BasicNet

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2017 CONSOLIDATED AND

SEPARATE ANNUAL ACCOUNTS

DIRECTORS' REPORT

CONSOLIDATED FINANCIAL STATEMENTS AND EXPLANATORY NOTES

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

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

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CORPORATE BOARDS of BasicNet S.p.A.

Board of Directors

Marco Daniele Boglione	**Chairman**
Daniela Ovazza	**Vice Chairman**
Giovanni Crespi	**Chief Executive Officer**
Paola Bruschi Paolo Cafasso Elisa Corghi (1) Alessandro Gabetti Davicini Renate Hendlmeier (1) Adriano Marconetto (1) Carlo Pavesio Elisabetta Rolando Franco Spalla (Vice Chairman until October 31, 2017)	**Directors**

(1) Independent Directors

Remuneration Committee

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

Control and Risks Committee

Renate Hendlmeier	**Chairman**
Elisa Corghi Adriano Marconetto	

Board of Statutory Auditors

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

Independent Audit Firm

EY S.p.A.

"We bring together a large number of entrepreneurs across the world for a common goal. We manage all the critical data along the supply chain. We earn service commissions for approx. one-third of the added value generated by the entire process, capitalizing 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,

2017 was a year of major investment. After Briko®, the Group acquired the well-established US brand Sebago®, making it in less than six months an integral part of the business model, which once again displayed its strengths: flexibility, scalability and sustainability.

In commercial terms, Basic marketplace core revenues - royalties and sourcing commissions - grew 3.2% on the previous year to Euro 47.9 million. The Italian market, which continues to feature slowing consumption, reported direct sales in line with the previous year.

The 2017 Key Financial Highlights:

- aggregate sales of Group products by the Global licensee Network of Euro 747.8 million, up 1.1% on 2016 (+3.9% at like-for-like exchange rates) - as follows:
  - commercial licensees of Euro 541.1 million, Euro 532.7 million in 2016, +1.6% at current exchange rates, +4.5% at like-for-like exchange rates;
  - productive licensees of Euro 206.7 million, substantially in line with Euro 207.3 million in 2016, -0.3% at current exchange rates, +2.5% at like-for-like exchange rates;
- continued American (+18.8%) and European (+5.5%) market development, while slowdowns were apparent in certain Asian countries due to political instability and reduced consumer spending, impacting respective licensee revenues;
- royalties and sourcing commissions from aggregate sales of the commercial and productive licensees of Euro 47.9 million, up 3.2% on Euro 46.4 million in 2016 (+3.8% at like-for-like exchange rates);
- *direct sales*, almost entirely from the Italian licensee BasicItalia S.p.A. and its subsidiary Basic Retail S.r.l., of Euro 135.6 million - substantially in line with Euro 135.2 million in the previous year;
- *consolidated revenues*, including royalties, sourcing commissions and sales of the Italian licensee BasicItalia S.p.A. and its subsidiary BasicRetail S.r.l. in 2017 amounted to Euro 183.5 million (+1% on Euro 181.6 million in 2016, +1.2% at like-for-like exchange rates);
- EBITDA of Euro 23 million, up 7.3% on Euro 21.5 million in 2016;
- EBIT of Euro 16.6 million (Euro 15.2 million in 2016), up 9.2% on the previous year;
- earnings before taxes (EBT) of Euro 15 million (Euro 14.9 million in 2016);
- consolidated net profit of Euro 10.6 million, +3.3% (Euro 10.3 million in 2016);
- net debt of Euro 61.5 million, increasing on Euro 49.5 million at the end of 2016. Capex of Euro 17.8 million, dividends distributed of approx. Euro 3.3 million and treasury shares acquired of approx. Euro 2.6 million. Cash flow generated by operations totaled approx. Euro 11.7 million.

Parent Company Key Financial Highlights:

- EBIT of Euro 8.6 million (Euro 8.9 million in 2016);
- the net profit was Euro 4.5 million (Euro 7.4 million in 2016) following the impairment written to investments of Euro 3 million.

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 summarizes 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, recognized by the BasicNet Group to the "royalties and sourcing commissions" account of the income statement;
- ***Productive licensee aggregate sales:*** sales by productive licensees, recognized by the BasicNet Group to the "royalties and sourcing commissions" account of the income statement;
- ***Consolidated Revenues*** the sum of royalties, sourcing commissions and sales of the subsidiaries BasicItalia S.p.A. and BasicRetail S.r.l. and of the parent company BasicNet S.p.A.

- ***EBITDA:*** "operating result" before "amortization and depreciation".
- ***EBIT:*** "operating result";
- ***Contribution margin on direct sales:*** "gross profit";
- ***Net debt:*** total of current and medium/long-term financial payables, less cash and cash equivalents and other current financial assets.

THE GROUP AT A GLANCE

The BasicNet Group operates in the apparel, footwear and accessories sector through the brands Kappa®, Robe di Kappa®, K-Way®, Superga®, Briko®, Jesus® Jeans, Sabelt® and, since July 2017, Sebago®. Group activities involve driving brand enhancement and product distribution through a global network of licensees. This business network is defined as the "Network". And from which the name BasicNet derives. The Network of licensees encompasses all key markets worldwide.

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

STRENGTHS

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

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

1. Brand positioning

The Basic Group brands form part of the informal and casual clothing sector, which has experienced significant growth since the 1960's and continues to develop with the "liberalization" 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, colorful 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, colorful 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 colors. 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.

<u>2. The *Business System*</u>

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

Innovative, flexible and modular, the Business System of BasicNet has enabled the Group to grow quickly, although maintaining a lean and agile structure: a large enterprise centered around many businesses connected among themselves and with the parent company on a fully web-based network integrated IT platform designed to maximize 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 centers) apply a similar model and distribute to commercial licensees in their respective areas.

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

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

- (LEVEL I): Brands Stores located in city centers, high streets or shopping centers 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 centers on e-processes, i.e. ".com" divisions - each of which with a production input and exchanging or negotiating with the other divisions, exclusively through the online platform.

STRUCTURE OF THE GROUP

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

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

The **Business System operating segment** includes the Parent Company BasicNet, the trademark holders of the Group, Basic Trademark S.A., Superga Trademark S.A., Fashion S.r.l., Jesus Jeans S.r.l. TOS S.r.l. (owner of the Sebago® brand and incorporated in 2017), the services company BasicNet Asia Ltd. in Hong Kong, Basic Properties B.V. in the Netherlands and the sub-licensee Basic Properties America, Inc. in the USA.

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

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

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

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

BasicRetail manages Group brand sales points within the franchising project.

Property management is carried out by Basic Village S.p.A.. The company owns the former Maglificio Calzificio Torinese production site. Restructured and preserved in 1998, the facilities house the BasicNet Group headquarters and numerous other Group and third-party activities. At the end of 2016, it acquired the building adjacent to via Padova 78, leased to third parties.

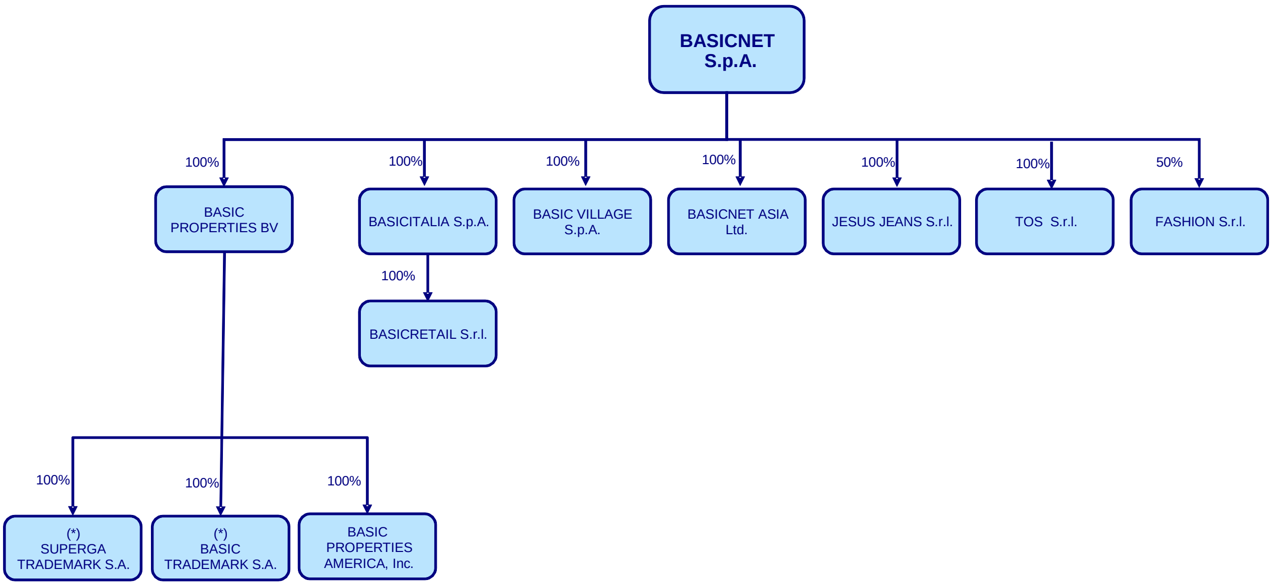
BUSINESS TARGETS

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

The Group project centers on:

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

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



(*) With offices in Italy

2017 OPERATIONAL OVERVIEW AND EVENTS

Brand portfolio management

- *Briko® Brand* - In June, BasicNet S.p.A exercised early its purchase option over the Briko® brand, as per the exclusive global distribution license for all Briko® brand products signed on March 18, 2016 and concluding on June 30, 2019. Early exercise reduced the final payment to be calculated on conclusion of the license in 2019 based on revenue levels. The acquisition was formalized in August, with an advance payment of Euro 1 million out of an estimated final price of Euro 1.6 million.

- *Lanzera® Brand* - In June, the subsidiary Basic Properties America Inc. sold the Lanzera® brand. The sale of the Brand, which no longer features within the Group's strategic plans, generated a gain of Euro 195 thousand.

- *Sebago® Brand* - In July the Group acquired the US brand Sebago®, for an overall price of USD 14.2 million (approx. Euro 12 million), in addition to accessory acquisition charges.

  The Brand, operating since 1946, is a true style icon and well-known for its loafers and boat shoes. The integration of the Brand into the Group business model was focused upon in these initial months, with sourcing centers selected and agreements signed for distribution in 30 countries and designers brought on board for the first "designed in BasicNet" collection, to be presented in May 2018.

Group brand sales points

The development of the retail channel continued with new openings by licensees of K-Way® and Superga® mono-brand stores. We highlight the opening of the first K-Way® store in London (Covent Garden) and a flagship store in the Le Marais district of Paris.

At December 31, Kappa® and Robe di Kappa® mono-brand stores and shop in shops opened by licensees globally numbered 931 (of which 107 in Italy), with Superga® mono-brand stores and shop in shops totaling 285 (of which 63 in Italy), along with 46 K-Way® sales points (of which 29 in Italy).

Commercial operations

The actions taken to develop the international presence of the Brands in 2017 included:

- *for the Kappa® and Robe di Kappa® brands*, commercial operations focusing on the renewal of expiring license contracts, including Singapore, Indonesia, Malaysia, Austria, Hungary, Malta, Cuba, Denmark, Finland, Norway, Sweden, the Baltic countries, Israel, the Netherlands, Australia and New Zealand. In addition, eyewear license contracts were renewed in Turkey, in addition to safetywear and sleepwear contracts for the Italian market;
- *for the Superga® brand*, new agreements for the territories of Mauritius, China and Hong Kong were signed, and for the distribution of watches in Italy and socks in the United States and Canada. The agreements for Chile, Peru, Greece, Benelux, Cuba and the Philippines were renewed, in addition to the slippers and sandals, underwear and sleepwear licenses in Italy;
- *for the K-Way® brand*, new licenses were agreed for the territories of Albania, Bosnia- Herzegovina, Macedonia, Montenegro, Serbia, Kosovo, Slovenia, Greece, Cyprus, Sweden, Denmark, Finland, Norway, the Netherlands and Argentina. The distribution contracts for Japan, South Korea and Great Britain were in addition renewed;
- *for the Briko® brand*, new licenses were signed for the territories of Austria, Germany, Norway, Sweden, Finland, the Baltic countries and South Korea.

- *for the Sebago® brand*, licenses were agreed for Germany, Austria, Switzerland, Spain, Andorra, Portugal and Gibraltar, Cyprus, Malta, Greece, France and the Principality of Monaco, Belgium, Luxembourg, the Netherlands, Norway, Sweden, Finland, Denmark, for South Africa and some countries of North and West Africa, and for the Philippines; for the Americas - a region of great potential - the license agreements for the Dominican Republic and the Caribbean were formalized.

Sponsorship and communication

- *Kappa® and Robe di Kappa® Brands* - For the Kappa® brand, major sponsorship activity continued both domestically and internationally. Specifically:
  - new football sponsorships were signed with: Racing Club de Avellaneda by the Argentinian licensee, and Football Club de Lorient by the French licensee. In Australia, the licensee signed a four-year sponsorship with the Queensland football and five-a-side association. Finally, a four-year agreement was signed, under the Kombat™ Ball label, for the supply of footballs to the 22 Serie B teams and for the B Italia team kit, formed by Under-21 Italian footballers playing for Serie B teams;
  - for winter sports, the FISI (Italian Winter Sport Federation) and the FISG (Ice Sports) sponsorship was also renewed, in addition to the continued sponsorship of the Korea Ski Association by the South Korean licensee. Thanks to these agreements, following Sochi 2014, the Kappa® brand participated at the Pyeongchang 2018 Winter Olympics, kitting out both the Italian and South Korean teams, who brought home from the games respectively 10 and 17 medals, and will participate at the 2022 Beijing games;
  - in South Korea, where baseball is among the most popular sports, the licensee signed a sponsorship contract for the next three years with the team Lotte Giants.

  New co-branding initiatives were also undertaken, with the Argentinian Marcelo Burlon, who reinterpreted the 222 Band tracksuits and a number of denim pieces for a new Kappa® spring-summer 2018 capsule collection, and with the Russian designer, photographer and videomaker Gosha Rubchinskiy, presenting a number of historic Kappa® pieces in her 2017 spring-summer collection and a global preview at Pitti; with the Italian designer Danilo Paura who presented a capsule collection of tailored designs for spring-summer 2018; with major luxury brands such as Open Ceremony (USA), Faith Connexion (France) and Barneys New York. In addition, in January 2017 the new Kappa® Kontroll streetwear label was launched, exclusively distributed by Slam Jam. Topping off these activities, at the end of December the famed fashion site Highsnobiety declared Kappa® as the 2017 "breakthrough brand" i.e. the brand "making a difference" on the global lifestyle scene.

- *Superga® Brand* - Co-branding operations continued almost uninterrupted. The main collaborations were those with the Russian designer Gosha Rubchinskiy, with the bloggers Lizzy van der Ligt and Fahrman Sofi, with the Patternity studio of London, the German fashion blogger Caro Daur, the Argentinian designer Jessica Trosman and the champion tennis star Ivan Lendl, who presented the new Sport Lendl Superga® sneakers: an identical model to the ones he wore in countless victories during his career. In 2017, in addition, Superga® agreed capsule collections in collaborations with the Florentine concept store LuisaViaRoma, with the Weekend Max Mara brand and with The Blonde Salad web platform founded by Chiara Ferragni. The US model and musician Pyper America Smith was the face of the spring-summer 2017 collection campaign, joining a long list of Superga® Ambassadors across the world.

- *K-Way® Brand* - Two new co-brandings with the Dsquared2 and Jacadi brands were launched. In addition, K-Way® will be the National Partner of the Ice Skating World Championships, to be held in Milan between March 21-25, 2018 at the Mediolanum Forum in Assago.

- *Briko® Brand* - Eyewear and helmets sponsorship of the Bardiani CSF team, which recently won the right to participate at the Giro d'Italia 2018, was renewed for an additional two years. An annual sponsorship contract for 2018 was signed with the two cyclists Diego Ulissi and Filippo Ganna (Team UAE Abu Dhabi) for the eyewear category.

2017 FINANCIAL PERFORMANCE OVERVIEW

THE GROUP

BasicNet Group Key Financial Highlights

The condensed income statement for the year is reported below:

(Euro thousands)	**FY 2017**	**FY 2016**	**Changes**
Group Brand Aggregate Sales by the Network of commercial and productive licensees *	747,871	739,979	7,892
Royalties and sourcing commissions	47,924	46,424	1,500
Consolidated direct sales	135,583	135,183	400
EBITDA **	23,060	21,502	1,558
EBIT **	16,642	15,241	1,401
Group Net Profit	10,646	10,305	341
Basic earnings per share	0.1925	0.1839	0.009

* *Data not audited*

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

Commercial and financial analysis

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

	FY 2017	**FY 2016**	**Changes**	
(In Euro thousands) **Aggregate Sales of the Group licensees ***	**Total**	**Total**	**Total**	**%**
Commercial Licensees	541,127	532,702	8,425	*1.6%*
Productive Licensees (sourcing centers)	206,744	207,277	(533)	*(0.3%)*
Total	**747,871**	**739,979**	**7,892**	***1.1%***

* *Data not audited*

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

	FY 2017		FY 2016		Changes	
(In Euro thousands) **Aggregate Sales of the Group Commercial licensees ***	**Total**	**%**	**Total**	**%**	**Total**	**%**
Europe	351,028	*64.9%*	332,785	*62.5%*	18,243	*5.5%*
The Americas	52,135	*9.6%*	43,880	*8.2%*	8,255	*18.8%*
Asia and Oceania	86,499	*16.0%*	96,681	*18.2%*	(10,182)	*(10.5%)*
Middle East and Africa	51,465	*9.5%*	59,356	*11.1%*	(7,891)	*(13.3%)*
Total	**541,127**	***100.00%***	**532,702**	***100.00%***	**8,425**	***1.6%***

* *Data not audited*

and of the productive licensees:

	FY 2017		FY 2016		Changes	
(In Euro thousands) **Aggregate Sales of the Group Productive licensees ***	**Total**	**%**	**Total**	**%**	**Total**	**%**
Europe	14,636	*7.1%*	18,574	*8.9%*	(3,938)	*(21.2%)*
The Americas	13,539	*6.5%*	14,846	*7.2%*	(1,307)	*(8.8%)*
Asia and Oceania	178,279	*86.2%*	173,441	*83.7%*	4,838	*2.8%*
Middle East and Africa	290	*0.1%*	416	*0.2%*	(126)	*(30.1%)*
Total	**206,744**	***100.00%***	**207,277**	***100.00%***	**(533)**	***(0.3%)***

* *Data not audited*

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

(in Euro thousands)	**FY 2017**		**FY 2016**		**Changes**	
Kappa & Robe di Kappa	367,200	*67.9%*	360,426	*67.7%*	6,774	*1.9%*
Superga	106,930	*19.8%*	113,634	*21.3%*	(6,704)	*(5.9%)*
K-Way	60,453	*11.2%*	53,909	*10.1%*	6,544	*12.1%*

* *Data not audited*

Commercial licensee aggregate sales of Euro 541.1 million grew 1.6% at current exchange rates (Euro 532.7 million in the previous year), despite the continued political and economic instability in a number of Asian and Middle Eastern countries. In this context:

- Kappa® and Robe di Kappa® brand revenues grew 1.9% on the previous year, significantly increasing in Europe, benefitting also from the brand image boost from the launch of the new medium/high segment line "Kappa Kontroll", and on the American market with the full operation of a number of new licenses, in addition to the success of the "Authentic" label on the North American market. The Asian and Middle Eastern and African markets continued to experience difficulties related to slowing sales and the political instability in the Middle East.

- The Superga® brand reports a contraction of 5.9%. The slight European market contraction on the previous year was impacted by reduced sales on the Italian market, due also to a review of the customer base and of distribution. The drop in sales however eased during the year. The US market performed very strongly, with also a buoyant outlook for 2018. The recovery of the Asian and Oceania markets is also forecast in 2018, alongside Europe.
- The K-Way® brand reported overall commercial growth of 12.1%. The European market performance was particularly strong, driven by France and Italy and also as a result of retail development, with 29 stores now open in Italy and 11 in France. Commercial results in The Americas declined due to the phase out of the North American license, while a new licensee is however now operative. Asia and Oceania reported growth on the back of the Taiwanese and South Korean markets with the opening of new "shop in shops" in Seoul and Pangyo department stores.
- Briko® brand sales, principally distributed by the Group on the Italian market since April 2016, totaled Euro 6.3 million.

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. They were substantially stable on the previous year.

As a result of increased revenues, ***consolidated royalties*** and ***sourcing commissions***, and therefore not including the royalties of the directly-held Italian licensees, amounted to Euro 47.9 million (+3.2% on Euro 46.4 million in the previous year). Growth at like-for-like exchange rates was 3.9%.

Total sales of BasicItalia S.p.A and its subsidiary BasicRetail S.r.l amounted to Euro 135.6 million - in line with Euro 135.2 million in 2016. The result is even more impressive considering the domestic market weakness and contracting Superga® brand sales following the review of the customer base last year. The ***cost of sales*** was Euro 81.1 million, equal to 59.8% of revenues, resulting in a ***gross margin*** of Euro 54.5 million and a margin on sales of 40.2%, in line with the previous year.

Other income of Euro 3.6 million includes rental income and condominium income, in addition to a gain of Euro 195 thousand from the sale of the Lanzera® brand and approx. Euro 650 thousand recognized to BasicItalia by Wolverine World Wide, Inc., the company which sold the Sebago® brand to the Group, on the basis of profit-sharing on sales managed directly by the latter until the end of 2017.

In terms of operating costs:

- ***sponsorship and media*** spend of Euro 24.6 million increased 1.4% (Euro 24.3 million in 2016), confirming the strong support for brand sales. Significant contributions were given to communication and endorsement operations with an international impact particularly on the overseas markets (World Wide Strategic Advertising);
- ***personnel costs*** increased from Euro 19.7 million to Euro 21.1 million, accounting for 15.5% of revenues (increasing on 14.6% in 2016), due to new hires (19 more employees than in 2016), principally for BasicItalia logistics, retail and the integration of the Sebago® brand business model;
- ***selling, general and administrative costs and royalties expenses*** amounted to Euro 37.3 million, in line with Euro 37.4 million in 2016.

EBITDA of Euro 23 million grew 7.3% (Euro 21.5 million in 2016).

Amortization and depreciation amounted to Euro 6.4 million. The account includes amortization and write-downs for certain key money recognized to third parties on Italian sales points for Euro 485 thousand.

EBIT amounted to Euro 16.6 million (Euro 15.2 million in 2016).

Consolidated net financial charges amounted to Euro 1.6 million, compared to charges of Euro 0.3 million in the previous year; the movement relates to the reporting of net currency losses of Euro 589 thousand, compared to net gains of Euro 1.2 million in the previous year, due to US Dollar movements. On the other hand, *financial charges* in service of the debt, amounting to Euro 964 thousand, reduced Euro 622 thousand on 2016, although new loans have been undertaken, as a result of more competitive funding costs.

The ***consolidated pre-tax profit*** was Euro 15.1 million (Euro 14.9 million in 2016).

Consolidated net profit, after current and deferred taxes of approx. Euro 4.4 million, amounted to Euro 10.6 million (compared to Euro 10.3 million in the previous year - increasing 3.3%).

The 2017 tax rate reduced on 2016 following the lowering of the IRES rate from 27.5% to 24%.
Deferred taxes assessed against tax changes in the year and the recovery of prior year taxes had a positive impact of Euro 254 thousand.
The application of the Patent Box intellectual property tax break, for which the Group brand owning companies requested application, had an overall positive impact of Euro 596 thousand, of which Euro 122 thousand concerning the ruling received by the company Superga Trademark S.A. for the years 2015 and 2016. For Basic Trademark S.A. and BasicNet S.p.A., a response from the Tax Agency is still awaited.

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 59.7 million, compared to Euro 58.4 million. The 2017 EBIT of Euro 15.9 million compares with Euro 14.9 million in 2016. The segment net profit in 2017 was approx. Euro 7.9 million.

- ***"Proprietary Licensees":*** comprising BasicItalia S.p.A. and its subsidiary BasicRetail S.r.l.. The segment reported sales of Euro 134.8 million, in line with the previous year (Euro 134.8 million). The contribution margin on sales increased to Euro 54.5 million from Euro 54.3 million in 2016. The revenue margin was 40.4% (40.2% in 2016). Personnel costs increased on the previous year due to the development of retail operations, the opening of a number of outlet center sales points and a greater use of logistics sector resources. The segment reports a loss of Euro 516 thousand.

- ***"Property":*** property management reported a profit of Euro 298 thousand (Euro 153 thousand in 2016), benefitting from leasing income on the building acquired at the end of 2016.

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

Balance sheet overview

The changes in the balance sheet are reported below:

(Euro thousands)	**December 31, 2017**	**December 31, 2016**	**Changes**
Property	22,292	23,226	(934)
Brands	46,789	34,103	12,686
Non-current assets	25,028	25,469	(441)
Current assets	125,427	130,392	(4,965)
Total assets	**219,536**	**213,190**	**6,346**
Group shareholders' equity	97,011	94,880	2,131
Non-current liabilities	33,350	26,430	6,919
Current liabilities	89,175	91,880	(2,705)
Total liabilities and shareholders' equity	**219,536**	**213,190**	**6,346**

Financial position

⇒Consolidated figures

(Euro thousands)	**December 31, 2017**	**December 31, 2016**	**Changes**
Net financial position – Short-term	(33,050)	(27,945)	(5,105)
Financial payables – Medium-term	(27,439)	(19,914)	(7,525)
Finance leases	(991)	(1,600)	609
Total net financial position	**(61,480)**	**(49,459)**	**(12,021)**
Net Debt/Equity ratio (Net financial position/Shareholders' equity)	0.63	0.52	0.11

The movements in ***fixed assets*** relate to investments for Euro 18.1 million, which concerned: the acquisitions of the Sebago® and Briko® brands, respectively for Euro 11.8 million and for Euro 1.6 million, EDP and furniture and fittings for Euro 1.5 million, in addition to the development of IT programs for Euro 1.5 million and expenses incurred for the management of proprietary brands, goodwill and store improvements for Euro 1.6 million. The assets amortized and depreciated for approx. Euro 6 million.

In support of the acquisition of the Sebago® brand, MPS Capital Services Banca per le Imprese S.P.A. granted to BasicNet a loan of Euro 13 million.

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

Consolidated net debt, including medium-term loans and finance leases (Euro 27.5 million) and property loans (Euro 8 million), increased from Euro 49.5 million at December 31, 2016 to approx. Euro 61.5 million at December 31, 2017.

Cash flow generated by operations totaled approx. Euro 11.7 million. Medium-term loan and finance lease repayments totaled approx. Euro 7 million, dividends were paid of Euro 3.3 million, investments totaled approx. Euro 18 million and treasury shares were acquired for approx. Euro 2.6 million.

The ***debt/equity*** ratio at December 31, 2017 increased to 0.63 (0.52% at December 31, 2016).

THE PARENT COMPANY

BasicNet S.p.A. Key Financial Highlights

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

(Euro thousands)	**FY 2017**	**FY 2016**	**Changes**
Royalties and sourcing commissions	28,165	27,366	799
Direct sales and other income	9,425	9,218	207
EBITDA *	10,868	11,048	(180)
EBIT *	8,633	8,874	(241)
Dividends from subsidiaries	1,850	1,500	350
Net Profit	4,508	7,421	(2,913)

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

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

Royalties and sourcing commissions of Euro 28.2 million grew 2.9% on 2016.

Direct sales and other income amounted to Euro 9.4 million (Euro 9.2 million in the previous year). Other income principally refers to payments for intercompany assistance services charged to the subsidiaries BasicItalia S.p.A., Basic Trademark S.A., Superga Trademark S.A. and Basic Village S.p.A..

In 2017, ***selling, general and administrative expenses***, including contributions in support of marketing and international media activity, rose approx. Euro 0.7 million - in support of communications and development of the new brands through the business system.

EBIT amounted to Euro 8.6 million - following amortization and depreciation of Euro 2.2 million (Euro 8.9 million in 2016).

During the year, the subsidiary Basic Properties B.V. distributed dividends of Euro 1.8 million, up on Euro 1.5 million in 2016.

The impairment test on investments according to the methods outlined in the Explanatory Notes resulted in an adjustment of Euro 3 million to the carrying amount of the investment in the subsidiary BasicItalia S.p.A..

On the basis of the above items, the ***net profit*** amounted to Euro 4.5 million, after income taxes of Euro 2.5 million. Excluding the adjustment to the carrying amount of the subsidiary, the result would be in line with the previous year.

Balance sheet overview

(Euro thousands)	**December 31, 2017**	**December 31, 2016**	**Changes**
Non-current assets	6,144	5,776	368
Brands	9,710	8,106	1,604
Investments	33,275	36,230	(2,955)
Current assets	84,131	86,194	(2,063)
Total assets	**133,260**	**136,306**	**(3,046)**
Shareholders' Equity	85,381	86,786	(1,405)
Non-current liabilities	23,310	14,642	8,668
Current liabilities	24,569	34,878	(10,309)
Total liabilities and shareholders' equity	**133,260**	**136,306**	**(3,046)**

Financial position

(Euro thousands)	**December 31, 2017**	**December 31, 2016**	**Changes**
Net financial position – Short-term	(8,468)	(9,820)	1,352
Financial payables – Medium-term	(19,875)	(11,875)	(8,000)
Finance leases	(126)	(85)	(41)
Financial position with third parties	**(28,469)**	**(21,780)**	**(6,689)**
Group financial receivables/(payables)	60,267	64,757	(4,490)
Financial position with the Group	**60,267**	**64,757**	**(4,490)**
Total net financial position	**31,798**	**42,977**	**(11,179)**

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

Non-current assets include investments in the year, among which Euro 1.6 million for the Briko brand, Euro 1.4 million for the purchase of plant and equipment and Euro 1.2 million for IT equipment. The value of tangible and intangible assets is recorded net of amortization and depreciation for the year of Euro 2.2 million and the adjustment on the basis of the impairment test on the investments for Euro 3 million.

Shareholders' Equity at December 31, 2017 was Euro 85.4 million (Euro 86.8 million in 2016), following the distribution in 2017 of dividends for Euro 3.3 million and the acquisition of treasury shares for approx. Euro 2.6 million.

The ***net cash position*** of Euro 31.8 million reduced on Euro 43 million in 2016.

RECONCILIATION BETWEEN CONSOLIDATED NET PROFIT AND PARENT COMPANY NET PROFIT

The reconciliation at December 31, 2017 between the Parent Company net equity and result and the consolidated net equity and result is reported below.

(Euro thousands)	**Net Profit**	**Shareholders' Equity**
Financial statements of BasicNet S.p.A.	**4,508**	**85,381**
Result and net equity of the consolidated companies and value at equity	7,988	11,630
Elimination of the dividends received by the Parent Company	(1,850)	-
Group consolidated financial statements	**10,646**	**97,011**

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 2017 and 2016 are reported in the following table:

	31/12/2017	**31/12/2016**
SHARE PRICE INFORMATION		
Earnings per share	0.1925	0.1839
Net equity per share	1.591	1.556
Price per share/Net equity per share	2.314	2.154
Dividend per share (1)	0.0600	0.0600
Pay out ratio *(1) (2)*	30.8%	32.3%
Dividend Yield *(1) (3)*	1.63%	1.79%
Price at year-end	3.68	3.350
Maximum price in year	4.05	4.820
Minimum price in year	3.15	2.600
Stock market capitalization (in thousands of Euro)	224,456	204,329
Total number of shares	60,993,602	60,993,602
Shares outstanding	55,308,514	56,029,468

(1) dividends on the 2017 figures on the basis of the proposal for the allocation of the result to the Shareholders' AGM

(2) percentage of consolidated net profit distributed as dividend

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

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

Shareholders	Holding
Marco Daniele Boglione (*)	33.639%
BasicNet S.p.A.	10.296%
Francesco Boglione	6.275%
Wellington Management Group LLP	5.043%
Kairos Partners SGR S.p.A.	5.036%

(*) 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 localized 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 specialized 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 specialized 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 labor contracts and ecological and safety compliance, which may impact the international image of the Group brands.

