



CONSOLIDATED & SEPARATE FINANCIAL STATEMENTS

AT DECEMBER 31, 2019

DIRECTORS' REPORT

**CONSOLIDATED FINANCIAL STATEMENTS
AND EXPLANATORY NOTES**

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

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CORPORATE BOARDS of BasicNet S.p.A.

BOARD OF DIRECTORS

Marco Daniele Boglione	Chairman
Daniela Ovazza	Vice Chairperson
Federico Trono	Chief Executive Officer
Alessandro Boglione	Directors
Lorenzo Boglione	
Veerle Bouckaert	
Paola Bruschi	
Elisa Corgi ⁽¹⁾	
Cristiano Fiorio ⁽¹⁾	
Francesco Genovese	
Alessandro Jorio	
Renate Hendlmeier ⁽¹⁾	
Adriano Marconetto ⁽¹⁾⁽²⁾	
Carlo Pavesio	

(1) Independent Directors

(2) Lead independent director

REMUNERATION COMMITTEE

Carlo Pavesio	Chairman
Elisa Corgi	
Renate Hendlmeier	
Adriano Marconetto	
Daniela Ovazza	

CONTROL AND RISKS AND RELATED PARTIES COMMITTEE

Renate Hendlmeier	Chairperson
Elisa Corgi	
Cristiano Fiorio	
Adriano Marconetto	

BOARD OF STATUTORY AUDITORS

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

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,

the financial statements at December 31, 2019 for the first time include the consolidation of the French Kappa Europe S.A.S. Group, acquired on January 25, 2019, and the amendments introduced by IFRS 16 which for the BasicNet Group essentially concerned the method for recognising property lease contracts for the Group brand sales points.

The acquisition of the French Group Sport Finance, now renamed Kappa Europe S.A.S., marks the start of the strategic campaign to strengthen the Group licensees, with the objective of creating a new licensee, “powered by BasicNet”, operating on Kappa’s main and largest market (Europe) and providing the model for the other licensees.

The financial statements at December 31, 2019 confirm the Group’s ongoing growth. In summary:

- aggregate sales of Group products by the Global licensee Network of Euro 1,025 million, up 17.1% as follows:

<i>(in Euro millions)</i>	2019	2018	% Change
Commercial licensee sales	742.9	622.6	+19.3%
Productive licensee sales	282.4	252.7	+11.8%
Licensee aggregate sales	1,025.3	875.3	+17.1%

European market growth continues (+17.3%). Major American market growth (+38.5%), with significant recovery on Middle Eastern and African markets (+35.9%). The Asian and Oceania markets grew 6.1%.

- consolidated revenue growth was supported by the inclusion from January 2019 in the Group’s scope of Kappa Europe, the holding company of a group of Kappa® brand licensee companies for France, UK, Switzerland, Spain and Portugal. The acquisition added Euro 77.6 million to direct sales growth and resulted in the elimination of royalties matured on revenues generated by Kappa Europe Group for Euro 6.8 million:

<i>(in Euro millions)</i>	2019	2019 like for like (*)	2018	% Change	% Change like for like
Consolidated revenues:	305.7	235.2	210.5	+45.3%	+11.8%
<i>of which royalties and sourcing commissions</i>	55.6	62.4	54.8	+1.3%	+13.8%
<i>of which direct sales</i>	250.1	172.8	155.6	+60.7%	+11.1%

(*) Like-for-like concerns pro-forma revenues calculated deconsolidating Kappa Europe from the direct sales and considering it as a third-party licensee (as in the 2018 financial year).

- EBITDA of Euro 42.5 million (Euro 33 million in 2018), up 28.7%, including the effects from applying IFRS 16 for the reclassification of Euro 5.5 million of lease charges to amortisation and interest charges;
- EBIT of Euro 30.6 million (Euro 26.6 million in 2018), +15.0%;
- financial charges and income substantially in line with the previous year with net charges of Euro 1.2 million, including Euro 0.9 million of exchange gains;

- the 2019 tax charge of Euro 8.3 million rose significantly on 2018, which reflected the one-off Patent Box tax benefits for financial years 2015-2016-2017 (for Euro 2.5 million), recognised following the completion, for all of the Group companies involved, of the appeal procedures with the Tax Agency in December 2018;
- consolidated net profit Euro 21.05 million, substantially in line with 2018 (Euro 21.01 million), while up 13.6% on the 2018 profit excluding the one-off Patent Box tax benefits;
- net financial debt of Euro 78.3 million (Euro 59.0 million excluding the IFRS 16 impact, compared to Euro 51.7 million at December 31, 2018). The balance includes, in addition to the effects of the first-time adoption of IFRS 16, which resulted in the recognition of a debt of Euro 19.3 million, the debt of Kappa Europe Group of approx. Euro 15 million. The debt/equity ratio in 2019 (net of the application of IFRS 16) is substantially in line with 2018 (0.46);
- dividends of Euro 6.5 million were distributed in the year (Euro 3.3 million in 2018), with Euro 4.4 million invested to acquire treasury shares.

PARENT COMPANY KEY FINANCIAL HIGHLIGHTS:

- EBIT of Euro 12 million (Euro 11.1 million in 2018);
- net profit of Euro 14.5 million (Euro 13 million in 2018), up 11.5%.

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 licensee company BasicItalia S.p.A. and its subsidiaries BasicRetail S.r.l., BasicRetail Suisse S.A. and the companies of the Kappa Europe S.A.S. Group, in addition to the parent company BasicNet S.p.A..
- **EBITDA:** “operating result” before “amortisation and depreciation”.
- **EBIT:** “operating result”.
- **Contribution margin on direct sales:** “gross profit”;
- **Debt/equity ratio** this is an indicator of the financial structure of the balance sheet and is calculated as the ratio of financial debt to shareholders' equity.
- **Net debt:** total of current and medium/long-term financial payables, less cash and cash equivalents and other current financial assets.
- **Free cash flow** represents the cash flow available to the company and is the difference between the cash flow from operating activities and the cash flow for investments in fixed 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 AND ITS ACTIVITIES

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 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 centred 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., of BasicRetail SUISSE S.A. and of the companies of the French Group Kappa Europe S.A.S. (companies belonging to 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 Europe:

- 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 S.p.A., the trademark holders of the Group, Basic Trademark S.r.l. (previously Basic Trademark S.A.), Superga Trademark S.r.l. (previously Superga Trademark S.A.), Fashion S.r.l., Jesus Jeans S.r.l., TOS S.r.l., Basic Properties S.r.l. (previously Basic Properties BV), the services company BasicNet Asia Ltd. in Hong Kong, the sub-licensee company Basic Properties America, Inc. in the USA and BasicAir S.r.l., incorporated during the year.

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, administering the contracts and managing the relative revenue streams.

The **proprietary licensees** are BasicItalia S.p.A. and its subsidiaries BasicRetail S.r.l., BasicRetail SUISSE S.A. and the companies of the French Group Kappa Europe S.A.S..

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 S.r.l. manages Group brand sales points within the franchising project in Italy. BasicRetail SUISSE S.A., incorporated on April 11, 2019, manages the K-WayOutlet sales point at the Outlet Center in Mendrisio.

Kappa Europe S.A.S., with registered office in Nantes – France – acquired in January 2019. It in turn controls the Group companies based in France, the UK, Spain and Switzerland, who for some time have operated as Kappa and Robe di Kappa brand licensees in their respective territories.

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.

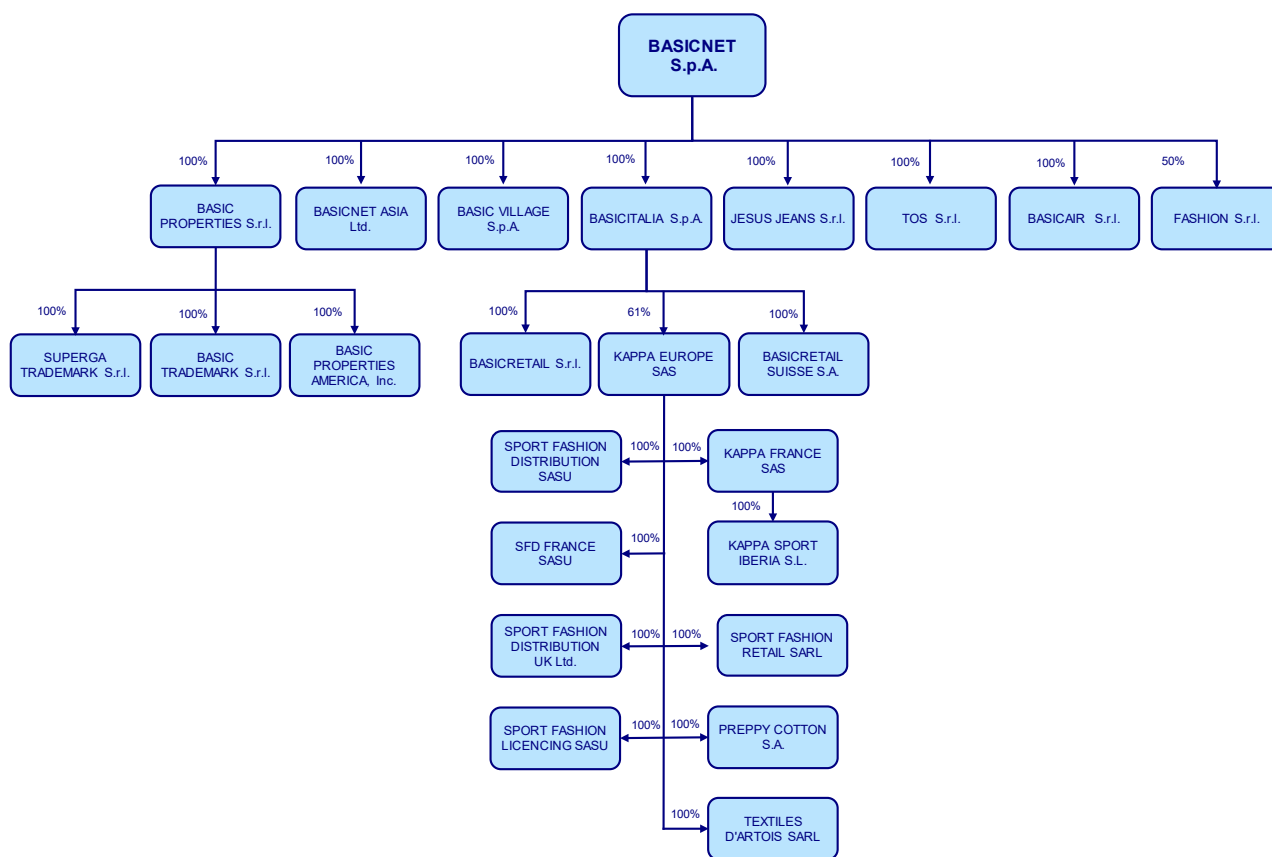
BUSINESS TARGETS

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 at December 31, 2019 is presented below:



REGIONAL COMMERCIAL PERFORMANCES

As part of the measures introduced to develop the Brands internationally in 2019, growth was generally driven by the Kappa® brand, with the “Authentic” collections contributing strongly, while Superga® and K-Way® also performed well. The relaunch of the Sebago® brand was also substantially in line with expectation which, in addition to the footwear collection, in 2019 presented at Pitti its first collection of apparel developed by BasicNet.

Major **European market** growth (+17.3%) significantly contributed to consolidating distribution of the Sebago® brand and the excellent Kappa® brand growth throughout Europe - and particularly in Italy and the countries managed by the new Kappa Europe, which was also supported by sponsorship investment. Superga® reported strong Italian market growth. K-Way® continues to grow, supported by its network of mono-brand stores, mainly located in Italy (31) and in France (20). The Robe di Kappa® Plug@Sell channel saw sales increase 6.7%.

Commercial operations focused on the renewal of expiring licensing contracts.

New sponsorships included for the Kappa® brand the new contracts with the Panathinaikos Football Club, Aston Villa and AS Monaco teams, respectively by the Greek licensee, and the Kappa Europe Group French and English licensee. The Italian licensee BasicItalia concluded sponsorship agreements with the Genoa C.F.C., Brescia Calcio, Benevento Calcio and SSD Palermo teams, beginning with the current football season. For rugby, Kappa Europe signed a new three-year sponsorship with Stade Français Paris Rugby and with the European Professional Club Rugby organisation which co-ordinates the top continental clubs and the two main European competitions. Kappa Europe Group also signed a sponsorship with Vexed Gaming, the UK's largest professional e-sport organisation.

Sebago® sponsored the Spetes Classic Yacht Regatta in Greece and Pitti Immagine Uomo 96 in Florence.

Briko®, while featuring its glasses on numerous catwalks, presented to the market the new innovative and technologically-advanced Cerebellum One® helmet designed to improve cyclist safety thanks to seven hi-tech integrated functions.

With regards to co-branding:

- for Superga®, the main collaborations were those with the stylist Marco de Vincenzo, the British designer Kestin Hare, the Finnish brand Makia, the French brand Bonton, the Oi Polloi concept store in Manchester (UK), the English brand Scamp & Dude, the New York brand LoveShackFancy and, on the Italian market, Disney, the MC2 Saint Barth brand and Yoox. Superga® also finalised its first co-branding in collaboration with Butrich, the fashion brand founded by the Peruvian designer Jessica Butrich and inspired by pop-art. The co-branding with Alexa Chung was renewed;
- for Sebago®, the initial co-brandings (the Sease brand, 10 Corso Como, the American brand Pendleton and the English clothing brand Universal Works) were launched, as were numerous collaborations with the main European concept stores (Midi of Madrid, Société Anonyme of Florence, Morrison of Antwerp, Nitty Gritty of Stockholm and Oi Polloi of Manchester) which, as part of the Sebago® Yacht Club project, created a similar number of exclusive capsule collections;
- for Kappa® we highlight the first co-branding with Cyberdog, the famous London rave and clubbing clothing store, that with Awake NY, the famous US streetwear brand, in addition to the third co-branding with the Italian designer Danilo Paura; and finally,
- for K-Way® collaborations were launched with Afterhomeworks, the emerging French streetwear brand, the Lacoste international brand, the Spanish concept store Foot District and the French clothing brand bimbo Bonton.

The **Americas market** overall grew 38.5%, with strong performances both for the Kappa® brand (mainly on the North American market) and for the K-Way® brand. Superga® reports strong growth in Brazil and Argentina, while has been impacted by the political and social crisis in Chile.

New licenses for the Canadian market for the K-Way® brand and for the Mexican market for Kappa® and Superga® began during the year.

In terms of communication and sponsorship, the Brazilian licensee for the Kappa® brand began a new sponsorship with Botafogo FC.

Last November, Kappa® USA presented its first collaboration with Faze Clan, the world's largest e-sports organisation, and in December collaborated with BasicNet to celebrate the 50th anniversary of the creation of the Omini logo at Art Basel Miami 2019: for the opening of the international contemporary art festival, the Italian artist Vanessa Beecroft and the British art curator Neville Wakefield staged a brand new "*tableau vivant*" starring 100 actors showcasing Kappa® apparel.

Asia and Oceania reported growth of 6.1%, with very strong contributions from the Kappa® brand - recovering on the Korean market following the roll-out of communication investments and online sales growth. In particular, we highlight the third co-branding with the Korean fashion brand Charms. Kappa® reports growth also in India and Taiwan and on the Australian market with excellent teamwear results. Superga® reported excellent performances on the Australian, Japanese and Chinese markets, while slowing on the Korean and Singapore markets. Superga® Australia launched a co-branding with Highs & Lows, one of the leading Australian sneaker brands, in collaboration with FUTUR, the Parisian streetwear brand. Strong Sebago® sales in the Philippines and Australia continued.

New licensing contracts began in China for Briko® and in Singapore for Sebago® and in the Philippines and Thailand for Superga®.

In terms of communications, also on the Asian market co-branding initiatives began with the Singapore influencer Drea Chong, for Superga® and with the Korean brand Juun.J per Kappa®.

The **Middle East and Africa** grew 35.9%. The strong South African market performance for the Kappa® and Superga® brands is also highlighted. For Sebago®, strong South African and North and West African results continued.

Licensing agreements for the distribution of the Kappa® and Superga® brands for the territories of South Africa, Namibia, Lesotho, Switzerland, Botswana, Mozambique and Zimbabwe were renewed in the period.

Group brand sales points

At December 31, Kappa® and Robe di Kappa® mono-brand stores and shop in shops opened by licensees globally numbered 910 (of which 109 in Italy), with Superga® mono-brand stores and shop in shops totalling 271 (of which 58 in Italy), along with 61 K-Way® sales points (of which 31 in Italy). Plug@Sell® store revenues at like-for-like consolidation scope grew 8% on 2018.

2019 FINANCIAL PERFORMANCE OVERVIEW**THE GROUP****BasicNet Group Key Financial Highlights**

The condensed income statement for the year is reported below:

<i>(Euro thousands)</i>	FY 2019	FY 2018	Changes	%
Group Brand Aggregate Sales by the Network of commercial and productive licensees *	1,025,292	875,260	150,032	17.14%
Royalties and sourcing commissions	55,551	54,832	719	1.31%
Consolidated direct sales	250,148	155,615	94,533	60.75%
EBITDA **	42,521	33,030	9,491	28.74%
EBIT **	30,557	26,581	3,976	14.96%
Group Net Profit	21,053	21,014	39	0.19%
Basic earnings per share**	0.3919	0.3860	0.006	1.53%

* Data not audited

** For the definition of the indicators reference should be made to paragraph 6 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:

	FY 2019	FY 2018	Changes	
<i>(In Euro thousands)</i>				
Aggregate Sales of the Group licensees *	Total	Total	Total	%
Commercial Licensees	742,922	622,590	120,332	19.3%
Productive Licensees (sourcing centers)	282,370	252,670	29,700	11.8%
Total	1,025,292	875,260	150,032	17.1%

* Data not audited

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

	FY 2019		FY 2018		Changes	
<i>(In Euro thousands)</i>						
Aggregate Sales of the Group Commercial licensees *	Total	%	Total	%	Total	%
Europe	479,750	64.6%	408,899	65.7%	70,851	17.3%
The Americas	81,688	11.0%	58,963	9.5%	22,725	38.5%
Asia and Oceania	102,790	13.8%	96,837	15.5%	5,953	6.1%
Middle East and Africa	78,694	10.6%	57,891	9.3%	20,803	35.9%
Total	742,922	100.0%	622,590	100.0%	120,332	19.3%

* Data not audited

and of the productive licensees:

	FY 2019		FY 2018		Changes	
<i>(In Euro thousands)</i>						
Aggregate Sales of the Group Productive licensees *	Total	%	Total	%	Total	%
Europe	21,019	7.4%	18,738	7.4%	2,281	12.2%
The Americas	17,152	6.1%	15,241	6.1%	1,911	12.5%
Asia and Oceania	240,926	85.3%	218,155	86.3%	22,771	10.4%
Middle East and Africa	3,273	1.2%	536	0.2%	2,737	509.9%
Total	282,370	100.0%	252,670	100.0%	29,700	11.8%

* Data not audited

Commercial licensee aggregate sales of Euro 742.9 million were up 19.3% at current exchange rates, from Euro 622.6 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.

As indicated, the 2019 key financial highlights comparison with the previous year is impacted by the change in the scope following the acquisition of the Kappa Europe Group.

As a result of increased licensee revenues, **consolidated royalties** and **sourcing commissions**, not including the royalties of the directly-held Italian and French licensees, amounted to Euro 55.6 million (+1.3% on Euro 54.8 million in the previous year). At like-for-like consolidation scope, royalties and sourcing commissions would have risen 13.8% over 2018.

Consolidated direct sales totalled Euro 250.1 million, including sales of Euro 77.6 million from Kappa Europe S.A.S., acquired at the beginning of the year. Net of the acquisition effects, this compared with Euro 155.6 million in 2018, with an excellent performance by BasicItalia which reported commercial growth of 11% in the year.

The **contribution margin** on sales of Euro 107.2 million includes the Kappa Europe Group's margin of Euro 33.8 million. The revenue margin was 42.8% (41.2% in 2018) on the basis of higher-margin collections.

Other income of Euro 6.6 million includes income from leases, condominium income and other non-recurring income, including that from the settlement agreed by BasicItalia with AS Roma e Soccer for Euro 1.5 million and prior year accruals' reversals. The income from initial consolidation of Kappa Europe Group was Euro 0.4 million.

Sponsorship and media spend of Euro 42.2 million compared with Euro 25.7 million for 2018. The higher communication costs on the previous year is mainly due to the consolidation of Kappa Europe, which is majorly involved in both football and rugby sponsorship. In addition, BasicItalia spent an additional Euro 2 million on communications compared to the previous year. Significant contributions were granted to licensees operating on overseas markets for communication and endorsement activities with an international impact: approx. Euro 800 thousand more than 2018.

Personnel costs increased from Euro 23.1 million in 2018 to Euro 32.2 million in 2019, due to 38 new hires and the 175 personnel at the acquired French Group, whose overall cost in 2019 was Euro 7.1 million.

Overhead costs, i.e. **Selling and general and administrative costs** and **royalties expenses** amounted to Euro 52.5 million, on Euro 40.2 million in 2018. The 2019 figure does not include Euro 5.5 million of costs in the year for property lease charges, reclassified to rights-of-use amortisation as per IFRS 16. The increase of Euro 10.5 million stems from the consolidation of Kappa Europe and for the remainder higher sales expenses - in line with revenue growth. The revenue margin decreased from 25.8% in 2018 to 21.0% in 2019.

EBITDA of Euro 42.5 million grew 28.7% (Euro 33 million in 2018). The increase of Euro 5.5 million follows the application of IFRS 16, whereby property lease charges were restated for Euro 5.3 million to amortisation and for Euro 0.3 million to financial charges.

Amortisation and depreciation amounts to approx. Euro 12 million (approx. Euro 6.5 million in the previous year). The account, as indicated in the previous paragraph, includes amortisation on rights-of-use from initial application of IFRS 16 and Kappa Europe Group amortisation and depreciation.

EBIT amounted to Euro 30.6 million (Euro 26.6 million in 2018).

Consolidated net financial charges/income, including exchange gains and losses, reported a charge of Euro 1.2 million (in line with the previous year). The result includes the net financial charges of the Kappa Europe Group of Euro 800 thousand. Net exchange gains of Euro 894 thousand are reported, compared to Euro 44 thousand of net losses in the previous year.

The **consolidated pre-tax profit** was Euro 29.4 million (Euro 25.4 million in 2018).

Consolidated net profit, after current and deferred taxes of approx. Euro 8.3 million, amounted to Euro approx. 21.1 million, increasing 0.19%. As previously indicated, in 2019 the tax rate increased over the previous year, which included the one-off tax benefits from applying the Patent Box rule for the years 2015-2016-2017 for Euro 2.5 million, recognised following the results of the appeal with the Tax Agency in December 2018.

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 77.3 million, compared to Euro 68.4 million in the previous year. The 2019 EBIT of Euro 21.3 million compares with Euro 20.8 million in 2018. The 2019 segment net profit was Euro 16.6 million, compared to Euro 18.1 million in 2018; the 2018 result benefitted from tax income of Euro 2.5 million stemming from the Patent Box rule for the preceding years, whose application was agreed with the Tax Agency in 2018.
- **“Proprietary Licensees”:** comprising BasicItalia S.p.A. and its subsidiaries BasicRetail S.r.l., BasicRetail SUISSE S.A and, from 2019, the companies of the Kappa Europe Group. Segment sales totalled Euro 248.2 million, of which Euro 77.6 million from the Kappa Europe Group, compared to prior year sales of Euro 153.7 million. The contribution margin on sales increased to Euro 107.6 million in 2019 from Euro 64.6 million in 2018. The revenue margin was 43.3% (42% in 2018). The segment reports a net profit of Euro 4.2 million, against Euro 2.7 million in 2018.
- **“Property”:** property management reported a profit of Euro 305 thousand (Euro 228 thousand in 2018).

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

Balance sheet overview

The changes in the balance sheet are reported below:

<i>(Euro thousands)</i>	Dec. 31, 2019	Dec. 31, 2018	Changes
Property	20,653	21,583	(930)
Brands	46,789	47,124	(335)
Non-current assets	31,306	24,438	6,868
Rights-of-use	18,066	-	18,066
Current assets	176,421	142,368	34,053
Total assets	293,235	235,513	57,722
Group shareholders' equity	121,741	112,937	8,804
Non-current liabilities	47,637	29,392	18,245
Current liabilities	123,857	93,184	30,673
Total liabilities and shareholders' equity	293,235	235,513	57,722

The increase in non-current assets includes the recognition of usage rights as per IFRS 16 for Euro 18.1 million, against the recognition to financial payables of the fixed property lease charges for the entire residual duration of the long-term contracts.

Capital expenditure in the year amounted to Euro 8.6 million, following software development investment (Euro 2.1 million), EDP and furniture and fitting spending (Euro 2.5 million), for own brand management (Euro 0.4 million) and property improvements and other minor items (Euro 0.8 million). In addition, during the year, through the specifically established wholly-owned subsidiary BasicAir S.r.l. a used Cessna Citation VII was acquired, whose costs (including reconditioning charges) were Euro 2.8 million.

The acquisition of the Kappa Europe Group resulted in increased fixed assets of approx. Euro 4.6 million, of which Euro 3.4 million comprising goodwill.

The increase in current assets and liabilities substantially concerns the recognition of the short-term balances of the Kappa Europe Group, in addition to normal working capital changes in view of the expanded commercial operations of the BasicNet Group in the year.

Financial position

<i>(Euro thousands)</i>	Dec. 31, 2019	Dec. 31, 2018	Changes
Net financial position – Short-term	(36,209)	(29,464)	(6,745)
Financial payables – Medium-term	(19,288)	(21,394)	2,106
Finance leases	(651)	(823)	172
Net financial position with banks	(56,148)	(51,681)	(4,467)
Other financial liabilities	(2,839)	-	(2,839)
Payables for rights-of-use	(19,287)	-	(19,287)
Total net financial position	(78,274)	(51,681)	(26,593)
Net Debt/Equity ratio (Net financial position/Shareholders' equity)	0.64	0.46	0.18

The **consolidated net debt** to banks increased from Euro 51.7 million in December 2018 to Euro 56.1 million at the end of 2019. The initial consolidation impact of the Kappa Europe Group on the bank debt was approx. Euro 11.1 million, of which approx. Euro 4 million regarding the use of short-term commercial lines, Euro 2.1 million the short-term portion of medium-term loans and approx. Euro 5 million amounts maturing beyond 12 months.

The application from January 1, 2019 of the new IFRS 6 resulted in the recognition of a total payable for rights-of-use on property lease contracts for sales points of Euro 19.3 million.

The acquisition of the Kappa Europe Group stipulates put & call options on the residual 39% of Kappa Europe. In accordance with the accounting standards, the estimated value of the put option was included in the financial position for Euro 2.8 million.

Dividends were distributed of Euro 6.5 million in the year and treasury shares acquired for Euro 4.4 million.

The **debt/equity** ratio at December 31, 2019 increased to 0.64 (0.46 at December 31, 2018): it stands at 0.48 net of the application of IFRS 16.

The **free cash flow** in the year was Euro 19.6 million (Euro 16.4 million in 2018).

THE PARENT COMPANY**BasicNet S.p.A. Key Financial Highlights**

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

<i>(Euro thousands)</i>	FY 2019	FY 2018	Changes	%
Royalties and sourcing commissions	37,974	33,730	4,244	12.6%
Direct sales and other income	11,089	10,840	249	2.3%
EBITDA *	15,992	13,485	2,507	18.6%
EBIT *	12,066	11,105	961	8.7%
Dividends from subsidiaries	4,800	2,150	2,650	123.3%
Net Profit	14,487	12,954	1,533	11.8%

* For the definition of the indicators reference should be made to paragraph 6 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 approx. Euro 38 million grew 12.6% on 2018.

Direct sales and other income amounted to Euro 11.1 million (Euro 10.8 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.r.l., Superga Trademark S.r.l., Basic Village S.p.A., Jesus Jeans S.r.l., TOS S.r.l. and Kappa Europe S.A.S..

In 2019, **selling, general and administrative expenses**, including contributions in support of marketing and international media activity, rose approx. Euro 1.4 million - in support of communications and the development of the brands through the business system.

EBIT amounted to Euro 12 million (Euro 11.1 million in 2018), following amortisation and depreciation of tangible and intangible assets of approx. Euro 3.9 million.

During the year, the subsidiary Basic Properties B.V. (subsequently becoming Basic Properties S.r.l.) distributed dividends of approx. Euro 4.8 million, up on Euro 2.1 million in 2018.

The application of the impairment test on the value of the investments did not result in any adjustments. On the basis of the above items, the **net profit** amounted to approx. Euro 14.5 million, after income taxes of Euro 2.7 million. 2018 income taxes included for Euro 2.3 million the benefit from the Patent Box rule for prior years, recognised following the reaching of an agreement with the Tax Agency in December 2018.

Balance sheet overview

<i>(Euro thousands)</i>	Dec. 31, 2019	Dec. 31, 2018	Changes
Non-current assets	6,350	5,952	398
Brands	9,167	9,803	(636)
Rights-of-use	9,240	-	9,240
Investments	36,297	33,656	2,641
Current assets	88,671	88,247	424
Total assets	149,725	137,658	12,067
Shareholders' Equity	95,258	91,771	3,487
Non-current liabilities	24,054	20,089	3,965
Current liabilities	30,413	25,798	4,615
Total liabilities and shareholders' equity	149,725	137,658	12,067

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 0.7 million, furnishings and other assets for Euro 0.1 million and software development for Euro 1.7 million. The value of tangible and intangible assets are recorded net of amortisation and depreciation for the year of Euro 2.4 million.

Rights-of-use include the value of the property lease contracts for the company's offices, owned by the subsidiary BasicVillage S.p.A., for future years, recognised in 2019 in application of IFRS 16. Amortisation of the right for the year amounts to Euro 1.5 million.

Equity investments, which include the carrying amount of the investments directly held by the parent company, increased in the year following the incorporation of the company BasicAir S.r.l..

Shareholders' Equity at December 31, 2019 was Euro 95.2 million (Euro 91.7 million in 2018), following the distribution in 2019 of dividends for Euro 6.5 million and the acquisition of treasury shares for approx. Euro 4.4 million.

Financial position

<i>(Euro thousands)</i>	Dec. 31, 2019	Dec. 31, 2018	Changes
Net financial position – Short-term	(10,982)	(10,324)	(658)
Financial payables – Medium-term	(11,438)	(15,938)	4,500
Finance leases	(101)	(104)	3
Net financial position with banks	(22,521)	(26,365)	3,844
Group financial receivables/(payables)	54,554	55,484	(930)
Payables for rights-of-use	(9,245)	-	(9,245)
Financial position with the Group	45,310	55,484	(10,174)
Total net financial position	22,789	29,119	(6,330)

A **net cash position** of Euro 22.8 million is reported, reducing on Euro 29.1 million in 2018 following the application from January 1, 2019 of the new IFRS 16, resulting in the recognition of an overall payable for rights-of-use on the property lease contract for the company's offices, owned by the subsidiary BasicVillage S.p.A..

RECONCILIATION BETWEEN CONSOLIDATED NET PROFIT AND PARENT COMPANY NET PROFIT

The reconciliation at December 31, 2019 between the Parent Company net equity and result and the consolidated net equity and result is reported below.

