25.3%.

Hiring rate and staff turnover	2018				2017			
	Hires (no.)	Departures (no.)	Rate of Entry*	Turnover**	Hires (no.)	Departures (no.)	Rate of entry*	Turnover
Gender								
Male	65	49	32.3%	24.4%	48	39	25.9%	21.1%
Female	117	102	29.6%	25.8%	91	81	23.9%	21.3%
Age group								
Less than 30	132	97	69.5%	51.1%	102	88	57.3%	46.6%
Between 30 and 50	49	53	14.6%	15.8%	37	35	11.3%	10.7%
Over 50	1	1	1.4%	1.4%	0	2	0.0%	3.3%
Region								
Italy	177	146	30.6%	25.2%	130	117	23.7%	21.4%
Overseas	5	5	29.4%	29.4%	9	3	52.9%	17.6%
Total	182	151	30.5%	25.3%	139	120	24.6%	21.2%

* Ratio between the number of hires by category and the total number of employees by category at December 31
** Ratio between the number of departures by category and the total number of employees by category at December 31

A ".com" called BasicGuys handles personnel management for all Group companies, including the following aspects:

- workforce planning, which involves making sure that enough workers are available and that they are suitably qualified;
- managing staff relations from hiring to conclusion of employment, ensuring compliance with the labour laws and laws governing social security and taxation. In addition, it plans schedules and monitors labour costs and ensures accurate and timely payment of wages and salaries and of the pertinent contributions and taxes;
- handling relations with trade union officials, employers' associations and social security agencies;
- through suitable policies, procedures and internal rules that are announced and updated whenever needed, to ensure the orderly conduct of company business in compliance with operational standards and company directives.

In terms of recruiting procedures, the Group always hires new staff depending on the ".coms" during preparation of the budget. However, reassignment of existing staff members is preferred to the recruitment of new staff. In general, the recruitment channels used are the following:

- searches among the Group's employees for the profiles requested;
- applications received through BasicNet's official website (section BasicGuys jobs);
- agreements with universities (limited to internships).

The selection procedure is handled with BasicGuys software, which can be accessed by the staff of a ".com" called BasicGuys and by the managers of all ".coms", and which ensures that the selection process is traceable. To ease insertion of staff, BasicNet constantly organises a large variety of training programmes. In the two years 2017 and 2018, 55.6% of students who did their internship at the Group's facilities were later hired as employees.

3.2 Diversity and equal opportunities

In accordance with its Ethics Code, the Group considers it essential to handle labour relations in a way that assures equality of opportunities and encourages everyone's professional development.

The company's success in attaining these goals is evident from its employment figures: at December 31, 2018, the total Group workforce was 33.7% male and 66.3% female, demonstrating the strong female presence at the Group. 56.4% of the total workforce are between the ages of 30 and 50, 11.7% are over the age of 50 and 31.9% are under the age of 30.

Staff by diversity trait	2018			2017		
	Executives	**White-collar**	**Blue-collar**	**Executives**	**White-collar**	**Blue-collar**
Gender						
Male	65.5%	31.2%	50%	65.5%	29.6%	55.2%
Female	34.5%	68.8%	50%	34.5%	70.4%	44.8%
Age group						
Less than 30	0.0%	34.7%	10.7%	6.8%	33.9%	13.8%
Between 30 and 50	55.2%	56.2%	60.7%	51.6%	58.2%	54.4%
Over 50	44.8%	9.1%	28.6%	41.3%	7.8%	27.7%
Total	4.9%	90.4%	4.7%	5.1%	89.8%	5.1%

Just as it does every year, the Group renews its commitment to its ethical values of social responsibility by hiring 21 people belonging to the so-called protected categories (10 women and 11 men).

Staff belonging to protected categories (No.)	2018		2017	
	Male	**Female**	**Male**	**Female**
Classification				
Executives	-	-	-	-
White-collar	9	6	9	5
Blue-collar	2	4	2	5
Total	11	10	11	10

Also with respect to involving the Group's licensees in its business, the Ethic Code of Conduct for sourcing centres demands that they select their employees solely on the basis of their ability to perform their duties. Sourcing centres are barred from discriminating by age, gender, motherhood, marital status, citizenship, cultural and religious attributes or any other discriminatory criteria in hiring, setting compensation, dismissal or provision for old age.

3.3 Training and development of human capital

As required by the Ethics Code, the Group has always been committed to the professional growth of its workers. Thus, it has adopted over the years a human resources management policy designed to develop human capital and has assigned a strategic role to occupational training of its workers in this regard. In accordance with this policy, a ".com" called BasicEducation is in charge of planning, organising and reporting on the training of Group employees and promoting the development of human resources.
Training begins on the very day new employees are hired, when they are handed an information sheet with the Code's rules on personal data privacy (Legislative Decree no. 196 of 30/6/2003), the Group's Ethics and Conduct Code, an information brochure on health and safety, and a statement to sign whereby they consent to audio-video recording pursuant to section 13 Legislative Decree 196/2003, independently of their role, participating at the week-long introductory course ("Welcome on Board"). During this initial week, new employees are provided with an overview of Group operations and of the business model, and are also presented the company benefits and instruments, including regarding the IT systems (e.g. the stamping system, how to request leave, absences from work etc.).

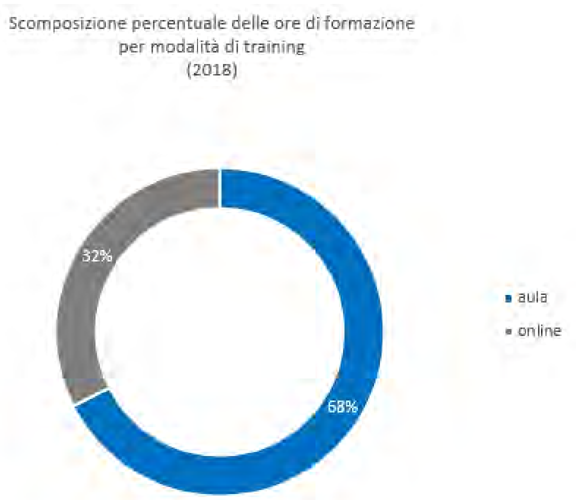
Each year BasicEducation prepares a Group Training Plan, which is then loaded into the section of the system dedicated to each individual employee. The training activities performed are identified on the basis of legislative requirements (e.g., Legislative Decree No. 81/2008), the working needs indicated by employees and updates on processes, in accordance with the Group's policies.

The project aimed at preparing resources working at monobrand stores for the constant updating of the Group's human resources also continued in 2018. In 2018 the Group provided over 4,800 hours of training to its human resources, involving a total of 683 trainees. Of these hours, 4% regarded Health and Safety training (Legislative Decree No. 81/2008), whereas the remainder related to IT, languages, the Ethics Code business model etc.

Hours of training provided		**2018**	**2017**
Total hours of training		4,888	4,413
	of which, in the classroom	3,02	3,760
	of which, online	1,586	653
% of hours of training financed[1]		14%	6.3%

[1] Training activities for which funding was requested from the "Fondo Interprofessionale Fondimpresa".

All Group employees have access to two training channels - the e-learning platform and classroom training. Support at the Group brand sales points for business model-focused and pv management training is also provided. Courses are both individual and Group-based.



Training by classification and gender		**2018**		**2017**	
		Resources trained (no.)	Average hours per capita (**)	Resources trained (no.)	Average hours per capita (*)
Executives		**22**	**1.5**	**14**	**0.5**
	Male	17	2.1	9	0.6
	Female	5	0.3	5	0.3
White-collar		**637**	**9.1**	**452**	**8.9**
	Male	197	9.6	122	11.6
	Female	440	8.9	330	7.7
Blue-collar		**24**	**1.3**	**13**	**3.3**
	Male	12	1.9	9	6.0
	Female	12	0.7	4	-
Total		**683**	**8.4**	**479**	**8.1**
	of which, women	**457**	**8.5**	**339**	**7.2**

* Average per capita hours are calculated considering the average number of resources in each professional category during the year of reference

* Average per capita hours are calculated considering the number of resources in each professional category during the year of reference

In order to promote training ensuring the ongoing update of staff on specific operational demands, the action areas were broadened. For 2018, the update programmes mainly concerned international expansion, with English and Spanish courses, and IT, software graphics and network rendering and management. These courses were undertaken with the support of funding from the "Fondimpresa" Inter-professional Fund.

Any updates to company processes are provided through dedicated modules and preferentially through the e-learning channel.

3.4 Company welfare and well-being

In order to maximize the well-being of company personnel, in 2004 the Group began to take various measures aimed at meeting the needs of all resources and ensuring work-life balance, such as:

- the "hour bank" mechanism, which permits more flexible use of overtime;
- reversible part-time granted to female workers with young children;
- the "BasicCare" desk, where company staff can be asked to handle payments and small routine errands;
- the "BasicGym" gym facility with equipment, which organizes gymnastics courses for the Group's personnel;
- free access to the BasicVillage multi-storey parking garage.

The Group seeks to promote work-life balance through the extension of the post-maternity part-time option provided for in the National Collective Labour Agreement, with the possibility of applying for the programme until the child's six birthday. Part-time requests are also generally accepted without reference to the percentage envisaged in the National Collective Labour Agreement. In 2018 twelve resources – all women – took parental leave.

An automatic system with two-year intervals ensures a periodic performance assessment and a revision of positions, where necessary.

The collective bargaining agreement applied by the BasicNet Group is the Contract for Distribution and Services, which covers approximately 97% of employees, i.e. the entire company population based in Italy under permanent contracts.

As mentioned above, according to the Ethic Code of Conduct, Sourcing Centers are also required to pay their workers' salaries and compensation that comply with all locally applicable laws and regulations. Sourcing Centers are thus required to refer to all laws and regulations regarding working hours and to guarantee workers' the rights of association, organization and collective bargaining, peacefully and legally, without interference or penalty.

3.5 Employee Health and Safety

As stated in the Ethics Code, the Group has always safeguarded health and safety in the workplace for all human resources. In fact, in this regard, the parent company and its subsidiaries have developed a "risk assessment document" pursuant to Legislative Decree 81/2008. (the companies Basic Properties America Inc. and BasicNet Asia Ltd. were not subject to the decree's controls). The Group's conduct principles in terms of Health and Safety in the workplace, (hereinafter SSL), are listed in the Ethics Code and govern the conduct with which all resources, employees and external consultants are required to be compliant. The Group safeguards health and safety at places of work, developing an awareness of risks, promoting responsible conduct amongst all employees and acts to protect, particularly by preventative actions, employee health and safety. The Group's activities must be carried out in full compliance with health and safety prevention and protection legislation, whilst constantly seeking to improve health and safety conditions in the workplace.
In compliance with the training programmes, instructions and the resources provided by the employer, each employee is responsible for his/her own health and safety as well as the health and safety of other persons present in the workplace, due to the potential impact of his/her actions or omissions on these other employees.

As already described, even with regard to the Sourcing Centers involved in the Group's business activities, the Group's Ethic Code of Conduct requires that "*the Sourcing Centres maintain a clean, safe and healthy workplace in compliance with all legislation and applicable laws. The Sourcing Centres shall ensure the presence of minimum conditions such as employee access to drinking water, sanitary structures and a sufficient number of toilet facilities, extinguishers, emergency exits and a properly insulated and correctly lit workplace environment. The Sourcing Centres shall ensure that the standards outlined above are applied equally to any canteen facilities and/or accommodation provided to employees*".

For all the Group Companies, the ".com" "BasicFacility" is responsible for the management of health and safety in the workplace, and is supported in this by an external consultancy firm (Gruppo Torinoprogetti S.r.l.). On an annual basis, BasicFacility is allocated a budget which includes the item "SSL expenses" available for the Companies BasicNet, BasicItalia and BasicVillage, who individually itemise expenses of BasicRetail (direct management).

For each company, the Group has identified and formally appointed individuals to SSL tasks and responsibilities ("Company Health & Safety Organisation Chart"), and these related contacts are listed in the Health and Safety Organisation chart presented in the risk assessment document (DVR). Specifically, for the companies the following individuals were identified:

- The Employer;
- The RSPP (Head of H&S protection and prevention);
- The ASPP (Health and Safety protection and prevention officer);
- Company-appointed Doctor;
- RLS (Employees' Health and Safety representative);
- Emergency Coordinator;
- Emergency officers.

The SSL organisational structure is communicated internally within the Group's Companies through information given to employees when drafting their contracts or during training/information meetings.

SSL personnel meet annually (pursuant to article 35 of Legislative Decree 81/2008) to identify and share information regarding sensitive situations and to identify potential corrective actions. Each meeting is duly formalised by the online business BasicFacility and BasicGuys of the Group and the related reports are shared with relevant parties. The following participate in the meetings:

- The DDL (Employer) for each Group company;
- The RSPP (external consultants);
- The ASPP (associated with the external consultancy companies);
- the Company-appointed Doctor

Furthermore, a person responsible for fire prevention requirements has also been identified and emergency coordinators and officers responsible for managing emergencies have been formally appointed. Each person in the emergency team has undergone specific training procedures in accordance with the applicable Art. 37 of Legislative Decree 81/2008.

The Group has established and formalised a Risk Assessment Document (DVR) drafted in accordance with current legislation. The risk assessment process was set out as a logical procedure and can be summarised in the following steps:

- identification of the risks to which employees are exposed;
- assessment of the scope of exposure and the gravity of the effects caused;
- assessment of the probabilities of these effects occurring;
- verification of the possibility of eliminating/reducing the number of exposures:
- assessment of the applicability of these measures and their suitability.

Within each DVR, the risk assessment methods are defined in terms of general and specific risks under the paragraph “Risk assessment criteria used”. Each DVR includes:

a) the assessment of the health and safety risks;
b) details of the criteria applied to risk assessments;
c) the description of the activities carried out by the Company;
d) outline of the current preventative and protection measures implemented and the individual protection provisions adopted;
e) name of the person responsible for the prevention and protection service, employees’ health and safety representative and the Company-appointed doctor involved in the risk assessment;
f) details of the tasks that could potentially expose employees to specific risks and which require a recognised professional skill, specific experience and sufficient training and induction to be carried out.

In drafting the emergency plans, the Group defined formal rules to manage emergencies, identifying the intervention procedures, from the implementation of fire prevention procedures to the evacuation of employees in the case of serious and imminent danger – “Procedures to be implemented in the case of emergency and evacuation scenarios”. Emergency drills are regularly carried out across various company sites in compliance with legislative requirements and the persons responsible for fire prevention as well as first aid first-aid personnel undergo a specific training programme.
In relation to SSL training, the online business “BasicEducation” is responsible for planning, organising and reporting the Group’s employee training programmes (internal resources and personnel in owned and non-owned stores). The health and safety training programmes are drawn up by the BasicNet Group’s Workplace Health and Safety Coordinator in conjunction with the Gruppo Torino Progetti S.r.l. and include:

- the planning and the delivery of a course on general workplace health and safety for official use (e-learning);
- appropriate training courses related to the specific risks to which employees are exposed depending on their related roles, as well as on the correct use of PPE.

At the end of every course, all participants are registered and where required an assessment test is carried out. Each resource has the option to access the BasicEducation app, and can see their own "training licence" with details of the courses taken/to be taken.
All the training courses delivered by BasicEducation are based on both legislative and individual requirements in addition to the Company's professional requirements (e.g. Legislative Decree 81 2008).

The BasicNet Group, when it allocates employees, services and supplies to contractors, is responsible for providing these parties with information on the specific risks present in the workplace where they are going to work, as well as for providing information on the applicable preventative and emergency measures related to their work in compliance with the provisions of Art. 26 of Legislative Decree 81/2008.
The ".com" BasicGuys tracks all accidents and incidents that arise at the company. Incidents are analysed on an annual basis and the results of these analyses are discussed during regular meetings pursuant to Article 35 of Legislative Decree 81/2008.
In 2018, there were no reports of occupational illnesses, nor were there any fatal incidents or incidents with permanent damage reported.
In Italy, in 2018 there were 8 workplace accidents, 5 of which were accidents during commutes to/from the workplace and 3 accidents in the workplace itself[1].

Number of accidents 2018 – Italy				
		Male	Female	Total
Total accidents (No.)		2	6	**8**
	workplace accidents (No.)	-	3	3
	accidents on commute (No.)	2	3	5
	Severity Index (Lost Day Rate LDR)[2]	6.91	14.23	11,78
	Frequency Index/Accident Rate (Injury Rate IR)[3]	1.20	1.88	1.65
	Absentee Rate AR[4](%)	2.76%	3.79%	3.44%

Number of accidents 2017 – Italy				
		Male	Female	Total
Total accidents (No.)		1	6	7
	workplace accidents (No.)	-	2	2
	accidents on commute (No.)	1	4	5
Severity Index (Lost Day Rate LDR)		3.3	27.9	19.7
Frequency Index/Accident Rate (Injury Rate IR)		0.64	2.02	1.54
Absentee Rate AR (%)		1.2%	2.2%	1.9%

Throughout 2018, the Companies of the Basic Group continued with the Prevention and Protection Service (Gruppo Torinoprogetti S.r.l.), through a number of health and safety projects aimed at promoting an increased awareness amongst employees regarding looking after their own health, including outside the work environment. The projects launched in 2017 continued into 2018 to ensure that over time information is delivered to all resources and will include any potential new hires.
Every intervention to promote health was firstly developed as a step towards disseminating information, starting from drawing up a procedure to manage the actual process for disseminating information, the timelines and the target audience of the given project. Moreover, each health promotion intervention was supported by information materials drafted by official bodies, for example the Ministry of Health, to ensure accurate and valid content.

[1]The absentee rate is not currently available for overseas personnel.

[2]The Severity Index represents the ratio between the number of days lost due to accidents/occupational illness and the total workable hours during the same period, multiplied by 200,000 (Source: *GRI standards 2016*)

[3] The Frequency Index represents the ratio between the total number of accidents and the total number of days worked during the same period, multiplied by 200,000 (Source: *GRI standards 2016*)

[4] Absentee rate represents the total percentage of absentee hours out of the number of workable hours during the same period (Source: *GRI standards 2016*)

The following initiatives were developed and implemented in 2018:

- Prevention of alcohol abuse: Following Alcohol Prevention Day in May 2018, promoted by the Ministry of Health in close collaboration with the National Alcohol Observatory, an information event was organised to increase awareness and educate employees in adopting a better lifestyle, particularly in relation to the reduction of alcohol consumption to subsequently prevent alcohol abuse. Promoting an improved lifestyle for employees required delivering accurate scientific information regarding the potential adverse health implications of alcohol consumption, with the aim of changing any potential drink-related behaviours and to prevent the risks to which the individual is exposed as a consequence. In order to create increased awareness amongst employees regarding reducing alcohol consumption and preventing alcohol abuse, an educational campaign involved the distribution of a booklet.

- Musculo-skeletal disorder prevention: With the intention of promoting the wellbeing of its own employees, a campaign was implemented to prevent aortic aneurysms. The initiative involves the circulation of information regarding the correct method for the lifting and transport of loads, in addition to correct video-terminal posture;

- Road Safety: the information disseminated regarding the prevention of road accidents was delivered through the meetings organised to analyse any potential risks in travelling to/from work or work accidents, and in order to disseminate information on safe driving methods. The "Driving Safely" booklet drafted by the Sapienza University in Rome was used as support material. The meetings in 2018 initially involved employees who, by the nature of their jobs, were the individuals most exposed to any potential road risks (e.g. drivers, delivery men, etc.); the aim will be to distribute this information to all employees;

Finally, in 2017, in order to protect employee health as well as the health of the general population, it was decided to install AEDs (automated external defibrillator) at the Company premises to ensure cardio protection zones in the immediate areas close to the installation points. In addition, employees in 2018 were trained on the correct use of this equipment.

4. Environmental Responsibility

Environmental protection is a key factor in the Group's competitiveness and sustainability, as the Group believes that the environment and nature are fundamental values and assets that belong to everybody which should be protected and defended. As also stated in the Ethics Code, this respect of the environment is primarily consolidated in dutiful and scrupulous compliance with environmental regulations. Secondly, the Group is committed to implementing responsible environmental-protection behaviours, avoiding any behaviour that may damage the environment as well as promoting the responsible management of the energy resources and raw materials used (e.g. paper), as well as waste products.

As provided under the Ethics Code of Conduct, the Sourcing Centres are also required to comply with all environmental laws and regulations, as well as maintaining procedures to notify the local Authorities in a timely manner of any environmental incidents arising from the work carried out by the Sourcing Centres.

4.1 Energy resource management

The energy resources analysed relate to the 4 physical headquarters and the 32 franchisees i.e. directly owned stores of the BasicRetail S.r.l subsidiary located across Italy.

The physical sites include:

- the two Turin headquarters, respectively the offices of the Parent Company (property of the subsidiary BasicVillage S.p.A) and those of BasicItalia S.p.A;
- 33 Franchisees located throughout Italy, owned by BasicRetail S.r.l.;

- the overseas branch of BasicNet Asia Ltd. (Hong Kong, China) is less important from an energy point of view, as having only a handful of rented premises with 15 employees.

In relation to the two headquarters in Turin, where 579 out of 596 employees work (97% of the Group's total workforce), the ".com" "BasicFacility" in recent years launched some initiatives to reduce energy consumption including:

- a programme to gradually replace neon lights with LED lights in the BasicVillage headquarters, for which all are expected to be replaced by the end of 2019. It is nevertheless important to note that in the Basic Village offices there is an automatic lighting system which automatically switches off all the lights in the premises; At BasicItalia's offices, in 2019 all lights and fluorescent bulbs shall be replaced with LED lighting.
- the use of software to manage the thermal fluid installation in the Basic Village headquarters, which is constantly monitored by a web inspection system thereby controlling, managing, and implementing the functional programming of the electromechanical instruments, operating temperatures, and ATUs (Air Treatment Units) and which is capable of signalling any potential system anomaly. Depending on the type of premises involved, this monitoring system allows optimum summer and winter temperatures to be regulated for the office environments, thus reducing energy consumption and saving money;
- in 2018, Basic Village concluded the placement of all boilers with condensation boilers. A condensation boiler can guarantee lower fuel consumption than a traditional boiler, with the possibility of energy recovery of approximately 16%. Condensation boilers provide many advantages. Mainly, the result in efficiency is better than traditional boilers (LPG, with burners and atmospheric impacts) by 30%. Further to efficiency gains, the condensation boilers guarantee a high level of safety: they are in fact watertight boilers which, extracting the fumes from the outside air, do not allow for environmental contamination. Fumes, in fact are expelled through holes which, during installation, are perforated in the walls. A further advantage is the savings deriving from the State incentives promoting these products and the replacement of boilers. The condensation boilers can guarantee consumers savings of up to 20% on their old bills for hot water consumption at 80° C and up to 30% for water consumption at 60° C;
- pursuant to Legislative Decree 102/2014, an energy audit to promote energy efficiency is programmed every three years for the BasicVillage and BasicItalia headquarters, which will take place in 2019;
- the use of IT devices such as printers and photocopiers with automatic settings providing standby modes for certain periods of inactivity, as well as employees switching off their computers at the end of the day. According to the research undertaken on energy consumption and respect for the environment, the Group requests that its users, where possible and as per standard procedures, turn off their PC's and monitors at the end of the working day. This research is supported also by European Union data, which through the "Energy Star" platform introduced a dynamic calculation system which (Hardware features and average usage) can establish the annual energy consumption of PC's in kWh terms.

With regard to the energy resources used internally within the Group, all the stores and the two Turin headquarters purchase their energy directly from the grid, but only the two Turin headquarters use respectively natural gas (BasicVillage headquarters) and oil (BasicItalia headquarters) to heat their premises. In 2018 the total electric energy consumption dropped by 6% compared to 2017, whereas the consumption of natural gas and heating oil increased respectively by 7% and 22%. A minor portion of internal energy consumption can also be attributed to the use of fuels (petrol and diesel) by the Group's fleet of vehicles, which includes company cars and long-term leased vehicles. This has seen an increase in terms of diesel and petrol consumption respectively of 22% and 7%.

In 2018, the Group's energy consumption produced greenhouse gas emissions, which, compared to 2017, increased in percentage terms. Specifically, most of the greenhouse gases were from the electricity supplied from the grid (indirect emissions - Scope 2, calculated using a Location-based method rather than a Market-based method), which declined by 10% with the location approach and 4% with the market approach compared to 2017. On the other hand, direct emissions generated directly within the Group from the use of heating and vehicle fuels (direct emissions - Scope 1), represent a minor proportion of emissions. The emissions from the use of natural gas and heating oil increased by 12% compared to 2017, in line with the related energy consumption.

Internal and external energy consumption for the BasicNet Group in 2018 and 2017[5]

Energy sources	**2018**	**2017**	**Change %**
	Internal energy consumption[6]		
Electrical energy purchased from the grid	4,822,043 kWh *(17,359 GJ)*	5,137,356 kWh *(18,494 GJ)*	-6%
Heating			
Natural gas	180,643 smc *(6,324 GJ)*	168,915 smc *(5,914 GJ)*	7%
Diesel	63,000 litres *(2,262 GJ)*	51,485 litres *(1,849 GJ)*	22%
Vehicles[7]			
Petrol for vehicles	22,428 litres *(408 GJ)*	17,634 litres *(336 GJ)*	22%
Diesel for vehicles	35,301 litres *(852 GJ)*	30,729 litres *(797 GJ)*	7%
Total internal energy consumption	**27,205 GJ**	**27,390 GJ**	**-1%**

CO2 emissions of the BasicNet Group, 2018 and 2017

CO_2 emissions (ton CO_2)[8]	**2018**	**2017**	**Change %**
Scope 1 emissions[9]	615	551	12%
Due to heating	523	468	12%
Due to vehicles	92	83	11%
Scope 2 emissions[10]			
Location-based Approach	1,736	1,927	-10%
Market-based Approach	2,300	2,389	-4%

[5] Electricity consumption only relates to the two Turin headquarters (BasicVillage and BasicItalia), where 99% of the total workforce work, BasicNet Asia, in addition to the 32 directly owned stores in Italy.

[6] The Net Calorific value of natural gas is 0.035 GJ/m3, average density of diesel is 0.83 kg/l, the Net Calorific value of diesel is 42.817 GJ/ton, average density of petrol is 0.68 kg/l, Net Calorific value of petrol is 42.817 GJ/ton (Sources: Ministry of the Environment and for the Protection of the Land and Seas, National Standards Parameter Table, 2017; Department for Environment, Food & Rural Affairs, Conversion factors 2017 - Condensed set, 2017).

[7] The consumption of vehicle petrol and diesel was estimated under the item vehicle fuel expenses using the average national prices for 2018 of €1.60 per litre of petrol and €1.49 per litre of diesel (Source: Ministry for Economic Development, *Average National Annual Price index* 2018).