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

- a selection of Sourcing Centers based on an assessment of the technical requirements to satisfy Group needs in terms of quality, volumes and production times (contained in the "Sourcing Agreement"), in addition to the financial solidity of the manufacturer, assessed through specific onsite visits and repeated on a consistent basis;
- the use of anti-trust controls that require that strategic products be produced by at least two or three Sourcing Centers. Moreover, after five years orders are switched to a new sourcing center, 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 labor and ecological regulations and the signing of a commitment to comply with the Code of Conduct and the Forbidden Chemicals Agreement;
- the Sourcing Center operational cash flows are finally subject to checks by BasicAudit.

Currency risk
The Group is exposed to currency risk on merchandise purchases or royalty income from commercial licensees and sourcing center commissions not within the Eurozone. These transactions are mainly in US Dollars and marginally in UK Sterling and Japanese Yen.
The risks on fluctuations of the US Dollar on purchases are measured, preliminary, in the preparation of the budgets and finished products price lists, so as to adequately cover the impact of these fluctuations on sales margins.
Subsequently, royalty income and sourcing commissions from sales are utilized to cover purchases in foreign currencies, within the normal activities of the Group centralized treasury management.
For the foreign currency purchases not covered by foreign currency receipts, or in the case of significant time differences between receipts and payments, forward purchase and sales contracts (flexi-term) are underwritten.
The Group does not undertake derivative financial instruments for speculative purposes.

Credit risk
Group trade receivables derive from licensee royalty income, sourcing center commissions billed and sales of finished products.
Royalty trade receivables are largely secured by bank guarantees, corporate sureties, letters of credit, guarantee deposits, or advance payment, provided by licensees.
Souring commission receivables are covered by the payables of the subsidiary company BasicItalia S.p.A. 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 specialized 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 favorable production costs and where the lead times are however much longer. These seasonal factors also impact upon the Group's financial cycle of the commercial operations on the domestic market.
Short-term debt to finance working capital needs comprises "import financing" and "self-liquidating bank advances" secured by the order backlog. The Group manages the liquidity risk through close control on operating working capital with specific attention on inventories, receivables, trade payables and treasury management, with real-time operational reporting indicators or, for some information, at least on a monthly basis, reporting to Senior Management.

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

Risks relating to legal and tax disputes
The Group may be involved in legal and tax disputes, concerning specific issues and in various jurisdictions. Considering the uncertainties relating to these issues, it is difficult to predict with precision any future payments required. In addition, the Group has instigated legal action for the protection of its Trademarks, and of its products, against counterfeit products. The cases and disputes against the Group often derive from complex legal issues, which are often subject to varying degrees of uncertainty, including the facts and circumstances relating to each case, jurisprudence and different applicable laws.
In the normal course of business, management consults with its legal consultants and experts in fiscal matters. The Group accrues a liability against disputes when it considers it is probable that there will be a financial payment made and when the amount of the losses arising can be reasonably estimated.
The main disputes in which the Group is involved are summarized below.

A.S. Roma contract termination

The dispute was taken by BasicItalia S.p.A. against A.S. Roma S.p.A. and Soccer S.a.s. Brand Management S.r.l., which on November 23, 2012 communicated the unilateral advance resolution of the team sponsorship, agreed with duration until June 30, 2017, for presumed non-compliance and, in particular, defects in the materials supplied. BasicItalia S.p.A., considering the reasons for the resolution unfounded, instigated an ordinary court procedure requesting compensation for significant damage incurred. A.S. Roma S.p.A. and Soccer S.a.s. appealed against the request of BasicItalia S.p.A. and counterclaimed requesting compensation for presumed damage. On May 26, the Court-appointed Technical Expert's findings (CTU) were considered. On this occasion, BasicItalia S.p.A., citing the conclusions of the CTU, underlined that no evidence exists of defective materials provided by BasicItalia subsequent to the reconditioning carried out in accordance with the contract, arguing therefore the unlawful resolution by A.S. Roma and Soccer and requesting the undertaking of the accounting consultancy for the quantification of damages. A.S. Roma and Soccer, challenging BasicItalia S.p.A.'s interpretation of the technical consultant's report, requested testimonial evidence from the team's players, in addition to technical accounting consultancy for the assessment of alleged damages. The judge, releasing the reserve established by the hearing, rejected the applications of the parties, referring the case to a subsequent hearing for assessment upon the need for additional investigations.

The hearing for the statement of conclusions was therefore fixed for September 15, 2017. At the hearing, BasicItalia, AS Roma and Soccer jointly requested a postponement to verify the settlement options. The Judge therefore postponed the hearing until April 11, 2018.
In addition, BasicItalia S.p.A. began proceedings against Soccer S.a.s., a debtor of BasicItalia S.p.A., for the provision of goods related to the sponsorship and against which an injunction against Soccer S.a.s. was issued on January 22, 2013. Against the opposition of Soccer S.a.s., an ordinary case was undertaken which is currently in the investigation phase; the CTU appointed by the Judge filed the Technical appraisal and the hearing for its examination, following the joint application of BasicItalia and Soccer for postponement to assess settlement options, was fixed for July 20, 2018.
In addition, following the above termination of the contract, A.S. Roma sought to enforce payment of the surety granted by BNL S.p.A. in favor of BasicItalia S.p.A. for a maximum amount of Euro 5.5 million which guaranteed commitments undertaken by BasicItalia S.p.A. under the sponsorship agreement. Following the non-payment by BNL S.p.A., A.S. Roma petitioned the Rome Court to enforce a payment order against BNL for the full guaranteed amount. As a result of this procedure, in which BasicItalia S.p.A. (together with the parent company BasicNet S.p.A.) was joined as a party by BNL, the Rome Court, with judgement of December 7, 2013, rejected all applications by A.S. Roma, considering the enforcement illegitimate. This sentence was not challenged by A.S. Roma and the sentence is final.

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

K-WAY disputes in China

The dispute with the company Taizhou Boyang, owner of the K-WAY brand in China, is in progress. Currently, BasicNet S.p.A. has obtained confirmation from the Chinese authorities of ownership of the K-WAY brand for weather-proof clothing, while Taizhou Boyang has had its rights on the K-WEY brand for non-weather proof clothing confirmed. Over recent months, Taizhou Boyang has on various occasions attempted to seize clothing items at a number of sales points and Sourcing Centers in China.
BasicNet S.p.A. is defending its right to produce in China and export to countries where K-WAY brands are registered for all clothing items (weather-proof and non-weather proof), in addition to the right to sell in China weather proof clothing items under the K-WAY brand.

Tax disputes

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

At the reporting date, the subsidiaries Basic Properties America, Inc. and BasicItalia S.p.A. are subject to a tax audit.

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, authorized by the Shareholders' AGM of April 27, 2017 and concluding at the date of the Shareholders' AGM for the approval of the 2017 Annual Accounts, at the date of this report 717,282 treasury shares had been acquired (1.176% of the Share Capital). BasicNet today holds a total of 6,280,079 treasury shares (10.296% of the Share Capital), for a total investment of Euro 15 million.
The Company intends to continue the share buy-back programme in 2018 and proposes to the Shareholders' Meeting to renew the authorization. The proposal is submitted in order to provide the Company with a instrument to assist projects developed upon the strategic guidelines under which share swap opportunities are presented or as a guarantee for financing operations.

STOCK OPTION PLANS

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

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 2018 Shareholders' AGM on the website www.basicnet.com, to which reference should be made.

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

The transactions with related parties are not atypical or unusual and form part of the ordinary business activities of the companies of the Group. These transactions were at normal market conditions.
The information on transactions with related parties are presented in Note 41 of the financial statements.
The operations between Group companies, which substantially involve the purchase of goods and provision of services, under normal market conditions, are not of an atypical or unusual nature, but within the normal business activities of the companies of the Group and are eliminated on consolidation.
The effects deriving from transactions between BasicNet S.p.A. and its subsidiaries are reported in the financial statements of the Parent Company and in the explanatory notes to the financial statements.
The Italian Group companies took part in the tax consolidation of BasicNet S.p.A. as per Articles 117 and subsequent of the Income Tax Law - Pres. Decree December 22, 1986 No. 917.
On October 29, 2010, the Board of Directors approved the related parties transactions procedure, which was updated in October 2016 and is summarized 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 utilize administrative-accounting systems which enable the provision to the public of the financial statements used for the purposes of the preparation of the consolidated financial statements of the companies falling within the scope of this regulation and permit management and the auditors of the Parent Company to access the data necessary for preparation of the consolidated financial statements.
The conditions of the above-stated Article 16, letters a), b) and c) of the Markets' Regulation issued by Consob are therefore complied with.
The composition of the Board of Directors of the companies is available on the website www.basicnet.com/ilgruppo/organisociali.

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

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

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

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

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

New software development

This category includes IT research in terms of electronic data processing and transmission systems through the internet platform interconnecting Network licensees and externally, to develop all the opportunities arising concerning new technologies to speed up data transfer and therefore business efficiency.

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

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

This type of software is generally used in specific functional areas to carry out activities such as selecting, negotiating and entering into license 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 70 resources.

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

SUBSEQUENT EVENTS TO THE YEAR-END AND OUTLOOK

Strong commercial development on the basis of the general performance of the brands is expected for 2018, alongside the addition of Sebago® brand sales and the contribution of existing collaborations with leading luxury and lifestyle brands for Kappa® and Superga®. Orders for the latter point to an Italian market recovery.

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.

* * *

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

Dear Shareholders,

in the presentation for the approval of the Shareholders' Meeting for the 2017 Financial Statements and the relative Directors' Report we propose the allocation of the net profit of Euro 4,507,884.53 as follows:

-	to the Legal reserve	Euro	225,394.23
-	to each of the 54,713,523 ordinary shares in circulation (excluding the 6,280,079 treasury shares held at March 19, 2018), a dividend of Euro 0.06 before withholding taxes for an amount of	Euro	3,282,811.38
-	to retained earnings the residual amount, equal to	Euro	999,678.92

The dividend will be paid from May 23, 2018, with record date of May 22, 2018 and coupon date (No. 11) of May 21, 2018.

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

We propose therefore the following:

MOTION

the Shareholders' AGM of BasicNet S.p.A., having reviewed the 2017 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, 2017, in relation to each individual part and in its entirety, in addition to the proposal for the allocation of the Net Profit of Euro 4,507,884.53 and the dividend proposal.

Turin, March 19, 2018

for the Board of Directors

The Chairman

Marco Daniele Boglione

CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURE REPORT

The Corporate Governance and Share Ownership Report, hereafter summarized, is available in its full version on the Group website (www.basicnet.com in the section "Corporate Governance BasicNet).

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

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

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

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

2. DISCLOSURE ON THE OWNERSHIP STRUCTURE AT MARCH 19, 2018
(as per Article 123-bis, paragraph 1, of the CFA)

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

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

At the date of the present Report, the Company holds 6,280,079 treasury shares, equal to 10.296% of the share capital.

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

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

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

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

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

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

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

Shareholder	% of ordinary & voting share capital	Note
Marco Boglione	33.639%	Held indirectly through BasicWorld S.r.l. for 33.128% and for the residual 0.511% directly.
BasicNet	10.296%	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.
Wellington Management Group, LLP	5.043%	Discretional savings management.
Kairos Partners SGR S.p.A.	5.036%	

d) Shares which confer special rights (as per Article 123-bis, paragraph 1, letter d), CFA)

There are no securities which confer special control rights.

e) Employee participation rights: method of exercise of voting rights (as per Article 123-bis, paragraph 1, letter e), CFA)

There is no share participation programme for employees.

f) Voting restrictions (as per article 123-*bis*, paragraph 1, letter f), CFA)

There are no restrictions on voting rights. The issuer has exclusively issued ordinary shares; each share provides one vote (Article 6 of the By-Laws). Article 21 of the By-Laws excludes the right to withdrawal with regards to motions concerning the extension of the company's duration or the introduction or the removal of restrictions on the circulation of equities.

g) Shareholder agreements (as per article 123-*bis*, paragraph 1, letter g), CFA)

At the date of the present Report, there are no agreements between Shareholders.

h) Change of control clause (as per Article 123-*bis*, paragraph 1, letter h), of the CFA) and statutory provisions on public purchase offers (as per Articles 104, paragraph 1-*ter* and 104-*bis*, paragraph 1)

The contractual conditions of the loans in place at the date of the present Report include typical clauses for such loans, such as the maintenance of some conditions concerning the holding of the majority shareholder of the Company.

Statutory provisions in relation to Takeovers

The Extraordinary Shareholders' Meeting of April 29, 2011 approved, among other matters, the change to Article 16 of the Company By-Laws - Powers of the Board of Directors and legal representation - in order to recognize to the Board of Directors the right to undertake, at any moment and without prior authorization 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 authorization, 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 authorization 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.

- Authorization of share buy-back plan

The Shareholders' AGM of April 27, 2017 approved, for a period of twelve months, or until the next Shareholders' AGM to approve the 2017 Annual Accounts, the authorization to purchase and utilize a maximum number of shares, which taking into account those already held by the Company, does not exceed the limits permitted by law, for a maximum expected financial commitment of Euro 3.5 million. Based on this authorization the Company, at the date of the Report, had acquired 717,282 shares, equal to 1.176% of the Share Capital. BasicNet today holds a total of 6,280,079 treasury shares (10.296% of the Share Capital), for a total investment of Euro 15 million.

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

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

BasicNet S.p.A. considers that it is not subject to the management and co-ordination of BasicWorld S.r.l., a company which holds 33.128% of the share capital, as the holding company has significant investments in other companies, also with reference to Article 16 of the Consob Markets' Regulation:

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

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

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

m) Other information

It is noted that:

- the disclosures required by Article 123-bis, paragraph 1, letter 1) (*"the agreements between the company and directors – which provide for indemnity in the case of dismissal without just cause or in the case in which the employment services cease after a public offer"*) are contained in the Remuneration Report pursuant to Article 123-ter of the CFA, available on the company's websitewww.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"*) is illustrated in the Board of Directors section (Section 4.1).

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

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

This is mainly based on the principles and recommendations contained in the Self-Governance Code of listed companies issued by Borsa Italiana, available on the website Borsa Italiana (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 2017, as in previous years, this percentage was 4.5% (Consob Resolution No. 20273 of January 24, 2018);
- 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' AGM of April 28, 2016, will conclude at the Shareholders' AGM called to approve the 2018 Annual Accounts, and comprises twelve members, as indicated in the following table:

Members	**Office**	**Slate M/m (*)**	**Years of service since first appointment (**)**	**No. Appointments (***)**
Marco Boglione	Chairman	M	1999	
Daniela Ovazza	Non-executive Vice Chairman Member of the Remuneration Committee	M	1999	3
Giovanni Crespi	Chief Executive Officer	M	2007	--
Paola Bruschi	Director	M	2007	--
Paolo Cafasso	Director	M	1999	--
Elisa Corghi	Independent and non-executive director Member of the Remuneration Committee and of the Control and Risks Committee	m	2016	4
Alessandro Gabetti	Non-Executive Director	M	2010	3
Renate Hendlmeier	Independent and non-executive director Chairman of the Control and Risks Committee and member of the Remuneration Committee	M	2015	--
Adriano Marconetto	Independent and non-executive director Member of the Remuneration Committee and of the Control and Risks Committee	M	2007	--
Carlo Pavesio	Non-Executive Director Chairman of the Remuneration Committee	M	1999	5
Elisabetta Rolando	Director	M	2013	--
Franco Spalla	Director	M	2001	2

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

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

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

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

The Board of Directors, in its current composition, complies with the "gender quota" rules under Law No. 120 of July 12, 2011 and Article 144-*undecies* 1 of the Issuers' Regulation.

Diversity policies

BasicNet has yet to adopt diversity policies relating to the composition of its Board of Directors, due in part to the fact that the term in office of the current Board of Directors is set to end with the approval of the 2018 Annual Accounts. At the end of its term in office, the outgoing Board of Directors will assess whether to give its opinion of the characteristics of the candidates whose presence is deemed appropriate in light of their educational and professional backgrounds, and possibly also in light of the composition of the Board of Directors in terms of aspects such as age and gender. To remain on this latter subject, the Board of Directors of BasicNet S.p.A. has complied with gender composition requirements since the date of its listing, although such compliance was not mandatory under either the legislation in effect at the time or internal policies.

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

Maximum number of offices held in other companies

The Board of Directors does not consider it necessary to limit the maximum number of offices which each Director may hold, also in view of the consistently high participation of all members at meetings of the Board of Directors. Also in this regard, the Board of Directors will assess whether it will express a differing opinion at the next appointment of the Board of Directors.

Induction Programme

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

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

The Board in 2017 met eight times, with meetings lasting on average two hours and with full attendance on all occasions of the Board.

In January 2018, the company published its financial calendar which established the days for the five Board meetings for 2018, for the review of the preliminary results, the approval of the 2017 separate and consolidated financial statements, the approval of the half-year report and the review of the quarterly disclosure to the market. As established by Article 82-ter of the Issuers' Regulation, the same press release (of January 18, 2017) confirmed the company's position on the publication of additional financial disclosure. In particular, 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 by Brand and by region and a presentation of the key commercial indicators (compared with those for the same period of the previous year). The Quarterly disclosure shall be published in a press release to be issued on conclusion of the Board of Directors' meetings called to approve the above results.

The calendar is available on the website www.basicnet.com.

On February 19, the first meeting was held, which reviewed the 2017 preliminary results.

The documentation concerning the matters under discussion is sent in advance to the Directors and Statutory Auditors. In accordance with the Code, the Board of Directors, considering the operating dynamics of the Company and the Group, identified the period of two days as appropriate for the sending of preliminary meeting material, except in the cases of urgency. The above-stated deadline was always complied with for Board meetings in 2017.

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 2017, the Chief Executive Officer of BasicItalia attended one meeting of the Board of Directors.

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

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

a. reviews and approves the strategic and financial plans of the Company and of the Group, defines the organizational 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 organizational, administration and accounting system of the Company and of its subsidiaries with strategic importance, which has been implemented by the Executive Directors with particular reference to the internal control and risk management system. In addition to the companies holding the brands, the strategic companies are BasicItalia S.p.A., which is the Italian licensee of the Group, and BasicRetail S.r.l., which manages the Group's retail operations. Continuity in the composition of the Board of Directors of the companies of the Group has facilitated, in fact, the functions of control, timely disclosure and coordination of instructions to the subsidiaries;

d. assigns and revokes the delegation of powers to the Executive Directors, establishing the limits and manner of exercising such power and the frequency of reporting, normally not less than three months, through which the Executive Directors must report to the Board on the activities undertaken in relation to the powers conferred, in accordance with Article 13 of the Company By-Laws;
e. evaluates the general operational performance, taking into account, in particular, the information received from executives, as well as periodically comparing the results with the budgets;
f. examines and approves the company and its subsidiaries' operations prior to being carried out, when these operations have a significant strategic, economic, or financial importance for the Company, paying particular attention to the situations in which one or more directors have an interest on their own behalf or on behalf of third parties, and, in general, transactions with related parties.

The Board of Directors at the meeting of February 19, 2018 considered the functioning of the Board and its Committees, in addition to its composition and size, taking account also of the professional qualifications, experience - also of a managerial nature - and the gender balance of its members, in addition to their years of services, as established by the Self-Governance Code.

In this regard, the Board considers that the choice of appropriate professionals to sit on the Board of Directors is the duty of the shareholders - both minority and majority - on the basis of the slates presented. In light of that above, the Board consider that its self-assessment, or where the same task is assigned to an outsourcer, is a non-substantial act, given that, for the transparency which the Board of Directors of BasicNet has always provided, each director may present at any time suggestions to improve the operation and functioning of the Board and its Committees, with a view to ongoing improvement.

The Board in addition examines, on a half-yearly basis, the report of the Control and Risks Committee illustrating the findings of their activities and controls and their opinion on the adequacy of the internal control system. At the meeting of March 19, 2018, the Board noted the substantially positive opinion of the Committee, also in view of the supplementation, development and coordination activities in 2017 regarding the control system, suggested by the Committee and by the Board of Statutory Auditors. At the meeting of February 19, the Board of Directors approved the audit plan for 2018 and confirmed the budget available to the Internal Control System.

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

4.4. EXECUTIVE BOARDS

The Board of Directors at the meeting of April 28, 2016 reconfirmed Daniela Ovazza as the Vice Chairman of the Board of Directors and appointed as a new Vice Chairman Franco Spalla (leaving office with effect from October 31, 2017), and Giovanni Crespi as the Chief Executive Officer. The Chairman of the Board of Directors was appointed by the Shareholders' AGM held on the same date.

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

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

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

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

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

Chairman of the Board of Directors

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

As already illustrated at point 2.C of the present Report, Mr. Marco Boglione holds 20,517,733 shares, equal to 33.639% of the share capital, of which 20,206,065 shares, equal to 33.128% of the share capital, indirectly through the wholly-owned subsidiary BasicWorld S.r.l. and, directly, 311,668 shares, equal to 0.511% of the share capital.

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

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

Reporting to the Board

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

4.5. OTHER EXECUTIVE DIRECTORS

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

4.6 INDEPENDENT DIRECTORS

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

The Board of Directors on their respective appointment to office and in the Board meeting of March 19, 2018 assessed, on the basis of their declarations, the independence of the Directors Elisa Corghi, Renate Hendlmeier and Adriano Marconetto, both in relation to the requirements of Consob regulations and the criteria of the Self-Governance Code. With regards to the criteria at Article 3.C.1 letter e) of the Self-Governance Code, the Director Adriano Marconetto considered that his holding of the position since 2007 and therefore for more than nine years does not affect his independence.

As stated in the report to the Shareholders' Meeting called for the approval of 2017 Annual Accounts, the Board of Statutory Auditors has verified the correct application of the criteria and procedures adopted by the Board of Directors to assess the independence of its members.

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

4.7 LEAD INDEPENDENT DIRECTOR

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

The Board meeting of April 28, 2016 considered that the accumulation of offices of Chairman and Executive Director by Mr. Marco Boglione was justified in view of the need to ensure the strategic and operating continuity of the Group, as he is the Group's founder and has also always been directly involved in the company's operations. The Board also considers the information flows with non-executive directors and the Board of Statutory Auditors, overseen by the Chairman and the Chief Executive Officer, to be complete and timely and therefore does not require the appointment of a Lead Independent Director, considering that: (i) the Chairman is not the only executive in charge of company management, (ii) powers are also allocated to other members of the Board of Directors and (iii) the Chairman commits to open a constructive dialogue with the Independent Directors. The Control and Risks Committee, at the meeting of February 12, 2018, re-examined the issue, considering that the members of the Committee are also all independent directors of BasicNet, and assessed that sufficient opportunities for communication and meeting exist for the independent directors and therefore the need to appoint a lead independent director as a contact point to coordinate and represent their requests and contributions was not necessary, given that the flows of communication with the Board of Directors and the Chairman of the Board of Directors should not change in substance following appointment. On this basis, it was decided not to appoint a lead independent director, preferring to maintain all of the current communication channels between the independent directors, the other directors and the statutory auditors and the Chairman of the Board of Directors open and active, recognizing the importance of this exchange.

5. HANDLING OF CORPORATE INFORMATION

The Board approved the procedure for the handling of confidential information, subsequently updated with the regulations on Market Abuse. The policy was recently updated (2017) and approved at the meeting of February 19, 2018, incorporating the Guidelines upon the management of inside information published by Consob in October 2017.

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

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

The procedure is available on the website: www.basicnet.com/contenuti/gruppo/internaldealing.asp.

In 2017, two Internal Dealing communications were published concerning transactions carried out on the BasicNet share (one communication concerning the partial non-proportional spin-off by BasicWorld S.r.l., of which the Chairman Marco Boglione is the majority shareholder, through the transfer of part of the company equity and, and precisely, equity securities, including 2,096,436 BasicNet shares, to two "NewCO's", and a communication regarding the purchases made by the Chief Executive Officer Giovanni Crespi).

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

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

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

7. APPOINTMENTS COMMITTEE

At the meeting of March 19, 2018, the Board of Directors assessed the focus on the matter recommended in the letter of December 2017 of the Chairman of the Corporate Governance Committee. On this issue and in line with evaluations made in the past, the Board of Directors did not consider it necessary to set up an Appointments Committee for the nomination of Directors, given that, in accordance with Article 13 of the Company By-Laws, the Directors are elected through a slate voting mechanism. In addition, the Board of Directors retain that the proposals to nominate candidates as Directors in the event of co-optation and succession planning of Executive Directors, fall within the remit of the entire Board of Directors and as such may be discussed and approved within the Board meetings.

8. REMUNERATION COMMITTEE

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

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

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

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

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

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

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

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

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

The Committee has access to the information and departments necessary for the carrying out of its remit. In consideration of that stated above, as the Committee avails of company means and structures, specific resources were not assigned.

The Committee in 2017 met on two occasions to review the draft of the Remuneration Report to be presented to the Shareholders' Meeting and to draw up for Group executives the remuneration proposal. 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 19, 2018, the Board, with the favorable opinion of the Control and Risks Committee, as the Related Parties Committee, approved the BasicNet S.p.A. Remuneration Report available on the company website, together with the Shareholders' AGM documentation, at www.basicnet.com/contenuti/datifinanziari/assembleeazionisti.asp.

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

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

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

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

No stock option plans have been established for Directors.

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

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

10. CONTROL AND RISKS COMMITTEE

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

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

Duties attributed to the Internal Control and Risks Committee

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

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

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

  in the case in which the Board becomes aware of prejudicial events, supports with appropriate preparatory activity the assessments and decisions of the Board of Directors concerning the management of such events.

The Committee met on six occasions in 2017, carrying out the following activities:

- examined the update to the Document for the identification and assessment of risk;
- examined the adjustment and application of new compliance and disclosure regulations. In this regard, it examined the update of the company market abuse and internal dealing policies in view of the new regulatory framework;
- examined the update of the company procedures;
- drew up a proposal for the Board of Directors concerning the composition of the Supervisory Board and a strengthening of Internal Auditing;
- monitored the advancement of the Integrated Controls System project, launched at the beginning of 2017;

- examined the reports prepared by Internal Auditing and the Supervisory Board;
- examined the results of the audit process of the financial statements and the correct utilization of the accounting policies applied and their uniformity in the preparation of the consolidated financial statements;
- examined the methodology used to prepare the Consolidated non-financial report and the Corporate Governance and Ownership Structure Report.
- drew up the Control and Risks Committee Reports and reported to the Board of Directors on activities carried out.
- noted the key performance information;
- expressed a recommendation that the material upon matters on the agenda of the Board of Directors' meetings is made available appropriately in advance.

The Chairperson of the Board of Statutory Auditors, Maria Francesca Talamonti and, in relation to the matters considered, according to the attendances reported for each meeting in the minutes of the Committee meetings, the CFO and Executive Responsible for Financial Reporting of the Group, Paolo Cafasso, the Director in charge of the internal control and risk management system, in addition to the members of the Supervisory Board, Paola Bruschi, the Internal Auditing Manager and member of the Supervisory Board, Mario Sillano, the member of the Supervisory Board Giuliana Baronio, the partners and members of the companies appointed to audit the Group, attended the meetings of the Committee (all minuted), of an average duration of approx. two and a half hours. Five 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, Studio Capetti, Studio Boidi & Partners, in addition to the renewal of the BasicNet and BasicWorld contracts.

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 to set up and subsequently implement the Integrated Control System.

11. INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

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

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

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

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

The Ethics Code, the Sourcing Center Ethics Code which includes social compliance principles and the organizational, 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 centralized 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 cognizant 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 19, 2018 considered that the system is substantially appropriate to oversee the typical business risks associated with the main operating activities. In 2017, the main control procedures were supplemented, in support of coordination, development and sustainability within a single integrated model.

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

1) Introduction

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

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

   For the completion of the System, a risk assessment was undertaken in order to identify and evaluate the risk areas which could arise such as to compromise the achievement of the control objectives and the efficacy of disclosure provided by the corporate boards and to the market. The risk assessment also took into account the risk of fraud. The identification and evaluation process were 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 organizational terms, and on the reliability of the administrative-accounting system, on the activities carried out and on the efficacy of the internal control system with regards to financial reporting risks.

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

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

Within this role Paola Bruschi oversees the functioning of the internal control and risk management system, identifying the principal corporate risks (operational, financial and compliance), implementing the guidelines defined by the Board and supervises the planning, realization 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 centralized 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 analyzed 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 organizational processes adopted by the company for the physical, logistical and organizational 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 231/2001

As part of the Internal Control and Risk Management System, the parent company BasicNet and BasicItalia S.p.A. have adopted an "Organization 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 organization and control model these were published on the company's website www.basicnet.com/contenuti/corporate/codiceetico.asp in the area dedicated to Group employee time-keeping.

In preparing the Model, account was taken of the existing and operating control systems and policies at the company and considered appropriate, in addition to the Ethics Code, as an integral part of the Model: the Internal Dealing Conduct Policy, the related party transactions policy. The model, continually evolving, integrates and strengthens the corporate control system through the preparation and continual updating of the related procedures. It also provides for a disciplinary system which appropriately sanctions non-compliance with the measures and principles contained in the above-stated documents.

The Board of Directors at the meeting of April 28, 2016 confirmed the members of the Supervisory Board. The Supervisory Board is tasked with overseeing the correct functioning of the Model and updates. In 2017, in order to strengthen the Supervisory Board an external lawyer was appointed, who became the chair of the body. The Supervisory Board reports on at least a half-yearly basis to the Control and Risks Committee and to the Board of Statutory Auditors.

Ethics Code

The Ethics Code is presented on a video to all new employees of the Group and to all consultants. In 2017, 51.5 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 151 participations in Italy (approx. 28% of the average workforce in 2017), of which 5 executives, 144 white-collar and 2 blue-collar employees.

The BasicNet Group Ethics Code was recently 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 organizational tools to prevent the violation of the principles of legality, transparency, correctness and fairness by personnel and collaborators and oversee compliance with these principles;
- to assure the market, investors and the community in general, while protecting the competitivity of the respective businesses, of full transparency in operations;
- to commit to the promotion of fair competition in support of its interest and that of all market operators and the stakeholders in general;
- to pursue excellence and market competitiveness, offering clients high quality services which efficiently meet their demands;
- to protect and support personnel;
- to responsibly employ resources with a view to sustainable development, respect for the environment and the rights of future generations;
- to protect workplace health and safety conditions and consider human rights as a fundamental aspect of business activity.

The Group does not justify in any way the adoption of conduct conflicting with law and these principles. In this regard, the Supervisory Board oversees compliance with the Ethics Code, promptly reporting to the Control and Risks Committee and the Board of Directors any violations thereof. All stakeholders may report in writing and anonymously any violation or suspected violation of the Ethics Code to the Supervisory Board. Violation of the principles of the Code may result in sanctions.
For the effective dissemination of the Ethics Code and of the organization 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.