<i>(Euro thousands)</i>	Net Profit	Shareholders' Equity
Financial statements of BasicNet S.p.A.	14,487	95,258
Result and net equity of the consolidated companies and value at equity	11,366	26,483
Elimination of the dividends received by the Parent Company	(4,800)	-
Group consolidated financial statements	21,053	121,741

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 2019 and 2018 are reported in the following table:

<i>(in Euro)</i>	Dec. 31, 2019	Dec. 31, 2018
Earnings per share	0.3919	0.3860
Dividend per share ⁽¹⁾	0.1200	0.1200
Pay-out ratio ^{(1) (2)}	30.3%	30.8%
Dividend Yield ^{(1) (3)}	2.3%	2.7%
Price at year-end	5.20	4.43
Maximum price in year	6.20	4.98
Minimum price in year	4.13	4.24
Stock market capitalization (in thousands of Euro)	317,167	270,202
Total number of shares	60,993,602	60,993,602
Shares outstanding	53,715,626	54,433,843

(1) dividends on the 2019 figures on the basis of the proposal for the allocation of the result to the Shareholders' Meeting

(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:

Shareholders	Holding
Marco Daniele Boglione (*)	33.639%
BasicNet S.p.A.	12.89%
Francesco Boglione	6.275%
Kairos Partners SGR S.p.A.	5.448%

(*) 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 “dotcom” 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 sustainability 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 (if possible, in differing regions). 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 environmental regulations and the signing of a commitment to comply with the Code of Conduct, based on the key conventions of the International Labour Organisation (ILO) and the Universal Declaration of Human Rights 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 Swiss Francs.

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.

Sourcing commission receivables are covered by the payables of the subsidiaries BasicItalia S.p.A. and of the Kappa Europe Group to the Sourcing Centers.

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 factors also have seasonal effects on the financial cycle of the Group's commercial companies.

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 consideration agreed above was fully collected.

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 - began in 2018 and continuing before the Chinese authorities on two fronts: BasicNet S.p.A.'s defence of its K-WAY registration for weather-proof clothing items, subject to a cancellation request for non-use heard at the second level, and the procedures initiated by BasicNet S.p.A. against Taizhou Boyang 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.

No conclusions have yet been reached and it is not possible to predict the outcome of the disputes.

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 at BasicNet S.p.A.. 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. In March 2019, the Turin Provincial Tax Commission heard the appeal presented by BasicNet. The Tax Agency has appealed against the Tax Commission's decision and no further decision has yet been made.

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. At the beginning of the present month of July, similar tax assessments for financial year 2014 were received, with claims for additional taxes of approx. Euro 0.3 million and for VAT for approx. Euro 0.1 million.

As they did not consider the arguments put forward by the Agency to be well-founded, the companies lodged appeals against the tax assessments and requests for provisional suspension of the executive effects of the assessments. The Turin Provincial Tax Commission, which had already accepted the request for provisional suspension in October 2019, at the end of January 2020 fully accepted the combined appeals of Basic Properties America Inc., BasicTrademark S.A. (now S.r.l.) and Superga Trademark S.A. (now S.r.l.) and cancelled the tax assessments issued by the Tax Agency. There is currently no news of any further reaction from the Agency.

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' Meeting of April 19, 2019 and concluding at the date of the Shareholders' Meeting for the approval of the 2019 Annual Accounts, at the date of this report 820,633 treasury shares had been acquired (1.35% of the Share Capital). BasicNet today holds 7,863,255 treasury shares (12.892% of the Share Capital), for a total investment of approx. Euro 22.2 million.

The Company intends to continue the share buy-back programme in 2020 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 2020 Shareholders' Meeting 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 50 of the consolidated 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 applications that comprise the IT platform, taking account of the needs expressed by licensees;
- drafting and implementing global “marketing communication” guidelines to be made available on the web portal 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 apps 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 96 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 centred 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

“Back to the future” Project

The BasicNet Group has launched a corporate reorganisation project called "Back to the future", with the goal of concentrating in the company BasicTrademark the ownership of all the Group's brands, according to the original structure, which dates back to the acquisition of the Kappa®, and Robe di Kappa® brands and other minor brands from the MCT bankruptcy. Over time, a number of brands have been acquired directly by BasicNet

(K-Way® and Briko®) and special purpose vehicles have been set up for the acquisition of the new brands, in particular Superga® and Sebago®.

The project to concentrate the proprietary brands in a single company, which is expected to conclude during the first half of the year, will restructure the corporate organisation, optimising brand management, without changing the ownership structure or the Group's capital structure.

At the end of December 2019, the first step of the project was completed with the transfer to Italy of the registered offices of the Luxembourg companies Superga Trademark and Basic Trademark (already resident for administrative and tax purposes since 2010), owners respectively of the Superga and Kappa and Robe di Kappa brands, and their Dutch parent company Basic Properties B.V..

BasicVillage

The BasicNet Group has reached an agreement with Aprica Costruzioni S.r.l for the acquisition of the entire share capital of the company owning an industrial building covering approx. 4,000 square metres in Milan, via dell'Aprica 12. The post-industrial building complex dating back to 1911 is located near the “Scalo Farini” district. On January 30, BasicVillage S.p.A., the company which owns the Group's real estate assets, completed the purchase of the shares for Euro 10.5 million. Through this investment, the BasicNet Group will gain a stable presence in Milan, acquiring suitable offices, showrooms and commercial spaces to present BasicNet's range, replicating the successful BasicVillage of Turin in a globally strategic location.

Chinese Health Crisis

Following the health crisis caused by the spread of the "Corona Virus" which, as is well known, in this period crossed the borders of China, the BasicNet Group continues to closely monitor the impact of the health crisis on the commercial and production activities of the network of licensees. In terms of distribution, after the sale of the Kappa® brand in China, the Chinese market has become marginal. Production activities in China are also being normalised.

BasicNet's business model centring on flexibility and independence (including financially for the licensees located across the world) - together with fully integrated web management of all key supply chain processes - allows us to react natively to the developing crisis and mitigate its impacts.

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. As previously indicated, the unforeseeable duration of the “corona virus” emergency does not allow us to forecast its impact on operating results.

* * *

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 2019 Financial Statements and the relative Directors' Report we propose the allocation of the net profit of Euro 14,486,568.37 as follows:

- | | | |
|---|------|--------------|
| ▪ to the legal reserve, until reaching the limit set by Article 2430 of the Civil Code. | Euro | 32,418.32 |
| ▪ reserve for unrealised exchange gains | Euro | 62,494.52 |
| ▪ to each of the 53,130,347 ordinary shares in circulation (excluding the 7,863,255 treasury shares held at March 4, 2020), a dividend of Euro 0.12 before withholding taxes for an amount of | Euro | 6,375,641.64 |
| ▪ to retained earnings the residual amount, equal to | Euro | 8,016,013.89 |

The dividend will be paid from April 29, 2020, with record date of April 28, 2020 and coupon date (No. 13) of April 27, 2020.

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' Meeting of BasicNet S.p.A., having reviewed the 2019 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, 2019, in relation to each individual part and in its entirety, in addition to the proposal for the allocation of the Net Profit of Euro 14,486,568.37 and the dividend proposal.

Turin, March 4, 2020

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’ Meeting, 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’ Meeting of April 19, 2019. The Board of Directors, at the meeting held subsequent to the Shareholders’ Meeting, 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 paragraph 1. Introduction of the Issuer’s profile, reference should be made to the full version published on the www.basicnet.com website.

2. DISCLOSURE ON THE OWNERSHIP STRUCTURE AT MARCH 4, 2020 (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 7,683,255 treasury shares, equal to 12.892% 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 CFA¹, 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.

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.	12.892%	Treasury shares in portfolio.
Francesco Boglione	6.275%	Held indirectly through Francesco Boglione S.r.l. for 1.719%, with the residual 4.566% held directly.
Kairos Partners SGR S.p.A.	5.448%	

- 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’ Meeting of April 19, 2019 approved, for a period of twelve months, or until the next Shareholders’ Meeting to approve the 2019 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 4 million. As part of the treasury share buy-back programme authorised, BasicNet S.p.A. acquired 820,633 shares (equal to 1.345% of the Share Capital) at an average price of Euro 4.87 for a total payment of Euro 3,999,839. The buy-back programme concluded on December 13, 2019, following the reaching of the authorised spend limit.

BasicNet today holds a total of 7,863,255 treasury shares (equal to 12.892% of the Share Capital), for an investment of Euro 22 million.

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

The Board of Directors reviewed the issue at its July 25, 2019 meeting; on the basis of the assessments made, it concluded that: 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 l) (“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 disclosures required by Article 123-bis, paragraph 1, letter l) of the CFA (“applicable regulations concerning the appointment and replacement of directors, in addition to the amendment of the by-laws if differing from applicable law and regulations) are illustrated in the Board of Directors section (Section 4.1).

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

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

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

The Annual Report, which is published on the website www.basicnet.com/contenuti/corporate/corporategovernance.asp 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 2020, as in previous years, this percentage was 4.5% (Consob Resolution No. 28 of January 30, 2020);
- that the procedure for electing the Directors shall be as follows: i) from the slate which obtained the highest number of votes, based on the progressive order with which they are listed in the slate, all the members necessary are elected to fill the number of Directors established for the Shareholders' Meeting, while ensuring the gender balance provisions are complied with, except 1; ii) from the slate which obtained in the Shareholders' Meeting the second highest number of votes one member is elected of the Board of Directors as the first candidate on this slate;
- consideration is not taken of the slates which have not obtained at least the number required by the Company By-Laws for the presentation of the slates;
- should two slates receive the same number of votes, a second vote of the entire Shareholders' Meeting is taken to decide between them with the candidate being elected through a simple majority of the votes. In the case of presentation of only one slate, or in the case of no slate presented, the Shareholders' Meeting deliberates in accordance with the statutory majority.

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

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

Executive directors' succession plans

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

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

The mandate of the Board of Directors currently in office, appointed by the Shareholders' Meeting of April 19, 2019, will conclude at the Shareholders' Meeting called to approve the 2021 Annual Accounts, and comprises fourteen 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 Chairperson Member of the Remuneration Committee	M	1999	1
Federico Trono	Chief Executive Officer	M	2019	--
Alessandro Boglione	Director	M	2019	--
Lorenzo Boglione	Director	M	2019	--
Veerle Bouckaert	Director	M	2019	--
Paola Bruschi	Director	M	2007	--
Elisa Corgi	Independent and Non-Executive director Member of the Remuneration Committee and of the Control and Risks and Related Parties Committee	m	2016	6
Cristiano Fiorio	Independent and Non-Executive director Member of the Control and Risks and Related Parties Committee	M	2019	
Francesco Genovese	Director	M	2019	
Renate Hendlmeier	Independent and Non-Executive director Chairperson of the Control and Risks and Related Parties Committee and member of the Remuneration Committee	M	2015	--
Alessandro Jorio	Director	M	2019	--
Adriano Marconetto	Independent and Non-Executive director Lead Independent Director Member of the Remuneration Committee and of the Control and Risks and Related Parties Committee	M	2007	--
Carlo Pavesio	Non-Executive Director Chairman of the Remuneration Committee	M	1999	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 vitae 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 applicable on the appointment date.

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 35.7% (45% in its previous composition) of the total seats. In terms of age, 43% of members are between 30 and 50 years of age (8% in its previous composition), while 57% of members are over 50 years of age (92% in its previous composition).

The Issuer has not adopted any measures to promote equal treatment and gender equality within the corporate boards, also as there were no de facto gender differences in the Group workforce's composition (815 personnel, 514 women, 301 men).

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 and fruitful 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 improve their knowledge of the organisational structure and processes 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 2019 met six times, with meetings lasting on average two and a half hours and with full attendance on all occasions of the Board.

In January 2020, the company published its financial calendar which established the days for the five Board meetings for 2020, for the review of the preliminary results, the approval of the 2019 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 February 14, the first meeting regarding the review 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 was made available in advance to the Directors and Statutory Auditors. In 2019 a dedicated section called "My Documents" was set up whereby useful documents regarding the agenda are uploaded. 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 during the meeting and sent by e-mail upon its conclusion. The above-mentioned deadline was always complied with, usually in advance, for Board meetings in 2019.

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 2019, the Chief Executive Officer of BasicItalia and the Vice President Sales, subsequently appointed to the Board of BasicNet from April 2019, attended the two BasicNet Board of Directors' meetings.

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 retail operations of the Group, and Kappa Europe S.A.S., in turn held by BasicItalia S.p.A., the holding company for the Group of Kappa® brand licensee companies for France, UK, Switzerland, Spain and Portugal. Continuity in the composition of the Board of Directors of the companies of the Group facilitates, in fact, the 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 4, 2020 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 line with the previous guidelines, 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. The Board of Directors believes that the self-assessment activity is more formal than substantial, given the proper functioning of the Board's activities, in addition to the Chairperson's open invitation to the Directors to submit, at any time, useful suggestions for improving the activity and functioning of the Board or its Committees.

The Board in addition examines, on a half-yearly basis, the report of the Control and Risks and Related Parties Committee illustrating the controls carried out and the findings of their activities and their opinion on the adequacy of the internal control system. At the meeting of March 4, 2020, the Board, noting that in 2019 no significant situations or criticalities arose, confirmed its opinion regarding the adequacy of the Group Internal Control and Risk Management System. At the same meeting the Board approved the audit plan for 2020 and confirmed the budget available to the Internal Control System.

The Shareholders' Meeting of April 19, 2019, 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 Shareholders' Meeting of April 19, 2019 reconfirmed Marco Boglione as the Chairperson of the Board of Directors. The Board of Directors, meeting on the same date, reconfirmed Daniela Ovazza as Vice Chairperson of the Board of Directors and appointed Federico Trono as Chief Executive Officer.

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 19, 2019 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, Federico Trono, 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 Paola Bruschi was granted, as Group Finance Director and Executive Officer, powers for the administrative and financial management of the Company.

At the date of the present Report there are no interlocking directorates.²

Chairman of the Board of Directors

The Board Meeting of April 19, 2019 noted the joining of the offices of Chairperson and Executive Director of Marco Boglione, considering it in the company's interest that he continues to oversee certain strategic functions given the success of previous mandates.

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.

² The Self-Governance Code recommends that the chief executive officer does not undertake the position of Director with another issuer (not belonging to the same Group), where the chief executive officer is a Director of the Issuer.

4.5. OTHER EXECUTIVE DIRECTORS

In addition to the Chairperson Marco Boglione, the Executive Directors are the Chief Executive Officer Federico Trono, the Directors Paola Bruschi, Group CFO, Alessandro Boglione, Chief Executive Officer of the subsidiary BasicItalia S.p.A. and Executive Chairperson of the Board of Directors of BasicRetail S.r.l., Lorenzo Boglione, Chief Executive Officer of Basic Trademark Srl and of Superga Trademark S.r.l. and Chairperson of the Board of Directors of BasicAir S.r.l.. The Directors Veerle Bouckaert, Francesco Genovese and Alessandro Jorio are BasicNet S.p.A. executives.

4.6. INDEPENDENT DIRECTORS

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

The Board of Directors on their respective appointment to office and in the Board meeting of March 4, 2020 assessed, on the basis of their declarations, the independence of the Directors Elisa Corghi, Cristiano Fiorio, 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. To underline this, Director Marconetto pointed out that at no point during his period as an independent director of BasicNet did he receive remuneration that was different to the remuneration of Non-executive Directors, or any other remuneration from BasicNet or Group companies, since he was not required to provide any type of consultancy activity, even free of charge. Furthermore, he has never held BasicNet shares or shareholdings in Group companies and has always critically exercised his vote independently of and unrelated to interests other than purely company ones.

In relation to that outlined above, the Board confirms the continued independence of its members. In particular it does not believe that Mr. Marconetto's more than nine years in the role creates a conflict. In fact, the 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 judgement.

As stated in the report to the Shareholders' Meeting called for the approval of 2019 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.

The Independent Directors did not consider calling specific meetings necessary, since they have the opportunity to meet independently in the margins of the Control and Risks Committee on which they all sit, and meet frequently ahead of Committee meetings.

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. During the meeting of July 27, 2019 to implement this recommendation, the Board of Directors appointed Adriano Marconetto as Lead Independent Director. In this role, as set out in the Self-Governance Code, Adriano Marconetto provides a point of reference and coordination for the requests and contributions of non-executive Directors, and works with the Board of Directors and the Chairperson of the Board of Directors in order to ensure that Directors receive complete and timely information.

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, 2006, 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 2019, no Internal Dealing communications regarding transactions on the BasicNet share were received.

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

The Board meeting of April 19, 2019 appointed the Remuneration Committee and the Internal Control and Risk Committee. The Control and Risks Committee also continue to act as the Related Party Transactions Committee, in continuity with the motion of October 28, 2016.

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 19, 2019, 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.

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 the Board of Directors, 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 the Board of Directors, Executive Directors and Senior Executives, 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.

In 2019 the Committee met on two occasions to review the draft of the Remuneration Report to be presented to the Shareholders' Meeting and to draw up remuneration proposals for the Chairperson of the Board of Directors, the BasicNet Directors, the members of the Committees and the Group Strategic Executives. 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 4, 2020, the Board approved the BasicNet S.p.A. Remuneration Report available on the company website, together with the Shareholders' Meeting documentation, at www.basiconet.com/contenuti/dati/finanziari/assembleeazionisti.asp.

On October 31, 2019, Consob began the consultations to modify the Issuers' Regulation in order to implement the directive EC 828/2017 on shareholder rights, which amended Article 123-ter of the CFA with Legislative Decree No. 49/2019. Since as of the date of this report Consob has not approved the regulatory amendments referred to in the consultation document, the remuneration report for 2019 has been prepared in line with the new Article 123-ter of the CFA, as amended by Legislative Decree no. 49/2019, and again on the basis of the regulatory provisions contained in the Issuers' Regulation in force at the time (prior to the amendments proposed in the consultation).

The Remuneration Policy adopted requires the Shareholders' Meeting to approve the annual remuneration of all Board of Directors and Statutory Auditors members; the remuneration of the Directors holding specific offices, the members of the Internal Committees of the Board and the Strategic Executives 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. Finally, it is established that the Related Parties Committee should act in cases where the assignment of remuneration is not in line with the remuneration policy most recently approved by the shareholders, in particular in the case in which the Board of Directors intends to grant extraordinary bonuses to the Board of Directors or the Senior Executives.

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.

In addition to the Executive Directors of BasicNet, Ms. Elisabetta Rolando was identified as a Senior Executive. She is the Chairperson of the strategic subsidiary BasicItalia, in addition to the Chief Executive Officer of BasicAir Srl and the Sole Director of the newly acquired Aprica S.r.l. At the meeting of February 14, 2020, on the proposal of the Remuneration Committee the Board of Directors appointed Mr. Davide Piccolo as the Group Senior Executive in consideration of his appointment as an additional general manager of the Kappa Europe Group.

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 19, 2019. The Committee is composed of four Independent Directors: Renate Hendlmeier – Chairperson, Elisa Corghi, Cristiano Fiorio, appointed at the Board of Directors meeting of July 25, 2019, 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 main 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 Chairperson of the Board of Statutory Auditors;
- reports to the Board, at least every six months, on the approval of the annual and half-yearly accounts, on the work carried out and the adequacy of the internal control and risk management 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 three occasions in 2019, carrying out the following activities:

- examined the update to the Document for the identification and assessment of risk
- examined the update of the company procedures;
- met the control functions and boards, examined the Internal Audit and Supervisory Board reports and verified the absence of substantial findings from the checks carried out.
- met with the independent audit firm, examined the results of the audit 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
- examined the recommendations contained in the letters of December 2018 and December 2019 of the Chairperson of the Corporate Governance Committee and assessed a number of corporate governance matters, subsequently submitted for the approval of the Board of Directors
- examined 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 organisational simplification projects to concentrate the Group brands at the company BasicTrademark S.r.l. and property ownership at BasicVillage S.p.A.;
- monitored the integration of the Kappa Europe S.A.S. Group and agreed on the incorporation of BasicAir S.r.l. dedicated to managing the new company asset
- monitored compliance of the related parties' procedures and with the framework contracts which govern related party transactions.

The meetings - minuted and of an average duration of around two and a half hours - were attended by 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, the Director in charge of the internal control and risk management system, Paola Bruschi, the Internal Auditing Manager, Mario Sillano, and the members of the Supervisory Body and the company appointed to audit the Group. All 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, which were completed in the year.

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 ensures 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 4, 2020 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 April 28, 2016 to oversee the Control and Risks Committee, and her new mandate was confirmed on April 19, 2019.

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.

11.3 ORGANISATION MODEL PURSUANT TO LEGISLATIVE DECREE 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 19, 2019 appointed 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 2019, the Supervisory Board met three times.

Ethics Code

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

In 2019, 79 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 233 participants, of which 2 executives, 228 white-collar and 3 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 competitiveness 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.

Sourcing Centers Ethics Code

Sourcing Centers Ethics Code 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 Ethics Code. Accordingly, Sourcing Centers are always liable for full compliance with the Ethics Code 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 Ethics Code 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 Ethics Code. The principles cited in the Sourcing Centers Ethics Code include:

- a ban on the use by Sourcing Centers of child labour under the age of 15 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 general labour conditions;
- 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 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 Sourcing Centers Ethics Code 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 Ethics Code, 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 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 Ethics Code. 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 Ethics Code. During such inspections, BasicNet and its representatives may examine books and registers relating to employees and conduct private interviews of the Sourcing Centers 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 Ethics Code, 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 (“com”) 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-corruption policies and procedures – came to 105 hours of training in 2019, involving 219 participants, of which 1 executive and 216 white-collar workers and 2 blue-collar workers, all based in Italy.

Participants in training on anti-corruption policies		2019	2018
Executives (No.)		1	1
	% of total Executives*	3%	3%
White-collar (No.)		216	154
	% of total White-collar*	38%	27%
Blue-collar (No.)		2	-
	% of total Blue-collar*	7%	-
Total (No.)		219	155
	% total Group*	35%	24.6%

**Percentages are calculated on the average workforce in Italy in 2019.*

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

At the meeting of April 19, 2019, the Board of Directors nominated the members of the Supervisory Board in the persons of Messrs. Roberto Cota – Chairperson, Giuliana Baronio, and Paolo Cafasso. The Supervisory Board is tasked with overseeing the correct functioning of the Model and updates.

11.4 INDEPENDENT AUDIT FIRM

The audit is carried out by an independent audit firm registered in the relevant registrar. The Shareholders' Meeting of April 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 19, 2019 confirmed Director Paola Bruschi, Group Finance Director, as the Executive Officer for Financial Reporting for three years, with the favourable opinion of the Board of Statutory Auditors. Paola Bruschi possesses 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 her duties Paola Bruschi 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; she may develop an adequate organisational structure to undertake her activities, utilising internal resources available and, where necessary, outsourcing; she may also, where necessary, utilise the financial resources of the company, providing adequate information to the Board of Directors, and she may utilise the Internal Auditing department for the mapping and analysis of processes and to carry out specific checks.

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

At the meeting of November 2019 for the three-year review of the procedure, considering that since the latest amendment to the procedure in November 2016 there have been no significant changes to the ownership structure and that in practice the procedure has been complied with, as also communicated to the Related Parties Committee at the meeting of November 5, the BasicNet S.p.A. Board of Directors confirmed the procedure which is available on the company website at: 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/contenuti/gruppo/statuto.asp.

<http://www.basicnet.com><http://www.basicnet.com/contenuti/gruppo/statuto.asp>

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

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

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

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

Each shareholder, in addition to shareholders belonging to the same group, in accordance with Article 2359 of the Civil Code and the parties belonging to, including 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, even 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:

- the research, developments, 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;
- 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 Chairperson 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 Chairperson 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 Auditors 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 2021 Annual Accounts, therefore comprises:

Name	Office held on the Board	Slate M/m (*)	No. Appointments (**)
Maria Francesca Talamonti	Chairperson	m	4
Sergio Duca	Statutory Auditor	M	-
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.

(**) This column indicates the number of offices of director or statutory auditor in Italian companies held by the person in question, as per Article 148-*bis* of the CFA and the relative enacting provisions of the Consob Issuer Regulations. The complete list of offices held is published by Consob on its website pursuant to Article 144-*quinquiesdecies* of the Consob Issuers' Regulations.

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

Diversity criteria and policies

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

The Board of Statutory Auditors met immediately after the Shareholders' Meeting appointment of April 19, 2019 and, according to the Consob Issuers' Regulation and the Self-Governance Code, verified for all of its members compliance with the independence requirements established by Law (Article 148, paragraph 3 of the CFA) and by the Self-Governance Code (Articles 3.C.1 and 8.C.1) for the statutory auditors of companies with listed shares, also confirming the inexistence of reasons for the ineligibility, incompatibility and/or lapse as per the applicable regulation, the company By-Laws and the Self-Governance Code.

For the purposes of the audit, the Board of Statutory Auditors decided to refer to: (i) the list of existing administration and control positions, previously communicated to the Company pursuant to Article 2400 of the Civil Code, together with exhaustive information on their personal and professional characteristics, and (ii) declarations of acceptance of the candidature and possession of the requirements provided by the By-Laws and the statutory law issued pursuant to Article 144-*sexies*, paragraph 4, of the Issuers' Regulations.

The Board of Statutory Auditors immediately informed the Company of the outcome of these checks, which was communicated to the market through a press release issued upon conclusion of the Shareholders' Meeting in which the Board was appointed.

The Board of Statutory Auditors also carried out an assessment to verify the suitability of its members and the adequate composition of the Control Board, with reference to the requirements of professional standing, competence, good-standing and independence as per the regulation, set out in the "Conduct Rules for Boards of Statutory Auditors of Listed Companies" issued by the National Council of Certified Public Accountants.

On conclusion of the self-assessment process, the Board of Statutory Auditors found its composition to be adequate, underlined the correctness and efficacy of its functioning, and informed the Board of Directors of the company of the positive outcome of the self-assessment.

The documentation filed for the purposes of the appointment, including the updated curriculum vitae 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' Meeting 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 Chairperson and Chief Executive Officer actively engage in dialogue with shareholders and the financial analysts following the company.

Dialogue with investors has been encouraged since listing, through continuous updates to the website www.basicnet.com on which financial information of interest to Shareholders in general (Annual Reports and periodic reports, press releases and notices, presentations) can be found, as can 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. 2019 saw the continuation of communication with analysts and investors which began in 2018 with the establishment of a conference call to present the Company's periodic results, and meetings with individual investors continued and were extended to include a number of Italian and overseas operators.

16. SHAREHOLDERS' 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:

- in accordance with Articles 2505 and 2505-bis of the Civil Code, the resolutions concerning the merger by incorporation of one or more companies in which all or at least 90% of shares are held;
- the establishment or closure of secondary offices;
- indication of which Directors may represent the Company;
- modify the company By-laws in compliance with law;
- the reduction of share capital in the event of return of shares by shareholders;
- re-locating the registered office within 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 by shareholders after the presentation of each matter on the Agenda.

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

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

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

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

18. CHANGES SUBSEQUENT TO THE YEAR-END

No changes occurred.

19. CONSIDERATIONS ON THE LETTER OF DECEMBER 19, 2019 OF THE CHAIRPERSON OF THE CORPORATE GOVERNANCE COMMITTEE

In December 2019, the letter of the Chairperson of the Corporate Governance Committee was forwarded, as required by that document, to the Chairperson, to the Chief Executive Officer and to the Chairperson of the BasicNet Board of Statutory Auditors.

Subsequently, this documentation was communicated for the attention of the Remuneration Committee of February 11, 2020, and the Board of Directors and Board of Statutory Auditors at the meeting of February 14.

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

as regards the first recommendation, the issue of integrating the sustainability of business activity into the definition of strategies and remuneration policy is widely developed in the body of the Non-Financial Declaration (NFD), to which reference is made. In short: the Group's resources are identified as stakeholders in the definition of the BasicNet group's materiality matrix, in view of the critical role of sustainability. The issues of materiality, identified in the NFD, concern the management and development of human resources, diversity and equal opportunities, worker welfare, employee health and safety, and human rights.

The management of these aspects is relevant as they represent the factors that can affect sustainability and long-term value generation. The management of the Group's resources, paying attention to these aspects, is entrusted to the personnel administration managed through the BasicGuys web service which:

- plans and guarantees the adequacy of the Human Resources employed, both in quantitative and qualitative terms, managing the recruitment processes in a traceable and transparent way through the BasicGuys application;
- manages relations with staff from the moment they are hired, with training which supports inclusion and guarantees their professional growth through the BasicEducation platform (performance assessments are carried out and positions reviewed every two years), to the conclusion of employment, overseeing the correct application of the labour, pension and tax laws.
- encourages management of working relationships based on ensuring diversity and equal opportunity, in the conviction that this is a source of growth for the Group
- values the well-being of staff with programmes which balance work with family and personal commitments
- incorporates into the Ethics Code the Group conduct principles regarding Occupational Health and Safety and develops through the “Risk Assessment Document” the awareness of risks, protecting the health and safety of workers, whose aspects are managed by the “BasicFacility” web service.
- plans, schedules and monitors labour costs and ensures accurate and timely payment of wages and salaries and of the applicable contributions and taxes;
- handles relationships with trade union officials, business associations and social security agencies;
- applies 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.

With regards to the second recommendation concerning the management of flows of information with the Board of Directors, as indicated in paragraph 4.3 - Role of the Board of Directors, since the end of 2018 a dedicated section of the company's website has covered flows of information to the Board of Directors and the Board of Statutory Auditors. In general, the members of the Board of Directors welcome the new procedure which has improved disclosure.

With regards to the third recommendation which requires a stricter application of the independence criteria set out by the Code for Independent Directors and the control boards and oversight of the correct application of this criteria, reference should be made to the assessment made at paragraph 4.6 - Independent Directors, as regards the independence of the Director Adriano Marconetto.

Finally, with regards to the fourth point, in terms of the adequacy of the remuneration paid to the non-executive directors and the members of the control boards, the Remuneration Committee and the Board of Directors also assessed the average remuneration of the non-executive directors and the control boards of small caps by Assonime (Report on Corporate Governance practices in Italy: An assessment of the Italian CG Code implementation - 2018), considering remuneration to be substantially appropriate in view of the commitments required by the respective appointments.

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 2019 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 Ethics 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 2019 that is consistent with its organizational structure (reporting period from January 1 to December 31, 2019). The 2018 non-financial report was published on March 8, 2019.

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 2019 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 2018.

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 2019 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, 2019 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 company's activity:

- the reporting scope of information and data relating to training, especially as regards training hours per capita, covers staff at the Group's Italian sites only;
- the scope of environmental reporting, especially as regards energy consumption and greenhouse gas emissions, does not include the new company BasicAir S.r.l., which owns a used Cessna Citation aircraft. Since this aircraft became operational in September 2019, its energy consumption is not significant for the reporting period ending December 31, 2019. As such it will be included in the next non-financial report.

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 2019. This information has been provided with a comparison to 2018 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.

Regarding changes in the scope of consolidation during the period under review, it should be noted that:

- January 2019 saw the acquisition of the French Group Sport Finance, now renamed Kappa Europe S.A.S. (Kappa Europe). This purchase aimed to create a new licensee, "powered by BasicNet", which operates on Kappa's main and largest world market (Europe) and provides the model for the other licensees;
- in January 2019, the company BasicAir S.r.l., entirely held by BasicNet S.p.A., was incorporated. The newly-incorporated company acquired a used Cessna Citation VII aircraft as a Group strategic asset in light of potential European development;
- in April 2019 the company BasicRetail SUISSE SA., which owns a sales outlet in Mendrisio (Switzerland), was established.

The Non-Financial Report will be published annually.

The Non-Financial Report is also available on BasicNet's website, www.basicnet.com. For 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 4, 2020, 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 2019 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 2019 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 2018 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 Well-being	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 computerised 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).