[8] For calculations of the Scope 1 and Scope 2 emissions, only CO_2 emissions were taken into account.

[9] Natural gas emission coefficient of 0.001972 tCO2/smc, diesel emission coefficient of 3.155T tCO2/ton, petrol emission coefficient of 3.14 tCO2/ton (source: Ministry for the environment and the protection of the Land and Sea, National Standards Parameter Table, 2018).

[10] The reporting standard used (GRI sustainability reporting standards 2016) establishes two different calculation methods for Scope 2 emissions: "Location-based " and "Market-based ". The location-based method requires the use of the average national emission factor related to the specific national energy mix used to produce electricity (the coefficient of the emission used for Italy is 360 gCO2/kWh, Source: Terna, International Comparisons 2016). The market-based approach uses an emission factor based on the contractual agreement for the provision of electricity. Given the absence of specific electricity agreements between the companies of the Group and the suppliers (e.g. a Guarantee of origin purchase), for this calculation an emission factor related to the national "residual mix" was used (coefficient of emissions used for Italy of 477 gCO2/kWh – Source: Association of Issuing Bodies, European Residual Mixes 2017, 2017).

4.2 Waste management

As the Group does not have its own internal production activity, the main waste produced by the Group's activities come under the conventional categories of typical office-waste: paper and cardboard, photocopier and printing toners, batteries. All waste products are collected and sent to waste management operators, according to the procedures and timeframes of current legislation and based on waste categories: while paper and cardboard, plastic, and batteries are collected and processed in the appropriate waste management sites via waste containers (54,065 kg of waste of non-hazardous waste and 156 kg of hazardous waste), toners are collected by third-party waste processing companies. In terms of paper consumption, through the web integration, since 1999 the Group has committed to reducing paper usage by means of the IT platform, which is the only communication instrument between the elements within the Network (from procedural controls to HR management). The Group also utilises a scanner archive system throughout the operating cycle, for the majority of accounting records and ledgers and payroll management. With the entry into force of the electronic invoicing obligation, in 2019 many storage processes shall be reviewed in order to reduce the use of paper. Both hazardous and non-hazardous waste significantly reduced on 2017.

BasicNet Group waste products, year 2018 and 2017[11]

Type of waste (KG)	2018	2017	Change %
Non-hazardous waste			
Paper and cardboard	51,250	60,140	-15%
Toner	181	234	-23%
Plastics	2,634	988	167%
Total	**54,065**	**61,362**	**-12%**
Hazardous waste			
Batteries	156	138	13%
Total	**156**	**138**	**13%**
Total waste	**54,221**	**61,500**	**-12%**

[11] The weight of batteries was estimated based on the weight (in kg) of a battery and the number of batteries disposed of during the year. The weight of plastic was estimated on the basis of the weight (in kg) of bottles of water and the number of bottles disposed of during the year. The 2018 figures compared to those for 2017 include also the weight of plastic from plastic glass consumption of the companies BasicNet/Basic Village and BasicItalia during the reporting period. The weight of toner was extrapolated from the formulas of the company specialised in toner disposal. The weight of paper/cardboard was extrapolated from the communications of the company in charge of paper and cardboard disposal.

GRI Content Index

The following table outlines the sustainability issues that the Group BasicNet deems of relevance, correlated to the elements defined in the *GRI standards* guidelines reported in this document as well as the Boundary impact that each issue could have in within the Group for the relevant stakeholders. Furthermore, in the column "Type of impact", the role BasicNet plays in relation to the impact caused to each relevant issue is also outlined.

Material aspects	GRI Standards aspects	Boundary	Type of impact
Ethics and Compliance	- Anti-competitive conduct - Environmental Compliance - Socio-economic compliance	BasicNet Group; Suppliers; Sourcing Centers; Licensees; Public Sector, government and control bodies	Caused by the Group
Anti-corruption	- Anti-corruption	BasicNet Group; Investors, Shareholders and the financial community; Suppliers; Sourcing Centers; Licensees; Public Sector; government and control bodies	Caused by the Group
Promotion of economic development	- Indirect economic impacts	BasicNet Group; Sourcing Centers; Licensees; Franchisees; local communities	Caused by the Group
R&D and Innovation	n/a	BasicNet Group; Sourcing Centers; Licensees; Customers and consumers	Caused by the Group
Procurement practices	- Assessment of suppliers according to social criteria - Assessment on the protection of human rights	BasicNet Group; Suppliers; Sourcing Centers	Contribution of the Group; Related to Group activities
Data Security and Protection	- Customer privacy	BasicNet Group; Sourcing Centers; Licensees	Caused by the Group; Related to Group activities
Prevention of Counterfeiting	- Marketing and labelling	BasicNet Group; Sourcing Centers; Licensees; Customers and consumers; Franchisees	Caused by the Group; Related to Group activities
Customer Relations	n/a	BasicNet Group; Customers and consumers; Franchisees	Caused by the Group;
Management and development of human resources	- Employment - Training and education	BasicNet Group; Group Resources; Franchisees	Caused by the Group
Diversity and equal opportunities	- Diversity and equal opportunities - Non-discrimination	BasicNet Group; Group Resources; Franchisees	Caused by the Group
Worker Wellbeing	- Employment	BasicNet Group; Group Resources; Franchisees	Caused by the Group
Employee Health and Safety	- Workplace health and safety	BasicNet Group; Group resources; Suppliers; Sourcing Centers; Licensees; Franchisees	Caused by the Group; Related to Group activities
Human Rights	- Assessment on the protection of human rights	BasicNet Group; Group resources; Suppliers; Sourcing Centers; Licensees; Franchisees	Related to Group activities
Efficient Use of Natural Resources	- Energy	BasicNet Group; Public Sector, government and control bodies;	Caused by the Group
Environmental protection	- Emissions - Effluents and waste	BasicNet Group; Public Sector, government and control bodies; local communities	Caused by the Group

The performance indicators, in compliance with the GRI Standards according to the *in accordance - Core* option, are provided below. Each indicator is linked with a specific section of the Non-Financial Report or a differing publicly available source to which reference should be made.

GRI-Standards		Page	Note[12]
GRI 102: GENERAL STANDARD DISCLOSURES			
Organisational profile			
102-1	Name of the organization	5	
102-2	Activities, brands, products, and services	5-7; 11	
102-3	Location of headquarters	5	
102-4	Countries of operation	5; 7-9; 11	
102-5	Nature of ownership and legal form	29-32	
102-6	Markets served	7-9; 10-11	
102-7	Scale of the organization	11-17; 67	
102-8	Information on employees and other workers	67-68	
102-9	Supply chain	63-65	
102-10	Significant changes to the Organisation and its supply chain	59	
102-11	Precautionary principle or approach	43-45	
102-12	External initiatives	59	
102-13	Membership of associations	60	
Strategy			
102-14	Statement of the Chairman/Chief Executive Officer	3-4	
102-15	Key impacts, risks and opportunities	18-21; 43-45	
Ethics and integrity			
102-16	Values, principles, standards and norms of behaviour	47-49	
Governance			
102-18	Governance structure	32-34; 38-40	
Stakeholder Engagement			
102-40	List of stakeholder groups	59-60	
102-41	Collective bargaining agreements	71	
102-42	Identifying and selecting stakeholders	59-60	
102-43	Approach to stakeholder engagement	59-60	
102-44	Key topics and concerns raised	60	
Reporting process			
102-45	Entities included in the consolidated financial statements	59	
102-46	Defining report content and topic Boundaries	58-59; 61	
102-47	List of material topics	60-61	
102-48	Restatements of information	59	
102-49	Changes in reporting	59	No significant changes in relation to the material topics and their scope took place in 2018

[12] The "Notes" column presents information on the coverage of the indicators and any limitations to the reporting boundary.

102-50	Reporting period	58	
102-51	Date of most recent report	58	
102-52	Reporting cycle	59	
102-53	Contact point for questions regarding the report	58-59	
102-54	GRI Guidelines compliance option	58	
102-55	GRI Content Index	81-85	
102-56	External assurance	86	
SPECIFIC STANDARD DISCLOSURES			
ECONOMIC CATEGORY			
Indirect economic impacts			
GRI 103: Managerial approach			
103-1	Explanation of the material topic and its Boundary	59-61; 80	
103-2	The management approach and its components	61-63	
103-3	Evaluation of the management approach	62-63	
GRI 203: Indirect economic impacts			
203-2	Significant indirect economic impacts	61-63	
Anti-corruption			
GRI 103: Managerial approach			
103-1	Explanation of the material topic and its Boundary	59-61; 80	
103-2	The management approach and its components	48-49	
103-3	Evaluation of the management approach	48-49	
GRI 205: Anti-corruption			
205-2	Communication and training about anti-corruption policies and procedures	49	
Anti-competitive conduct			
GRI 103: Managerial approach			
103-1	Explanation of the material topic and its Boundary	59-61; 80	
103-2	The management approach and its components	46; 63	
103-3	Evaluation of the management approach	46; 63	
GRI 206: Anti-competitive conduct			
206-1	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	81	As for 2017, no legal actions for anti-competitive behavior, anti-trust, and monopoly practices were reported

ENVIRONMENTAL CATEGORY			
Energy			
GRI 103: Managerial approach			
103-1	Explanation of the material topic and its Boundary	59-61; 80	
103-2	The management approach and its components	75-76	
103-3	Evaluation of the management approach	75-76	
GRI 302: Energy			
302-1	Energy consumption within the organization	77	The energy consumption does not include the overseas offices of the Group as not considered significant
Emissions			
GRI 103: Managerial approach			
103-1	Explanation of the material topic and its Boundary	59-61; 80	
103-2	The management approach and its components	75-76	
103-3	Evaluation of the management approach	75-76	
GRI 305: Emissions			
305-1	Direct (Scope 1) GHG emissions	77; 82	The direct GHG emissions (Scope 1) do not include the overseas offices of the Group as not considered significant.
305-2	Energy indirect (Scope 2) GHG emissions	77; 82	The indirect GHG emissions (Scope 2) do not include the overseas offices of the Group as not considered significant.
Effluents and waste			
GRI 103: Managerial approach			
103-1	Explanation of the material topic and its Boundary	59-61; 80	
103-2	The management approach and its components	78	
103-3	Evaluation of the management approach	78	
GRI 306: Effluents and waste			
306-2	Waste by type and disposal method	78; 82	The waste products do not include the overseas offices of the Group as not considered significant.
Environmental Compliance			
GRI 103: Managerial approach			
103-1	Explanation of the material topic and its Boundary	59-61; 80	
103-2	The management approach and its components	75	
103-3	Evaluation of the management approach	75	

GRI 307: Environmental Compliance			
307-1	Non-compliance with environmental laws and regulations	83	As in 2017, no significant incidents of non-compliance with environmental laws and regulations were reported.
SOCIAL CATEGORY			
Employment			
GRI 103: Managerial approach			
103-1	Explanation of the material topic and its Boundary	59-61; 80	
103-2	The management approach and its components	67; 68; 71	
103-3	Evaluation of the management approach	67; 68; 71	
GRI 401: Employment			
401-1	New employee hires and employee turnover	68	
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	71	
Workplace health and safety			
GRI 103: Managerial approach			
103-1	Explanation of the material topic and its Boundary	59-61; 80	
103-2	The management approach and its components	75-76	
103-3	Evaluation of the management approach	75-76	
GRI 403: Workplace health and safety			
403-2	Types of injury, injury rate, occupational illnesses, lost days, absentee rate, and work-related fatalities.	74; 83	The absentee rate is not currently available for overseas personnel.
Training and education			
GRI 103: Managerial approach			
103-1	Explanation of the material topic and its Boundary	59-61; 80	
103-2	The management approach and its components	69	
103-3	Evaluation of the management approach	69	
GRI 404: Training and education			
404-1	Average hours of training per year per employee	70-71	
404-2	Programs for upgrading employee skills and transition assistance programs	70-71	
Diversity and equal opportunities			
GRI 103: Managerial approach			
103-1	Explanation of the material topic and its Boundary	59-61; 80	
103-2	The management approach and its components	35; 68-69	
103-3	Evaluation of the management approach	35; 68-69	

GRI 405: Diversity and equal opportunities			
405-1	Diversity of governance bodies and employees	35; 69	
Non-discrimination			
GRI 103: Managerial approach			
103-1	Explanation of the material topic and its Boundary	59-61; 80	
103-2	The management approach and its components	68	
103-3	Evaluation of the management approach	68	
GRI 406: Non-discrimination			
406-1	Incidents of discrimination and corrective actions taken	84	As for 2017 no cases of discrimination were reported in 2018 at the Group.
Assessment on the protection of human rights			
GRI 103: Managerial approach			
103-1	Explanation of the material topic and its Boundary	59-61; 80	
103-2	The management approach and its components	46; 64-65	
103-3	Evaluation of the management approach	46; 64-65	
GRI 412: Assessment on the protection of human rights			
412-2	Employee training on human rights policies or procedures	47	
412-3	Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	64-65	
Assessment of suppliers according to social criteria			
GRI 103: Managerial approach			
103-1	Explanation of the material topic and its Boundary	59-61; 80	
103-2	The management approach and its components	63; 65	
103-3	Evaluation of the management approach	63; 65	
GRI 414: Assessment of suppliers according to social criteria			
414-1	New suppliers that were screened using social criteria	64-65	
Marketing and labelling			
GRI 103: Managerial approach			
103-1	Explanation of the material topic and its Boundary	59-61; 80	
103-2	The management approach and its components	66-67	
103-3	Evaluation of the management approach	66-67	
GRI 417: Marketing and labelling			
417-1	Requirements for product and service information and labeling	67	

Customer privacy			
GRI 103: Managerial approach			
103-1	Explanation of the material topic and its Boundary	59-61; 80	
103-2	The management approach and its components	65	
103-3	Evaluation of the management approach	65	
GRI 418: Customer privacy			
418-1	418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data	85	As for 2017, no complaints against privacy violation were received
Socio-economic compliance			
GRI 103: Managerial approach			
103-1	Explanation of the material topic and its Boundary	59-61; 80	
103-2	The management approach and its components	45	
103-3	Evaluation of the management approach	45	
GRI 419: Socio-economic compliance			
419-1	Non-compliance with laws and regulations in the social and economic area	22	
R&D and Innovation			
GRI 103: Managerial approach			
103-1	Explanation of the material topic and its Boundary	59-61; 80	
103-2	The management approach and its components	24-25	
103-3	Evaluation of the management approach	24	
Client Relations			
GRI 103: Managerial approach			
103-1	Explanation of the material topic and its Boundary	59-61; 80	
103-2	The management approach and its components	63-65; 66-67	
103-3	Evaluation of the management approach	63-65; 66-67	

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Independent auditors' report on the consolidated disclosure of non-financial information in accordance with Article 3, par. 10, of Legislative Decree 254/2016 and with Article 5 of CONSOB Regulation adopted with Resolution n. 20267 of January 2018 (Translation from the original Italian text)

To the Board of Directors of
BasicNet S.p.A.

We have been appointed to perform a limited assurance engagement pursuant to Article 3, paragraph 10, of Legislative Decree 30 December 2016, n. 254 (hereinafter "Decree") and article 5 of CONSOB Regulation adopted with Resolution 20267/2018, on the consolidated disclosure of non-financial information of BasicNet S.p.A. (hereinafter the "Company") and its subsidiaries (hereinafter the "Group") for the year ended 31 December 2018 in accordance with article 3 of the Decree presented in the specific section of the Management Report approved by the Board of Directors on 8 March 2019 (hereinafter "DNF").

Responsibilities of Directors and Board of Statutory Auditors for the DNF

The Directors are responsible for the preparation of the DNF in accordance with the requirements of articles 3 and 4 of the Decree and the *GRI Sustainability Reporting Standards* identified by them as a reporting standard.The Directors are also responsible, within the terms provided by law, for that part of internal control that they consider necessary in order to allow the preparation of the DNF that is free from material misstatements caused by fraud or not intentional behaviors or events.
The Directors are also responsible for identifying the contents of the DNF within the matters mentioned in article 3, par. 1, of the Decree, considering the business and the characteristics of the Group and to the extent deemed necessary to ensure the understanding of the Group's business, its performance, its results and its impact.

The Directors are also responsible for defining the Group's management and organization business model, as well as with reference to the matters identified and reported in the DNF, for the policies applied by the Group and for identifying and managing the risks generated or incurred by the Group.

The Board of Statutory Auditors is responsible, within the terms provided by the law, for overseeing the compliance with the requirements of the Decree.

Auditors' independence and quality control

We are independent in accordance with the ethics and independence principles of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, based on fundamental principles of integrity, objectivity, professional competence and diligence, confidentiality and professional behavior. Our audit firm applies the International Standard on Quality Control 1 (ISQC Italia 1) and, as a result, maintains a quality control system that includes documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable laws and regulations.

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Sede Legale: Via Po, 32 - 00198 Roma
Capitale Sociale Euro 2.525.000,00 i.v.
Iscritta alla S.O. del Registro delle Imprese presso la C.C.I.A.A. di Roma
Codice fiscale e numero di iscrizione 00434000584 - numero R.E.A. 250904
P.IVA 00891231003
Iscritta al Registro Revisori Legali al n. 70945 Pubblicato sulla G.U. Suppl. 13 - IV Serie Speciale del 17/2/1998
Iscritta all'Albo Speciale delle società di revisione
Consob al progressivo n. 2 delibera n.10831 del 16/7/1997
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Auditors' responsibility

It is our responsibility to express, on the basis of the procedures performed, a conclusion about the compliance of the DNF with the requirements of the Decree and of the *GRI Sustainability Reporting Standards.* Our work has been performed in accordance with the principle of "International Standard on Assurance Engagements ISAE 3000 (Revised) - Assurance Engagements Other than Audits or Reviews of Historical Financial Information" (hereinafter "ISAE 3000 Revised"), issued by the International Auditing and Assurance Standards Board (IAASB) for limited assurance engagements. This principle requires the planning and execution of work in order to obtain a limited assurance that the DNF is free from material misstatements. Therefore, the extent of work performed in our examination was lower than that required for a full examination according to the ISAE 3000 Revised ("reasonable assurance engagement") and, hence, it does not provide assurance that we have become aware of all significant matters and events that would be identified during a reasonable assurance engagement.

The procedures performed on the DNF were based on our professional judgment and included inquiries, primarily with company's personnel responsible for the preparation of the information included in the DNF, documents analysis, recalculations and other procedures in order to obtain evidences considered appropriate.

In particular, we have performed the following procedures:

1. analysis of the relevant topics in relation to the activities and characteristics of the Group reported in the DNF, in order to assess the reasonableness of the selection process applied in accordance with the provisions of article 3 of the Decree and considering the reporting standard applied;

2. analysis and evaluation of the criteria for identifying the consolidation area, in order to evaluate its compliance with the provisions of the Decree;

3. comparison of the economic and financial data and information included in the DNF with those included in the BasicNet Group's consolidated financial statements;

4. understanding of the following aspects:
   - Group's management and organization business model, with reference to the management of the topics indicated in article 3 of the Decree;
   - policies adopted by the Group related to the matters indicated in art. 3 Decree, results achieved and related key performance indicators;
   - main risks, generated or suffered related to the matters indicated in the article 3 of the Decree.

   With regard to these aspects, we obtained the documentation supporting the information contained in the DNF and performed the procedures described in item 5 below.

5. understanding of the processes that lead to the generation, detection and management of significant qualitative and quantitative information included in the DNF.

   In particular, we have conducted interviews and discussions with the management of BasicNet S.p.A. and we have performed limited documentary evidence procedures, in order to collect information about the processes and procedures that support the collection, aggregation, processing and transmission of non-financial data and information to the management responsible for the preparation of the DNF.

Furthermore, at group level, for significant information, considering the Group activities and characteristics:

- at Group level:
  a) with reference to the qualitative information included in the DNF, and in particular to the business model, policies implemented and main risks, we carried out inquiries and acquired supporting documentation to verify its consistency with the available evidence;
  b) with reference to quantitative information, we have performed both analytical procedures and limited assurance procedures to ascertain on a sample basis the correct aggregation of data.
- We have selected the following companies, BasicNet S.p.A., BasicItalia S.p.A. e BasicRetail S.r.l. based on their activity, relevance to the consolidated performance indicators and location; we have carried out site visits during which we have had discussions with management and have obtained evidence about the appropriate application of the procedures and the calculation methods used to determine the indicators.

Conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that DNF of the BasicNet Group for the year ended 31 December 2018 has not been prepared, in all material aspects, in accordance with the requirements of articles 3 and 4 of the Decree and the *GRI Sustainability Reporting Standards*.

Turin, 15 March 2019

EY S.p.A.
Signed by: Stefania Boschetti, partner

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

CONSOLIDATED FINANCIAL STATEMENTS
AND EXPLANATORY NOTES OF THE BASICNET GROUP
AT DECEMBER 31, 2018

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

(Euro thousands)

	Note	FY 2018	%	FY 2017	%	Changes	%
Consolidated direct sales	*(8)*	155,615	*100.00*	135,583	*100.00*	20,032	*14.78*
Cost of sales	*(9)*	(91,542)	*(58.83)*	(81,065)	*(59.79)*	(10,477)	*(12.92)*
GROSS MARGIN		**64,073**	***41.18***	**54,518**	***40.21***	**9,555**	***17.53***
Royalties and sourcing commissions	*(10)*	54,832	*35.24*	47,924	*35.35*	6,908	*14.42*
Other income	*(11)*	3,053	*1.96*	3,639	*2.68*	(586)	*(16.10)*
Sponsorship and media costs	*(12)*	(25,650)	*(16.48)*	(24,627)	*(18.16)*	(1,023)	*(4.15)*
Personnel costs	*(13)*	(23,074)	*(14.83)*	(21,083)	*(15.55)*	(1,991)	*(9.44)*
Selling, general and administrative costs, royalties expenses	*(14)*	(40,205)	*(25.84)*	(37,310)	*(27.52)*	(2,895)	*(7.76)*
Amortization & depreciation	*(15)*	(6,448)	*(4.14)*	(6,419)	*(4.73)*	(29)	*(0.45)*
EBIT		**26,581**	***17.08***	**16,642**	***12.27***	**9,939**	***59.73***
Net financial income (charges)	*(16)*	(1,157)	*(0.74)*	(1,553)	*(1.15)*	396	*25.50*
Share of profit/(loss) of investments valued at equity	*(17)*	(23)	*(0.02)*	(26)	*(0.02)*	3	*11.54*
PROFIT BEFORE TAXES		**25,401**	***16.32***	**15,063**	***11.11***	**10,338**	***68.63***
Income taxes	*(18)*	(4,387)	*(2.82)*	(4,417)	*(3.26)*	30	*0.68*
NET PROFIT FOR THE YEAR		**21,014**	***13.51***	**10,646**	***7.85***	**10,368**	***97.39***
Of which:							
- **Shareholders of BasicNet S.p.A.**		**21,014**	***13.51***	**10,646**	***7.85***	**10,368**	***97.39***
- **Minority interests**		-	-	-	-	-	-
Earnings per share	*(19)*						
- **basic**		**0.4048**		**0.1925**		**0.212**	***110.33***
- **diluted**		**0.4048**		**0.1925**		**0.212**	***110.33***

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT

(Euro thousands)

	Note	FY 2018	FY 2017
Profit for the year (A)		**21,014**	**10,646**
Effective portion of the Gains/(losses) on cash flow hedges		1,468	(2,154)
Re-measurement of post-employment benefits (IAS 19) (*)		73	(16)
Gains/(losses) from translation of accounts of foreign subsidiaries		346	(934)
Tax effect on other profits/(losses)		(370)	518
Total other gains/(losses), net of tax effect (B)	*(31)*	**1,517**	**(2,586)**
Total Comprehensive Profit (A)+(B)		**22,531**	**8,060**
Total Comprehensive Profit attributable to:			
- Shareholders of BasicNet S.p.A.		22,531	8,060
- Minority interests			-

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

BASICNET GROUP CONSOLIDATED BALANCE SHEET

(Euro thousands)

ASSETS	*Note*	December 31, 2018	December 31, 2017
Intangible assets	*(20)*	53,225	53,762
Goodwill	*(21)*	9,232	9,527
Property, plant and equipment	*(22)*	29,397	29,893
Equity invest. & other financial assets	*(23)*	1,048	661
Interests in joint ventures	*(24)*	243	266
Total non-current assets		**93,145**	**94,109**
Net inventories	*(25)*	44,379	46,517
Trade receivables	*(26)*	69,880	58,578
Other current assets	*(27)*	8,820	6,636
Prepayments	*(28)*	9,368	7,876
Cash and cash equivalents	*(29)*	9,616	5,819
Derivative financial instruments	*(30)*	305	1
Total current assets		**142,368**	**125,427**
TOTAL ASSETS		**235,513**	**219,536**

LIABILITIES	*Note*	December 31, 2018	December 31, 2017
Share capital		31,717	31,717
Reserve for treasury shares in portfolio		(17,827)	(14,495)
Other reserves		78,033	69,143
Net Profit		21,014	10,646
Minority interests		-	-
TOTAL SHAREHOLDERS' EQUITY	*(31)*	**112,937**	**97,011**
Provisions for risks and charges	*(32)*	50	42
Loans	*(33)*	22,217	28,430
Employee and Director benefits	*(35)*	4,040	3,534
Deferred tax liabilities	*(36)*	1,949	311
Other non-current liabilities	*(37)*	1,136	1,033
Total non-current liabilities		**29,392**	**33,350**
Bank payables	*(34)*	39,080	38,869
Trade payables	*(38)*	38,280	33,869
Tax payables	*(39)*	2,133	3,231
Other current liabilities	*(40)*	9,624	7,951
Accrued expenses	*(41)*	3,631	3,656
Derivative financial instruments	*(42)*	436	1,599
Total current liabilities		**93,184**	**89,175**
TOTAL LIABILITIES		**122,576**	**122,525**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**235,513**	**219,536**

CONSOLIDATED CASH FLOW STATEMENT OF THE BASICNET GROUP

(Euro thousands)

	December 31, 2018	December 31, 2017
A) OPENING SHORT-TERM BANK DEBT	**(25,946)**	**(21,338)**
B) CASH FLOW FROM OPERATING ACTIVITIES		
Net profit for the year	21,014	10,646
Amortization & depreciation	6,448	6,419
Result of companies valued under the equity method	23	26
Changes in working capital:		
. (Increase) decrease in trade receivables	(11,302)	(512)
. (Increase) decrease in inventories	2,138	691
. (Increase) decrease in other receivables	(3,677)	3,291
. Increase (decrease) in trade payables	4,412	2,170
. Increase (decrease) in other payables	2,300	(11,306)
Net change in post-employment benefits	505	672
Others, net	49	(432)
	21,910	**11,665**
C) CASH FLOW FROM INVESTING ACTIVITIES		
Investments in fixed assets:		
- tangible assets	(2,801)	(2,548)
- intangible assets	(2,613)	(15,601)
- financial assets	(386)	(432)
Realisable value for fixed asset disposals:		
- tangible assets	255	89
- intangible assets	39	735
- financial assets	-	-
	(5,506)	**(17,757)**
D) CASH FLOW FROM FINANCING ACTIVITIES		
Lease contracts (repayments)	(168)	(609)
New medium/long term loans	-	15,000
Loan repayments	(7,104)	(6,978)
Acquisition of treasury shares	(3,332)	(2,605)
Dividend payments	(3,273)	(3,324)
	(13,877)	**1,484**
E) CASH FLOW IN THE YEAR	**2,527**	**(4,608)**
F) CLOSING SHORT-TERM BANK DEBT	**(23,419)**	**(25,946)**

Interest paid for the year amounts to respectively Euro 706 thousand in 2018 and Euro 917 thousand in 2017, while income taxes paid in the year amount respectively to Euro 2.8 million in 2018 and Euro 2 million in 2017.