Code of Conduct for Sourcing Centers

The Code of Conduct for Sourcing Centers is a document that establishes the minimum requirements for the working conditions that must be met by all Sourcing Centers selected by the BasicNet Group or by affiliated companies. The Group is committed to ensuring that each link in the production chain complies fully with the principles and conditions enunciated in the Code of Conduct. Accordingly, Sourcing Centers are always liable for full compliance with the Code of Conduct by their suppliers.
Through the Code, BasicNet encourages its business partners to adopt the highest international standards of ethics and best practices in business. Respect for human rights and international labor standards – including the fundamental conventions of the International Labor Organization and the Universal Declaration of Human Rights – were taken as an inspiration and foundation, and many of the guidelines included in the Code of Conduct were based on them. BasicNet reserves the right to stop doing business with Sourcing Centers that are incapable of complying – or reluctant to do so – with the principles and conditions enshrined in the Code of Conduct. The principles cited in the Code of Conduct for Sourcing Centers include:

- a ban on the use by Sourcing Centers of child labor and an incentive for them to verify the age of their workers, keep proof of such verification and comply with all laws and regulations governing working hours and the general conditions of child labor;
- a ban on the use by Sourcing Centers of involuntary labor, 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 labor 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 Code of Conduct with which Sourcing Centers must comply include non-discrimination, the protection of health and safety, environmental protection and freedom of association. BasicNet is committed to full and complete compliance with laws and regulations applicable to its business activity and expects that Sourcing Centers will cooperate fully and with due diligence in fulfilling this pledge.

To guarantee awareness of the Code of Conduct, Sourcing Centers are required to take appropriate measures to ensure that workers familiarize themselves with the contents of the Code of Conduct and to post the 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 Code of Conduct. To ensure compliance, BasicNet is authorized to audit Sourcing Centers by conducting scheduled or unscheduled inspections of Sourcing Centers' facilities aimed at monitoring compliance with the Code of Conduct. During such inspections, BasicNet and its representatives may examine books and registers relating to employees and conduct private interviews of the Sourcing Center's employees. If a violation is found to have been committed, BasicNet and the Sourcing Center are required to agree on a Corrective Action Plan aimed at remedying the violation promptly. If a Sourcing Center commits repeated and/or deliberate violations of the Code of Conduct, BasicNet may take the necessary corrective measures, up to and including the cancellation of orders and/or termination of business arrangements with the Sourcing Center concerned.

Conflicts of interest and prevention of bribery and corruption

The Group has implemented a Legislative Decree No. 231/2001 Organization Model and specific internal procedures to establish ethical rules and responsibilities in the conduct of its business and in dealings with its various stakeholders (there are, for example, specific procedures for proper management of dealings with the public administration). In particular, operations are governed by procedures organized in a way that ensures that there is effective oversight by the individual company units (“dotcoms”) 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 favor 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 subsidized financing, or to obtain concessions, permits, licenses or other administrative acts. The direction of funds received from national or EU authorities as disbursements, contributions or financing for objectives other than those intended is prohibited. The altering of computer or IT systems or the manipulation of data contained therein in order to obtain unjust profit and causing damage to the Public Administration is prohibited. In commercial relations with the Public Administration, including also participation in public tenders, conduct should always be in compliance with law and proper commercial practice, while conduct which is undertaken to induce the committal of an offense in seeking advantage for the Group is expressly prohibited.

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

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

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

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

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

Training in matters relating to Legislative Decree No. 231/2001 – which also extended to anti-bribery and corruption policies and procedures – came to 89.5 hours of training in 2017, involving 210 participants, broken down into eight executives, 194 white-collar workers and eight blue-collar workers, all based in Italy. Furthermore, in 2017 all members of the Board of Directors were made aware of the policies applied and procedures implemented with regard to the prevention of bribery and corruption by viewing the Ethics Code and Legislative Decree No. 231/2001 Organization Model.

Participants in training on anti-corruption policies		**2017**	**2016**
Executives (No.)		8	6
	% of total Executives*	28.3%	22.9%
White-collar (No.)		194	315
	% of total White-collar*	39.6%	68.5%
Blue-collar (No.)		8	14
	% of total Blue-collar*	29.6%	59.8%
Total (No.)		**210**	**335**
	% total Group*	**38.5%**	**65.8%**

**The percentages are calculated on the average workforce in Italy in 2017.*

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

Supervisory Board

The Board of Directors at the meeting of April 28, 2016 confirmed the members of the Supervisory Board. The Supervisory Board is tasked with overseeing the correct functioning of the Model and updates. In 2017, in order to strengthen the Supervisory Board an external lawyer was appointed, who became the chair of the body. The Supervisory Board reports on at least a half-yearly basis to the Control and Risks Committee and to the Board of Statutory Auditors.

11.4 INDEPENDENT AUDIT FIRM

The audit is carried out by an independent audit firm registered in the relevant registrar. The Shareholders' AGM of April 27, 2017 appointed EY S.p.A. to audit the accounts for the 2017-2025 period.

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

11.5 EXECUTIVE OFFICER FOR FINANCIAL REPORTING

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

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

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

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

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

12. DIRECTORS INTERESTS AND TRANSACTIONS WITH RELATED PARTIES

The Board of Directors, in accordance with Consob Regulation No. 17221 of March 12, 2010 adopted, with the favorable 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 organizational 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, utilizes a simplified system for the approval of significant transactions whereby the rules for the approval of less significant transactions are applied;

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

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

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

In general, exempted from the procedure, in addition to all the matters expressly indicated by the Related Party Regulation issued by Consob, are insignificant operations (amounts not above Euro 150 thousand), provided they are undertaken at market or standard conditions within the ordinary operations of the business and of the related financial activities; the operations concluded with or between subsidiaries, including joint ventures, by BasicNet, provided in the subsidiary companies there are no counterparties in the operation that have interests, qualified as significant, of other related parties of the Company; the operations with associates provided that the associated company counterparties in the operation do not have interests, qualified as significant, of other related parties of the Company.

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

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

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

13 APPOINTMENT OF STATUTORY AUDITORS

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

http://www.basicnet.comhttp://www.basicnet.com/contenuti/gruppo/statuto.asp

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The procedure for electing Statutory Auditors are as follows:

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

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

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

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

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

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

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

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

For the supplementation of the Board of Statutory Auditors:

- for the supplementation of the Statutory Auditors from the majority slate the appointment is made through a relative majority of the share capital represented at the Shareholders' Meeting, choosing from among the candidates indicated on the majority slate, ensuring that the composition of the Board of Statutory Auditors complies with the legally-required gender balance provisions;

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

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

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

The Board of Statutory Auditors, whose mandate shall conclude with the approval of the 2018 Annual Accounts, therefore comprises:

Name	**Office held on the Board**	**Slate M/m (*)**	**No. appointments (**)**
Maria Francesca Talamonti	Chairperson	m	3
Sergio Duca	Statutory Auditor	M	2
Alberto Pession	Statutory Auditor	M	2
Giulia De Martino	Alternate Auditor	m	7
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 held 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 composition of the Board of Statutory Auditors has been in line with the "gender quota" required by the new Consob regulation since the company's listing.

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

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

The Board of Statutory Auditors verified the independence of their members based on the criteria of the new Self-Governance Code, confirming to the Board of Directors at the meeting of April 27, 2017, subsequent to the appointment of the new members, and recently at the meeting of March 19, 2018, the independence of their members in accordance with the above-mentioned Code.

The documentation filed for the purposes of the appointment, including the updated curriculum vitaes of the statutory auditors, is available on the website www.basicnet.com/contenuti/gruppo/organisocialisocieta.asp.

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

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

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

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

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

15. RELATIONS WITH SHAREHOLDERS

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

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

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

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

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

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

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

- the transfer of the registered office in the national territory.

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

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

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

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

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

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

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

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

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

18. CHANGES SUBSEQUENT TO THE YEAR-END

No changes occurred.

19. CONSIDERATIONS ON THE LETTER OF DECEMBER 13, 2017 OF THE CHAIRMAN OF THE CORPORATE GOVERNANCE COMMITTEE

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

Subsequently, this documentation was communicated for the attention of the Control and Risks Committee of February 16, 2018 and the Board of Directors and Board of Statutory Auditors, at the meeting of February 19, 2018.

On this occasion, the Board of Directors reported compliance with the Code in terms of preparatory disclosure to the Board, confirming its opinion both with regards to the claw back clauses and end of mandate indemnities (postponing the assessment of this latter to the meeting to appoint the Board of Directors in 2019), and in terms of the Appointments Committee, as reported respectively in the Remuneration Report and in the Corporate Governance and Ownership Structure Report.

For the Board of Directors

The Chairman

Marco Daniele Boglione

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

Methodology

This is the first consolidated non-financial report pursuant to Legislative Decree No. 254/16 (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 therefore prepared a Non-Financial Report to fulfil the obligations under Articles 3 and 4 of Legislative Decree No. 254/16, 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 2017 with regard to the matters expressly cited in Legislative Decree No. 254/16 (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 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 purpose of the Report is to give an account of the Group's values, major initiatives and sustainability performance in 2017 that is consistent with its organizational structure (reporting period from January 1 to December 31, 2017).

As permitted by the options provided for in Art. 5 of Legislative Decree No. 254/16, 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 first materiality analysis conducted in 2017 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. 254/16.

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 2017 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, 2017 and consolidated line-by-line in the Group's Consolidated Financial Statements. However, it should be noted that, while it does ensure a proper understanding of the enterprise's activity, the reporting scope of information and data relating to training and the environment extends to the Group's two Italian offices only. 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 2017. This information has been provided with a comparison to 2016 to permit an assessment of the performance of the activities over time. In the interest of full understanding, an account has also been given of measures taken in previous years that still apply to the Group's activities.

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

Turning to significant changes in the scope of consolidation during the period under review, TOS – the company that owns the Sebago brand, consolidated line-by-line as at December 31, 2017 – joined the Group in July 2017.

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 19, 2018, along with the Annual Financial Report.

The independent auditors EY give their opinion on the compliance of this Report in a specific report that certifies the compliance of the information provided with Art. 3, par. 10, of Legislative Decree No. 254/16.

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 2017 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 2017 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.

The analysis resulted in the identification of 15 material topics, divided into five general categories (*Governance and Compliance, Economic Responsibility, Responsibility in the Value Chain, Social Responsibility and Environmental Responsibility*), for each of which the main stakeholders with the greatest involvement were identified. This overview represents a fundamental tool for the Group to set its priorities with regard to sustainability and to steer the actions to be pursued in this area.

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

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

1.2 Promoting the economic development of BasicNet's partners

By analyzing 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 uses a computer 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 centers and published on the system. The platform allows tracking product availability and lead times and the transferring of purchase orders to producers in an efficiently and bundled manner, in order to take advantage of economies of scale.

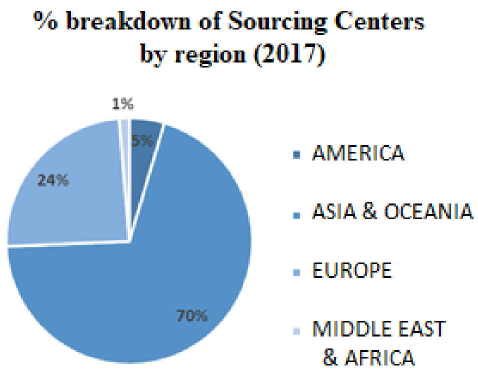
Selection and monitoring of sourcing centers is outsourced to a team of people specialized in manufacturing processes whose task is to select the sources of supply to be contracted and handle the flow of information generated by the relationship between them and the licensees.

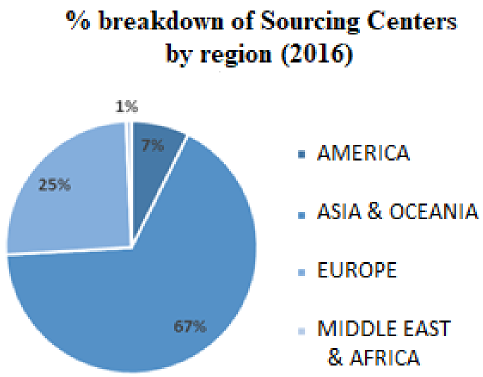
The relationship with sourcing centers is governed by the "Sourcing Agreement", signed by the parties after identifying the most suitable sourcing center and after performing a pre-contract analysis intended to assess its potential by gathering various kinds of information (company profile, business 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 center must observe concerning production, intellectual property, use of trademarks, their remuneration -- called a "sourcing commission" -- and reporting methods.

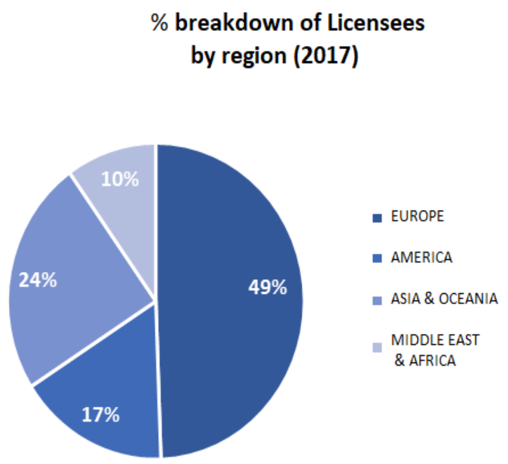
Sourcing agreements include clauses relating to social compliance, since the BasicNet Group adheres to, and encourages its commercial counterparts to comply with, the highest international ethical standards and practices of the business world. To make sure that these principles are effectively circulated, sourcing centers 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 Labor Organization (ILO) and the Universal Declaration of Human Rights. It requires sourcing centers to comply with all applicable laws and regulations relating to respect for the individual and for human rights (the main ones concern child labor, involuntary labor and discrimination), as well as to health, safety and the environment. Sourcing centers must establish procedures - and actually execute them - for reporting to the local authorities any accidents caused by acts or omissions of the sourcing centers themselves. Sourcing centers 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).

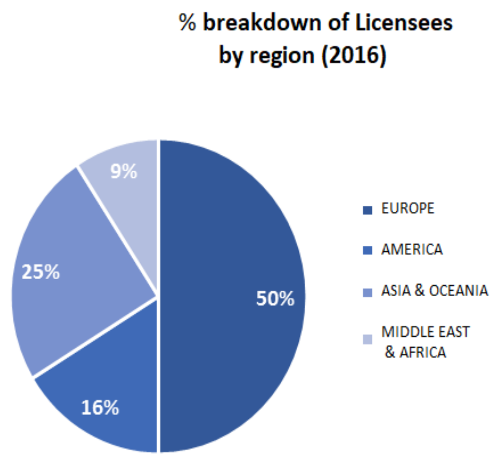
In 2017, the Group was supplied by a total of 152 sourcing centers, compared to 135 in 2016. Their facilities are located all over the world.





On the other hand, in 2017 there were 91 licensees, 6% more than in 2016 (86).





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 centers and licensees on the other, which are the Group's true commercial counterparts. As can be seen from a mapping of the Group's stakeholders, BasicNet's Business System distinguishes between its dealings with sourcing centers and Licensees considered as commercial partners, which includes the Group's *Customers and consumers*, and its sourcing centers, as core suppliers of the subsidiary BasicItalia SpA..

"Core" suppliers

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

BasicItalia SpA buys goods on a marketplace generated by tenders from sourcing centers 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.

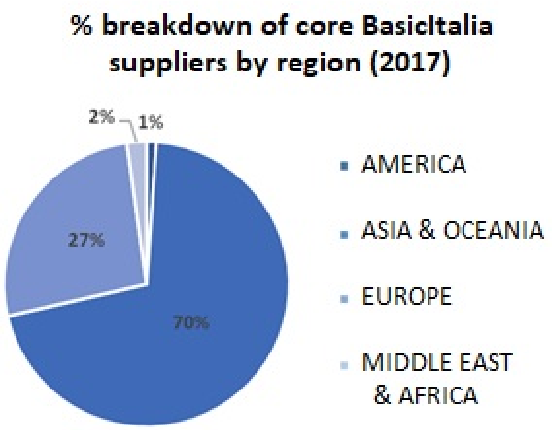
In this regard, a company called BasicNet Asia was formed with the task, among others, of handling relations with regional sourcing centers, so as to monitor their operations in order to ensure steady turnover of suppliers, and also to counter market power.

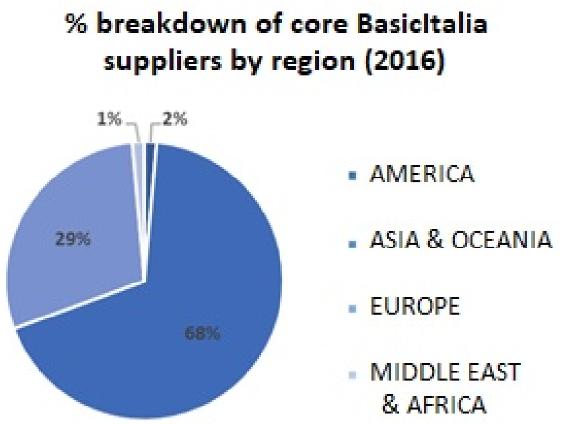
Sourcing contracts are based on a standard that arose over the years and was prepared by specialized outside lawyers. If individual contracts require exceptions, amendments or riders as a result of contractual agreements or to comply with local laws, these provisions are analyzed beforehand by international lawyers or lawyers specialized 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 centers. Moreover, after five years orders are switched to a new sourcing center, 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 center can be suspended temporarily, depending on each specific case.

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

In 2017, just as in the previous year, almost all sourcing centers supplying BasicItalia SpA are located in either Asia or Europe.





Suppliers of goods and services

Within the Group, goods and services are procured according to internal procedures that specify general principles for managing the supply chain responsibly and provide for the efficient planning and managing of purchases. In this regard, there is a division of roles within the Group, so that each "dotcom" (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 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 favors, 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 “dotcom”. The purchase order is automatically sent for approval respectively by the direct superior, the CFO and 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 labor market practice in its country of residence, in addition to compliance with the Ethics Code and the Code of Conduct for Sourcing Centers.

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

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 81/08;
- 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 2017, the Group had about 2,000 suppliers, of which more than 98% were Italian firms. The main merchandise categories among the Group’s suppliers are: consumables, purchases for prototype development, costs for events and sponsorships and software development.

2.2 Data protection

The Group protects the secrecy and confidentiality of any information relating to employees, 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 authorized 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 utilize 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 "dotcom" 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 unauthorized access and tampering; remote access is assured by authorized 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. "Dotcom" managers send to BasicSystem any requests for changes, inclusion or reassignment to a different group. All files saved onto company PCs are automatically deleted at the end of the working day.

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

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

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

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

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

To accomplish this, a "Privacy Impact Assessment" form and a "Processing Registry" are being prepared, the main privacy procedures, the Data Protection Management Manual for the purpose of adapting in timely fashion to the new Regulation. These instruments are expected to be completed and put into practice in the course of 2018.

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 website. There are links for reporting counterfeit products on all the Group's e-commerce websites.
Each such report is processed individually by analyzing 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 206/05 and EU Regulation 1007/2011) that lists textile fiber names and governs the labelling and marking of the fiber components of textile products – in addition to the requirements that domestic law now imposes on each licensee. In addition, each label bears the order number entered by the licensee that, together with the other information on the label, allows BasicNet to check whether the merchandise is genuine and matches the goods on the market.

The BasicLabel project was created so as to reassure the end customer that the product they purchased is genuine and can be properly traced. For each product there is a QR code and a unique serial number that allows consumers to access information about the product they purchased by scanning its QR code or inserting its serial number on the website www.basiclabels.net.
The BasicLabel project operates entirely online. Starting from the information of the items in BasicSamples and BasicSpecs (which are in charge, respectively, of determining and selling sample collections and of setting technical specifications), when acceptance of an order is confirmed through BasicFactory (the online order management platform for sourcing centers), the BasicLabel 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 is underway for all K-Way brand products and for the flagship products of other brands (16% of total Group products).

3. Social Responsibility

3.1 BasicNet Group human resources

The Group recognizes 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, 2017, the Group's workforce consisted of 565 employees, of which 97% worked in Italy. Most workers (178 are men and 295 women) have full-time contracts. 92 workers, of which 92.4% are women, work on part-time contracts. Most of the workers on fixed-term contracts are in retail sales as it is a seasonal business and many sales outlets are still start-ups. In addition, the Group sometimes hires temporary workers.

Workers by type of contract (No.)*		**2017**			**2016**		
		Male	**Female**	**Total**	**Male**	**Female**	**Total**
Italy		176	372	548	170	363	533
	Permanent	118	260	378	128	269	397
	Fixed-term	58	112	170	42	94	136
Overseas		9	8	17	8	5	13
	Permanent	6	2	8	2	1	3
	Fixed-term	3	6	9	6	4	10
Total		**185**	**380**	**565**	**178**	**368**	**546**
	of which:						
	Full-time	178	295	473	170	289	459
	Part-time	7	85	92	8	79	87

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

In 2017, 139 new staff members (48 men and 91 women) were hired, reflecting the Group's steady growth, thanks to the stabilization of the staff at the Briko brand and the setting up of a new team for the Sebago brand. Outgoing staff, most of them from retail, numbered 120 people, which yielded a staff turnover rate of 21.2%.

Hiring rate and staff turnover	**2017**				**2016**			
	Hires (no.)	**Departures (no.)**	**Rate of Entry***	**Turnover****	**Hires (no.)**	**Departures (no.)**	**Rate of entry***	**Turnover**
Gender								
Male	48	39	25.9%	21.1%	45	37	25.3%	20.8%
Female	91	81	23.9%	21.3%	107	77	29.1%	20.9%
Age group								
Less than 30	102	88	57.3%	46.6%	118	65	64.1%	35.3%
Between 30 and 50	37	35	11.3%	10.7%	33	41	10.5%	13.1%
Over 50	0	2	0.0%	3.3%	1	8	14.3%	16.7%
Region								
Italy	130	117	23.7%	21.4%	145	110	27.2%	20.6%
Overseas	9	3	52.9%	17.6%	7	4	53.8%	30.8%
Total	**139**	**120**	**24.6%**	**21.2%**	**152**	**114**	**27.8%**	**20.9%**

* 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 "dotcom" 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 labor laws and laws governing social security and taxation. In addition, it plans schedules and monitors labor 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 "dotcoms" 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 "dotcom" called BasicGuys and by the managers of all "dotcoms", and which ensures that the selection process is traceable. To ease insertion of staff, BasicNet constantly organizes a large variety of training programmes. In the two years 2016 and 2017, 68% of students who did their internship at the Group's facilities were later hired as employees. Moreover in 2017 the Group activated a school-work programme with the 4th-year students at Collegio San Giuseppe, a science-oriented secondary school in Turin.

3.2 Diversity and equal opportunities

In accordance with its Ethics Code, the Group considers it essential to handle labor 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, 2017, the total Group workforce was 32.7% male and 67.3% female, demonstrating the strong female presence at the Group. 58% of the total workforce are between the ages of 30 and 50, 10.6% are over the age of 50 and 31.5% are under the age of 30.

	2017			2016		
Staff by diversity trait	**Executives**	**White-collar**	**Blue-collar**	**Executives**	**White-collar**	**Blue-collar**
Gender						
Male	65.5%	29.6%	55.2%	64.3%	29.7%	56.5%
Female	34.5%	70.4%	44.8%	35.7%	70.3%	43.5%
Age group						
Less than 30	6.8%	33.9%	13.8%	7.2%	36.6%	4.3%
Between 30 and 50	51.6%	58.2%	54.4%	57.1%	57.2%	65.3%
Over 50	41.3%	7.8%	27.7%	35.7%	6.2%	30.4%
Total	**5.1%**	**89.8%**	**5.1%**	**5.1%**	**90.7%**	**4.2%**

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

	2017		2016	
Staff belonging to protected categories (No.)	**Male**	**Female**	**Male**	**Female**
Classification				
Executives	-	-	-	-
White-collar	9	5	8	4
Blue-collar	2	5	0	5
Total	**11**	**10**	**8**	**9**

Also with respect to involving the Group's licensees in its business, the Code of Conduct for sourcing centers demands that they select their employees solely on the basis of their ability to perform their duties. Sourcing centers 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 "dotcom" called BasicEducation is in charge of planning, organizing and reporting on the training of Group employees and promoting the development of human resources and career paths.
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. 196/2003. In addition, all new employees, regardless of their duties, must attend a two-week introductory course ("Welcome on board") where they learn about the Group's business and how to use company equipment, including information technology devices (for example using the stamping system, how to request leave, absences from work, etc.).

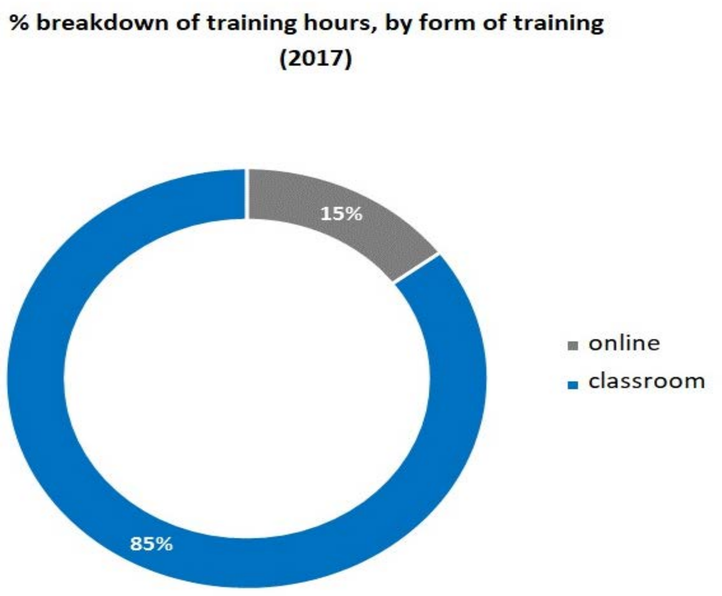
Each year BasicEducation prepares a Group Training Plan, which is then loaded into the section of the system dedicated to each individual employee. The training activities performed are identified on the basis of legislative requirements (e.g., Legislative Decree No. 81/2008), the working needs indicated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

The project aimed at preparing resources working at monobrand stores for the constant updating of the Group's human resources also continued in 2017. In 2017 the Group provided over 4,413 hours of training to its human resources, involving a total of 479 trainees. Of these hours, 47% regarded Health and Safety training (Legislative Decree No. 81/2008), whereas the remainder related to IT, languages and the Ethics Code.

Hours of training provided		**2017**	**2016**
Total hours of training		4413	5702
	of which, in the classroom	3760	4258
	of which, online	653	1444
% of hours of training financed[1]		6.3%	16.1%

[1] Training activities financed by dedicated public funds

All of the Group's resources have access to various training channels, including direct classroom modules - a part of which is intended for mentoring and ongoing refresher training - and e-learning modules.



Training by classification and gender		2017 Resources trained (no.)	2017 Average hours per capita (*)	2016 Resources trained (no.)	2016 Average hours per capita (*)
Executives		**14**	**0.5**	**12**	**3.6**
	Male	9	0.6	8	2.1
	Female	5	0.3	4	6.2
White-collar		**452**	**8.9**	**420**	**11.8**
	Male	122	11.6	131	13.0
	Female	330	7.7	289	11.3
Blue-collar		**13**	**3.3**	**16**	**7.3**
	Male	9	6.0	7	6.5
	Female	4	-	9	8.5
Total		**479**	**8.1**	**448**	**11.2**
	of which, women	**339**	**7.2**	**302**	**11.1**

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

Within the framework of promoting training to keep resources constantly up to date, in addition to "recurring" needs, greater attention was paid to more specific IT and language requirements. These courses are included in the training plan, for which financing from the Fondimpresa Interprofessional Fund was sought and obtained.

Specific training sessions were also held in conjunction with any updates to company processes and the IT platform.

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-story 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 Labor 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 Labor Agreement. In 2017 seventeen resources – all women – took parental leave.

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

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

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

3.5 Employee Health and Safety

As stated in the Ethics Code, the Group has always safeguarded health and safety in the workplace for all human resources. In fact, in this regard, the parent company and its subsidiaries have developed a “risk assessment document” pursuant to Legislative Decree 81/2008.

The 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 Code of Conduct requires that “*the Sourcing Centers maintain a clean, safe and healthy workplace in compliance with all legislation and applicable laws. The Sourcing Centers 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 Centers 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 online business “BasicFacility” is responsible for the management of health and safety in the workplace and is supported in this by an external consultancy firm (Gruppo Torino Progetti S.r.l.). On an annual basis, BasicFacility is allocated a budget which includes the specific item “SSL expenses” available for the Companies BasicNet, BasicItalia and BasicVillage, who individually itemize grocery and shop provision expenses.

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

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

The SSL organizational 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 formalized by the online business BasicFacility and BasicGuys of the Group and the related reports are shared with relevant parties. The following participate in the meetings:

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

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

The Group has established and formalized 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 summarized 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 recognized professional skill, specific experience and sufficient training and induction to be carried out.

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

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

At the end of every course, all participants are registered and where required an assessment test is carried out. Each resource has the option to access the Basic Education app and can see their own "training license" 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 81/08.
The "dotcom" BasicGuys tracks all accidents and incidents that arise at the company. Incidents are analyzed on an annual basis and the results of these analyses are discussed during regular meetings pursuant to Article 35 of Legislative Decree 81/08.
In 2017, there were no reports of occupational illnesses, nor were there any fatal incidents or incidents with permanent damage reported.
In Italy, in 2017 there were 7 workplace accidents, 5 of which were accidents during commutes to/from the workplace and 2 accidents in the workplace itself[2].

Number of accidents 2017 – Italy			
	Male	Female	Total
Total accidents (No.)	1	6	**7**
workplace accidents (No.)	-	2	2
accidents on commute (No.)	1	4	5
Severity Index (Lost Day Rate LDR)[3]	3.3	27.9	19.7
Frequency Index/Accident Rate (Injury Rate IR)[4]	0.64	2.02	1.54
Absentee Rate AR[5](%)	1.2%	2.2%	1.9%

[2]The absentee rate is not currently available for overseas personnel.
[3]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*)
[4] 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*)
[5] 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 2016 – Italy				
		Male	Female	Total
Total accidents (No.)		3	6	**9**
	workplace accidents (No.)	*-*	*2*	*2*
	accidents on commute (No.)	*3*	*4*	*7*
Severity Index (Lost Day Rate LDR)		29.8	26.8	27.8
Frequency Index/Accident Rate (Injury Rate IR)		1.96	2.06	2.02
Absentee Rate AR (%)		1.7%	2.2%	2.0%

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

The following initiatives were developed and implemented in 2017:

- **Prevention of alcohol abuse**: Following Alcohol Prevention Day in April 2017, promoted by the Ministry of Health in close collaboration with the SIA, Società Italiana di Alcologia, (Italian Alcohology Society) an information event was organized to increase awareness and educate employees in adopting a better lifestyle, particularly in relation to the reduction of alcohol consumption to subsequently prevent alcohol abuse. Promoting an improved lifestyle for employees required delivering accurate scientific information regarding the potential adverse health implications of alcohol consumption, with the aim of changing any potential drink-related behaviors and to prevent the risks to which the individual is exposed as a consequence. In order to create increased awareness amongst employees regarding reducing alcohol consumption and preventing alcohol abuse, an educational campaign involved the distribution to all employees of a booklet drafted and published on the Ministry of Health website;
- **Prevention of heart disease**: With the intention of promoting the wellbeing of its own employees and in conjunction with the Cardioteam Foundation, a campaign was implemented to prevent aortic aneurysms. The initiative involved an early-intervention health check-up and a cardiovascular risk prevention diagnosis offered to interested employees. Following this check-up, a diagnosis report was issued based on electrocardiogram and echocardiogram testing capable of identifying over 90% of cardiovascular pathologies, excluding coronary pathologies;
- **Road Safety**: the information disseminated regarding the prevention of road accidents was delivered through the meetings organized to analyze any potential risks in travelling to/from work or work accidents, and in order to disseminate information on safe driving methods. The "Driving Safely" booklet drafted by the Sapienza University in Rome was used as support material. The meetings in 2017 initially involved employees who, by the nature of their jobs, were the individuals most exposed to any potential road risks (e.g. drivers, delivery men, etc.); the aim will be to distribute this information to all employees;

  The projects launched in 2017 will continue into 2018 to ensure that over time information is delivered to all resources and will include any potential new hires.