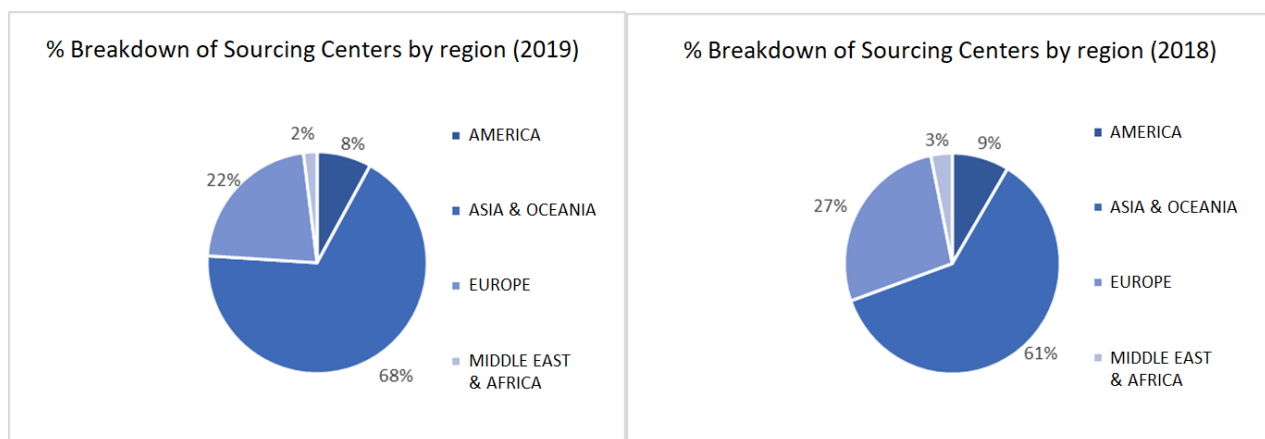
BasicNet is committed to social responsibility, as evidenced by the current "Sourcing Agreement". In pursuit of this aim, the Company intends to instil, in every one of the operators with which it collaborates, the values and principles of an operating model that encourages sustainable development from economic, environmental and social standpoints.

This intention has led to the creation of an action plan that includes evaluation of supplier strategy and sustainability performance by a third-party Independent Body.

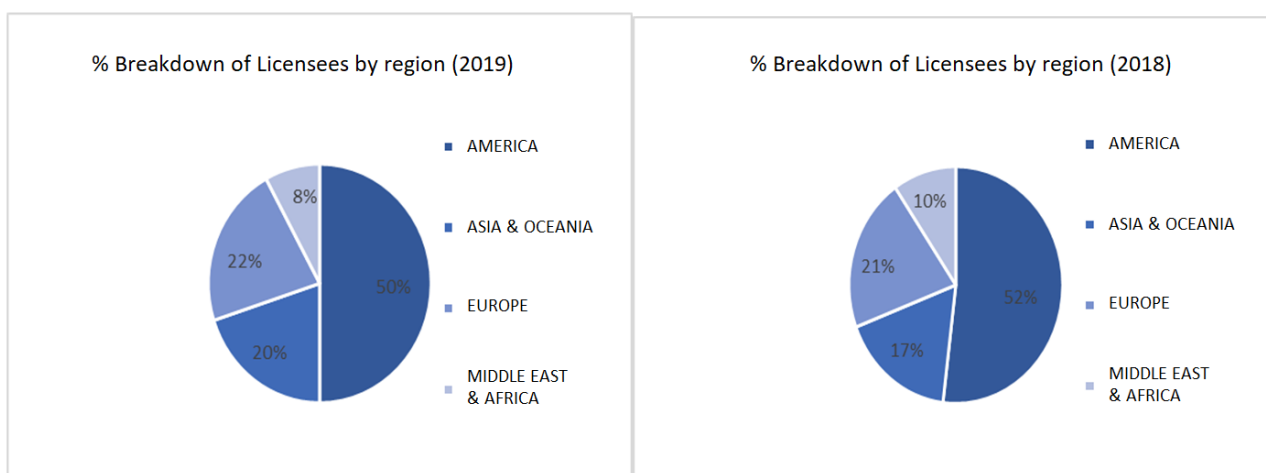
Supplier sustainability performance evaluation will take the form of a Desktop Audit programme supported by a third-party, independent, market-leading Body. This will ensure that the supplier portfolio is checked for compliance in terms of ethical, social and environmental responsibility, and that it is made available to distribution licensees via the web platform.

The first online self-assessment campaign will begin in 2020 and aim to involve every supplier in order to manage risk and growth throughout the supply chain.

In 2019, the Group was supplied by a total of 175 sourcing centres (or 165, since some have operating units in more than one country), compared to 187 in 2018. Their facilities are located all over the world. This with a view to optimising economies of scale.



On the other hand, in 2019 there were 102 Licensees, in line with 2018 (104).



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 Licensees - which includes commercial partners as well as the Group's Customers and Consumers - and its sourcing centres, as these were core suppliers of the subsidiary BasicItalia S.p.A. in 2018, and both BasicItalia S.p.A. and Kappa Europe Group in 2019.

“Core” suppliers

BasicItalia S.p.A. and Kappa Europe Group, a proprietary licensee that is a 61%-owned subsidiary, are structured in all respects as commercial licensees for the use and development of intellectual property rights and merchandise bearing all BasicNet trademarks. They purchase from Sourcing Centres and distribute finished goods throughout the area assigned to them. 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. and to the Kappa Europe Group.

BasicItalia SpA and Kappa Europe Group 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.

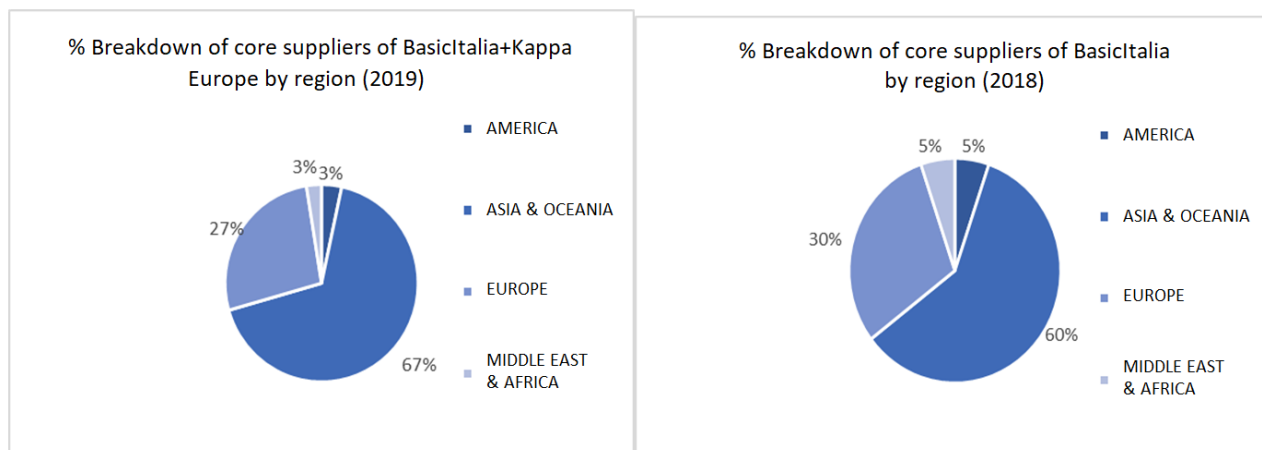
Sourcing contracts are based on a standard that arose over the years and was prepared by specialised outside lawyers. If individual contracts require exceptions, amendments or riders as a result of contractual agreements or to comply with local laws, these provisions are analysed beforehand by international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

As in 2018, in 2019 almost all sourcing centres supplying BasicItalia S.p.A. and of Kappa Europe Group S.p.A. are located in either Asia or Europe.

The acquisition of Kappa Europe Group has not resulted in significant changes in the number of core suppliers, since the company was already a licensee of the BasicNet Group companies, and therefore used the same sourcing centres as BasicNet.



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 dotcoms 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 Ethics 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 81/2008. 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 2019 the Group had around 2,400 suppliers for purchases not strictly related to core operations, up from 2,000 in 2018. Of these, approximately 65% were of Italian origin, compared to 90% in the previous year. This decrease in the percentage of Italian suppliers is due to changes in the scope of consolidation following the acquisition of companies with internationally-based suppliers.

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 after 15 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.

For the Kappa Europe Group, which came under the scope of consolidation in 2019, an information system evaluation was carried out, and the necessary steps are underway to bring its policy in line with that of the Basic Group.

Compliance with the European General Data Protection Regulation (hereinafter “GDPR”) and with applicable reference legislation

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.

Among the principal regulations introduced was the concept of "data protection by design", 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.

The Privacy Management System implemented during 2018 mainly covered the "Processing Registers", the main privacy procedures, the "Privacy Management Manual", the "privacy disclosures" for interested parties, and the instruments of appointment for parties involved in any way in company data processing (including, for example, instruments of appointment for external officers and authorised personnel). This was to comply with new legislation on the protection of personal data. The DPO (Data Protection Officer) was also appointed for the companies BasicNet, BasicItalia and BasicRetail, as per the Regulation. In 2019, as part of the procedures set out in the integrated control system, checks were carried out on the correct application of the procedures, on the compliance measures undertaken to adhere to the GDPR and applicable reference legislation, on the requests received by the Group from interested parties, and on the number of violations reported (updated for 2019, in which no violations were reported). As regards the Kappa Europe Group, an assessment is currently underway to examine the privacy management system in place in the Group. This aims to identify - and, where necessary, plan - any changes required to bring this system in line with the system adopted by the Basic Group (fully in line with the reference privacy regulations).

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. The project involves providing a QR code and a unique serial number for each product, allowing consumers to access information about the product they have purchased by scanning its QR code or entering 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 products branded K-Way and Robe di Kappa, for Sebago and Briko apparel, and for the iconic products of the other brands (in 2018, around 15% of products in the main goods categories had a unique label, compared to 16% in 2019).

In 2020 all Superga products are expected to carry the label, as are Briko Bike and Ski helmets, and Kappa products for the main BasicItalia and Kappa Europe Group teams. As regards Group product packaging, materials must be recyclable and comply with all applicable regulations. Along with some of its main Sourcing Centres, BasicNet is assessing the possibility of reusing recycled materials for pendants and boxes, complete with certificates of authenticity. This project is currently in an early research stage.

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, 2019, the Group's workforce consisted of 815 employees, of which 75.34% work in Italy. Most workers have full-time contracts - 698, of which 282 are men and 416 are women - while 117 employees work part-time, of which 83.76% 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.

It should also be noted that the main differences in staff numbers between 2018 and 2019 are chiefly due to the change in the consolidation scope following the acquisition of the Kappa Europe Group. On a like-for-like basis, in fact, the total number of Group employees in 2019 would have been 640 (compared to 596 in 2018).

Workers by type of contract (No.)*	2019			2018		
	Male	Female	Total	Male	Female	Total
Italy	209	405	614	195	384	579
Permanent	148	313	461	133	281	414
Fixed term	61	92	153	62	103	165
Overseas	92	109	201	6	11	17
Permanent	72	74	146	4	3	7
Fixed term	20	35	55	2	8	10
Total	301	514	815	201	395	596
of which:						
Full-time	282	416	698	193	309	502
Part-time	19	98	117	8	86	94

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

In 2019, 454 new staff members (199 men and 255 women) were hired, reflecting the Group's steady growth, mainly thanks to Kappa Europe becoming part of the Group. Outgoing staff, most of them from retail, numbered 235 people, which yielded a staff turnover rate of 28.8%.

Hiring rate and staff turnover	2019				2018			
	Hires (no.)	Departures (no.)	Rate of Entry*	Turnover**	Hires (no.)	Departures (no.)	Rate of entry*	Turnover
Gender								
Male	199	99	66.1%	32.9%	65	49	32.3%	24.4%
Female	255	136	49.6%	26.5%	117	102	29.6%	25.8%
Age group								
Less than 30	259	135	96.3%	50.2%	132	97	69.5%	51.1%
Between 30 and 50	164	88	37.7%	20.2%	49	53	14.6%	15.8%
Over 50	31	12	27.9%	10.8%	1	1	1.4%	1.4%
Region								
Italy	223	188	36.3%	30.6%	177	146	30.6%	25.2%
Overseas	231	47	114.9%	23.4%	5	5	29.4%	29.4%
Total	454	235	55.71%	28.83%	182	151	30.5%	25.3%

* 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 2018 and 2019, 53.7% 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, 2019, the total Group workforce was 36.93% male and 63.07% female, demonstrating the strong female presence at the Group. 53.37% of the total workforce are between the ages of 30 and 50, 13.62% are over the age of 50 and 33.01% are under the age of 30.

Staff by diversity trait	2019			2018		
	Executives	White-collar	Blue-collar	Executives	White-collar	Blue-collar
Gender						
Male	70.51%	32.68%	57.14%	65.5%	31.2%	50%
Female	29.49%	67.32%	42.86%	34.5%	68.8%	50%
Age group						
Less than 30	4%	36%	19%	0.0%	34.7%	10.7%
Between 30 and 50	61%	53%	48%	55.2%	56.2%	60.7%
Over 50	35%	11%	33%	44.8%	9.1%	28.6%
Total	9.57%	87.85%	2.58%	4.9%	90.4%	4.7%

Just as it does every year, the Group renews its commitment to its ethical values of social responsibility by hiring 22 people belonging to the so-called protected categories (8 women and 14 men).

Staff belonging to protected categories (No.)	2019		2018	
	Male	Female	Male	Female
Classification				
Executives			-	-
White-collar	13	5	9	6
Blue-collar	1	3	2	4
Total	14	8	11	10

Also with respect to involving the Group's licensees in its business, the Ethics 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 immediately upon hiring. 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)³, the working needs indicated by employees and updates on processes, in accordance with the Group's policies.

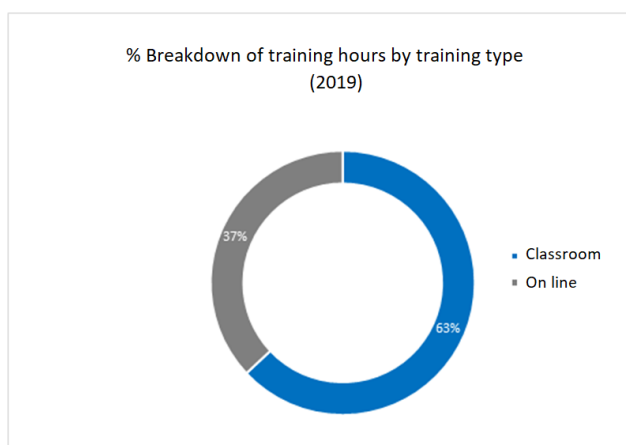
2019 also saw the continuation of the project to train retail staff and ensure that the Group's Human Resources remain constantly up to date. In 2019 the Group provided over 3,000 hours of training to its human resources, involving a total of 645 trainees. Of these hours, 14% regarded Health and Safety training (Legislative Decree No. 81/2008), whereas the remainder related to IT, the Ethics Code business model etc.

Hours of training provided	2019	2018
Total hours of training	3285	4888
<i>of which, in the classroom</i>	2070	3302
<i>of which, online</i>	1215	1586
% of hours of training financed ⁴	3%	14%

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 management training is also provided. Courses are both individual and Group-based.

³ The data and information regarding anti-corruption policy training is available in the "Legislative Decree No. 231/2001 Organization Model" section of the Corporate Governance and Ownership Structure Report as per Legislative Decree 231/2001

⁴ Training activities for which funding was requested from the "Fondo Interprofessionale Fondimpresa"



Training by classification and gender	2019		2018	
	Resources trained (no.)	Average hours per capita (**)	Resources trained (no.)	Average hours per capita (*)
Executives	5	1.9	22	1.5
<i>Male</i>	5	2.8	17	2.1
<i>Female</i>	0	0	5	0.3
White-collar	628	8	637	9.1
<i>Male</i>	229	11.8	197	9.6
<i>Female</i>	399	6.2	440	8.9
Blue-collar	12	4.9	24	1.3
<i>Male</i>	7	5.4	12	1.9
<i>Female</i>	5	4.1	12	0.7
Total	645	7.6	683	8.4
of which, women	404	6	457	8.5

* 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. The scope of data on training hours per capita covers staff at the Group's Italian sites only;

In order to promote training to ensure that staff remain constantly up-to-date regarding specific operational demands, specific action areas were identified. For 2019, the update programmes mainly covered ICT, software graphics and rendering, and sales and human capital 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.

It should also be noted that, during 2019, 42 employees of the new Kappa Europe Group (10 Executives and 32 Employees) were trained on the Group's Ethics Code. 29 women, including 4 executives, participated in training on the Group's Ethics Code.

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 2019, 19 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 75.34% of employees, i.e. the entire company population based in Italy under permanent contracts. This was a decrease from around 97% in 2018 following the addition of Kappa Europe, which owns sites outside Italy, to the Group's scope of consolidation.

As mentioned above, according to the 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 this regard, in fact, the Parent Company and its subsidiaries have developed a “Risk Assessment Document” pursuant to Legislative Decree 81/2008 (Basic Properties America, Inc. and BasicNet Asia Ltd. are not subject to the checks set out in the decree). 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 Ethics 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 Manager
- 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 ".com" 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 carried out annually 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 “.com” “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 Individual Protection Devices (IPD).

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. As of 2019, every external company is required to read and sign the risk information sheet (disruptive risks) found at the security desk at the BasicVillage factory outlet and in the porter’s lodge at BasicItalia.

The BasicGuys web service 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 2019, there were no reports of occupational illnesses, nor were there any fatal incidents or incidents with permanent damage reported.

In 2019 there was 1 workplace accident in Italy and 4 workplace accidents abroad.⁵

Number of accidents and accident rates 2019 – Italy			
	Male	Female	Total
Total accidents (No.)	1	0	1
<i>workplace accidents (No.)</i>	1	0	1
<i>accidents on commute (No.)</i>	0	0	0
Severity Index (Lost Day Rate LDR) ⁶	2.9	0	1,0
Frequency Index/Accident Rate (Injury Rate IR) ⁷	0.55	0	0.20
Absentee Rate AR ⁸ (%)	1.6%	1.8%	1.8%

⁵ Health and Safety data for 2018 did not include workers at foreign sites since these made up an insignificant proportion of total workers and because there were no workplace accidents at sites outside Italy during the year. In 2019, on the other hand, following the addition of Kappa Europe to the Group and the consequent increase in the number of workers at overseas sites, reporting now includes data on workers outside Italy.

⁶ 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)

⁷ 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)

⁸ Absentee rate represents the total percentage of absentee hours out of the number of workable hours during the same period (Source: GRI standards 2016)

Number of accidents and accident rates 2019 – Abroad

	Male	Female	Total
Total accidents (No.)	1	3	4
<i>workplace accidents (No.)</i>	1	3	4
<i>accidents on commute (No.)</i>	0	0	0
Severity Index (Lost Day Rate LDR) ⁹	4.6	73.2	42.0
Frequency Index/Accident Rate (Injury Rate IR) ¹⁰	1.73	4.44	3.20
Absentee Rate AR ¹¹ (%)	11%	12%	12%

Number of accidents and accident rates 2018 – Italy

	Male	Female	Total
Total accidents (No.)	2	6	8
<i>workplace accidents (No.)</i>	-	3	3
<i>accidents on commute (No.)</i>	2	3	5
Severity Index (Lost Day Rate LDR)	6.9	14.2	11.8
Frequency Index/Accident Rate (Injury Rate IR)	1.2	1.9	1.6
Absentee Rate AR(%)	2.8%	3.8%	3.4%

Throughout 2019, the Companies of the BasicNet 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.

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.

In order to safeguard employee health as well as the health of the company population, in 2019 new AED (automated external defibrillator) operators were trained, and new hires were brought up to date as per the applicable legislation.

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.

⁹ 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)

¹⁰ 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)

¹¹ The absentee rate is the total number of absentee days as a percentage of the number of workable days during the same period (Source: GRI standards 2016)

4.1 Energy resource management

The energy resources analysed relate to¹²:

- the Turin sites, i.e. the offices of the Parent Company¹³ (property of the subsidiary BasicVillage S.p.A.) and those of BasicItalia S.p.A. respectively;
- The five offices of the new Kappa Europe Group (two in France, one in Spain, one in Switzerland and one in the United Kingdom), established during the year.
- 36 Franchises, i.e. the stores owned by the subsidiary BasicRetail S.r.l. and located around Italy. In 2019 the new store in Mendrisio (Switzerland), owned by the new company BasicRetail SUISSE SA., was added to these;
- the overseas branch of BasicNet Asia Ltd. (Hong Kong, China) is less significant from an energy consumption point of view, since it rents a small number of premises and employs only 15 staff.

In relation to the two headquarters in Turin, where 400 out of 815 employees work (49% of the Group's total workforce), the online business "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 2020. It is nevertheless important to note that in the BasicVillage offices there is an automatic lighting system which automatically switches off all the lights in the premises. At BasicItalia's offices, in 2020 the replacement of all lights and fluorescent bulbs with LED lighting will be completed;
- the use of software to manage the thermal fluid installation in the BasicVillage 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;
- pursuant to Legislative Decree 102/2014, an energy audit to promote energy efficiency is programmed every three years for the Basic Village and BasicItalia headquarters, which took 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.

¹² The scope of data on energy consumption and greenhouse gas emissions does not include the new company BasicAir S.r.l., which owns a used Cessna Citation aircraft. Since this aircraft became operational in September 2019 it is not significant for the reporting period ending December 31, 2019. As such it will be included in the next non-financial report.

¹³ The Parent Company's relative electricity consumption also includes, for 2019, the Corso Vigevano warehouse and the Via Padova offices in Turin (Italy).

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. It should be noted that, following the widening of the Group's scope, in 2019 total electric energy consumption increased by 10% compared to 2018 (4% at like-for-like scope), whereas the consumption of natural gas decreased by 17%, and the use of oil for heating increased by 10%. A further 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 petrol and diesel consumption of 32% and 321% respectively¹⁴.

In 2019, the increase in the Group's energy consumption due to new acquisitions led to an increase in greenhouse gas emissions generated compared to 2018. Specifically, the increase in greenhouse gases derived from electricity supplied from the grid (indirect emissions - Scope 2, calculated using a Location-based method and a Market-based method), which increased by 5% with the Location-based approach and 6% with the Market-based approach compared to 2018 (on a like-for-like basis the increases are 4% and 5% respectively). By contrast, emissions generated directly within the Group from the use of heating and vehicle fuels (direct emissions - Scope 1), represent a lesser proportion of emissions, and increased 27% on 2018. This was due to the Group's increased scope (on a like-for-like basis there was a 5% decrease). Despite the acquisitions of new Companies, emissions from the use of natural gas and oil for heating dropped by 8% compared to 2018.

It should also be noted in general that the main differences in energy consumption and CO₂ emissions between 2018 and 2019 are chiefly due to the change in the scope of consolidation following the acquisition of the Kappa Europe Group, as well as the greater number of stores owned. On a like-for-like basis, in fact, the Group's total energy consumption in 2019 was 27,206 GJ (essentially the same as in 2018), while total like-for-like CO₂ emissions were 2,384 ton CO₂ (a 1% increase compared to 2018, considering Scope 1 and Scope 2 emissions and using the Location-based approach).

Internal and external energy consumption for the BasicNet Group in 2019 and 2018

Energy sources	2019	2018	Change %
Internal energy consumption¹⁵			
Electrical energy purchased from the grid	5,292,870 kWh (19,054 GJ)	4,822,043 kWh (17,359 GJ)	10%
Heating			
Natural gas	148,978 smc (5,259 GJ)	180,643 smc (6,324 GJ)	-17%
Diesel	69,062 litres (2,482 GJ)	63,000 litres (2,262 GJ)	10%
Vehicles¹⁶			
Petrol or vehicles	18,561 litres (541 GJ)	14,024 litres (408 GJ)	32%
Diesel for vehicles	99,624 litres (3,584 GJ)	23,723 litres (852 GJ)	321%
Total internal energy consumption	30,929 GJ	27,205 GJ	14%

¹⁴ It should be noted that the substantial increase in diesel consumption is due to the acquisition of the new Kappa Europe Group. In fact, on a like-for-like basis compared to the previous year, diesel consumption decreased by 1%.

¹⁵ For 2019 data: the Net Calorific value of natural gas is 0.035 GJ/m³, the average density of diesel is 0.838 kg/l, the Net Calorific value of diesel is 42.877 GJ/ton for Italy and 42.93 GJ/ton for France, the average density of petrol is 0.68 kg/l, Net Calorific value of petrol is 42.817 GJ/ton for Italy and 44.75 GJ/ton for France (Sources: Ministry of the Environment and for the Protection of the Land and Seas, National Standards Parameter Table, 2019; Department for Environment, Food & Rural Affairs, Conversion factors 2019 - Condensed set, 2019).

¹⁶ The consumption of vehicle petrol and diesel was estimated under the item vehicle fuel expenses using the average national prices for 2019 of €1.57 per litre of petrol and €1.48 per litre of diesel (Source: Ministry for Economic Development, *Average National Annual Price index* 2018). As regards fuel and petrol consumption for the Kappa Europe branch located in France, the consumption of vehicle petrol and diesel for France was estimated under the item 'vehicle fuel expenses' using the average national prices for 2019 of €1.58 per litre of petrol and €1.45 per litre of diesel (Source: Carbu.com France, *Evolution des prix moyens des carburants*). It should also be noted that, following improvements in the reporting system, the 2018 figures relating to the consumption of vehicle petrol and diesel have been restated compared to those published in the previous Non-Financial Report.

CO₂ emissions of the BasicNet Group, 2019 and 2018

CO₂ emissions (ton CO₂)¹⁷	2019	2018	Change %
Scope 1 emissions ¹⁸	783	615	27%
Due to heating	480	523	-8%
Due to vehicles	303	92	227%
Scope 2 emissions ¹⁹			
Location-based Approach	1,822	1,736	5%
Market-based Approach	2,439	2,300	6%

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 and plastics. 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 (65,984 kg of waste of non-hazardous waste and 189 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.

Despite the introduction in 2019 of obligatory electronic invoicing to reduce paper use, there was an increase in total waste produced by the Group compared to 2018, in part due to the wider scope of consolidation.

Despite this, there was a substantial decrease in plastic consumption in 2019 (-23%). To further limit plastic consumption in 2020, the Group will use biodegradable materials for water bottles, teaspoons and cups in its vending machines. On the suggestion of an employee, all BasicNet and BasicItalia employees also received a 500ml reusable water bottle as a gift in order to further limit the use of plastic, specifically in bottles and cups.

¹⁷ For calculations of Scope 1 and Scope 2 emissions, only CO₂ emissions were taken into account. This is because the effect of methane and nitrous oxide on total greenhouse gas emissions (CO₂ equivalents) is negligible, as stated in the related technical literature.

¹⁸ For Italy the natural gas emissions factor is 0.001975 tCO₂/scm, the diesel emissions factor is 3.155 tCO₂/ton, and the petrol emissions factor is 3.14 tCO₂/ton (source: Ministry for the environment and the protection of the Land and Sea, National Standards Parameter Table, 2019). For France the natural gas emissions factor is 0.0020 tCO₂/scm, the diesel emissions factor is 3.205 tCO₂/ton, and the petrol emissions factor is 3.152 tCO₂/ton (source: Department for Environment, Food & Rural Affairs, Conversion factors 2019 - Condensed set, 2019).

¹⁹ 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 359 gCO₂/kWh and for France 72 gCO₂/kWh Source: Terna, International Comparisons 2017). 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 483 gCO₂/kWh and for France of gCO₂/kWh – Source: Association of Issuing Bodies, European Residual Mixes 2018).

BasicNet Group waste products, year 2019 and 2018²⁰

Type of waste (KG)	2019	2018	Change %
Non-hazardous waste			
Paper and cardboard	63,691	51,250	24%
Toner	259	181	43%
Plastics	2,034	2,634	-23%
Total	65,984	54,065	22%
Hazardous waste			
Batteries	189	156	21%
Total	189	156	21%
Total waste	66,173	54,221	22%

²⁰ 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. As in 2018, the 2019 figures also include the weight of plastic used for plastic cups at BasicNet/Basic Village and BasicItalia during the reporting year. 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 - Human rights assessment	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 Well-being	- Employment	BasicNet Group; Group Resources; Franchisees	Caused by the Group
Employee Health and Safety	- Occupational health and safety	BasicNet Group; Group resources; Suppliers; Sourcing Centers; Licensees; Franchisees	Caused by the Group; Related to Group activities
Human Rights	- Human rights assessment	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 ²¹
GRI 102: GENERAL STANDARD DISCLOSURES			
Organisational profile			
102-1	Name of the organization	7	
102-2	Activities, brands, products, and services	7; 8	
102-3	Location of headquarters	7	
102-4	Countries of operation	7-9; 10; 12-13	
102-5	Nature of ownership and legal form	31-35	
102-6	Markets served	10; 12-13	
102-7	Scale of the organization	14-21; 72	
102-8	Information on employees and other workers	72	
102-9	Supply chain	66-69	
102-10	Significant changes to the Organisation and its supply chain	62	
102-11	Precautionary principle or approach	45-47	
102-12	External initiatives	63	
102-13	Membership of associations	63	
Strategy			
102-14	Statement of the Chairman/Chief Executive Officer	4-5	
102-15	Key impacts, risks and opportunities	22-25; 45-47	
Ethics and integrity			
102-16	Values, principles, standards and norms of behaviour	49-51	
Governance			
102-18	Governance structure	34-36; 40-45	
Stakeholder Engagement			
102-40	List of stakeholder groups	63	
102-41	Collective bargaining agreements	76	
102-42	Identifying and selecting stakeholders	63	
102-43	Approach to stakeholder engagement	65; 63	
102-44	Key topics and concerns raised	64	
Reporting process			
102-45	Entities included in the consolidated financial statements	61-62	
102-46	Defining report content and topic Boundaries	61-62; 64	
102-47	List of material topics	64	
102-48	Restatements of information	61-62	
102-49	Changes in reporting	61-62	No significant changes in relation to the material topics and their scope took place in 2019.

²¹ The "Notes" column presents information on the coverage of the indicators and any limitations to the reporting boundary.

102-50	Reporting period	61-62	
102-51	Date of most recent report	61	
102-52	Reporting cycle	62	
102-53	Contact point for questions regarding the report	62	
102-54	GRI Guidelines compliance option	61	
102-55	GRI Content Index	85-90	
102-56	External assurance	Auditors' Report [to be inserted]	
SPECIFIC STANDARD DISCLOSURES			
ECONOMIC CATEGORY			
Indirect economic impacts			
GRI 103: Managerial approach			
103-1	Explanation of the material topic and its Boundary	63-64; 84	
103-2	The management approach and its components	64-66	
103-3	Evaluation of the management approach	64-66	
GRI 203: Indirect economic impacts			
203-2	Significant indirect economic impacts	64-66	
Anti-corruption			
GRI 103: Managerial approach			
103-1	Explanation of the material topic and its Boundary	63-64; 84	
103-2	The management approach and its components	51-52	
103-3	Evaluation of the management approach	51-52	
GRI 205: Anti-corruption			
205-2	Communication and training about anti-corruption policies and procedures	52; 75	
Anti-competitive conduct			
GRI 103: Managerial approach			
103-1	Explanation of the material topic and its Boundary	63-64; 84	
103-2	The management approach and its components	48; 51	
103-3	Evaluation of the management approach	48; 51	
GRI 206: Anti-competitive conduct			
206-1	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	86	As for 2018, during 2019 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	63-64; 84	
103-2	The management approach and its components	80-81	
103-3	Evaluation of the management approach	80-81	
GRI 302: Energy			
302-1	Energy consumption within the organization	81	
Emissions			
GRI 103: Managerial approach			
103-1	Explanation of the material topic and its Boundary	63-64; 84	
103-2	The management approach and its components	80-81	
103-3	Evaluation of the management approach	80-81	
GRI 305: Emissions			
305-1	Direct (Scope 1) GHG emissions	82	
305-2	Energy indirect (Scope 2) GHG emissions	82	
Effluents and waste			
GRI 103: Managerial approach			
103-1	Explanation of the material topic and its Boundary	63-64; 84	
103-2	The management approach and its components	82	
103-3	Evaluation of the management approach	82	
GRI 306: Effluents and waste			
306-2	Waste by type and disposal method	83	
Environmental Compliance			
GRI 103: Managerial approach			
103-1	Explanation of the material topic and its Boundary	63-64; 84	
103-2	The management approach and its components	79-80	
103-3	Evaluation of the management approach	79-80	
GRI 307: Environmental Compliance			
307-1	Non-compliance with environmental laws and regulations	87	As for 2018, during 2019 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	63-64; 84	
103-2	The management approach and its components	71-73; 76	
103-3	Evaluation of the management approach	71-73; 76	

GRI 401: Employment			
401-1	New employee hires and employee turnover	72	
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	76	
Occupational health and safety			
GRI 103: Managerial approach			
103-1	Explanation of the material topic and its Boundary	63-64; 84	
103-2	The management approach and its components	77-78	
103-3	Evaluation of the management approach	77-78	
GRI 403: Occupational health and safety			
403-2	Types of injury, injury rate, occupational illnesses, lost days, absentee rate, and work-related fatalities.	78-79	
Training and education			
GRI 103: Managerial approach			
103-1	Explanation of the material topic and its Boundary	63-64; 84	
103-2	The management approach and its components	74-75	
103-3	Evaluation of the management approach	74-75	
GRI 404: Training and education			
404-1	Average hours of training per year per employee	75	
404-2	Programs for upgrading employee skills and transition assistance programs	75	
Diversity and equal opportunities			
GRI 103: Managerial approach			
103-1	Explanation of the material topic and its Boundary	63-64; 84	
103-2	The management approach and its components	37; 73-74	
103-3	Evaluation of the management approach	37; 73-74	
GRI 405: Diversity and equal opportunities			
405-1	Diversity of governance bodies and employees	36; 73-74	
Non-discrimination			
GRI 103: Managerial approach			
103-1	Explanation of the material topic and its Boundary	63.64; 84	
103-2	The management approach and its components	73-74	
103-3	Evaluation of the management approach	73-74	
GRI 406: Non-discrimination			
406-1	Incidents of discrimination and corrective actions taken	88	As for 2018, during 2019 no cases of discrimination were reported in 2019 at the Group.