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY

(Euro thousands)

	Share Capital	Treasury shares	Reserves & Retained earnings	Translation reserve	Remeas. Reserve IAS 19	Reserve cash flow hedge	Net Result	Total Group Net Equity
Balance at December 31, 2016	**31,717**	**(11,890)**	**62,594**	**1,920**	**(196)**	**430**	**10,305**	**94,880**
Allocation of result as per Shareholders' AGM resolution of April 27, 2017								
- Retained earnings		-	6,981	-	-	-	(6,981)	-
- Dividends distributed		-	-	-	-	-	(3,324)	**(3,324)**
Acquisition of treasury shares		(2,605)	-	-	-	-	-	**(2,605)**
2017 Result		-	-	-	-	-	10,646	**10,646**
Other comprehensive income items:								
- Gains/(losses) recorded directly to translation reserve		-	-	(934)	-	-	-	**(934)**
- Gains/(losses) recorded directly to equity for IAS 19 re-measurement		-	-	-	(12)	-	-	**(12)**
- Gains/(losses) recorded directly to cash flow hedge reserve		-	-	-	-	(1,640)	-	**(1,640)**
Total comprehensive income		-	-	*(934)*	*(12)*	*(1,640)*	*10,646*	*8,060*
Balance at December 31, 2017	**31,717**	**(14,495)**	**69,575**	**986**	**(208)**	**(1,210)**	**10,646**	**97,011**
Allocation of result as per Shareholders' AGM resolution of April 24, 2018								
- Reserves & Retained earnings		-	7,373	-	-	-	(7,373)	-
- Dividends distributed		-	-	-	-	-	(3,273)	**(3,273)**
Acquisition of treasury shares		(3,332)	-	-	-	-	-	**(3,332)**
2018 Result		-	-	-	-	-	21,014	**21,014**
Other comprehensive income items:								
- Gains/(losses) recorded directly to translation reserve		-	-	346	-	-	-	**346**
- Gains/(losses) recorded directly to equity for IAS 19 re-measurement		-	-	-	55	-	-	**55**
- Gains/(losses) recorded directly to cash flow hedge reserve		-	-	-	-	1,116	-	**1,116**
Total comprehensive income		-	-	*346*	*55*	*1,116*	*21,014*	*22,531*
Balance at December 31, 2018	**31,717**	**(17,827)**	**76,948**	**1,332**	**(153)**	**(94)**	**21,014**	**112,937**

CONSOLIDATED NET FINANCIAL POSITION

(Euro thousands)

	December 31, 2018	December 31, 2017
Cash and cash equivalents	9,616	5,819
Bank overdrafts and bills	(10,735)	(11,516)
Import advances	(22,300)	(20,249)
Sub-total net liquidity available	*(23,419)*	*(25,946)*
Short-term portion of medium/long-term loans	(6,045)	(7,104)
Short-term net financial position	**(29,464)**	**(33,050)**
Intesa loan	-	(1,875)
Basic Village property loan	(3,300)	(4,500)
BasicItalia property loan	(1,525)	(1,932)
BNL loan	(3,750)	(5,000)
Banco BPM loan	(632)	(1,132)
MPS Loan	(12,187)	(13,000)
Leasing payables	(823)	(991)
Sub-total loans and leasing	*(22,217)*	*(28,430)*
Consolidated Net Financial Position	**(51,681)**	**(61,480)**

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

		December 31, 2018	December 31, 2017
A.	Cash	112	107
B.	Other cash equivalents	9,504	5,712
C.	Securities held for trading	-	-
D.	**Cash & cash equivalents (A)+(B)+(C)**	**9,616**	**5,819**
E.	**Current financial receivables**	**-**	**-**
F.	Current bank payables	(33,035)	(31,765)
G.	Current portion of non-current debt	(6,045)	(7,104)
H.	Other current financial payables	-	-
I.	**Current financial debt (F)+(G)+(H)**	**(39,080)**	**(38,869)**
J.	**Net current financial debt (I)-(E)-(D)**	**(29,464)**	**(33,050)**
K.	Non-current bank payables	(22,217)	(28,430)
L.	Bonds issued	-	-
M.	Fair value of hedges (cash flow hedges)	(130)	(1,598)
N.	**Non-current financial debt (K)+(L)+(M)**	**(22,347)**	**(30,028)**
O.	**Net financial debt (J)+(N)**	**(51,811)**	**(63,078)**

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).

CHANGES IN NET CASH POSITION

(Euro thousands)

	December 31, 2018	December 31, 2017
A) OPENING NET FINANCIAL POSITION	**(61,480)**	**(49,459)**
B) CASH FLOW FROM OPERATING ACTIVITIES		
Net profit for the year	21,014	10,646
Amortization & depreciation	6,448	6,419
Changes in working capital:	(6,128)	(5,667)
Net change in post-employment benefits	505	672
Others, net	71	(405)
	21,910	**11,665**
C) CASH FLOW FROM INVESTING ACTIVITIES		
Fixed asset investments	(5,800)	(18,581)
Realisable value for fixed asset disposals	294	824
	(5,506)	**(17,757)**
D) CASH FLOW FROM FINANCING ACTIVITIES		
Acquisition of treasury shares	(3,332)	(2,605)
Dividend payments	(3,273)	(3,324)
	(6,605)	**(5,929)**
E) CASH FLOW IN THE YEAR	**9,799**	**(12,021)**
F) CLOSING NET FINANCIAL POSITION	**(51,681)**	**(61,480)**

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, K-Way, Superga, Sabelt, Briko and Sebago. 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, 2018 was approved by the Board of Directors on March 8, 2019.

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, 2018 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, 2018 are the same as those utilised for the previous year.

Accounting standards, amendments and interpretations applied from January 1, 2018

The Group has adopted IFRS 15 and IFRS 9 for the first time. The impact and the nature of the amendments following the adoption of these new accounting standards are illustrated below. Various amendments and interpretations were applied for the first time in the periods before January 1, 2018, although without any impact on the consolidated financial statements of the Group. The Group has not adopted in advance any standard, interpretation or amendment published but not yet in effect.

IFRS 15 - Revenues from contracts with customers

IFRS 15 replaces IAS 18 *Revenues* and the relative interpretations and is applied, with limited exceptions, to all revenues from contracts with customers. IFRS 15 establishes a five-step model for the recognition of revenues from contracts with customers and requires revenues to be recognised for an amount which reflects the payment which the entity considers itself to have the right to in exchange for the transfer of control of the goods or services to the customer.

IFRS 15 requires entities to assess all significant facts and circumstances when applying each step of the model to the contracts with customers. The standard also specifies the methods for recognition of incremental costs for obtaining a contract and costs directly related to the execution of a contract.

The Group has adopted the new standard utilising the modified application method.

These amendments did not impact the Group's revenues and income statement.

Under IFRS 15, the BasicNet Group continues to recognise a current liability and an asset under inventories against counter-entries, respectively, to product revenues for which returns are expected and to the relative cost of sales. The Group has not identified changes in the estimate of the variable amounts, utilising an approach based on the weighted average probability of the returns.

IFRS 9 - *Financial Instruments*

IFRS 9 - *Financial instruments* replaces IAS 39 - *recognition and measurement* from periods beginning January 1, 2018 and thereafter, aggregating the three aspects of the recognition of financial instruments: classification and measurement; impairment; and hedge accounting.

These amendments did not impact the Group's balance sheet and shareholders' equity.

a) Classification and measurement

Trade receivables are held until their collection at the contractual maturities of the cash flows relating to the collection of the principal and interest. The Group analysed the contractual cash flows of these instruments and concluded that they comply with the amortised cost measurement criteria in accordance with IFRS 9.

b) Impairment losses

The adoption of IFRS 9 has substantially modified the recognition of impairment losses of the financial assets of the Group, replacing the approach of losses incurred by IAS 39 with an approach based on expected credit losses (ECL). IFRS 9 requires that the Group recognises a write-down equal to the ECL for all debt instruments not held at fair value recognised to the Income Statement and for the contractual activities.

c) Hedge accounting

The Group established that all existing hedges which are presently designated as effective hedges shall continue to qualify for hedge accounting in accordance with IFRS 9. Given that IFRS 9 does not amend the general principle on which an entity recognises effective hedges, the application of these requirements by IFRS 9 for the definition of the hedges did not have any impact on the financial statements of the Group.

IFRIC Interpretation 22 - Foreign Currency Transactions and Advance Consideration

The interpretation clarifies that, when defining the spot exchange rate to be used for the initial recognition of the related asset, costs or revenues (or part of these) at the time of derecognition of a non-monetary asset or a non-monetary liability relating to advances on fees, the transaction date is the date on which the entity initially recognizes the non-monetary asset or the non-monetary liability relating to advances on fees. In the case of multiple payments or advances, the entity should define the transaction date for each payment or advance on consideration. This Interpretation had no impact on the Group consolidated financial statements.

Amendments to IAS 40 - *Transfers of Investment Property*

The amendments clarify when an entity should transfer a building, including buildings under construction or development within or outside the Property investments account. The amendment establishes that a change of use occurs when the building satisfies, or ceases to satisfy, the definition of property ownership and demonstrates a change in use. A simple change in management's intentions with regards to the use of the building is not considered as proof of a change in use. These amendments do not have any impact on the Group consolidated financial statements.

Amendment to IFRS 2 - Classification and Measurement of Share-based Payment Transactions

The IASB issued amendments to IFRS 2 Share-based payments which concern three principal areas: the effects of a vesting condition on the measurement of a cash-settled share-based payment; the classification of an equity-settled share-based payment settled net of withholding tax obligations; the accounting where a change in the terms and conditions of an equity-settled share-based payment changes its classification from cash-settled to equity-settled. On its adoption, the entities must apply the amendments without restating the previous years, but the retrospective application is permitted if chosen for all three of the amendments and other criteria are satisfied.

These amendments do not have any impact on the Group consolidated financial statements.

Amendments to IFRS 4 - *Insurance Contracts*

The amendments seek to resolve issues arising from the adoption of the new standard on financial instruments, IFRS 9, before the adoption of IFRS 17 - *Insurance Contracts*, which replaces IFRS 4. The amendments introduce two options for entities that issue insurance contracts: a temporary exemption in the application of IFRS 9 and the overlay approach. These amendments are not significant for the Group.

Amendments to *IAS 28 - Investments in Associates and Joint Ventures*

The amendments clarify that a venture capital entity, or another qualified entity, may decide, at the time of initial recognition and with reference to the individual investment, to measure its investments in associates and joint ventures at fair value recognized to the Income Statement. These amendments are not significant for the Group.

Amendments to IFRS 1 - First-time Adoption of International Financial Reporting Standards

The short-term exemptions under paragraphs E3-E7 under IFRS 1 have been cancelled as removed from its scope. This amendment had no impact on the Group consolidated financial statements.

Standards issued but not yet in effect

The standards and interpretations which at the date of the preparation of the Group consolidated financial statements were issued but not yet in force are reported below. The Group will adopt these standards when they enter into force, if applicable.

IFRS 16 – Leases

IFRS 16 was issued in January 2016 and replaces IAS 17 – *Leases*, IFRIC 4 - *Determining whether an Arrangement contains a Lease*, SIC-15 - *Operating Leases - Incentives* and SIC-27 - *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

IFRS 16 establishes the principles for the recognition, measurement, presentation and disclosure of leasing contracts and requires lessees to recognise all leasing contracts in the financial statements on the basis of a single accounting model similar to that utilised for recognising finance leases in accordance with IAS 17.

The standard contains two exemptions for recognition by lessees: leasing of “low value” assets (for example, personal computers) and short-term lease contracts (leasing contracts for a period below or equal to 12 months). At the initial date of the leasing contract, the lessee records a liability against the lease payments (i.e. the leasing liability) and an asset which represents the right of use of the underlying asset for the duration of the contract (i.e. the right of use). Lessees must record separately the interest expense on the leasing liability and the amortisation on the right of use.

The lessees must also reconsider the amount of the leasing liability on the occurrence of certain events (for example, a change in the duration of the lease, a change in future lease payments deriving from a change in an index or interest rate utilised to determine these payments). In general, the lessee will record the difference from the remeasurement of the amount of the leasing liability as an adjustment to the right of use.

The recognition method for the lessor in relation to IFRS 16 remains substantially unchanged compared to the current accounting policy as per IAS 17. The lessors will continue to classify all leases utilising the same classification principle as per IAS 17 and distinguishing between two types of leases: operating leases and finance leases.

IFRS 16, which will be effective from periods beginning January 1, 2019, requires lessors and lessees to provide greater disclosure compared to IAS 17.

The Group will adopt IFRS 16 in accordance with a modified retrospective approach.

The Group will avail of the exemptions permitted by the standard on leasing contracts whereby the lease contract expires within 12 months from the initial application date and on leasing contracts where the underlying asset has a low value. The Group has undertaken leasing contracts for some office equipment (for example, personal computers, printers and photocopiers) which are considered as insignificant value.

In 2018, the Group undertook a detailed analysis of the impacts of IFRS 16. Due to the adoption of this standard, the Group operating profit would have improved by Euro 1 million, while financial charges would have increased by Euro 0.3 million. This amendment derives from the recognition of sales point rental expenses following the application of the above accounting standard.

IFRS 17 – Insurance Contracts

In May 2017, the IASB issued IFRS 17 - *Insurance Contracts*, a complete new standard relating to insurance contracts which covers recognition and measurement, presentation and disclosure. When it enters into effect, IFRS 17 will replace IFRS 4 - *Insurance Contracts* which was issued in 2005. IFRS 17 applies to all types of insurance contracts regardless of the type of entity that issues them, as well as certain guarantees and financial instruments with characteristics of discretionary participation.

This standard is not applicable to the Group.

IFRIC Interpretation 23 - *Uncertainty over Income Tax Treatment*

The interpretation sets out the accounting approach to income taxes where the tax treatment implies uncertainties impacting application of IAS 12 and does not apply to income or other taxes not falling within the scope of IAS 12, nor specifically includes requirements concerning interest or penalties relating to uncertain income tax treatments.

The interpretation specifically considers the following points:

- if an entity considers uncertain tax treatment separately;
- the assumptions of the entity on review of the tax treatments by the tax authorities;
- how an entity determines the taxable profit (or the tax loss), the tax base, unused tax losses, unused tax credits and tax rates;
- how an entity treats changes in facts and circumstances.

An entity should define whether it considers each uncertain tax treatment separately or together with other (one or more) uncertain tax treatments. The approach which allows the expected best solution for the uncertainty should be followed. The Interpretation is effective for the years beginning January 1, 2019 or subsequently, although transitory arrangements are available for first time application. The Group will apply the interpretation from its entry into force. On the basis of the preliminary analysis undertaken, the Group does not expect significant effects on its consolidated financial statements.

Amendments to IFRS 9 - Prepayment Features with Negative Compensation

As per IFRS 9, a debt instrument may be measured at amortised cost or at fair value in the comprehensive income statement, on the condition that the cash flows are "exclusively payments of principal and interest on the amount" (the SPPI criterion) and the instrument is classified to the appropriate business model. The amendments to IFRS 9 clarify that a financial asset complies with the SPPI criterion independently of the event or of the circumstance which causes the advance resolution of the contract and independently of who pays or receives a reasonable indemnity for the advance resolution of the contract.

The amendments shall be applied retrospectively from January 1, 2019 and advance application is permitted. These amendments do not have an impact on the Group consolidated financial statements.

Amendments to IFRS 10 and IAS 28 - *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments concern the conflict between IFRS 10 and IAS 28 with reference to the loss of control of a subsidiary which was sold or conferred to an associate or a joint venture. The amendments clarify that the profit or loss from the sale or from the conferment of assets which constitute a business, as defined by IFRS 3, between an investor and its associate or joint venture, must be entirely recognised. Any profit or loss from the sale or conferment of an asset which does not constitute a business is therefore only recognised up to amount held by third party investors in the associate or joint venture. The IASB indefinitely postponed the application of these amendments, although where an entity decides to apply them in advance, such should be done on a prospective basis. The Group will apply these amendments when they enter into force.

Amendment to IAS 19 - *Plan Amendment, Curtailment or Settlement*

The amendments to IAS 19 establish the accounting rules where, during the reference period, there is a plan amendment, reduction or regulation. The amendments apply to plan amendments, reductions and regulations which occur from periods beginning January 1, 2019 or thereafter, and advanced application is permitted. These changes will apply only to any future plan amendments, reductions or transactions of the Group.

Amendments to IAS 28 - *Long-term interests in associates and joint ventures*

The amendments specify that an entity applies IFRS 9 for long-term interests in associates or joint ventures where the equity method is not applied but which, in substance, form part of the net investment in the associate or joint venture (long-term interests).

This clarification is significant as it implies that the expected losses model on receivables of IFRS 9 is applied to these long-term investments.

The amendments also clarify that, in application of IFRS 9, an entity shall not take into account any losses of associates or joint ventures or any loss in value of the investment, recorded as adjustments of the net investment in the associate or joint venture which derives from the application of IAS 28 Investments in Associates and Joint Ventures.

The amendments shall be applied retrospectively and are effective from January 1, 2019, while advanced application is permitted. As the Group does not hold long-term interests in joint ventures, the amendments will have no impact on the consolidated financial statements.

Improvements to IFRS (2015-2017 Cycle)

These improvements include amendments to IFRS 3 - *Business Combinations*, IFRS 11 - *Joint Arrangements*, IAS 12 - *Income Taxes* and IAS 23 - *Borrowing Costs*. The Group does not expect any effect on its consolidated financial statements.

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, 2018 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 2018**		**FY 2017**	
	Average	**At year end**	**Average**	**At year end**
US Dollar	1.1782	1.1450	1.1349	1.1993
HK Dollar	9.2350	8.9675	8.8446	9.3720
Japanese Yen	129.9610	125.8500	127.0638	135.0100
UK Sterling	0.8859	0.8945	0.8753	0.8872

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, 2018 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.

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, 2018, 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 from contracts with customers rare recognised when the control of the goods and services is transferred to the client for an amount which reflects the consideration that the Group expects to receive in exchange for these goods and services. The Group has concluded that generally it acts as the Principal for the agreements from which it receives revenues, as usually it controls the goods and services before their transfer to the customer. In calculating the sales transaction price for goods, the Group considers the effects from variable fees, significant financial components and non-monetary fees. Where the fee concluded in the contract includes a variable amount, such as that connected to a right of return, the Group estimates the amount of the fee to which it will be entitled in exchange for the transfer of the goods to the customer.

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 IFRS 15.

Royalties and sourcing commissions, including the minimum guaranteed component, are recognised on an accruals basis in accordance with the underlying contracts and consistent with the state of advancement of the sales or the production of the licensees.

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. At the end of 2015 BasicNet S.p.A., Basic Trademark S.A. and Superga Trademark S.A. requested and obtained access to the benefits related to the application of the Patent Box. Part of these benefits are subject to a specific ruling by the Tax Agency. The ruling was obtained in 2017 for Superga Trademark S.A. and in 2018 for Basic Trademark S.A. and BasicNet, with retrospective effects to 2015, recognised to the financial statements in the years in which the agreements were signed.

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 2018, 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 development

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.

Concessions, brands and similar rights

The brands Kappa, Robe di Kappa, Superga, K-Way, Briko and Sebago are considered intangible assets with indefinite useful life; as such these assets are not amortised but subject to an impairment test at least annually.

The brands Sabelt, included in the value of the relative investment, 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 patent rights are amortised over ten years.

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:

Description	**Estimated useful life years**
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 Group's principal objective is the growth in value of its own brands, managed within a portfolio, with the distribution of the associated products through a global network of licensee producers and distributors.

Within this business model, for the purposes of the impairment test of the BasicNet Group at consolidated level, the CGU's were identified as the brands of the company.

The impairment test was carried out comparing the book value of the net assets of each CGU with their recoverable value, defined as the higher between their value in use and the fair value less selling costs.

The value in use is determined discounting to the WACC the cash flows generated from each CGU. This latter are identified with the first level gross operating margin, less investments in fixed assets and notional taxes, generated by each brand through royalties, sourcing commissions and direct sales. The changes in working capital are not included in these cash flows, in line with the underlying carrying amount and the assumption that these changes approximate zero.

The operating costs are allocated to the related CGU or divided based on determined and certain criteria. The costs not specifically allocated, or whose division based on analytic criteria does not reflect the effective period of use, are tested at Group level.

For the years beyond the Plan a terminal value is estimated applying the perpetual yield model to the cash flows of the final year. The growth rate utilised in the calculation of the terminal value, in accordance with the provisions of paragraph 36 of IAS 36, reflect the growth trend for the demand of clothing goods (i.e. clothes and footwear) at international level. In line with the most common valuation practices adopted, in the calculation of the terminal value the changes in the net working capital are assumed as zero and the investments equal to depreciation.

The BasicNet Group, on completion of the tests described above, carries out a second level test in relation to the presence of permanent loss in value on the totality of the consolidated assets.

Write-back of value

This loss is restated if the elements that generated the loss no longer exist. 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

Inventories are measured at the lower of purchase or production cost and their net realisable value. The cost is calculated using the weighted average cost method.

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 account of any write-downs, which reflects the bad debt estimate. The Group applies the simplified approach to calculating expected losses, fully recognising the expected loss at the reporting date according to historic information supplemented by forward looking considerations. 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 are substantially transferred by the owner of the financial assets 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 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 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 IFRS 9.

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 IFRS 9 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.

Information required by Law No. 124 of August 4, 2017, Article 1, paragraph 125

In accordance with Article 1, paragraph 125 of Law 124/2017, the Group has not received any grants from public bodies in excess of Euro 10 thousand.

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., Fashion S.r.l. and TOS S.r.l.;

- “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.

December 31, 2018	**Licenses and brands**	**Proprietary licensees**	**Property**	**Inter-segment eliminations**	**Consolidated**
Direct sales – third parties	2,158	153,453	4	-	155,615
Direct sales – inter-segment	*2,413*	*236*	*2*	*(2,651)*	-
(Cost of sales)	(4,911)	(89,044)	(3)	2,416	(91,542)
GROSS MARGIN	**(340)**	**64,645**	**3**	**(235)**	**64,073**
Royalties and sourcing commissions – third parties	54,832	-	-	-	54,832
Royalties and sourcing commissions – inter-segment	*13,519*	-	-	*(13,519)*	-
Other income - third parties	1,424	764	865	-	3,053
Other income – inter-segment	*303*	*13,234*	*2,770*	*(16,307)*	-
(Sponsorship and media costs)	(19,214)	(19,638)	-	13,202	(25,650)
(Personnel costs)	(10,471)	(12,561)	(42)	-	(23,074)
(Selling, general and administrative costs, royalties expenses)	(16,891)	(38,263)	(1,910)	16,859	(40,205)
Amortization & depreciation	(2,409)	(3,088)	(951)	-	(6,448)
EBIT	**20,753**	**5,093**	**735**	**-**	**26,581**
Financial income	1,238	1,331	-	-	2,569
(Financial charges)	(1,364)	(2,034)	(328)	-	(3,726)
(Investment impairments)	-	-	-	-	-
Share of profit/(loss) of investments	(23)	-	-	-	(23)
PROFIT BEFORE TAXES	**20,604**	**4,390**	**407**	**-**	**25,401**
Income taxes	(2,526)	(1,682)	(179)	-	(4,387)
NET PROFIT	**18,078**	**2,708**	**228**	**-**	**21,014**
Significant non-cash items:					
Amortization & depreciation	(2,409)	(3,088)	(951)	-	(6,448)
Write-downs	-	-	-	-	-
Total non-cash items	**(2,409)**	**(3,088)**	**(951)**	**-**	**(6,448)**
Investments in non-current assets	**(2,861)**	**(2,154)**	**(744)**	**-**	**(5,759)**
Segment assets and liabilities:					
Assets	**199,102**	**113,168**	**16,996**	**(93,753)**	**235,513**
Liabilities	**80,201**	**98,662**	**11,193**	**(67,480)**	**122,576**

December 31, 2017	Licenses and brands	Proprietary licensees	Property	Inter-segment eliminations	Consolidated
Direct sales – third parties	1,056	134,524	3	-	135,583
Direct sales – inter-segment	*2,093*	*268*	*2*	*(2,363)*	-
(Cost of sales)	(2,863)	(80,303)	(2)	2,103	(81,065)
GROSS MARGIN	**286**	**54,489**	**3**	**(260)**	**54,518**
Royalties and sourcing commissions – third parties	47,924	-	-		47,924
Royalties and sourcing commissions – inter-segment	*11,790*	-	-	*(11,790)*	-
Other income - third parties	736	2,106	797	-	3,639
Other income – inter-segment	*317*	*12,343*	*2,669*	*(15,329)*	-
(Sponsorship and media costs)	(18,465)	(18,565)	-	12,403	(24,627)
(Personnel costs)	(9,272)	(11,769)	(42)	-	(21,083)
(Selling, general and administrative costs, royalties expenses)	(15,021)	(35,623)	(1,641)	14,976	(37,310)
Amortization & depreciation	(2,316)	(3,182)	(921)	-	(6,419)
EBIT	**15,979**	**(201)**	**865**	**-**	**16,642**
Financial income	923	1,754	-	-	2,677
(Financial charges)	(2,079)	(1,749)	(402)	-	(4,230)
(Investment impairments)	(3,000)	-	-	3,000	-
Share of profit/(loss) of investments	(26)	-	-	-	(26)
PROFIT/(LOSS) BEFORE TAXES	**11,797**	**(196)**	**463**	**3,000**	**15,063**
Income taxes	(3,932)	(320)	(165)		(4,417)
NET PROFIT/(LOSS)	**7,865**	**(516)**	**298**	**3,000**	**10,646**
Significant non-cash items:					
Amortization & depreciation	(2,316)	(3,182)	(921)	-	(6,419)
Write-downs	(3,000)	-	-	-	(3,000)
Total non-cash items	**(5,316)**	**(3,182)**	**(921)**	**-**	**(9,419)**
Investments in non-current assets	**(16,167)**	**(1,788)**	**(195)**	**-**	**(18,150)**
Segment assets and liabilities:					
Assets	**196,701**	**107,216**	**17,243**	**(101,624)**	**219,536**
Liabilities	**88,546**	**96,374**	**11,842**	**(74,237)**	**122,525**

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 68.4 million for 2018 compared to Euro 59.7 million in the previous year. EBIT amounts to approx. Euro 20.8 million, compared to Euro 16 million in 2017. The segment net profit totalled Euro 18.1 million, compared to Euro 7.9 million in 2017.