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

4. Environmental Responsibility

Environmental protection is a key factor in the Group's competitiveness and sustainability, as the Group believes that the environment and nature are fundamental values and assets that belong to everybody which should be protected and defended. As also stated in the Ethics Code, this respect of the environment is primarily consolidated in dutiful and scrupulous compliance with environmental regulations. Secondly, the Group is committed to implementing responsible environmental-protection behaviors, avoiding any behavior 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 Code of Conduct, the Sourcing Centers 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 Centers.

4.1 Energy resource management

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

The physical sites include:

- The two Turin headquarters, respectively the offices of the Parent Company (property of the subsidiary BasicVillage S.p.A) and those of BasicItalia S.p.A;
- The two overseas branches of BasicNet Asia Ltd. (Hong Kong, China) and Basic Properties America, Inc. (Richmond, Virginia – USA) are less important from an energy point of view, as having only a handful of rented premises with eight employees.

In relation to the two headquarters in Turin, where 548 out of 565 employees work (97% 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 2018. 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;
- 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 signaling 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;
- a programme to replace the four gas boilers in the BasicVillage headquarters offices with high efficiency condensation heaters, thereby reducing gas consumption and related emissions. Whilst the first heater was replaced in 2017, it is intended to replace the remainder in 2018;
- pursuant to Legislative Decree 102/14, an energy audit to promote energy efficiency is programmed every three years for the BasicVillage and BasicItalia headquarters;
- 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.

With regard to the energy resources used internally within the Group, all the stores and the two Turin headquarters purchase their energy directly from the grid, but only the two Turin headquarters use respectively natural gas (BasicVillage headquarters) and oil (BasicItalia headquarters) to heat their premises. In 2017 the total electric energy consumption dropped by 15% compared to 2016, whereas the consumption of natural gas and heating oil all declined respectively by 19% and 2%. A minor portion of internal energy consumption can also be attributed to the use of fuels (petrol and diesel) by the Group's fleet of vehicles, which includes company cars and long-term leased vehicles.

In 2017, the Group's energy consumption produced greenhouse gas emissions, which, compared to 2016, reduced in percentage terms. Specifically, most of the greenhouse gases were from the electricity supplied from the grid (indirect emissions - Scope 2, calculated using a Location-based method rather than a Market-based method), which declined by 15% compared to 2016. On the other hand, direct emissions generated directly within the Group from the use of heating and vehicle fuels (direct emissions - Scope 1), represent a minor proportion of emissions. The emissions from the use of natural gas and heating oil dropped by 15% compared to 2016, in line with the related energy consumption.

Internal and external energy consumption for the BasicNet Group in 2017 and 2016[6]

Energy sources	2017	2016	Change
	Internal energy consumption[7]		
Electrical energy purchased from the grid	5,137,356 kWh *(18,494 GJ)*	6,067,930 kWh *(21,845 GJ)*	-15%
Heating			
Natural gas	168,915 smc *(5,914 GJ)*	208,880 smc *(7,314 GJ)*	-19%
Diesel	51,485 litres *(1,849 GJ)*	52,569 litres *(1,888 GJ)*	-2%
Vehicles[8]			
Petrol for vehicles	17,634 litres *(336 GJ)*	n/a	n/a
Diesel for vehicles	30,729 litres *(797 GJ)*	n/a	n/a
Total internal energy consumption	**27,390 GJ**	**31,047 GJ**	**-12%**

CO2 emissions of the BasicNet Group, 2017 and 2016

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

[7] The Net Calorific value of natural gas is 0.035 GJ/m3, average density of diesel is 0.83 kg/l, the Net Calorific value of diesel is 42.877 GJ/ton, average density of petrol is 0.68 kg/l, Net Calorific value of petrol is 42.817 GJ/ton (Sources: Ministry of the Environment and for the Protection of the Land and Seas, National Standards Parameter Table, 2017; Department for Environment, Food & Rural Affairs, Conversion factors 2017 - Condensed set, 2017).

[8] The consumption of vehicle petrol and diesel was estimated under the item vehicle fuel expenses using the average national prices for 2017 of €1.53 per litre of petrol and €1.38 per litre of diesel (Source: Ministry for economic development Average National Annual Price index 2017).

CO_2 emissions (ton CO_2)[9]		2017	2016	Change
Scope 1 emissions[10]				
	Due to heating	468	549	-15%
	Due to vehicles	83	n/a	n/a
Scope 2 emissions[11]				
	Location-based Approach	1,927	2,275	-15%
	Market-based Approach	2,389	2,822	

4.2 Waste management

As the Group does not have its own internal production activity, the main waste produced by the Group's activities come under the conventional categories of typical office-waste: paper and cardboard, photocopier and printing toners, batteries. All waste products are collected and sent to waste management operators, according to the procedures and timeframes of current legislation and based on waste categories: while paper and cardboard, plastic, and batteries are collected and processed in the appropriate waste management sites via waste containers (61,128 kg of waste of non-hazardous waste and 138 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 utilizes a scanner archive system throughout the operating cycle, for the majority of accounting records and ledgers and payroll management.

BasicNet Group waste products, year 2017 and 2016[12]

Type of waste (KG)	2017	2016	Change %
Non-hazardous waste			
Paper and cardboard	60,140	42,900	40%
Toner	234	263	-11%
Plastics	988	1,028	-4%
Total	**61,362**	**44,191**	**39%**
Hazardous waste			
Batteries	138	173	-20%
Total	**138**	**173**	**-20%**
Total waste	**61,500**	**44,364**	**39%**

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

[10] Natural gas emission coefficient of 0.001964 tCO2/smc, diesel emission coefficient of 3.155T tCO2/ton, petrol emission coefficient of 3.14 tCO2/ton (source: Ministry for the environment and the protection of the Land and Sea, National Standards Parameter Table, 2017).

[11] 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 375 gCO2/kWh, Source: Terna, International Comparisons 2015). 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 465 gCO2/kWh – Source: Association of Issuing Bodies, European Residual Mixes 2016, 2016).

[12] The weight of batteries was estimated based on the weight (in kg) of a battery and the number of batteries disposed of during the year. The weight of plastic was estimated on the basis of the weight (in kg) of bottles of water and the number of bottles disposed of during the year. The weight of toner was extrapolated from the formulas of the company specialised in toner disposal. The weight of paper/cardboard was extrapolated from the communications of the company in charge of paper and cardboard disposal.

GRI Content Index

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

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

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

GRI-Standards		Section	Note[13]
GRI 102: GENERAL STANDARD DISCLOSURES			
Organizational profile			
102-1	Name of the organization	5	
102-2	Activities, brands, products, and services	5; 10-11	
102-3	Location of headquarters	5	
102-4	Countries of operation	5; 10-11	
102-5	Nature of ownership and legal form	29-32; 32-33	
102-6	Markets served	10-11	
102-7	Scale of the organization	12-18; 67-68	
102-8	Information on employees and other workers	68	
102-9	Supply chain	63-65	
102-10	Significant changes to the Organization and its supply chain	59	
102-11	Precautionary principle or approach	43-45	
102-12	External initiatives	60	
102-13	Membership of associations	60	
Strategy			
102-14	Statement of the Chairman/Chief Executive Officer	3-4	
102-15	Key impacts, risks and opportunities	43-45	
Ethics and integrity			
102-16	Values, principles, standards and norms of behavior	46-50	
Governance			
102-18	Governance structure	34; 37-38	
Stakeholder Engagement			
102-40	List of stakeholder groups	59-60	
102-41	Collective bargaining agreements	71	
102-42	Identifying and selecting stakeholders	59-60	
102-43	Approach to stakeholder engagement	59-60	
102-44	Key topics and concerns raised	60-61	
Reporting process			
102-45	Entities included in the consolidated financial statements	59	
102-46	Defining report content and topic Boundaries	58-59; 60-61	
102-47	List of material topics	60-61	
102-48	Restatements of information	80	This document is the Group’s first Non-Financial Report and is to be published annually.

[13] The “Notes” column presents information on the coverage of the indicators and any limitations to the reporting boundary.

102-49	Changes in reporting	81	This document is the Group’s first Non-Financial Report and is to be published annually.
102-50	Reporting period	58	
102-51	Date of most recent report	81	This document is the Group’s first Non-Financial Report and is to be published annually.
102-52	Reporting cycle	59	
102-53	Contact point for questions regarding the report	59	
102-54	GRI Guidelines compliance option	58	
102-55	GRI Content Index	79-85	
102-56	External assurance	Auditors’ Report (not included in English version))	
SPECIFIC STANDARD DISCLOSURES			
ECONOMIC CATEGORY			
Indirect economic impacts			
GRI 103: Managerial approach			
103-1	Explanation of the material topic and its Boundary	60-61; 79	
103-2	The management approach and its components	61	
103-3	Evaluation of the management approach	61	
GRI 203: Indirect economic impacts			
203-2	Significant indirect economic impacts	61-63	
Anti-corruption			
GRI 103: Managerial approach			
103-1	Explanation of the material topic and its Boundary	60-61; 79	
103-2	The management approach and its components	48	
103-3	Evaluation of the management approach	48	
GRI 205: Anti-corruption			
205-2	Communication and training about anti-corruption policies and procedures	49-50	
Anti-competitive conduct			
GRI 103: Managerial approach			
103-1	Explanation of the material topic and its Boundary	60-61; 79	
103-2	The management approach and its components	46; 63	
103-3	Evaluation of the management approach	46; 63	
GRI 206: Anti-competitive conduct			
206-1	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	81	In 2017, no legal actions for anti-competitive behavior, anti-trust, and monopoly practices were reported.
ENVIRONMENTAL CATEGORY			
Energy			
GRI 103: Managerial approach			
103-1	Explanation of the material topic and its Boundary	60-61; 79	

103-2	The management approach and its components	76-77	
103-3	Evaluation of the management approach	76-77	
GRI 302: Energy			
302-1	Energy consumption within the organization	76-77	The energy consumption does not include the overseas offices of the Group as not considered significant.
Emissions			
GRI 103: Managerial approach			
103-1	Explanation of the material topic and its Boundary	60-61; 79	
103-2	The management approach and its components	76-77	
103-3	Evaluation of the management approach	76-77	
GRI 305: Emissions			
305-1	Direct (Scope 1) GHG emissions	77-78; 82	The direct GHG emissions (Scope 1) do not include the overseas offices of the Group as not considered significant.
305-2	Energy indirect (Scope 2) GHG emissions	77-78; 82	The indirect GHG emissions (Scope 2) do not include the overseas offices of the Group as not considered significant.
Effluents and waste			
GRI 103: Managerial approach			
103-1	Explanation of the material topic and its Boundary	60-61; 79	
103-2	The management approach and its components	78	
103-3	Evaluation of the management approach	78	
GRI 306: Effluents and waste			
306-2	Waste by type and disposal method	78; 82	The waste products do not include the overseas offices of the Group as not considered significant.
Environmental Compliance			
GRI 103: Managerial approach			
103-1	Explanation of the material topic and its Boundary	60-61; 79	
103-2	The management approach and its components	76	
103-3	Evaluation of the management approach	76	
GRI 307: Environmental Compliance			
307-1	Non-compliance with environmental laws and regulations	82	In 2017, no significant incidents of non-compliance with environmental laws and regulations were reported.

SOCIAL CATEGORY			
Employment			
GRI 103: Managerial approach			
103-1	Explanation of the material topic and its Boundary	60-61; 79	
103-2	The management approach and its components	67; 71	
103-3	Evaluation of the management approach	67; 71	
GRI 401: Employment			
401-1	New employee hires and employee turnover	68	
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	71-72	
Workplace health and safety			
GRI 103: Managerial approach			
103-1	Explanation of the material topic and its Boundary	60-61; 79	
103-2	The management approach and its components	72-74	
103-3	Evaluation of the management approach	72-74	
GRI 403: Workplace health and safety			
403-2	Types of injury, injury rate, occupational illnesses, lost days, absentee rate, and work-related fatalities.	74-75; 83	The absentee rate is not currently available for overseas personnel.
Training and education			
GRI 103: Managerial approach			
103-1	Explanation of the material topic and its Boundary	60-61; 79	
103-2	The management approach and its components	70	
103-3	Evaluation of the management approach	70	
GRI 404: Training and education			
404-1	Average hours of training per year per employee	70-71	
404-2	Programs for upgrading employee skills and transition assistance programs	70-71	
Diversity and equal opportunities			
GRI 103: Managerial approach			
103-1	Explanation of the material topic and its Boundary	60-61; 79	
103-2	The management approach and its components	35; 69	
103-3	Evaluation of the management approach	35; 69	
GRI 405: Diversity and equal opportunities			
405-1	Diversity of governance bodies and employees	35; 69	
Non-discrimination			
GRI 103: Managerial approach			
103-1	Explanation of the material topic and its Boundary	60-61; 79	
103-2	The management approach and its	69	

	components		
103-3	Evaluation of the management approach	69	
GRI 406: Non-discrimination			
406-1	Incidents of discrimination and corrective actions taken	84	No cases of discrimination were reported in 2017 at the Group.
Assessment on the protection of human rights			
GRI 103: Managerial approach			
103-1	Explanation of the material topic and its Boundary	60-61; 79	
103-2	The management approach and its components	46; 63	
103-3	Evaluation of the management approach	46; 63	
GRI 412: Assessment on the protection of human rights			
412-2	Employee training on human rights policies or procedures	46	
412-3	Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	64-65	
Assessment of suppliers according to social criteria			
GRI 103: Managerial approach			
103-1	Explanation of the material topic and its Boundary	60-61; 79	
103-2	The management approach and its components	63	
103-3	Evaluation of the management approach	63	
GRI 414: Assessment of suppliers according to social criteria			
414-1	New suppliers that were screened using social criteria	64-65	
Marketing and labelling			
GRI 103: Managerial approach			
103-1	Explanation of the material topic and its Boundary	60-61; 79	
103-2	The management approach and its components	67	
103-3	Evaluation of the management approach	67	
GRI 417: Marketing and labelling			
417-1	Requirements for product and service information and labeling	67	
Customer privacy			
GRI 103: Managerial approach			
103-1	Explanation of the material topic and its Boundary	60-61; 79	
103-2	The management approach and its components	65	
103-3	Evaluation of the management approach	65	
GRI 418: Customer privacy			
418-1	418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data	84	In 2017, no complaints against privacy violation were received.
Socio-economic compliance			
GRI 103: Managerial approach			
103-1	Explanation of the material topic	60-61; 79	

	and its Boundary		
103-2	The management approach and its components	46	
103-3	Evaluation of the management approach	46	
GRI 419: Socio-economic compliance			
419-1	Non-compliance with laws and regulations in the social and economic area	85	In 2017, no significant incidents of non-compliance with social and economic laws and regulations were reported.

CONSOLIDATED FINANCIAL STATEMENTS
AND EXPLANATORY NOTES OF THE BASICNET GROUP
AT DECEMBER 31, 2017

CONSOLIDATED FINANCIAL STATEMENTS AND EXPLANATORY NOTES

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

BASICNET GROUP CONSOLIDATED INCOME STATEMENT

(Euro thousands)

	Note	FY 2017	%	FY 2016	%	Changes	%
Consolidated direct sales	*(8)*	135,583	*100.00*	135,183	*100.00*	400	*0.30*
Cost of sales	*(9)*	(81,065)	*(59.79)*	(80,923)	*(59.86)*	(142)	*(0.18)*
GROSS MARGIN		**54,518**	***40.21***	**54,260**	***40.14***	**258**	***0.48***
Royalties and sourcing commissions	*(10)*	47,924	*35.35*	46,424	*34.34*	1,500	*3.23*
Other income	*(11)*	3,639	*2.68*	2,226	*1.65*	1,413	*63.48*
Sponsorship and media costs	*(12)*	(24,627)	*(18.16)*	(24,285)	*(17.96)*	(342)	*(1.40)*
Personnel costs	*(13)*	(21,083)	*(15.55)*	(19,681)	*(14.56)*	(1,402)	*(7.12)*
Selling, general and administrative costs, royalties expenses	*(14)*	(37,310)	*(27.52)*	(37,442)	*(27.70)*	132	*0.35*
Amortization & Depreciation	*(15)*	(6,419)	*(4.73)*	(6,261)	*(4.63)*	(158)	*(2.53)*
EBIT		**16,642**	***12.27***	**15,241**	***11.27***	**1,401**	***9.19***
Net financial income (charges)	*(16)*	(1,553)	*(1.15)*	(353)	*(0.26)*	(1,200)	*(339.94)*
Share of profit/(loss) of investments valued at equity	*(17)*	(26)	*(0.02)*	52	*0.04*	(78)	*(149.11)*
PROFIT BEFORE TAXES		**15,063**	***11.11***	**14,940**	***11.05***	**123**	***0.83***
Income taxes	*(18)*	(4,417)	*(3.26)*	(4,635)	*(3.43)*	218	*4.71*
NET PROFIT FOR THE YEAR		**10,646**	***7.85***	**10,305**	***7.62***	**341**	***3.31***
Of which:							
- **Shareholders of BasicNet S.p.A.**		**10,646**	***7.85***	**10,305**	***7.62***	**341**	***3.31***
- **Minority interests**		**-**	**-**	**-**	**-**	**-**	**-**
Earnings per share	*(19)*						
- **basic**		**0.1925**		**0.1839**		**0.009**	***4.65***
- **diluted**		**0.1925**		**0.1839**		**0.009**	***4.65***

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT

(Euro thousands)

	Note	FY 2017	FY 2016
Profit for the year (A)		**10,646**	**10,305**
Effective portion of the Gains/(losses) on cash flow hedges		(2,154)	687
Re-measurement of post-employment benefits (IAS 19) (*)		(16)	9
Gains/(losses) from translation of accounts of foreign subsidiaries		(934)	227
Tax effect on other profits/(losses)		518	(167)
Total other gains/(losses), net of tax effect (B)	*(31)*	**(2,586)**	**756**
Total Comprehensive Profit (A)+(B)		**8,060**	**11,061**
Total Comprehensive Profit attributable to:			
– Shareholders of BasicNet S.p.A.		8,060	11,061
- Minority interests		-	-

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

BASICNET GROUP CONSOLIDATED BALANCE SHEET

(Euro thousands)

ASSETS	*Note*	December 31, 2017	December 31, 2016
Intangible assets	*(20)*	53,762	41,728
Goodwill	*(21)*	9,527	10,052
Property, plant and equipment	*(22)*	29,893	30,497
Equity invest. & other financial assets	*(23)*	661	264
Interests in joint ventures	*(24)*	266	257
Total non-current assets		**94,109**	**82,798**
Net inventories	*(25)*	46,517	47,208
Trade receivables	*(26)*	58,578	58,066
Other current assets	*(27)*	6,636	10,223
Prepayments	*(28)*	7,876	7,579
Cash and cash equivalents	*(29)*	5,819	5,707
Derivative financial instruments	*(30)*	1	1,609
Total current assets		**125,427**	**130,392**
TOTAL ASSETS		**219,536**	**213,190**

LIABILITIES	*Note*	December 31, 2017	December 31, 2016
Share capital		31,717	31,717
Reserve for treasury shares in portfolio		(14,495)	(11,890)
Other reserves		69,143	64,748
Net Profit		10,646	10,305
Minority interests		-	-
TOTAL SHAREHOLDERS' EQUITY	*(31)*	**97,011**	**94,880**
Provisions for risks and charges	*(32)*	42	42
Loans	*(33)*	28,430	21,514
Employee and Director benefits	*(35)*	3,534	2,863
Deferred tax liabilities	*(36)*	311	1,084
Other non-current liabilities	*(37)*	1,033	927
Total non-current liabilities		**33,350**	**26,430**
Bank payables	*(34)*	38,869	33,652
Trade payables	*(38)*	33,869	31,699
Tax payables	*(39)*	3,231	15,749
Other current liabilities	*(40)*	7,951	7,559
Accrued expenses	*(41)*	3,656	2,169
Derivative financial instruments	*(42)*	1,599	1,052
Total current liabilities		**89,175**	**91,880**
TOTAL LIABILITIES		**122,525**	**118,310**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**219,536**	**213,190**

CONSOLIDATED CASH FLOW STATEMENT OF THE BASICNET GROUP

(Euro thousands)

	December 31, 2017	December 31, 2016
A) OPENING SHORT-TERM BANK DEBT	**(21,338)**	**(16,761)**
B) CASH FLOW FROM OPERATING ACTIVITIES		
Net profit for the year	10,646	10,305
Amortization & Depreciation	6,419	6,261
Result of companies valued under the equity method	26	(52)
Changes in working capital:		
. (Increase) decrease in receivables	(512)	(11,365)
. (Increase) decrease in inventories	691	1,817
. (Increase) decrease in other receivables	3,291	832
. Increase (decrease) in trade payables	2,170	6,548
. Increase (decrease) in other payables	(11,306)	(2,041)
Net change in post-employment benefits	672	(164)
Others, net	(432)	286
	11,665	**12,427**
C) CASH FLOW FROM INVESTING ACTIVITIES		
Investments in fixed assets:		
- tangible assets	(2,548)	(4,794)
- intangible assets	(15,601)	(3,292)
- financial assets	(432)	-
Realizable value for fixed asset disposals:		
- tangible assets	89	74
- intangible assets	735	-
- financial assets	-	178
	(17,757)	**(7,834)**
D) CASH FLOW FROM FINANCING ACTIVITIES		
Lease contracts (repayments)	(609)	54
New medium/long term loans	15,000	7,500
Loan repayments	(6,978)	(8,035)
Acquisition of treasury shares	(2,605)	(3,067)
Dividend payments	(3,324)	(5,622)
	1,484	**(9,170)**
E) CASH FLOW IN THE YEAR	**(4,608)**	**(4,577)**
F) CLOSING SHORT-TERM BANK DEBT	**(25,946)**	**(21,338)**

Interest paid for the year amounts to respectively Euro 917 thousand in 2017 and Euro 517 thousand in 2016, while income taxes paid in the year amount respectively to Euro 2 million in 2017 and Euro 6.4 million in 2016.

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY

(Euro thousands)

	Share Capital	Treas. shares	Retained earnings	Translation reserve	Remeas. Reserve IAS 19	Cash flow hedge reserve	Net Result	Total Group Net Equity
Balance at December 31, 2015	**31,717**	**(8,823)**	**51,459**	**1,693**	**(202)**	**(93)**	**16,760**	**92,511**
Allocation of result as per Shareholders' AGM resolution of April 28, 2016								
- Retained earnings		-	11,135	-	-	-	(11,135)	-
- Dividends distributed		-	-	-	-	-	(5,625)	**(5,625)**
Acquisition of treasury shares		(3,067)	-	-	-	-	-	**(3,067)**
2016 Result		-	-	-	-	-	10,305	**10,305**
Other comprehensive income items:								
- Gains/(losses) recorded directly to translation reserve		-	-	227	-	-	-	**227**
- Gains/(losses) recorded directly to equity for IAS 19 re-measurement		-	-	-	6	-	-	**6**
- Gains/(losses) recorded directly to cash flow hedge reserve		-	-	-	-	523	-	**523**
Total comprehensive income		*-*	*-*	*227*	*6*	*523*	*10,305*	*11,061*
Balance at December 31, 2016	**31,717**	**(11,890)**	**62,594**	**1,920**	**(196)**	**430**	**10,305**	**94,880**
Allocation of result as per Shareholders' AGM resolution of April 27, 2017								
- Retained earnings		-	6,981	-	-	-	(6,981)	-
- Dividends distributed		-	-	-	-	-	(3,324)	**(3,324)**
Acquisition of treasury shares		(2,605)	-	-	-	-	-	**(2,605)**
2017 Result		-	-	-	-	-	10,646	**10,646**
Other comprehensive income items:								
- Gains/(losses) recorded directly to translation reserve		-	-	(934)	-	-	-	**(934)**
- Gains/(losses) recorded directly to equity for IAS 19 re-measurement		-	-	-	(12)	-	-	**(12)**
- Gains/(losses) recorded directly to cash flow hedge reserve		-	-	-	-	(1,640)	-	**(1,640)**
Total comprehensive income		*-*	*-*	*(934)*	*(12)*	*(1,640)*	*10,646*	*8,060*
Balance at December 31, 2017	**31,717**	**(14,495)**	**69,575**	**986**	**(208)**	**(1,210)**	**10,646**	**97,011**

CONSOLIDATED NET FINANCIAL POSITION

(Euro thousands)

	December 31, 2017	December 31, 2016
Cash and cash equivalents	5,819	5,707
Bank overdrafts and bills	(11,516)	(8,014)
Import advances	(20,249)	(19,031)
Sub-total net liquidity available	*(25,946)*	*(21,338)*
Short-term portion of medium/long-term loans	(7,104)	(6,607)
Short-term net financial position	**(33,050)**	**(27,945)**
Intesa loan	(1,875)	(5,625)
Basic Village property loan	(4,500)	(5,700)
BasicItalia property loan	(1,932)	(2,339)
BNL loan	(5,000)	(6,250)
Banco BPM loan	(1,132)	-
MPS Loan	(13,000)	-
Leasing payables	(991)	(1,600)
Sub-total loans and leasing	*(28,430)*	*(21,514)*
Consolidated Net Financial Position	**(61,480)**	**(49,459)**

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

		December 31, 2017	December 31, 2016
A.	Cash	107	116
B.	Other cash equivalents	5,712	5,591
C.	Securities held for trading	-	-
D.	**Cash & cash equivalents (A)+(B)+(C)**	**5,819**	**5,707**
E.	**Current financial receivables**	-	-
F.	Current bank payables	(31,765)	(27,046)
G.	Current portion of non-current debt	(7,104)	(6,607)
H.	Other current financial payables	-	-
I.	**Current financial debt (F)+(G)+(H)**	**(38,869)**	**(33,653)**
J.	**Net current financial debt (I)-(E)-(D)**	**(33,050)**	**(27,946)**
K.	Non-current bank payables	(28,430)	(21,514)
L.	Bonds issued	-	-
M.	Fair value of hedges (cash flow hedges)	(1,598)	556
N.	**Non-current financial debt (K)+(L)+(M)**	**(30,028)**	**(20,958)**
O.	**Net financial debt (J)+(N)**	**(63,078)**	**(48,904)**

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

CHANGES IN NET CASH POSITION

(Euro thousands)

	December 31, 2017	December 31, 2016
A) OPENING NET FINANCIAL POSITION	**(49,459)**	**(45,362)**
B) CASH FLOW FROM OPERATING ACTIVITIES		
Net profit	10,646	10,305
Amortization & Depreciation	6,419	6,261
Changes in working capital:	(5,667)	(4,209)
Net change in post-employment benefits	672	(164)
Others, net	(405)	231
	11,665	**12,427**
C) CASH FLOW FROM INVESTING ACTIVITIES		
Fixed asset investments	(18,581)	(8,086)
Realizable value for fixed asset disposals	824	252
	(17,757)	**(7,834)**
D) CASH FLOW FROM FINANCING ACTIVITIES		
Acquisition of treasury shares	(2,605)	(3,067)
Dividend payments	(3,324)	(5,622)
	(5,929)	**(8,689)**
E) CASH FLOW IN THE YEAR	**(12,021)**	**(4,097)**
F) CLOSING SHORT-TERM BANK DEBT	**(61,480)**	**(49,459)**

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, these latter two acquired in 2017. 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, 2017 was approved by the Board of Directors on March 19, 2018.

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, 2017 of BasicNet S.p.A. and all the Italian and foreign companies in which the Parent Company holds control - directly or indirectly. For the financial statements of the US, Asian and Dutch subsidiaries, which utilize 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 utilized for the preparation of the Consolidated Financial Statements at December 31, 2017 are the same as those utilized for the previous year.

Accounting standards, amendments and interpretations applied from January 1, 2017

The Group adopted for the first time some amendments to accounting standards which are in force for the periods which begin from January 1, 2017 and thereafter. The Group has not adopted in advance any standard, interpretation or amendment published but not yet in effect.

As per IAS 8 - *Accounting Standards, Changes in Accounting Estimates and Errors*, the nature and impact of each amendment is briefly indicated and illustrated below:

Amendment to IAS 7 - Statement of Cash Flows: Disclosure initiatives: The amendments require an entity to provide additional disclosure on changes in liabilities related to financing activities, including whether these changes relate to cash flows or non-monetary changes (such as, for example purposes, currency gains and losses). The Group provided disclosure for the current year and for the comparative year.

Amendments to IFRS 12 - Disclosure of interest in other entities, Improvements to IFRS (cycle 2014-2016): The amendments clarify that the disclosure requirements of IFRS 12, differing than those as per paragraphs B10-B16, apply to investments of an entity in a subsidiary, joint venture or associate (or share of an investment in a joint venture or associate) which is classified (or included in a disposal group classified as such) as available for sale.

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

Amendments to IAS 12 – Income taxes Recognition of deferred tax assets for unrealized losses: The amendments clarify that an entity must consider if the fiscal regulations limit the sources of assessable income against which they could make deductions related to the reversal of the deductible temporary differences. In addition, the amendment provides guidelines on how an entity should determine the future assessable income and explains the circumstances in which the assessable income could include the recovery of some assets for a value higher than their carrying value.

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

New Standards and Interpretations not yet in force

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

IFRS 9 - *Financial Instruments*
In July 2014, the IASB published the final version of IFRS 9 Financial Instruments which replaces IAS 39 *Financial Instruments*: *Recognition and measurement* and all the previous versions of IFRS 9. IFRS 9 combines all three aspects relating to the accounting of financial instruments: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for periods beginning January 1, 2018 and thereafter; advance application is permitted. With the exception of the hedge accounting, retrospective application is required of the standard, but it is not obligatory to disclose comparative information. In relation to the hedge accounting, the standard is generally applied in a prospective manner, with some limited exceptions.

The Group will adopt the new standard from the date it enters into force and shall not restate the comparative figures. In 2017, the Group carried out a detailed analysis on all aspects covered by IFRS 9. This analysis was based on currently available information and may be subject to changes on the basis of additional information which may become available to the Group in 2018, when the Group will adopt IFRS 9.

a) *Classification and measurement*
The Group does not expect significant impacts on its financial statement and net equity from application of the classification and measurement requirements of IFRS 9. Trade receivables are held until their collection at the contractual maturities of the cash flows relating to the collection of the principal and interest. The Group analyzed the contractual cash flows of these instruments and concluded that they comply with the amortized cost measurement criteria in accordance with IFRS 9. Therefore, a reclassification of these instruments will not be necessary.

b) *Impairment losses*
IFRS 9 requires that the Group recognizes the expected losses on receivables on all obligations in portfolio, loans and trade receivables, with reference either to a period of 12 months or the entire contractual duration of the instrument ("lifetime expected loss"). The Group will apply the simplified approach and therefore will recognize the expected losses on all trade receivables based on their residual contractual duration.

c) *Hedge accounting*
The Group established that all existing hedges which are presently designated as effective hedges shall continue to qualify for hedge accounting in accordance with IFRS 9. Given that IFRS 9 does not amend the general principle on which an entity recognizes effective hedges, the application of these requirements by IFRS 9 for the purposes of the definition of the hedges will not have significant impacts on the financial statements of the Group.