Human rights assessment			
GRI 103: Managerial approach			
103-1	Explanation of the material topic and its Boundary	63-64; 84	
103-2	The management approach and its components	49.50; 65	
103-3	Evaluation of the management approach	49.50; 65	
GRI 412: Human rights assessment			
412-2	Employee training on human rights policies or procedures	52; 75	
412-3	Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	67	
Assessment of suppliers according to social criteria			
GRI 103: Managerial approach			
103-1	Explanation of the material topic and its Boundary	63.-64; 84	
103-2	The management approach and its components	66-69	
103-3	Evaluation of the management approach	66-69	
GRI 414: Assessment of suppliers according to social criteria			
414-1	New suppliers that were screened using social criteria	68	
Marketing and labelling			
GRI 103: Managerial approach			
103-1	Explanation of the material topic and its Boundary	63-64; 84	
103-2	The management approach and its components	70-71	
103-3	Evaluation of the management approach	70-71	
GRI 417: Marketing and labelling			
417-1	Requirements for product and service information and labelling	70-71	

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	69-70	
103-3	Evaluation of the management approach	69-70	
GRI 418: Customer privacy			
418-1	418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data	90	As for 2018, during 2019 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	48	
103-3	Evaluation of the management approach	48	
GRI 419: Socio-economic compliance			
419-1	Non-compliance with laws and regulations in the social and economic area	25	
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	27-28	
103-3	Evaluation of the management approach	27-28	
Client Relations			
GRI 103: Managerial approach			
103-1	Explanation of the material topic and its Boundary	66-69; 70-71	
103-2	The management approach and its components	66-69; 70-71	
103-3	Evaluation of the management approach	66-69; 70-71	

**CONSOLIDATED FINANCIAL STATEMENTS
AND EXPLANATORY NOTES OF THE BASICNET GROUP
AT DECEMBER 31, 2019**

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 50.

BASICNET GROUP CONSOLIDATED INCOME STATEMENT

(Euro thousands)

	<i>Note</i>	FY 2019		FY 2018		Changes	
			%		%		%
Consolidated direct sales	(8)	250,148	100.00	155,615	100.00	94,533	60.75
Cost of sales	(9)	(142,954)	(57.15)	(91,542)	(58.83)	(51,412)	(56.16)
GROSS MARGIN		107,194	42.85	64,073	41.18	43,121	67.30
Royalties and sourcing commissions	(10)	55,551	22.21	54,832	35.24	719	1.31
Other income	(11)	6,616	2.64	3,053	1.96	3,563	116.72
Sponsorship and media costs	(12)	(42,186)	(16.86)	(25,650)	(16.48)	(16,536)	(64.47)
Personnel costs	(13)	(32,161)	(12.86)	(23,074)	(14.83)	(9,087)	(39.38)
Selling, general and administrative costs, royalties expenses	(14)	(52,493)	(20.98)	(40,205)	(25.84)	(12,288)	(30.56)
Amortisation & Depreciation	(15)	(11,964)	(4.78)	(6,448)	(4.14)	(5,516)	(85.56)
EBIT		30,557	12.22	26,581	17.08	3,976	14.96
Net financial income (charges)	(16)	(1,160)	(0.46)	(1,157)	(0.74)	(3)	(0.22)
Share of profit/(loss) of investments valued at equity	(17)	(25)	(0.01)	(23)	(0.02)	(2)	(6.93)
PROFIT BEFORE TAXES		29,372	11.74	25,401	16.32	3,971	15.63
Income taxes	(18)	(8,319)	(3.33)	(4,387)	(2.82)	(3,932)	(89.63)
NET PROFIT FOR THE YEAR		21,053	8.42	21,014	13.51	39	0.19
Earnings per share	(19)						
– basic		0.3919		0.3860		0.006	1.53
– diluted		0.3919		0.3860		0.006	1.53

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT*(Euro thousands)*

	<i>Note</i>	FY 2019	FY 2018
<i>Profit for the year (A)</i>		21,053	21,014
Effective portion of the Gains/(losses) on cash flow hedges		(825)	1,468
Re-measurement of post-employment benefits (IAS 19) (*)		(162)	73
Gains/(losses) from translation of accounts of foreign subsidiaries		(8)	346
Tax effect on other profits/(losses)		310	(370)
<i>Total other gains/(losses), net of tax effect (B)</i>	<i>(33)</i>	(685)	1,517
Total Comprehensive Profit (A)+(B)		20,368	22,531

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

BASICNET GROUP CONSOLIDATED BALANCE SHEET*(Euro thousands)*

ASSETS	<i>Note</i>	Dec. 31, 2019	Dec. 31, 2018
Intangible assets	(20)	53,184	53,225
Rights-of-use	(21)	18,066	-
Goodwill	(22)	12,206	9,232
Property, plant and equipment	(23)	31,761	29,397
Equity invest. & other financial assets	(24)	1,051	1,048
Interests in joint ventures	(25)	217	243
Deferred tax assets	(26)	329	-
Total non-current assets		116,814	93,145
Net inventories	(27)	66,757	44,379
Trade receivables	(28)	68,560	69,880
Other current assets	(29)	10,887	8,820
Prepayments	(30)	14,517	9,368
Cash and cash equivalents	(31)	15,235	9,616
Derivative financial instruments	(32)	465	305
Total current assets		176,421	142,368
TOTAL ASSETS		293,235	235,513
LIABILITIES	<i>Note</i>	Dec. 31, 2019	Dec. 31, 2018
Share capital		31,717	31,717
Reserve for treasury shares in portfolio		(22,225)	(17,827)
Other reserves		91,196	78,033
Net Profit		21,053	21,014
TOTAL SHAREHOLDERS' EQUITY	(33)	121,741	112,937
Provisions for risks and charges	(34)	227	50
Loans	(35)	19,939	22,217
Payables for rights-of-use	(37)	19,287	-
Other financial payables	(38)	2,839	-
Employee and Director benefits	(39)	3,408	4,040
Deferred tax liabilities	(40)	-	1,949
Other non-current liabilities	(41)	1,937	1,136
Total non-current liabilities		47,637	29,392
Bank payables	(36)	51,444	39,080
Trade payables	(42)	46,492	38,280
Tax payables	(43)	7,585	2,133
Other current liabilities	(44)	11,227	9,624
Accrued expenses	(45)	6,761	3,631
Derivative financial instruments	(46)	348	436
Total current liabilities		123,857	93,184
TOTAL LIABILITIES		171,494	122,576
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		293,235	235,513

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

	Dec. 31, 2019	Dec. 31, 2018
A) OPENING SHORT-TERM BANK DEBT	(23,419)	(25,946)
B) CASH FLOW FROM OPERATING ACTIVITIES		
Net profit for the year	21,053	21,014
Amortisation & Depreciation	11,964	6,448
Result of companies valued under the equity method	(25)	23
Changes in working capital:		
. (Increase) decrease in trade receivables	13,874	(11,302)
. (Increase) decrease in inventories	(7,626)	2,138
. (Increase) decrease in other receivables	1,314	(3,677)
. Increase (decrease) in trade payables	(7,204)	4,412
. Increase (decrease) in other payables	(59)	2,300
Net changes in employee and director benefits	137	505
Others, net	383	49
	32,811	21,910
C) CASH FLOW FROM INVESTING ACTIVITIES		
Investments in fixed assets:		
- tangible assets	(5,478)	(2,801)
- intangible assets	(3,171)	(2,613)
- financial assets	4	(386)
- change in consolidation scope	(4,586)	-
Realisable value for fixed asset disposals:		
- tangible assets	31	255
- intangible assets	11	39
- financial assets	-	-
	(13,189)	(5,506)
D) CASH FLOW FROM FINANCING ACTIVITIES		
Lease contracts (repayments)	(172)	(168)
New medium/long term loans	4,200	-
Loan repayments	(8,967)	(7,104)
Repayment of loans for rights-of-use	(5,162)	-
Repayment of Kappa Europe Group bond loan	(2,276)	-
Acquisition of treasury shares	(4,398)	(3,332)
Dividend payments	(6,468)	(3,273)
	(23,243)	(13,877)
E) CASH FLOW IN THE YEAR	(3,621)	2,527
F) CLOSING SHORT-TERM BANK DEBT	(27,040)	(23,419)

Interest paid for the year amounts to respectively Euro 860 thousand in 2019 and Euro 706 thousand in 2018, while income taxes paid in the year amount respectively to Euro 1.2 million in 2019 and Euro 2.8 million in 2018.

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

	Share capital	Treasury shares	Reserves					Net Result	Total Group Net Equity
			Reserves & Retained earnings	Translation	Remeas. IAS 19	IFRS16 Reserve	Cash flow hedge		
December 31, 2017	31,717	(14,495)	69,575	986	(208)	-	(1,210)	10,646	97,011
Allocation of result as per Shareholders' Meeting 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
<i>Total comprehensive income</i>		-	-	346	55	-	1,116	21,014	22,531
December 31, 2018	31,717	(17,827)	76,948	1,332	(153)	-	(94)	21,014	112,937
Allocation of result as per Shareholders' Meeting resolution of April 19, 2019									
- Reserves & Retained earnings		-	14,546	-	-	-	-	(14,546)	-
- Dividends distributed		-	-	-	-	-	-	(6,468)	(6,468)
Acquisition of treasury shares		(4,398)	-	-	-	-	-	-	(4,398)
2019 Result		-	-	-	-	-	-	21,053	21,053
First-time application IFRS 16		-	-	-	-	(698)	-	-	(698)
Effect first consolidation Kappa Europe		-	(705)	-	-	(35)	740	-	-
Other comprehensive income items:									
- Gains/(losses) recorded directly to translation reserve		-	-	(8)	-	-	-	-	(8)
- Gains/(losses) recorded directly to equity for IAS 19 re-measurement		-	-	-	(122)	-	-	-	(122)
- Gains/(losses) recorded directly to cash flow hedge reserve		-	-	-	-	-	(555)	-	(555)
<i>Total comprehensive income</i>				(8)	(122)	-	(555)	21,053	20,368
December 31, 2019	31,717	(22,225)	90,789	1,324	(275)	(733)	91	21,053	121,741

CONSOLIDATED NET FINANCIAL POSITION*(Euro thousands)*

	Dec. 31, 2019	Dec. 31, 2018
Cash and cash equivalents	15,235	9,616
Bank overdrafts and bills	(17,094)	(10,735)
Import advances	(25,181)	(22,300)
<i>Sub-total net liquidity available</i>	<i>(27,040)</i>	<i>(23,419)</i>
Short-term portion of medium/long-term loans	(9,169)	(6,045)
Short-term net financial position	(36,209)	(29,464)
Basic Village property loan	(2,100)	(3,300)
BasicItalia property loan	(1,119)	(1,525)
BNL loan	(2,500)	(3,750)
Banco BPM loan	(126)	(632)
MPS Loan	(8,938)	(12,187)
Kappa Europe Group loans	(4,505)	-
Payables for exercise future share acquisitions	(2,839)	-
Payables for rights-of-use	(19,287)	-
Leasing payables	(651)	(823)
<i>Sub-total loans and leasing</i>	<i>(42,065)</i>	<i>(22,217)</i>
Consolidated Net Financial Position	(78,274)	(51,681)

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

	Dec. 31, 2019	Dec. 31, 2018
A. Cash	174	112
B. Other cash equivalents	15,061	9,504
C. Securities held for trading	-	-
D. Cash & cash equivalents (A)+(B)+(C)	15,235	9,616
E. Current financial receivables	-	-
F. Current bank payables	(42,275)	(33,035)
G. Current portion of non-current debt	(9,169)	(6,045)
H. Other current financial payables	-	-
I. Current financial debt (F)+(G)+(H)	(51,444)	(39,080)
J. Net current financial debt (I)-(E)-(D)	(36,209)	(29,464)
K. Non-current bank payables	(22,778)	(22,217)
L. Bonds issued	-	-
M. Other non-current payables	(19,170)	(130)
N. Non-current financial debt (K)+(L)+(M)	(41,948)	(22,347)
O. Net financial debt (J)+(N)	(78,157)	(51,811)

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 32 and 46). From 2019 the item "M. - Other non-current payables" includes the fair value of derivatives and the value of payables for right-of-use.

CHANGES IN NET CASH POSITION*(Euro thousands)*

	Dec. 31, 2019	Dec. 31, 2018
A) OPENING NET FINANCIAL POSITION	(51,681)	(61,480)
Effects first-time application IFRS 16	(18,046)	-
B) CASH FLOW FROM OPERATING ACTIVITIES		
Net profit for the year	21,053	21,014
Amortisation & Depreciation	11,964	6,448
Result of companies measured under the equity method	(25)	23
Changes in working capital:	(701)	(6,128)
Net changes in employee and director benefits	137	505
Others, net	383	71
	32,811	21,910
C) CASH FLOW FROM INVESTING ACTIVITIES		
Fixed asset investments	(8,645)	(5,800)
Change in consolidation scope	(17,371)	-
Realisable value for fixed asset disposals	42	294
	(25,974)	(5,506)
D) CASH FLOW FROM FINANCING ACTIVITIES		
Registration payables for Right-of-use	(4,920)	-
Reversal payables for Right-of-use	402	-
Acquisition of treasury shares	(4,398)	(3,332)
Dividend payments	(6,468)	(3,273)
	(15,384)	(6,605)
E) CASH FLOW IN THE YEAR	(8,547)	9,799
F) CLOSING NET FINANCIAL POSITION	(78,274)	(51,681)

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, 2019 was approved by the Board of Directors on March 4, 2020.

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, 2019 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, Spanish, English, Swiss and French 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, 2019 are the same as those utilised for the previous year, with the exception of the adoption of new standards and amendments from January 1, 2019. The Group has not adopted in advance any accounting standard, interpretation or amendment issued but not yet in effect.

Accounting standards, amendments and interpretations applied from January 1, 2019

The Group adopted IFRS 16 *Leasing* for the first time. The impact and the nature of the amendments following the adoption of this new accounting standard are illustrated below. Various amendments and interpretations were applied for the first time in the periods before January 1, 2019, 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 16 - Leasing

IFRS 16 replaced 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 contains standards for the recognition, measurement, presentation and disclosure of leases and requires the lessee to recognise most leases in the financial statements.

The accounting for the lessor under IFRS 16 has remained substantially unchanged from IAS 17. The lessor shall continue to classify leases as either operating or finance leases in accordance with similar standards to those included in IAS 17. IFRS 16 therefore has no impact on the accounting for leases in which the Group is the lessor.

The Group adopted IFRS 16 retrospectively, recognising the cumulative effect at the initial application date (modified retrospective method). The Group decided to utilise the practical expedient which permits application of the standard only to contracts previously identified as leases, applying IAS 17 and IFRIC 4 at the initial application date. The Group also utilised the exceptions under the standard on leasing contracts which, at the date of initial application, have a duration of equal to or less than 12 months and which do not contain a purchase option (“short-term leasing”) and on leases whose underlying asset is of a low value (“low value asset”).

The contracts which are subject to IFRS 16, mainly concerning property leases, had the following effects on the financial statements (in Euro thousands):

Account	Balance 01/01/2019	Changes in consolidation scope		Increases	Decreases	Balance at 31/12/2019
Usage rights, net	17,078	1,890		4,920	(5,821)	18,067
Deferred tax assets	270	14		57	-	341
Payables for rights-of-use	(18,046)	(1,939)		(4,920)	5,618	(19,287)
Reserves	698	35		-	-	733

Income statement effects in the period	
Account	Balance at 31/12/2019
Leasing	5,512
Amortisation & Depreciation	(5,312)
Interest charges	(350)
Prior year charges	(54)
Deferred tax income/(charge)	57
Total	(147)

IFRIC 23 - Uncertainties over income tax treatments

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.

The Group defines whether to consider each uncertain tax treatment separately or together with other (one or more) uncertain tax treatments and uses the approach that allows the best prediction of the resolution of uncertainty.

The Group applies a significant degree of judgment in identifying the uncertainties on the tax treatment of income taxes. As the Group operates in a complex multi-national environment, it has assessed whether the interpretation may have impacted its consolidated financial statements.

At the time the interpretation was adopted, the Group examined the existence of uncertain tax positions, in particular with regard to transfer pricing policy. The Company and its subsidiaries file tax returns in various jurisdictions by deducting certain transfer pricing costs; this approach could be challenged by the relevant tax authorities.

The Group has established, on the basis of transfer pricing reviews carried out, that it is probable that its tax treatments (including those of the subsidiaries) will be accepted by the tax authorities. The interpretation therefore did not have any impact on the Group 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.

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

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, curtailment or settlement. The amendments state that when a plan amendment, curtailment or settlement takes place during the year an entity is required to establish the service cost for the rest of the period subsequent to the plan amendment, curtailment or settlement, utilising the benchmark actuarial assumptions to remeasure the net liability (asset) for defined benefits in a manner which reflects the benefits offered by the plan and the plan assets after this event. An entity is required, in addition, to establish the net interest for the remaining period after the plan amendment, curtailment or settlement: the net liability (asset) for defined benefits which reflects the benefits offered by the plan and the assets of the plan after this event; and the discount rate utilised to re-parameter the net liability (asset) for defined benefits.

These amendments did not have any impact on the consolidated financial statements as the Group in the period did not record any plan amendment, curtailment or settlement.

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.

These amendments did not have any impact on the consolidated financial statements as the Group does not have investments in associates and joint ventures.

Annual improvements 2015-2017 Cycle

IFRS 3 - Business Combination

The amendments clarify that, where an entity obtains control of a business unit which is a joint operation, it applies the requirements for a business combination which is undertaken in a number of steps, including the remeasurement at fair value of the investment previously held in the assets and liabilities of the joint operation. In doing this, the acquirer revalues the interest previously held in the joint operation.

The entity applies these amendments to business combinations for which the acquisition date coincides or is subsequent to the initial period from January 1, 2019, with early application permitted.

This change did not have any impact on the Group consolidated financial statements as no business combination in which joint control has been obtained is indicated.

IFRS 11 - Joint Arrangements

An entity participating in a joint venture, without having joint control, may obtain joint control of the joint operation in the case in which its assets constitute a business as defined by IFRS 3.

The amendments clarify that investments previously held in this joint operation are not remeasured. An entity applies these amendments to the operations in which it holds joint control from periods beginning January 1, 2019 or subsequently, with early application permitted.

This change did not have any impact on the Group consolidated financial statements as no business combination in which joint control has been obtained is indicated.

IAS 12 - Income Tax

The amendments clarify that the effect of income taxes on dividends are connected to past transactions or events generating distributable profits rather than shareholder distributions. Therefore, an entity recognises the effects of income taxes on income deriving from dividends in the income statement, in other comprehensive income items or in shareholders' equity, in accordance with the method by which the entity previously recognised these past transactions or events.

The entity applies these amendments for the periods beginning January 1, 2019 or subsequently, with advance application permitted. Where the entity applies for the first time these amendments, it applies the effect of the taxes and dividends recognised from the beginning of the initial year.

As current Group practices are in line with these amendments, the Group did not report any impact from these amendments on its consolidated financial statements.

IAS 23 - Borrowing costs

The amendments clarify that an entity considers as non-specific loans any loan undertaken which from the beginning was drawn down to develop an asset, in the case in which all actions necessary to prepare this asset for use or sale have been completed.

An entity applies these amendments to the financial charges incurred from the beginning of the period in which the entity applies these amendments for the first time. An entity applies these amendments for the periods beginning January 1, 2019 or subsequently, with advance application permitted.

As current Group practices are in line with these amendments, the Group did not report any impact from these amendments 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 50 of the consolidated financial statements.

4. CONSOLIDATION PRINCIPLES

The consolidated financial statements were prepared including the financial statements at December 31, 2019 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 2019		FY 2018	
	Average	At year end	Average	At year end
US Dollar	1.1192	1.1234	1.1782	1.1450
HK Dollar	8.7672	8.7473	9.2350	8.9675
Japanese Yen	108.9155	108.5455	129.9610	125.8500
UK Sterling	0.8754	0.8508	0.8859	0.8945
Swiss Franc	1.1108	1.0854	1.1512	1.1269

The criteria adopted for the consolidation were as follows:

- 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.
- 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;
- 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, 2019 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, 2019, 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 are 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 S.p.A., with retrospective effects to 2015, recognised to the financial statements in the years in which the agreements were signed.

Similarly, the French group companies have opted to join the tax consolidation system (*'Régime fiscal des groupes de sociétés'*) provided for in Articles 223-A to 223-U of the *Code général des impôts* (CGI): Kappa Europe S.A.S. operates as the consolidating company.

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 2019, 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 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 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 53) 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.

Other intangible assets

Other intangible assets mainly consist of leasehold improvements and are amortised on the basis of the relevant lease contract.

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 costs 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	3-8
Motor vehicles	4
EDP	3-8

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**Usage right assets**

The Group recognises the usage right assets at the initial leasing date (i.e. the date on which the underlying asset is available for use). The usage right assets are measured at cost, net of accumulated amortisation and impairments, adjusted for any remeasurement of the lease liabilities.

The cost of the usage right assets includes the amount of the lease liabilities recognised, the initial direct costs incurred and the payment of leases at the commencement date or before, net of any incentives received. Unless the Group does not have the reasonable certainty of obtaining ownership of the leased asset on conclusion of the leasing contract, the usage right assets are amortised on a straight-line basis for a period covering the lesser between the estimated useful life and the lease duration.

Right-of-use assets are subject to impairment.

Lease liabilities

At the lease commencement date, the Group recognises the lease liabilities measuring them at the present value of the payments due for the lease not yet settled at that date. The payments due include the fixed payments (including the fixed payments in substance), net of any lease incentives to be received, the variable lease payments which depend on an index or a rate and the amounts expected to be paid as guarantee on the residual value. The lease payments include also the exercise price of a purchase option where it is reasonably certain that this option shall be exercised by the Group and the lease termination penalty payments, where its duration takes account of the exercise by the Group of the termination option on the lease.

The variable lease payments not depending on an index or a rate are recognised as costs in the period in which the event or the condition generating the payment occurs. In calculating the present value of the payments due, the Group uses the marginal loan rate at the commencement date where the implied interest rate may not be easily determined.

After the commencement date, the amount of the lease liability increases to take account of the interest on the lease liabilities and reduces to consider the payments made. In addition, the carrying amount of the lease payables is restated in the case of any changes to the lease or a review of the contractual terms with regards to the change in the fixed payments in substance; it is in addition restated amid changes to the valuation of the acquisition of the underlying asset.

Short-term leases and low value asset leases

The Group applies the exception for the recognition of short-term leases for machinery and equipment (i.e. leasing with a duration of 12 months or less from the commencement date and not containing a purchase option). The Group has also applied the exception for leases concerning assets of a modest value with regards to the leasing contracts on office equipment whose value is considered low (i.e. below Euro 5,000).

The short-term lease charges and those for low value assets are recognised as costs on a straight-line basis over the lease duration.

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 is 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., TOS S.r.l. and BasicAir S.r.l., incorporated in the year.
- “Proprietary licensees”, which involves the direct management of the sales channels, both in terms of sales to retailers and consumers, through BasicItalia S.p.A. and its subsidiaries BasicRetail S.r.l., BasicRetail SUISSE S.A. (incorporated in the year) and the Kappa Europe Group (acquired in the year);
- “Property”, which involves the management of the building at Turin – Largo Maurizio Vitale 1, known as “Basic Village” and the adjacent building acquired at the end of 2016.

<i>December 31, 2019</i>	Licenses and brands	Proprietary licensees	Property	Inter-segment eliminations	Consolidated
Direct sales – third parties	1,939	248,209	-	-	250,148
<i>Direct sales – inter-segment</i>	<i>2,517</i>	<i>451</i>	<i>4</i>	<i>(2,972)</i>	-
(Cost of sales)	(4,363)	(141,065)	(4)	2,478	(142,954)
GROSS MARGIN	93	107,595	-	(494)	107,194
Royalties and sourcing commissions – third parties	55,540	11	-	-	55,551
<i>Royalties and sourcing commissions – inter-segment</i>	<i>21,807</i>	-	-	<i>(21,807)</i>	-
Other income - third parties	1,333	4,322	2,856	-	8,511
<i>Other income – inter-segment</i>	<i>329</i>	<i>15,875</i>	<i>813</i>	<i>(18,912)</i>	<i>(1,895)</i>
(Sponsorship and media costs)	(23,141)	(35,242)	-	16,197	(42,186)
(Personnel costs)	(11,410)	(20,711)	(40)	-	(32,161)
(Selling, general and administrative costs, royalties expenses)	(19,131)	(54,507)	(1,886)	23,031	(52,493)
Amortisation & Depreciation	(4,072)	(8,723)	(1,007)	1,838	(11,964)
EBIT	21,348	8,620	736	(147)	30,557
Financial income	1,132	2,636	-	41	3,809
(Financial charges)	(891)	(3,827)	(251)	-	(4,969)
Share of profit/(loss) of investments	(25)	-	-	-	(25)
PROFIT BEFORE TAXES	21,564	7,429	485	(106)	29,372
Income taxes	(4,981)	(3,187)	(180)	29	(8,319)
NET PROFIT	16,583	4,242	305	(77)	21,053
<i>Significant non-cash items:</i>					
Amortisation & Depreciation	(4,072)	(8,723)	(1,007)	1,838	(11,964)
Write-downs	-	-	-	-	-
Total non-cash items	(4,072)	(8,723)	(1,007)	1,838	(11,964)
Investments in non-current assets	14,651	7,121	307	-	22,079
<i>Segment assets and liabilities:</i>					
Assets	225,354	193,617	16,056	(141,792)	293,235
Liabilities	90,177	171,891	9,808	(100,382)	171,494

<i>31 December 2018</i>	Licenses and brands	Proprietary licensees	Property	Inter-segment eliminations	Consolidated
Direct sales – third parties	2,158	153,453	4	-	155,615
<i>Direct sales – inter-segment</i>	<i>2,413</i>	<i>236</i>	<i>2</i>	<i>(2,651)</i>	-
(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
<i>Royalties and sourcing commissions – inter-segment</i>	<i>13,519</i>	<i>-</i>	<i>-</i>	<i>(13,519)</i>	-
Other income - third parties	1,424	764	865	-	3,053
<i>Other income – inter-segment</i>	<i>303</i>	<i>13,234</i>	<i>2,770</i>	<i>(16,307)</i>	-
(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)
Amortisation & 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
<i>Significant non-cash items:</i>					
Amortisation & Depreciation	(2,409)	(3,088)	(951)	-	(6,448)
Write-downs	-	-	-	-	-
Total non-cash items	(2,409)	(3,088)	(952)	-	(6,448)
Investments in non-current assets	(2,861)	(2,154)	(744)	-	(5,759)
<i>Segment assets and liabilities:</i>					
Assets	199,102	113,168	16,996	(93,753)	235,513
Liabilities	80,201	98,662	11,193	(67,480)	122,576

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 77.3 million for 2019 compared to Euro 68.4 million in the previous year. EBIT amounts to approx. Euro 21.3 million, compared to Euro 20.8 million in 2018. The segment net profit totalled Euro 16.6 million, compared to Euro 18.1 million in 2018;

- the “Proprietary Licensees” segment, comprising BasicItalia S.p.A., the subsidiaries BasicRetail S.r.l., BasicRetail SUISSE S.A. and the Kappa Europe Group. Segment sales totalled Euro 248.2 million, of which Euro 77.6 million from the Kappa Europe Group, compared to prior year sales of Euro 153.7 million. The contribution margin on sales increased to Euro 107.6 million from Euro 64.6 million in 2018. The revenue margin was 43.3% (42% in 2018). Personnel costs increased on the previous year due to the development of retail operations and the opening of a number of sales points and the entry of 175 personnel of the French Group acquired. The segment reports a profit of Euro 4.2 million compared to Euro 2.7 million in the previous year;
- the “Property” segment reports a profit of Euro 305 thousand compared to Euro 228 thousand in 2018.

8. CONSOLIDATED DIRECT SALES

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

	FY 2019	FY 2018
Sales Italy	160,203	145,050
EU countries other than Italy	83,328	6,339
Rest of the World	6,617	4,226
Total consolidated direct sales	250,148	155,615

Direct sales revenues relate to merchandise sold by BasicItalia S.p.A., BasicRetail S.r.l., BasicRetail SUISSE S.A. and the subsidiaries of Kappa Europe S.A.S. through both the wholesale and retail channels (Euro 248 million) and BasicNet S.p.A. for sample merchandise sales (Euro 1.6 million). Sales on the home market accounted for 64%, while approx. 33.3% of sales were in other EU countries, with the remaining approx. 2.7% outside the EU. The subsidiaries of Kappa Europe S.A.S. operate in the territories of France, UK, Spain, Portugal and Switzerland.

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

	FY 2019	FY 2018
Multibrand sales	186,805	101,098
Franchising sales	53,527	47,443
Online sales	8,150	5,303
Sample sales	1,666	1,772
Total consolidated direct sales	250,148	155,615

9. COST OF SALES

	FY 2019	FY 2018
Goods purchased – Overseas	116,012	66,675
Goods purchased – Italy	6,028	5,313
Samples purchased	3,787	3,020
Freight charges and accessory purchasing cost	14,818	8,565
Packaging	807	511
Change in inventory of raw materials, ancillary, consumables and goods	(7,730)	2,161
Cost of outsourced logistics	7,127	4,054
Others	2,105	1,243
Total cost of sales	142,954	91,542

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

The increase in the cost of sales, which includes from the first half of 2019 the amounts relating to the Kappa Europe Group, was less than proportional than revenue growth, resulting in an increase in the 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 royalties of the Kappa Europe Group on sales in France, UK, Spain, Portugal and Switzerland since 2019 have been eliminated on consolidation for Euro 6.8 million.

	FY 2019	FY 2018
Europe (EU and non-EU)	18,852	23,284
The Americas	7,592	6,257
Asia and Oceania	23,859	21,607
Middle East and Africa	5,248	3,684
Total	55,551	54,832

11. OTHER INCOME

	FY 2019	FY 2018
Rental income	606	622
Recovery of condominium expenses	138	184
Other income	5,872	2,247
Total other income	6,616	3,053

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. These include in addition Euro 1.5 million relating to the settlement agreement with AS Roma, described in the Directors’ Report and income of the Kappa Europe Group for Euro 0.5 million.

12. SPONSORSHIP AND MEDIA COSTS

	FY 2019	FY 2018
Sponsorship and marketing	37,132	22,880
Advertising	3,568	1,743
Promotional expenses	1,486	1,027
Total sponsorship and media costs	42,186	25,650

The account “sponsorship” refers to communication investments incurred directly to which the Group contributes, described in detail in the Directors’ Report. The increase on 2018 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.

The overall change substantially concerns the communication activities of the Kappa Europe Group in the territories within its scope.