- the “Proprietary Licensees” segment, comprising BasicItalia S.p.A. and its subsidiary BasicRetail S.r.l., reports revenue growth of 14% (Euro 153.7 million, against Euro 134.8 million in 2017). The contribution margin on sales increased to Euro 64.6 million in 2018 from Euro 54.5 million in 2017. The revenue margin was 42% (40.4% in 2017). 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 stepped up and related to advertising campaigns and sponsorship activities. The segment reports a profit of approx. Euro 2.7 million compared to a loss of Euro 516 million in the previous year;
- the “Property” segment reports a profit of Euro 228 thousand, compared to Euro 298 thousand in 2017.

8. CONSOLIDATED DIRECT SALES

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

	FY 2018	FY 2017
Italy	145,050	127,534
EU countries other than Italy	6,339	4,996
Rest of the World	4,226	3,053
Total consolidated direct sales	**155,615**	**135,583**

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 153.9 million) and by BasicNet S.p.A. for sample merchandise sales (Euro 1.7 million).

Sales on the home market accounted for 93.2%, while approx. 4.1% of sales were in other EU countries, with the remaining approx. 2.7% 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.

The composition of revenues from direct sales by distribution channel is presented in the following table:

	FY 2018	FY 2017
Multibrand sales	101,098	83,939
Franchising sales	47,443	45,478
Online sales	5,303	5,381
Sample sales	1,772	786
Total consolidated direct sales	**155,615**	**135,583**

9. COST OF SALES

	FY 2018	FY 2017
Goods purchased – Overseas	66,675	59,946
Goods purchased – Italy	5,313	5,104
Samples purchased	3,020	2,169
Freight charges and accessory purchasing cost	8,565	7,476
Packaging	511	423
Changes in inventory of raw materials, ancillary, consumables and goods	2,161	643
Cost of outsourced logistics	4,054	3,992
Other	1,243	1,312
Total cost of sales	**91,542**	**81,065**

Sample purchases were made by BasicNet S.p.A. for resale to the licensees.

The cost of sales did not increase in proportion to the increase in revenues, resulting in a higher margin.

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:

	FY 2018	FY 2017
Europe (EU and non-EU)	23,284	20,178
The Americas	6,257	5,500
Asia and Oceania	21,607	18,986
Middle East and Africa	3,684	3,260
Total	**54,832**	**47,924**

11. OTHER INCOME

	FY 2018	FY 2017
Rental income	622	609
Recovery of condominium expenses	184	133
Other income	2,247	2,897
Total other income	**3,053**	**3,639**

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

"Other income" includes prior year accruals' reversals, the recharge of expenses to third parties and other indemnities against counterfeiting and unauthorised usage protection actions. 2017 included the gain of Euro 195 thousand from the sale of the Lanzera brand and approx. Euro 650 thousand recognised to BasicItalia by Wolverine World Wide, Inc., the company which sold the Sebago brand to the Group, on the basis of profit-sharing on sales managed directly by the latter until the end of 2017.

12. SPONSORSHIP AND MEDIA COSTS

	FY 2018	FY 2017
Sponsorship and marketing	22,880	22,066
Advertising	1,743	1,864
Promotional expenses	1,027	697
Total sponsorship and media costs	**25,650**	**24,627**

The account "sponsorship" refers to communication investments incurred directly to which the Group contributes, described in detail in the Directors' Report. The increase on 2017 is partly due to the contributions paid for communication and endorsement activities on overseas markets.

"Advertising" refers to billboard advertising and press communication campaigns.

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

13. PERSONNEL COSTS

	FY 2018	FY 2017
Wages and salaries	16,745	15,354
Social security charges	5,242	4,715
Post-employment benefits	1,087	1,014
Total	**23,074**	**21,083**

The number of employees at the reporting date, by category, is reported in the separate section in the Consolidated Non-Financial Declaration.

The increase mainly derives from personnel in the marketing and product research and development departments.

The average number of Employees in 2018 was 589, comprising 30 executives, 531 white-collar employees and 28 blue-collar employees.

14. SELLING, GENERAL AND ADMINISTRATIVE COSTS AND ROYALTIES EXPENSES

	FY 2018	FY 2017
Selling and royalty service expenses	10,239	9,581
Rental, accessory and utility expenses	10,517	10,434
Commercial expenses	5,550	4,979
Directors and Statutory Auditors emoluments	4,245	3,745
Doubtful debt provision	2,381	2,041
Other general expenses	7,273	6,530
Total selling, general and administrative costs, and royalties expenses	**40,205**	**37,310**

"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, with the increase related to the growth in revenues.

"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 mainly relates to the operations related to the Sebago brand acquired in the previous 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 Shareholder' Meeting 2018 section, to which reference should be made.

The higher "doubtful debt provision" accrued in 2018 is related to specific credit positions.

The account "other general expenses" includes legal and professional fees, bank charges, other taxes, consumption materials, hire charges, and corporate and other minor expenses.

15. AMORTISATION & DEPRECIATION

	FY 2018	FY 2017
Amortisation	3,407	3,356
Depreciation	3,041	3,063
Total amortisation & depreciation	**6,448**	**6,419**

Amortisation of intangible assets includes Euro 627 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)

	FY 2018	FY 2017
Interest income	34	288
Bank interest charges	(281)	(379)
Interest on medium/long term loans	(661)	(723)
Property lease interest	(19)	(39)
Other	(186)	(111)
Total financial income and charges	***(1,113)***	***(964)***
Exchange gains	2,464	2,230
Exchange losses	(2,508)	(2,819)
Net exchange gains/(losses)	***(44)***	***(589)***
Total financial income/(charges)	**(1,157)**	**(1,553)**

Financial charges reduced following the general reduction in interest rates. Net currency losses amount to Euro 44 thousand compared to losses of Euro 589 thousand in the previous year, due to US Dollar movements.

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 venture Fashion S.r.l..

18. INCOME TAXES

Income taxes (Euro 4.4 million) comprises current taxes of Euro 7.3 million, of which Euro 1.4 million for IRAP, Euro 5.4 million for IRES and Euro 0.5 million for taxes incurred by overseas group companies, deferred tax charges of Euro 1.3 million, in addition to Euro 4.2 million related to the benefits from application of the "Patent Box" rule. This amount refers for Euro 2.5 million to the years 2015-2016-2017, which were not yet approved, and Euro 1.7 million for the current year; the recognition of the effects from previous years is related to the definition of the ruling with the Tax Agency of the parent company BasicNet, which follows the agreement signed in April for Basic Trademark S.A and previously for Superga Trademark S.A., completing the tax break application process for the Group.

The reconciliation between the theoretical and actual rate is shown below:

	2018	**2017**
Profit before taxes	25,401	15,063
Income tax rate	24%	24%
Theoretical IRES	***(6,096)***	***(3,615)***
Effect of differences between Italian & foreign tax rates	(180)	84
Permanent tax differences effect	(513)	(264)
Prior year taxes	(63)	(172)
ACE contribution	49	85
Patent Box benefit	4,208	644
IRAP	(1,373)	(971)
Other changes	(418)	(208)
EFFECTIVE TAX CHARGE	**(4,387)**	**(4,417)**
Effective tax rate	**(17.3%)**	**(29.33%)**

19. EARNINGS PER SHARE

The basic earnings per share, for 2018, 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)	**FY 2018**	**FY 2017**
Net profit attributable to owners of the Parent	21,013,752	10,645,656
Weighted average number of ordinary shares	51,907,273	55,308,514
Basic earnings per ordinary share	0.4048	0.1925

At December 31, 2018, 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 2018 and 2017 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, 2018	Dec. 31, 2017	Changes
Concessions, brands and similar rights	47,369	47,101	268
Software development	3,502	4,083	(581)
Other intangible assets	2,289	2,511	(222)
Industrial patents	65	67	(2)
Total intangible assets	**53,225**	**53,762**	**(537)**

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
Historic cost at 1.1.2017	**47,303**	**40,166**	**9,556**	**96**	**97,121**
Additions	*13,637*	*1,545*	*369*	*35*	*15,586*
Disposals & other changes	*(2,321)*	*(2)*	-	-	*(2,323)*
Write-downs	-	-	-	-	-
Historic cost at 31.12.2017	**58,619**	**41,709**	**9,925**	**131**	**110,384**
Additions	*430*	*1,863*	*326*	*8*	*2,627*
Disposals & other changes	-	*(345)*	*(153)*	-	*(498)*
Write-downs	-	-	-	-	-
Historic cost at 31.12.2018	**59,049**	**43,227**	**10,098**	**139**	**112,513**

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

	Concessions, brands & similar rights	Software development	Other intangible assets	Industrial patents	Total
Acc. Amort. at 1.1.2017	**(12,864)**	**(35,596)**	**(6,878)**	**(55)**	**(55,393)**
Amortization	*(242)*	*(2,030)*	*(536)*	*(9)*	*(2,817)*
Disposals and other changes	*1,588*	-	-	-	*1,588*
Acc. Amort. at 31.12.2017	**(11,518)**	**(37,626)**	**(7,414)**	**(64)**	**(56,622)**
Amortization	*(162)*	*(2,099)*	*(509)*	*(10)*	*(2,780)*
Disposals and other changes	-	-	*114*	-	*114*
Acc. Amort. at 31.12.2018	**(11,680)**	**(39,725)**	**(7,809)**	**(74)**	**(59,288)**

The net book value of intangible assets is reported below:

	Concessions, brands & similar rights	Software development	Other intangible assets	Industrial patents	Total
Opening net book value at 31.12.2017	**34,439**	**4,570**	**2,678**	**41**	**41,728**
Additions	*13,637*	*1,545*	*369*	*35*	*15,586*
Disposals and other changes	*(733)*	*(2)*	-	-	*(735)*
Amortization	*(242)*	*(2,030)*	*(536)*	*(9)*	*(2,817)*
Write-downs	-	-	-	-	-
Closing net book value at 31.12.2017	**47,101**	**4,083**	**2,511**	**67**	**53,762**
Additions	*430*	*1,863*	*326*	*8*	*2,627*
Disposals and other changes	-	*(345)*	*(39)*	-	*(384)*
Amortization	*(162)*	*(2,099)*	*(509)*	*(10)*	*(2,780)*
Write-downs	-	-	-	-	-
Closing net book value at 31.12.2018	**47,369**	**3,502**	**2,289**	**65**	**53,225**

The increase in “concessions, brands and similar rights” is due to the capitalisation of costs incurred for the registration of trademarks in new countries, for renewals and extensions and for the purchase of software licenses. The reduction in the book value relates to the amortisation in the period of the brand Jesus Jeans, whose net value is approx. Euro 0.1 million.

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

At December 31, 2018, the Kappa and Robe di Kappa brands report a book value of Euro 4.2 million (Euro 1.5 million net of fiscal amortisation), with the Superga brand book value of Euro 21.1 million (Euro 13.2 million net of fiscal amortisation); the K-Way brand was valued at Euro 8.2 million (Euro 3.4 million net of fiscal amortisation), the Sebago brand book value of Euro 11.9 million (Euro 10.6 million net of fiscal amortistion) and the Briko brand at Euro 1.6 million (Euro 1.5 million net of fiscal amortisation).

For the purposes of the impairment test of the BasicNet Group at consolidated level, the CGU’s were identified as the brands of the company.

The impairment test was carried out comparing the book value of the net assets of each CGU with their recoverable value, defined as the higher between their value in use and the fair value less selling costs.

The verification of the reduction in the loss in value (impairment test) of the indefinite useful life assets, among which brands and goodwill, allocated to each CGU was carried out comparing the carrying amount with the respective recoverable value. The recoverable value was determined discounting the expected net cash flows allocated to each CGU (value in use). The key assumptions utilised for the calculation principally refer to:

- the estimate of the future net cash flows of each CGU is based on the plans approved by the Board of Directors and on reasonable and sustainable assumptions, with respect to future and historical cash flows;

- the terminal value, equal to the value of the cash flows at the end of the explicit time period, is calculated assuming a perpetual growth rate of 1.0% (1.0% in 2017);
- the discounting of the weighted average cost of capital (WACC) of 6.61% (6.0% in 2017).

Following the impairment test no write-down is required of the book value of the brands or the goodwill. The value in use of the CGUs so calculated, significantly exceeded their book value also considering sensitivity analysis undertaken on the principal parameters in line with previous years.

The account “software development” increased approx. Euro 1.9 million for investments and decreased Euro 2.4 million for amortisation and other changes in the year.

The account “other intangible assets” principally includes investments related to the franchising project, with investment of Euro 0.3 million and amortisation in the year of Euro 0.5 million.

21. GOODWILL

	Dec. 31, 2018	Dec. 31, 2017	Changes
Goodwill	9,232	9,527	(295)
Goodwill	**9,232**	**9,527**	**(295)**

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 1.3 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: for further information, reference should be made to Note 20.

22. PROPERTY, PLANT AND EQUIPMENT

	December 31, 2018	December 31, 2017	Changes
Property	21,583	22,292	(709)
Furniture and other assets	5,318	5,487	(169)
Plant and machinery	705	456	249
EDP	1,607	1,501	106
Industrial and commercial equipment	184	157	27
Total property, plant and equipment	**29,397**	**29,893**	**(496)**

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

	Property	Furniture and other assets	Plant and machinery	EDP	Industrial and commercial equipment	Total
Historic cost at 1.1.2017	**36,924**	**15,632**	**1,604**	**13,403**	**985**	**68,548**
Additions	*57*	*1,713*	*163*	*594*	*22*	*2,549*
Disposals and other changes	-	*(75)*	*(4)*	*1*	*(12)*	*(90)*
Historic cost at 31.12.2017	**36,981**	**17,270**	**1,763**	**13,998**	**995**	**71,007**
Additions	*287*	*1,275*	*449*	*711*	*79*	*2,801*
Disposals and other changes	-	*(855)*	*(2)*	*(109)*	-	*(966)*
Historic cost at 31.12.2018	**37,268**	**17,690**	**2,210**	**14,600**	**1,074**	**72,842**

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

	Property	Furniture and other assets	Plant and machinery	EDP	Industrial and commercial equipment	Total
Acc. Deprec. at 1.1.2017	**(13,698)**	**(10,589)**	**(1,141)**	**(11,835)**	**(788)**	**(38,051)**
Depreciation	*(991)*	*(1,194)*	*(166)*	*(662)*	*(50)*	*(3,063)*
Disposals and other changes	-	-	-	-	-	-
Acc. Deprec. at 31.12.2017	**(14,689)**	**(11,783)**	**(1,307)**	**(12,497)**	**(838)**	**(41,114)**
Depreciation	*(996)*	*(1,186)*	*(199)*	*(609)*	*(52)*	*(3,042)*
Disposals and other changes	-	*597*	*1*	*113*	-	*711*
Acc. Deprec. at 31.12.2018	**(15,685)**	**(12,372)**	**(1,505)**	**(12,993)**	**(890)**	**(43,445)**

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
Opening net book value at 1.1.2017	**23,226**	**5,043**	**463**	**1,568**	**197**	**30,497**
Additions	*57*	*1,713*	*163*	*594*	*22*	*2,549*
Depreciation	*(991)*	*(1,194)*	*(166)*	*(662)*	*(50)*	*(3,063)*
Disposals and other changes	-	*(75)*	*(4)*	*1*	*(12)*	*(90)*
Closing net book value at 31.12.2017	**22,292**	**5,487**	**456**	**1,501**	**157**	**29,893**
Additions	*287*	*1,275*	*449*	*711*	*79*	*2,801*
Depreciation	*(996)*	*(1,186)*	*(199)*	*(609)*	*(52)*	*(3,042)*
Disposals and other changes	-	*(258)*	*(1)*	*4*	-	*(255)*
Closing net book value at 31.12.2018	**21,583**	**5,318**	**705**	**1,607**	**184**	**29,397**

"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 and to adjacent buildings acquired at the end of 2016. The increase in the property account is due to improvements undertaken during the year.

Total gross investments in the year amounted to Euro 2.8 million, principally relating to 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, 2018	Net value at December 31, 2017
Furniture and other assets	2,071	1,995
EDP	184	451
Equipment	-	-
Total	**2,255**	**2,446**

23. EQUITY INVESTMENTS AND OTHER FINANCIAL ASSETS

	Dec. 31, 2018	Dec. 31, 2017	Changes
Other receivables, guarantees	1,048	661	387
Total financial receivables	***1,048***	***661***	***387***
Total investments & other financial assets	**1,048**	**661**	**387**

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

24. INVESTMENTS IN JOINT VENTURES

	Dec.31, 2018	Dec. 31, 2017	Changes
Investments in:			
- Joint ventures	243	266	(23)
Total investments in joint ventures	**243**	**266**	**(23)**

Investments in joint ventures concern the value of the investment in Fashion S.r.l. of Euro 243 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.

25. NET INVENTORIES

	Dec. 31, 2018	Dec. 31, 2017	Changes
Finished products and goods	48,846	51,391	(2,545)
Inventory obsolescence provision	(4,467)	(4,874)	407
Total net inventories	**44,379**	**46,517**	**(2,138)**

Finished inventories include goods in transit at the balance sheet date which at December 31, 2018 amount to approx. Euro 6 million compared to Euro 2.1 million at December 31, 2017, goods held at Group brand stores for Euro 8.9 million, compared to Euro 9.3 million at December 31, 2017 and goods to be shipped against orders, to be delivered at the beginning of the following year, for Euro 5.6 million compared to Euro 6.4 million at December 31, 2017.

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:

	2018	2017
Inventory obsolescence provision at 1.1	**4,874**	**3,646**
Provisions in the year	3,456	1,688
Utilisations	(3,863)	(460)
Inventory obsolescence provision at 31.12	**4,467**	**4,874**

26. TRADE RECEIVABLES

	Dec. 31, 2018	Dec. 31, 2017	Changes
Gross value	77,518	66,871	10,647
Doubtful debt provision	(7,638)	(8,293)	655
Total trade receivables	**69,880**	**58,578**	**11,302**

"Trade receivables" refer for Euro 42.3 million to goods sold by proprietary licensees (compared to Euro 39.8 million at December 31, 2017) and for which a doubtful debt provision was recorded of Euro 5.3 million (Euro 5.4 million at December 31, 2017), for Euro 35.1 million to royalties and sourcing commissions (Euro 26.7 million at December 31, 2017) against which a doubtful debt provision was recorded of Euro 2.4 million (Euro 2.9 million at December 31, 2017) and Euro 0.1 million other receivables (Euro 0.4 million at December 31, 2017).

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:

	2018	2017
Doubtful debt provision at 1.1	**8,293**	**7,690**
Provisions in the year	2,381	2,041
Utilizations	(3,036)	(1,438)
Doubtful debt provision at 31.12	**7,638**	**8,293**

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.

27. OTHER CURRENT ASSETS

	Dec. 31, 2018	Dec. 31, 2017	Changes
Tax receivables	6,339	5,396	943
Other receivables	2,481	1,240	1,241
Other current assets	**8,820**	**6,636**	**2,184**

"Tax receivables" principally include corporate income taxes paid on account of Euro 2.3 million and withholding taxes on royalties of Euro 4 million.

"Other receivables" principally 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 1.5 million.

28. PREPAYMENTS

	Dec.31, 2018	Dec. 31, 2017	Changes
Expenses pertaining to future collections	5,260	4,587	673
Sponsorship and media	2,007	2,115	(108)
Other	2,101	1,174	928
Total prepayments	**9,368**	**7,876**	**1,492**

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, 2018	Dec. 31, 2017	Changes
Bank and postal deposits	9,504	5,712	3,792
Cash in hand and similar	112	107	5
Total cash and cash equivalents	**9,616**	**5,819**	**3,797**

"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 3.9 million), BasicRetail S.r.l. (Euro 1.5 million), BasicNet S.p.A. (Euro 1.6 million), Basic Properties America Inc. (Euro 1.4 million) and, for the difference, the other Group companies (Euro 1 million).

Against the agreement signed with Intesa Sanpaolo S.p.A. (described in Note 43), Euro 220 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, 2018	Dec. 31, 2017	Changes
Derivative financial instruments	305	1	304
Total	**305**	**1**	**304**

The account includes the market value at December 31, 2018 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 2019 and 2020, on the basis of the goods orders already sent to suppliers, or still to be made but included in the budget. At December 31, 2018, commitments were in place on estimated future purchases, for USD 22.3 million, divided into 6 operations with variable maturities: 1 operation in the first half of 2019 (for USD 1.5 million), 4 operations in the second half of 2019 (for USD 10 million), at fixed exchange rates between USD/Euro 1.1725 and USD/Euro 1.2537 and 1 operation in 2020 (for USD 10 million). During 2018, forward purchase operations were utilised for approx. USD 38.7 million and the relative effects were recognised to the income statement. A negative equity reserve was recorded of approx. Euro 232 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.

SHAREHOLDERS' EQUITY & LIABILITIES

31. SHAREHOLDERS' EQUITY

	Dec. 31, 2018	Dec. 31, 2017	Changes
Share capital	31,717	31,717	-
Treasury shares	(17,827)	(14,495)	(3,332)
Other reserves	78,033	69,143	8,890
Net Profit	21,014	10,646	10,368
Minority interests	-	-	-
Total Shareholders' Equity	**112,937**	**97,011**	**15,926**

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 2018, as approved by the Shareholders' AGM of BasicNet S.p.A. of April 24, 2018, in relation to the allocation of the 2017 net profit, a dividend of Euro 0.06 per share was distributed to each of the ordinary shares in circulation, for a total pay-out of approx. Euro 3.3 million.

During the year 825,344 treasury shares were acquired in accordance with Shareholders' Meetings motions, which together with the 6,140,728 shares held at the end of the previous year, totalled 6,966,072 at December 31, 2018 (10.421% of the Share Capital).

The account "other reserves" comprises:

- The "cash flow hedge reserve", negative for Euro 94 thousand, changed in the year due to the fair value measurement of cash flow hedges held at December 31, 2018;
- The "*re-measurement reserve for defined benefit plans (IAS 19)*", negative for Euro 152 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 1.3 million, entirely concerns conversion differences into Euro of the financial statements of the US and Asian subsidiaries;
- "*retained earnings*" amount to Euro 76.9 million, increasing compared to the end of the previous year by Euro 8.8 million.

The reconciliation at December 31, 2018 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, 2018	Dec. 31, 2017	Changes
Effective part of the Gains/(losses) on cash flow instruments generated in the period (currency hedges)	1,215	(2,519)	3,734
Effective part of the Gains/(losses) on cash flow instruments generated in the period (interest rate hedges)	253	365	(112)
Effective part of the Gains/losses on cash flow hedge instruments	***1,468***	***(2,154)***	***3,622***
Re-measurement of defined benefit plans (IAS 19) (*)	73	(16)	89
Gains/(losses) from translation of accounts of foreign subsidiaries	346	(934)	1,280
Tax effect relating to the Other items of the comprehensive income statement	(370)	518	(888)
Total other gains/(losses), net of tax effect	**1,517**	**(2,586)**	**4,103**

(*) 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, 2018			December 31, 2017		
	Gross value	Tax Charge/ Benefit	Net value	Gross value	- Tax Charge/ Benefit	Net value
Effective part of Gains/losses on cash flow hedge instruments	1,468	(352)	1,116	(2,154)	514	(1,640)
Gains/(losses) for re-measurement of defined benefit plans (IAS 19) (*)	73	(18)	55	(16)	4	(12)
Gains/(losses) from translation of accounts of foreign subsidiaries	346	-	346	(934)	-	(934)
Total other gains/(losses), net of tax effect	**1,887**	**(370)**	**1,517**	**(3,104)**	**518**	**(2,586)**

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

32. PROVISIONS FOR RISKS AND CHARGES

	Dec. 31, 2018	Dec. 31, 2017	Changes
Provisions for risks and charges	50	42	8
Total provisions for risks and charges	**50**	**42**	**8**

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:

	31/12/2017	Repayments	New loans	31/12/2018	Short-term portion	Medium/long-term portion
"Basic Village property loan"	5,700	(1,200)	-	4,500	1,200	3,300
"BasicItalia property loan"	2,339	(407)	-	1,932	407	1,525
"Intesa Loan"	5,625	(3,750)	-	1,875	1,875	-
"BNL Loan"	6,250	(1,250)	-	5,000	1,250	3,750
"MPS Loan"	13,000	-	-	13,000	813	12,187
"Banco BPM Loan"	1,628	(496)	-	1,132	500	632
Balance	**34,542**	**(7,103)**	-	**27,439**	**6,045**	**21,394**

The maturity of the long-term portion of loans is highlighted below:

	Dec. 31, 2018	Dec. 31, 2017	Changes
Medium/long term loans:			
- due within 5 years	21,394	24,696	(3,302)
- due beyond 5 years	-	2,743	(2,743)
Total medium/long-term loans	***21,394***	***27,439***	***(6,045)***
Leasing payables	823	991	(168)
Total leasing payables (maturity within 5 years)	***823***	***991***	***(168)***
Total loans	**22,217**	**28,430**	**(6,213)**

The medium/long-term loans are comprised for Euro 4.5 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 ("Basic Village Property Loan"), for Euro 1.9 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 1.8 million the residual loan from Intesa SanPaolo issued in April 2015 ("Intesa Loan"), for Euro 5 million the medium/long-term loan issued by Banca Nazionale del Lavoro S.p.A. in November 2016 ("BNL Loan"), for Euro 13 million the loan issued in July 2017 by MPS Capital Services Banca per le Imprese S.p.A. for the acquisition of the Sebago brand ("MPS Loan") and the residual loan from Banco BPM for Euro 1.1 million, to support investment activities in the retail sector ("BPM Loan").

The "Basic Village 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 with obligation to maintain the full investment in the company by the Group.

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 30%.

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 30%. 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.

The "MPS Loan" was issued in July 2017 for Euro 13 million and is of six-year duration, repayable in quarterly instalments from December 2019 at a quarterly Euribor rate (although not below zero) plus 170 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 30%. The loan is supported by a pledge on the shares of TOS S.r.l., owner of the Sebago brand, with obligation to maintain the full investment in the company by the Group.