The Group does not expect significant impacts on its financial statement and net equity.

IFRS 15 - *Revenues from contracts with customers:*
IFRS 15 was issued in May 2014, amended in April 2016, and introduces a new model in five steps which will be applied to revenues from contracts with customers. IFRS 15 provides for the recognition of revenues for an amount which reflects the payment which the entity considers to have the right to in exchange for the transfer of goods or services to the customer.

The new standard will replace all the current requirements of IFRS in terms of revenue recognition. The standard is effective for periods beginning January 1, 2018 and thereafter, with full retrospective or amended application. Earlier application is permitted.

The Group expects to apply the new standard from the date of obligatory application, utilizing the amended application method.

In 2016, the Group carried out a preliminary analysis on the effects of IFRS 15, which was completed with a detailed analysis in 2017. The Group will recognize revenues deriving from royalties and sourcing commissions based on the period of the agreement until the reaching of the minimum guaranteed threshold: therefore, an impact is not expected, with the adoption of IFRS 15, on the revenues and on the income statement of the Group.

In relation to direct sales revenue by own commercial licensees and by its subsidiary, the Group does not expect an impact on the income statement.

IFRS 16 - Leasing
IFRS 16 was published in January 2016 and replaces IAS 17 *Leasing*, IFRIC 4 *Determining whether an arrangement contains a lease,* SIC 15 *Operating leases - Incentives* and SIC 27 *Evaluating the substance of transactions in the legal form of a lease*. IFRS 16 defines the principles for the recognition, measurement, presentation and disclosure of leasing and requires lessees to recognize all leasing contracts in the financial statements on the basis of a single model similar to that utilized for recognizing finance leases in accordance with IAS 17. The standard provides for two exemptions for the recognition by lessees - leasing contracts with low value and short-term lease contracts (for example contracts with expiry within 12 months or less). At the initial date of the lease contract, the lessee records a liability against the lease payments and an asset which represents the right to the use of the underlying asset for the duration of the contract. The lessees must separately record the expenses for interest on the leasing liabilities and the amortization of the right to use an asset.

The accounting required by IFRS 16 for lessees is substantially unchanged compared to the current accounting under IAS 17. The lessees will continue to classify all leases utilizing the same classification principle as per IAS 17 and distinguishing between two types of leases: operating leases and finance leases.

IFRS 16 requires from lessors and lessees greater disclosure compared to IAS 17.

IFRS 16 will enter into force for the periods beginning January 1, 2019 and thereafter. Advance application is permitted, but not before the entity has adopted IFRS 15. A lessee may choose to apply the standard utilizing a fully retrospective approach or a modified retrospective approach. The transitory provisions within the standard permit some options.

In 2018, the Group will continue to establish the potential effects and implementation of IFRS 16 on its consolidated financial statements.

Amendments to IFRS 2 -*Classification and measurement of share-based payments*
The IASB issued amendments to IFRS 2 Share-based payments which concern three principal areas: the effects of a vesting condition on the measurement of a cash-settled share-based payment; the classification of an equity-settled share-based payment settled net of withholding tax obligations; the accounting where a change in the terms and conditions of an equity-settled share-based payment changes its classification from cash-settled to equity-settled.

These amendments are effective for the periods beginning January 1, 2018 and thereafter; advance application is permitted. The Group does not expect effects on its consolidated financial statements.

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

The Group will apply these amendments when they enter into force.

IFRS 17 - *Insurance contracts*
In May 2017, the IASB issued IFRS 17 - *Insurance Contracts*, a complete new standard relating to insurance contracts which covers recognition and measurement, presentation and disclosure. IFRS 17 will replace IFRS 4 - *Insurance Contracts* which was issued in 2005. IFRS 17 will enter into force for periods beginning January 1, 2021 and thereafter and will require the presentation of comparative balances.

This standard is not applicable to the Group.

Amendments to IAS 40 - *Investment property*
The amendments clarify when an entity should transfer a building, including buildings under construction or development within or outside the Property investments account. These amendments are effective for the periods beginning January 1, 2018 and thereafter. Advance application is permitted and should be disclosed.

The Group does not expect effect on its consolidated financial statements.

Improvements to IFRS (2014-2016 cycle)
These improvements include amendments to IFRS 1 - *First-time adoption* of IFRS and IAS 28 - *Investments in associates and joint ventures*: the Group does not expect any effect on its consolidated financial statements.

IFRIC 22 - *Foreign currency transactions and advance consideration*
The interpretation clarifies that, in setting the spot exchange rate to be utilized for the initial recognition of the relative assets, costs or revenues on cancellation of a non-cash asset or non-cash liability relating to advances on consideration, the transaction date is the date on which the entity initially recognizes the non-cash asset or non-cash liability relating to the advances on consideration. The Interpretation is effective for periods beginning January 1, 2018 and thereafter. Advance application is permitted and should be disclosed.

The Group does not expect effects on its consolidated financial statements.

IFRIC 23 - *Uncertainty on tax treatment*
The interpretation sets out the accounting approach to income taxes where the tax treatment implies uncertainties impacting application of IAS 12 and does not apply to income or other taxes not falling within the scope of IAS 12. An entity should define whether it considers each uncertain tax treatment separately or together with other (one or more) uncertain tax treatments. The Interpretation is effective for periods beginning January 1, 2019 or thereafter, although transitory arrangements are available.

The Group will apply the interpretation from its entry into force. The Group does not expect significant effects on its consolidated financial statements.

3. FORMAT OF THE FINANCIAL STATEMENTS

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

With reference to Consob Motion No. 15519 of July 27, 2006, transactions with related parties are described in Note 45 of the consolidated financial statements.

4. CONSOLIDATION PRINCIPLES

The consolidated financial statements were prepared including the financial statements at December 31, 2017 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 2017		FY 2016	
	Average	At year end	Average	At year end
US Dollar	1.1349	1.1993	1.1026	1.0541
HK Dollar	8.8446	9.3720	8.5582	8.1751
Japanese Yen	127.0638	135.0100	120.1608	123.4000
UK Sterling	0.8753	0.8872	0.8205	0.8562

The criteria adopted for the consolidation were as follows:

a) the assets and liabilities, as well as the income and charges of the financial statements consolidated under the line-by-line method are included in the financial statements of the Group, without consideration of the holding in the subsidiary. The carrying value of the investments are eliminated against the relative net equity of the subsidiaries. As all companies included in the consolidation scope are wholly-owned, minority interest equity was not allocated or minority interest share of profit/(loss);

b) the positive differences resulting from the elimination of the investments against the book net equity at the acquisition date is allocated to the higher values attributed to the assets and liabilities acquired, and the residual part to goodwill. On the first-time adoption of IFRS, the Group has chosen not to apply *IFRS 3 - Business combinations* in retrospective manner for the acquisitions made prior to January 1, 2004;

c) the payables/receivables, costs/revenues between consolidated companies and the gains/losses resulting from inter-company operations are eliminated, as are the effects of mergers and the sale of business units between companies in the consolidation scope.

As illustrated in Attachment 2, at December 31, 2017 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 utilize 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 recognized at cost and subsequently the carrying amount is increased or decreased to recognize the associated company's share of the profit or loss after the date of acquisition. The share of profits (losses) of the investment is recognized 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 recognized, 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 recognizing its share of those profits only after its share of the profits equals the share of losses not recognized.

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, 2017, in line with those utilized 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 recognized net of sales tax, returns and discounts.

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

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

Recognition of costs and expenses

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

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

Cost relating to the preparation and presentation of sample collections are recognized in the income statement in the year in which the sales of the relative collections are realized. 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 recognized 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 capitalized 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.

<u>Income taxes</u>

Current income taxes include all the taxes calculated on the assessable income of the Group. Income taxes are recognized in profit and loss, except where they relate to items charged or credited directly to equity, in which case the tax effect is also recognized 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 recognized 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 realized 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., BasicTrademark 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. At the date of this report the ruling was obtained only by SupergaTrademark S.A., while we are awaiting the ruling for the other companies.

<u>Earnings per share/ Diluted earnings per share</u>

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 2017, there were no diluting effects on the shares.

<u>Provisions and contingent liabilities</u>

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

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

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

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

Use of estimates

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

Estimates are utilized to measure intangible and tangible assets subject to impairment tests, in addition to recognize provisions on doubtful debts, inventory obsolescence, amortization 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 recognized 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 recognized at purchase and/or production cost, including the costs of bringing the asset to its current use net of accumulated amortization and any loss in value. Amortization begins when the asset is available for use and is recognized on a straight-line basis over the residual estimated useful life of the asset.

Software development

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

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 amortized 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 amortized over a period of 20 years.

The patent rights are amortized over ten years.

Goodwill

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

Goodwill is not amortized, 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 recognized to the consolidated financial statements as an intangible asset 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 amortized 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 capitalized where they increase the future economic benefits of the asset to which they relate. All other expenditures are expensed as incurred.

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

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

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

Ordinary maintenance costs are fully charged to the income statement.

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

The historic value of land is not depreciated.

Leased assets

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

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

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

Impairments

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

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

Measuring recoverable amount

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

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

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

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

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

For the years beyond the Plan a terminal value is estimated applying the perpetual yield model to the cash flows of the final year. The growth rate utilized in the calculation of the terminal value, in accordance with the provisions of paragraph 36 of IAS 36, reflects 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 realizable value.

Net inventories

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

Trade receivables

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

Cash and cash equivalents

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

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

Accrued income and prepayments

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

Treasury shares

Treasury shares are recognized as a deduction from equity. The original cost of the treasury shares and the revenues deriving from any subsequent sale are recognized 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 amortized cost. The book value of the trade and other payables, recognized at nominal value which approximates the amortized cost, at the balance sheet date approximates their fair value.

Cash flow hedges and accounting of relative operations

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

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

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

The hedging may be of two types:

- Fair value hedges;
- Cash flow hedges.

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

After their initial recognition, they are accounted as follows:

a) Fair value hedges

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

b) Cash flow hedges

The part of the profit or loss of the hedge instrument, considered effective, is recorded directly in the comprehensive income statement; the non-effective part is however recorded immediately in the income statement.
The accumulated amounts in the comprehensive income statement are recorded in the income statement in the year in which the scheduled hedge operation matures or the instrument hedged is sold, or when the effectiveness requirements for hedge accounting no longer exist.

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

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

Hierarchy of Fair Value according to IFRS 7

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

The IFRS 7 classification implies the following hierarchy:

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

6. OTHER INFORMATION

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

EXPLANATORY NOTES TO THE INCOME STATEMENT

(IN EURO THOUSANDS UNLESS OTHERWISE STATED)

7. DISCLOSURE BY OPERATING SEGMENT

The BasicNet Group identifies three operating segments:

- "Licenses and Brands", which involves the management of overseas licensees and "sourcing centers" by the following Group companies: BasicNet S.p.A., Basic Properties B.V., Basic Properties America, Inc., BasicNet Asia Ltd., Basic Trademark S.A., Superga Trademark S.A., Jesus Jeans S.r.l., Fashion S.r.l. and from July 2017 also TOS S.r.l.

- "Proprietary licensees", which involves the direct management of the sales channels, both in terms of sales to retail and consumers, through BasicItalia S.p.A. (proprietary licensee) and its subsidiary BasicRetail S.r.l;

- "Property", which involves the management of the building at Turin – Largo Maurizio Vitale 1, known as "Basic Village" and the adjacent building acquired at the end of 2016.

December 31, 2017	**Licenses and brands**	**Proprietary licensees**	**Property**	**Inter-segment eliminations**	**Consolidated**
Direct sales – third parties	1,056	134,524	3	-	135,583
Direct sales – inter-segment	*2,093*	*268*	*2*	*(2,363)*	-
(Cost of sales)	(2,863)	(80,303)	(2)	2,103	(81,065)
GROSS MARGIN	**286**	**54,489**	**3**	**(260)**	**54,518**
Royalties and sourcing commissions – third parties	47,924	-	-		47,924
Royalties and sourcing commissions – inter-segment	*11,790*	-	-	*(11,790)*	-
Other income - third parties	736	2,106	797	-	3,639
Other income – inter-segment	*317*	*12,343*	*2,669*	*(15,329)*	-
(Sponsorship and media costs)	(18,465)	(18,565)	-	12,403	(24,627)
(Personnel costs)	(9,272)	(11,769)	(42)	-	(21,083)
(Selling, general and administrative costs, royalties expenses)	(15,021)	(35,623)	(1,641)	14,975	(37,310)
Amortization & Depreciation	(2,316)	(3,182)	(921)	-	(6,419)
EBIT	**15,979**	**(201)**	**865**	**(1)**	**16,642**
Financial income	923	1,754	-	-	2,677
(Financial charges)	(2,079)	(1,749)	(402)	-	(4,230)
(Investment impairments)	(3,000)	-	-	3,000	-
Share of profit/(loss) of investments	(26)	-	-	-	(26)
PROFIT BEFORE TAXES	**11,797**	**(196)**	**463**	**2,999**	**15,063**
Income taxes	(3,932)	(320)	(165)		(4,417)
NET PROFIT	**7,865**	**(516)**	**298**	**2,999**	**10,646**
Significant non-cash items:					
Amortization & Depreciation	(2,316)	(3,182)	(921)	-	(6,419)
Write-downs	(3,000)	-	-	-	(3,000)
Total non-cash items	**(5,316)**	**(3,182)**	**(921)**	**-**	**(9,419)**
Investments in non-current assets	**(16,167)**	**(1,788)**	**(195)**	**-**	**(18,150)**
Segment assets and liabilities:					
Assets	**196,701**	**107,216**	**17,243**	**(101,624)**	**219,536**
Liabilities	**88,546**	**96,374**	**11,842**	**(74,237)**	**122,525**

December 31, 2016	Licenses and brands	Proprietary licensees	Property	Inter-segment eliminations	Consolidated
Direct sales – third parties	697	134,484	2	-	135,183
Direct sales – inter-segment	*2,004*	*280*	*1*	*(2,285)*	-
(Cost of sales)	(2,425)	(80,495)	(2)	1,999	(80,923)
GROSS MARGIN	**276**	**54,269**	**1**	**(286)**	**54,260**
Royalties and sourcing commissions – third parties	46,424	-	-	-	46,424
Royalties and sourcing commissions – inter-segment	*11,961*	-	-	*(11,961)*	-
Other income - third parties	658	880	686	-	2,226
Other income – inter-segment	*301*	*12,135*	*2,782*	*(15,218)*	-
(Sponsorship and media costs)	(17,883)	(18,577)	-	12,175	(24,285)
(Personnel costs)	(8,901)	(10,747)	(33)	-	(19,681)
(Selling, general and administrative costs, royalties expenses)	(15,567)	(35,408)	(1,756)	15,290	(37,442)
Amortization & Depreciation	(2,355)	(3,014)	(892)	-	(6,261)
EBIT	**14,915**	**(462)**	**788**	**-**	**15,241**
Financial income	969	1,761	-	(223)	2,509
(Financial charges)	(1,008)	(1,606)	(471)	223	(2,862)
(Investment impairments)	-	-	-	-	-
Share of profit/(loss) of investments	52	-	-	-	52
PROFIT BEFORE TAXES	**14,930**	**(307)**	**317**	**-**	**14,940**
Income taxes	(4,449)	(22)	(164)	-	(4,635)
NET PROFIT	**10,481**	**(329)**	**153**	**-**	**10,305**
Significant non-cash items:					
Amortization & Depreciation	(2,355)	(3,014)	(892)	-	(6,261)
Write-downs	-	-	-	-	-
Total non-cash items	**(2,355)**	**(3,014)**	**(892)**	**-**	**(6,261)**
Investments in non-current assets	**(2,433)**	**(5,629)**	**-**	**-**	**(8,062)**
Segment assets and liabilities:					
Assets	**188,913**	**111,944**	**18,094**	**(105,762)**	**213,190**
Liabilities	**80,675**	**98,671**	**13,238**	**(74,273)**	**118,310**

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

- the “Licenses and brands” segment reports royalties and sourcing commissions of Euro 59.7 million for 2017 compared to Euro 58.4 million in the previous year. The EBIT amounts to approx. Euro 16 million compared to approx. Euro 15 million in 2016. The segment net profit totaled Euro 7.8

million, compared to Euro 10.5 million in 2016. The decrease derives from the adjustment in the carrying amount of the investment in BasicItalia S.p.A. for Euro 3 million, following the impairment test, in addition to negative translation differences of amounts in USD.

- the "Proprietary Licensees" segment, comprising BasicItalia S.p.A. and its subsidiary BasicRetail S.r.l., reports revenues in line with the previous year. The contribution margin on sales was Euro 54.5 million compared to Euro 54.3 million in 2016. The revenue margin was 40.4% (40.2% in 2016), impacted by the movement of the US Dollar against the Euro in terms of the cost of sales. Personnel costs increased on the previous year due to the development of retail operations and the opening of a number of outlet center sales points. Communication investments were also significantly stepped up and related to advertising campaigns and sponsorship activities. The segment reports a loss of approx. Euro 515 thousand compared to a loss of Euro 329 thousand in the previous year;
- the "Property" segment reports a profit of Euro 300 thousand compared to Euro 153 thousand in 2016.

8. CONSOLIDATED DIRECT SALES

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

	FY 2017	FY 2016
Italy	127,534	126,301
EU countries other than Italy	4,996	5,943
Rest of the World	3,053	2,939
Total consolidated direct sales	**135,583**	**135,183**

Direct sales revenues relate to merchandise sold by BasicItalia S.p.A. and BasicRetail S.r.l., both through National and Regional Servicing Centers and directly to the public (Euro 134.8 million) and by BasicNet S.p.A. for sample merchandise sales (Euro 788 thousand). Sales on the home market accounted for 94.1%, while approx. 3.7% of sales were in other EU countries, with the remaining approx. 2.2% outside the EU. Sales outside of Italy are related to commercial activities in countries not yet subject to specific licensing contracts, by the licensee companies of the Group.

9. COST OF SALES

	FY 2017	FY 2016
Goods purchased – Overseas	59,946	57,677
Goods purchased – Italy	5,104	6,799
Samples purchased	2,169	1,798
Freight charges and accessory purchasing cost	7,476	7,105
Packaging	423	449
Changes in inventory of raw materials, ancillary, consumables and goods	643	1,817
Cost of outsourced logistics	3,992	4,138
Other	1,312	1,139
Total cost of sales	**81,065**	**80,923**

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

The cost of sales is substantially in line with the previous year.

10. ROYALTIES AND SOURCING COMMISSIONS

"Royalties and sourcing commissions" refer to royalty fees for the brand licenses in the countries where the licenses have been assigned or recognized to authorized sourcing centers for the production and sale of group brand products by commercial licensees.

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

The breakdown by region is reported below:

	FY 2017	FY 2016
Europe (EU and non-EU)	20,178	18,785
The Americas	5,500	5,149
Asia and Oceania	18,986	18,950
Middle East and Africa	3,260	3,540
Total	**47,924**	**46,424**

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

11. OTHER INCOME

	FY 2017	FY 2016
Rental income	609	422
Recovery of condominium expenses	133	206
Income from promo sales	23	170
Other income	2,874	1,428
Total other income	**3,639**	**2,226**

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

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

"Other income" includes prior year accruals' reversals, the recharge of expenses to third parties and other indemnities against counterfeiting and unauthorized usage protection actions, the Euro 195 thousand capital gain on the sale of the Lanzera brand as well as approx. Euro 650 thousand, recognized to BasicItalia by Wolverine World Wide, Inc., seller of the Sebago brand to the Group, as profit sharing of the sales managed directly by them until the end of 2017.

12. SPONSORSHIP AND MEDIA COSTS

	FY 2017	FY 2016
Sponsorship and marketing	22,066	21,082
Advertising	1,864	2,626
Promotional expenses	697	577
Total sponsorship and media costs	**24,627**	**24,285**

The account "sponsorship" refers to communication investments incurred directly to which the Group contributes, described in detail in the Directors' Report. The increase on 2016 is partly due to the significant contributions paid for communication and endorsement activities on overseas markets.

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

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

13. PERSONNEL COSTS

	FY 2017	FY 2016
Wages and salaries	15,354	14,394
Social security charges	4,715	4,370
Post-employment benefits	1,014	917
Total	**21,083**	**19,681**

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

The increases mainly refer to the logistical personnel of the subsidiary BasicItalia S.p.A., the retail sector and the integration of the business model of the Sebago brand.

14. SELLING, GENERAL AND ADMINISTRATIVE COSTS AND ROYALTIES EXPENSES

	FY 2017	FY 2016
Selling and royalty service expenses	9,581	9,090
Rental, accessory and utility expenses	10,434	9,931
Commercial expenses	4,979	4,714
Directors and Statutory Auditors emoluments	3,745	3,407
Doubtful debt provision	2,041	3,472
Other general expenses	6,530	6,828
Total selling, general and administrative costs, and royalties expenses	**37,310**	**37,442**

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

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

"Directors and Statutory Auditors emoluments", for offices held at the date of the present Report, approved by the Shareholders' AGM and the Board of Directors' meetings of April 28, 2016, are in line with the company remuneration policy, pursuant to Article 78 of Consob Regulation No. 11971/97 and subsequent amendments and integrations, and are reported in the Remuneration Report pursuant to Article 123-*ter* of the CFA, which is available on the company's website www.basicnet.com Shareholder' Meeting 2017 section, to which reference should be made.

The higher "doubtful debt provision" accrued in 2016 was related to specific credit positions, non-recurring and which did not arise in 2017, as the specific provision was not yet utilized.

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

15. AMORTISATION & DEPRECIATION

	FY 2017	FY 2016
Amortization	3,356	3,269
Depreciation	3,063	2,992
Total amortization & depreciation	**6,419**	**6,261**

Amortization on intangible assets includes Euro 485 thousand of key-money write-down relating to some sales points closed or for which the decision to close has been made, within a normal rotation of less profitable sales point in favor of the opening of new locations or more appropriate operational strategies.

16. NET FINANCIAL INCOME (CHARGES)

	FY 2017	FY 2016
Interest income	288	1
Bank interest charges	(379)	(523)
Interest on medium/long term loans	(723)	(774)
Property lease interest	(39)	(72)
Other	(111)	(219)
Total financial income and charges	***(964)***	***(1,586)***
Exchange gains	2,230	2,501
Exchange losses	(2,819)	(1,268)
Net exchange gains/(losses)	***(589)***	***1,233***
Total financial income/(charges)	**(1,553)**	**(353)**

Financial charges reduced following the general reduction in interest rates. Net currency losses amount to Euro 589 thousand, compared to net gains of Euro 1.2 million in the previous year, due to US Dollar movements. On the other hand, financial charges in service of the debt, amounting to Euro 954 thousand, reduced Euro 632 thousand on 2016, although new loans have been undertaken, as a result of more competitive funding costs.

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 year of the valuation at equity of the joint venture Fashion S.r.l..

18. INCOME TAXES

Income taxes comprise current taxes of Euro 5.2 million (of which Euro 0.9 million for IRAP), deferred tax income of Euro 254 thousand and Euro 0.6 million tax income related to the application of the "Patent Box", of which Euro 122 thousand relating to the definition of the ruling with the Tax Agency for Superga Trademark S.A., whose effects relate to the years 2015-2016. It should be noted that the benefit attributable to the application of the recent "Patent Box" regulation, with the exception of that illustrated for Superga Trademark S.A., was limited to the part not subject to the tax ruling by the Tax Agency and for which an application was presented within the terms established by the relative notices. The ruling relating to BasicNet S.p.A. and BasicTrademark S.A. is still under consideration by the Tax Agency.

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

	2017
Profit before taxes	15,063
Income tax rate	24%
Theoretical IRES	***(3,615)***
Effect of differences between Italian and foreign tax rates	84
Permanent tax differences effect	(264)
Prior year taxes	(172)
ACE contribution	85
Patent Box benefit	644
IRAP	(971)
Other changes	(208)
EFFECTIVE TAX CHARGE	**(4,417)**

19. EARNINGS PER SHARE

The basic earnings per share, for 2017, 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 2017**	**FY 2016**
Net profit attributable to owners of the Parent	10,645,656	10,304,820
Weighted average number of ordinary shares	55,308,514	56,029,468
Basic earnings per ordinary share	0.1925	0.1839

At December 31, 2017, 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 2016 and 2017 relates to the number of treasury shares acquired in the year.

EXPLANATORY NOTES TO THE BALANCE SHEET

(IN EURO THOUSANDS UNLESS OTHERWISE STATED)

ASSETS

20. INTANGIBLE ASSETS

	Dec. 31, 2017	Dec. 31, 2016	Changes
Concessions, brands and similar rights	47,101	34,439	12,662
Software development	4,083	4,570	(487)
Other intangible assets	2,511	2,678	(167)
Industrial patents	67	41	26
Total intangible assets	**53,762**	**41,728**	**12,034**

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 1.1.2016	**47,032**	**38,053**	**8,825**	**81**	**93,991**
Additions	*248*	*2,113*	*731*	*15*	*3,107*
Disposals & other changes	*23*	-	-	-	*23*
Write-downs	-	-	-	-	-
Historic cost at 31.12.2016	**47,303**	**40,166**	**9,556**	**96**	**97,121**
Additions	*13,637*	*1,545*	*369*	*35*	*15,586*
Disposals & other changes	*(2,321)*	*(2)*	-	-	*(2,323)*
Write-downs	-	-	-	-	-
Historic cost at 31.12.2017	**58,619**	**41,709**	**9,925**	**131**	**110,384**

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

	Concessions, brands & similar rights	Software development	Other intangible assets	Industrial patents	Total
Acc. Amort. at 1.1.2016	**(12,511)**	**(33,544)**	**(6,375)**	**(48)**	**(52,478)**
Amortization	*(353)*	*(2,052)*	*(503)*	*(7)*	*(2,915)*
Disposals and other changes	-	-	-	-	-
Acc. Amort. at 31.12.2016	**(12,864)**	**(35,596)**	**(6,878)**	**(55)**	**(55,393)**
Amortization	*(242)*	*(2,030)*	*(536)*	*(9)*	*(2,817)*
Disposals and other changes	*1,588*	-	-	-	*1,588*
Acc. Amort.					

at 31.12.2017	**(11,518)**	**(37,626)**	**(7,414)**	**(64)**	**(56,622)**

The net book value of intangible assets is reported below:

	Concessions, brands & similar rights	Software development	Other intangible assets	Industrial patents	Total
Opening net book value at 1.1.2016	**34,521**	**4,509**	**2,450**	**33**	**41,513**
Additions	*248*	*2,113*	*731*	*15*	*3,107*
Disposals and other changes	*23*	-	-	-	*23*
Amortization	*(353)*	*(2,052)*	*(503)*	*(7)*	*(2,915)*
Write-downs	-	-	-	-	-
Closing net book value at 31.12.2016	**34,439**	**4,570**	**2,678**	**41**	**41,728**
Additions	*13,637*	*1,545*	*369*	*35*	*15,586*
Disposals and other changes	*(733)*	*(2)*	-	-	*(735)*
Amortization	*(242)*	*(2,030)*	*(536)*	*(9)*	*(2,817)*
Write-downs	-	-	-	-	-
Closing net book value at 31.12.2017	**47,101**	**4,083**	**2,511**	**67**	**53,762**

The increase in the “concessions, brands and similar rights” derives from the acquisition of the Briko brand, with an estimated value of Euro 1.6 million and the American brand Sebago, with a value of approx. Euro 12 million. The reduction in the book value relates to the sale of the brand Lanzera, for a net value of Euro 0.7 million, and amortization in the period of the brand Jesus Jeans, whose net value is approx. Euro 0.1 million.

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

At December 31, 2017, the Kappa and Robe di Kappa brands report a book value of Euro 4.1 million (Euro 1.8 million net of fiscal amortization), with the Superga brand reporting a book value of Euro 21.1 million (approx. Euro 14.3 million net of fiscal amortization); the K-Way brand was valued at Euro 8.1 million (Euro 4.6 million net of fiscal amortization).

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 utilized 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% (1.5% in 2016);
- the discounting of the weighted average cost of capital (WACC) of 6.0% (6.0% in 2016).

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

The account “software development” increased approx. Euro 1.5 million for investments and decreased Euro 2 million for amortization in the period.

The account “other intangible assets” principally includes investments related to the franchising project, with investment of Euro 0.4 million and amortization in the year of Euro 0.5 million.

21. GOODWILL

	Dec. 31, 2017	Dec. 31, 2016	Changes
Goodwill	9,527	10,052	(525)
Goodwill	**9,527**	**10,052**	**(525)**

The account “goodwill” includes the goodwill arising on the business combination with the Spanish licensee (Euro 6.7 million) and the French licensee (Euro 1.2 million), in addition to goodwill paid for the acquisition of retail outlets, known as key money (Euro 1.6 million).

The Group verifies the recovery of the goodwill at least on an annual basis or more frequently when there is an indication of a loss in value. For impairment tests, the goodwill arising from the business combination of the Spanish and French licensees is allocated to the CGU’s identified as the Kappa and Robe di Kappa brands. for further information, reference should be made to Note 20.

22. PROPERTY, PLANT AND EQUIPMENT

	Dec. 31, 2017	Dec. 31, 2016	Changes
Property	22,292	23,226	(934)
Furniture and other assets	5,487	5,043	444
Plant & machinery	456	463	(7)
EDP	1,501	1,568	(67)
Industrial and commercial equipment	157	197	(40)
Total property, plant and equipment	**29,893**	**30,497**	**(604)**

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 1.1.2016	**34,693**	**14,148**	**1,334**	**12,744**	**909**	**63,828**
Additions	*2,231*	*1,545*	*285*	*656*	*76*	*4,793*
Disposals and other changes	-	*(61)*	*(15)*	*3*	-	*(73)*
Historic cost at 31.12.2016	**36,924**	**15,632**	**1,604**	**13,403**	**985**	**68,548**
Additions	*57*	*1,713*	*163*	*594*	*22*	*2,548*
Disposals and other changes	-	*(75)*	*(4)*	*1*	*(12)*	*(90)*
Historic cost at 31.12.2017	**36,981**	**17,267**	**1,765**	**13,998**	**994**	**71,006**

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 1.1.2016	**(12,742)**	**(9,502)**	**(986)**	**(11,091)**	**(738)**	**(35,059)**
Depreciation	*(956)*	*(1,087)*	*(155)*	*(744)*	*(50)*	*(2,992)*
Disposals and other changes	-	-	-	-	-	-
Acc. Deprec. at 31.12.2016	**(13,698)**	**(10,589)**	**(1,141)**	**(11,835)**	**(788)**	**(38,051)**
Depreciation	*(991)*	*(1,194)*	*(166)*	*(662)*	*(50)*	*(3062)*
Disposals and other changes	-	-	-	-	-	-
Acc. Deprec. at 31.12.2017	**(14,689)**	**11,781**	**(1,307)**	**(12,449)**	**(838)**	**41,114**

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

	Property	Furniture and other assets	Plant and machinery	EDP	Industrial and commercial equipment	Total
Opening net book value at 1.1.2016	**21,951**	**4,646**	**348**	**1,653**	**171**	**28,769**
Additions	*2,231*	*1,545*	*285*	*656*	*76*	*4,793*
Depreciation	*(956)*	*(1,087)*	*(155)*	*(744)*	*(50)*	*(2,992)*
Disposals and other changes	-	*(61)*	*(15)*	*3*	-	*(73)*
Closing net book value at 31.12.2016	**23,226**	**5,043**	**463**	**1,568**	**197**	**30,497**
Additions	*57*	*1,713*	*163*	*594*	*22*	*2,548*
Depreciation	*(991)*	*(1,194)*	*(166)*	*(662)*	*(50)*	*(3,062)*
Disposals and other changes	-	*(75)*	*(4)*	*1*	*(12)*	*(90)*
Closing net book value at 31.12.2017	**22,292**	**5,486**	**458**	**1,500**	**156**	**29,892**

"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 2017. The increase in the property account is due to improvements undertaken during the year.