13. PERSONNEL COSTS

	FY 2019	FY 2018
Wages and salaries	23,392	16,745
Social security charges	7,594	5,242
Post-employment benefits	1,175	1,087
Total	32,161	23,074

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

The average number of employees in 2019 was 654, broken down as 62 executives, 568 white-collar employees and 24 blue-collar employees.

The increase in personnel costs for a total of 219 new employees, for 183 employees concerns the acquisition of Kappa Europe S.A.S. and its subsidiaries, with the remainder concerning new hires in the period, mainly in the marketing and product research and development areas.

14. SELLING, GENERAL AND ADMINISTRATIVE COSTS AND ROYALTIES EXPENSES

	FY 2019	FY 2018
Selling and royalty service expenses	16,139	10,239
Rental, accessory and utility expenses	7,544	10,517
Commercial expenses	8,898	5,550
Directors and Statutory Auditors emoluments	5,319	4,245
Doubtful debt provision	2,538	2,381
Professional consultants	4,444	3,190
Bank charges	1,719	919
Other general expenses	5,892	3,165
Total selling, general and administrative costs, and royalties expenses	52,493	40,205

The increase of Euro 12.3 million is mainly due to the consolidation of the Kappa Europe Group.

The account benefits, compared to the previous year, from the different accounting treatment of operating leases following the application of IFRS 16: on a like-for-like basis, the item would have included higher costs of Euro 5.5 million.

“Selling and royalty service expenses” mainly includes commissions to agents and transport costs to customers, whose increase is related to the inclusion of the subsidiaries of Kappa Europe, in addition to the growth in revenues; the item also includes royalties on sports teams merchandising contracts and co-branding operations.

“Commercial expenses” include costs relating to selling activities, comprising trade fairs and exhibitions, communication costs for advertising campaigns, stylists, graphics and commercial and travel expenses.

“Directors and Statutory Auditors emoluments”, for offices held at the date of the present Report, approved by the Shareholders’ Meeting and the Board of Directors’ meetings of April 19, 2019, 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 2019 section, to which reference should be made.

The higher “doubtful debt provision” accrued in 2019 is related to specific credit positions.

“Other general expenses” includes other taxes, consumption materials, hire charges, and corporate and other minor expenses.

15. AMORTISATION & DEPRECIATION

	FY 2019	FY 2018
Intangible assets	3,247	3,407
Rights-of-use	5,312	-
Property, plant & equipment	3,405	3,041
Total amortisation & depreciation	11,964	6,448

Amortisation of intangible assets includes Euro 441 thousand of key-money write-down relating to some sales points 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.

The amortisation of right-of-use assets, essentially relating to the lease contracts for the Group's stores, has been reclassified from the account "Rental" included under general expenses on the first-time adoption of IFRS 16.

16. NET FINANCIAL INCOME (CHARGES)

	FY 2019	FY 2018
Interest income	87	34
Bank interest charges	(377)	(281)
Interest on medium/long term loans	(709)	(661)
Property lease interest	(14)	(19)
Other	(1,041)	(186)
Total financial income and charges	(2,054)	(1,113)
Exchange gains	3,401	2,464
Exchange losses	(2,507)	(2,508)
Net exchange gains/(losses)	894	(44)
Total financial income/(charges)	(1,160)	(1,157)

Net currency gains amounted to Euro 894 thousand, against losses of Euro 44 thousand in the previous year, as a result of US Dollar movements; net financial charges servicing the debt amounted to Euro 2.1 million compared to Euro 1.1 million in the previous year.

"Others" includes approximately Euro 358 thousand for the interest effect from the new accounting standard IFRS 16 and Euro 409 thousand for financial discounts and rebates mainly on the French and English markets.

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 8.3 million) comprises current taxes of Euro 11.0 million, of which Euro 1.8 million for IRAP, Euro 7.7 million for IRES and Euro 1.3 million for taxes incurred by overseas group companies, deferred tax charges of Euro 0.6 million, which are reduced by Euro 2.3 million deriving from the benefits from the application of the "Patent Box" rule and Euro 0.3 million of non-recurring tax charges.

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

	2019	2018
Profit before taxes	29,372	25,401
Income tax rate	24%	24%
<i>Theoretical IRES</i>	(7,049)	(6,096)
Effect of differences between Italian and foreign tax rates	94	(180)
Permanent tax differences effect	(654)	(513)
Prior year taxes	(9)	(63)
ACE contribution	35	49
Patent Box benefit	2,276	4,208
IRAP	(1,802)	(1,373)
WHT Reversal	(538)	16
Other changes	(324)	(434)
EFFECTIVE TAX CHARGE	(7,971)	(4,387)
Effective tax rate	(27.1%)	(17.3%)
Non-recurring tax charges	(348)	-
TOTAL EFFECTIVE TAX CHARGE	(8,319)	-

Non-recurring tax charges are the result of a tax assessment on the companies BasicItalia and BasicRetail for formal errors detected following an audit carried out by the tax authorities during the year, to which the companies adhered in order to avoid the application of the related multiplication penalties. Against the assessed charges a long-term payable is recorded of Euro 0.6 million, as reported in Note 41, and a VAT credit of the same amount, included under VAT receivables in Note 29.

19. EARNINGS PER SHARE

The basic earnings per share, for 2019, 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 2019	FY 2018
Net result	21,052,814	21,013,752
Weighted average number of ordinary shares	53,715,626	54,433,843
Basic earnings per ordinary share	0.3919	0.3860

At December 31, 2019, 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 2019 and 2018 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, 2019	Dec. 31, 2018	Changes
Concessions, brands and similar rights	47,015	47,369	(354)
Software development	3,731	3,502	229
Other intangible assets	2,287	2,289	(2)
Industrial patents	151	65	86
Total intangible assets	53,184	53,225	(41)

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 1.1.2018	58,619	41,709	9,925	131	110,384
<i>Additions</i>	<i>430</i>	<i>1,863</i>	<i>326</i>	<i>8</i>	<i>2,627</i>
<i>Disposals & other changes</i>	<i>-</i>	<i>(345)</i>	<i>(153)</i>	<i>-</i>	<i>(498)</i>
<i>Write-downs</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
Historic cost at 31.12.2018	59,049	43,227	10,098	139	112,513
<i>Initial balance from acquisition</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>562</i>	<i>562</i>
<i>Additions</i>	<i>548</i>	<i>1,957</i>	<i>591</i>	<i>74</i>	<i>3,170</i>
<i>Disposals & other changes</i>	<i>(701)</i>	<i>212</i>	<i>-</i>	<i>-</i>	<i>(489)</i>
<i>Write-downs</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
Historic cost Dec. 31, 2019	58,896	45,396	10,689	775	115,756

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 1.1.2018	(11,518)	(37,626)	(7,414)	(64)	(56,622)
<i>Amortisation</i>	<i>(162)</i>	<i>(2,099)</i>	<i>(509)</i>	<i>(10)</i>	<i>(2,780)</i>
<i>Disposals and other changes</i>	-	-	114	-	114
Acc. Amort. at 31.12.2018	(11,680)	(39,725)	(7,809)	(74)	(59,288)
<i>Initial balance from acquisition</i>	-	-	-	(479)	(479)
<i>Amortisation</i>	<i>(201)</i>	<i>(1,940)</i>	<i>(593)</i>	<i>(71)</i>	<i>(2,805)</i>
<i>Disposals and other changes</i>	-	-	-	-	-
Acc. Amort. Dec. 31, 2019	(11,881)	(41,665)	(8,402)	(624)	(62,571)

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 1.1.2018	47,101	4,083	2,511	67	53,762
<i>Additions</i>	<i>430</i>	<i>1,863</i>	<i>326</i>	<i>8</i>	<i>2,627</i>
<i>Disposals and other changes</i>	-	(345)	(39)	-	(384)
<i>Amortisation</i>	<i>(162)</i>	<i>(2,099)</i>	<i>(509)</i>	<i>(10)</i>	<i>(2,780)</i>
<i>Write-downs</i>	-	-	-	-	-
Closing net book value 31.12.2018	47,369	3,502	2,289	65	53,225
<i>Initial balance from acquisition</i>	-	-	-	83	83
<i>Additions</i>	<i>548</i>	<i>1,957</i>	<i>591</i>	<i>74</i>	<i>3,170</i>
<i>Disposals and other changes</i>	<i>(701)</i>	<i>212</i>	-	-	(489)
<i>Amortisation</i>	<i>(201)</i>	<i>(1,940)</i>	<i>(593)</i>	<i>(71)</i>	<i>(2,805)</i>
<i>Write-downs</i>	-	-	-	-	-
Closing net book value 31.12.2019	47,015	3,731	2,287	151	53,184

The investments in “concessions, brands and similar rights” are due to the capitalisation of costs incurred for the registration of trademarks in new European countries, for renewals and extensions and for the purchase of software licenses. Amortisation in the period concerns the Jesus Jeans brand, amortised over 20 years, as not yet reaching a market positioning equal to that of the principal brands.

The value of the divestment is due to the execution of the contract for the acquisition of the Briko brand signed in March 2016 with Briko S.p.A., which resulted in the non-applicability of the variable portion of the final price, assessed as Euro 0.7 million, and the consequent reduction in the value of the Brand to Euro 0.9 million and the cancellation of the payable to the former owners.

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, 2019, the Kappa and Robe di Kappa brands report a book value of Euro 4.3 million (Euro 1.3 million net of fiscal amortisation), with the Superga brand book value of Euro 21.3 million (Euro 12.1 million net of fiscal amortisation); the K-Way brand was valued at Euro 8.2 million (Euro 2.9 million net of fiscal amortisation), the Sebago brand book value of Euro 12 million (Euro 10 million net of fiscal amortisation) and the Briko brand at Euro 0.9 million (Euro 0.7 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 2018);
- the discounting of the weighted average cost of capital (WACC) of 6.70% (6.61% in 2018).

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.

“Software development” increased approx. Euro 1.9 million for investments and decreased Euro 1.9 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. **RIGHT-OF-USE**

The Group adopted IFRS 16 retrospectively, recognising the cumulative effect at the initial application date (modified retrospective method). The Group decided to utilise the practical expedient which permits application of the standard only to contracts previously identified as leases, applying IAS 17 and IFRIC 4 at the initial application date. The Group also utilised the exceptions under the standard on leasing contracts which, at the date of initial application, have a duration of equal to or less than 12 months and which do not contain a purchase option (“short-term leasing”) and on leases whose underlying asset is of a low value (“low value asset”).

The contracts which are subject to IFRS 16, mainly concerning property leases, had the following effects on the financial statements (in Euro thousands):

	Dec. 31, 2019	Dec. 31, 2018	Changes
Rights-of-use	18,066	-	18,066
Total right-of-use	18,066	-	18,066

The changes in the original cost of the right-of-use were as follows:

	Right-of-use
Historic cost	
Jan 1, 2019	-
<i>Initial balance from IFRS 16</i>	32,330
<i>Initial balance from acquisition</i>	3,562
<i>Additions</i>	4,920
<i>Disposals & other changes</i>	(1,482)
<i>Write-downs</i>	-
Historic cost	
Dec. 31, 2019	39,330

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

	Right-of-use
Acc. Amort.	
Jan 1, 2019	-
<i>Initial balance from IFRS 16</i>	(15,252)
<i>Initial balance from acquisition</i>	(1,672)
<i>Amortisation</i>	(5,312)
<i>Disposals and other changes</i>	972
Acc. Amort.	
Dec. 31, 2019	(21,264)

The movements in the net book value of the right-of-use is shown below:

	Right-of-use
Net book value	
Jan 1, 2019	-
<i>Initial balance from IFRS 16</i>	17,078
<i>Initial balance from acquisition</i>	1,890
<i>Additions</i>	4,920
<i>Disposals and other changes</i>	(510)
<i>Amortisation</i>	(5,312)
Net book value	
Dec. 31, 2019	18,066

22. GOODWILL

	Dec. 31, 2019	Dec. 31, 2018	Changes
Goodwill	12,206	9,232	2,974
Total goodwill	12,206	9,232	2,974

“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 0.8 million). In 2019 the account increased Euro 2.9 million against goodwill recognised following the acquisition of the Kappa Europe Group whose purchase price allocation was finalised in December 2019, as detailed in Note 48.

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.

23. PROPERTY, PLANT AND EQUIPMENT

	Dec. 31, 2019	Dec. 31, 2018	Changes
Property	20,691	21,583	(892)
Furniture and other assets	8,266	5,318	2,948
Plant and machinery	788	705	83
EDP	1,780	1,607	173
Industrial and commercial equipment	236	184	52
Total property, plant and equipment	31,761	29,397	2,364

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 1.1.2018	36,981	17,270	1,763	13,998	995	71,007
<i>Additions</i>	287	1,275	449	711	79	2,801
<i>Disposals and other changes</i>	-	(855)	(2)	(109)	-	(966)
Historic cost at 31.12.2018	37,268	17,690	2,210	14,600	1,074	72,842
<i>Initial balance from acquisition</i>	44	988	114	360	-	1,506
<i>Additions</i>	71	3,975	312	945	119	5,422
<i>Disposals and other changes</i>	-	(63)	-	(93)	1	(155)
Historic cost Dec. 31, 2019	37,383	22,590	2,636	15,812	1,194	79,615

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

	Property	Furniture and other assets	Plant and machinery	EDP	Industrial and commercial equipment	Total
Acc. Deprec. at 1.1.2018	(14,689)	(11,783)	(1,307)	(12,497)	(838)	(41,114)
<i>Depreciation</i>	<i>(996)</i>	<i>(1,186)</i>	<i>(199)</i>	<i>(609)</i>	<i>(52)</i>	<i>(3,042)</i>
<i>Disposals and other changes</i>	<i>-</i>	<i>597</i>	<i>1</i>	<i>113</i>	<i>-</i>	<i>711</i>
Acc. Deprec. at 31.12.2018	(15,685)	(12,372)	(1,505)	(12,993)	(890)	(43,445)
<i>Initial balance from acquisition</i>	<i>(1)</i>	<i>(629)</i>	<i>(88)</i>	<i>(330)</i>	<i>-</i>	<i>(1,048)</i>
<i>Depreciation</i>	<i>(1,006)</i>	<i>(1,329)</i>	<i>(255)</i>	<i>(748)</i>	<i>(68)</i>	<i>(3,406)</i>
<i>Disposals and other changes</i>	<i>-</i>	<i>6</i>	<i>-</i>	<i>39</i>	<i>-</i>	<i>45</i>
Acc. Deprec. Dec. 31, 2019	(16,692)	(14,324)	(1,848)	(14,032)	(958)	(47,854)

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 1.1.2018	22,292	5,487	456	1,501	157	29,893
<i>Additions</i>	<i>287</i>	<i>1,275</i>	<i>449</i>	<i>711</i>	<i>79</i>	<i>2,801</i>
<i>Depreciation</i>	<i>(996)</i>	<i>(1,186)</i>	<i>(199)</i>	<i>(609)</i>	<i>(52)</i>	<i>(3,042)</i>
<i>Disposals and other changes</i>	<i>-</i>	<i>(258)</i>	<i>(1)</i>	<i>4</i>	<i>-</i>	<i>(255)</i>
Closing net book value 31.12.2018	21,583	5,318	705	1,607	184	29,397
<i>Initial balance from acquisition</i>	<i>43</i>	<i>359</i>	<i>26</i>	<i>30</i>	<i>-</i>	<i>458</i>
<i>Additions</i>	<i>71</i>	<i>3,975</i>	<i>312</i>	<i>945</i>	<i>119</i>	<i>5,422</i>
<i>Depreciation</i>	<i>(1,006)</i>	<i>(1,329)</i>	<i>(255)</i>	<i>(748)</i>	<i>(68)</i>	<i>(3,406)</i>
<i>Disposals and other changes</i>	<i>-</i>	<i>(57)</i>	<i>-</i>	<i>(54)</i>	<i>1</i>	<i>(110)</i>
Closing net book Dec. 31, 2019	20,691	8,266	788	1,780	236	31,761

“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.

Total gross investments in the year amounted to Euro 5.2 million, principally relating the acquisition of the aircraft for Euro 2.6 million by the newly incorporated BasicAir S.r.l. and, for the difference, 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, 2019	Net value at 31 December 2018
Furniture and other assets	1,684	2,071
EDP	236	184
Plant	18	-
Transport vehicles	71	-
Total	2,009	2,255

24. EQUITY INVESTMENTS AND OTHER FINANCIAL ASSETS

	Dec. 31, 2019	Dec. 31, 2018	Changes
Other receivables, guarantees	1,051	1,048	3
<i>Total financial receivables</i>	<i>1,051</i>	<i>1,048</i>	<i>3</i>
Total investments & other financial assets	1,051	1,048	3

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

25. INVESTMENTS IN JOINT VENTURES

	Dec. 31, 2019	Dec. 31, 2018	Changes
Investments in:			
- Joint ventures	217	243	(26)
Total investments in joint ventures	217	243	(26)

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

26. DEFERRED TAX ASSETS

	Dec. 31, 2019	Dec. 31, 2018	Changes
Deferred tax assets	329	-	329
Total deferred tax assets	329	-	329

Deferred tax assets and liabilities are calculated on all the temporary differences arising between the book value in the consolidated financial statements and their assessable amount for tax purposes.

The individual effects are reported in the table below:

	Dec. 31, 2019			Dec. 31, 2018			Changes 2019/2018
	Amount of temporary differences	Rate % (*)	Tax effect	Amount of temporary differences	Rate %	Tax effect	
<i>Deferred tax assets:</i>							
- Excess doubtful debt provision not deductible	(6,768)	24.03%	(1,627)	(6,517)	24.00%	(1,564)	(63)
- Inventory obsolescence provision	(4,253)	25.28%	(1,075)	(4,293)	24.00%	(1,058)	(17)
- Misc. charges temporarily non-deductible	(4,113)	26.47%	(1,089)	(3,032)	27.90%	(814)	(275)
- Effect IAS 19 – Employee Benefits	(467)	26.10%	(122)	(71)	24.00%	(17)	(105)
- Effect IFRS 16 - lease payables	(1,220)	27.90%	(340)	-	24.00%	-	(340)
Total	(16,821)		(4,253)	(13,913)		(3,454)	(799)
<i>Deferred tax liabilities:</i>							
- Dividends not received	111	24.00%	27	23	24.00%	5	22
- Prudent exchange differences, net	142	24.00%	34	327	24.00%	80	(46)
- Amortization/Depreciation tax basis	15,655	28.16%	4,408	13,743	27.90%	3,810	598
- Effect of IAS 17 finance leases and other tax differences on buildings	3,311	27.90%	924	3,714	27.90%	1,036	(112)
- Effect IAS 38 – plant costs	16	31.48%	5	16	27.90%	5	-
- Effect IAS 39 – financial instruments	117	27.43%	32	(130)	27.90%	(30)	62
- Effect IFRS 3 – goodwill amortisation	1,941	27.90%	542	1,777	27.90%	496	46
Total	21,293		5,972	19,470		5,402	570
Losses carried forward	(8,100)	28.28%	(2,048)	-	-	-	(2,048)
Deferred tax liabilities (asset) as per financial statements			(329)			1,948	(2,277)

(*) Average tax rate

Deferred tax assets are recorded considering probable their recovery based on future profit expectations, and principally relate to non-deductible doubtful debt provisions (approx. Euro 1.7 million), non-deductible inventory obsolescence provisions (approx. Euro 1.1 million) and the effects deriving from the application of IFRS 16 (Euro 340 thousand), in addition to Euro 2.0 million of unlimited tax losses carried forward by the Kappa Europe Group.

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 4.4 million), differences between statutory and fiscal amortisation (Euro 1 million) and goodwill amortisation fiscally deductible (Euro 0.5 million).

27. NET INVENTORIES

	Dec. 31, 2019	Dec. 31, 2018	Changes
Raw material, ancillary and consumables	75	-	75
Finished products and goods	71,975	48,846	23,129
Inventory obsolescence provision	(5,293)	(4,467)	(826)
Total net inventories	66,757	44,379	22,378

Finished inventories include goods in transit at the balance sheet date which at December 31, 2019 amount to approx. Euro 7.4 million compared to Euro 6 million at December 31, 2018, goods held at Group brand stores for Euro 9.1 million, compared to Euro 8.9 million at December 31, 2018 and goods to be shipped against orders, to be delivered at the beginning of the following year, for Euro 7.3 million compared to Euro 5.6 million at December 31, 2018.

The increase includes for Euro 19.8 million the effect from the consolidation of the Kappa Europe Group. 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:

	2019	2018
Inventory obsolescence provision at 1.1	4,467	4,874
Initial balance from acquisition	480	-
Provisions in the year	3,112	3,456
Utilisations	(2,766)	(3,863)
Inventory obsolescence provision at 31.12	5,293	4,467

28. TRADE RECEIVABLES

	Dec. 31, 2019	Dec. 31, 2018	Changes
Gross value	78,265	77,518	747
Doubtful debt provision	(9,705)	(7,638)	(2,067)
Total trade receivables	68,560	69,880	(1,320)

“Trade receivables” refer for Euro 48.4 million to goods sold by proprietary licensees (of which Euro 14.4 million by the Kappa Europe Group) compared to Euro 42.3 million at December 31, 2018 against which a doubtful debt provision was recorded of Euro 7.1 million (Euro 5.3 million at December 31, 2018) and for Euro 29.8 million to royalties and sourcing commissions (Euro 35.1 million at December 31, 2018) against which a doubtful debt provision was recorded of Euro 2.6 million (Euro 2.4 million at December 31, 2018).

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:

	2019	2018
Doubtful debt provision at 1.1	7,638	8,293
Initial balance from acquisition	1,684	-
Provisions in the year	2,537	2,381
Utilisations	(2,154)	(3,036)
Doubtful debt provision at 31.12	9,705	7,638

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.

29. OTHER CURRENT ASSETS

	Dec. 31, 2019	Dec. 31, 2018	Changes
Tax receivables	8,515	6,339	2,176
Other receivables	2,372	2,481	(109)
Total other current assets	10,887	8,820	2,067

“Tax receivables” principally relate to withholding taxes on royalties for Euro 4.5 million and VAT receivables for Euro 2.6 million, in addition to minor amounts.

“Other receivables” mainly includes advances to suppliers and sundry receivables. The account also includes 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 April 19, 2019, on the indication of the Shareholders’ Meeting and the proposal of the Remuneration Committee and with the favourable opinion of the Board of Statutory Auditors, on conclusion of his role for Euro 0.5 million.

30. PREPAYMENTS

	Dec. 31, 2019	Dec. 31, 2018	Changes
Expenses pertaining to future collections	5,166	5,260	(94)
Sponsorship and media	6,443	2,007	4,436
Other	2,908	2,101	807
Total prepayments	14,517	9,368	5,149

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 increase of Euro 4 million relates to sponsorships carried out by the Kappa Europe Group.

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

31. CASH AND CASH EQUIVALENTS

	Dec. 31, 2019	Dec. 31, 2018	Changes
Bank and postal deposits	15,062	9,504	5,558
Cash in hand and similar	173	112	61
Total cash and cash equivalents	15,235	9,616	5,619

“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 7 million), companies of the Kappa Europe Group (Euro 2.9 million), BasicRetail S.r.l. (Euro 1.6 million), BasicNet S.p.A. (Euro 1.5 million), Basic Properties America Inc. (Euro 1.1 million) and, for the difference, the other Group companies (Euro 0.9 million).

32. DERIVATIVE FINANCIAL INSTRUMENTS

	Dec. 31, 2019	Dec. 31, 2018	Changes
Derivative financial instruments	465	305	160
Total	465	305	160

The account includes the market value at December 31, 2019 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 2020 and 2021, on the basis of the goods orders already sent to suppliers, or still to be made but included in the budget. At December 31, 2019, commitments were in place on estimated future purchases, for USD 35.25 million, broken down into 6 transactions with differing maturities: 2 transactions in the first half of 2020 (for USD 4.65 million), 3 transactions in the second half of 2020 (for USD 27 million) and 1 transaction beyond 2020 (for USD 3.6 million), at fixed exchange rates between USD/Euro 1.118 and USD/Euro 1.1473. A negative equity reserve was recorded of approx. Euro 555 thousand, net of the tax effect. During 2019, forward purchase operations were utilised for approx. USD 33.35 million and the relative effects were recognised to the income statement.

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 AND LIABILITIES**33. SHAREHOLDERS' EQUITY**

	Dec. 31, 2019	Dec. 31, 2018	Changes
Share capital	31,717	31,717	-
Treasury shares	(22,225)	(17,827)	(4,398)
Other reserves	91,196	78,033	13,163
Net Profit	21,053	21,014	39
Minority interests	-	-	-
Total Shareholders' Equity	121,741	112,937	8,804

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 2019, as approved by the Shareholders' Meeting of BasicNet S.p.A. of April 19, 2019, in relation to the allocation of the 2018 net profit, a dividend of Euro 0.12 per share was distributed to each of the ordinary shares in circulation, for a total pay-out of approx. Euro 6.5 million.

During the year 897,183 treasury shares were acquired in accordance with Shareholders' Meetings motions, which together with the 6,966,072 shares held at the end of the previous year, totalled 7,863,255 at December 31, 2018 (12.892% of the Share Capital).

The account “other reserves” comprises:

- The “*cash flow hedge reserve*”, positive for Euro 92 thousand, changed in the year due to the fair value measurement of cash flow hedges held at December 31, 2019;
 - The “*re-measurement reserve for defined benefit plans (IAS 19)*”, negative for Euro 274 thousand, refers to the changes in the actuarial gains/losses (“*re-measurement*”). The valuation is shown net of the tax effect;
- the “*IFRS 16 reserve*” includes the effects of the first application by the companies of the BasicNet Group as at January 1, 2019 for Euro 698 thousand and the similar reserve acquired from the Kappa Europe Group for Euro 35 thousand;
- 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 91 million, increasing compared to the end of the previous year by Euro 13.8 million.

The reconciliation at December 31, 2019 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, 2019	Dec. 31, 2018	Changes
Effective part of the Gains/(losses) on cash flow instruments generated in the period (currency hedges)	(16)	1,215	(1,231)
Effective part of the Gains/(losses) on cash flow instruments generated in the period (interest rate hedges)	(809)	253	(1,062)
Effective part of the Gains/losses on cash flow hedge instruments	(825)	1,468	(2,293)
Re-measurement of defined benefit plans (IAS 19) (*)	(161)	73	(234)
Gains/(losses) from translation of accounts of foreign subsidiaries	(8)	346	(354)
Tax effect relating to the Other items of the comprehensive income statement	309	(370)	679
Total other gains/(losses), net of tax effect	(685)	1,517	(2,202)

(*) 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, 2019			December 31, 2018		
	Gross value	Tax Charge/Benefit	Net value	Gross value	Tax Charge/Benefit	Net value
Effective part of Gains/losses on cash flow hedge instruments	(825)	270	(555)	1,468	(352)	1,116
Gains/(losses) for re-measurement of defined benefit plans (IAS 19) (*)	(161)	39	(122)	73	(18)	55
Gains/(losses) from translation of accounts of foreign subsidiaries	(8)	-	(8)	346	-	346
Total other gains/(losses), net of tax effect	(994)	309	(685)	1,887	(370)	1,517

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

34. PROVISIONS FOR RISKS AND CHARGES

	Dec. 31, 2019	Dec. 31, 2018	Changes
Provisions for risks and charges	227	50	177
Total provisions for risks and charges	227	50	177

The provision for risks and charges relates to the Agents Termination Indemnity Provision (FIRR) in BasicItalia S.p.A. and the provisions for minor disputes of Kappa Europe S.A.S.

35. LOANS

The changes in the loans during the year are shown below:

	31/12/2018	Change in consolidation scope	Repayments	New Loans	31/12/2019	Short-term portion	Medium/long-term portion
“Basic Village property loan”	4,500	-	(1,200)	-	3,300	1,200	2,100
“BasicItalia property loan”	1,933	-	(407)	-	1,526	407	1,119
“Intesa Loan”	1,875	-	(1,875)	-	-	-	-
“BNL Loan”	5,000	-	(1,250)	-	3,750	1,250	2,500
“MPS Loan”	13,000	-	(813)	-	12,188	3,250	8,938
“Banco BPM Loan”	1,130	-	(504)	-	626	500	126
Kappa Europe Group loans							
Akrea loan	-	200	(50)	-	150	150	-
BNP loan	-	200	(50)	-	150	150	-
BPA Loan	-	200	(25)	-	175	175	-
BPI KFF loan	-	563	(225)	-	338	225	113
CA loan	-	200	(25)	-	175	175	-
CE loan	-	200	(25)	-	175	175	-
BPI SPF loan	-	2,000	(167)	-	1,832	333	1,499
PA loan	-	200	(75)	-	125	125	-
Kappa Europe bank syndicate loan	-	1,728	(1,728)	-	-	-	-
SG loan	-	200	(75)	-	125	125	-
KSI loan	-	92	(24)	-	68	25	43
Popular loan	-	-	(50)	200	150	100	50
Intesa loan	-	-	(400)	4,000	3,600	800	2,800
<i>Total Kappa Europe loans</i>		<i>5,783</i>	<i>(2,919)</i>	<i>4,200</i>	<i>7,063</i>	<i>2,558</i>	<i>4,505</i>
Balance	27,439	5,783	(8,967)	4,200	28,457	9,169	19,288

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

	Dec. 31, 2019	Dec. 31, 2018	Changes
Medium/long term loans:			
- due within 5 years	19,121	21,394	(2,273)
- due beyond 5 years	167	-	167
<i>Total medium/long-term loans</i>	<i>19,288</i>	<i>21,394</i>	<i>(2,106)</i>
Leasing payables	651	823	(172)
<i>Total leasing payables (maturity within 5 years)</i>	<i>651</i>	<i>823</i>	<i>(172)</i>
Total loans	19,939	22,217	(2,278)

The medium/long-term loans are comprised for Euro 2.1 million of the residual value of the loan provided by the Unicredit Group, for the purchase of the “Basic Village” building located at Largo Maurizio Vitale, 1, Turin (“Basic Village Property Loan”), for Euro 1.1 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 2.5 million the

medium/long-term loan issued by Banca Nazionale del Lavoro S.p.A. in November 2016 (“BNL Loan”), for Euro 8.9 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 0.1 million, to support investment activities in the retail sector (“Banco BPM Loan”).

The “Basic Village property loan” granted by the Unicredit Group was for the acquisition of the building “Basic Village” 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 46). 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” issued in April 2015 for Euro 15 million, of four-year duration, was fully repaid in the year.

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.

The “Medium-term loans of the Kappa Europe Group” prior to the acquisition of control by BasicItalia were essentially attributable to 4 categories and had benefited from a grace period linked to a “conciliation agreement” signed with the financial institutions, which ended in December 2019:

1. BPI France export loan to Kappa Europe, with an initial value of Euro 2 million, outstanding for Euro 1.8 million and Euro 1.5 million of which medium-term, 3.72% interest rate;
2. Syndicate loan of 6 banks (Arkea, Casse d’Epairgne, BNP, Credit Agricole, Societ  Generale and Banque Palatine) to Kappa Europe of a residual Euro 1.7 million, Euribor quarterly rate + 200 basis points; this loan was entirely repaid in December 2019;
3. BPI France loan to Kappa France (subsidiary of Kappa Europe), of an initial value of Euro 1.5 million, outstanding for Euro 0.3 million and Euro 0.1 million of which medium-term, 3.95% interest rate;
4. Loan from seven lending institutions (the previous six plus Banque Populaire Atlantique) to Kappa France for Euro 200 thousand each, outstanding for Euro 1.1 million, Euribor rate + 250 basis points; On the finalisation of the conciliation agreement, the early repayment of this loan was negotiated by March 2020 and therefore the total amount is shown in the short-term portion of loans.

Some of the lending institutions have also subscribed to shares totalling 40% of the share capital of Kappa Europe (previously Sport Finance SAS), which were acquired by BasicItalia S.p.A. in January 2019. Simultaneously, the same Institutions signed a bond loan of a total Euro 2 million, which was repaid in June 2019, in addition to interest matured for Euro 0.3 million.