The "Banco BPM Loan" was disbursed in February 2017 to BasicItalia S.p.A. for Euro 2 million; it has four-year duration and is repayable in quarterly instalments at a quarterly Euribor rate increased by 70 basis points. The contractual conditions do not include financial covenants.

At December 31, 2018, the credit lines available from the banking system (bank overdrafts, commercial advances, medium/long-term loans, import financing, leasing and letters of credit), amount to Euro 201 million, broken down as follows:

(in Euro millions)	**Dec. 31, 2018**	**Dec. 31, 2017**
Cash facility	139.9	131.8
Factoring	1.5	1.5
Letters of credit and swaps	28.1	32.1
Medium/long term loans	30.5	34.5
Property leases	1.0	3.6
Total	**201.0**	**203.5**

The average interest paid for the BasicNet Group in the year is reported in Note 34.

34. BANK PAYABLES

	Dec. 31, 2018	Dec. 31, 2017	Changes
Bank payables due within one year:			
- short-term portion of medium/long-term loans	6,045	7,104	(1,059)
- bank overdrafts and bills	10,735	11,516	(781)
- import advances	22,300	20,249	2,051
Total bank payables	**39,080**	**38,869**	**211**

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, 2018 is as follows:

	Interest Rate		
	Fixed	Variable	Total
Short-term	13,102	25,978	39,080
Medium/long term	3,300	18,917	22,217
Total	**16,402**	**44,895**	**61,297**

The average interest rate on medium/long term loans was 2.08%.

35. EMPLOYEE AND DIRECTOR BENEFITS

The account includes the post-employment benefits for employees of Euro 2.7 million and the termination indemnities of Directors of Euro 1.3 million.

The changes in the year of the post-employment benefit liability were as follows:

	December 31, 2018			December 31, 2017		
	Defined benefit plans	Defined contrib. plans	Total	Defined benefit plans	Defined contrib. plans	Total
Change in the balance sheet:						
Net liabilities recognized at begin. of year	2,702	-	2,702	2,528	-	2,528
Interest	46	-	46	46	-	46
Pension cost, net of withholdings	232	877	1,109	214	805	1,019
Benefits paid	(200)	-	(200)	(103)	-	(103)
Payments to the INPS treasury fund	-	(638)	(638)	-	(143)	(143)
Payments to other supp. pension fund	-	(239)	(239)	-	(662)	(662)
Actuarial gain/(losses)	(73)	-	(73)	16	-	16
Net liabilities recognized in the accounts	**2,707**	**-**	**2,707**	**2,701**	**-**	**2,701**
Change in the income statement:						
Interest	46	-	46	46	-	46
Pension Cost	242	877	1,119	222	805	1,027
Total charges/(income) for post-employment benefits	**288**	**877**	**1,165**	**268**	**805**	**1,073**

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 10 thousand.

The principal assumptions of the model concerning the actuarial valuations relating to personnel costs are:

	December 31, 2018	**December 31, 2017**
discount rate	1.970%	1.610%
inflation rate	1.500%	1.500%
annual increase in post-employment benefit	2.625%	2.625%
annual increase in salaries	1.000%	1.000%

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.

36. DEFERRED TAX LIABILITIES

	Dec. 31, 2018	**Dec. 31, 2017**	**Changes**
Deferred tax liabilities	1,949	311	1,638
Total deferred tax liabilities	**1,949**	**311**	**1,638**

The net amount of approx. Euro 2 million represents the balance between the deferred tax assets and liabilities as illustrated in the table.

	December 31, 2018			December 31, 2017			
	Amount of temporary differences	**Rate %**	**Tax effect**	Amount of temporary differences	**Rate %**	**Tax effect**	**Changes 2018/2017**
Deferred tax assets:							
- Excess doubtful debt provision not deductible	(6,517)	24.00%	(1,564)	(7,242)	24.00%	(1,738)	174
- Inventory obsolescence provision	(4,293)	24.00%	(1,058)	(4,774)	24.00%	(1,174)	117
- ROL surplus	-	24.00%	-	(455)	24.00%	(109)	109
- Misc. charges temporarily non-deductible	(3,032)	27.90%	(814)	(2,403)	27.90%	(655)	(160)
- Effect IAS 19 – Employee Benefits	(71)	24.00%	(17)	(139)	24.00%	(33)	16
- Effect IAS 39 – financial instruments	(130)	24.00%	(31)	(1,598)	24.00%	(383)	352
Total	**(14,043)**		**(3,484)**	**(16,612)**		**(4,092)**	**609**
Deferred tax liabilities:							
- Dividends not received	23	24.00%	5	93	24.00%	22	(17)
- Prudent exchange differences, net	327	24.00%	80	(945)	24.00%	(227)	306
- Amortization/Depreciation tax basis	12,492	27.90%	3,811	13,631	27.90%	3,804	6
- Effect IAS 38 – plant costs	15	27.90%	5	16	27.90%	5	-
- Effect of IAS 17 finance leases and other tax differences on buildings	3,714	27.90%	1,036	1,240	27.90%	346	690
- Effect IFRS 3 – goodwill amortisation	1,777	27.90%	496	1,623	27.90%	453	43
Total	**18,348**		**5,433**	**15,657**		**4,404**	**1,029**
Net deferred tax liability (asset)			1,949			311	
Deferred tax asset relating to fiscal losses			-			-	
Deferred tax liability/(asset) as per financial statements			**1,949**			**311**	**1,637**

Deferred tax assets are recorded considering probable their recovery based on future profit expectations, and principally relate to non-deductible doubtful debt provisions (Euro 1.6 million), non-deductible inventory obsolescence provisions (Euro 1 million) and various temporary non-deductible charges (Euro 0.8 million).

Deferred tax liabilities principally refer to the tax effects deriving from the application of the IFRS international accounting standards, with particular reference to the accounting of amortisation on own brands solely for tax purposes (Euro 3.8 million), differences between statutory and fiscal amortisation (Euro 1 million) and goodwill amortisation fiscally deductible (Euro 0.5 million).

37. OTHER NON-CURRENT LIABILITIES

	Dec. 31, 2018	Dec. 31, 2017	Changes
Guarantee deposits	1,136	1,033	103
Total other non-current liabilities	**1,136**	**1,033**	**103**

The "guarantee deposits" include the guarantees received from licensees, to cover the minimum royalties guaranteed contractually.

38. TRADE PAYABLES

The "trade payables" are payable in the short-term and increased by approx. Euro 4.4 million compared to December 31, 2017, 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, 2018	Dec. 31, 2017	Changes
Tax payables:			
Income taxes	522	1,272	(750)
Employee contributions	491	610	(119)
Non-recurring tax charges	-	4	(4)
Group VAT	1,036	1,284	(248)
Other	84	61	24
Total tax payables	**2,133**	**3,231**	**(1,098)**

The Group VAT payable at December 31, 2018 was settled on the beginning of 2019.

40. OTHER CURRENT LIABILITIES

	Dec. 31, 2018	Dec. 31, 2017	Changes
Accrued expenses	749	669	80
Payables to employees and directors	3,514	3,288	227
Other payables	5,361	3,994	1,367
Total other current liabilities	**9,624**	**7,951**	**1,674**

The account "accrued expenses" principally includes deferred employee remuneration.

The “other payables” at December 31, 2018 principally include employee remuneration and expenses (Euro 3.5 million), payable in the subsequent month, related social security charges (Euro 1.2 million), other related liabilities (Euro 0.2 million), royalty payment on accounts from licensees (Euro 0.1 million) and other miscellaneous amounts Euro (3.9 million).

41. DEFERRED INCOME

	Dec. 31, 2018	Dec. 31, 2017	Changes
Royalties	1,046	2,357	(1,311)
Sponsored goods revenues	1,079	1,287	(208)
Other deferred income	1,506	12	1,494
Total deferred income	**3,631**	**3,656**	**(25)**

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, 2018	Dec. 31, 2017	Changes
Derivative financial instruments	436	1,599	(1,163)
Total	**436**	**1,599**	**(1,163)**

The account includes for Euro 4 thousand the adjustments to market value of the interest rate hedging operations on the medium-long-term “Intesa loan” and Euro 432 thousand on the Basic Village property loan (Note 33), signed with leading financial counterparties, which converted the variable interest rates into fixed interest rates, respectively at 2.08% and 6.4% (cash flow hedge). A negative equity reserve was recorded of approx. Euro 331 thousand, net of the tax effect.

43. GUARANTEES GIVEN/COMMITMENTS

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 BasicItalia guarantees a portion of the loan and the purchase of assets in leasing and sub-entry into the management of the sales point in the case of non-compliant of the store owner. At December 31, 2018, the bank deposits of BasicItalia were restricted for Euro 220 thousand; guarantees were also provided on leasing amounting to Euro 1 million.

In accordance with that outlined above guarantees were granted of Euro 471 thousand 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 25 million, 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, discounted to the IRS rate at December 31, 2018, increased by the average spread of the medium-term loans, indicatively amount to Euro 16.6 million, of which Euro 6.8 million concerning the rental of the outlets. The average duration of the rental contracts is 3.5 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 and the shares of TOS S.r.l. are subject to a pledge in favour of MPS Capital Services Banca per le Imprese S.p.A. as guarantee of the loan issued in July 2017.

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 amortized cost	Non-listed investments valued at cost	Book value at 31.12.2018
	P&L	Shareholders' Equity			
Assets:					
Equity invest. & other financial assets	-	-	-	1,048	**1,048**
Interests in joint ventures	-	-	-	243	**243**
Trade receivables	-	-	69,880	-	**69,880**
Other current assets	-	-	8,820	-	**8,820**
Derivative financial instruments	-	305	-	-	**305**
Liabilities:					
Medium/long-term loans	-	-	22,217	-	**22,217**
Bank payables	-	-	39,080	-	**39,080**
Trade payables	-	-	38,280	-	**38,280**
Other current liabilities	-	-	9,624	-	**9,624**
Derivative financial instruments	-	436	-	-	**436**

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, 2018, unrealised exchange gains were recorded of Euro 375 thousand, while unrealised exchange losses were recorded of Euro 49 thousand, for a net exchange gain of Euro 326 thousand.

At the reporting date, there were 6 hedge operations on US Dollar fluctuations, totalling USD 22.3 million; the relative effects are illustrated in the account "Financial hedge 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, 2018 is shown below:

	Dec.31, 2018	**%**	**Dec.31, 2017**	**%**
Fixed rate	16,402	26.8%	18,373	27.3%
Variable rate	44,894	73.2%	48,926	72.7%
Gross debt	**61,296**	**100.00%**	**67,299**	**100.00%**

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, 2018 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 +216 thousand and Euro -216 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. 9.9% of trade receivables at December 31, 2018.

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.

	Book value	Future interest income/(expense)	Contractual cash flows	Within 1 year	From 1 to 5 years	Beyond 5 years
"Intesa Loan"	1,875	7	1,882	1,882	-	-
"BasicVillage property loan"	4,500	779	5,279	1,444	3,836	-
"BasicItalia property loan"	1,932	113	2,045	448	1,597	-
"BNL Loan"	5,000	88	5,088	1,285	3,803	-
"Banco BPM Loan"	1,132	10	1,142	508	634	-
"MPS Loan"	13,000	642	13,642	1,037	12,605	-
Lease payables	823	18	841	469	372	-
Total financial liabilities	**28,262**	**1,656**	**29,918**	**7,072**	**22,846**	**-**

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., Basic Properties B.V. and TOS S.r.l. 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, 2018 are reported below:

	Investments	Trade receivables	Trade payables	Other Income	Costs
Interests in joint ventures: - Fashion S.r.l.	243	-	6	2	-
Remuneration of Boards and Senior Executives and other related parties	-	-	-	-	6,434

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 by Studio Boidi & Partners, in which Massimo Boido has a 35% holding and is the Chairman of the Board of Statutory Auditors of BasicWorld S.r.l. 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 put and call agreement with BasicWorld S.r.l.. The agreement is for a duration until July 31, 2020 and provides for an exercise price of the Call Option by BasicWorld equal to the cost incurred by BasicNet for the purchase of the Collection, as resulting from the accounting entries of BasicNet, in addition to a financial interest charge equal to the average rate applied to BasicNet at the exercise option date.

46. SUBSEQUENT EVENTS

They are described in the Directors' Report.

47. CONSOB COMMUNICATION 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

At December 31, 2018, the following disputes between BasicItalia S.p.A., AS Roma S.p.A. and Soccer S.a.s. di Brand Management S.r.l. were pending before the Rome Court: following the unilateral termination of the technical sponsorship contract at the end of 2012, which essentially concerned the reciprocal request for image damages following the rescission, in addition to the payment of miscellaneous and other mutual amounts under the contract.

Following the negotiations in November and December 2018 to reach an amicable settlement regarding the pending cases, on January 8, 2019, BasicItalia, AS Roma and Soccer S.a.S. signed a settlement stipulating the renouncement of the cases brought regarding mutual demands on image rights, the balance of Soccer S.a.s. for prior unpaid supplies of approx. Euro 1.6 million and the payment in settlement of Euro 1.5 million by AS Roma to BasicItalia. An agreement has not yet been reached on the mutual claims on the last sponsorship instalment, subsequent to the rescission date and of a similar amount of damages from early rescission, claimed by BasicItalia and as covered by the contract.

The effects of the settlement agreement accrue to financial year 2019 and shall be included in the relative financial statements. An initial tranche of the consideration agreed above was received on signing the agreement.

Subsequent liabilities are not expected to arise for the BasicNet Group regarding the dispute in terms of that not yet agreed.

K-WAY disputes in China

The dispute with the Chinese company Taizhou Boyang, owner of the K-WAY brand in China, is in progress.

The dispute has arisen on two fronts: one by which BasicNet S.p.A. is defending before the Chinese authorities the validity of its K-WAY registration for weather-proof clothing items, subject to a non-use cancellation request heard at the second level of judgment, and the right to sell in China K-WAY brand weather-proof clothing items, in addition to its right to produce all clothing items (weather-proof and non-weather-proof) in China and export to countries where K-WAY brands are registered, as in 2018 Taizhou Boyang began proceedings against a number of Sourcing Centers and against BasicNet regarding its Chinese registrations.

On the other, BasicNet S.p.A. took a series of actions in 2018 against Taizhou Boyang before the Chinese authorities to obtain discontinuation of the use of any K-WEY and K-WAY brands, a declaration of bad faith, in addition to the cancellation of the K-WEY and K-WAY brand registrations, previously registered by Taizhou Boyang for non-weather-proof clothing and footwear.

Tax disputes

In the initial months of 2018, a tax dispute with the Tax Agency began, following the inspection by the Finance Police for the years 2012 to 2017. In the tax assessment, the Agency alleges the partial non-deductibility of the Post-employment benefit provision accrual made for the Executive Boards for the years 2012 to 2014, on the basis of an interpretation of the rules governing Post-employment benefits for employees, in the total absence of specific tax rules. The Tax Agency is claiming approx. Euro 360 thousand for IRES, in addition to penalties and interest. Not agreeing with the Tax Agency's interpretation and noting also favourable jurisprudence in similar cases, the company presented an appeal for all of the years subject to assessment.

On December 28, 2018, a tax assessment was received from the Tax Agency by the subsidiary Basic Properties America, Inc., with registered office in New York - USA, following checks on BasicNet by the Finance Police in 2017, on the basis of the alleged tax inversion claimed by the latter against the US subsidiary. The assessments concern financial years 2011, 2012 and 2013, alleging tax evasion in Italy for approx. Euro 3.6 million, in addition to interest and penalties. Tax assessments were also received by BasicTrademark S.A. and SupergaTrademark S.A. for the alleged evasion of VAT for approx. Euro 1 million, on the basis that the royalties paid by Basic Properties America, Inc., for tax purposes considered an Italian company, to these two companies should have been subject to VAT.

The Group does not consider the arguments in support of that advanced by the Tax Agency as founded, considering, among the technical arguments, that the recent judgment of the Court of Cassation of December 21, 2018 clearly established that for the bringing of a case of tax inversion it is necessary that the corporate vehicle is purely artificial, an argument which is not sustainable with regards to Basic Properties America, Inc. In effect, the company was acquired by the Group in 1997 and has operated as a commercial company in the United States for a number of years and operates on the American continent with its own structure, suitable for the undertaking of sub-licensing activities and subject to tax in the United States, which is not a low-taxation country. All measures necessary to resolve the dispute are being considered with our tax consultants, considering those most appropriate for the company.

For the Board of Directors

The Chairman

Marco Daniele Boglione

ATTACHMENT 1

DISCLOSURE PURSUANT TO ARTICLE 149 DUODECIES OF THE CONSOB ISSUER'S REGULATION

Type of service	Service provider	Company	Fees earned 2018
Audit	EY S.p.A.	Parent BasicNet S.p.A.	88,000
		Subsidiaries	77,500
Certification services	EY S.p.A.	Parent BasicNet S.p.A.	-
Other services	EY S.p.A.	Parent BasicNet S.p.A.	-
Total			**165,500**

ATTACHMENT 2
Page 1 of 2

COMPANIES INCLUDED IN THE CONSOLIDATION UNDER THE LINE-BY-LINE METHOD

	Registered office	Corporate purpose	Share capital		Parent company holding (%)
PARENT COMPANY					
BasicNet S.p.A.					
Directly held subsidiaries:					
- 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
- TOS S.r.l. single shareholder company	Turin (Italy)	Owner of the brand Sebago.	EURO	10,000	100(1)
- Jesus Jeans S.r.l. single shareholder company	Turin (Italy)	Owner of the Jesus Jeans brand.	EURO	10,000	100
Indirectly held subsidiaries:					
– through Basic Properties B.V.					
- 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 (2)
- 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
- through BasicItalia S.p.A.					
- BasicRetail S.r.l. - single shareholder company	Turin (Italy)	Management of outlets owned by the Group.	EURO	10,000	100

(1) shares subject to a pledge with the Group required to maintain full ownership of the company, in guarantee of the loan issued by MPS Capital Services Banca per le Imprese S.p.A. in July 2017.

(2) 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		Share capital Holding (%)
- through BasicNet S.p.A.					
- Fashion S.r.l.	Turin (Italy)	Owner of the Sabelt brand under joint-venture	EURO	100,000	50 [3]

[3] 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 3 AND 4-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 2018 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

Building a better working world

BasicNet S.p.A.

Consolidated financial statements as at 31 December 2018

Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010, and article 10 of EU Regulation n. 537/2014

EY S.p.A.
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Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010 and article 10 of EU Regulation n. 537/2014
(Translation from the original Italian text)

To the Shareholders of
BasicNet S.p.A.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of BasicNet Group (the Group), which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated income statements, the consolidated comprehensive income statement, the consolidated cash flows statement and the statement of changes in consolidated shareholders' equity for the year then ended, and the explanatory notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.
We are independent of BasicNet S.p.A. in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

EY S.p.A.
Sede Legale: Via Po, 32 - 00198 Roma
Capitale Sociale Euro 2.525.000,00 i.v.
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Codice fiscale e numero di iscrizione 00434000584 - numero R.E.A. 250904
P.IVA 00891231003
Iscritta al Registro Revisori Legali al n. 70945 Pubblicato sulla G.U. Suppl. 13 - IV Serie Speciale del 17/2/1998
Iscritta all'Albo Speciale delle società di revisione
Consob al progressivo n. 2 delibera n.10831 del 16/7/1997

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We identified the following key audit matters:

Key Audit Matter	Audit Response
Valuation of Trademarks and Goodwill	
As at 31 December 2018 trademarks amounted to € 47,1 million and goodwill amounted to € 9,2 million. Intangible Assets with indefinite useful life have been allocated to the Cash Generating Unit (CGU) relating to the Group's trademarks. The processes and methods used by evaluate and determine the recoverable amount of each CGU, in terms of value in use, are based on assumptions that are in some cases complex and that, due to their nature, imply the use of judgement by Management, in particular with reference to the forecast of future cash flows and to the estimate of the long-term growth and discount rates applied to the future cash flow forecasts. Considering the level of judgement and complexity of the assumptions applied in estimating the recoverable amount of trademarks and goodwill we considered that this area represents a key audit matter. Disclosures related to the valuation of trademarks and goodwill are provided in note 20 - "Intangible Assets" and in note 5 - "Accounting policies".	Our audit procedures in response to this key audit matter included, among others: • the assessment of the processes implemented by the company with reference to the criteria and methodology of the impairment test; • the validation of the CGUs perimeter and the allocation of the carrying value of the Group's assets to each CGU; • the assessment of the future cash flow forecasts, including comparisons with sector data and forecasts; • the assessment of the consistency of the future cash flow forecasts of each CGU with the Group business plan; • the assessment of forecasts in light of their historical accuracy; • the assessment of the long term growth rates and discount rates. In performing our analysis, we involved our experts in valuation techniques, who have performed independent calculations and sensitivity analyses of the key assumptions in order to determine which changes could materially affect the valuation of the recoverable amount. Lastly, we reviewed the adequacy of the disclosures provided in the explanatory notes with regards to the valuation of trademarks and goodwill.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The Directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Directors are responsible for assessing the Group's ability to continue as a going concern and, when preparing the consolidated financial statements, for the appropriateness of the going concern assumption, and for appropriate disclosure thereof. The Directors prepare the consolidated financial statements on a going concern basis unless they either intend to liquidate the Parent Company BasicNet S.p.A. or to cease operations, or have no realistic alternative but to do so.

The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Group's financial reporting process.

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

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

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to consider this matter in forming our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- we have evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

- we have obtained sufficient appropriate audit evidence regarding the financial information of the entities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We have provided those charged with governance with a statement that we have complied with the ethical and independence requirements applicable in Italy, and we have communicated with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we have determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We have described these matters in our auditor's report.

Additional information pursuant to article 10 of EU Regulation n. 537/14

The shareholders of BasicNet S.p.A., in the general meeting held on 27 April 2017, engaged us to perform the audits of the consolidated financial statements for each of the years ending 31 December 2017 to 31 December 2025.

We declare that we have not provided prohibited non-audit services, referred to article 5, par. 1, of EU Regulation n. 537/2014, and that we have remained independent of the Group in conducting the audit.

We confirm that the opinion on the consolidated financial statements included in this report is consistent with the content of the additional report to the audit committee (Collegio Sindacale) in their capacity as audit committee, prepared pursuant to article 11 of the EU Regulation n. 537/2014.

Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated 27 January 2010 and of article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998

The Directors of BasicNet S.p.A. are responsible for the preparation of the Report on Operations and of the Report on Corporate Governance and Ownership Structure of Group BasicNet as at 31 December 2018, including their consistency with the related consolidated financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations and of specific information included in the Report on Corporate Governance and Ownership Structure as provided for by article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998, with the consolidated financial statements of BasicNet Group as at 31 December 2018 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

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In our opinion, the Report on Operations and the above mentioned specific information included in the Report on Corporate Governance and Ownership Structure are consistent with the consolidated financial statements of BasicNet Group as at 31 December 2018 and comply with the applicable laws and regulations.

With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated 27 January 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Statement pursuant to article 4 of Consob Regulation implementing Legislative Decree n. 254, dated 30 December 2016

The Directors of BasicNet S.p.A. are responsible for the preparation of the non-financial information pursuant to Legislative Decree n. 254, dated 30 December 2016. We have verified that non-financial information has been approved by Directors.

Pursuant to article 3, paragraph 10, of Legislative Decree n. 254, dated 30 December 2016, such non-financial information is subject to a separate compliance report signed by us.

Turin, 15 March 2019

EY S.p.A.
Signed by: Stefania Boschetti, partner

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

FINANCIAL STATEMENTS

AND EXPLANATORY NOTES OF BASICNET S.P.A.

AT DECEMBER 31, 2018

BASICNET S.p.A. – INCOME STATEMENT

(in Euro)

	Note	**FY 2018**	**FY 2017**	**Changes**
Direct sales	*(7)*	4,438,321	3,166,941	1,271,380
Cost of sales	*(8)*	(4,287,824)	(2,862,491)	(1,425,333)
GROSS MARGIN		**150,497**	**304,450**	**(153,953)**
Royalties and sourcing commissions	*(9)*	33,730,201	28,164,789	5,565,412
Other income	*(10)*	6,401,251	6,257,602	143,649
Sponsorship and media costs	*(11)*	(1,381,038)	(682,171)	(698,867)
Personnel costs	*(12)*	(9,788,158)	(8,799,745)	(988,413)
Selling, general and administrative costs, royalties expenses	*(13)*	(15,628,094)	(14,376,517)	(1,251,577)
Amortization & depreciation	*(14)*	(2,380,087)	(2,235,269)	(144,818)
EBIT		**11,104,572**	**8,633,139**	**2,471,433**
Net financial charges	*(15)*	(23,964)	(476,296)	452,332
Dividends	*(16)*	2,150,000	1,850,000	300,000
Write-down of investments		-	(3,000,000)	3,000,000
PROFIT BEFORE TAXES		**13,230,608**	**7,006,843**	**6,223,765**
Income taxes	*(17)*	(276,194)	(2,498,958)	2,222,764
NET PROFIT		**12,954,414**	**4,507,885**	**8,446,529**

BASICNET S.p.A. – COMPREHENSIVE INCOME STATEMENT

(in Euro)

	Note	FY 2018	FY 2017	Changes
Profit for the year (A)		***12,954,414***	***4,507,885***	***8,446,529***
Effective portion of the Gains/(losses) on cash flow hedges		23,201	39,982	(16,781)
Re-measurement of post-employment benefits (IAS 19) (*)		29,877	(15,374)	45,251
Tax effect on other profits/(losses)		(12,738)	(7,510)	(5,228)
Total other gains/(losses), net of tax effect (B)	*(26)*	***40,340***	***17,098***	***23,242***
Total Comprehensive Profit (A)+(B)		**12,994,754**	**4,524,983**	**8,469,771**

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

BASICNET S.p.A. – BALANCE SHEET

(in Euro)

ASSETS	*Note*	December 31, 2018	December 31, 2017
Intangible assets	*(18)*	12,738,924	13,218,036
Plant, machinery and other assets	*(19)*	3,015,848	2,636,170
Equity invest. & other financial assets	*(20)*	33,656,409	33,274,867
Total non-current assets		**49,411,181**	**49,129,073**
Net inventories	*(21)*	279,259	767,152
Trade receivables	*(22)*	17,348,486	12,056,318
Other current assets	*(23)*	64,145,043	65,755,216
Prepayments	*(24)*	4,850,553	3,991,897
Cash and cash equivalents	*(25)*	1,623,317	1,560,523
Derivative financial instruments		-	-
Total current assets		**88,246,658**	**84,131,106**
TOTAL ASSETS		**137,657,839**	**133,260,179**

LIABILITIES	*Note*	December 31, 2018	December 31, 2017
Share capital		31,716,673	31,716,673
Treasury shares		(17,827,079)	(14,494,992)
Other reserves		64,926,726	63,651,767
Net Profit		12,954,414	4,507,885
TOTAL SHAREHOLDERS' EQUITY	*(26)*	**91,770,734**	**85,381,333**
Provisions for risks and charges		-	-
Loans	*(27)*	16,041,058	20,001,288
Employee and Director benefits	*(29)*	2,586,331	2,152,621
Deferred tax liabilities	*(30)*	598,845	297,430
Other non-current liabilities	*(31)*	862,791	858,583
Total non-current liabilities		**20,089,025**	**23,309,922**
Bank payables	*(28)*	11,947,348	10,028,504
Trade payables	*(32)*	7,008,962	6,039,074
Tax payables	*(33)*	1,254,770	2,809,708
Other current liabilities	*(34)*	5,209,323	5,394,487
Accrued expenses	*(35)*	373,796	270,069
Derivative financial instruments	*(36)*	3,881	27,082
Total current liabilities		**25,798,080**	**24,568,924**
TOTAL LIABILITIES		**45,887,105**	**47,878,846**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**137,657,839**	**133,260,179**

BASICNET S.p.A. – CASH FLOW STATEMENT

(in Euro)

		December 31, 2018	December 31, 2017
A)	**OPENING SHORT-TERM BANK DEBT**	**(3,467,981)**	**(4,820,031)**
B)	**CASH FLOW FROM OPERATING ACTIVITIES**		
	Net Profit for the year	12,954,414	4,507,885
	Amortization & depreciation	2,380,087	2,235,269
	Write-down of investments	-	3,000,000
	Gains on sale of equity investments	-	-
	Changes in working capital:		
	- (increase) decrease in trade receivables	(5,292,168)	(1,436,940)
	- (increase) decrease in inventories	487,893	40,744
	- (increase) decrease in other receivables	751,518	3,782,668
	- increase (decrease) in trade payables	969,888	1,281,448
	- increase (decrease) in other payables	(1,330,752)	(10,433,234)
	Net change in post-employment benefits	433,710	538,185
	Others, net	17,139	(22,884)
		11,371,729	**3,493,140**
C)	**CASH FLOW FROM INVESTING ACTIVITIES**		
	Investments in fixed assets:		
	- tangible assets	(954,215)	(1,358,918)
	- intangible assets	(1,326,587)	(2,867,389)
	- financial assets	(381,543)	(45,000)
	Realizable value for fixed asset disposals:		
	- tangible assets	149	18,568
	- intangible assets	-	-
	- financial assets	-	-
		(2,662,196)	**(4,252,739)**
D)	**CASH FLOW FROM FINANCING ACTIVITIES**		
	Lease contracts (repayments)	(22,730)	40,966
	Repayments of medium/long term loans	(5,000,000)	(5,000,000)
	Undertaking of medium/long term loans	-	13,000,000
	Treasury shares	(3,332,087)	(2,605,179)
	Distribution dividends	(3,273,266)	(3,324,138)
		(11,628,083)	**2,111,649**
E)	**CASH FLOW IN THE YEAR**	**(2,918,550)**	**1,352,050**
F)	CLOSING SHORT-TERM BANK DEBT	**(6,386,531)**	**(3,467,981)**

Interest paid for the year amounts to respectively Euro 310 thousand in 2018 and Euro 354 thousand in 2017, while income taxes paid in the year amounted to Euro 2.3 million in 2018 and Euro 1.7 million in 2017.