Total gross investments in the year amounted to Euro 2.5 million, principally relating to the acquisition of furniture and EDP for the opening of new stores.

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

	Net value at December 31, 2017	Net value at December 31, 2016
Furniture and other assets	1,995	2,240
EDP	451	727
Equipment	-	-
Total	**2,446**	**2,967**

23. EQUITY INVESTMENTS AND OTHER FINANCIAL ASSETS

	Dec. 31, 2017	Dec. 31, 2016	Changes
Other receivables, guarantees	661	264	397
Total financial receivables	***661***	***264***	***397***
Total investments & other financial assets	**661**	**264**	**397**

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

24. INVESTMENTS IN JOINT VENTURES

	Dec. 31, 2017	Dec. 31, 2016	Changes
Investments in:			
- Joint ventures	266	257	9
Total investments in joint ventures	**266**	**257**	**9**

Investments in joint ventures concern the value of the investment in Fashion S.r.l. of Euro 266 thousand, held 50%. The company owns the Sabelt brand. From January 1, 2014, this category of investment has been valued at equity, as per IFRS 11.

25. NET INVENTORIES

	Dec. 31, 2017	Dec. 31, 2016	Changes
Finished products and goods	51,392	50,854	537
Inventory obsolescence provision	(4,874)	(3,646)	(1,228)
Total net inventories	**46,517**	**47,208**	**(691)**

Finished inventories include goods in transit at the balance sheet date which at December 31, 2017 amount to approx. Euro 2.1 million in line with December 31, 2016, goods held at Group brand stores for Euro 9.3 million, compared to Euro 10.4 million at December 31, 2016 and goods to be shipped against orders, to be delivered at the beginning of the following year, for Euro 6.4 million compared to Euro 8.4 million at December 31, 2016.

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:

	2017	2016
Inventory obsolescence provision at 1.1	**3,646**	**3,014**
Provisions in the year	1,688	1,874
Utilizations	(460)	(1,242)
Inventory obsolescence provision at 31.12	**4,874**	**3,646**

26. TRADE RECEIVABLES

	Dec. 31, 2017	Dec. 31, 2016	Changes
Gross value	66,871	65,756	1,115
Doubtful debt provision	(8,293)	(7,690)	(603)
Total trade receivables	**58,578**	**58,066**	**512**

“Trade receivables” refer for Euro 39.8 million to goods sold by proprietary licensees (compared to Euro 40.9 million at December 31, 2016) and for which a doubtful debt provision was recorded of Euro 5.4 million (Euro 4.8 million at December 31, 2016), for Euro 26.7 million to royalties and sourcing commissions (Euro 24.6 million at December 31, 2016) against which a doubtful debt provision was recorded of Euro 2.9 million (Euro 2.8 million at December 31, 2016) and Euro 0.4 million other receivables (Euro 0.2 million at December 31, 2016).

The receivables are recorded at their realizable 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:

	2017	**2016**
Doubtful debt provision at 1.1	**7,690**	**5,689**
Provisions in the year	2,041	3,476
Utilizations	(1,438)	(1,475)
Doubtful debt provision at 31.12	**8,293**	**7,690**

All amounts are due within 12 months.

The utilizations of the provision are related to the write off of long outstanding amounts and are made when the legal documentation of the loss has been received. The provisions are made on the basis of the review of individual positions. Overdue receivables not written down are normally recovered in the period immediately after the maturity date and in any case are subject to specific risk evaluations. The doubtful debt provision, in addition, includes provisions made on the basis of historical insolvency analyses which are considered appropriate in terms of the generic risk estimates of non-recovery of positions which currently are not considered critical.

27. OTHER CURRENT ASSETS

	Dec. 31, 2017	**Dec. 31, 2016**	**Changes**
Tax receivables	5,396	9,453	(4,057)
Other receivables	1,240	770	470
Other current assets	**6,636**	**10,223**	**(3,587)**

"Tax receivables" principally include corporate income taxes paid on account of Euro 0.9 million and withholding taxes on royalties of Euro 4.4 million.

"Other receivables" principally the premium paid to the insurance company against Directors Termination Indemnities, to be paid to the Chairman of the Board of Directors, as approved by the Board of Directors on May 13, 2016, on the indication of the Shareholders' AGM and the proposal of the Remuneration Committee and with the favorable opinion of the Board of Statutory Auditors, on conclusion of his role for Euro 1 million.

28. PREPAYMENTS

	Dec. 31, 2017	**Dec. 31, 2016**	**Changes**
Expenses pertaining to future collections	4,587	4,690	(103)
Sponsorship and media	2,115	1,991	124
Other	1,174	898	276
Total prepayments	**7,876**	**7,579**	**296**

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

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

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

29. CASH AND CASH EQUIVALENTS

	Dec. 31, 2017	Dec. 31, 2016	Changes
Bank and postal deposits	5,712	5,591	120
Cash in hand and similar	107	116	(9)
Total cash and cash equivalents	**5,819**	**5,707**	**112**

"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 1.4 million), BasicRetail S.r.l. (Euro 1 million), BasicNet S.p.A. (Euro 1.5 million), Basic Properties America Inc. (Euro 1.5 million) and, for the difference, the other Group companies (Euro 0.2 million).

Against the agreement signed with Intesa Sanpaolo S.p.A. (described in Note 43), Euro 220 thousand is included in bank deposits and restricted as guarantee on loans provided by the bank to third parties, owners of the Group's franchising stores.

30. DERIVATIVE FINANCIAL INSTRUMENTS

	Dec. 31, 2017	Dec. 31, 2016	Changes
Derivative financial instruments	1	1,609	(1,608)
Total	**1**	**1,609**	**(1,608)**

The account includes the market value at December 31, 2017 of the currency hedge instruments on US Dollars (cash flow hedge), subscribed with primary credit institutions; the instrument utilized, 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 2018 and 2019, on the basis of the goods orders already sent to suppliers, or still to be made but included in the budget for the year.

SHAREHOLDERS' EQUITY & LIABILITIES

31. SHAREHOLDERS' EQUITY

	Dec. 31, 2017	Dec. 31, 2016	Changes
Share capital	31,717	31,717	-
Treasury shares	(14,495)	(11,890)	(2,605)
Other reserves	69,144	64,748	4,396
Net Profit	10,646	10,305	341
Minority interests	-	-	-
Total Shareholders' Equity	**97,011**	**94,880**	**2,131**

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 2017, as approved by the Shareholders' AGM of BasicNet S.p.A. of April 27, 2017, in relation to the allocation of the 2016 net profit, a dividend of Euro 0.06 per share was distributed to each of the ordinary shares in circulation, for a total pay-out of approx. Euro 3.3 million.

During the year, 716,488 treasury shares were acquired in accordance with Shareholders' Meetings motions, which together with the 5,424,240 shares held at the end of the previous year, totaled 6,140,728 at December 31, 2017 (10.07% of the Share Capital).

The account "other reserves" comprises:

- The "cash flow hedge reserve", negative for Euro 1.2 million, changed in the year due to the fair value measurement of cash flow hedges held at December 31, 2017;
- The "*re-measurement reserve for defined benefit plans (IAS 19)*", negative for Euro 208 thousand, refers to the changes in the actuarial gains/losses ("*re-measurement*"). The valuation is shown net of the tax effect;
- the "*currency conversion reserve*", positive for approx. Euro 1 million, entirely concerns conversion differences into Euro of the financial statements of the US and Asian subsidiaries;
- "*retained earnings*" amount to Euro 69.6 million, increasing compared to the end of the previous year by Euro 6.9 million.

The reconciliation at December 31, 2017 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, 2017	**Dec. 31, 2016**	**Changes**
Effective part of the Gains/(losses) on cash flow instruments generated in the period (currency hedges)	(2,519)	397	(2,916)
Effective part of the Gains/(losses) on cash flow instruments generated in the period (interest rate hedges)	365	290	75
Effective part of the Gains/losses on cash flow hedge instruments	***(2,154)***	***687***	***(2,841)***
Re-measurement of defined benefit plans (IAS 19) (*)	(16)	9	(25)
Gains/(losses) from translation of accounts of foreign subsidiaries	(934)	227	(1,161)
Tax effect relating to the Other items of the comprehensive income statement	518	(167)	685
Total other gains/(losses), net of tax effect	**(2,586)**	**756**	**(3,342)**

(*) 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, 2017			**December 31, 2016**		
	Gross value	**Tax Charge/ Benefit**	**Net value**	**Gross value**	**- Tax Charge/ Benefit**	**Net value**
Effective part of Gains/losses on cash flow hedge instruments	(2,154)	514	(1,640)	687	(165)	522
Gains/(losses) for re-measurement of defined benefit plans (IAS 19) (*)	(16)	4	(12)	9	(2)	7
Gains/(losses) from translation of accounts of foreign subsidiaries	(934)	-	(934)	227	-	227
Total other gains/(losses), net of tax effect	**(3,104)**	**518**	**(2,586)**	**923**	**(167)**	**756**

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

32. PROVISIONS FOR RISKS AND CHARGES

	Dec. 31, 2017	**Dec. 31, 2016**	**Changes**
Provisions for risks and charges	42	42	-
Total provisions for risks and charges	**42**	**42**	**-**

The provision for risks and charges relates to the Agents Termination Indemnity Provision (FIRR) in BasicItalia S.p.A..

33. LOANS

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

	31/12/2016	Repayments	New loans	31/12/2017	Short-term portion	Medium/long-term portion
"Basic Village property loan"	6,900	(1,200)	-	5,700	(1,200)	4,500
"BasicItalia property loan"	2,746	(407)	-	2,339	(407)	1,932
"Intesa Loan"	9,375	(3,750)	-	5,625	(3,750)	1,875
"BNL Loan"	7,500	(1,250)	-	6,250	(1,250)	5,000
"MPS Loan"	-	-	13,000	13,000	-	13,000
"Banco BPM Loan"	-	(372)	2,000	1,628	(496)	1,132
Balance	**26,521**	**(6,979)**	**15,000**	**34,542**	**(7,103)**	**27,439**

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

	Dec. 31, 2017	Dec. 31, 2016	Changes
Medium/long term loans:			
- due within 5 years	24,696	17,052	7,644
- due beyond 5 years	2,743	2,862	(119)
Total medium/long-term loans	***27,439***	***19,914***	***7,525***
Leasing payables	991	1,600	(609)
Total leasing payables (maturity within 5 years)	***991***	***1,600***	***(609)***
Total loans	**28,430**	**21,514**	**6,916**

The medium/long-term loans are comprised for Euro 5.7 million of the residual value of the loan provided by the Unicredit Group, for the purchase of the "BasicVillage" building located at Largo Maurizio Vitale, 1, Turin ("BasicVillage Property Loan"), for Euro 2.3 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 5.6 million the residual loan from Intesa SanPaolo issued in April 2015 ("Intesa Loan"), for Euro 6.2 million the medium/long-term loan issued by Banca Nazionale del Lavoro S.p.A. in November 2016 ("BNL Loan"), for Euro 13 million the loan issued in July 2017 by MPS Capital Services Banca per le Imprese S.p.A. for the acquisition of the Sebago brand ("MPS Loan") and the residual loan from Banco BPM for Euro 1.6 million, to support investment activities in the retail sector ("BPM Loan").

The "BasicVillage property loan" granted by the Unicredit Group was for the acquisition of the building "BasicVillage" at Largo M. Vitale 1, Turin. The loan was granted in September 2007 for Euro 18 million at a variable rate converted into a fixed rate (Note 42). Against this loan there is a mortgage on the property and a surety from the parent company BasicNet S.p.A. with maturity in September 2022.

The "BasicItalia Loan" granted by Banca Intesa Sanpaolo S.p.A. was for the purchase of the building "BasicItalia" at Strada Cebrosa 106, Turin. The loan was granted in October 2008 for Euro 6 million with repayment of the capital in quarterly constant instalments and maturity at September 2023. The loan is guaranteed by a mortgage on the property and by a surety from the parent company BasicNet S.p.A..

The “Intesa Loan” was issued in April 2015 for Euro 15 million and is of four-year duration, repayable in quarterly instalments at a quarterly Euribor rate plus 185 basis points. In July 2015, the variable Euribor rate was converted (under an interest rate swap) into a fixed rate of 0.23% annually. The loan will support developmental investments, in addition to optimizing the duration of loans undertaken; it is supported by a pledge on Superga Trademark S.A. shares with obligation to maintain the full investment in the company by the Group.

The contractual conditions do not include financial covenants. The loan contract stipulates the maintenance of a number of ownership conditions concerning BasicNet S.p.A., in particular that the overall investment (direct or indirect) of BasicWorld S.r.l. in BasicNet S.p.A. should not reduce below 30%.

The “BNL Loan” was disbursed in November 2016 for Euro 7.5 million; it has six-year duration and is repayable in quarterly instalments at a quarterly Euribor rate increased by 95 basis points. The contractual conditions do not include financial covenants. The loan contract stipulates the maintenance of a number of ownership conditions concerning BasicNet S.p.A., in particular that the overall investment (direct or indirect) of BasicWorld S.r.l. in BasicNet S.p.A. should not reduce below 30%. The loan is supported by a second level mortgage on the BasicVillage building in Turin and a first level mortgage on the adjacent building, acquired at the end of the year.

The “MPS Loan” was issued in July 2017 for Euro 13 million and is of six-year duration, repayable in quarterly instalments from December 2019 at a quarterly Euribor rate (although not below zero) plus 170 basis points. No financial covenants are stipulated, although the maintenance of a number of ownership conditions are required concerning BasicNet S.p.A., in particular that the overall investment (direct or indirect) of BasicWorld S.r.l. in BasicNet S.p.A. should not reduce below 30%. The loan is supported by a pledge on the shares of TOS S.r.l., owner of the Sebago brand, with an obligation to maintain the full investment in the company by the Group.

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

At December 31, 2017, 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 203.5 million, broken down as follows:

(in Euro millions)	**Dec. 31, 2017**	**Dec. 31, 2016**
Cash facility	131.8	126.6
Factoring	1.5	1.5
Letters of credit and swaps	32.1	28.9
Medium/long term loans	34.5	26.5
Property leases	3.6	3.6
Total	**203.5**	**187.1**

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

34. BANK PAYABLES

	Dec. 31, 2017	Dec. 31, 2016	Changes
Bank payables due within one year:			
- short-term portion of medium/long-term loans	7,104	6,607	497
- bank overdrafts and bills	11,516	8,014	3,502
- import advances	20,249	19,031	1,218
Total bank payables	**38,869**	**33,652**	**5,217**

The portion of medium/long-term loans due within one year is included under short-term bank debt as described in Note 33.

The changes in the financial position are commented upon in the Directors' Report. Interest due matured at the end of the year on short and medium/long-term loans is reported in the account "bank payables".

Cash advances refer to temporary utilization by the Parent Company BasicNet S.p.A., for Group treasury needs.

The financial debt by interest rate at December 31, 2017 is as follows:

	Interest Rate		
	Fixed	**Variable**	**Total**
Short-term	11,998	26,871	38,869
Medium/long term	6,375	22,055	28,430
Total	**18,373**	**48,926**	**67,299**

The average interest rate on medium/long term loans was 2.13%.

35. EMPLOYEE AND DIRECTOR BENEFITS

The account includes the post-employment benefits for employees of Euro 2.7 million and the termination indemnities of Directors of Euro 0.8 million.

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

	Dec. 31, 2017			Dec. 31, 2016		
	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	2,528	-	2,528	2,508	-	2,508
Interest	46	-	46	46	-	46
Pension cost, net of withholdings	214	805	1,019	147	772	919
Benefits paid	(103)	-	(103)	(164)	-	(164)
Payments to the INPS treasury fund	-	(143)	(143)	-	(438)	(438)
Payments to other supp. pension fund	-	(662)	(662)	-	(334)	(334)
Actuarial gain/(losses)	16	-	16	(9)	-	(9)
Net liabilities recognized in the accounts	**2,701**	**-**	**2,701**	**2,528**	**-**	**2,528**
Change in the income statement:						
Interest	46	-	46	46	-	46
Pension Cost	222	805	1,027	154	772	926
Total charges/(income) for post-employment benefits	**268**	**805**	**1,073**	**200**	**772**	**972**

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 recognized as defined benefit plans in accordance with *IAS 19 – Employee benefits*; those matured subsequent to this date are on the other hand recognized as defined contribution plans in accordance with the same standard.

Within the Group there are no other defined benefit plans.

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

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

The sensitivity analysis carried out on the basis of the following variables: 1) inflation rate +0.25%/-0.25%, 2) discount rate +0.25%/-0.25%, 3) turnover rate +1%/-1% shows non-material impacts of less than Euro 10 thousand.

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

	Dec. 31, 2017	**Dec. 31, 2016**
discount rate	1.610%	1.790%
inflation rate:	1.500%	1.500%
annual increase in post-employment benefit	2.625%	2.625%
annual increase in salaries:	1.000%	1.000%

The change in the annual discount rate reflects the decrease in the yields of the "corporate bonds" of the basket utilized (Iboxx Eurozone Corporate) at the balance sheet date.

36. DEFERRED TAX LIABILITIES

	Dec. 31, 2017	Dec. 31, 2016	Changes
Deferred tax liabilities	311	1,084	(773)
Total deferred tax liabilities	**311**	**1,084**	**(773)**

The net amount of approx. Euro 0.3 million represents the balance between the deferred tax assets and liabilities as illustrated in the table.

	Dec. 31, 2017			Dec. 31, 2016			
	Amount of temporary differences	**Rate %**	**Tax effect**	**Amount of temporary differences**	**Rate %**	**Tax effect**	**Changes 2017/2016**
Deferred tax assets:							
- Excess doubtful debt provision not deductible	(7,242)	24.00%	(1,738)	(5,994)	24.00%	(1,439)	(299)
- Inventory obsolescence provision	(4,774)	24.00%	(1,174)	(3,646)	24.00%	(903)	(271)
- ROL surplus	(455)	24.00%	(109)	(455)	24.00%	(109)	-
- Prudent exchange differences, net	(945)	24.00%	(227)	56	24.00%	13	(240)
- Misc. charges temporarily non-deductible	(2,403)	27.90%	(655)	(2,147)	27.90%	(592)	(63)
- Effect IAS 19 – Employee Bens.	(139)	24.00%	(33)	(105)	24.00%	(25)	(8)
- Effect IAS 39 – Financial instruments	(1,598)	24.00%	(383)	556	24.00%	134	(517)
Total	**(17,556)**		**(4,319)**	**(11,736)**		**(2,920)**	**(1,399)**
Deferred tax liabilities:							
- Dividends not received	93	24.00%	22	75	24.00%	18	4
- Amortization/Depreciation tax basis	13,631	27.90%	3,804	10,700	27.90%	2,985	819
- Effect IAS 38 – plant costs	16	27.90%	5	16	27.90%	4	1
- Effect of IAS 17 finance leases and other tax differences on buildings	1,240	27.90%	346	2,117	27.90%	591	(245)
- Effect IFRS 3 – goodwill amortization	1,623	27.90%	453	1,411	27.90%	407	46
Total	**16,603**		**4,630**	**14,319**		**4,005**	**625**
Net deferred tax liability (asset)			311			1,084	(773)
Deferred tax asset relating to fiscal losses			-			-	
Deferred tax liability/(asset) as per financial statements			**311**			**1,084**	**(773)**

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 1.8 million) and non-deductible inventory obsolescence provisions (approx. Euro 1.2 million).

Deferred tax liabilities principally refer to the tax effects deriving from the application of the IFRS international accounting standards, with particular reference to the accounting of amortization on own brands solely for tax purposes (Euro 3.8 million) and goodwill amortization deductible (Euro 0.4 million).

37. OTHER NON-CURRENT LIABILITIES

	Dec. 31, 2017	Dec. 31, 2016	Changes
Guarantee deposits	1,033	927	106
Total other non-current liabilities	**1,033**	**927**	**106**

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

38. TRADE PAYABLES

The "trade payables" are payable in the short-term and increased by approx. Euro 2.2 million compared to December 31, 2016, following the commercial activity of the Group in the year and particularly the final quarter. At the date of these financial statements, there are no initiatives for the suspension of supplies, payment injunctions or executive actions by creditors against BasicNet S.p.A. or other companies of the Group.

Trade payables are normally settled between 30 and 120 days. The book value of trade payables equates the relative fair value.

39. TAX PAYABLES

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

	Dec. 31, 2017	Dec. 31, 2016	Changes
Tax payables:			
Income taxes	1,272	1,363	(91)
Employee contributions	610	543	67
Non-recurring tax charges	4	569	(565)
Group VAT	1,284	13,221	(11,937)
Other	61	53	8
Total tax payables	**3,231**	**15,749**	**(12,518)**

The non-recurring tax charges, settled in 2017, concern the total payable to the Tax Agency, definitively established in May 2014 following the notification of the final tax assessments which the Group settled on appeal in 2012, against which a provision had been made.

The Group VAT payable at December 31, 2017 was settled by the approval date of these financial statements.

40. OTHER CURRENT LIABILITIES

	Dec. 31, 2017	Dec. 31, 2016	Changes
Accrued expenses	669	626	43
Employees and directors	3,288	2,992	296
Other payables	3,994	3,941	53
Total other current liabilities	**7,951**	**7,559**	**392**

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

The "other payables" at December 31, 2017 principally include employee remuneration and expenses (Euro 3.3 million), payable in the subsequent month, related social security charges (Euro 1.1 million), other related liabilities (Euro 0.2 million), royalty payment on accounts from licensees (Euro 0.1 million) and other miscellaneous amounts Euro (2.6 million).

41. DEFERRED INCOME

	Dec. 31, 2017	Dec. 31, 2016	Changes
Royalties	2,357	885	1,472
Sponsored goods revenues	1,287	1,173	114
Other deferred income	12	111	(99)
Total deferred income	**3,656**	**2,169**	**1,487**

The "sponsored goods revenues" relates to the invoicing of sponsored merchandise, which contractually partially refers to the period after the reporting date, with corresponding prepayments recorded under assets for sponsoring costs.

42. DERIVATIVE FINANCIAL INSTRUMENTS

	Dec. 31, 2017	Dec. 31, 2016	Changes
Derivative financial instruments	1,599	1,052	547
Total	**1,599**	**1,052**	**547**

The account includes for Euro 688 thousand the adjustments to market value of the interest rate hedging operations on the medium-long-term "Intesa loan" and on the Basic Village property loan (Note 33), signed with leading financial counterparties, which converted the variable interest rates into fixed interest rates, respectively at 2.08% and 6.4% (cash flow hedge). A negative equity reserve was recorded of approx. Euro 539 thousand, net of the tax effect.

The account includes in addition for Euro 911 thousand the market value at December 31, 2017 of the currency hedge instruments on US Dollars (cash flow hedge), subscribed with primary credit institutions; the instrument utilized, 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 2018 and 2019, on the basis of the goods orders already sent to suppliers, or still to be made but included in the budget. At December 31, 2017, commitments were in place on estimated future purchases, for USD 33 million, divided into 10 operations with variable maturities: 7 operations in the first half of 2018 (for USD 28 million) and 3 operations in the second half of 2018 (for USD 5 million), at fixed exchange rates between USD/Euro 1.12 and USD/Euro 1.20. During 2017, forward purchase operations were utilized for approx. USD 29 million and the relative effects were recognized to the income statement. A negative equity reserve was recorded of approx. Euro 691 thousand, net of the tax effect.

In the case of the Interest Rate Swap (IRS) agreed by the Group, the specific hedge of the variable cash flow realized at market conditions, through the signing of the fix/flo IRS perfectly hedges the item to which the original cash flows stem, as in this case, and continues to be considered effective.

43. GUARANTEES GIVEN

With reference to the guarantees and commitments of the Group with third parties reference should be made to Note 33.

In February 2010, Intesa Sanpaolo S.p.A. and BasicItalia S.p.A. signed an agreement which would permit access to subsidized 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, 2017, the bank deposits of Basic Italia were restricted for Euro 220 thousand; guarantees were also provided on leasing amounting to Euro 1 million.

In accordance with that outlined above guarantees were granted of Euro 0.8 million by credit institutions in favor 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, totaling Euro 18 million (in line with December 31, 2016), in addition to a surety issued by a leading bank in guarantee of the contractual commitments related to a sponsorship contract for Euro 6.5 million.

The future rental commitments to be honored on contractual expiry indicatively amount to Euro 22.9 million, of which Euro 7.6 million concerning the rental of the outlets. The average duration of the rental contracts is 4 years.

The shares of the subsidiary Superga Trademark S.A. are subject to a pledge in favor of Intesa Sanpaolo S.p.A. in guarantee of the loan issued in April 2015 and the shares of TOS S.r.l. are subject to a pledge in favor of MPS Capital Services Banca per le Imprese S.p.A. as guarantee of the loan issued in July 2017.

44. CLASSIFICATION OF THE FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

The financial instruments of the BasicNet Group include:

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

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

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

	Financial instruments at fair value recorded through:		**Financial instruments at amortized cost**	**Non-listed investments valued at cost**	**Book value at 31.12.2017**
	P&L	**Shareholders' Equity**			
Assets:					
Equity invest. & other financial assets	-	-	-	661	**661**
Interests in joint ventures	-	-	-	266	**266**
Trade receivables	-	-	58,578	-	**58,578**
Other current assets	-	-	6,636	-	**6,636**
Derivative financial instruments	-	1	-	-	**1**
Liabilities:					
Medium/long-term loans	-	-	28,430	-	**28,430**
Bank payables	-	-	38,869	-	**38,869**
Trade payables	-	-	33,869	-	**33,869**
Other current liabilities	-	-	7,951	-	**7,951**
Derivative financial instruments	-	1,599	-	-	**1,599**

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 fiber 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, 2017, unrealized exchange gains were recorded of Euro 147 thousand, while unrealized exchange losses were recorded of Euro 1.1 million, for a net exchange loss of Euro 945 thousand.

At the reporting date, there were 10 hedge operations on US Dollar fluctuations, totaling USD 33 million; the relative effects are illustrated in the account "Derivative financial instruments", at Notes 30 and 42.

Group Management considers that the management and containment policies adopted for this risk are adequate.

All medium/long-term loans and leasing contracts are in Euro, therefore they are not subject to any currency risk.

Interest rate risk

The composition of the gross financial debt between fixed and variable interest rates at December 31, 2017 is shown below:

	Dec. 31, 2017	%	Dec. 31, 2016	%
Fixed rate	18,373	27.3%	23,355	42.30%
Variable rate	48,926	72.7%	31,811	57.70%
Gross debt	**67,299**	**100.00%**	**55,166**	**100.00%**

The interest rate fluctuation risks of some medium/term loans were hedged with conversion of the variable rate into fixed rates, as described in Note 42. On the remaining part of the debt, the Group is exposed to fluctuation risks.

Where at December 31, 2017 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 +210 thousand and Euro -210 thousand.

Credit risk

The doubtful debt provision (Note 26) which includes provisions against specific credit positions and a general provision on an historical analysis of receivables, represents approx. 12.4% of trade receivables at December 31, 2017.

Liquidity risk

Liquidity risk is mitigated in the short-term period by the significant generation of cash realized by the "licenses and trademarks" segment, by the significant positive net working capital, and by the overall credit lines provided by the banking system (Note 33).

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

	Book value	Future interest income/ (expense)	Contractual cash flows	Within 1 year	From 1 to 5 years	Beyond 5 years
"Intesa Loan"	5,625	79	5,704	3,822	1,882	-
"BasicVillage property loan"	5,700	853	6,553	1,517	5,036	-
"BasicItalia property loan"	2,339	162	2,501	456	1,736	309
"BNL Loan"	6,250	136	6,386	1,295	5,091	-
"Banco BPM Loan"	1,628	20	1,648	508	1,140	-
"MPS Loan"	13,000	867	13,867	225	11,186	2,456
Lease payables	991	25	1,016	523	493	-
Total financial liabilities	**35,533**	**2,142**	**37,675**	**8,346**	**26,560**	**2,765**

Default risk and debt covenants

The risk that the loans within the companies of the Group contain clauses (covenants) which allow the counterparties to request the creditor on the occurrence of certain events or circumstances the immediate repayment of the sums granted and not yet due, generating a liquidity risk.

The loans in place at the reporting date are not subject to financial covenants.

45. INTERCOMPANY TRANSACTIONS AND TRANSACTIONS WITH RELATED COMPANIES

The transactions between the Parent Company and its subsidiaries and between the subsidiaries were within the normal operating activities of the Group and were concluded at normal market conditions. The balance sheet and income statement effects of the transactions are eliminated in the consolidation process. Based on the information received from the companies of the Group there were no atypical or unusual operations.

BasicNet S.p.A., and, as consolidating companies, BasicItalia S.p.A., BasicRetail S.r.l., Basic Village S.p.A., Jesus Jeans S.r.l., Basic Trademark S.A., Superga Trademark S.A., Basic Properties B.V. and TOS S.r.l. have adhered to the national fiscal regime as per Article 177/129 of the CFA.

The transactions with related parties for the year ended December 31, 2017 are reported below:

	Investments	Trade receivables	Trade payables	Other Income	Costs
Interests in joint ventures: - Fashion S.r.l.	266	-	5	2	-
Remuneration of Boards and Senior Executives and other related parties	-	-	-	-	5,863

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 a strategic executive 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 utilized for media events, shows, press gatherings, together with the Brands and/or products of the Group, are subject to a put and call agreement with BasicWorld S.r.l. The agreement is for a duration until July 31, 2020 and provides for an exercise price of the Call Option by BasicWorld equal to the cost incurred by BasicNet for the purchase of the Collection, as resulting from the accounting entries of BasicNet, in addition to a financial interest charge equal to the average rate applied to BasicNet at the exercise option date.

46. <u>SUBSEQUENT EVENTS</u>

They are described in the Directors' Report.

47. <u>CONSOB COMMUNICATION NO. DEM/6064293 OF JULY 28, 2006</u>

Pursuant to Consob Communication DEM/6064293 of July 28, 2006, we report that there were no non-recurring significant operations during the year.

48. <u>CONTINGENT LIABILITIES/ASSETS</u>

The BasicNet Group is involved in some legal disputes of a commercial nature which are not expected to give rise to significant liabilities.