During the year, Kappa France obtained from the French branch of Banca Intesa Sanpaolo Spa an unsecured loan of Euro 3.6 million, of which Euro 2.4 million 5-year medium term, at 6-month Euribor + 185 base points, converted into a fixed finished rate of 1.65%, partially utilised for the repayment of the bond loan.

At December 31, 2019, 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 258.5 million, broken down as follows:

<i>(in Euro millions)</i>	Dec. 31, 2019	Dec. 31, 2018
Cash facility	182.0	139.9
Factoring	14.2	1.5
Letters of credit and swaps	30.8	28.1
Medium/long term loans	30.5	30.5
Property leases	1.0	1.0
Total	258.5	201.0

The average interest paid for the BasicNet Group in the year is reported in Note 36.

36. **BANK PAYABLES**

	Dec. 31, 2019	Dec. 31, 2018	Changes
Bank payables due within one year:			
- short-term portion of medium/long-term loans	9,169	6,045	3,124
- bank overdrafts and bills	17,094	10,735	6,359
- import advances	25,181	22,300	2,881
Total bank payables	51,444	39,080	12,364

The portion of medium/long-term loans due within one year is included under short-term bank debt as described in Note 35.

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, 2019 is as follows:

	Interest Rate		Total
	Fixed	Variable	
Short-term	12,675	38,769	51,444
Medium/long term	6,563	13,376	19,939
Total	19,238	52,145	71,383

The average interest rate on medium/long term loans was 2.05%.

37. PAYABLES FOR RIGHT-OF-USE

	Dec. 31, 2019	Dec. 31, 2018	Changes
Payables for rights-of-use	19,287	-	19,287
Total payables for right-of-use	19,287	-	19,287

Payables for right-of-use are recognised from 2019 in accordance with IFRS 16. The effects are illustrated in Note 2 - Form and content of the financial statements and Note 21 - Right-of-use.

38. OTHER FINANCIAL PAYABLES

	Dec. 31, 2019	Dec. 31, 2018	Changes
Other financial payables	2,839	-	2,839
Total other financial payables	2,839	-	2,839

The account represents the fair value of the put/call cross option on the remaining 39% of the shares in Kappa Europe S.A.S. (9,463 shares) held by third parties: the transaction is described in detail in Note 48 - Business combinations.

39. EMPLOYEE AND DIRECTOR BENEFITS

The account includes the post-employment benefits for employees of Euro 3.1 million and the termination indemnities of Directors of Euro 0.3 million.

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

	Dec. 31, 2019			Dec. 31, 2018		
	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	2,653	54	2,707	2,702	-	2,702
Change in consolidation scope	230	-	230	-	-	-
Interest	50	-	50	46	-	46
Pension cost, net of withholdings	294	927	1,221	232	877	1,109
Benefits paid	(368)	-	(368)	(200)	-	(200)
Payments to the INPS treasury fund	-	(664)	(664)	-	(638)	(638)
Payments to other supp. pension fund	-	(263)	(263)	-	(239)	(239)
Actuarial gain/(losses)	162	-	162	(73)	-	(73)
Net liabilities recognized in the accounts	3,021	54	3,074	2,707	-	2,707
Change in the income statement:						
Interest	50	-	50	46	-	46
Pension Cost	302	927	1,229	242	877	1,119
Total charges/(income) for post-employment benefits	352	927	1,279	288	877	1,165

The account “defined benefit plans” includes the present value of the liabilities in the Italian companies of the Group towards employees in accordance with Article 2120 of the Civil Code. Based on the regulatory changes in 2007, the sums matured prior to January 1, 2007 to employees are recognised as defined benefit plans in accordance with *IAS 19 – Employee benefits*; those matured subsequent to this date are on the other hand recognised as defined contribution plans in accordance with the same standard.

Within the Group there are no other defined benefit plans.

The actuarial valuation of the Post-Employment Benefit is prepared based on the “matured benefits” method through the Projected Unit Credit Method in accordance with IAS 19. Under this method the valuation is based on the average present value of the pension obligations matured based on the employment service up to the time of the valuation, without projecting the remuneration of the employee in accordance with the regulatory modifications introduced by the Pension Reform.

The revaluations of the amounts at the option date for all of the companies and the benefits matured and not allocated to complementary pension schemes for businesses with less than 50 employees are recorded under post-employment benefit. In accordance with IAS 19, this provision was recorded as a “Defined benefit plans”. The actuarial model for the measurement of the post-employment benefit is based on various assumptions of a demographic and financial nature.

The sensitivity analysis carried out on the basis of the following variables: 1) inflation rate +0.25%/-0.25%, 2) discount rate +0.25%/-0.25%, 3) turnover rate +1%/-1% shows non-material impacts of less than Euro 50 thousand.

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

	Dec. 31, 2019	Dec. 31, 2018
discount rate	1.040%	1.970%
inflation rate	1.200%	1.500%
annual increase in post-employment benefit	2.400%	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.

40. **DEFERRED TAX LIABILITIES**

	Dec. 31, 2019	Dec. 31, 2018	Changes
Deferred tax liabilities	-	1,949	(1,949)
Total deferred tax liabilities	-	1,949	(1,949)

Reference should be made to the comment at Note 26 of the present Notes.

41. **OTHER NON-CURRENT LIABILITIES**

	Dec. 31, 2019	Dec. 31, 2018	Changes
Guarantee deposits	1,327	1,136	191
Medium/long term tax payables	610	-	610
Total other non-current liabilities	1,937	1,136	801

“Guarantee deposits” include guarantees received from licensees to cover minimum contractual royalties due; the “medium/long-term tax payables”, amounting to Euro 0.6 million, refers to the agreement signed with the Tax Authorities during the year, in connection with a tax audit of Group companies (Note 18), to which corresponds a VAT credit of the same amount, recorded under VAT receivables (Note 29).

42. **TRADE PAYABLES**

“Trade payables” are payable in the short-term and increased by approx. Euro 8 million compared to December 31, 2019. The increase is attributable for Euro 13.7 million to the consolidation of the Kappa Europe Group and the difference is the effect of the normal commercial cycle. 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.

43. TAX PAYABLES

The breakdown of this account is shown in the following table:

	Dec. 31, 2019	Dec. 31, 2018	Changes
Tax payables:			
Income taxes	4,613	522	4,091
Employee contributions	557	491	66
Group VAT	1,941	1,036	906
Other	474	84	390
Total tax payables	7,585	2,133	5,452

Current tax payables include provisions for IRES and IRAP to be settled at the reporting date. The balance at December 31 includes income taxes provisioned at the end of the previous year, to be settled in the second half of the subsequent year and the estimate of income taxes payable on assessable income in the half-year.

Please refer to Note 41 for comments on non-current tax payables.

44. OTHER CURRENT LIABILITIES

	Dec. 31, 2019	Dec. 31, 2018	Changes
Accrued expenses	794	749	45
Payables to employees and directors	3,807	3,514	293
Other payables	6,626	5,361	1,265
Total other current liabilities	11,227	9,624	1,603

The account “accrued expenses” principally includes deferred employee remuneration.

“Payables to employees and Directors” mainly concern salaries and expenses for reimbursement settled in the subsequent month.

“Other payables” December 31, 2019 principally include social security charges (Euro 2.3 million), royalty payments on account from licensees (Euro 0.2 million) and other miscellaneous amounts (Euro 4.1 million).

45. DEFERRED INCOME

	Dec. 31, 2019	Dec. 31, 2018	Changes
Royalties	3,655	1,046	2,609
Sponsored goods revenues	1,793	1,079	714
Other deferred income	1,313	1,506	(194)
Total deferred income	6,761	3,631	3,130

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.

46. DERIVATIVE FINANCIAL INSTRUMENTS

	Dec. 31, 2019	Dec. 31, 2018	Changes
Derivative financial instruments	348	436	(88)
Total	348	436	(88)

The account includes Euro 101 thousand adjustment to market value at December 31, 2019 of the US Dollar currency hedge (Note 32) and Euro 247 thousand on the medium-term "Basic Village property loan" (Note 35), subscribed with primary financial counterparties, which converted the floating rate into a fixed rate of 6.4% (cash flow hedge). A negative equity reserve was recorded of approx. Euro 461 thousand, net of the tax effect.

47. GUARANTEES GIVEN/COMMITMENTS

With reference to the guarantees and commitments of the Group with third parties' reference should be made to Note 35.

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, 2019, the bank deposits of BasicItalia were restricted for Euro 16 thousand; guarantees were also provided on leasing amounting to Euro 651 thousand.

In accordance with that outlined above guarantees were granted of Euro 557 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 25.6 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.

Finally, 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.

48. BUSINESS COMBINATIONS

At the end of January, the acquisition was completed by BasicItalia S.p.A. of 41% of the company Sport Finance SAS (now Kappa Europe S.A.S), 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 simultaneously 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 remaining 39% of the capital held by third parties is subject to a put/call cross option exercisable at different conditions in four distinct timeframes from 2020 to 2024: the purchase price, which is subject to the achievement of certain contractually defined income and equity parameters, may be settled in cash or by delivery of BasicNet shares.

The acquisition marks the start of the strategic campaign to strengthen the Group licensees, with the objective of creating a new licensee, “powered by BasicNet”, operating on Kappa’s main and largest market (Europe) and providing the model for the other licensees.

The following table shows the consideration paid together with the final value of the assets acquired and liabilities assumed at the acquisition date:

	Amount
Price 41%	2,078
Capital increase 61%	2,846
Transaction charges	235
Total paid	5,158
Net assets acquired	
Intangible assets	83
Rights-of-use	1,890
Property, plant and equipment	457
Equity invest. & other financial assets	444
Deferred tax assets	1,689
Net inventories	14,753
Trade receivables	21,365
Other current assets	5,368
Prepayments	5,320
Cash and cash equivalents	2,978
Derivative financial instruments	1,072
Provision for risks and charges	(165)
Employee and Director benefits	(230)
Loans	(5,783)
Bonds	(2,276)
Bank payables	(5,251)
Payables for right-of-use	(1,939)
Deferred tax liabilities	(400)
Trade payables	(22,382)
Tax payables	(5,194)
Other current liabilities	(7,228)
Total net identifiable assets	4,572
Fair value put/call option NCI	2,839
Goodwill	3,425

49. CLASSIFICATION OF THE FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The principal risks and uncertainties of the Group activities are described in the Directors’ Report.

The financial instruments of the BasicNet Group include:

- cash and cash equivalents and bank overdrafts;
- medium/long-term loans and lease financing;
- derivative financial instruments;
- trade payables and receivables.

It is recalled that the Group only subscribes to cash flow hedges, to hedge against interest and currency risks.

In accordance with the requirements of IFRS 7 in relation to financial risks, the types of financial instruments present in the financial statements, with indication of the valuation criteria applied, are reported below:

	Financial instruments at fair value recorded through:		Financial instruments at amortised cost	Non-listed investments valued at cost	Book value at 31.12.2019
	P&L	Shareholders' Equity			
Assets:					
Equity invest. & other financial assets	-	-	-	1,051	1,051
Interests in joint ventures	-	-	-	217	217
Trade receivables	-	-	68,560	-	68,560
Other current assets	-	-	10,887	-	10,887
Derivative financial instruments	-	465	-	-	465
Liabilities:					
Medium/long-term loans	-	-	19,939	-	19,939
Bank payables	-	-	51,444	-	51,444
Trade payables	-	-	46,492	-	46,492
Other current liabilities	-	-	11,227	-	11,227
Derivative financial instruments	-	348	-	-	348

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, 2019, unrealised exchange gains were recorded of Euro 151 thousand, while unrealised exchange losses were recorded of Euro 217 thousand, for a net exchange loss of Euro 66 thousand.

At the reporting date, there were 6 hedge operations on US Dollar fluctuations, totalling USD 35.25 million; the relative effects are illustrated in the account “Financial hedge instruments”, at Notes 32 and 46.

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, 2019 is shown below:

	Dec. 31, 2019	%	Dec. 31, 2018	%
Fixed rate	19,238	27.0%	16,402	26.8%
Variable rate	52,145	73.0%	44,894	73.2%
Gross debt	71,383	100.00%	61,296	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 46. On the remaining part of the debt, the Group is exposed to fluctuation risks.

Where at December 31, 2019 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 +221 thousand and Euro -221 thousand.

Credit risk

The doubtful debt provision (Note 28) which includes provisions against specific credit positions and a general provision on an historical analysis of receivables, represents approx. 12.4% of trade receivables at December 31, 2019.

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 36).

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
“BasicVillage property loan”	3,300	463	3,763	1,371	2,392	-
“BasicItalia property loan”	1,525	71	1,597	439	1,158	-
“BNL Loan”	3,750	50	3,800	1,276	2,524	-
“Banco BPM Loan”	631	3	634	508	127	-
“MPS Loan”	12,188	418	12,605	3,439	9,166	-
BPI KFF loan	338	11	348	234	114	-
BPI SPF loan	1,833	190	2,023	402	1,453	168
Kappa Europe bank syndicate loan	1,075	20	1,095	1,095	-	-
BS KSI Loan	150	3	153	102	50	-
BP KSI Loan	68	2	70	26	44	-
Intesa loan	3,600	149	3,749	856	2,893	-
Lease payables	651	16	667	366	301	-
Rights-of-use	19,287	986	20,273	5,121	14,411	741
Total financial liabilities	48,396	2,381	50,777	15,235	34,633	909

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.

50. 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., TOS S.r.l and BasicAir S.r.l. have adhered to the national fiscal regime as per Article 177/129 of the CFA.

Kappa Europe S.A.S. and, as subsidiaries, Kappa France S.A.S., Sport Fashion Distribution S.A.S.U., SFD France S.A.S.U., Sport Fashion Licensing S.A.S.U. and Sport Fashion Retail S.A.R.L. have joined the French tax consolidation scheme pursuant to Articles 223-A/223-U of the General Tax Code (CGI).

The transactions with related parties for the year ended December 31, 2019 are reported below:

	Investments	Trade receivables	Trade Payables	Other Income	Costs
Interests in joint ventures:					
- Fashion S.r.l.	217	-	-	-	-
Remuneration of Boards and Senior Executives and other related parties	-	-	-	-	6,468

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.

51. **SUBSEQUENT EVENTS**

They are described in the Directors' Report.

52. **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.

53. **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 consideration agreed above was fully collected.

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 - began in 2018 and continuing before the Chinese authorities on two fronts: BasicNet S.p.A.'s defence of its K-WAY registration for weather-proof clothing items, subject to a cancellation request for non-use heard at the second level, and the procedures initiated by BasicNet S.p.A. against Taizhou Boyang 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.

No conclusions have yet been reached and it is not possible to predict the outcome of the disputes.

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 at BasicNet S.p.A.. 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. In March 2019, the Turin Provincial Tax Commission heard the appeal presented by BasicNet. The Tax Agency has appealed against the Tax Commission's decision and no further decision has yet been made.

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. At the beginning of the present month of July, similar tax assessments for financial year 2014 were received, with claims for additional taxes of approx. Euro 0.3 million and for VAT for approx. Euro 0.1 million.

As they did not consider the arguments put forward by the Agency to be well-founded, the companies lodged appeals against the tax assessments and requests for provisional suspension of the executive effects of the assessments. The Turin Provincial Tax Commission, which had already accepted the request for provisional suspension in October 2019, at the end of January 2020 fully accepted the combined appeals of Basic Properties America Inc., BasicTrademark S.A. (now S.r.l.) and Superga Trademark S.A. (now S.r.l.) and cancelled the tax assessments issued by the Tax Agency. There is currently no news of any further reaction from the Agency.

On behalf of the Board of Directors

The Chairman

Marco Daniele Boglione

ANNEX 1

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

Type of service	Service provider	Company	Fees earned 2019
Audit	EY S.p.A.	Parent BasicNet S.p.A.	111,200
		Subsidiaries	108,800
	Network EY	Subsidiaries	82,200
Certification services	EY S.p.A.	Parent BasicNet S.p.A.	-
Other services	EY S.p.A.	Subsidiaries	50,000
Total			352,200

ANNEX 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 (%)
<u>PARENT COMPANY</u>				
BasicNet S.p.A.				
<u>Directly held subsidiaries:</u>				
- BasicAir S.r.l. Single shareholder company	Turin (Italy)	Company owning the Cessna Citation VII aircraft	EURO 3,000,000	100
- Basic Properties S.r.l.	Turin (Italy)	Sub-license concession of patent rights to local licensees.	EURO 18,160	100
- BasicItalia S.p.A. single shareholder company	Turin (Italy)	Italian licensor, direct stores of BasicNet Group.	EURO 7,650,000	100
- BasicVillage S.p.A. - Single shareholder company	Turin (Italy)	Management of the buildings at Turin - Largo M. Vitale, 1 and C.so Regio Parco, 43.	EURO 412,800	100
- BasicNet Asia Ltd.	Hong Kong (China)	Control activity of the licensees and sourcing centre in Asia.	HKD 10,000	100
- Jesus Jeans S.r.l. single shareholder company	Turin (Italy)	Owner of the Jesus Jeans brand.	EURO 10,000	100
- TOS S.r.l. single shareholder company	Turin (Italy)	Owner of the brand Sebago.	EURO 10,000	100 ⁽¹⁾
<u>Indirectly held subsidiaries:</u>				
– through Basic Properties B.V.				
- Basic Properties America, Inc.	Richmond (Virginia – USA)	Sub-license of the brands for the US, Canada and Mexico markets.	USD 2,000	100
- Basic Trademark S.r.l.	Turin (Italy)	Owner of some brands of the BasicNet Group.	EURO 1,250,000	100
- Superga Trademark S.r.l.	Turin (Italy)	Owner of the brand Superga.	EURO 500,000	100
– through BasicItalia S.p.A.				
- BasicRetail S.r.l. single shareholder company	Turin (Italy)	Management of outlets owned by the Group and a number of sales points.	EURO 10,000	100
- BasicRetail SUISSE S.A.	Mendrisio (Switzerland)	Operation of retail outlets in Switzerland	CHF 100,000	100
- Kappa Europe S.A.S.	Saint Herblain (France)	Holding company of a Group of Kappa brand licensees in European territories	EURO 2,426,400	61

- 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.

ANNEX 2
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COMPANIES INCLUDED IN THE CONSOLIDATION UNDER THE LINE-BY-LINE METHOD

	Registered office	Corporate purpose	Share capital	Parent company holding (%)
Indirect subsidiaries (continued):				
- through Kappa Europe SAS.				
- Kappa France .S.A.S	Saint Herblain (France)	Kappa licensees for the territories of France, Spain, Portugal and United Kingdom	EURO 2,060,000	100
- Sport Fashion Distribution S.A.S.U.	Saint Herblain (France)	Licensee of the New York Yankees and Canterbury brands	EURO 5,000	100
- SFD France S.A.S.U.	Saint Herblain (France)	Kappa Europe Group company employing the salesforce for France	EURO 5,000	100
- Sport Fashion Distribution UK Ltd	Manchester (United Kingdom)	Manages the distribution of Kappa Europe Group products in United Kingdom	LIRE STERLING 1	100
- Sport Fashion Licensing S.A.S.U.	Saint Herblain (France)	Kappa Europe Group company distributing products from minor license contracts or related to specific events	EURO 5,000	100
- Sport Fashion Retail S.A.R.L.	Saint Herblain (France)	Company managing the outlet in Saint Herblain	EURO 5,000	100
- Preppy Cotton S.A.	Reidermoos (Switzerland)	Kappa licensee for Switzerland for the Kappa Europe Group	EURO 101,105	100
- Textiles D'Artois S.A.R.L.	Haute Avesnes (France)	Company dedicated to sublimation projects on behalf of the Kappa Europe Group licensees	EURO 3,000	100
- through Kappa France SAS.				
- Kappa Sport Iberia S.L.	Madrid (Spain)	Sub-licensee for the Spanish and Portuguese territory	EURO 505,588	100

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

ANNEX 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, Federico Trono as Chief Executive Officer and Paola Bruschi 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 2019 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

Federico Trono
Chief Executive Officer

Paola Bruschi
**Executive Officer for
Financial Reporting**

FINANCIAL STATEMENTS
AND EXPLANATORY NOTES OF BASICNET S.P.A.
AT DECEMBER 31, 2019

FINANCIAL STATEMENTS AND EXPLANATORY NOTES**BASICNET S.p.A. – INCOME STATEMENT**

(in Euro)

	<i>Note</i>	FY 2019	FY 2018	Changes
Direct sales	(7)	4,202,003	4,438,321	(236,318)
Cost of sales	(8)	(4,067,201)	(4,287,824)	220,623
GROSS MARGIN		134,802	150,497	(15,695)
Royalties and sourcing commissions	(9)	37,973,599	33,730,201	4,243,398
Other income	(10)	6,886,862	6,401,251	485,611
Sponsorship and media costs	(11)	(1,524,331)	(1,381,038)	(143,293)
Personnel costs	(12)	(10,448,707)	(9,788,158)	(660,549)
Selling, general and administrative costs, royalties expenses	(13)	(17,029,868)	(15,628,094)	(1,401,774)
Amortisation & Depreciation	(14)	(3,926,467)	(2,380,087)	(1,546,380)
EBIT		12,065,890	11,104,572	961,318
Net financial income (charges)	(15)	286,177	(23,964)	310,141
Dividends	(16)	4,800,000	2,150,000	2,650,000
PROFIT BEFORE TAXES		17,152,067	13,230,608	3,921,459
Income taxes	(17)	(2,665,499)	(276,194)	(2,389,305)
NET PROFIT FOR THE YEAR		14,486,568	12,954,414	1,532,154

BASICNET S.p.A. – COMPREHENSIVE INCOME STATEMENT*(in Euro)*

	<i>Note</i>	FY 2019	FY 2018	Changes
<i>Profit for the year (A)</i>		<i>14,486,568</i>	<i>12,954,414</i>	<i>1,532,154</i>
Effective portion of the Gains/(losses) on cash flow hedges		3,881	23,201	(19,320)
Re-measurement of post-employment benefits (IAS 19) (*)		(65,991)	29,877	(95,868)
Tax effect on other profits/(losses)		14,907	(12,738)	27,645
<i>Total other gains/(losses), net of tax effect (B)</i>	<i>(27)</i>	<i>(47,203)</i>	<i>40,340</i>	<i>(87,543)</i>
Total Comprehensive Profit (A)+(B)		14,439,365	12,994,754	1,444,611
- Owners of the parent		14,439,365	12,994,754	1,444,611
- Non-controlling interests		-	-	-

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

BASICNET S.p.A. – BALANCE SHEET*(in Euro)*

ASSETS	Note	December 31, 2019	December 31, 2018
Intangible assets	(18)	12,387,382	12,738,924
Rights-of-use	(19)	9,239,766	-
Plant, machinery and other assets	(20)	3,130,236	3,015,848
Equity invest. & other financial assets	(21)	36,296,599	33,656,409
Total non-current assets		61,053,983	49,411,181
Net inventories	(22)	491,611	279,259
Trade receivables	(23)	15,982,713	17,348,486
Other current assets	(24)	65,875,339	64,145,043
Prepayments	(25)	4,802,398	4,850,553
Cash and cash equivalents	(26)	1,518,777	1,623,317
Derivative financial instruments		-	-
Total current assets		88,670,838	88,246,658
TOTAL ASSETS		149,724,821	137,657,839
LIABILITIES	Note	FY 2019	FY 2018
Share capital		31,716,673	31,716,673
Treasury shares		(22,225,090)	(17,827,079)
Other reserves		71,279,414	64,926,726
Net Profit		14,486,568	12,954,414
TOTAL SHAREHOLDERS' EQUITY	(27)	95,257,565	91,770,734
Provisions for risks and charges		-	-
Loans	(28)	11,538,558	16,041,058
Payables for rights-of-use	(30)	9,244,914	-
Employee and Director benefits	(31)	1,567,150	2,586,331
Deferred tax liabilities	(32)	687,282	598,845
Other non-current liabilities	(33)	1,015,850	862,791
Total non-current liabilities		24,053,754	20,089,025
Bank payables	(29)	12,500,983	11,947,348
Trade payables	(34)	6,556,268	7,008,962
Tax payables	(35)	5,105,031	1,254,770
Other current liabilities	(36)	5,969,992	5,209,323
Accrued expenses	(37)	281,228	373,796
Derivative financial instruments	(38)	-	3,881
Total current liabilities		30,413,502	25,798,080
TOTAL LIABILITIES		54,467,256	45,887,105
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		149,724,821	137,657,839

BASICNET S.p.A. – CASH FLOW STATEMENT*(in Euro)*

	December 31, 2019	December 31, 2018
A) OPENING SHORT-TERM BANK DEBT	(6,386,531)	(3,467,981)
B) CASH FLOW FROM OPERATING ACTIVITIES		
Net Profit for the year	14,486,568	12,954,414
Amortisation & Depreciation	3,926,467	2,380,087
Write-down of investments	-	-
Gains on sale of equity investments	-	-
Changes in working capital:		
- (increase) decrease in trade receivables	1,365,774	(5,292,168)
- (increase) decrease in inventories	(212,352)	487,893
- (increase) decrease in other receivables	(2,682,142)	751,518
- increase (decrease) in trade payables	247,306	969,888
- increase (decrease) in other payables	4,759,858	(1,330,752)
Net changes in employee and director benefits	(19,181)	433,710
Others, net	(156,459)	17,139
	21,715,839	11,371,729
C) CASH FLOW FROM INVESTING ACTIVITIES		
Investments in fixed assets:		
- tangible assets	(916,113)	(954,215)
- intangible assets	(1,800,778)	(1,326,587)
- financial assets	(2,640,190)	(381,543)
Realizable value for fixed asset disposals:		
- tangible assets	55	149
- intangible assets	-	-
- financial assets	-	-
	(5,357,026)	(2,662,196)
D) CASH FLOW FROM FINANCING ACTIVITIES		
Lease contracts (repayments)	(2,499)	(22,730)
Repayments of medium/long term loans	(3,937,500)	(5,000,000)
Undertaking of medium/long term loans	-	-
Repayment of loans for rights-of-use	(1,648,539)	-
Acquisition of treasury shares	(4,398,012)	(3,332,087)
Distribution dividends	(6,467,938)	(3,273,266)
	(16,454,488)	(11,628,083)
E) CASH FLOW IN THE YEAR	(95,675)	(2,918,550)
F) CLOSING SHORT-TERM BANK DEBT	(6,482,206)	(6,386,531)

Interest paid for the year amounts to respectively Euro 224 thousand in 2019 and Euro 310 thousand in 2018, while income taxes paid in the year amounted to Euro 303 million in 2019 and Euro 2.3 million in 2018.

BASICNET S.p.A. - STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY*(in Euro)*

	Number shares	Share capital	Treasury Shares	Legal Reserve	Shares held in portfolio	Reserves		Cash Flow Hedge	Retained earnings	Net profit	Total
						Remeasu IAS19	IFRS16				
							Other reserves				
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' Meeting 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
<i>Total comprehensive income</i>			-	-	-	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
Effect IFRS 16 Opening balance			-	-	-	-	(86,584)	-	-	-	(86,584)
Allocation of result as per Shareholders' Meeting resolution of April 19, 2019											
- Legal reserve			-	647,721	-	-	-	-	-	(647,721)	-
- Retained earnings			-	-	-	-	-	-	5,838,755	(5,838,755)	-
- Distribution of dividends			-	-	-	-	-	-	-	(6,467,938)	(6,467,938)
Acquisition of treasury shares			(4,398,012)	-	4,398,012	-	-	-	(4,398,012)	-	(4,398,012)
2019 Result			-	-	-	-	-	-	-	14,486,568	14,486,568
Other comprehensive income statement items:											
- Gains/(losses) recorded directly to cash flow hedge reserve			-	-	-	-	-	2,949	-	-	2,949
- Gains/(losses) recorded directly to equity for IAS 19 re-measurement			-	-	-	(50,152)	-	-	-	-	(50,152)
<i>Total comprehensive income</i>			-	-	-	(50,152)	-	2,949	-	14,486,568	14,439,365
Balance at December 31, 2019	60,993,602	31,716,673	(22,225,090)	6,310,916	22,225,090	(108,392)	(86,584)	-	42,938,384	14,486,568	95,257,565

BASICNET S.p.A. – NET FINANCIAL POSITION*(in Euro)*

	December 31, 2019	December 31, 2018
Cash and cash equivalents	1,518,777	1,623,317
Bank overdrafts and bills	(8,000,983)	(8,009,848)
<i>Sub-total net liquidity available</i>	<i>(6,482,206)</i>	<i>(6,386,531)</i>
Short-term portion of medium/long-term loans	(4,500,000)	(3,937,500)
Short-term net financial position – third parties	(10,982,206)	(10,324,031)
BNL loan	(2,500,000)	(3,750,000)
Banco BPM loan	(8,937,500)	(12,187,500)
Payables for rights-of-use	(9,244,914)	-
Medium/long lease payables	(101,058)	(103,558)
<i>Sub-total loans and leasing – third parties</i>	<i>(20,783,472)</i>	<i>(16,041,058)</i>
Net financial position - third parties	(31,765,678)	(26,365,089)
Group financial receivables / (payables)	54,554,415	55,483,664
Net Financial Position - Group	54,554,415	55,483,664
Total net financial position	22,788,737	29,118,575

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

	Dec. 31, 2019	Dec. 31, 2018
A. Cash	17,321	7,002
B. Other cash equivalents	1,501,456	1,616,315
C. Securities held for trading	-	-
D. Cash & cash equivalents (A)+(B)+(C)	1,518,777	1,623,317
E. Current financial receivables	-	-
F. Current bank payables	(8,000,983)	(8,009,848)
G. Current portion of non-current debt	(4,500,000)	(3,937,500)
H. Other Group financial receivables/ (payables)	54,554,415	55,483,664
I. Current financial debt (F)+(G)+(H)	42,053,432	43,536,316
J. Net current financial debt (I)-(E)-(D)	43,572,209	45,159,633
K. Non-current bank payables	(11,538,558)	(16,041,058)
L. Bonds issued	-	-
M. Other non-current payables	(9,244,914)	(3,881)
N. Non-current financial debt (K)+(L)+(M)	(20,783,472)	(16,044,939)
O. Net financial debt (J)+(N)	22,788,737	29,114,694

The net debt differs from the Parent Company net financial position for the fair value of the interest and currency hedging operations - cash flow hedges (Note 38).