BASICNET S.p.A. - STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(in Euro)

				Reserves						
						Other reserves				
	Number shares	Share capital Treasury	Treasury shares	Legal Reserve	Treasury shares in portfolio reserve	Remeasure. reserve IAS19	Cash Flow Hedge reserve	Retained earnings	Net profit	Total
Balance at December 31, 2016	**60,993,602**	**31,716,673**	**(11,889,813)**	**5,066,738**	**11,889,813**	**(69,263)**	**(49,364)**	**42,699,624**	**7,421,259**	**86,785,667**
Allocation of result as per Shareholders' AGM resolution of April 27, 2017										
- Legal reserve			-	371,063	-	-	-	-	(371,063)	-
- Retained earnings			-	-	-	-	-	3,726,058	(3,726,058)	-
- Distribution of dividends			-	-	-	-	-	-	(3,324,138)	(3,324,138)
Acquisition treasury shares			(2,605,179)	-	2,605,179	-	-	(2,605,179)	-	(2,605,179)
2017 Result			-	-	-	-	-	-	4,507,885	4,507,885
Other comprehensive income statement items:										
- Gains/(losses) recorded directly to cash flow hedge reserve			-	-	-	-	28,782	-	-	28,782
- Gains/(losses) recorded directly to equity for IAS 19 re-measurement			-	-	-	(11,684)	-	-	-	(11,684)
Total comprehensive income			-	-	-	*(11,684)*	*28,782*	-	*4,507,885*	*4,524,983*
Balance at December 31, 2017	**60,993,602**	**31,716,673**	**(14,494,992)**	**5,437,801**	**14,494,992**	**(80,947)**	**(20,582)**	**43,820,503**	**4,507,885**	**85,381,333**
Allocation of result as per Shareholders' AGM resolution of April 24, 2018				-						-
- Legal reserve			-	225,394	-	-	-	-	(225,394)	-
- Retained earnings			-	-	-	-	-	1,009,225	(1,009,225)	
- Distribution of dividends			-	-	-	-	-	-	(3,273,266)	(3,273,266)
Acquisition treasury shares			(3,332,087)	-	3,332,087	-	-	(3,332,087)	-	(3,332,087)
2018 Result			-	-	-	-	-	-	12,954,414	12,954,414
Other comprehensive income statement items:										
- Gains/(losses) recorded directly to cash flow hedge reserve			-	-	-	-	17,633	-	-	17,633
- Gains/(losses) recorded directly to equity for IAS 19 re-measurement			-	-	-	22,707	-	-	-	22,707
Total comprehensive income			-	-	-	*22,707*	*17,633*	-	*12,954,414*	*12,994,753*
Balance at December 31, 2018	**60,993,602**	**31,716,673**	**(17,827,079)**	**5,663,195**	**17,827,079**	**(58,240)**	**(2,949)**	**41,497,641**	**12,954,414**	**91,770,734**

BASICNET S.p.A. – NET FINANCIAL POSITION

(in Euro)

	Dec. 31, 2018	Dec. 31, 2017
Cash and cash equivalents	1,623,317	1,560,523
Bank overdrafts and bills	(8,009,848)	(5,028,504)
Sub-total net liquidity available	*(6,386,531)*	*(3,467,981)*
Short-term portion of medium/long-term loans	(3,937,500)	(5,000,000)
Short-term net financial position – third parties	**(10,324,031)**	**(8,467,981)**
Intesa loan	-	(1,875,000)
BNL loan	(3,750,000)	(5,000,000)
Banco BPM loan	(12,187,500)	(13,000,000)
Medium/long lease payables	(103,558)	(126,288)
Sub-total loans and leasing – third parties	*(16,041,058)*	*(20,001,288)*
Net financial position - third parties	**(26,365,089)**	**(28,469,269)**
Group financial receivables / (payables)	55,483,664	60,266,785
Net Financial Position - Group	**55,483,664**	**60,266,785**
Total net financial position	**29,118,575**	**31,797,516**

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

		Dec. 31, 2018	Dec.31, 2017
A.	Cash	7,002	15,362
B.	Other cash equivalents	1,616,315	1,545,161
C.	Securities held for trading	-	-
D.	**Cash & cash equivalents (A)+(B)+(C)**	**1,623,317**	**1,560,523**
E.	**Current financial receivables**	**-**	**-**
F.	Current bank payables	(8,009,848)	(5,028,504)
G.	Current portion of non-current debt	(3,937,500)	(5,000,000)
H.	Other Group financial receivables/ (payables)	55,483,664	60,266,785
I.	**Current financial debt (F)+(G)+(H)**	**43,536,316**	**50,238,281**
J.	**Net current financial debt (I)-(E)-(D)**	**45,159,633**	**51,798,804**
K.	Non-current bank payables	(16,041,058)	(20,001,288)
L.	Bonds issued	-	-
M.	Fair value of hedges (cash flow hedges)	(3,881)	(27,082)
N.	**Non-current financial debt (K)+(L)+(M)**	**(16,044,939)**	**(20,028,370)**
O.	**Net financial debt (J)+(N)**	**29,114,694**	**31,770,434**

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 36).

BASICNET S.P.A. STATEMEMY OF CHANGES IN NET FINANCIAL POSITION

(in Euro)

	December 31, 2018	December 31, 2017
A) OPENING NET FINANCIAL POSITION	**31,797,516**	**42,976,953**
B) CASH FLOW FROM OPERATING ACTIVITIES		
Net profit	12,954,414	4,507,885
Amortization & depreciation	2,380,087	2,235,269
Write-down of investments	-	3,000,000
Gains on sale of investments		-
Changes in working capital:	(9,196,742)	(11,255,836)
Net change in post-employment benefits	433,710	538,185
Others, net	17,139	(22,884)
	6,588,608	**(997,382)**
C) CASH FLOW FROM INVESTING ACTIVITIES		
Fixed asset investments	(2,662,345)	(4,271,307)
Realisable value for fixed asset disposals	149	18,568
	(2,662,196)	**(4,252,739)**
D) CASH FLOW FROM FINANCING ACTIVITIES		
Acquisition treasury shares	(3,332,087)	(2,605,179)
Dividend payments	(3,273,266)	(3,324,138)
	(6,605,353)	**(5,929,317)**
E) CASH FLOW IN THE YEAR	**(2,678,941)**	**(11,179,437)**
F) CLOSING NET FINANCIAL POSITION	**29,118,575**	**31,797,516**

BASICNET S.p.A. – 2018 INCOME STATEMENT PREPARED AS PER CONSOB RESOLUTION NO. 15519 OF JULY 27, 2006

(in Euro)

	FY 2018	*Of which related parties Note 39*	FY 2017	*Of which related parties*
Direct sales	4,438,321	*2,428,765*	3,166,941	*2,111,018*
Cost of sales	(4,287,824)	*(21,356)*	(2,862,491)	*(26,068)*
GROSS MARGIN	**150,497**		**304,450**	
Royalties and sourcing commissions	33,730,201	*7,024,448*	28,164,789	*6,485,759*
Other income	6,401,251	*6,069,700*	6,257,602	*6,072,247*
Sponsorship and media costs	(1,381,038)	*(436,559)*	(682,171)	*(210,987)*
Personnel costs	(9,788,158)		(8,799,745)	
Selling, general and administrative costs, royalties expenses	(15,628,094)	*(3,272,050)*	(14,376,517)	*(2,981,929)*
Amortization & depreciation	(2,380,087)		(2,235,269)	
EBIT	**11,104,571**		**8,633,139**	
Net financial income (charges)	(23,964)	*396,220*	(476,296)	*446,397*
Dividends	2,150,000	*2,150,000*	1,850,000	*1,850,000*
Investment income/(charges)			-	
Write-down of investments	-		(3,000,000)	
PROFIT BEFORE TAXES	**13,230,608**		**7,006,843**	
Income taxes	(276,194)		(2,498,958)	
NET PROFIT	**12,954,414**		**4,507,885**	

BASICNET S.p.A. – BALANCE SHEET AS AT DECEMBER 31, 2018 PREPARED AS PER CONSOB RESOLUTION NO. 15519 OF JULY 27, 2006

(in Euro)

ASSETS	December 31, 2018	*Of which Related Parties Notes 20 & 23*	December 31, 2017	*Of which Related Parties*
Intangible assets	12,738,924		13,218,036	
Plant, machinery and other assets	3,015,848		2,636,170	
Equity invest. & other financial assets	33,656,409	*33,264,489*	33,274,867	*33,264,489*
Total non-current assets	**49,411,181**		**49,129,073**	
Net inventories	279,259		767,152	
Trade receivables	17,348,486		12,056,318	
Other current assets	64,145,043	*60,800,581*	65,755,216	*63,942,638*
Prepayments	4,850,553		3,991,897	
Cash and cash equivalents	1,623,317		1,560,523	
Derivative financial instruments	-		-	
Total current assets	**88,246,658**		**84,131,106**	
TOTAL ASSETS	**137,657,839**		**133,260,179**	

LIABILITIES	December 31, 2018	*Of which Related Parties Note 34*	December 31, 2017	*Of which Related Parties*
Share capital	31,716,673		31,716,673	
Treasury shares	(17,827,079)		(14,494,992)	
Other reserves	64,926,726		63,651,767	
Net Profit	12,954,414		4,507,885	
TOTAL SHAREHOLDERS' EQUITY	**91,770,734**		**85,381,333**	
Provisions for risks and charges	-		-	
Loans	16,041,058		20,001,288	
Employee and Director benefits	2,586,331		2,152,621	
Deferred tax liabilities	598,845		297,430	
Other non-current liabilities	862,791		858,583	
Total non-current liabilities	**20,089,025**		**23,309,922**	
Bank payables	11,947,348		10,028,504	
Trade payables	7,008,962		6,039,074	
Tax payables	1,254,770		2,809,708	
Other current liabilities	5,209,323	*1,280,726*	5,394,487	*2,335,409*
Accrued expenses	373,796		270,069	
Derivative financial instruments	3,881		27,082	
Total current liabilities	**25,798,080**		**24,568,924**	
TOTAL LIABILITIES	**45,887,105**		**47,878,846**	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**137,657,839**		**133,260,179**	

BASICNET S.p.A. – CASH FLOW STATEMENT AS AT DECEMBER 31, 2018 PREPARED AS PER CONSOB RESOLUTION NO. 15519 OF JULY 27, 2006

(in Euro)

	December 31, 2018		December 31, 2017	
		Of which related Parties		*Of which related parties*
A) **OPENING SHORT-TERM BANK DEBT**	**(3,467,981)**		**(4,820,031)**	
B) **CASH FLOW FROM OPERATING ACTIVITIES**				
Net Profit	12,954,414		4,507,885	
Amortization & depreciation	2,380,087		2,235,269	
Write-down of investments	-		3,000,000	
Gains on sale of equity investments			-	
Changes in working capital:				
- (increase) decrease in trade receivables	(5,292,168)		(1,436,940)	
- (increase) decrease in inventories	487,893		40,744	
- (increase) decrease in other receivables	751,518	*3,142,057*	4,278,978	*4,188,158*
- increase (decrease) in trade payables	969,888		1,281,448	
- increase (decrease) in other payables	(1,330,752)	*(1,054,684)*	(10,429,545)	*1,176,017*
Net change in post-employment benefits	433,710		538,185	
Others, net	17,139		(22,884)	
	11,371,729		**3,493,140**	
C) **CASH FLOW FROM INVESTING ACTIVITIES**				
Investments in fixed assets:				
- tangible assets	(954,215)		(1,358,918)	
- intangible assets	(1,326,587)		(2,867,389)	
- financial assets	(381,543)		(45,000)	
Realizable value for fixed asset disposals:				
- tangible assets	149		18,568	
- intangible assets	-		-	
- financial assets	-		-	
	(2,662,196)		**(4,252,739)**	
D) CASH FLOW FROM FINANCING ACTIVITIES				
Lease contracts (repayments)	(22,730)		40,966	
Repayments of medium/long term loans	(5,000,000)		(5,000,000)	
New medium/long term loans	-		13,000,000	
Treasury shares	(3,332,087)		(2,605,179)	
Distribution dividends	(3,273,266)		(3,324,138)	
	(11,628,083)		**2,111,649**	
E) CASH FLOW IN THE YEAR	**(2,918,550)**		**1,352,050**	
F) **CLOSING SHORT-TERM BANK DEBT**	**(6,386,531)**		**(3,467,981)**	

Interest paid for the year amounts to respectively Euro 310 thousand in 2018 and Euro 354 thousand in 2017, while income taxes paid in the year amount respectively to Euro 2.3 million in 2018 and Euro 1.7 million in 2017.

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, 2018 was approved by the Board of Directors on March 8, 2019. 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 2018 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, 2018

The Company has adopted IFRS 15 and IFRS 9 for the first time. The impact and the nature of the amendments following the adoption of these new accounting standards are illustrated below. Various amendments and interpretations were applied for the first time in the periods before January 1, 2018, although without any impact on the financial statements. The Company has not adopted in advance any standard, interpretation or amendment published but not yet in effect.

IFRS 15 - Revenues from contracts with customers

IFRS 15 replaces IAS 18 - *Revenues* and the relative interpretations and is applied, with limited exceptions, to all revenues from contracts with customers. IFRS 15 establishes a five-step model for the recognition of revenues from contracts with customers and requires revenues to be recognised for an amount which reflects the payment which the entity considers itself to have the right to in exchange for the transfer of control of the goods or services to the customer.

IFRS 15 requires entities to assess all significant facts and circumstances when applying each step of the model to the contracts with customers. The standard also specifies the methods for recognition of incremental costs for obtaining a contract and costs directly related to the execution of a contract. The Company has adopted the new standard utilising the modified application method.

These amendments did not impact the Company's revenues and income statement.

Under IFRS 15, the Company continues to recognise a current liability and an asset under inventories against counter-entries, respectively, to product revenues for which returns are expected and to the relative cost of sales. The Company has not identified changes in the estimate of the variable amounts, utilising an approach based on the weighted average probability of the returns.

IFRS 9 - *Financial Instruments*

IFRS 9 - *Financial instruments* replaces IAS 39 - *recognition and measurement* from periods beginning January 1, 2018 and thereafter, aggregating the three aspects of the recognition of financial instruments: classification and measurement; impairment; and hedge accounting.

These amendments did not impact the Group's balance sheet and shareholders' equity.

d) Classification and measurement

Trade receivables are held until their collection at the contractual maturities of the cash flows relating to the collection of the principal and interest. The Group analysed the contractual cash flows of these instruments and concluded that they comply with the amortised cost measurement criteria in accordance with IFRS 9.

e) Impairment losses

The adoption of IFRS 9 has substantially modified the recognition of impairment losses of the financial assets of the Group, replacing the approach of losses incurred by IAS 39 with an approach based on expected credit losses (ECL). IFRS 9 requires that the Group recognises a write-down equal to the ECL for all debt instruments not held at fair value recognised to the Income Statement and for the contractual activities.

f) Hedge accounting

The Group established that all existing hedges which are presently designated as effective hedges shall continue to qualify for hedge accounting in accordance with IFRS 9. Given that IFRS 9 does not amend the general principle on which an entity recognises effective hedges, the application of these requirements by IFRS 9 for the definition of the hedges did not have any impact on the financial statements of the Group.

IFRIC Interpretation 22 - Foreign Currency Transactions and Advance Consideration

The interpretation clarifies that, when defining the spot exchange rate to be used for the initial recognition of the related asset, costs or revenues (or part of these) at the time of derecognition of a non-monetary asset or a non-monetary liability relating to advances on fees, the transaction date is the date on which the entity initially recognizes the non-monetary asset or the non-monetary liability relating to advances on fees. In the case of multiple payments or advances, the entity should define the transaction date for each payment or advance on consideration. This Interpretation had no impact on the financial statements.

Amendment to IFRS 2 - Classification and Measurement of Share-based Payment Transactions

The IASB issued amendments to IFRS 2 Share-based payments which concern three principal areas: the effects of a vesting condition on the measurement of a cash-settled share-based payment; the classification of an equity-settled share-based payment settled net of withholding tax obligations; the accounting where a change in the terms and conditions of an equity-settled share-based payment changes its classification from cash-settled to equity-settled. On its adoption, the entities must apply the amendments without restating the previous years, but the retrospective application is permitted if chosen for all three of the amendments and other criteria are satisfied.

These amendments did not have any impact on the financial statements.

Amendments to IFRS 4 - *Insurance Contracts*

The amendments seek to resolve issues arising from the adoption of the new standard on financial instruments, IFRS 9, before the adoption of IFRS 17 - *Insurance Contracts*, which replaces IFRS 4. The amendments introduce two options for entities that issue insurance contracts: a temporary exemption in the application of IFRS 9 and the overlay approach. These amendments are not significant for the Company.

Amendments to IAS 28 - *Investments in Associates and Joint Ventures*

The amendments clarify that a venture capital entity, or another qualified entity, may decide, at the time of initial recognition and with reference to the individual investment, to measure its investments in associates and joint ventures at fair value recognized to the Income Statement. These amendments are not significant for the Company.

Amendments to IFRS 1 - First-time Adoption of International Financial Reporting Standards

The short-term exemptions under paragraphs E3-E7 under IFRS 1 have been cancelled as removed from its scope. These amendments did not have any impact on the financial statements.

Standards issued but not yet in effect

The standards and interpretations which at the date of the preparation of the financial statements were issued but not yet in force are reported below. The Company will adopt these standards when they enter into force, if applicable.

IFRS 16 – Leases

IFRS 16 was issued in January 2016 and replaces IAS 17 – *Leases*, IFRIC 4 - *Determining whether an Arrangement contains a Lease*, SIC-15 - *Operating Leases - Incentives* and SIC-27 - *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

IFRS 16 establishes the principles for the recognition, measurement, presentation and disclosure of leasing contracts and requires lessees to recognise all leasing contracts in the financial statements on the basis of a single accounting model similar to that utilised for recognising finance leases in accordance with IAS 17.

The standard contains two exemptions for recognition by lessees: leasing of “low value” assets (for example, personal computers) and short-term lease contracts (leasing contracts for a period below or equal to 12 months). At the initial date of the leasing contract, the lessee records a liability against the lease payments (i.e. the leasing liability) and an asset which represents the right of use of the underlying asset for the duration of the contract (i.e. the right of use). Lessees must record separately the interest expense on the leasing liability and the amortisation on the right of use.

The lessees must also reconsider the amount of the leasing liability on the occurrence of certain events (for example, a change in the duration of the lease, a change in future lease payments deriving from a change in an index or interest rate utilised to determine these payments). In general, the lessee will record the difference from the remeasurement of the amount of the leasing liability as an adjustment to the right of use.

The recognition method for the lessor in relation to IFRS 16 remains substantially unchanged compared to the current accounting policy as per IAS 17. The lessors will continue to classify all leases utilising the same classification principle as per IAS 17 and distinguishing between two types of leases: operating leases and finance leases.

IFRS 16, which will be effective from periods beginning January 1, 2019, requires lessors and lessees to provide greater disclosure compared to IAS 17.

The Company will adopt IFRS 16 in accordance with a modified retrospective approach.

The Company will avail of the exemptions permitted by the standard on leasing contracts whereby the lease contract expires within 12 months from the initial application date and on leasing contracts where the underlying asset has a low value. The Group has undertaken leasing contracts for some office equipment (for example, personal computers, printers and photocopiers) which are considered as insignificant value.

In 2018, the Company undertook a detailed analysis of the impacts of IFRS 16. The company’s operating result is not expected to change significantly with the adoption of this standard.

IFRS 17 – *Insurance Contracts*

In May 2017, the IASB issued IFRS 17 - *Insurance Contracts*, a complete new standard relating to insurance contracts which covers recognition and measurement, presentation and disclosure. When it enters into effect, IFRS 17 will replace IFRS 4 - *Insurance Contracts* which was issued in 2005. IFRS

17 applies to all types of insurance contracts regardless of the type of entity that issues them, as well as certain guarantees and financial instruments with characteristics of discretionary participation.

This standard is not applicable to the Company.

IFRIC - Interpretation 23 - *Uncertainty over Income Tax Treatment*

The interpretation sets out the accounting approach to income taxes where the tax treatment implies uncertainties impacting application of IAS 12 and does not apply to income or other taxes not falling within the scope of IAS 12, nor specifically includes requirements concerning interest or penalties relating to uncertain income tax treatments.

The interpretation specifically considers the following points:

- if an entity considers uncertain tax treatment separately;
- the assumptions of the entity on review of the tax treatments by the tax authorities;
- how an entity determines the taxable profit (or the tax loss), the tax base, unused tax losses, unused tax credits and tax rates;
- how an entity treats changes in facts and circumstances.

An entity should define whether it considers each uncertain tax treatment separately or together with other (one or more) uncertain tax treatments. The approach which allows the expected best solution for the uncertainty should be followed. The Interpretation is effective for the years beginning January 1, 2019 or subsequently, although transitory arrangements are available for first time application. The company shall apply the interpretation from its entry into force. On the basis of the preliminary analysis carried out, the company does not expect significant effects in its financial statements.

Amendments to IFRS 9 - *Prepayment Features with Negative Compensation*

As per IFRS 9, a debt instrument may be measured at amortised cost or at fair value in the comprehensive income statement, on the condition that the cash flows are "exclusively payments of principal and interest on the amount" (the SPPI criterion) and the instrument is classified to the appropriate business model. The amendments to IFRS 9 clarify that a financial asset complies with the SPPI criterion independently of the event or of the circumstance which causes the advance resolution of the contract and independently of who pays or receives a reasonable indemnity for the advance resolution of the contract.

The amendments shall be applied retrospectively from January 1, 2019 and advance application is permitted. These amendments do not have an impact on the financial statements.

Amendments to IFRS 10 and IAS 28 - *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments concern the conflict between IFRS 10 and IAS 28 with reference to the loss of control of a subsidiary which was sold or conferred to an associate or a joint venture. The amendments clarify that the profit or loss from the sale or from the conferment of assets which constitute a business, as defined by IFRS 3, between an investor and its associate or joint venture, must be entirely recognised. Any profit or loss from the sale or conferment of an asset which does not constitute a business is therefore only recognised up to amount held by third party investors in the associate or joint venture. The IASB indefinitely postponed the application of these amendments, although where an entity decides to apply them in advance, such should be done on a prospective basis. The company will apply these amendments when they enter into force.

<u>Amendment to IAS 19 - *Plan Amendment, Curtailment or Settlement*</u>

The amendments to IAS 19 establish the accounting rules where, during the reference period, there is a plan amendment, reduction or regulation. The amendments apply to plan amendments, reductions and regulations which occur from periods beginning January 1, 2019 or thereafter, and advanced application is permitted. These changes will apply only to any future plan amendments, reductions or transactions of the Company.

<u>Amendments to IAS 28 - *Long-term interests in associates and joint ventures*</u>

The amendments specify that an entity applies IFRS 9 for long-term interests in associates or joint ventures where the equity method is not applied but which, in substance, form part of the net investment in the associate or joint venture (long-term interests).

This clarification is significant as it implies that the expected losses model on receivables of IFRS 9 is applied to these long-term investments.

The amendments also clarify that, in application of IFRS 9, an entity shall not take into account any losses of associates or joint ventures or any loss in value of the investment, recorded as adjustments of the net investment in the associate or joint venture which derives from the application of IAS 28 Investments in Associates and Joint Ventures.

The amendments shall be applied retrospectively and are effective from January 1, 2019, while advanced application is permitted. As the Company does not hold long-term interests in joint ventures, the amendments will have no impact on the financial statements.