<u>A.S. Roma contract termination</u>

The dispute was taken by BasicItalia S.p.A. against A.S. Roma S.p.A. and Soccer S.a.s. Brand Management S.r.l., which on November 23, 2012 communicated the unilateral advance resolution of the team sponsorship, agreed with duration until June 30, 2017, for presumed non-compliance and, in particular, defects in the materials supplied. BasicItalia S.p.A., considering the reasons for the resolution unfounded, instigated an ordinary court procedure requesting compensation for significant damage incurred. A.S. Roma S.p.A. and Soccer S.a.s. appealed against the request of BasicItalia S.p.A. and counterclaimed requesting compensation for presumed damage. On May 26, the Court-appointed Technical Expert's findings (CTU) were considered. On this occasion, BasicItalia S.p.A., citing the conclusions of the CTU, underlined that no evidence exists of defective materials provided by Basic subsequent to the reconditioning carried out in accordance with the contract, arguing therefore the unlawful resolution by A.S. Roma and Soccer and requesting the undertaking of the accounting consultancy for the quantification of damages. A.S. Roma and Soccer, challenging BasicItalia S.p.A.'s interpretation of the technical consultant's report, requested testimonial evidence from the team's players, in addition to technical accounting consultancy for the assessment of alleged damages. The judge, releasing the reserve established by the hearing, rejected the applications of the parties, referring the case to a subsequent hearing for assessment upon the need for additional investigations. The hearing for the statement of conclusions was therefore fixed for September 15, 2017. At the hearing, BasicItalia, AS Roma and Soccer jointly requested a postponement to verify the settlement options. The Judge therefore postponed the hearing until April 11, 2018.
In addition, BasicItalia S.p.A. began proceedings against Soccer S.a.s., a debtor of BasicItalia S.p.A., for the provision of goods related to the sponsorship and against which an injunction against Soccer S.a.s. was issued on January 22, 2013. Against the opposition of Soccer S.a.s., an ordinary case was undertaken which is currently in the investigation phase; the CTU appointed by the Judge filed the

Technical appraisal and the hearing for its examination, following the joint application of BasicItalia and Soccer for postponement to assess settlement options, was fixed for July 20, 2018.
In addition, following the above termination of the contract, A.S. Roma sought to enforce payment of the surety granted by BNL S.p.A. in favor of BasicItalia S.p.A. for a maximum amount of Euro 5.5 million which guaranteed commitments undertaken by BasicItalia S.p.A. under the sponsorship agreement. Following the non-payment by BNL S.p.A., A.S. Roma petitioned the Rome Court to enforce a payment order against BNL for the full guaranteed amount. As a result of this procedure, in which BasicItalia S.p.A. (together with the parent company BasicNet S.p.A.) was joined as a party by BNL, the Rome Court, with judgement of December 7, 2013, rejected all applications by A.S. Roma, considering the enforcement illegitimate. This sentence was not challenged by A.S. Roma and the sentence is final.

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

K-WAY disputes in China

The dispute with the company Taizhou Boyang, owner of the K-WAY brand in China, is in progress. Currently, BasicNet S.p.A. has obtained confirmation from the Chinese authorities of ownership of the K-WAY brand for weather-proof clothing, while Taizhou Boyang has had its rights on the K-WAY brand for non-weather proof clothing confirmed. Over recent months, Taizhou Boyang has on various occasions attempted to seize clothing items at a number of sales points and Sourcing Centers in China.
BasicNet S.p.A. is defending its right to produce in China and export to countries where K-WAY brands are registered for all clothing items (weather-proof and non-weather proof), in addition to the right to sell in China weather proof clothing items under the K-WAY brand.

Tax disputes

A tax dispute began at the beginning of 2018 with the Tax Agency following a tax audit by the Finance Police for the years 2012-2017. The assessment notice disputed the partial non-deductibility of the provision made on the Directors Termination Indemnity accrued for the executive boards for the years 2012 to 2014, on the basis of the interpretation of regulations governing post-employment benefits for employees extended to Directors Termination Indemnity, in the absence of specific tax regulations. The claim by the Tax Agency amounts to approx. Euro 360 thousand for IRES corporate taxes in addition to penalties and interests. As not in agreement with the interpretation by the Tax Agency, and in consideration of favorable jurisprudence in similar disputes, the company appealed this request for all years concerned.

At the date of the present Report the subsidiaries Basic Properties America, Inc. and BasicItalia S.p.A. are currently undergoing tax audits.

For the Board of Directors

The Chairman

Marco Daniele Boglione

ATTACHMENT 1

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

Type of service	Service provider	Company	Fees earned 2017
Audit	EY S.p.A.	Parent BasicNet S.p.A.	48,000
		Subsidiaries	116,800
Certification services	EY S.p.A.	Parent BasicNet S.p.A.	-
Other services	EY S.p.A.	Parent BasicNet S.p.A.	-
Total			**164,800**

ATTACHMENT 2
Page 1 of 2

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

	Registered office	Corporate purpose	Share capital		Parent company holding (%)
PARENT COMPANY					
BasicNet S.p.A.					
Directly held subsidiaries:					
- Basic Properties B.V.	Amsterdam (NL)	Sub-license concession of patent rights to local licensees.	EURO	18,160	100
- Basic Village S.p.A. - single shareholder company	Turin (Italy)	Building mgt. at Largo M. Vitale, 1.	EURO	412,800	100
- BasicItalia S.p.A. single shareholder company	Turin (Italy)	Italian licensor, direct stores of BasicNet Group.	EURO	7,650,000	100
- BasicNet Asia Ltd.	Hong Kong (China)	Control activity of the licensees and sourcing center in Asia.	HKD	10,000	100
- TOS S.r.l. single shareholder company	Turin (Italy)	Owner of the brand Sebago.	EURO	10,000	100
- Jesus Jeans S.r.l. single shareholder company	Turin (Italy)	Owner of the Jesus Jeans brand.	EURO	10,000	100
Indirectly held subsidiaries:					
– through Basic Properties B.V.					
- Basic Trademark S.A.	Luxembourg	Owner of some brands of the BasicNet Group.	EURO	1,250,000	100
- Superga Trademark S.A.	Luxembourg	Owner of the brand Superga.	EURO	500,000	100 (1)
- Basic Properties America, Inc.	Richmond (Virginia – USA)	Sub-license of the brands for the US, Canada and Mexico markets.	USD	8,469,157.77	100
- through BasicItalia S.p.A.					
- BasicRetail S.r.l. - single shareholder company	Turin (Italy)	Management of outlets owned by the Group.	EURO	10,000	100

(1) shares subject to pledges with voting rights at Extraordinary Shareholders' Meeting for Banca IntesaSanpaolo S.p.A. in guarantee of the loan issued in April 2015.

ATTACHMENT 2
Page 2 of 2

COMPANIES INCLUDED IN THE CONSOLIDATION UNDER THE EQUITY METHOD

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

[2] the remaining 50% of the investment is held by the Marsiaj family

ATTACHMENT 3

DECLARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ARTICLE 154-BIS PARAGRAPH 3 AND 4 OF LEGISLATIVE DECREE NO. 58 OF FEBRUARY 24, 1998 "FINANCIAL INTERMEDIATION ACT"

The undersigned Marco Daniele Boglione as Executive Chairman, Giovanni Crespi as CEO, and Paolo Cafasso as Executive Officer for Financial Reporting of BasicNet S.p.A., affirm, and also in consideration of Article 154-*bis*, paragraphs 3 and 4, of Legislative Decree No. 58 of February 24, 1998:

the adequacy for company operations and the effective application, of the administrative and accounting procedures for the preparation of the 2017 consolidated financial statements.

In addition, we declare that the consolidated financial statements:

a) corresponds to the underlying accounting documents and records;

b) were prepared in accordance with International Financial Reporting Standards adopted by the European Union, and also in accordance with Article 9 of Legislative Decree No. 38/2005 and provide a true and fair representation of the balance sheet, financial position and results of the Issuer and of the consolidated companies;

c) the Directors' Report includes a reliable analysis on the performance and operating result as well as the situation of the Issuer, together with a description of the risks and uncertainties to which they are exposed.

Marco Daniele Boglione
Chairman

Giovanni Crespi
Chief Executive Officer

Paolo Cafasso
Executive Officer for Financial Reporting

FINANCIAL STATEMENTS

AND EXPLANATORY NOTES OF BASICNET S.P.A.

AT DECEMBER 31, 2017

BASICNET S.p.A. – INCOME STATEMENT

(in Euro)

	Note	**FY 2017**	**FY 2016**	**Changes**
Direct sales	*(7)*	3,166,941	2,720,502	446,439
Cost of sales	*(8)*	(2,862,491)	(2,424,751)	(437,740)
GROSS MARGIN		**304,450**	**295,751**	**8,699**
Royalties and sourcing commissions	*(9)*	28,164,789	27,365,918	798,871
Other income	*(10)*	6,257,602	6,496,698	(239,096)
Sponsorship and media costs	*(11)*	(682,171)	(490,214)	(191,957)
Personnel costs	*(12)*	(8,799,745)	(8,421,972)	(377,773)
Selling, general and administrative costs, royalties expenses	*(13)*	(14,376,517)	(14,198,499)	(178,018)
Amortization & Depreciation	*(14)*	(2,235,269)	(2,173,738)	(61,531)
EBIT		**8,633,139**	**8,873,944**	**(240,805)**
Net financial income (charges)	*(15)*	(476,296)	190,102	(666,398)
Dividends	*(16)*	1,850,000	1,500,000	350,000
Income from investments	*(17)*	-	20,573	(20,573)
Write-down of investments	*(18)*	(3,000,000)	-	(3,000,000)
PROFIT BEFORE TAXES		**7,006,843**	**10,584,619**	**(3,577,776)**
Income taxes	*(19)*	(2,498,958)	(3,163,360)	664,402
NET PROFIT		**4,507,885**	**7,421,259**	**(2,913,374)**

BASICNET S.p.A. – COMPREHENSIVE INCOME STATEMENT

(in Euro)

	Note	FY 2017	FY 2016	Changes
Profit for the year (A)		***4,507,885***	***7,421,259***	***(2,913,374)***
Effective portion of the Gains/(losses) on cash flow hedges		39,982	15,007	24,975
Re-measurement of post-employment benefits (IAS 19) (*)		(15,374)	(10,067)	(5,307)
Tax effect on other profits/(losses)		(7,510)	(949)	(6,561)
Total other gains/(losses), net of tax effect (B)	*(28)*	***17,098***	***3,990***	***13,108***
Total Comprehensive Profit (A)+(B)		**4,524,983**	**7,425,249**	**(2,900,266)**

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

BASICNET S.p.A. – BALANCE SHEET

(in Euro)

ASSETS	*Note*	Dec. 31, 2017	Dec. 31, 2016
Intangible assets	*(20)*	13,218,036	12,112,176
Plant, machinery and other assets	*(21)*	2,636,170	1,769,559
Equity invest. & other financial assets	*(22)*	33,274,867	36,229,867
Total non-current assets		**49,129,073**	**50,111,602**
Net inventories	*(23)*	767,152	807,897
Trade receivables	*(24)*	12,056,318	10,619,378
Other current assets	*(25)*	65,755,216	69,575,678
Prepayments	*(26)*	3,991,897	3,954,103
Cash and cash equivalents	*(27)*	1,560,523	1,236,975
Derivative financial instruments		-	-
Total current assets		**84,131,106**	**86,194,031**
TOTAL ASSETS		**133,260,179**	**136,305,633**

LIABILITIES	*Note*	Dec. 31, 2017	Dec. 31, 2016
Share capital		31,716,673	31,716,673
Treasury shares		(14,494,992)	(11,889,813)
Other reserves		63,651,767	59,537,548
Net Profit		4,507,885	7,421,259
TOTAL SHAREHOLDERS' EQUITY	*(28)*	**85,381,333**	**86,785,667**
Provisions for risks and charges		-	-
Loans	*(29)*	20,001,288	11,960,323
Employee and Director benefits	*(31)*	2,152,621	1,614,436
Deferred tax liabilities	*(32)*	297,430	308,095
Other non-current liabilities	*(33)*	858,583	759,414
Total non-current liabilities		**23,309,922**	**14,642,268**
Bank payables	*(30)*	10,028,504	11,057,007
Trade payables	*(34)*	6,039,074	4,757,626
Tax payables	*(35)*	2,809,708	14,736,086
Other current liabilities	*(36)*	5,394,487	4,077,183
Accrued expenses	*(37)*	270,069	182,732
Derivative financial instruments	*(38)*	27,082	67,064
Total current liabilities		**24,568,924**	**34,877,698**
TOTAL LIABILITIES		**47,878,846**	**49,519,966**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**133,260,179**	**136,305,633**

BASICNET S.p.A. – CASH FLOW STATEMENT

(in Euro)

		Dec. 31, 2017	Dec. 31, 2016
A)	**OPENING SHORT-TERM BANK DEBT**	**(4,820,031)**	**(924,763)**
B)	**CASH FLOW FROM OPERATING ACTIVITIES**		
	Net Profit for the year	4,507,885	7,421,259
	Amortization & Depreciation	2,235,269	2,173,738
	Write-down of investments	3,000,000	-
	Gains on sale of equity investments	-	(20,573)
	Changes in working capital:		
	- (increase) decrease in trade receivables	(1,436,940)	(1,182,254)
	- (increase) decrease in inventories	40,744	(33,413)
	- (increase) decrease in other receivables	4,278,978	(3,144,399)
	- increase (decrease) in trade payables	1,281,448	394,934
	- increase (decrease) in other payables	(10,429,545)	376,398
	Net change in post-employment benefits	-	(41,580)
	Others, net	32,616	22,002
		3,510,455	**5,966,112**
C)	**CASH FLOW FROM INVESTING ACTIVITIES**		
	Investments in fixed assets:		
	- tangible assets	(1,358,918)	(608,641)
	- intangible assets	(2,867,389)	(1,788,712)
	- financial assets	(45,000)	(21)
	Realizable value for fixed asset disposals:		
	- tangible assets	1,253	178
	- intangible assets	-	-
	- financial assets	-	135,573
		(4,270,054)	**(2,261,623)**
D)	**CASH FLOW FROM FINANCING ACTIVITIES**		
	Lease contracts (repayments)	40,966	17,650
	Repayments of medium/long term loans	(5,000,000)	(6,428,565)
	Undertaking of medium/long term loans	13,000,000	7,500,000
	Treasury shares	(2,605,179)	(3,066,932)
	Distribution dividends	(3,324,138)	(5,621,910)
		2,111,649	**(7,599,757)**
E)	**CASH FLOW IN THE YEAR**	**1,352,050**	**(3,895,268)**
F)	**CLOSING SHORT-TERM BANK DEBT**	**(3,467,981)**	**(4,820,031)**

Interest paid for the year amounts to respectively Euro 354 thousand in 2017 and Euro 301 thousand in 2016, while income taxes paid in the year amounted to Euro 1.7 million in 2017 and Euro 5.9 million in 2016.

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

(in Euro)

				Reserves						
						Other reserves				
	Number shares	**Share capital Treasury**	**Treasury shares**	**Legal reserve**	**Treasury shares in portfolio reserve**	**Remeasure. reserve IAS19**	**Cash Flow Hedge reserve**	**Retained earnings**	**Net profit**	**Total**
Balance at December 31, 2015	**60,993,602**	**31,716,673**	**(8,822,881)**	**4,463,225**	**8,822,881**	**(61,963)**	**(60,654)**	**39,921,710**	**12,070,269**	**88,049,260**
Allocation of result as per Shareholders' AGM resolution of April 28, 2016										
- Legal reserve			-	603,513	-	-	-	-	(603,513)	-
- Retained earnings			-	-	-	-	-	5,844,846	(5,844,846)	
- Distribution of dividends			-	-	-	-	-	-	(5,621,910)	(5,621,910)
Acquisition of treas. shares			(3,066,932)	-	3,066,932	-	-	(3,066,932)	-	(3,066,932)
2016 Result			-	-	-	-	-	-	7,421,259	7,421,259
Other comprehensive income statement items:										
- Gains/(losses) recorded directly to cash flow hedge reserve			-	-	-	-	11,290	-	-	11,290
- Gains/(losses) recorded directly to equity for IAS 19 re-measurement			-	-	-	(7,300)	-	-	-	(7,300)
Total comprehensive income			-	-	-	*(7,300)*	*11,290*	-	*7,421,259*	*7,425,249*
Balance at December 31, 2016	**60,993,602**	**31,716,673**	**(11,889,813)**	**5,066,738**	**11,889,813**	**(69,263)**	**(49,364)**	**42,699,624**	**7,421,259**	**86,785,667**
Allocation of result as per Shareholders' AGM resolution of April 27, 2017										
- Legal reserve			-	371,063	-	-	-	-	(371,063)	-
- Retained earnings			-	-	-	-	-	3,726,058	(3,726,058)	-
- Distribution of dividends			-	-	-	-	-	-	(3,324,138)	(3,324,138)
Acquisition of treas. shares			(2,605,179)	-	2,605,179	-	-	(2,605,179)	-	(2,605,179)
2017 Result			-	-	-	-	-	-	4,507,885	4,507,885
Other comprehensive income statement items:										
- Gains/(losses) recorded directly to cash flow hedge reserve			-	-	-	-	28,782	-	-	28,782
- Gains/(losses) recorded directly to equity for IAS 19 re-measurement			-	-	-	(11,684)	-	-	-	(11,684)
Total comprehensive income			-	-	-	*(11,684)*	*28,782*	-	*4,507,885*	*4,524,983*
Balance at December 31, 2017	**60,993,602**	**31,716,673**	**(14,494,992)**	**5,437,801**	**14,494,992**	**(80,947)**	**(20,582)**	**43,820,503**	**4,507,885**	**85,381,333**

BASICNET S.p.A. – NET FINANCIAL POSITION

(in Euro)

	Dec. 31, 2017	Dec. 31, 2016
Cash and cash equivalents	1,560,523	1,236,975
Bank overdrafts and bills	(5,028,504)	(6,057,006)
Sub-total net liquidity available	*(3,467,981)*	*(4,820,031)*
Short-term portion of medium/long-term loans	(5,000,000)	(5,000,000)
Short-term net financial position – third parties	**(8,467,981)**	**(9,820,031)**
Intesa loan	(1,875,000)	(5,625,000)
BNL loan	(5,000,000)	(6,250,000)
Banco BPM loan	(13,000,000)	-
Medium/long lease payables	(126,288)	(85,323)
Sub-total loans and leasing – third parties	*(20,001,288)*	*(11,960,323)*
Net financial position - third parties	**(28,469,269)**	**(21,780,354)**
Group financial receivables / (payables)	60,266,785	64,757,307
Net Financial Position - Group	**60,266,785**	**64,757,307**
Total net financial position	**31,797,516**	**42,976,953**

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

		Dec. 31, 2017	Dec. 31, 2016
A.	Cash	15,362	11,315
B.	Other cash equivalents	1,545,161	1,225,660
C.	Securities held for trading	-	-
D.	**Cash & cash equivalents (A)+(B)+(C)**	**1,560,523**	**1,236,975**
E.	**Current financial receivables**	-	**-**
F.	Current bank payables	(5,028,504)	(6,057,006)
G.	Current portion of non-current debt	(5,000,000)	(5,000,000)
H.	Other Group financial receivables/ (payables)	60,266,785	64,757,307
I.	**Current financial debt (F)+(G)+(H)**	**50,238,281**	**53,700,301**
J.	**Net current financial debt (I)-(E)-(D)**	**51,798,804**	**54,937,276**
K.	Non-current bank payables	(20,001,288)	(11,960,323)
L.	Bonds issued	-	-
M.	Fair value of hedges (cash flow hedges)	(27,082)	(67,064)
N.	**Non-current financial debt (K)+(L)+(M)**	**(20,028,370)**	**(12,027,387)**
O.	**Net financial debt (J)+(N)**	**31,770,434**	**42,909,889**

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. STATEMEMY OF CHANGES IN NET FINANCIAL POSITION

(in Euro)

	Dec. 31, 2017	Dec. 31, 2016
A) OPENING NET FINANCIAL POSITION	**42,976,953**	**45,055,996**
B) CASH FLOW FROM OPERATING ACTIVITIES		
Net profit	4,507,885	7,421,259
Amortization & Depreciation	2,235,269	2,173,738
Write-down of investments	3,000,000	-
Gains on sale of investments	-	(20,573)
Changes in working capital:	(10,755,836)	(683,434)
Net change in post-employment benefits	-	(41,581)
Others, net	32,616	22,012
	(980,066)	**8,871,422**
C) CASH FLOW FROM INVESTING ACTIVITIES		
Fixed asset investments	(4,271,307)	(2,397,374)
Realizable value for fixed asset disposals	1,253	135,752
	(4,270,054)	**(2,261,623)**
D) CASH FLOW FROM FINANCING ACTIVITIES		
Acquisition of treasury shares	(2,605,179)	(3,066,932)
Dividend payments	(3,324,138)	(5,621,910)
	(5,929,317)	**(8,688,842)**
E) CASH FLOW IN THE YEAR	**(11,179,437)**	**(2,079,043)**
F) CLOSING SHORT-TERM BANK DEBT	**31,797,516**	**42,976,953**

BASICNET S.p.A. – 2017 INCOME STATEMENT PREPARED AS PER CONSOB RESOLUTION NO. 15519 OF JULY 27, 2006

(in Euro)

	FY 2017		FY 2016	
		Of which related parties Note 41		*Of which related parties Note 41*
Direct sales	3,166,941	*2,111,018*	2,720,502	*2,023,329*
Cost of sales	(2,862,491)	*(26,068)*	(2,424,751)	*(52,395)*
GROSS MARGIN	**304,450**		**295,751**	
Royalties and sourcing commissions	28,164,789	*6,485,759*	27,365,918	*6,344,739*
Other income	6,257,602	*6,072,247*	6,496,698	*6,057,700*
Sponsorship and media costs	(682,171)	*(210,987)*	(490,214)	*(33,080)*
Personnel costs	(8,799,745)		(8,421,972)	
Selling, general and administrative costs, royalties expenses	(14,376,517)	*(2,981,929)*	(14,198,499)	*(3,092,730)*
Amortization & Depreciation	(2,235,269)		(2,173,738)	
EBIT	**8,633,139**		**8,873,944**	
Net financial income (charges)	(476,296)	*446,397*	190,102	*516,250*
Dividends	1,850,000	*1,850,000*	1,500,000	*1,500,000*
Income from investments	-		20,573	
Write-down of investments	(3,000,000)		-	
PROFIT BEFORE TAXES	**7,006,843**		**10,584,619**	
Income taxes	(2,498,958)		(3,163,360)	
NET PROFIT	**4,507,885**		**7,421,259**	

BASICNET S.p.A. – BALANCE SHEET AS AT DECEMBER 31, 2017 PREPARED AS PER CONSOB RESOLUTION NO. 15519 OF JULY 27, 2006

(in Euro)

ASSETS	Dec. 31, 2017	*Of which Related Parties Notes 22 & 25*	Dec. 31, 2016	*Of which Related Parties Notes 22 & 25*
Intangible assets	13,218,036		12,112,176	
Plant, machinery and other assets	2,636,170		1,769,559	
Equity invest. & other financial assets	33,274,867	*33,264,489*	36,229,867	*36,219,489*
Deferred tax assets	-		-	
Total non-current assets	**49,129,073**		**50,111,602**	
Net inventories	767,152		807,897	
Trade receivables	12,056,318		10,619,378	
Other current assets	65,755,216	*63,942,638*	69,575,678	*68,130,795*
Prepayments	3,991,897		3,954,103	
Cash and cash equivalents	1,560,523		1,236,975	
Derivative financial instruments	-		-	
Total current assets	**84,131,106**		**86,194,031**	
TOTAL ASSETS	**133,260,179**		**136,305,633**	

LIABILITIES	Dec. 31, 2017	*Of which Related Parties Note 36*	Dec. 31, 2016	*Of which Related Parties Note 36*
Share capital	31,716,673		31,716,673	
Treasury shares	(14,494,992)		(11,889,813)	
Other reserves	63,651,767		59,537,548	
Net Profit	4,507,885		7,421,259	
TOTAL SHAREHOLDERS' EQUITY	**85,381,333**		**86,785,667**	
Provisions for risks and charges	-		-	
Loans	20,001,288		11,960,323	
Employee and Director benefits	2,152,621		1,614,436	
Deferred tax liabilities	297,430		308,095	
Other non-current liabilities	858,583		759,414	
Total non-current liabilities	**23,309,922**		**14,642,268**	
Bank payables	10,028,504		11,057,007	
Trade payables	6,039,074		4,757,626	
Tax payables	2,809,708		14,736,086	
Other current liabilities	5,394,487	*2,335,409*	4,077,183	*1,159,392*
Accrued expenses	270,069		182,732	
Derivative financial instruments	27,082		67,064	
Total current liabilities	**24,568,924**		**34,877,698**	
TOTAL LIABILITIES	**47,878,846**		**49,519,966**	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**133,260,179**		**136,305,633**	

BASICNET S.p.A. – CASH FLOW STATEMENT AS AT DECEMBER 31, 2017 PREPARED AS PER CONSOB RESOLUTION NO. 15519 OF JULY 27, 2006

(in Euro)

	Dec. 31, 2017	*Of which related Parties*	Dec. 31, 2016	*Of which related parties*
A) OPENING SHORT-TERM BANK DEBT	**(4,820,031)**		**(924,763)**	
B) CASH FLOW FROM OPERATING ACTIVITIES				
Net Profit	4,507,885		7,421,259	
Amortization & Depreciation	2,235,269		2,173,738	
Write-down of investments	3,000,000		-	
Gains on sale of equity investments	-		(20,573)	
Changes in working capital:				
- (increase) decrease in trade receivables	(1,436,940)		(1,182,254)	
- (increase) decrease in inventories	40,744		(33,413)	
- (increase) decrease in other receivables	4,278,978	*4,188,158*	(3,144,399)	*(3,185,809)*
- increase (decrease) in trade payables	1,281,448		394,934	
- increase (decrease) in other payables	(10,429,545)	*1,176,017*	376,398	*81,802*
Net change in post-employment benefits	-		(41,580)	
Others, net	32,616		22,012	
	3,510,455		**5,966,122**	
C) CASH FLOW FROM INVESTING ACTIVITIES				
Investments in fixed assets:				
- tangible assets	(1,358,918)		(608,641)	
- intangible assets	(2,867,389)		(1,788,712)	
- financial assets	(45,000)		(21)	
Realizable value for fixed asset disposals:				
- tangible assets	1,253		178	
- intangible assets	-		-	
- financial assets	-		135,573	
	(4,270,054)		**(2,261,633)**	
D) CASH FLOW FROM FINANCING ACTIVITIES				
Lease contracts (repayments)	40,966		17,650	
Repayments of medium/long term loans	(5,000,000)		(6,428,565)	
New medium/long term loans	13,000,000		7,500,000	
Treasury shares	(2,605,179)		(3,066,932)	
Distribution dividends	(3,324,138)		(5,621,910)	
	2,111,649		**(7,599,757)**	
E) CASH FLOW IN THE YEAR	**1,352,050**		**(3,895,268)**	
F) CLOSING SHORT-TERM BANK DEBT	**(3,467,981)**		**(4,820,031)**	

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 utilization 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, 2017 was approved by the Board of Directors on March 19, 2018. The final approval of the accounts is the responsibility of the Shareholders' Meeting.

2. ACCOUNTING STANDARDS FOR THE PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements for the year 2017 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 utilized in the financial statements are the same as those utilized in the previous year.

Accounting standards, amendments and interpretations applied from January 1, 2017

The Company adopted for the first time some amendments to accounting standards which are in force for the periods which begin from January 1, 2017 and thereafter. The Company has not adopted in advance any standard, interpretation or amendment published but not yet in effect.

As per IAS 8 - *Accounting Standards, Changes in Accounting Estimates and Errors*, the nature and impact of each amendment is briefly indicated and illustrated below:

Amendment to IAS 7 - Statement of Cash Flows: Disclosure initiatives: The amendments require an entity to provide additional disclosure on changes in liabilities related to financing activities, including whether these changes relate to cash flows or non-monetary changes (such as, for example purposes, currency gains and losses). The Company provided disclosure for the current year and for the comparative year.

Amendments to IFRS 12 - Disclosure of interest in other entities, Improvements to IFRS (cycle 2014-2016): The amendments clarify that the disclosure requirements of IFRS 12, differing than those as per paragraphs B10-B16, apply to investments of an entity in a subsidiary, joint venture or associate (or share of an investment in a joint venture or associate) which is classified (or included in a disposal group classified as such) as available for sale.

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

Amendments to IAS 12 – Income taxes Recognition of deferred tax assets for unrealized losses: The amendments clarify that an entity must consider if the fiscal regulations limit the sources of assessable income against which they could make deductions related to the reversal of the deductible temporary differences. In addition, the amendment provides guidelines on how an entity should determine the future assessable income and explains the circumstances in which the assessable income could include the recovery of some assets for a value higher than their carrying value.

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

New Standards and Interpretations not yet in force

The standards and interpretations which at the date of the preparation of the financial statements of BasicNet S.p.A were issued but not yet in force are reported below. The Company will adopt the following standards when they enter into force.

IFRS 9 - *Financial Instruments*
In July 2014, the IASB published the final version of IFRS 9 Financial Instruments which replaces IAS 39 *Financial Instruments*: *Recognition and measurement* and all the previous versions of IFRS 9. IFRS 9 combines all three aspects relating to the accounting of financial instruments: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for periods beginning January 1, 2018 and thereafter; advance application is permitted. With the exception of the hedge accounting, retrospective application is required of the standard, but it is not obligatory to disclose comparative information. In relation to the hedge accounting, the standard is generally applied in a prospective manner, with some limited exceptions.

The company will adopt the new standard from the date it enters into force and shall not restate the comparative figures. In 2017, the Company carried out a detailed analysis on all aspects covered by IFRS 9. This analysis was based on currently available information and may be subject to changes on the basis of additional information which may become available to the Company in 2018, when the Company will adopt IFRS 9.

d) *Classification and measurement*
The Company does not expect significant impacts on its financial statement and net equity from application of the classification and measurement requirements of IFRS 9. Trade receivables are held until their collection at the contractual maturities of the cash flows relating to the collection of the principal and interest. The Company analyzed the contractual cash flows of these instruments and concluded that they comply with the amortized cost measurement criteria in accordance with IFRS 9. Therefore, a reclassification of these instruments will not be necessary.

e) *Impairment losses*
IFRS 9 requires that the Company recognizes the expected losses on receivables on all obligations in portfolio, loans and trade receivables, with reference either to a period of 12 months or the entire contractual duration of the instrument ("lifetime expected loss"). The Company will apply the simplified approach and therefore will recognize the expected losses on all trade receivables based on their residual contractual duration.

f) *Hedge accounting*
With regards to Hedge Accounting, the Company considers that all existing hedges which are presently designated as effective hedges shall continue to qualify for hedge accounting in accordance with IFRS 9. Given that IFRS 9 does not amend the general principle on which an entity recognizes effective hedges, the application of these requirements by IFRS 9 for the purposes of the definition of the hedges will not have significant impacts on the separate financial statements of BasicNet S.p.A.

The Company does not expect significant impacts on its financial statement and net equity.

IFRS 15 - *Revenues from contracts with customers:*
IFRS 15 was issued in May 2014, amended in April 2016, and introduces a new model in five steps which will be applied to revenues from contracts with customers. IFRS 15 provides for the recognition of revenues for an amount which reflects the payment which the entity considers to have the right to in exchange for the transfer of goods or services to the customer.

The new standard will replace all the current requirements of IFRS in terms of revenue recognition. The standard is effective for periods beginning January 1, 2018 and thereafter, with full retrospective or amended application. Earlier application is permitted.

The Company expects to apply the new standard from the date of obligatory application, utilizing the amended application method.

In 2016, the Company carried out a preliminary analysis on the effects of IFRS 15, which was completed with a detailed analysis in 2017. The Company will recognize revenues deriving from royalties and sourcing commissions based on the period of the agreement until the reaching of the minimum guaranteed threshold: therefore, an impact is not expected, with the adoption of IFRS 15, on the revenues and on the income statement of the Company.

In relation to direct sales revenue by own commercial licensees and by its subsidiary, the Company does not expect an impact on the income statement.