BASICNET S.P.A. STATEMENT OF CHANGES IN NET FINANCIAL POSITION*(in Euro)*

	December 31, 2019	December 31, 2018
A) OPENING NET FINANCIAL POSITION	29,118,575	31,797,516
B) EFFECTS OF THE RECOGNITION OF RIGHTS-OF-USE	(1,919,195)	-
B) CASH FLOW FROM OPERATING ACTIVITIES		
Net profit	14,486,568	12,954,414
Amortisation & Depreciation	3,926,467	2,380,087
Write-down of investments	-	-
Gains on sale of investments	-	-
Changes in working capital:	2,549,195	(9,196,742)
Net changes in employee and director benefits	(19,181)	433,710
Others, net	(156,458)	17,139
	20,786,591	6,588,608
C) CASH FLOW FROM INVESTING ACTIVITIES		
Fixed asset investments	(5,357,081)	(2,662,345)
Realisable value for fixed asset disposals	55	149
	(5,357,026)	(2,662,196)
D) CASH FLOW FROM FINANCING ACTIVITIES		
New payables for rights-of-use	(8,974,258)	-
Acquisition of treasury shares	(4,398,012)	(3,332,087)
Dividend payments	(6,467,938)	(3,273,266)
	(19,840,208)	(6,605,353)
E) CASH FLOW IN THE YEAR	(4,410,644)	(2,678,941)
F) CLOSING NET FINANCIAL POSITION	22,788,737	29,118,575

BASICNET S.p.A. – 2019 INCOME STATEMENT PREPARED AS PER CONSOB RESOLUTION NO. 15519 OF JULY 27, 2006
(in Euro)

	FY 2019		FY 2018	
		<i>Of which related parties Note 41</i>		<i>Of which related parties</i>
Direct sales	4,202,003	2,535,761	4,438,321	2,428,765
Cost of sales	(4,067,201)	(26,742)	(4,287,824)	(21,356)
GROSS MARGIN	134,802		150,497	
Royalties and sourcing commissions	37,973,599	9,103,642	33,730,201	7,024,448
Other income	6,886,862	6,088,221	6,401,251	6,069,700
Sponsorship and media costs	(1,524,331)	(934,673)	(1,381,038)	(436,559)
Personnel costs	(10,448,707)		(9,788,158)	
Selling, general and administrative costs, royalties expenses	(17,029,868)	(1,615,266)	(15,628,094)	(3,272,050)
Amortisation & Depreciation	(3,926,467)		(2,380,087)	
EBIT	12,065,890		11,104,571	
Net financial income (charges)	286,177	264,201	(23,964)	396,220
Dividends	4,800,000	4,800,000	2,150,000	2,150,000
PROFIT BEFORE TAXES	17,152,067		13,230,608	
Income taxes	(2,665,499)		(276,194)	
NET PROFIT	14,486,568		12,954,414	

BASICNET S.p.A. – BALANCE SHEET AS AT DECEMBER 31, 2019 PREPARED AS PER CONSOB RESOLUTION NO. 15519 OF JULY 27, 2006*(in Euro)*

ASSETS	December 31, 2019		December 31, 2018	
		<i>Of which Related Parties Notes 21 & 24</i>		<i>Of which Related Parties</i>
Intangible assets	12,387,382		12,738,924	
Rights-of-use	9,239,766		-	
Plant, machinery and other assets	3,130,236		3,015,848	
Equity invest. & other financial assets	36,296,599	36,264,489	33,656,409	33,264,489
Total non-current assets	61,053,983		49,411,181	
Net inventories	491,611		279,259	
Trade receivables	15,982,713		17,348,486	
Other current assets	65,875,339	63,915,224	64,145,043	60,800,581
Prepayments	4,802,398		4,850,553	
Cash and cash equivalents	1,518,777		1,623,317	
Derivative financial instruments	-		-	
Total current assets	88,670,838		88,246,658	
TOTAL ASSETS	149,724,821		137,657,839	

LIABILITIES	December 31, 2019		December 31, 2018	
		<i>Of which Related Parties Note 36</i>		<i>Of which Related Parties</i>
Share capital	31,716,673		31,716,673	
Treasury shares	(22,225,090)		(17,827,079)	
Other reserves	71,279,414		64,926,726	
Net Profit	14,486,568		12,954,414	
TOTAL SHAREHOLDERS' EQUITY	95,257,565		91,770,734	
Provisions for risks and charges	-		-	
Loans	11,538,558		16,041,058	
Payables for rights-of-use	9,244,914		-	
Employee and Director benefits	1,567,150		2,586,331	
Deferred tax liabilities	687,282		598,845	
Other non-current liabilities	980,887		862,791	
Total non-current liabilities	24,018,791		20,089,025	
Bank payables	12,500,983		11,947,348	
Trade payables	6,556,268		7,008,962	
Tax payables	5,139,994		1,254,770	
Other current liabilities	5,969,992	1,959,065	5,209,323	1,280,726
Accrued expenses	281,228		373,796	
Derivative financial instruments	-		3,881	
Total current liabilities	30,448,465		25,798,080	
TOTAL LIABILITIES	54,467,256		45,887,105	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	149,724,821		137,657,839	

BASICNET S.p.A. – CASH FLOW STATEMENT AS AT DECEMBER 31, 2019 PREPARED AS PER CONSOB RESOLUTION NO. 15519 OF JULY 27, 2006

(in Euro)

	December 31, 2019	December 31, 2018
	<i>Of which related Parties</i>	<i>Of which related parties</i>
A) OPENING SHORT-TERM BANK DEBT	(6,386,531)	(3,467,981)
B) CASH FLOW FROM OPERATING ACTIVITIES		
Net Profit	14,486,568	12,954,414
Amortisation & Depreciation	3,926,467	2,380,087
Write-down of investments	-	-
Gains on sale of equity investments	-	-
Changes in working capital:		
- (increase) decrease in trade receivables	1,365,774	(5,292,168)
- (increase) decrease in inventories	(212,352)	487,893
- (increase) decrease in other receivables	(2,682,142)	751,518
- increase (decrease) in trade payables	247,306	969,888
- increase (decrease) in other payables	4,759,858	(1,330,752)
Net changes in employee and director benefits	(19,181)	433,710
Others, net	(156,459)	17,139
	21,715,839	11,371,729
C) CASH FLOW FROM INVESTING ACTIVITIES		
Investments in fixed assets:		
- tangible assets	(916,113)	(954,215)
- intangible assets	(1,800,778)	(1,326,587)
- financial assets	(2,640,190)	(381,543)
Realizable value for fixed asset disposals:		
- tangible assets	55	149
- intangible assets	-	-
- financial assets	-	-
	(5,357,026)	(2,662,196)
D) CASH FLOW FROM FINANCING ACTIVITIES		
Lease contracts (repayments)	(2,499)	(22,730)
Repayments of medium/long term loans	(3,937,500)	(5,000,000)
New medium/long term loans	-	-
Repayment of loans for rights-of-use	(1,648,539)	-
Acquisition of treasury shares	(4,398,012)	(3,332,087)
Distribution dividends	(6,467,938)	(3,273,266)
	(16,454,488)	(11,628,083)
E) CASH FLOW IN THE YEAR	(95,675)	(2,918,550)
F) CLOSING SHORT-TERM BANK DEBT	(6,482,206)	(6,386,531)

Interest paid for the year amounts to respectively Euro 224 thousand in 2019 and Euro 310 thousand in 2018, while income taxes paid in the year amounted to Euro 303 million in 2019 and Euro 2.3 million in 2018.

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, 2019 was approved by the Board of Directors on March 4, 2020. The final approval of the accounts is the responsibility of the Shareholders' Meeting.

2. ACCOUNTING PRINCIPLES FOR THE PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements for the year 2019 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, 2019

The Company adopted IFRS 16 *Leasing* for the first time. The impact and the nature of the amendments following the adoption of this new accounting standard are illustrated below. Various amendments and interpretations were applied for the first time in the periods before January 1, 2019, 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 16 - Leasing

IFRS 16 replaced 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 contains standards for the recognition, measurement, presentation and disclosure of leases and requires the lessee to recognise most leases in the financial statements.

The accounting for the lessor under IFRS 16 has remained substantially unchanged from IAS 17. The lessor shall continue to classify leases as either operating or finance leases in accordance with similar standards to those included in IAS 17. IFRS 16 therefore has no impact on the accounting for leases in which the Company is the lessor.

The Company adopted IFRS 16 retrospectively, recognising the cumulative effect at the initial application date (modified retrospective method). The Company decided to utilise the practical expedient which permits application of the standard only to contracts previously identified as leases, applying IAS 17 and IFRIC 4 at the initial application date. The Company also utilised the exceptions under the standard on leasing contracts which, at the date of initial application, have a duration of equal to or less than 12 months and which do not contain a purchase option ("short-term leasing") and on leases whose underlying asset is of a low value ("low value asset").

The contracts which are subject to IFRS 16, mainly concerning property leases, had the following effects on the financial statements (in Euro thousands):

Account	Balance 01/01/2019	Increases	Decreases	Balance at 31/12/2019
Usage rights, net	1,799	8,974	(1,533)	9,240
Deferred tax assets	34		(33)	1
Payables for rights-of-use	1,919	8,974	(1,648)	9,245
Reserves	87			87

Income statement effects in the period	
Account	Balance at 31/12/2019
Leasing	1,666
Amortisation & Depreciation	(1,533)
Interest charges	(17)
Deferred tax income/(charge)	(33)
Total	83

IFRIC 23 - Uncertainties over income tax treatments

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.

The Company defines whether to consider each uncertain tax treatment separately or together with other (one or more) uncertain tax treatments and uses the approach that allows the best prediction of the resolution of uncertainty.

The Company applies a significant degree of judgment in identifying the uncertainties on the tax treatment of income taxes. As the Company operates in a complex multi-national environment, it has assessed whether the interpretation may have impacted its financial statements.

At the time the interpretation was adopted, the Company examined the existence of uncertain tax positions, in particular with regard to transfer pricing policy. The Company and its subsidiaries file tax returns in various jurisdictions by deducting certain transfer pricing costs; this approach could be challenged by the relevant tax authorities.

The Company has established, on the basis of transfer pricing reviews carried out, that it is probable that its tax treatments will be accepted by the tax authorities. The interpretation therefore did not have any impact on the 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.

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

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, curtailment or settlement. The amendments state that when a plan amendment, curtailment or settlement takes place during the year an entity is required to establish the service cost for the rest of the period subsequent to the plan amendment, curtailment or settlement, utilising the benchmark actuarial assumptions to remeasure the net liability (asset) for defined benefits in a manner which reflects the benefits offered by the plan and the plan assets after this event. An entity is required, in addition, to establish the net interest for the remaining period after the plan amendment, curtailment or settlement: the net liability (asset) for defined benefits which reflects the benefits offered by the plan and the assets of the plan after this event; and the discount rate utilised to re-parameter the net liability (asset) for defined benefits.

These amendments did not have any impact on the financial statements as the Company in the period did not record any plan amendment, curtailment or settlement.

Annual improvements 2015-2017 Cycle

IAS 12 - Income Tax

The amendments clarify that the effect of income taxes on dividends are connected to past transactions or events generating distributable profits rather than shareholder distributions. Therefore, an entity recognises the effects of income taxes on income deriving from dividends in the income statement, in other comprehensive income items or in shareholders' equity, in accordance with the method by which the entity previously recognised these past transactions or events.

The entity applies these amendments for the periods beginning January 1, 2019 or subsequently, with advance application permitted. Where the entity applies for the first time these amendments, it applies the effect of the taxes and dividends recognised from the beginning of the initial year.

As current Company practices are in line with these amendments, the Company did not report any impact from these amendments on its financial statements.

IAS 23 - Borrowing costs

The amendments clarify that an entity considers as non-specific loans any loan undertaken which from the beginning was drawn down to develop an asset, in the case in which all actions necessary to prepare this asset for use or sale have been completed.

An entity applies these amendments to the financial charges incurred from the beginning of the period in which the entity applies these amendments for the first time. An entity applies these amendments for the periods beginning January 1, 2019 or subsequently, with advance application permitted.

As current Company practices are in line with these amendments, the Company did not report any impact from these amendments on its financial statements.

3. FORMAT OF THE FINANCIAL STATEMENTS

BasicNet S.p.A. presents its income statement by nature of cost items; the assets and liabilities are classified between current and non-current. The 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. ACCOUNTING POLICIES

The present financial statements were prepared on the going concern basis, and in accordance with the accruals principle. The financial statements are presented in Euro and all values are rounded into thousands of Euro.

The main accounting policies adopted in the preparation of the financial statements at December 31, 2019 are disclosed below:

Revenue recognition

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 are 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. They are recognised to the income statement, except those relating to accounts directly credited or debited to equity, in which case the tax effect is recognised directly to 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.

They 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 costs 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	4-8
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**Usage right assets**

The Company recognises the usage right assets at the initial leasing date (i.e. the date on which the underlying asset is available for use). The usage right assets are measured at cost, net of accumulated amortisation and impairments, adjusted for any remeasurement of the lease liabilities.

The cost of the usage right assets includes the amount of the lease liabilities recognised, the initial direct costs incurred and the payment of leases at the commencement date or before, net of any incentives received. Unless the Company does not have the reasonable certainty of obtaining ownership of the leased asset on conclusion of the leasing contract, the usage right assets are amortised on a straight-line basis for a period covering the lesser between the estimated useful life and the lease duration.

Right-of-use assets are subject to impairment.

Lease liabilities

At the lease commencement date, the Company recognises the lease liabilities measuring them at the present value of the payments due for the lease not yet settled at that date. The payments due include the fixed payments (including the fixed payments in substance), net of any lease incentives to be received, the variable lease payments which depend on an index or a rate and the amounts expected to be paid as guarantee on the residual value. The lease payments include also the exercise price of a purchase option where it is reasonably certain that this option shall be exercised by the Company and the lease termination penalty payments, where its duration takes account of the exercise by the Company of the termination option on the lease.

The variable lease payments not depending on an index or a rate are recognised as costs in the period in which the event or the condition generating the payment occurs. In calculating the present value of the payments due, the Company uses the marginal loan rate at the commencement date where the implied interest rate may not be easily determined.

After the commencement date, the amount of the lease liability increases to take account of the interest on the lease liabilities and reduces to consider the payments made. In addition, the carrying amount of the lease payables is restated in the case of any changes to the lease or a review of the contractual terms with regards to the change in the fixed payments in substance; it is in addition restated amid changes to the valuation of the acquisition of the underlying asset.

Short-term leases and low value asset leases

The Company applies the exception for the recognition of short-term leases for machinery and equipment (i.e. leasing with a duration of 12 months or less from the commencement date and not containing a purchase option). The Company has also applied the exception for leases concerning assets of a modest value with regards to the leasing contracts on office equipment whose value is considered low (i.e. below Euro 5,000).

The short-term lease charges and those for low value assets are recognised as costs on a straight-line basis over the lease duration.

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 2019	FY 2018
Net sales to third parties	1,666,242	2,009,556
Net sales to subsidiaries	2,535,761	2,428,765
Total direct sales	4,202,003	4,438,321

Sales to subsidiaries are detailed in Note 41.

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

	FY 2019	FY 2018
Italy	2,426,348	2,541,809
Europe	1,061,615	1,076,049
The Americas	404,440	452,420
Asia and Oceania	262,635	293,499
Middle East and Africa	46,965	74,544
Total direct sales	4,202,003	4,438,321

The direct sale of samples was substantially in line (decrease of Euro 0.2 million).

8. COST OF SALES

The breakdown of the cost of sales is as follows:

	FY 2019	FY 2018
Samples purchased	2,977,005	2,715,216
Freight charges and accessory purchasing cost	595,663	657,113
Change in inventory of raw materials, ancillary, consumables and goods	(212,352)	487,893
Prototypes purchases and development	534,939	319,646
Other	171,946	107,956
Total cost of sales	4,067,201	4,287,824

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

	FY 2019	FY 2018
Asia and Oceania	2,022,591	1,949,153
Italy	466,430	307,804
Europe	87,107	103,008
The Americas	388,757	327,204
Middle East and Africa	12,120	28,047
Total	2,977,005	2,715,216

Sample purchases were made by BasicNet S.p.A. for resale to the licensees. The increase is related to higher costs on the development of new prototypes.

9. ROYALTIES AND SOURCING COMMISSIONS

The breakdown of royalties and sourcing commissions by geographic area is reported below.

	FY 2019	FY 2018
Europe	16,644,954	14,943,861
The Americas	3,563,337	2,386,553
Asia and Oceania	17,062,690	15,426,406
Middle East and Africa	702,618	973,381
Total	37,973,599	33,730,201

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 2019	FY 2018
Assistant services to Group companies	6,087,000	6,069,700
Other income	799,862	331,551
Total other income	6,886,862	6,401,251

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.r.l., Superga Trademark S.r.l., Jesus Jeans S.r.l. and TOS S.r.l.

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

11. SPONSORSHIP AND MEDIA COSTS

	FY 2019	FY 2018
Communication contributions	670,418	1,000,870
Promotional expenses	535,325	126,625
Advertising	318,588	253,543
Total sponsorship and media costs	1,524,331	1,381,038

Communication contributions are paid to commercial licensees for international communication and endorsement activities

12. PERSONNEL COSTS

	FY 2019	FY 2018
Wages and salaries	7,444,634	6,936,171
Social security charges	2,493,096	2,391,967
Post-employment benefits	510,977	460,020
Total	10,448,707	9,788,158

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, 2019				Human resources at December 31, 2018			
	Number		Average age		Number		Average age	
	Male/ Female	Total	Male/ Female	Average	Male/ Female	Total	Male/ Female	Average
Executives	16 / 8	24	46 / 53	48	16 / 8	24	46/51	48
White-collar	73 / 130	203	36 / 38	37	64 / 120	184	36/38	37
Blue-collar	1 / 2	3	39 / 48	45	1 / 2	3	38/46	43
Total	90 / 140	230	37 / 39	38	81 / 130	211	38/39	39

The average number of Employees in 2019 was 222, comprising 24 executives, 195 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 2019	FY 2018
Commercial expenses	5,292,592	3,745,014
Rental, accessory and utility expenses	2,395,190	3,820,323
Directors and Statutory Auditors emoluments	2,972,516	3,413,373
Doubtful debt provision	403,536	200,000
Sales services	809,287	683,551
Professional consultants	1,703,071	1,414,336
Other general expenses	3,453,676	2,351,498
Total selling, general and administrative costs, and royalties	17,029,868	15,628,094

“Commercial expenses” include costs related to commercial activities, travel expenses and costs for stylistic and graphic design consultancy; the increase is related to greater commercial consultancy on the Group’s recently acquired brands.

“Rental, accessory and utility expenses” principally relate to the offices of the company, owned by the subsidiary Basic Village S.p.A. The reduction is due to the application of IFRS 16, whose effects described in Note 2.

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/dati finanziari/assemblee azionisti.asp, to which reference should be made.

The “doubtful debt provision” of Euro 404 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.

“Other general expenses” includes 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 2019	FY 2018
Intangible assets	1,663,431	1,805,699
Rights-of-use	1,533,598	-
Property, plant & equipment	729,438	574,388
Total amortisation & depreciation	3,926,467	2,380,087

15. NET FINANCIAL INCOME/(CHARGES)

	FY 2019	FY 2018
Interest on bank deposits	186	173
Intercompany interest income	264,201	396,220
Bank interest charges	(60,504)	(67,621)
Interest on medium/long term loans	(212,738)	(289,450)
Medium/long term loan charges	(17,648)	(28,333)
Other interest charges	(44,763)	(85,738)
Total financial income and charges	(71,266)	(74,749)
Exchange gains	540,154	680,030
Exchange losses	(182,711)	(629,245)
Net exchange gains/(losses)	357,443	50,785
Total financial income/(charges)	286,177	(23,964)

“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 28.

“Exchange gains realised” in 2019 amounted to Euro 471 thousand and “exchange losses realised” amounted to Euro -177 thousand. The translation of credit and debit balances at year-end resulted in the recognition of “non-realised exchange gains” of Euro 69 thousand and “non-realised exchange losses” of Euro -6 thousand.

16. DIVIDENDS

The subsidiary Basic Properties B.V., which transferred its headquarters to Italy at the end of December 2019, approved in the year the distribution of a dividend to BasicNet of Euro 4.8 million, based on the dividends in turn received from the entirely held subsidiaries Basic Trademark S.r.l., Superga Trademark S.r.l. and Basic Properties America Inc..

17. INCOME TAXES

Income taxes (Euro 2.7 million) comprises current taxes of Euro 4.2 million, mainly Euro 0.8 million for IRAP, Euro 3.4 million for IRES and Euro 137 thousand for deferred tax charges, in addition to Euro 1.6 million related to the benefits from application of the “Patent Box” rule.

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

	FY 2019	FY 2018
Profit before taxes	17,152,067	13,230,608
Income tax rate	24.0%	24.0%
<i>Theoretical IRES</i>	<i>(4,116,496)</i>	<i>(3,175,346)</i>
Permanent tax differences effect	717,500	187,643
Prior year taxes	11,151	32,410
Patent Box benefit	1,583,215	3,552,077
IRAP	(764,871)	(594,161)
Other changes	(95,998)	(278,817)
EFFECTIVE TAX CHARGE	(2,665,499)	(276,194)
Effective tax rate	(15.5%)	(2.1%)

The “Patent Box” benefit recognised to the previous year included the effects from the ruling with retrospective application for the years between 2015 and 2017.

Patent Box benefit	FY 2019	FY 2018
Effect prior years	-	2,288,500
Effects in the current year	1,583,215	1,263,577
TOTAL	1,583,215	3,552,077

EXPLANATORY NOTES TO THE BALANCE SHEET (IN EURO)**ASSETS****18. INTANGIBLE ASSETS**

The breakdown of intangible assets at December 31, 2019 compared to the previous year-end and the movements during the year are reported in the table below:

	Dec. 31, 2019	Dec. 31, 2018	Changes
Concessions, brands and similar rights	9,345,270	9,997,382	(652,112)
Other intangible assets	2,934,827	2,690,031	244,796
Intangible assets in progress	-	-	-
Industrial patents & intellectual property rights	107,285	51,511	55,774
Total intangible assets	12,387,382	12,738,924	(351,542)

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 patents	Total
Historic cost at 1.1.2018	14,360,770	31,089,645	345,109	113,231	45,908,755
<i>Additions</i>	<i>182,622</i>	<i>1,480,955</i>	<i>-</i>	<i>8,119</i>	<i>1,671,696</i>
<i>Divestments</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>Reclass.</i>	<i>-</i>	<i>-</i>	<i>(345,109)</i>	<i>-</i>	<i>(345,109)</i>
Historic cost at 31.12.2018	14,543,392	32,570,600	-	121,350	47,235,342
<i>Additions</i>	<i>164,872</i>	<i>1,565,108</i>	<i>-</i>	<i>70,798</i>	<i>1,800,778</i>
<i>Divestments</i>	<i>(700,000)</i>				<i>(700,000)</i>
<i>Reclass.</i>	<i>(2,200)</i>	<i>598</i>			<i>(1,602)</i>
Historic cost Dec. 31, 2019	14,006,064	34,136,306	-	192,148	48,334,518

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

	Concessions, brands, and similar rights	Other intangible assets	Intangible assets in progress	Industrial patents patents	Total
Acc. Amort. at 1.1.2018	(4,434,784)	(28,194,040)	-	(61,895)	(32,690,719)
<i>Amortisation</i>	<i>(111,226)</i>	<i>(1,686,529)</i>	<i>-</i>	<i>(7,944)</i>	<i>(1,805,699)</i>
Acc. Amort. at 31.12.2018	4,546,010	(29,880,569)	-	(69,839)	(34,496,418)
<i>Amortisation</i>	<i>(116,466)</i>	<i>(1,531,941)</i>	<i>-</i>	<i>(15,024)</i>	<i>(1,663,431)</i>
<i>Reclass.</i>	<i>1,682</i>	<i>211,031</i>			<i>212,713</i>
Acc. Amort. Dec. 31, 2019	(4,660,794)	(31,201,479)	-	(84,863)	(35,947,136)

The changes in intangible assets during 2019 are shown in the table below:

	Concessions, brands, and similar rights	Other intangible assets	Intangible assets in progress	Industrial patents patents	Total
Opening net book value at 1.1.2018	9,925,986	2,895,605	345,109	51,336	13,218,036
<i>Additions</i>	<i>182,622</i>	<i>1,480,955</i>	<i>-</i>	<i>8,119</i>	<i>1,671,696</i>
<i>Divestments</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>Reclass.</i>	<i>-</i>	<i>-</i>	<i>(345,109)</i>	<i>-</i>	<i>(345,109)</i>
<i>Amortisation</i>	<i>(111,226)</i>	<i>(1,686,529)</i>	<i>-</i>	<i>(7,944)</i>	<i>(1,805,699)</i>
Closing net book value at 31.12.2018	9,997,382	2,690,031	-	51,511	12,738,924
<i>Additions</i>	<i>164,872</i>	<i>1,565,108</i>	<i>-</i>	<i>70,798</i>	<i>1,800,778</i>
<i>Divestments</i>	<i>(700,000)</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>(700,000)</i>
<i>Reclass.</i>	<i>(518)</i>	<i>211,629</i>	<i>-</i>	<i>-</i>	<i>211,111</i>
<i>Amortisation</i>	<i>(116,466)</i>	<i>(1,531,941)</i>	<i>-</i>	<i>(15,024)</i>	<i>(1,663,431)</i>
Closing net book value Dec. 31, 2019	9,345,270	2,934,827	-	107,285	12,387,382

At December 31, 2019, the intangible assets report investments of Euro 1.8 million and amortisation of Euro 1.7 million.

The investments in “concessions, brands and similar rights” are due to the capitalisation of costs incurred for the registration of trademarks in new European countries, for renewals and extensions and for the purchase of software licenses.

The value of the divestment is due to the execution of the contract for the acquisition of the Briko brand signed in March 2016 with Briko S.p.A., which resulted in the non-applicability of the variable portion of the final price, assessed as Euro 0.7 million, and the consequent reduction in the value of the Brand to Euro 0.9 million and the cancellation of the payable to the former owners.

The brand K-Way and the brand Briko have book values of Euro 8.2 million and Euro 0.9 million respectively at December 31, 2019. 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 2018). These net cash flows were discounted at the weighted average cost of capital (WACC) equal to 6.70% (6.61% in 2018), 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, 2019	Dec. 31, 2018	Changes
Software development	2,931,454	2,679,880	251,574
Other intangible assets	3,373	10,151	(6,778)
Total other intangible assets	2,943,827	2,690,031	244,796

The account increased Euro 1.6 million, principally due to the implementation of new software programmes realised internally and decreased Euro 1.3 million due to the amortisation for the year.

19. RIGHT-OF-USE

The Company adopted IFRS 16 retrospectively, recognising the cumulative effect at the initial application date (modified retrospective method). The Company decided to utilise the practical expedient which permits application of the standard only to contracts previously identified as leases, applying IAS 17 and IFRIC 4 at the initial application date. The Group also utilised the exceptions under the standard on leasing contracts which, at the date of initial application, have a duration of equal to or less than 12 months and which do not contain a purchase option (“short-term leasing”) and on leases whose underlying asset is of a low value (“low value asset”).

The contracts which are subject to IFRS 16, mainly concerning property leases, had the following effects on the financial statements:

	Dec. 31, 2019	Dec. 31, 2018	Changes
Rights-of-use	9,239,766	-	9,239,766
Total right-of-use	9,239,766	-	9,239,766

20. PLANT, MACHINERY AND OTHER ASSETS

The breakdown of plant, machinery and other assets at December 31, 2019 compared to the previous year is shown in the table below:

	Dec. 31, 2019	Dec. 31, 2018	Changes
Plant and machinery	38,764	50,315	(11,551)
Industrial and commercial equipment	105,995	106,961	(966)
Other assets	2,985,477	2,858,572	126,905
Total plant, machinery and other assets	3,130,236	3,015,848	114,388

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 1.1.2018	250,438	354,899	8,441,109	9,046,446
<i>Additions</i>	<i>12,576</i>	<i>48,799</i>	<i>892,840</i>	<i>954,215</i>
<i>Divestments</i>	<i>-</i>	<i>-</i>	<i>(13,323)</i>	<i>(13,323)</i>
Historic cost at 31.12.2018	263,014	403,698	9,320,626	9,987,338
<i>Additions</i>	<i>9,330</i>	<i>24,601</i>	<i>882,182</i>	<i>916,113</i>
<i>Divestments</i>	<i>-</i>	<i>-</i>	<i>(2,079)</i>	<i>(2,079)</i>
<i>Reclass.</i>	<i>-</i>	<i>-</i>	<i>9,225</i>	<i>9,225</i>
Historic cost at 31.12.2019	272,344	428,299	10,209,954	10,910,597

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

	Plant and machinery	Industrial & commercial equipment	Other assets	Total
Acc. Deprec. at 1.1.2018	(190,390)	(273,581)	(5,946,305)	(6,410,276)
<i>Depreciation</i>	<i>(22,309)</i>	<i>(23,156)</i>	<i>(528,923)</i>	<i>(574,388)</i>
<i>Divestments</i>	<i>-</i>	<i>-</i>	<i>13,174</i>	<i>13,174</i>
Acc. Deprec. at 31.12.2018	(212,699)	(296,737)	(6,462,054)	(6,971,490)
<i>Depreciation</i>	<i>(20,881)</i>	<i>(26,484)</i>	<i>(682,073)</i>	<i>(729,438)</i>
<i>Divestments</i>	<i>-</i>	<i>-</i>	<i>2,024</i>	<i>2,024</i>
<i>Reclass.</i>	<i>-</i>	<i>917</i>	<i>(82,374)</i>	<i>(81,457)</i>
Acc. Deprec. at 31.12.2019	(233,580)	(322,304)	(7,224,477)	(7,780,361)

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

	Plant and machinery	Industrial & commercial equipment	Other assets	Total
Closing net book value at 1.1.2018	60,048	81,318	2,494,804	2,636,170
<i>Additions</i>	<i>12,576</i>	<i>48,799</i>	<i>892,840</i>	<i>954,215</i>
<i>Divestments</i>	<i>-</i>	<i>-</i>	<i>(149)</i>	<i>(149)</i>
<i>Depreciation</i>	<i>(22,309)</i>	<i>(23,156)</i>	<i>(528,923)</i>	<i>(574,388)</i>
Closing net book value at 31.12.2018	50,315	106,961	2,858,572	3,015,848
<i>Additions</i>	<i>9,330</i>	<i>24,601</i>	<i>882,182</i>	<i>916,113</i>
<i>Divestments</i>	<i>-</i>	<i>-</i>	<i>(55)</i>	<i>(55)</i>
<i>Depreciation</i>	<i>(20,881)</i>	<i>(26,484)</i>	<i>(682,073)</i>	<i>(729,438)</i>
<i>Reclass.</i>	<i>-</i>	<i>917</i>	<i>(73,149)</i>	<i>(72,232)</i>
Closing net book value at 31.12.2019	38,764	64,938	2,985,477	3,130,236

This account “other assets” consist of:

	Dec. 31, 2019	Dec. 31, 2018	Changes
EDP	763,102	676,099	87,003
Furnishings and fittings	422,915	398,986	23,929
Motor vehicles	77,823	111,974	(34,151)
Other assets	1,721,637	1,671,513	50,124
Total other assets	2,985,477	2,858,572	126,905

Capex in the year relates to the acquisition of furniture and fittings and EDP for Euro 481 thousand, moulds for new products for Euro 364 thousand, plant for Euro 9 thousand and equipment and motor vehicles for Euro 25 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, 2019	Net value at 31 December 2018
EDP	109,705	62,615
Motor vehicles	54,722	92,163
Total	164,426	154,778

The net book value at December 31, 2019 of property, plant and equipment acquired according to the finance lease formula relates to EDP for approx. Euro 110 thousand and motor vehicles for approx. Euro 55 thousand.

21. 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 and the relative portion of shareholders' equity.

	Dec. 31, 2019	Dec. 31, 2018	Changes
Investments in:			
- Subsidiaries	35,764,489	32,764,489	3,000,000
- Joint ventures	500,000	500,000	-
- Other companies	127	127	-
Total investments	36,264,616	33,264,616	3,000,000
Receivables:			
- Other receivables	31,983	391,793	(359,810)
Total financial receivables	31,983	391,793	(359,810)
Total investments & other financial assets	36,296,599	33,656,409	2,640,190

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.

This situation would only apply to the subsidiary BasicItalia S.p.A., whose book value had already been subjected to an impairment test for the previous year's financial statements, without indicating any impairment. In view of the significantly improved 2019 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.

22. NET INVENTORIES

The composition of the item is as follows:

	Dec. 31, 2019	Dec. 31, 2018	Changes
Finished products and goods	2,384,386	1,772,034	612,352
Gross value	2,384,386	1,772,034	612,352
Inventory obsolescence provision	(1,892,775)	(1,492,775)	(400,000)
Total net inventories	491,611	279,259	212,352

“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:

	2019	2018
Inventory obsolescence provision at 1.1	1,492,775	1,322,775
Provisions in the year	400,000	282,860
Utilisations	-	(112,860)
Inventory obsolescence provision at 31.12	1,892,775	1,492,775

The utilisation of the provision relates to the disposal of the excess samples from previous years.

23. TRADE RECEIVABLES

	Dec. 31, 2019	Dec. 31, 2018	Changes
Trade receivables - Italy	608,149	700,453	(92,304)
Trade receivables - Abroad	16,803,770	18,036,732	(1,232,962)
Doubtful debt provision	(1,429,206)	(1,388,699)	(40,507)
Total trade receivables	15,982,713	17,348,486	(1,365,773)

In particular, the breakdown of foreign receivables is as follows:

	Dec. 31, 2019	Dec. 31, 2018	Changes
Europe	2,033,314	3,396,205	(1,362,891)
The Americas	2,776,456	1,854,376	922,080
Asia and Oceania	11,727,660	12,445,748	(718,088)
Middle East and Africa	266,340	340,403	(74,063)
Total	16,803,770	18,036,732	(1,232,962)

“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:

	2019	2018
Doubtful debt provision at 1.1	1,388,699	1,547,045
Utilization for administration procedures and other losses	(159,493)	(358,346)
Provisions in the year	200,000	200,000
Doubtful debt provision at 31.12	1,429,206	1,388,699

The utilisation of the provision relates to the write-off made on the certainty of the receivable's 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.