<u>Improvements to IFRS (2015-2017 Cycle)</u>

These improvements include amendments to IFRS 3 - *Business Combinations*, IFRS 11 - *Joint Arrangements*, IAS 12 - *Income Taxes* and IAS 23 - *Borrowing Costs*. the Company does not expect any effect on the financial statements.

3. <u>FORMAT OF THE FINANCIAL STATEMENTS</u>

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 statement of cash flows 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. <u>ACCOUNTING POLICIES</u>

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, 2018 are disclosed below:

<u>Revenue recognition</u>

Revenues derive from Company 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 from contracts with customers rare recognised when the control of the goods and services is transferred to the client for an amount which reflects the consideration that the Company expects to receive in exchange for these goods and services. The Company has concluded that generally it acts as the Principal for the agreements from which it receives revenues, as usually it controls the goods and services before their transfer to the customer. In calculating the sales transaction price for goods, the Company considers the effects from variable fees, significant financial components and non-monetary fees. Where the fee concluded in the contract includes a variable amount, such as that connected to a right of return, the Company estimates the amount of the fee to which it will be entitled in exchange for the transfer of the goods to the customer.

Royalties and sourcing commissions, including the minimum guaranteed component, are recognised on an accruals basis in accordance with the underlying contracts and consistent with the state of advancement of the sales or the production of the licensees.

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 development

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.

Concessions, brands and similar rights

The brands K-Way and Briko are considered intangible assets with indefinite useful life, in line with that at Group level for the principal brands, Kappa, Robe di Kappa, Superga and Sebago; as such these assets are not amortised but subject to an impairment test at least annually.

The patent rights are amortised over ten years.

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:

Description	Estimated useful life years
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 account of any write-downs, which reflects the bad debt estimate. The Company applies the simplified approach to calculating expected losses, fully recognising the expected loss at the reporting date according to historic information supplemented by forward looking considerations. 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 are substantially transferred by the owner of the financial assets 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. 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

It is recalled that the BasicNet S.p.A. does not undertake contracts for speculative purposes.

These instruments are initially recorded at their fair value, and subsequently measured according to whether they are “hedged” or “not hedged” as per IFRS 9.

It is recalled that BasicNet S.p.A. does not undertake derivative 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.

The Company does not utilise fair value hedge instruments.

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 IFRS 9 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.

Information required by Law No. 124 of August 4, 2017, Article 1, paragraph 125

In accordance with Article 1, paragraph 125 of Law 124/2017, the Company has not received any grants from public bodies in excess of Euro 10 thousand.

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:

	FY 2018	FY 2017
Net sales to third parties	2,009,556	1,055,923
Net sales to subsidiaries	2,428,765	2,111,018
Total direct sales	**4,438,321**	**3,166,941**

Sales to subsidiaries are detailed in Note 39.

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

	FY 2018	FY 2017
Italy	2,541,809	2,187,097
Europe	1,076,049	610,486
The Americas	452,420	198,529
Asia and Oceania	293,499	154,400
Middle East and Africa	74,544	16,429
Total	**4,438,321**	**3,166,941**

The direct sale of samples reported a Euro 1.3 million increase, following increased orders from licensees.

8. COST OF SALES

The breakdown of the cost of sales is as follows:

	FY 2018	FY 2017
Samples purchased	2,715,216	1,956,026
Freight charges and accessory purchasing cost	657,113	518,221
Change in inventory of raw materials, ancillary, consumables and goods	487,893	40,744
Prototypes purchases and development	319,646	293,397
Other	107,956	54,103
Total cost of sales	**4,287,824**	**2,862,491**

The breakdown of the sample purchases and accessory purchases by geographic area is reported below:

	FY 2018	FY 2017
Asia and Oceania	1,949,153	1,587,867
Italy	307,804	259,398
Europe	103,008	27,250
The Americas	327,204	62,293
Middle East and Africa	28,047	19,218
Total	**2,715,216**	**1,956,026**

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.

	FY 2018	FY 2017
Europe	14,943,861	12,974,110
The Americas	2,386,553	2,088,077
Asia and Oceania	15,426,406	12,246,162
Middle East and Africa	973,381	856,440
Total	**33,730,201**	**28,164,789**

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 and Briko brands. 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

	FY 2018	FY 2017
Assistant services to Group companies	6,069,700	6,072,247
Other income	331,551	185,355
Total other income	**6,401,251**	**6,257,602**

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, TOS S.r.l. and Fashion S.r.l..

Other income includes prior year accruals' reversals and other minor items.

11. SPONSORSHIP AND MEDIA COSTS

	FY 2018	FY 2017
Communication contributions	1,000,870	455,222
Promotional expenses	126,625	52,703
Advertising	253,543	174,246
Total sponsorship and media costs	**1,381,038**	**682,171**

The increase of Euro 699 thousand principally concerned higher contributions granted to commercial licensees compared to the previous year for international communication and endorsement activities.

12. PERSONNEL COSTS

	FY 2018	FY 2017
Wages and salaries	6,936,171	6,277,862
Social security charges	2,391,967	2,094,989
Post-employment benefits	460,020	426,894
Total	**9,788,158**	**8,799,745**

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, 2018				Human resources at December 31, 2017			
	Number		Average age		Number		Average age	
	Male/ Female	Total	Male/ Female	Average	Male/ Female	Total	Male/Female	Average
Executives	16 / 8	24	46/51	48	16 / 8	24	47 / 50	48
White-collar	64 / 120	184	36/38	37	61 / 108	169	36 / 38	37
Blue-collar	1 / 2	3	38/46	43	1 / 2	3	37 / 45	42
Total	**81 / 130**	**211**	**38/39**	**39**	**78 / 118**	**196**	**38 / 39**	**39**

The average number of Employees in 2018 was 206, comprising 25 executives, 179 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 2018	FY 2017
Commercial expenses	3,745,014	3,737,087
Rental, accessory and utility expenses	3,820,323	3,376,137
Directors and Statutory Auditors emoluments	3,413,373	3,090,501
Doubtful debt provision	200,000	-
Sales services	683,551	537,330
Other general expenses	3,765,833	3,635,462
Total selling, general and administrative costs, and royalties	**15,628,094**	**14,376,517**

“Commercial expenses” include costs related to the commercial activities, travel expenses and consulting costs for stylistic and graphic material and are in line with the previous year’s costs.

“Rental, accessory and utility expenses” principally relate to the offices of the company, owned by the subsidiary Basic Village S.p.A. The increase relates to the technical assistance contracts and the leasing of additional BasicVillage spaces to serve organisational needs.

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, to which reference should be made.

The “doubtful debt provision” of Euro 200 thousand follows an improved estimate of the risk of non-payment of receivables from customers, licensee and sourcing centers.

“Sales services” include expenses for exporting samples in addition to “royalties’ charges” principally relating to co-branding operations.

The account “other general expenses” includes legal and professional fees, bank charges, other taxes, consumption materials, hire charges, and corporate and other minor expenses.

14. AMORTISATION & DEPRECIATION

Depreciation of fixed assets includes depreciation on finance lease assets.

	FY 2018	FY 2017
Amortization	1,805,699	1,759,076
Depreciation	574,388	476,193
Total amortization & depreciation	**2,380,087**	**2,235,269**

The increase in the year reflects the investments made in previous years.

15. NET FINANCIAL INCOME (CHARGES)

	FY 2018	FY 2017
Interest on bank deposits	173	170
Intercompany interest income	396,220	446,397
Bank interest charges	(67,621)	(104,366)
Interest on medium/long term loans	(289,450)	(270,651)
Medium/long term loan charges	(28,333)	(22,104)
Other interest charges	(85,738)	(27,127)
Total financial income and charges	***(74,749)***	***22,319***
Exchange gains	680,030	388,120
Exchange losses	(629,245)	(886,735)
Net exchange gains/(losses)	***50,785***	***(498,615)***
Total financial charges	**(23,964)**	**(476,296)**

"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 "Intesa Loan", the "BNL Loan" and the "MPS Loan" as described at Note 27.

"Exchange gains realised" in 2018 amounted to Euro 492 thousand and "exchange losses realised" amounted to Euro -581 thousand. The translation of credit and debit balances at year-end resulted in the recognition of "non-realised exchange gains" of Euro 188 thousand and "non-realised exchange losses" of Euro -48 thousand.

16. DIVIDENDS

The subsidiary Basic Properties B.V. approved in the year the distribution of a dividend to BasicNet of Euro 2.15 million, based on the dividends in turn received from the entirely held subsidiaries Basic Trademark S.A. and Superga Trademark S.A..

17. INCOME TAXES

Current income tax

Income taxes overall amounted to Euro 3.5 million, of which IRAP for Euro 0.6 million and IRES for Euro 2.9 million.

A positive effect of Euro 3.6 million followed application of the “Patent Box” rule; this amount refers for Euro 2.3 million to the years 2015-2016-2017, which have not yet been approved, and for Euro 1.3 million to the present year. The recognition of the effects from previous years is related to the definition of the ruling with the Tax Agency, which follows the agreement signed in April for Basic Trademark S.A and previously for Superga Trademark S.A., completing the tax break application process for the Group.
The reconciliation between the theoretical and actual rate is shown below:

	2018	**2017**
Profit before taxes	13,230,608	7,006,843
Income tax rate	24.0%	24.0%
Theoretical IRES	***(3,175,346)***	***(1,681,642)***
Permanent tax differences effect	187,643	(571,463)
Prior year taxes	32,410	(67,924)
Patent Box benefit	3,552,077	336,269
IRAP	(594,161)	(473,660)
Other changes	(278,817)	(40,538)
EFFECTIVE TAX CHARGE	**(276,194)**	**(2,498,958)**
Effective tax rate	**(2.1%)**	**(35.7%)**

Patent Box benefit	**2018**	**2017**
Effect prior years	2,288,500	57,870
Effects in the current year	1,263,577	278,399
Total	**3,552,077**	**336,269**

Deferred taxes

“Income taxes” include Euro 0.3 million for the provision of deferred taxes on differences between the book value and tax value of the assets/liabilities.

EXPLANATORY NOTES TO THE BALANCE SHEET (IN EURO)

ASSETS

18. INTANGIBLE ASSETS

The breakdown of intangible assets at December 31, 2018 compared to the previous year-end and the movements during the year are reported in the table below:

	Dec. 31, 2018	Dec.31, 2017	Changes
Concessions, brands and similar rights	9,997,382	9,925,986	71,396
Other intangible assets	2,690,031	2,895,605	(205,574)
Intangible assets in progress	-	345,109	(345,109)
Industrial patents & intellectual property rights	51,511	51,336	175
Total intangible assets	**12,738,924**	**13,218,036**	**(479,112)**

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

	Concessions, brands, and similar rights	Other intangible assets	Intangible assets in progress	Industrial patents	Total
Historic cost at 1.1.2017	**12,667,801**	**29,917,924**	**362,436**	**95,658**	**43,043,819**
Additions	*1,693,137*	*811,570*	*345,109*	*17,573*	*2,867,389*
Divestments	*(168)*	*(2,285)*	-	-	*(2,453)*
Reclass.	-	*362,436*	*(362,436)*	-	-
Historic cost at 31.12.2017	**14,360,770**	**31,089,645**	**345,109**	**113,231**	**45,908,755**
Additions	*182,622*	*1,480,955*	-	*8,119*	*1,671,696*
Divestments	-	-	-	-	-
Reclass.	-	-	*(345,109)*	-	*(345,109)*
Historic cost at 31.12.2018	**14,543,392**	**32,570,600**	**-**	**121,350**	**47,235,342**

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

	Concessions, brands, and similar rights	Other intangible assets	Intangible assets in progress	Industrial patents patents	Acc.
Acc. Amort. at 1.1.2017	**(4,300,570)**	**(23,576,405)**	**-**	**(54,668)**	**(30,931,643)**
Amortization	*(134,214)*	*(1,617,635)*	-	*(7,227)*	*(1,759,076)*
Acc. Amort. at 31.12.2017	**(4,434,784)**	**(28,194,040)**	**-**	**(61,895)**	**(32,690,719)**
Amortization	*(111,226)*	*(1,686,529)*	-	*(7,944)*	*(1,805,699)*
Acc. Amort. at 31.12.2018	**4,546,010**	**(29,880,569)**	**-**	**(69,839)**	**(34,496,418)**

The changes in intangible assets during 2018 are shown in the table below:

	Concessions, brands, and similar rights	**Other intangible assets**	**Intangible assets in progress**	**Industrial patents**	**Total**
Opening net book value at 1.1.2017	**8,367,231**	**3,341,519**	**362,436**	**40,990**	**12,112,176**
Additions	*1,693,137*	*811,570*	*345,109*	*17,573*	*2,867,389*
Divestments	*(168)*	*(2,285)*	-	-	*(2,453)*
Reclass.	-	*362,436*	*(362,436)*	-	-
Amortization	*(134,214)*	*(1,617,635)*	-	*(7,227)*	*(1,759,076)*
Closing net book value at 31.12.2017	**9,925,986**	**2,895,605**	**345,109**	**51,336**	**13,218,036**
Additions	*182,622*	*1,480,955*	-	*8,119*	*1,671,696*
Divestments	-	-	-	-	-
Reclass.	-	-	*(345,109)*	-	*(345,109)*
Amortization	*(111,226)*	*(1,686,529)*	-	*(7,944)*	*(1,805,699)*
Closing net book value at 31.12.2018	**9,997,382**	**2,690,031**	**-**	**51,511**	**12,738,924**

At December 31, 2018, the intangible assets report investments of Euro 1.7 million and amortisation of approx. Euro 1.8 million.

The increase in "concession, brands and similar rights" is due to costs incurred for the registration of the brands K-Way and Briko in new countries, for renewals and extensions and for the purchase of license software.

The brand K-Way and the brand Briko have book values of Euro 8.2 million and Euro 1.6 million respectively at December 31, 2018. Both are considered intangible assets with indefinite useful life.

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 based on the plans approved by the Board of Directors. For the years beyond the plan period a terminal value was estimated assuming a growth rate of 1% (1% in 2017). These net cash flows were discounted at the weighted average cost of capital (WACC) equal to 6.61% (6% in 2017), determined with reference to parameters taken from the principal financial information websites.

Following the impairment test, no write-down was required on the brands, whose value in use, in line with previous years, exceeded the book value.

The breakdown of "other intangible assets" is as follows:

	Dec. 31, 2018	**Dec. 31, 2017**	**Changes**
Software development	2,679,880	2,883,817	(203,937)
Other intangible assets	10,151	11,788	(1,637)
Total other intangible assets	**2,690,031**	**2,895,605**	**(205,574)**

The account increased Euro 1.5 million, principally due to the implementation of new software programmes realised internally and decreased Euro 1.7 million due to the amortisation for the year.

19. PLANT, MACHINERY AND OTHER ASSETS

The breakdown of plant, machinery and other assets at December 31, 2018 compared to the previous year is shown in the table below:

	Dec. 31, 2018	Dec.31, 2017	Changes
Plant and machinery	50,315	60,048	(9,733)
Industrial and commercial equipment	106,961	81,318	25,643
Other assets	2,858,572	2,494,804	363,768
Total plant, machinery and other assets	**3,015,848**	**2,636,170**	**379,678**

The changes in the historical cost of plant, machinery and other assets were as follows:

	Plant and machinery	Industrial & commercial equipment	Other assets	Total
Historic cost at 1.1.2017	**223,013**	**347,762**	**7,241,022**	**7,811,797**
Additions	*27,425*	*19,857*	*1,311,636*	*1,358,918*
Divestments	-	*(12,720)*	*(111,549)*	*(124,269)*
Historic cost at 31.12.2017	**250,438**	**354,899**	**8,441,109**	**9,046,446**
Additions	*12,576*	*48,799*	*892,840*	*954,215*
Divestments	-	-	*(13,323)*	*(13,323)*
Historic cost at 31.12.2018	**263,014**	**403,698**	**9,320,626**	**9,987,338**

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

	Plant and machinery	Industrial & commercial equipment	Other assets	Total
Acc. Deprec. at 1.1.2017	**(170,505)**	**(252,768)**	**(5,618,965)**	**(6,042,238)**
Depreciation	*(19,885)*	*(21,767)*	*(434,541)*	*(476,193)*
Divestments	-	*954*	*107,201*	*108,155*
Acc. Deprec. at 31.12.2017	**(190,390)**	**(273,581)**	**(5,946,305)**	**(6,410,276)**
Depreciation	*(22,309)*	*(23,156)*	*(528,923)*	*(574,388)*
Divestments	-	-	*13,174*	*13,174*
Acc. Deprec. at 31.12.2018	**(212,699)**	**(296,737)**	**(6,462,054)**	**(6,971,490)**

The changes in the plant and machinery are shown in the table below:

	Plant and machinery	Industrial & commercial equipment	Other assets	Total
Opening net book value at 1.1.2017	**52,508**	**94,994**	**1,622,057**	**1,769,559**
Additions	*27,425*	*19,857*	*1,311,636*	*1,358,918*
Divestments	-	*(11,766)*	*(4,348)*	*(16,114)*
Depreciation	*(19,885)*	*(21,767)*	*(434,541)*	*(476,193)*
Closing net book value at 31.12.2017	**60,048**	**81,318**	**2,494,804**	**2,636,170**
Additions	*12,576*	*48,799*	*892,840*	*954,215*
Divestments	-	-	*(149)*	*(149)*
Depreciation	*(22,309)*	*(23,156)*	*(528,923)*	*(574,388)*
Closing net book value at 31.12.2018	**50,315**	**106,961**	**2,858,572**	**3,015,848**

This account “other assets” consist of:

	Dec.31, 2018	Dec.31, 2017	Changes
EDP	676,099	564,464	111,635
Furnishings and fittings	398,986	308,446	90,540
Motor vehicles	111,974	101,968	10,006
Other assets	1,671,513	1,519,926	151,587
Total other assets	**2,858,572**	**2,494,804**	**363,768**

Capex in the year relates to the acquisition of moulds for new products for Euro 340 thousand, furniture and fittings and EDP for Euro 480 thousand, plant for Euro 13 thousand and equipment and motor vehicles for Euro 51 thousand and other 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, eyewear and helmets 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, 2018	Net value at December 31, 2017
EDP	62,615	62,627
Motor vehicles	92,163	60,203
Total	**154,778**	**122,830**

The net book value at December 31, 2018 of property, plant and equipment acquired according to the finance lease formula relates to EDP for approx. Euro 63 thousand and motor vehicles for approx. Euro 92 thousand.

20. EQUITY INVESTMENTS AND OTHER FINANCIAL ASSETS

Reference should be made to Attachment 2 for information on the book value of the investments in subsidiaries and changes in the year.

	Dec.31, 2018	Dec. 31, 2017	Changes
Investments in:			
- Subsidiaries	32,764,488	32,764,488	-
- Joint ventures	500,000	500,000	-
- Other companies	128	128	-
Total investments	***32,264,616***	***32,264,616***	-
Receivables:			
- Other receivables	391,793	10,251	381,542
Total financial receivables	***391,793***	***10,251***	***381,542***
Total investments & other financial assets	**33,656,409**	**33,274,867**	**381,542**

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.

These circumstances would apply only to the subsidiary BasicItalia S.p.A., whose book value has already been subject to an impairment test for the previous year's financial statements and in those financial statements adjusted to the results of the test. In view of the significantly improved 2018 operating performance, which even beat planned forecasts and allowed a revaluation of future expected cash flow projections, it is not considered that significant indicators of impairment remain at year-end.

Other receivables refer to guarantee deposits.

21. NET INVENTORIES

The composition of the item is as follows:

	Dec. 31, 2018	Dec. 31, 2017	Changes
Finished products and goods	1,772,034	2,089,927	(317,893)
Gross value	***1,772,034***	***2,089,927***	***(317,893)***
Inventory obsolescence provision	(1,492,775)	(1,322,775)	(170,000)
Total net inventories	**279,259**	**767,152**	**(487,893)**

"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:

	2018	2017
Inventory obsolescence provision at 1.1	**1,322,775**	**1,032,775**
Provisions in the year	282,860	300,000
Utilizations	(112,860)	(10,000)
Inventory obsolescence provision at 31.12	**1,492,775**	**1,322,775**

The utilisation of the provision relates to the disposal of the excess samples from previous years.

22. TRADE RECEIVABLES

	Dec. 31, 2018	Dec. 31, 2017	Changes
Trade receivables - Italy	700,453	667,889	32,564
Trade receivables - Abroad	18,036,732	12,935,474	5,101,258
Doubtful debt provision	(1,388,699)	(1,547,045)	158,346
Total trade receivables	**17,348,486**	**12,056,318**	**5,292,168**

In particular, the breakdown of foreign receivables is as follows:

	Dec. 31, 2018	Dec. 31, 2017	Changes
Europe	3,396,205	2,019,182	1,377,023
The Americas	1,854,376	1,557,601	296,775
Asia and Oceania	12,445,748	9,300,572	3,145,176
Middle East and Africa	340,403	58,119	282,284
Total	**18,036,732**	**12,935,474**	**5,101,258**

"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:

	2018	2017
Doubtful debt provision at 1.1	**1,547,045**	**1,552,057**
Utilization for administration procedures and other losses	(358,346)	(5,012)
Provisions in the year	200,000	-
Doubtful debt provision at 31.12	**1,388,699**	**1,547,045**

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 book value of receivables, all due within one year, is in line with their fair value.

23. OTHER CURRENT ASSETS

	Dec. 31, 2018	Dec. 31, 2017	Changes
Receivables from Group companies	60,800,581	63,942,638	(3,142,057)
Tax receivables	1,471,880	765,473	706,407
Other receivables	1,872,582	1,047,105	825,477
Other current assets	**64,145,043**	**65,755,216**	**(1,610,173)**

The breakdown of "receivables from Group companies" is as follows:

	Dec. 31, 2018	Dec. 31, 2017	Changes
Trade receivables			
BasicItalia S.p.A.. with sole shareholder	2,684,998	514,826	2,170,172
Basic Properties B.V.	2,517,409	2,146,075	371,334
TOS S.r.l. with sole shareholder	53,443	-	53,443
Superga Trademark S.A.	48,784	-	48,784
Jesus Jeans S.r.l. with sole shareholder	9,187	5,650	3,537
Basic Village S.p.A. with sole shareholder	3,096	-	3,096
Total trade receivables	***5,316,917***	***2,666,551***	***2,650,366***
Financial receivables			
BasicItalia S.p.A.. with sole shareholder	28,620,867	27,100,497	1,520,370
TOS S.r.l. with sole shareholder	10,556,925	11,850,000	(1,293,075)
Superga Trademark S.A. for loan	7,392,878	10,600,580	(3,207,702)
Superga Trademark S.A.	3,259,074	6,493,042	(3,233,968)
Basic Village S.p.A.. with sole shareholder	4,843,669	4,323,404	520,265
BasicRetail S.r.l. with sole shareholder	458,583	908,564	(449,981)
BasicTrademark S.A.	351,668	-	351,668
Total financial receivables	***55,483,664***	***61,276,087***	***(5,792,423)***
Total	**60,800,581**	**63,942,638**	**(3,142,057)**

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 withholding taxes on royalties totalling Euro 2 thousand and receivables from tax authorities of Euro 1.5 million of which reimbursements due of Euro 277 thousand.

The receivable from TOS S.r.l. relates to the loan granted to the company for the acquisition of the Sebago brand; this loan is related to the financing received from MPS Capital Services Banca per le Imprese S.p.A. (Note 27).

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 1.5 million, 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.

24. PREPAYMENTS

The table below shows the breakdown of the account:

	Dec. 31, 2018	Dec.31, 2017	Changes
Prepaid expenses on 2018 collections	3,876,794	3,407,024	469,770
Rentals, leases, hire and other	820,094	500,966	319,128
Assistance and maintenance contract	137,798	81,581	56,217
Other	15,867	2,326	13,541
Total prepayments	**4,850,553**	**3,991,897**	**858,656**

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.

25. CASH AND CASH EQUIVALENTS

	Dec.31, 2018	Dec. 31, 2017	Changes
Bank and postal deposits	1,616,315	1,545,161	71,153
Cash in hand and similar	7,002	15,362	(8,359)
Total cash and cash equivalents	**1,623,317**	**1,560,523**	**62,794**

"Bank deposits" refer to temporary current account balances principally due to receipts from clients.

SHAREHOLDERS' EQUITY & LIABILITIES

26. SHAREHOLDERS' EQUITY

	Dec.31, 2018	Dec.31, 2017	Changes
Share capital	31,716,673	31,716,673	-
Treasury shares	(17,827,079)	(14,494,992)	(3,332,087)
Legal reserve	5,663,195	5,437,801	225,394
Treasury shares in portfolio reserve	17,827,079	14,494,992	3,332,087
Other reserves:			
- cash flow hedge reserve	(2,949)	(20,582)	17,633
- remeasurement reserve for defined benefit plans (IAS 19)	(58,240)	(80,947)	22,707
- retained earnings	41,497,641	43,820,503	(2,322,862)
Net Profit	12,954,414	4,507,885	8,446,529
Total Shareholders' Equity	**91,770,734**	**85,381,333**	**6,389,401**

The account includes:

- The "legal reserve", amounting to approx. Euro 5.7 million, which increased by approx. Euro 225 thousand following the allocation of the result for the previous year, as approved by the Shareholders' AGM of April 24, 2018;
- The "reserve for treasury shares in portfolio", amounting to Euro 17.8 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, 2018, 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 36, is shown net of the tax effect. This reserve is not available for distribution;
- The "*re-measurement reserve for employee 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 decreased compared to the end of the previous year by Euro 2.3 million following the allocation of the result for the previous year, as approved by the Shareholders' AGM of April 24, 2018, net of the decrease for the acquisition of treasury shares.

The share capital of BasicNet S.p.A. amounts to Euro 31,716,673.04 (divided in 60,993,602 ordinary shares) of Euro 0.52 each fully paid in.

In May 2018, as approved by the Shareholders' AGM of BasicNet S.p.A. of April 24, 2018, in relation to the allocation of the 2017 net profit, a dividend of Euro 0.06 per share was distributed to each of the ordinary shares in circulation, for a total pay-out of approx. Euro 3.3 million.

Based on the share buy-back programme, at the reporting date the Company held 7,005,822 shares, equal to 11.486% of the share capital, for a total investment of approx. Euro 18 million. The weighted average number of shares outstanding in the year was 51,907,273.

The other gains and losses recorded directly in equity in accordance with IAS 1 are reported below and recognised to the Comprehensive Income Statement.