24. OTHER CURRENT ASSETS

	Dec. 31, 2019	Dec. 31, 2018	Changes
Receivables from Group companies	63,915,224	60,800,581	(3,114,643)
Tax receivables	1,072,881	1,471,880	(398,999)
Other receivables	887,234	1,872,582	(985,348)
Other current assets	65,875,339	64,145,043	(1,730,296)

The breakdown of “receivables from Group companies” is as follows:

	Dec. 31, 2019	Dec. 31, 2018	Changes
<i><u>Trade receivables</u></i>			
BasicItalia S.p.A.. with sole shareholder	4,292,825	2,684,998	1,607,827
Kappa France S.A.S.	2,571,440	-	2,571,440
Basic Properties S.r.l. with sole shareholder	2,279,559	2,517,409	(237,850)
Preppy Cotton AG	152,707	-	152,707
TOS S.r.l. with sole shareholder	21,764	53,443	(31,679)
Kappa Europe S.A.S.	20,000	-	20,000
Superga Trademark S.r.l. with sole shareholder	13,838	48,784	(34,946)
Jesus Jeans S.r.l. with sole shareholder	7,521	9,187	(1,666)
Basic Village S.p.A. with sole shareholder	971	3,096	(2,125)
Fashion S.r.l.	183	-	183
Total trade receivables	9,360,808	5,316,917	4,023,891
<i><u>Financial receivables</u></i>			
BasicItalia S.p.A.. with sole shareholder	26,917,125	28,620,867	(1,703,742)
Superga Trademark S.r.l. with sole shareholder	10,124,677	10,651,952	(527,275)
TOS S.r.l. with sole shareholder	9,803,925	10,556,925	(753,000)
Basic Village S.p.A.. with sole shareholder	5,844,719	4,843,669	1,001,049
BasicRetail S.r.l. with sole shareholder	811,170	458,583	352,587
BasicAir S.r.l. with sole shareholder	584,302	-	584,302
BasicTrademark S.r.l. with sole shareholder	468,498	351,668	116,830
Total financial receivables	54,554,416	55,483,664	(929,249)
Total	63,915,224	60,800,581	3,094,643

Financial receivables originate from loans and advances for the cash needs of the subsidiaries within the centralised treasury management; these receivables are at market interest rates and vary in accordance with the financial cash flow needs within the Group.

No receivables have a residual duration of above 5 years.

The account “tax receivables” includes withholdings on royalties totalling Euro 338 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 28).

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 0.5 million, as approved by the Shareholders’ Meeting for the 2019-2021 three-year mandate, as described in the Remuneration Report to which reference should be made and other minor amounts.

25. PREPAYMENTS

The table below shows the breakdown of the account:

	Dec. 31, 2019	Dec. 31, 2018	Changes
Prepaid expenses on future collections	3,952,521	3,876,794	75,727
Rentals, leases, hire and other	619,679	820,094	(200,415)
Assistance and maintenance contract	208,566	137,798	70,768
Other	21,632	15,867	5,765
Total prepayments	4,802,398	4,850,553	(48,155)

Prepaid costs include creative personnel costs, sample costs for collections for which the corresponding sales revenues have not been realised and costs for trade fairs and exhibitions for future collections and the relative sales meetings.

26. CASH AND CASH EQUIVALENTS

	Dec. 31, 2019	Dec. 31, 2018	Changes
Bank and postal deposits	1,501,456	1,616,315	(114,858)
Cash in hand and similar	17,321	7,002	10,318
Total cash and cash equivalents	1,518,777	1,623,317	(104,540)

“Bank deposits” refer to temporary current account balances principally due to receipts from clients.

SHAREHOLDERS' EQUITY & LIABILITIES**27. SHAREHOLDERS' EQUITY**

	Dec. 31, 2019	Dec. 31, 2018	Changes
Share capital	31,716,673	31,716,673	-
Treasury shares	(22,225,090)	(17,827,079)	(4,398,012)
Legal Reserve	6,310,916	5,663,195	647,721
Treasury shares in portfolio reserve	22,225,090	17,827,079	(4,398,012)
Other reserves:			
- cash flow hedge reserve	-	(2,949)	2,949
- remeasurement reserve for defined benefit plans (IAS 19)	(108,392)	(58,240)	(50,152)
- retained earnings	42,938,384	41,497,641	1,440,743
- IAS 19 Reserve	(86,584)	-	(86,584)
Net Profit	14,486,568	12,954,414	1,532,154
Total Shareholders' Equity	95,257,565	91,770,734	3,486,831

The account includes:

- The “legal reserve”, amounting to approx. Euro 6.3 million, which increased by approx. Euro 648 thousand following the allocation of the result for the previous year, as approved by the Shareholders' Meeting of April 19, 2019;
- The “reserve for treasury shares in portfolio”, amounting to Euro 22.2 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' Meeting 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, 2019, 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 38, 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 increased compared to the end of the previous year by Euro 1.4 million following the allocation of the result for the previous year, as approved by the Shareholders' Meeting of April 19, 2019, 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 2019, as approved by the Shareholders' Meeting of BasicNet S.p.A. of April 19, 2019, in relation to the allocation of the 2018 net profit, a dividend of Euro 0.12 per share was distributed to each of the ordinary shares in circulation, for a total pay-out of approx. Euro 6.5 million.

Based on the share buy-back programme, at the reporting date the Company held 7,863,255 shares, equal to 12.892% of the share capital, for a total investment of approx. Euro 22 million. The weighted average number of shares outstanding in the year was 53,715,626.

The other gains and losses recorded directly in equity in accordance with IAS 1 are reported below and recognised to the Comprehensive Income Statement.

<i>(Euro thousands)</i>	Dec. 31, 2019	Dec. 31, 2018	Changes
<i>Effective part of the Gains/losses on cash flow hedge instruments</i>	4	23	(19)
<i>Re-measurement of post-employment benefits (IAS 19) (*)</i>	(66)	30	(96)
<i>Tax effect relating to the Other items of the comprehensive income statement</i>	15	(13)	28
Total other gains/(losses), net of tax effect	(47)	40	(87)

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

The tax effect relating to “Other gain/losses” is as follows:

<i>(Euro thousands)</i>	December 31, 2019			December 31, 2018		
	Gross value	Tax Charge/Benefit	Net value	Gross value	Tax Charge/Benefit	Net value
Effective part of Gains/losses on cash flow hedge instruments	4	(1)	3	23	(5)	18
Re-measurement of post-employment benefits (IAS 19) (*)	(66)	16	(50)	30	(8)	22
Total other gains/(losses), net of tax effect	(62)	15	(47)	53	(13)	(40)

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

The statement on the availability of the reserves at December 31, 2019 is show below:

STATEMENT ON UTILISATION AND DISTRIBUTION OF RESERVES AS PER ART. 2427 OF THE C.C. NO.7-BIS

	Dec. 31, 2019	Dec. 31, 2018	Changes
Share capital	31,716,673	31,716,673	-
Treasury shares	(22,225,090)	(17,827,079)	(4,398,012)
Share premium reserve	-	-	-
Legal reserve	B 6,310,916	5,663,195	647,721
IAS adjustment reserve	-	-	-
Reserve for treasury shares in portfolio	22,225,090	17,827,079	4,398,012
Ordinary reserve	-	-	-
Extraordinary Reserve	-	-	-
Other reserves:			
Cash Flow Hedge Reserve	D -	(2,949)	2,949
Remeasuring reserve of employee defined benefit plans (IAS 39)	D (108,392)	(58,240)	(50,152)
IFRS 16 Reserve	B (86,584)	-	(86,584)
Retained earnings	A,B,C 42,938,384	41,497,641	1,440,743
Exchange gains reserve	-	-	-
Net profit	14,486,568	12,954,414	1,532,155
Total	95,257,565	91,770,734	3,486,831

Key: A: for share capital increase, B: for coverage of losses - C: for distribution to shareholders - D: non utilisable

28. LOANS

The changes in the medium/long-term loans during the year are shown below:

<i>(Euro thousands)</i>	31/12/2018	New Loans	Repayments	31/12/2019	Short-term portion	Medium/long-term portion
“Intesa Loan”	1,875	-	(1,875)	-	-	-
“BNL Loan”	5,000	-	(1,250)	3,750	1,250	2,500
“MPS Loan”	13,000	-	(812)	12,188	3,250	8,938
Balance	19,875	-	(3,937)	15,938	4,500	11,438

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

	Dec. 31, 2019	Dec. 31, 2018	Changes
Loans:			
- “Intesa Loan”	-	-	
- “BNL Loan”	2,500,000	3,750,000	(1,250,000)
- “MPS Loan”	8,937,500	12,187,500	(3,250,000)
Total medium/long-term loans	11,437,500	15,937,500	(4,500,000)
- Other lenders	101,058	103,558	(2,500)
Total other financial payables	101,058	103,558	(2,500)
Total loans	11,538,558	16,041,058	(4,502,500)

The “Intesa Loan” issued in April 2015 for Euro 15 million and supported by a lien on Superga Trademark S.A. shares was fully repaid in the year.

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 of which 2 years grace period, 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.

For completeness of information we provide details of the medium/long-term loans by maturity.

	Dec. 31, 2019	Dec. 31, 2018	Changes
Medium/long term loans:			
- due within 5 years	11,437,500	15,937,500	(4,500,000)
- due beyond 5 years	-	-	
Total medium/long term loans	11,437,500	15,937,500	(4,500,000)
Leasing payables	101,058	103,558	(2,500)
Total leasing payables (maturity within 5 years)	101,058	103,558	(2,500)
Total loans	11,538,558	16,041,058	(4,502,500)

29. BANK PAYABLES

	Dec. 31, 2019	Dec. 31, 2018	Changes
Bank payables due within one year:			
- short-term portion of medium/long-term loans	4,500,000	3,937,500	562,500
- bank overdrafts and bills	8,000,000	8,000,000	-
- interest expense on loans	983	9,848	(8,865)
Total bank payables	12,500,983	11,947,348	553,635

The average interest rates for BasicNet S.p.A. were:

	Dec. 31, 2019	Dec. 31, 2018
cash advances	0.10%	0.10%
medium-term loan	1.13%	1.27%

“Bank payables” include the short-term portion of loans, outlined at Note 28 and the relative interest matured and to be settled the following January.

Reference should be made to the Directors’ Report for the changes in the net financial positions.

30. PAYABLES FOR RIGHT-OF-USE

The Company adopted IFRS 16 retrospectively, recognising the cumulative effect at the initial application date (modified retrospective method). The Company decided to utilise the practical expedient which permits application of the standard only to contracts previously identified as leases, applying IAS 17 and IFRIC 4 at the initial application date. The Company also utilised the exceptions under the standard on leasing contracts which, at the date of initial application, have a duration of equal to or less than 12 months and which do not contain a purchase option (“short-term leasing”) and on leases whose underlying asset is of a low value (“low value asset”).

The contracts which are subject to IFRS 16, mainly concerning property leases, had the following effects on the financial statements (in Euro thousands):

	Dec. 31, 2019	Dec. 31, 2018	Changes
Payables for rights-of-use	9,244,914	-	9,244,914
Total payables for right-of-use	9,244,914	-	9,244,914

31. EMPLOYEE AND DIRECTOR BENEFITS

The account includes the post-employment benefits for employees of Euro 1.2 million and the termination indemnities of Directors of Euro 0.3 million.

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

	Dec. 31, 2019			Dec. 31, 2018		
	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	1,252,998	-	1,252,998	1,319,287	-	1,319,287
Interest	23,588	-	23,588	22,252	-	22,252
Pension cost, net of withholdings	-	560,530	560,530	(1)	485,497	485,496
Benefits paid	(151,231)	-	(151,231)	(58,663)	-	(58,663)
Payments to the INPS treasury fund	-	(396,603)	(396,603)	-	(327,287)	(327,287)
Payments to other supp. pension fund	-	(163,927)	(163,927)	-	(158,210)	(158,210)
- Actuarial gains/(losses)	65,991	-	65,991	(29,877)	-	(29,877)
Internal transfers to the Group	6,456	-	6,456	-	-	-
Net liabilities recognised in the accounts	1,197,802	-	1,197,802	1,252,998	-	1,252,998
Change in the income statement:						
Interest	23,588	-	23,588	22,252	-	22,252
Pension Cost	3,676	560,530	564,206	4,802	485,497	490,299
Actuarial gains/(losses)	-	-	-	-	-	-
Total charges/(income) for post-employment benefits	27,264	560,530	587,794	27,054	485,497	512,551

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:

	Dec. 31, 2019	Dec. 31, 2018
discount rate	1.040%	1.970%
inflation rate	1.200%	1.500%
annual increase in post-employment benefit	2.400%	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 25 thousand.

32. DEFERRED TAX LIABILITIES

The breakdown is shown below:

	Dec. 31, 2019	Dec. 31, 2018	Changes
Net deferred tax income (charge)	687,282	598,845	88,437
Total deferred tax liabilities	687,282	598,845	88,437

The deferred tax assets and liabilities recognised and their impact are reported in the table below:

(in thousands of Euro)	Dec. 31, 2019			Dec. 31, 2018			Changes 2019/2018
	Amount of temporary differences	Rate %	Tax effect	Amount of temporary differences	Rate %	Tax effect	
<i>Deferred tax assets:</i>							
- Excess doubtful debt provision not deductible	(1,288)	24.00%	(309)	(1,131)	24.00%	(272)	(37)
- Inventory obsolescence provision	(1,893)	24.00%	(487)	(1,493)	24.00%	(386)	(101)
- Various charges temporarily non-deductible	(562)	24.00%	(136)	(793)	24.00%	(189)	53
- ROL surplus	-	24.00%	-	-	24.00%	-	-
- Effect IFRS16 – lease payables	(5)	27.90%	(1)	-	24.00%	-	(1)
- Effect IAS 39 – Financial instruments	-	24.00%	-	(4)	24.00%	(1)	1
Total	(3,748)		(933)	(3,421)		(848)	(85)
<i>Deferred tax liabilities:</i>							
- Dividends not received	111	24.00%	27	23	24.00%	5	22
- Prudent exchange differences, net	62	24.00%	15	139	24.00%	33	(18)
- Effect IAS 19 – Post-employment benefits provision	(33)	24.00%	(8)	26	24.00%	6	(14)
- Amortisation/Depreciation tax basis	5,538	27.90%	1,586	5,044	27.90%	1,403	183
Total	5,678		1,620	5,232		1,447	173
Net deferred tax liability (asset)	1,930		687			599	88
Deferred tax asset relating to fiscal losses			-			-	
Deferred tax liability/(asset) as per financial statements			687			599	88

33. OTHER NON-CURRENT LIABILITIES

	Dec. 31, 2019	Dec. 31, 2018	Changes
Guarantee deposits	980,887	862,791	118,096
Medium/long term tax payables	34,963	-	34,963
Total other non-current liabilities	1,015,850	862,791	153,059

The “guarantee deposits” include the guarantees received from licensees (in place of bank or corporate guarantees), to cover the minimum royalties guaranteed contractually.

34. TRADE PAYABLES

	Dec. 31, 2019	Dec. 31, 2018	Changes
Trade payables - Italy	4,534,491	5,187,372	(652,881)
Trade payables - Foreign	2,021,777	1,821,590	200,187
Total trade payables	6,556,268	7,008,962	(452,694)

“Trade payables” are all due in the short-term period.

In particular, the breakdown of foreign suppliers is as follows:

	Dec. 31, 2019	Dec. 31, 2018	Changes
Europe	212,532	293,719	(81,187)
The Americas	428,337	117,502	310,835
Asia and Oceania	1,374,897	1,377,187	(2,290)
Middle East and Africa	6,011	33,186	(27,175)
Total	2,021,777	1,821,590	200,187

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.

35. TAX PAYABLES

The breakdown of this account is shown in the following table:

	Dec. 31, 2019	Dec. 31, 2018	Changes
Tax payables:			
IRES	3,270,716	(57,959)	3,328,675
Withholding taxes	7,760	27,727	(19,967)
VAT	1,045,920	1,035,574	10,346
Employee contributions	288,666	249,428	39,238
IRAP	472,363	-	472,363
Tax payables	19,606	-	19,606
Total tax payables	5,105,031	1,254,770	3,850,261

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.

36. OTHER CURRENT LIABILITIES

	Dec. 31, 2019	Dec. 31, 2018	Changes
Payables to Group companies	1,959,065	1,280,726	678,339
Other payables	3,686,749	3,601,311	85,438
Accrued expenses	324,178	327,286	(3,108)
Total other current liabilities	5,969,992	5,209,323	760,669

“Other payables” at December 31, 2019 principally include payables to social security institutions of Euro 568 thousand for the year 2019 and paid in 2020, employee, consultant and director payables of approx. Euro 1.8 million, which include vacation days matured at December 31, 2019 and other items of Euro 1.3 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, 2019	Dec. 31, 2018	Changes
<i>Trade payables:</i>			
Basic Properties America Inc.	849,630	760,665	88,965
BasicNet Asia Ltd.	559,827	436,988	122,839
BasicItalia S.p.A.. with sole shareholder	412,524	-	412,524
Basic Village S.p.A.. with sole shareholder	137,084	77,843	Klmjm ,59,241
Fashion S.r.l	-	5,230	(5,230)
Trade payables	1,959,065	1,280,726	678,339
Total	1,959,065	1,280,726	678,339

37. DEFERRED INCOME

	Dec. 31, 2019	Dec. 31, 2018	Changes
Royalties	281,228	373,796	(92,568)
Total deferred income	281,228	373,796	(92,568)

“Deferred income” for royalties refer to invoicing for revenues which will mature in the following year.

38. DERIVATIVE FINANCIAL INSTRUMENTS

	Dec. 31, 2019	Dec. 31, 2018	Changes
Derivative financial instruments	-	3,881	(3,881)
Total	-	3,881	(3,881)

The account at December 31, 2018 included the adjustments to the market value of the interest rate hedging operations on the “Intesa Loan”, fully repaid in 2019.

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.

39. GUARANTEES GIVEN AND OTHER CONTINGENT ASSETS

The details of the guarantees given are as follows:

	Dec. 31, 2019	Dec. 31, 2018	Changes
- Guarantees to: subsidiaries	62,550,000	59,050,000	3,500,000
Total	62,550,000	59,050,000	3,500,000

- Sureties given on behalf of subsidiaries

The sureties given on behalf of the subsidiaries refer for Euro 3.3 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 2.3 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 50.4 million, guarantees given on behalf of BasicItalia S.p.A. and of the Kappa Europe Group, to various credit institutions, to guarantee the commercial credit lines.

Finally, 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.

40. 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 amortised cost	Non-listed investments valued at cost	Book value 31.12.2019	Fair value 31.12.2019
	Income Statement	Shareholders' Equity				
Assets:						
Equity invest. & other financial assets	-	-	-	36,297	36,297	36,297
Trade receivables	-	-	15,983	-	15,983	15,983
Other current assets	-	-	65,875	-	65,875	65,875
Derivative financial instruments	-	-	-	-	-	-
Liabilities:						
Medium/long-term loans	-	-	11,539	-	11,539	11,539
Bank payables	-	-	-	-	-	-
Trade payables	-	-	6,556	-	6,556	6,556
Other current liabilities	-	-	5,970	-	5,970	5,970
Derivative financial instruments	-	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 2019, exchange gains were recorded of Euro 295 thousand, while unrealised exchange gains were recorded of Euro 62 thousand, for a net exchange gain of Euro 357 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, 2019 is shown below:

	Dec. 31, 2019	%	Dec. 31, 2018	%
Fixed rate	8,000,983	33.3%	9,884,848	35.3%
Variable rate	16,038,558	66.7%	18,103,558	64.7%
Gross debt	24,039,541	100.0%	27,988,406	100.0%

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 29.

Where at December 31, 2019 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 +178 thousand and Euro -178 thousand.

Credit risk

The doubtful debt provision (Note 23) which includes provisions against specific credit positions and a general provision on receivables not covered by guarantees, represents approx. 8.2% of trade receivables at December 31, 2019.

Liquidity risk

Reference should to the Explanatory Notes of the consolidated financial statements.

The table below illustrates the cash flow timing of payments on medium/long-term debt:

<i>(in Euro thousands)</i>	Book value	Future interest income/(expense)	Contractual cash flows	Within 1 year	From 1 to 5 years	Beyond five years
“BNL Loan”	3,750	50	3,800	1,276	2,524	-
“MPS Loan”	12,188	418	12,606	3,439	9,167	-
Lease payables	101	3	104	44	60	-
Payables for rights-of-use	9,245	528	9,773	1,665	8,108	-
Total financial liabilities	25,284	999	26,283	6,424	19,859	-

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.

41. **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 subsidiaries BasicItalia S.p.A., Kappa France S.A.S. and Preppy Cotton AG;
- 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	2,372,969	251,200	7,702,523	2,188	-	10,328,880
Basic Trademark S.r.l.	-	5,500,000	-	-	-	5,500,000
Basic Properties S.r.l.	-	-	-	-	4,800,000	4,800,000
Kappa Europe Group	143,680	20,000	1,401,119	-	-	1,564,799
Superga Trademark S.r.l.	-	250,000	-	110,110	-	360,110
TOS S.r.l. with sole shareholder	-	12,000	-	144,398	-	156,398
Basic Village S.p.A.. with sole shareholder	-	50,000	-	7,505	-	57,505
BasicNet Asia Ltd.	19,112	-	-	-	-	19,112
Jesus Jeans S.r.l. with sole shareholder	-	5,000	-	-	-	5,000
BasicRetail S.r.l. with sole shareholder.	-	21	-	-	-	21
Total	2,535,761	6,088,221	9,103,642	264,201	4,800,000	22,791,825

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	-	-	-	605,160		605,160
BasicNet Asia Ltd.	-	-	-	976,384	-	976,384
BasicItalia S.p.A.. with sole shareholder	26,742	861,711	-	33,722	-	922,175
BasicRetail S.r.l. with sole shareholder	-	72,962	-	-	-	72,962
Total	26,742	934,673	-	1,615,266	-	2,576,681

A breakdown of the transactions with related parties with reference to the note to which they refer for the year 2019 is shown below:

	Investments (Note 21)	Receivables (Note 24)	Payables (Note 36)	Revenues (Note 41)	Costs (Note 41)
Subsidiaries	35,764,489	63,915,041	1,959,065	22,791,825	2,576,681
Interests in joint ventures:	500,000	183	-	-	-
Remuneration of Boards and Senior Executives and other related parties	-	-	-	-	4,828,721
Total	36,264,489	63,915,224	1,959,065	22,791,825	7,405,402

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 shall run until July 31, 2020. The exercise price of the Call Option by BasicWorld shall be 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.

42. **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.

43. 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 53).

On behalf of the Board of Directors

The Chairman

Marco Daniele Boglione

ANNEX 1

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

Type of service	Service provider	Company	Fees 2019
Audit	EY S.p.A.	Parent BasicNet S.p.A.	111,200
Certification services	EY S.p.A.	Parent BasicNet S.p.A.	-
Other services	EY S.p.A.	Parent BasicNet S.p.A.	-
Total			111,200

ANNEX 2
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INVESTMENTS AT DECEMBER 31, 2019

(in Euro)

Name/Registered office/Share capital	Share capital	Amount of the net equity	Profit (loss) for the year	Quota held directly	Quota held indirectly	Pro quota net equity	Book value
<u>SUBSIDIARY COMPANIES</u>							
BASIC AIR S.r.l.							
WITH SOLE SHAREHOLDER							
<i>Largo Maurizio Vitale, 1</i>							
<i>10152 TURIN</i>							
Share capital Euro 3,000,000	3,000,000	2,243,487	(756,513)	100.00	-	2,243,487	3,000,000
BASIC ITALIA S.p.A.							
WITH SOLE SHAREHOLDER							
<i>Strada della Cebrosa, 106</i>							
<i>10156 TURIN</i>							
Share Capital Euro 7,650,000	7,650,000	15,559,654	4,533,571	100.00	-	15,559,654	28,599,725
BASICNET ASIA LTD.							
<i>15 floor, Linkchart Centre</i>							
<i>No.2 Tai Yip Street</i>							
<i>Kwun Tong, Kowloon</i>							
<i>HONG KONG</i>							
Share capital HKD 10,000.	1,143	585,200	80,036	100.00	-	585,200	927
BASIC PROPERTIES S.r.l.							
<i>Largo Maurizio Vitale, 1</i>							
<i>10152 TURIN</i>							
Share capital Euro 18,160	18,160	6,687,258	5,097,950	100.00	-	6,687,258	3,657,747
BASIC PROPERTIES AMERICA, INC.							
<i>c/o Corporation Service Company</i>							
<i>11 S 12th Street - PO BOX 1463 –</i>							
<i>Richmond VA 23218 – U.S.A.</i>							
Share capital USD 2,000	1,780	6,511,520	1,228,177	-	100.00	-	-
BASICRETAIL S.r.l.							
WITH SOLE SHAREHOLDER							
<i>Strada della Cebrosa, 106</i>							
<i>10156 TURIN</i>							
Share capital Euro 10,000	10,000	5,654,746	2,966,541	-	100.00	-	-
BASICRETAIL SUISSE S.A.							
<i>Via Beroldingen, 26</i>							
<i>6850 MENDRISIO -</i>							
<i>SWITZERLAND</i>							
Share capital CHF 100,000.	92,130	85,996	(5,994)	-	100.00	-	-
BASIC TRADEMARK S.r.l.							
<i>Largo Maurizio Vitale, 1</i>							
<i>10152 TURIN</i>							
Share Capital Euro 1,250,000.	1,250,000	12,031,091	2,972,934	-	100.00	-	-
BASIC VILLAGE S.p.A.							
WITH SOLE SHAREHOLDER							
<i>Largo M. Vitale, 1</i>							
<i>10152 TURIN</i>							
Share capital Euro 412,800	412,800	6,248,078	305,070	100.00	-	6,248,078	414,715
JESUS JEANS S.r.l.							
WITH SOLE SHAREHOLDER							
<i>Largo M. Vitale, 1</i>							
<i>10152 TURIN</i>							
Share capital Euro 10,000	10,000	127,497	21,455	100.00	-	127,497	81,375

ANNEX 2
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Name/Registered office/Share capital	Share capital	Amount of the net equity	Profit (loss) for the year	Quota held directly	Quota held indirectly	Pro quota net equity	Book value
<i>SUBSIDIARY COMPANIES</i>							
KAPPA EUROPE S.A.S.							
<i>41 Rue Bobby Sands</i>							
<i>44800 St Herblain Cedex - FRANCE</i>							
Share capital Euro 2,426,400	2,426,400	6,885,385	(1,666,509)	-	61.00	-	-
KAPPA FRANCE S.A.S.							
<i>41 Rue Bobby Sands</i>							
<i>44800 St Herblain Cedex - FRANCE</i>							
Share Capital Euro 2,060,000	2,060,000	2,108,301	(2,258,843)	-	100.00	-	-
KAPPA SPORT IBERIA S.L.							
<i>Avda. de Europa, 26 - módulo 2B</i>							
<i>28224 Pozuelo De Alarcón-Madrid SPAIN</i>							
Share Capital Euro 505.588	505,588	26,522	245,326	-	100.00	-	-
PREPPY COTTON S.A.							
<i>Renzligenstrasse 31</i>							
<i>6260 MENDRISIO - SWITZERLAND</i>							
Share Capital Euro 101,105	101,105	1,369,264	(185,484)	-	100.00	-	-
SFD FRANCE S.A.S.U.							
<i>41 Rue Bobby Sands</i>							
<i>44800 St Herblain Cedex - FRANCE</i>							
Share capital Euro 5,000	5,000	232,353	21,307	-	100.00	-	-
SPORT FASHION DISTRIBUTION S.A.S.U.							
<i>41 Rue Bobby Sands</i>							
<i>44800 St Herblain Cedex - FRANCE</i>							
Share capital Euro 5,000	5,000	(1,633,570)	(790,809)	-	100.00	-	-
SPORT FASHION DISTRIBUTION UK Ltd.							
<i>Richmond House, 15 Bloom Street</i>							
<i>M1 3HZ Manchester - UK</i>							
Share capital GBP 1	1.175	218,448	57,643	-	100.00	-	-
SPORT FASHION LICENCING S.A.S.U.							
<i>41 Rue Bobby Sands</i>							
<i>44800 St Herblain Cedex - FRANCE</i>							
Share capital Euro 5,000	5,000	(631,558)	(140,764)	-	100.00	-	-
SPORT FASHION RETAIL S.A.R.L.							
<i>41 Rue Bobby Sands</i>							
<i>44800 St Herblain Cedex - FRANCE</i>							
Share capital Euro 5,000	5,000	(666,428)	(352,958)	-	100.00	-	-

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Name/Registered office/Share capital	Share capital	Amount of the net equity	Profit (loss) for the year	Quota held directly	Quota held indirectly	Pro quota net equity	Book value
<u>SUBSIDIARY COMPANIES</u>							
SUPERGA TRADEMARK S.r.l. <i>Largo Maurizio Vitale, 1</i> <i>10152 TURIN</i>							
Share capital Euro 500,000	500,000	10,534,881	2,830,449	-	100.00	-	-
TEXTILES D'ARTOIS <i>4 Rue D'Acq</i> <i>62144 Haute Avesnes- FRANCE</i>							
Share capital Euro 3,000	3,000	(118,521)	15,873	-	100.00	-	-
TOS S.r.l. WITH SOLE SHAREHOLDER <i>Largo M. Vitale, 1</i> <i>10152 Turin</i>							
Share capital Euro 10,000	10,000	1,198,670	712,847	100.00	-	1,198,670	10,000
<u>JOINT VENTURES</u>							
FASHION S.r.l. <i>C.so Stati Uniti, 41</i> <i>10129 TURIN</i>							
Share capital Euro 100,000	100,000	214,607	(50,161)	50.00	-	107,304	500,000

ANNEX 2
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INVESTMENTS AT DECEMBER 31, 2019

Name/Registered office/Share capital	31/12/2018 Book value	Acquisitions/ Incor.	Capital payments to cover losses	Impairments investments	Disposals	31/12/2019 Book value	% held Parent
<u>HOLDINGS IN SUBSIDIARY COMPANIES</u>							
BasicRetail S.r.l. with sole shareholder	-	3,000,000	-	-	-	3,000,000	100%
BasicItalia S.p.A.. with sole shareholder	28,599,725	-	-	-	-	28,599,725	100%
BasicNet Asia Ltd.	927	-	-	-	-	927	100%
Basic Properties S.r.l.	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	32,764,489	3,000,000	-	-	-	35,764,489	
<u>HOLDINGS IN JOINT VENTURES</u>							
Fashion S.r.l.	500,000	-	-	-	-	500,000	50%
TOTAL JOINT VENTURES	500,000	-	-	-	-	500,000	
<u>HOLDINGS IN OTHER COMPANIES:</u>							
Consortiums & other minor	127	-	-	-	-	127	
TOTAL OTHER COMPANIES	127	-	-	-	-	127	
TOTAL INVESTMENTS	33,264,616	3,000,000	-	-	-	36,264,616	
<u>FINANCIAL RECEIVABLES</u>							
Other receivables (guarantees)	391,793	-	-	-	(359,810)	31,983	
TOTAL RECEIVABLES	391,793	-	-	-	(359,810)	31,983	
TOTAL INVESTMENTS AND OTHER FINANCIAL ASSETS	33,656,409	3,000,000	-	-	(359,810)	36,296,599	

ANNEX 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, Federico Trono as Chief Executive Officer and Paola Bruschi 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 2019 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

Federico Trono
Chief Executive Officer

Paola Bruschi
**Executive Officer for
Financial Reporting**