(Euro thousands)	**Dec. 31, 2018**	**Dec. 31, 2017**	**Changes**
Effective part of the Gains/losses on cash flow hedge instruments	*23*	*40*	*(17)*
Re-measurement of post-employment benefits (IAS 19) (*)	*30*	*(15)*	*45*
Tax effect relating to the Other items of the comprehensive income statement	*(13)*	*(8)*	*(5)*
Total other gains/(losses), net of tax effect	**40**	**17**	**23**

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

The tax effect relating to "Other gain/losses" is as follows:

(Euro thousands)	**December 31, 2018**			**December 31, 2017**		
	Gross value	**- Tax Charge/ Benefit**	**Net value**	**Gross value**	**- Tax Charge/ Benefit**	**Net value**
Effective part of Gains/losses on cash flow hedge instruments	23	(5)	18	40	(11)	29
Re-measurement of post-employment benefits (IAS 19) (*)	30	(8)	22	(15)	3	(12)
Total other gains/(losses), net of tax effect	**53**	**(13)**	**(40)**	**25**	**(8)**	**17**

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

The statement on the availability of the reserves at December 31, 2018 is show below:

STATEMENT ON UTILISATION AND DISTRIBUTION OF RESERVES AS PER ART. 2427 OF THE C.C. NO.7 BIS

		Dec.31, 2018	Dec.31, 2017	Changes
Share capital		31,716,673	31,716,673	-
Treasury shares		(17,827,079)	(14,494,992)	(3,332,087)
Share premium reserve			-	
Legal reserve	B	5,663,195	5,437,801	225,394
IAS adjustment reserve			-	
Reserve for treasury shares in portfolio		17,827,079	14,494,992	3,332,087
Ordinary reserve			-	
Extraordinary reserve			-	
Other reserves:				
Cash Flow Hedge Reserve	D	(2,949)	(20,582)	17,633
Remeasuring reserve of employee defined benefit plans (IAS 39)	D	(58,240)	(80,947)	22,707
Retained earnings	A,B,C	41,497,641	43,820,503	(2,322,862)
Exchange gains reserve			-	
Net profit		12,954,414	4,507,885	8,446,529
Total		**91,770,734**	**85,381,333**	**6,389,401**

Key: A: for share capital increase, B: for coverage of losses - C: for distribution to shareholders - D: non-utilisable

27. LOANS

The changes in the medium/long-term loans during the year are shown below:

(Euro thousands)	**31/12/2017**	**New loans**	**Repayments**	**31/12/2018**	**Short-term portion**	**Medium/long-term portion**
"Intesa Loan"	5,625	-	3,750	1,875	1,875	-
"BNL Loan"	6,250	-	1,250	5,000	1,250	3,750
"MPS Loan"	13,000	-	-	13,000	813	12,187
Balance	**24,875**	**-**	**5,000**	**19,875**	**3,938**	**15,937**

The maturity of the long-term portion of loans is highlighted below:

	Dec.31, 2018	**Dec. 31, 2017**	**Changes**
Loans:			
- "Intesa Loan"	-	1,875,000	(1,875,000)
- "BNL Loan"	3,750,000	5,000,000	(1,250,000)
- "MPS Loan"	12,187,500	13,000,000	(812,500)
Total medium/long-term loans	***15,937,500***	***19,875,000***	***(3,937,500)***
- Other lenders	103,558	126,288	(22,730)
Total other financial payables	***103,558***	***126,288***	***(22,730)***
Total loans	**16,041,058**	**20,001,288**	**(3,960,230)**

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 with obligation to maintain the full investment in the company by the Group.

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 30%.

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 30%. The loan is supported by a second level mortgage on the "Basic Village" building in Turin and a first level mortgage on the adjacent building, acquired at the end of 2016.

The "MPS Loan" was issued in July 2017 for Euro 13 million and is of six-year duration, repayable in quarterly instalments from December 2019 at a quarterly Euribor rate (although not below zero) plus 170 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 30%. The loan is supported by a pledge on the shares of TOS S.r.l., owner of the Sebago brand, with obligation to maintain the full investment in the company by the Group.

“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, 2018	**Dec. 31, 2017**	**Changes**
Medium/long term loans:			
- due within 5 years	15,937,500	17,437,500	(1,500,000)
- due beyond 5 years	-	2,437,500	(2,437,500)
Total medium/long term loans	***15,937,500***	***19,875,000***	***(3,937,500)***
Leasing payables	103,558	126,288	(22,730)
Total leasing payables (maturity within 5 years)	***103,558***	***126,288***	***(22,730)***
Total loans	**16,041,058**	**20,001,288**	**(3,960,230)**

28. BANK PAYABLES

	Dec. 31, 2018	**Dec.31, 2017**	**Changes**
Bank payables due within one year:			
- short-term portion of medium/long-term loans	3,937,500	5,000,000	(1,062,500)
- bank overdrafts and bills	8,000,000	5,000,000	3,000,000
- interest expense on loans	9,848	28,504	(18,656)
Total bank payables	**11,947,348**	**10,028,504**	**1,918,844**

The average interest rates for BasicNet S.p.A. were:

	Dec.31, 2018	**Dec. 31, 2017**
cash advances	0.10%	0.10%
medium-term loan	1.27%	1.34%

“Bank payables” include the short-term portion of loans, outlined at Note 27 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.

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 1.3 million.

The changes in the year of the post-employment benefit liability were as follows:

	December 31, 2018			December 31, 2017		
	Defined benefit plans	Defined contrib. plans	Total	Defined benefit plans	Defined contrib. plans	Total
Change in the balance sheet:						
Net liabilities recognized at begin. of year	1,319,287	-	1,319,287	1,281,102	-	1,281,102
Interest	22,252	-	22,252	22,794	-	22,794
Pension cost, net of withholdings	(1)	485,497	485,496	16	434,907	434,923
Benefits paid	(58,663)	-	(58,663)	-	-	-
Payments to the INPS treasury fund	-	(327,287)	(327,287)	-	(41,399)	(41,399)
Payments to other supp. pension fund	-	(158,210)	(158,210)	-	(393,507)	(393,507)
- Actuarial gains/(losses)	(29,877)	-	(29,877)	15,374	-	15,374
Internal transfers to the Group	-	-	-	-	-	-
Net liabilities recognized in the accounts	**1,252,998**	**-**	**1,252,998**	**1,319,286**	**-**	**1,319,286**
Change in the income statement:						
Interest	22,252		22,252	22,794	-	22,794
Pension Cost	4,802	485,497	490,299	4,465	434,907	439,371
Actuarial gains/(losses)	-	-	-			
Total charges/(income) for post-employment benefits	**27,054**	**485,497**	**512,551**	**27,259**	**434,907**	**462,166**

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:

	December 31, 2018	December 31, 2017
discount rate	1.970%	1.610%
inflation rate	1.500%	1.500%
annual increase in post-employment benefit	2.625%	2.625%
annual increase in salaries	1.000%	1.000%

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 10 thousand.

30. DEFERRED TAX LIABILITIES

The breakdown is shown below:

	Dec. 31, 2018	Dec. 31, 2017	Changes
Net deferred tax asset (liabilities)	598,845	297,430	301,415
Total deferred tax liabilities	**598,845**	**297,430**	**301,415**

The deferred tax assets and liabilities recognised and their impact are reported in the table below:

(in thousands of Euro)	**December 31, 2018**			**December 31, 2017**			
	Amount of temporary differences	**Rate %**	**Tax effect**	Amount of temporary differences	**Rate %**	**Tax effect**	**Changes 2018/2017**
Deferred tax assets:							
- Excess doubtful debt provision not deductible	(1,131)	24.00%	(272)	(1,070)	24.00%	(258)	(14)
- Inventory obsolescence provision	(1,493)	24.00%	(386)	(1,323)	24.00%	(345)	(41)
- Various charges temporarily non-deductible	(793)	24.00%	(189)	(384)	24.00%	(92)	(97)
- ROL surplus	-	24.00%	-	(455)	24.00%	(109)	109
- Effect IAS 39 – Financial instruments	(4)	24.00%	(1)	(27)	24.00%	(6)	5
Total	**(3,421)**		**(848)**	**(3,259)**		**(810)**	**(38)**
Deferred tax liabilities:							
- Dividends not received	23	24.00%	5	93	24.00%	22	(17)
- Prudent exchange differences, net	139	24.00%	33	(343)	24.00%	(82)	115
- Effect IAS 19 – Post-employment benefits provision	26	24.00%	6	(5)	24.00%	(1)	7
- Amortisation/Depreciation tax basis	5,044	27.90%	1,403	4,184	27.90%	1,167	236
Total	**5,232**		**1,447**	**3,929**		**1,106**	**341**
Net deferred tax liability (asset)			599			297	302
Deferred tax asset relating to fiscal losses			-			-	
Deferred tax liability/(asset) as per financial statements			**599**			**297**	**302**

31. OTHER NON-CURRENT LIABILITIES

	Dec.31, 2018	Dec. 31, 2017	Changes
Guarantee deposits	862,791	858,583	4,208
Total other non-current liabilities	**862,791**	**858,583**	**4,208**

The “guarantee deposits” include the guarantees received from licensees (in place of bank or corporate guarantees), to cover the minimum royalties guaranteed contractually.

32. TRADE PAYABLES

	Dec. 31, 2018	Dec.31, 2017	Changes
Trade payables - Italy	5,187,372	4,322,386	864,986
Trade payables - Foreign	1,821,590	1,716,688	104,902
Total trade payables	**7,008,962**	**6,039,074**	**969,888**

“Trade payables” are all due in the short-term period.

In particular, the breakdown of foreign suppliers is as follows:

	Dec. 31, 2018	Dec. 31, 2017	Changes
Europe	293,719	468,616	(174,898)
The Americas	117,502	117,566	(65)
Asia and Oceania	1,377,187	1,126,501	250,685
Middle East and Africa	33,186	4,005	29,180
Total	**1,821,590**	**1,716,688**	**104,902**

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.

33. TAX PAYABLES

The breakdown of this account is shown in the following table:

	Dec.31, 2018	Dec. 31, 2017	Changes
Tax payables:			
IRES	(57,959)	1,135,049	(1,193,008)
Withholding taxes	27,727	19,836	7,891
VAT	1,035,574	1,283,550	(247,976)
Employee contributions	249,428	371,273	(121,845)
Total tax payables	**1,254,770**	**2,809,708**	**(1,554,938)**

The account “IRES” concerns the payable in the year.

The VAT payable is consequent of the transfers of balances by the companies within the Group VAT consolidation.

The "Non-recurring tax charge" was fully settled during the year.

34. OTHER CURRENT LIABILITIES

	Dec. 31, 2018	Dec.31, 2017	Changes
Payables to Group companies	1,280,726	2,335,409	(1,054,683)
Other payables	3,601,311	2,774,040	827,271
Accrued expenses	327,286	285,037	42,249
Total other current liabilities	**5,209,323**	**5,394,487**	**(185,164)**

"Other payables" at December 31, 2018 principally include payables to social security institutions of Euro 576 thousand for the year 2018 and paid in 2019, employee, consultant and director payables of approx. Euro 1.8 million, which include vacation days matured at December 31, 2018 and other items of Euro 1.8 million. 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" are shown below:

	Dec. 31, 2018	Dec. 31, 2017	Changes
Trade payables:			
Basic Properties America Inc.	760,665	731,731	28,934
BasicNet Asia Ltd.	436,988	366,802	70,186
Basic Village S.p.A.. with sole shareholder	77,843	56,443	21,400
Fashion S.r.l	5,230	4,558	672
BasicItalia S.p.A.. with sole shareholder	-	165,000	(165,000)
Jesus Jeans S.r.l. with sole shareholder	-	1,573	(1,573)
Trade payables	**1,280,726**	**1,326,107**	**(45,381)**
Financial payables			
Basic Trademark S.A.	-	819,055	(819,055)
TOS S.r.l. with sole shareholder	-	190,247	(190,247)
Total financial payables	**-**	**1,009,302**	**(1,009,302)**
Total	**1,280,726**	**2,335,409**	**(1,054,683)**

35. DEFERRED INCOME

	Dec. 31, 2018	Dec. 31, 2017	Changes
Royalties	373,796	270,069	103,727
Total deferred income	**373,796**	**270,069**	**103,727**

"Deferred income" for royalties refer to invoicing for revenues which will mature in the following year.

36. DERIVATIVE FINANCIAL INSTRUMENTS

	Dec.31, 2018	Dec.31, 2017	Changes
Derivative financial instruments	3,881	27,082	(23,201)
Total	**3,881**	**27,082**	**(23,201)**

The account at December 31, 2018 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 4 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.

37. GUARANTEES GIVEN AND OTHER CONTINGENT ASSETS

The details of the guarantees given are as follows:

	Dec.31, 2018	Dec. 31, 2017	Changes
- Guarantees to subsidiaries	59,050,000	51,000,000	8,050,000
Total	**59,050,000**	**51,000,000**	**8,050,000**

- *Sureties given on behalf of subsidiaries*

The sureties given on behalf of the subsidiaries refer for Euro 4.5 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 2.9 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 45.1 million, guarantees given on behalf of BasicItalia S.p.A., to various credit institutions, to guarantee the commercial credit lines.

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 and the shares of TOS S.r.l. are subject to a pledge in favour of MPS Capital Services Banca per le Imprese S.p.A. as guarantee of the loan issued in July 2017.

38. 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:

(Euro thousands)	**Financial instruments at fair value recorded through:**		**Financial instruments at amortized cost**	**Non-listed investments valued at cost**	**Book value at 31.12.2018**	**Fair value as at 31.12.2018**
	Income Statement	**Shareholders' Equity**				
Assets:						
Equity invest. & other financial assets	-	-	-	33,656	**33,656**	**33,656**
Trade receivables	-	-	17,348	-	**17,348**	**17,348**
Other current assets	-	-	64,145	-	**64,145**	**64,145**
Derivative financial instruments	-	-	-	-	**-**	**-**
Liabilities:						
Medium/long-term loans	-	-	16,041	-	**16,041**	**16,041**
Bank payables	-	-	11,947	-	**11,947**	**11,947**
Trade payables	-	-	7,009	-	**7,009**	**7,009**
Other current liabilities	-	-	5,209	-	**5,209**	**5,209**
Derivative financial instruments	-	4	-	-	**4**	**4**

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 2018, exchange losses were recorded of Euro 88 thousand, while unrealised exchange gains were recorded of Euro 139 thousand, for a net exchange gain of Euro 51 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, 2018 is shown below:

	Dec. 31, 2018	**%**	**Dec. 31, 2017**	**%**
Fixed rate	9,884,848	35.3%	10,653,504	35.5%
Variable rate	18,103,558	64.7%	19,376,288	64.5%
Gross debt	**27,988,406**	**100.0%**	**30,029,792**	**100.00%**

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 36 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 0.10% in accordance with the type of lending, as illustrated in Note 27.

Where at December 31, 2018 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 +226 thousand and Euro -226 thousand.

Credit risk

The doubtful debt provision (Note 22) which includes provisions against specific credit positions and a general provision on receivables not covered by guarantees, represents approx. 7.41% of trade receivables at December 31, 2018.

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:

(in Euro thousands)	**Book value**	**Future interest income/(expense)**	**Contractual cash flows**	**Within 1 year**	**From 1 to 5 years**	**Beyond five years**
"BNL Loan"	1,875	7	1,882	1,882	-	-
"Intesa Loan"	5,000	88	5,088	1,285	3,803	-
"MPS Loan"	13,000	642	13,642	1,037	12,605	-
Lease payables	104	2	106	64	42	-
Total financial liabilities	**19,979**	**739**	**20,718**	**4,268**	**16,450**	**-**

Default and debt covenant risk

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.

39. 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, Briko 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

BasicNet Group companies	Direct sales	Other income	Royalty income	Financial income	Dividends	Total
BasicItalia S.p.A.. with sole shareholder	2,411,406	251,200	7,024,448	57,905	-	**9,744,959**
Basic Trademark S.A.	-	5,500,000	-	-	-	**5,500,000**
Superga Trademark S.A.	-	250,000	-	167,561	-	**417,561**
Basic Properties B.V.	-	-	-	-	2,150,000	**2,150,000**
Basic Village S.p.A.. with sole shareholder	-	50,000	-	9,917	-	**59,917**
BasicNet Asia Ltd.	15,959	-	-	-	-	**15,959**
Jesus Jeans S.r.l. with sole shareholder	-	5,000	-	-	-	**5,000**
Fashion S.r.l.	-	1,500	-	-	-	**1,500**
BasicRetail S.r.l. with sole shareholder.	1,400	-	-	-	-	**1,400**
TOS S.r.l. with sole shareholder	-	12,000	-	160,837	-	**172,837**
Total	**2,428,765**	**6,069,700**	**7,024,448**	**396,220**	**2,150,000**	**18,069,133**

COSTS

BasicNet Group companies	Cost of sales	Cost per sponsor	Personnel costs	Selling, general and administrative costs, royalties expenses	Financial charges	Total
Basic Village S.p.A.. with sole shareholder	-	-	-	2,151,505	-	**2,151,505**
BasicNet Asia Ltd.	-	-	-	869,349	-	**869,349**
BasicItalia S.p.A.. with sole shareholder	21,356	393,009	-	217,961	-	**632,326**
BasicRetail S.r.l. with sole shareholder	-	43,550	-	33,235	-	**76,785**
Total	**21,356**	**436,559**	**-**	**3,272,050**	**-**	**3,729,965**

A breakdown of the transactions with related parties with reference to the note to which they refer for the year 2018 is shown below:

	Investments (Note 20)	**Receivables** (Note 23)	**Payables** (Note 34)	**Revenues** (Note 39)	**Costs** (Note 39)
Subsidiaries	32,764,488	60,800,581	1,275,496	18,067,633	3,729,965
Interests in joint ventures:	500,000	-	5,230	1,500	-
Remuneration of Boards and Senior Executives and other related parties	-	-	-	-	4,557,494

Total	**33,264,488**	**60,800,581**	**1,280,726**	**18,069,133**	**8,287,459**

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 by Studio Boidi & Partners, in which Massimo Boido has a 35% holding and is the Chairman of the Board of Statutory Auditors of BasicWorild S.r.l. 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 put and call agreement with BasicWorld S.r.l.. The agreement is for a duration until July 31, 2020 and provides for an exercise price of the Call Option by BasicWorld equal to the cost incurred by BasicNet for the purchase of the Collection, as resulting from the accounting entries of BasicNet, in addition to a financial interest charge equal to the average rate applied to BasicNet at the exercise option date. The agreement was signed based on the eventual interest of BasicNet S.p.A. to sell the collection 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.

40. CONSOB COMMUNICATION 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.

41. 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

ATTACHMENT 1

DISCLOSURE PURSUANT TO ARTICLE 149 DUODECIES OF THE CONSOB ISSUER'S REGULATION

Type of service	Service provider	Company	Fees earned 2018
Audit	EY S.p.A.	Parent BasicNet S.p.A. Subsidiaries	88,000
Certification services	EY S.p.A.	Parent BasicNet S.p.A.	-
Other services	EY S.p.A.	Parent BasicNet S.p.A.	-
Total			**88,000**

ATTACHMENT 2
Page 1 of 3

INVESTMENTS AT DECEMBER 31, 2018

(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
SUBSIDIARY COMPANIES							
BASICITALIA S.p.A. WITH SOLE SHAREHOLDER *Strada della Cebrosa, 106* *10156 TURIN* Share Capital Euro 7,650,000	7,650,000	11,273,453	1,333,313	100.00	-	11,273,453	28,599,725
BASICNET ASIA LTD. *15 floor, Linkchart Centre* *No.2 Tai Yip Street* *Kwun Tong, Kowloon* *HONG KONG* Share capital HKD 10,000.	1,115	485,615	71,163	100.00	-	485,615	927
BASICRETAIL S.r.l. WITH SOLE SHAREHOLDER *Strada della Cebrosa, 106* *10156 TURIN* Share capital Euro 10,000	10,000	3,233,130	1,374,764	-	100.00	-	-
BASIC PROPERTIES B.V. *Herikerbergweg 238 – LunArena – Amsterdam Zuidoost* *THE NETHERLANDS* Share capital Euro 18,160	18,160	6,389,308	2,128,807	100.00	-	6,389,308	3,657,747
BASIC PROPERTIES AMERICA, INC. *c/o Corporation Service Company* *11 S 12th Street - PO BOX 1463 –* *Richmond VA 23218 – U.S.A.* Share capital USD 8,469,157.77	7,396,962	7,371,585	491,097	-	100.00	-	-
BASIC TRADEMARK S.A. *42-44 Avenue de la Gare* *L-1610 LUXEMBOURG* Share Capital Euro 1,250,000.	1,250,000	9,008,133	2,781,982	-	100.00	-	-
BASIC VILLAGE S.p.A. WITH SOLE SHAREHOLDER *Largo M. Vitale, 1* *10152 TURIN* Share capital Euro 412,800	412,800	5,802,977	227,753	100.00	-	5,802,977	414,715
JESUS JEANS S.r.l WITH SOLE SHAREHOLDER *Largo M. Vitale, 1* *10152 TURIN* Share capital Euro 10,000	10,000	106,042	19,626	100.00	-	106,042	81,375
SUPERGA TRADEMARK S.A. *42-44 Avenue de la Gare* *L-1610 Luxembourg* Share capital Euro 500,000	500,000	3,283,671	2,392,800	-	100.00	-	-
TOS S.r.l. WITH SOLE SHAREHOLDER *Largo M. Vitale, 1* *10152 Turin* Share capital Euro 10,000	10,000	485,822	474,505	100.00	-	485,822	10,000

ATTACHMENT 2
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
JOINT VENTURES							
FASHION S.r.l. *C.so Stati Uniti, 41* *10129 TURIN* Share capital Euro 100,000	100,000	311,678	(46,910)	50.00	-	155,839	500,000

ATTACHMENT 2
Page 3 of 3

INVESTMENTS AT DECEMBER 31, 2018

Name/Registered office/Share capital	31/12/2017 Book value	Acquisitions/ Incor.	Capital payments to cover losses	Impairments investments	Disposals	31/12/2018 Book value	% held Parent
HOLDINGS IN SUBSIDIARY COMPANIES							
BasicItalia S.p.A.. with sole shareholder	28,599,725	-	-	-	-	28,599,725	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%
TOS S.r.l. with sole shareholder	10,000	-	-	-	-	10,000	100%
TOTAL SUBSIDIARY COMPANIES	***32,764,488***	**-**	**-**	**-**	**-**	***32,764,488***	
HOLDINGS IN JOINT VENTURES							
Fashion S.r.l.	500,000	-	-	-	-	500.00	50%
TOTAL JOINT VENTURES	***500,000***	**-**	**-**	**-**	**-**	***500,000***	
HOLDINGS IN OTHER COMPANIES:							
Consortiums & other minor	128	-	-	-	-	128.	
TOTAL OTHER COMPANIES	***128***	**-**	**-**	**-**	**-**	***128***	
TOTAL INVESTMENTS	**33,264,616**	**-**	**-**	**-**	**-**	**33,264,616**	
FINANCIAL RECEIVABLES							
Other receivables (guarantees)	10,251	381,542	-	-	-	391,793	
TOTAL RECEIVABLES	**10,251**	**381,542**	**-**	**-**	**-**	**391,793**	
TOTAL INVESTMENTS AND OTHER FINANCIAL ASSETS	**33,274,867**	**381,542**	**-**	**-**	**-**	**33,656,409**	

ATTACHMENT 3

DECLARATION OF THE FINANCIAL STATEMENTS PURSUANT TO ARTICLE 154-*BIS* PARAGRAPH 3 AND 4-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 2018 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

BasicNet S.p.A.

Financial statements as at 31 December 2018

Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010, and article 10 of EU Regulation n. 537/2014

Building a better working world

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Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010 and article 10 of EU Regulation n. 537/2014
(Translation from the original Italian text)

To the Shareholders of
BasicNet S.p.A.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of BasicNet S.p.A. (the Company), which comprise the statement of financial position as at 31 December 2018, and the income statement, the comprehensive income statement, the cash flows statement and the statement of changes in shareholders' equity for the year then ended, and the explanatory notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.
We are independent of the Company in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

There are no key audit matters to be communicated in this report.

Responsibilities of Directors and Those Charged with Governance for the Financial Statements

The Directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

EY S.p.A.
Sede Legale: Via Po, 32 - 00198 Roma
Capitale Sociale Euro 2.525.000,00 i.v.
Iscritta alla S.O. del Registro delle Imprese presso la C.C.I.A.A. di Roma
Codice fiscale e numero di iscrizione 00434000584 - numero R.E.A. 250904
P.IVA 00891231003
Iscritta al Registro Revisori Legali al n. 70945 Pubblicato sulla G.U. Suppl. 13 - IV Serie Speciale del 17/2/1998
Iscritta all'Albo Speciale delle società di revisione
Consob al progressivo n. 2 delibera n.10831 del 16/7/1997

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The Directors are responsible for assessing the Company's ability to continue as a going concern and, when preparing the financial statements, for the appropriateness of the going concern assumption, and for appropriate disclosure thereof. The Directors prepare the financial statements on a going concern basis unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Company's [Group's] financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to consider this matter in forming our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- we have evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We have provided those charged with governance with a statement that we have complied with the ethical and independence requirements applicable in Italy, and we have communicated with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Additional information pursuant to article 10 of EU Regulation n. 537/14

The shareholders of BasicNet S.p.A., in the general meeting held on 27 April 2017, engaged us to perform the audits of the financial statements for each of the years ending 31 December 2017 to 31 December 2025.

We declare that we have not provided prohibited non-audit services, referred to article 5, par. 1, of EU Regulation n. 537/2014, and that we have remained independent of the Company in conducting the audit.

We confirm that the opinion on the financial statements included in this report is consistent with the content of the additional report to the audit committee (Collegio Sindacale) in their capacity as audit committee, prepared pursuant to article 11 of the EU Regulation n. 537/2014.

Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated 27 January 2010 and of article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998

The Directors of BasicNet S.p.A. are responsible for the preparation of the Report on Operations and of the Report on Corporate Governance and Ownership Structure of BasicNet S.p.A. as at 31 December 2018, including their consistency with the related financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations and of specific information included in the Report on Corporate Governance and Ownership Structure as provided for by article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998, with the financial statements of BasicNet S.p.A. as at 31 December 2018 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the Report on Operations and the above mentioned specific information included in the Report on Corporate Governance and Ownership Structure are consistent with the financial statements of BasicNet S.p.A. as at 31 December 2018 and comply with the applicable laws and regulations.

With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated 27 January 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

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Statement pursuant to article 4 of Consob Regulation implementing Legislative Decree n. 254, dated 30 December 2016

The Directors of BasicNet S.p.A. are responsible for the preparation of the non-financial information pursuant to Legislative Decree n. 254, dated 30 December 2016. We have verified that non-financial information has been approved by Directors.

Pursuant to article 3, paragraph 10, of Legislative Decree n. 254, dated 30 December 2016, such non-financial information is subject to a separate compliance report signed by us.

Turin, 15 March 2019

EY S.p.A.
Signed by: Stefania Boschetti, partner

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