IFRS 16 - Leasing
IFRS 16 was published in January 2016 and replaces IAS 17 *Leasing*, IFRIC 4 *Determining whether an arrangement contains a lease*, SIC 15 *Operating leases - Incentives* and SIC 27 *Evaluating the substance of transactions in the legal form of a lease*. IFRS 16 defines the principles for the recognition, measurement, presentation and disclosure of leasing and requires lessees to recognize all leasing contracts in the financial statements on the basis of a single model similar to that utilized for recognizing finance leases in accordance with IAS 17. The standard provides for two exemptions for the recognition by lessees - leasing contracts with low value (for example personal computers) and short-term lease contracts (for example contracts with expiry within 12 months or less). At the initial date of the lease contract, the lessee records a liability against the lease payments and an asset which represents the right to the use of the underlying asset for the duration of the contract. The lessees must separately record the expenses for interest on the leasing liabilities and the amortization of the right to use an asset.

The accounting required by IFRS 16 for lessees is substantially unchanged compared to the current accounting under IAS 17. The lessees will continue to classify all leases utilizing the same classification principle as per IAS 17 and distinguishing between two types of leases: operating leases and finance leases.

IFRS 16 requires from lessors and lessees greater disclosure compared to IAS 17.

IFRS 16 will enter into force for the periods beginning January 1, 2019 and thereafter. Advance application is permitted, but not before the entity has adopted IFRS 15. A lessee may choose to apply the standard utilizing a fully retrospective approach or a modified retrospective approach. The transitory provisions within the standard permit some options.

In 2018, the Company will continue to establish the potential effects and implementation of IFRS 16 on its financial statements.

Amendments to IFRS 2 -*Classification and measurement of share-based payments*
The IASB issued amendments to IFRS 2 Share-based payments which concern three principal areas: the effects of a vesting condition on the measurement of a cash-settled share-based payment; the classification of an equity-settled share-based payment settled net of withholding tax obligations; the accounting where a change in the terms and conditions of an equity-settled share-based payment changes its classification from cash-settled to equity-settled.

These amendments are effective for the periods beginning January 1, 2018 and thereafter; advance application is permitted. The Company does not expect effects on its financial statements.

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

The Company will apply these amendments when they enter into force.

IFRS 17 - *Insurance contracts*
In May 2017, the IASB issued IFRS 17 - *Insurance Contracts*, a complete new standard relating to insurance contracts which covers recognition and measurement, presentation and disclosure. IFRS 17 will replace IFRS 4 - *Insurance Contracts* which was issued in 2005. IFRS 17 will enter into force for periods beginning January 1, 2021 and thereafter and will require the presentation of comparative balances.

This standard is not applicable to the Company.

Amendments to IAS 40 - *Investment property*
The amendments clarify when an entity should transfer a building, including buildings under construction or development within or outside the Property investments account. These amendments are effective for the periods beginning January 1, 2018 and thereafter. Advance application is permitted and should be disclosed.

The Company does not expect effects on its consolidated financial statements.

Improvements to IFRS (2014-2016 cycle)
These improvements include amendments to IFRS 1 - *First-time adoption* of IFRS and IAS 28 - *Investments in associates and joint ventures*: the Company does not expect any effect on its financial statements.

IFRIC 22 - *Foreign currency transactions and advance consideration*
The interpretation clarifies that, in setting the spot exchange rate to be utilized for the initial recognition of the relative assets, costs or revenues on cancellation of a non-cash asset or non-cash liability relating to advances on consideration, the transaction date is the date on which the entity initially recognizes the non-cash asset or non-cash liability relating to the advances on consideration. The Interpretation is in force for the periods beginning January 1, 2018 and thereafter. Advance application is permitted and should be disclosed.

The Company does not expect effects on its consolidated financial statements.

IFRIC 23 - *Uncertainty on tax treatment*
The interpretation sets out the accounting approach to income taxes where the tax treatment implies uncertainties impacting application of IAS 12 and does not apply to income or other taxes not falling within the scope of IAS 12. An entity should define whether it considers each uncertain tax treatment separately or together with other (one or more) uncertain tax treatments. The Interpretation is effective for the years beginning January 1, 2019 or subsequently, although transitory arrangements are available.

The company shall apply the interpretation from its entry into force. The Company does not expect significant effects 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, 2017 are disclosed below:

Revenue recognition

Revenues are recognized in accordance with the probability that the company will receive economic benefits and the amount can be determined reliably. Revenues are recognized net of returns, discounts and allowances.

In particular, revenues from the sale of goods are recognized when the significant risks and benefits of the ownership of the goods are transferred to the buyer, the sales price has been agreed or determinable and collection of the receivable is expected. This moment generally corresponds with the transfer of ownership which coincides, normally, with the shipping or delivery of the goods.

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

Recognition of costs and expenses

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

Cost relating to the preparation and presentation of sample collections are recognized in the income statement in the year in which the sales of the relative collections are realized. 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 capitalized 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 recognized in the income statement when the right to receive the dividend is established.

Dividends distributed

Dividends distributed are represented as changes in shareholders' equity in the year in which the Shareholders' Meeting approves the distribution and payment.

Translation of balances in foreign currencies

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

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

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

Income taxes

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

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

Deferred taxes are calculated on all the temporary differences arising between the assessable income of an asset or liability and the relative book value in the financial statements, with the exception of the goodwill not fiscally deductible and of those differences deriving from investments in subsidiaries for which a write-down is not expected in the future.

Deferred tax assets on fiscal losses and unutilized tax credits carried forward are recognized only for those amounts for which it is probable there will be future assessable income to recover the amounts. The deferred tax assets and liabilities are offset when the income tax is applied by the same fiscal authority and when there is a legal right of compensation.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the temporary difference is reversed.

The Company adhered to the tax consolidation in accordance with Article 117 and thereafter of the CFA – Presidential Decree No. 917 of December 22, 1986 together with all of the wholly-owned Italian subsidiary companies. BasicNet S.p.A. acts as the consolidating company and calculates a single assessable base for the Group of companies adhering to the national tax consolidation and therefore benefits from the possibility of offsetting assessable income with assessable losses in a single tax declaration.

Earnings per share/Diluted earnings per share

In accordance with paragraph 4 of IAS 33 – *Earnings per share*, this latter is only presented at consolidated financial statement level.

Provisions and contingent liabilities

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

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

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

The contingent liabilities are not recorded in the financial statements, but rather 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 utilized to measure intangible and tangible assets subject to impairment tests, in addition to recognize provisions on doubtful debts, inventory obsolescence, amortization 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 recognized 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 recognized at purchase and/or production cost, including the costs of bringing the asset to its current use net of accumulated amortization and any loss in value. Amortization begins when the asset is available for use and is recognized on a straight-line basis over the residual estimated useful life of the asset.

Software development

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

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 amortized but subject to an impairment test at least annually.

The patent rights are amortized 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 capitalized where they increase the future economic benefits of the asset to which they relate. All other expenditures are expensed as incurred.

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

Description	**Estimated useful life years**
Plant and machinery	8
Furniture and furnishings	5-8
Motor vehicles	4
EDP	5-8

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

Ordinary maintenance costs are fully charged to the income statement.

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

Leased assets

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

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

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

Impairments

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

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

Measuring recoverable amount

The recoverable value of a non-financial asset is the higher of the fair value less costs to sell and the value in use. For the determination of the value in use, the future cash flows are discounted utilizing 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 recognized 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 recognized 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 recognized 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 recognized directly to the Income Statement.

Other financial assets

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

Cash and cash equivalents

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

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

Accruals and prepayments

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

Treasury shares

Treasury shares are recognized as a deduction from equity. The original cost of the treasury shares and the revenues deriving from any subsequent sale are recognized 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 amortized 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 IAS 39.

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 utilize fair value hedge instruments.

a) Fair value hedges

The changes in their fair value are recognized in the income statement, together with the changes in the fair value of the relative assets and liabilities hedged.
The Company does not utilize fair value hedge instruments.

b) Cash flow hedges

The part of the profit or loss of the hedge instrument, considered effective, is recorded directly in the comprehensive income statement; the non-effective part is however recorded immediately in the income statement. The accumulated amounts in the comprehensive income statement are recorded in the income statement in the year in which the scheduled hedge operation matures or the instrument hedged is sold, or when the effectiveness requirements for hedge accounting no longer exist.

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

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

Hierarchy of Fair Value according to IFRS 7

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

The IFRS 7 classification implies the following hierarchy:

- *level 1*: determination of fair value based on prices listed (“unadjusted”) in active markets for identical assets or liabilities;
- *level 2*: determination of fair value based on other inputs than the listed prices included in “level 1” but which are directly or indirectly observable. This category includes the instruments with which the Company mitigates the risk deriving from fluctuations in interest rates and currencies;
- *level 3*: determination of fair value based on valuation models whose input is not based on observable market data (“unobservable inputs”).

5. OTHER INFORMATION

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

EXPLANATORY NOTES (IN EURO)

6. DISCLOSURE BY OPERATING SEGMENT

As the Company simultaneously publishes the separate and consolidated financial statements, the operating segment information is provided only for the consolidated financial statements in accordance with IFRS 8 – *Operating segments*.

7. DIRECT SALES

The direct sales of products undertaken by the Company refer only to samples of clothing and footwear to licensees. The breakdown of sample sales is as follows:

	FY 2017	FY 2016
Net sales to third parties	1,055,923	697,174
Net sales to subsidiaries	2,111,018	2,023,328
Total direct sales	**3,166,941**	**2,720,502**

Sales to subsidiaries are detailed in Note 41.

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

	FY 2017	FY 2016
Italy	2,187,097	2,066,737
Europe	610,486	357,809
The Americas	198,529	118,244
Asia and Oceania	154,400	171,872
Middle East and Africa	16,429	5,840
Total	**3,166,941**	**2,720,502**

The direct sale of samples reported a Euro 374 thousand increase, following increased orders from licensees.

8. COST OF SALES

The breakdown of the cost of sales is as follows:

	FY 2017	FY 2016
Samples purchased	1,956,026	1,671,284
Freight charges and accessory purchasing cost	518,221	389,468
Change in inventory of raw materials, ancillary, consumables and goods	40,744	(33,413)
Prototypes purchases and development	293,397	338,180
Other	54,103	59,232
Total cost of sales	**2,862,491**	**2,424,751**

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

	FY 2017	FY 2016
Asia and Oceania	1,587,867	1,197,018
Italy	259,398	282,059
Europe	27,250	144,036
The Americas	62,293	43,968
Middle East and Africa	19,218	4,203
Total	**1,956,026**	**1,671,284**

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

9. ROYALTIES AND SOURCING COMMISSIONS

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

	FY 2017	FY 2016
Europe	12,974,110	12,359,428
The Americas	2,088,077	2,246,060
Asia and Oceania	12,246,162	11,819,530
Middle East and Africa	856,440	940,900
Total	**28,164,789**	**27,365,918**

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, Briko and Sebago 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 2017	FY 2016
Assistant services to Group companies	6,072,247	6,057,700
Other income	185,355	438,998
Total other income	**6,257,602**	**6,496,698**

The "revenues for assistant services to Group companies" originates from assistance and consultancy in administration and finance, payroll, commercial contract agreements and IT services provided by the Parent Company to the subsidiaries BasicItalia S.p.A., Basic Village S.p.A., Basic Trademark S.A., Superga Trademark S.A., Jesus Jeans S.r.l and Fashion S.r.l..

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

11. SPONSORSHIP AND MEDIA COSTS

	FY 2017	FY 2016
Communication contributions	455,222	39,190
Promotional expenses	52,703	46,055
Advertising	174,246	404,969
Total sponsorship and media costs	**682,171**	**490,214**

The increase of Euro 192 thousand principally concerned higher communication contributions granted to commercial licensees compared to the previous year.

12. PERSONNEL COSTS

	FY 2017	FY 2016
Wages and salaries	6,277,862	6,057,645
Social security charges	2,094,989	1,979,865
Post-employment benefits	426,894	384,462
Total	**8,799,745**	**8,421,972**

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, 2017				Human resources at December 31, 2016			
	Number		Average age		Number		Average age	
	Male/ Female	Total	Male/ Female	Average	Male/ Female	Total	Male/Female	Average
Executives	16 / 8	24	47 / 50	48	15 / 8	23	46 / 49	47
White-collar	61 / 108	169	36 / 38	37	56 / 104	160	36 / 38	37
Blue-collar	1 / 2	3	37 / 45	42	1 / 2	3	36 / 44	41
Total	**78 / 118**	**196**	**38 / 39**	**39**	**72 / 114**	**186**	**38 / 39**	**39**

The average number of Employees in 2017 was 196, comprising 24 executives, 169 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 2017	FY 2016
Commercial expenses	3,737,087	3,367,312
Rental, accessory and utility expenses	3,376,137	3,364,995
Directors and Statutory Auditors emoluments	3,090,501	2,892,952
Doubtful debt provision	-	500,678
Sales services	537,330	475,132
Other general expenses	3,635,462	3,597,430
Total selling, general and administrative costs, and royalties	**14,376,517**	**14,198,499**

“Commercial expenses” include costs related to the commercial activities, travel expenses and consulting costs for stylistic and graphic material and increased approx. Euro 370 thousand, related to additional consultancy for the development of new products and increased travel for new market development, also with reference to the new brands acquired by the Group.

“Rental charges” principally relate to the offices of the company, owned by the subsidiary Basic Village S.p.A.

The company’s remuneration policy, as well as Directors and Statutory Auditors emoluments for the offices held, pursuant to Article 78 of Consob Regulation No. 11971/97 and thereafter are reported in the Remuneration Report pursuant to Article 123-ter of the CFA (reported net of tax charges) which is available on the company’s website www.basicnet.com/contenuti/datifinanziari/assembleeazionisti.asp, to which reference should be made.

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

The account “other general expenses” includes legal and professional fees, bank charges, other taxes, consumption materials, hire charges, and corporate and other minor expenses. The increase is due to greater recourse to legal and professional consultants.

14. AMORTISATION & DEPRECIATION

Depreciation of fixed assets includes depreciation on finance lease assets.

	FY 2017	FY 2016
Amortization	1,759,076	1,791,566
Depreciation	476,193	382,172
Total amortization & depreciation	**2,235,269**	**2,173,738**

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

15. NET FINANCIAL INCOME (CHARGES)

	FY 2017	FY 2016
Interest on bank deposits	170	136
Intercompany interest income	446,397	516,251
Bank interest charges	(104,366)	(108,792)
Interest on medium/long term loans	(270,651)	(242,348)
Medium/long term loan charges	(22,104)	(47,093)
Other interest charges	(27,127)	(63,597)
Total financial income and charges	***22,319***	***54,557***
Exchange gains	388,120	443,576
Exchange losses	(886,735)	(308,031)
Net exchange gains/(losses)	***(498,615)***	***135,545***
Total financial income/(charges)	**(476,296)**	**190,102**

“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 29.

“Exchange gains realized” in 2017 amounted to Euro 241 thousand and “exchange losses realized” amounted to Euro 397 thousand. The translation of credit and debit balances at year-end resulted in the recognition of “non-realized exchange losses” of Euro 490 thousand and “non-realized exchange gains” of Euro 147 thousand.

16. DIVIDENDS

The subsidiary Basic Properties B.V. approved in the year the distribution of a dividend to BasicNet of Euro 1.8 million, based on the dividends in turn received from the entirely held subsidiaries Superga Trademark S.A. and Basic Properties America Inc..

17. INCOME/(CHARGES) FROM INVESTMENTS

The account in 2016 included the gain from the sale of the 50% holding in AnziBesson Trademark S.r.l. to the Besson family.

18. WRITE-DOWN OF INVESTMENTS

The account includes the adjustment of the carrying amount of the investment in BasicItalia S.p.A., equal to Euro 3 million, following the impairment test on the carrying amount of the subsidiary, described in Note 22.

19. INCOME TAXES

Current income tax

Income taxes overall amounted to Euro 2.5 million, of which IRAP for Euro 0.5 million, IRES for Euro 2.3 million while also including the benefits related to the "Patent Box" regulation of Euro 0.3 million.
It should be noted that the benefit attributable to the application of the recent "Patent Box" regulation was limited to the part not subject to review by the Tax Agency and for which an application was presented within the terms established by the relative notices; it should also be noted that the Tax Agency undertook the "review activities in which it was established that BasicNet is within the scope of the subsidy, with the formal substance verified of the obligatory elements for access to the optional system and the application therefore declared admissible". The ruling procedure has not yet been completed by the Tax Agency and therefore it is still not possible to forecast the amount of any further benefits, also with reference to the years 2015 and 2016.

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

	2017	**2016**
Profit before taxes	7,006,843	10,584,619
Income tax rate	24.0%	27.5%
Theoretical IRES	***(1,681,642)***	***(2,910,770)***
Permanent tax differences effect	(571,467)	(37,316)
Prior year taxes	(67,924)	(221,869)
Patent Box benefit	336,268	610,381
IRAP	(473,660)	(506,753)
Other changes	(40,533)	(97,033)
EFFECTIVE TAX CHARGE	**(2,498,958)**	**(3,163,360)**

Deferred taxes

"Income taxes" include deferred tax income of Euro 18 thousand against the provision of deferred taxes on differences between the book value and tax value of the assets/liabilities.

EXPLANATORY NOTES TO THE BALANCE SHEET (IN EURO)

ASSETS

20. INTANGIBLE ASSETS

The breakdown of intangible assets at December 31, 2017 compared to the previous year-end and the movements during the year are reported in the table below:

	Dec. 31, 2017	Dec. 31, 2016	Changes
Concessions, brands and similar rights	9,925,986	8,367,231	1,558,755
Other intangible assets	2,895,605	3,341,519	(445,914)
Intangible assets in progress	345,109	362,436	(17,327)
Industrial patents & intellectual property rights	51,336	40,990	10,346
Total intangible assets	**13,218,036**	**12,112,176**	**1,105,860**

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

	Concessions, brands, and similar rights	Other intangible assets	Intangible assets in progress	Industrial patents	Total
Historic cost at 1.1.2016	**12,518,117**	**28,301,463**	**354,525**	**81,002**	**41,255,107**
Additions	*149,684*	*1,261,936*	*362,436*	*14,656*	*1,788,712*
Reclass.	-	*354,525*	*(354,525)*	-	-
Historic cost at 31.12.2016	**12,667,801**	**29,917,924**	**362,436**	**95,658**	**43,043,819**
Additions	*1,693,137*	*811,570*	*345,109*	*17,573*	*2,867,389*
Divestments	*(168)*	*(2,285)*	-	-	*(2,453)*
Reclass.	-	*362,436*	*(362,436)*	-	-
Historic cost at 31.12.2017	**14,360,770**	**31,089,645**	**345,109**	**113,231**	**45,908,755**

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

	Concessions, brands, and similar rights	Other intangible assets	Intangible assets in progress	Industrial patents	Total
Acc. Amort. at 1.1.2016	**(4,153,000)**	**(24,939,468)**	**-**	**(47,609)**	**(29,140,077)**
Amortization	*(147,570)*	*(1,636,937)*	-	*(7,059)*	*(1,791,566)*
Acc. Amort. at 31.12.2016	**(4,300,570)**	**(23,576,405)**	**-**	**(54,668)**	**(30,931,643)**
Amortization	*(134,214)*	*(1,617,635)*	-	*(7,227)*	*(1,759,076)*
Acc. Amort. at 31.12.2017	**(4,434,784)**	**(28,194,040)**	**-**	**(61,895)**	**(32,690,719)**

The changes in intangible assets during 2017 are shown in the table below:

	Concessions, brands, and similar rights	Other intangible assets	Intangible assets in progress	Industrial patents	Total
Opening net book value at 1.1.2016	**8,365,117**	**3,361,995**	**354,525**	**33,393**	**12,115,030**
Additions	*149,684*	*1,261,936*	*362,436*	*14,656*	*1,788,712*
Reclass.	-	*354,525*	*(354,525)*	-	-
Amortization	*(147,570)*	*(1,636,937)*	-	*(7,059)*	*(1,791,566)*
Closing net book value at 31.12.2016	**8,367,231**	**3,341,519**	**362,436**	**40,990**	**12,112,176**
Additions	*1,693,137*	*811,570*	*345,109*	*17,573*	*2,867,389*
Divestments	*(168)*	*(2,285)*	-	-	*(2,453)*
Reclass.	-	*362,436*	*(362,436)*	-	-
Amortization	*(134,214)*	*(1,617,635)*	-	*(7,227)*	*(1,759,076)*
Closing net book value at 31.12.2017	**9,925,986**	**2,895,605**	**345,109**	**51,336**	**13,218,036**

At December 31, 2017, the intangible assets report investments of Euro 2.9 million and amortization of approx. Euro 1.8 million.

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

The brand K-Way and the brand Briko have book values of Euro 8.1 million and Euro 1.6 million respectively at December 31, 2017. 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% (1.5% in 2016). These net cash flows were discounted at the weighted average cost of capital (WACC) equal to 6% (6% in 2016), 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, comfortably exceeded the book value.

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

	Dec. 31, 2017	Dec. 31, 2016	Changes
Software development	2,883,817	3,322,297	(438,480)
Other intangible assets	11,788	19,222	(7,434)
Total other intangible assets	**2,895,605**	**3,341,519**	**(445,914)**

The account increased Euro 0.8 million, principally due to the implementation of new software programmes realized internally and decreased Euro 1.6 million due to the amortization for the year.

21. PLANT, MACHINERY AND OTHER ASSETS

The breakdown of plant, machinery and other assets at December 31, 2017 compared to the previous year is shown in the table below:

	Dec. 31, 2017	Dec. 31, 2016	Changes
Plant & machinery	60,048	52,508	7,540
Industrial and commercial equipment	81,318	94,994	(13,674)
Other assets	2,494,804	1,622,057	872,747
Total plant, machinery and other assets	**2,636,170**	**1,769,559**	**866,611**

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 1.1.2016	**208,203**	**294,327**	**6,703,084**	**7,205,614**
Additions	*14,810*	*53,435*	*540,395*	*608,640*
Divestments	-	-	*(2,457)*	*(2,457)*
Historic cost at 31.12.2016	**223,013**	**347,762**	**7,241,022**	**7,811,797**
Additions	*27,425*	*19,857*	*1,311,636*	*1,358,918*
Divestments	-	*(12,720)*	*(111,549)*	*(124,269)*
Historic cost at 31.12.2017	**250,438**	**354,899**	**8,441,109**	**9,046,446**

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

	Plant and machinery	Industrial & commercial equipment	Other assets	Total
Acc. Deprec. at 1.1.2016	**(151,308)**	**(231,161)**	**(5,279,876)**	**(5,662,345)**
Amortization	*(19,197)*	*(21,607)*	*(341,368)*	*(382,172)*
Divestments	-	-	*2,279*	*2,279*
Acc. Deprec. at 31.12.2016	**(170,505)**	**(252,768)**	**(5,618,965)**	**(6,042,238)**
Amortization	*(19,885)*	*(21,767)*	*(434,541)*	*(476,193)*
Divestments	-	*954*	*107,201*	*108,155*
Acc. Deprec. at 31.12.2017	**(190,390)**	**(273,581)**	**(5,946,305)**	**(6,410,276)**

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

	Plant and machinery	**Industrial & commercial equipment**	**Other assets**	**Total**
Opening net book value at 1.1.2016	**56,895**	**63,166**	**1,423,208**	**1,543,269**
Additions	*14,810*	*53,435*	*540,395*	*608,640*
Divestments	-	-	*(178)*	*(178)*
Depreciation	*(19,197)*	*(21,607)*	*(341,368)*	*(382,172)*
Closing net book value at 31.12.2016	**52,508**	**94,994**	**1,622,057**	**1,769,559**
Additions	*27,425*	*19,857*	*1,311,636*	*1,358,918*
Divestments	-	*(11,766)*	*(4,348)*	*(16,114)*
Depreciation	*(19,885)*	*(21,767)*	*(434,541)*	*(476,193)*
Closing net book value at 31.12.2017	**60,048**	**81,318**	**2,494,804**	**2,636,170**

This account "other assets" consist of:

	Dec. 31, 2017	**Dec. 31, 2016**	**Changes**
EDP	564,464	505,362	59,102
Furnishings and fittings	308,446	308,909	(463)
Motor vehicles	101,968	63,487	38,481
Other assets	1,519,926	744,299	775,627
Total other assets	**2,494,804**	**1,622,057**	**872,747**

Capex in the year relates to the acquisition of molds for new products mainly concerning the brand Sebago for Euro 710 thousand and the brand Briko for Euro 100 thousand, furniture and fittings and EDP for Euro 290 thousand, plant for Euro 27 thousand and equipment and motor vehicles for Euro 108 thousand and minor assets.

The account "other assets" includes the purchase cost of an IT collection comprising rare pieces which represents significant elements and representative of the IT revolution, in the 1970's and 1980's with the advent of the new personal computer. This collection is utilized in many events related to the promotion of the brands and logos of the Group. The account also includes the purchase cost of molds for footwear, eyewear, helmets and masks for skiing and cycling, , so that ownership is held in order to control the strategic stages of the production process utilized 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, 2017	**Net value at December 31, 2016**
EDP	62,627	61,810
Motor vehicles	60,203	49,365
Total	**122,830**	**111,175**

The net book value at December 31, 2017 of property, plant and equipment acquired according to the finance lease formula relates to EDP for approx. Euro 63 thousand and motor vehicles for approx. Euro 60 thousand.

22. EQUITY INVESTMENTS AND OTHER FINANCIAL ASSETS

Reference should be made to Attachment 1 for information on the book value of the investments in subsidiaries and changes in the year.

	Dec. 31, 2017	Dec. 31, 2016	Changes
Investments in:			
- Subsidiaries	32,764,488	35,754,488	(2,990,000)
- Joint ventures	500,000	465,000	35,000
- Other companies	128	128	-
Total investments	***32,264,616***	***36,219,616***	***(2,955,000)***
Receivables:			
- Other receivables	10,251	10,251	-
Total financial receivables	***10,251***	***10,251***	***-***
Total investments & other financial assets	**33,274,867**	**36,229,867**	**(2,955,000)**

In line with the practice adopted by other large listed groups in Italy, BasicNet S.p.A. identifies in the negative differential between the share of net equity held in the subsidiary and its book value an indicator of an impairment for the investments of control in its financial statements. From this comparison, undertaken for all of the subsidiaries, it emerged the necessity to undertake an impairment test on the book value on the investment of the subsidiary BasicItalia S.p.A.

The impairment test was undertaken comparing the book value of the investment with its value in use, determined through discounting the expected future cash flows allocated to the CGU (comprising BasicItalia and its subsidiary BasicRetail). The key assumptions utilized for the calculation principally refer to:

- the estimate of the future net cash flows, based on the plans approved by the subsidiaries 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, calculated assuming a perpetual growth rate of 1.0% (1.5% in 2016);

the discounting of the weighted average cost of capital (WACC) of 6.0% (6.0% in 2016).

This analysis resulted in an impairment write-down of Euro 3 million in 2017, as described in Note 18.

On the other hand, investments in subsidiaries increased Euro 10 thousand for the entire shareholding in TOS S.r.l., incorporated during the year for the acquisition of the Sebago brand. The shares in TOS were pledged in favor of MPS Capital Services as guarantee on the loan provided for the acquisition of the brand.

The book value of the subsidiary Basic Properties B.V., amounting to Euro 3.6 million at December 31, 2017, was unchanged compared to the previous year.

Other receivables refer to guarantee deposits.

23. NET INVENTORIES

The composition of the item is as follows:

	Dec. 31, 2017	Dec. 31, 2016	Changes
Finished products and goods	2,089,927	1,840,672	249,255
Gross value	***2,089,927***	***1,840,672***	***249,255***
Inventory obsolescence provision	(1,322,775)	(1,032,775)	(290,000)
Total net inventories	**767,152**	**807,897**	**(40,745)**

"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:

	2017	2016
Inventory obsolescence provision at 1.1	**1,032,775**	**893,275**
Provisions in the year	300,000	200,000
Utilizations	(10,000)	(60,500)
Inventory obsolescence provision at 31.12	**1,332,775**	**1,032,775**

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

24. TRADE RECEIVABLES

	Dec. 31, 2017	Dec. 31, 2016	Changes
Trade receivables - Italy	667,889	797,111	(129,222)
Trade receivables - Abroad	12,935,474	11,374,324	1,561,150
Doubtful debt provision	(1,547,045)	(1,552,057)	5,012
Total trade receivables	**12,056,318**	**10,619,378**	**1,436,940**

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

	Dec. 31, 2017	Dec. 31, 2016	Changes
Europe	2,019,182	2,789,785	(770,603)
The Americas	1,557,601	1,289,954	267,647
Asia and Oceania	9,300,572	7,192,777	2,107,795
Middle East and Africa	58,119	101,808	(43,689)
Total	**12,935,474**	**11,374,324**	**1,561,150**

"Trade receivables" were written down to their realizable 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:

	2017	2016
Doubtful debt provision at 1.1	**1,552,057**	**1,069,376**
Utilization for administration procedures and other losses	(5,012)	(17,997)
Provisions in the year	-	500,678
Doubtful debt provision at 31.12	**1,547,045**	**1,552,057**

The utilization of the provision relates to the write-off made on the certainty of the receivable irrecoverability and consequent tax deductibility of the loss.

The book value of receivables, all due within one year, is in line with their fair value.

25. OTHER CURRENT ASSETS

	Dec. 31, 2017	Dec. 31, 2016	Changes
Receivables from Group companies	63,942,638	68,130,795	(4,188,157)
Tax receivables	765,473	884,619	(119,146)
Other receivables	1,047,105	560,264	486,841
Other current assets	**65,755,216**	**69,575,678**	**(3,820,462)**

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

	Dec. 31, 2017	Dec. 31, 2016	Changes
Trade receivables			
Basic Properties B.V.	2,146,075	2,188,504	(42,429)
BasicItalia S.p.A.	514,826	704,412	(189,586)
Jesus Jeans S.r.l.	5,650	1,405	4,245
Superga Trademark S.A.	-	20,833	(20,833)
Basic Trademark S.A.	-	458,334	(458,334)
Total trade receivables	***2,666,551***	***3,373,488***	***(706,937)***
Financial receivables			
BasicItalia S.p.A.	27,100,497	33,767,710	(6,667,213)
Basic Village S.p.A.	4,323,404	4,136,452	186,952
Superga Trademark S.A. for loan	10,600,580	13,921,782	(3,321,202)
Superga Trademark S.A.	6,493,042	4,094,209	2,398,833
Basic Trademark S.A.	-	6,134,001	(6,134,001)
BasicRetail S.r.l.	908,564	2,703,153	(1,794,589)
TOS S.r.l.	11,850,000	-	11,850,000
Total financial receivables	***61,276,087***	***64,757,307***	***(3,481,220)***
Total	**63,942,638**	**68,130,795**	**(4,188,157)**

Financial receivables originate from loans and advances for the cash needs of the subsidiaries within the centralized 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 totaling Euro 372 thousand, Tax reimbursements due of Euro 277 thousand and other minor amounts of Euro 116 thousand.

The receivable from TOS S.r.l., incorporated in the year, 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.

The account "other receivables" includes the premium paid to the insurance company against the Directors Termination Indemnities for the Chairman of the Board of Directors of Euro 1 million, as approved by the Shareholders' Meeting for the 2016-2018 three-year mandate, as described in the Remuneration Report to which reference should be made and other minor amounts.

26. PREPAYMENTS

The table below shows the breakdown of the account:

	Dec. 31, 2017	Dec. 31, 2016	Changes
Prepaid expenses on 2017 collections	3,407,024	3,571,988	(164,964)
Rentals, leases, hire and other	500,966	218,857	282,109
Assistance and maintenance contract	81,581	125,031	(43,450)
Other	2,326	38,227	(35,901)
Total prepayments	**3,991,897**	**3,954,103**	**37,794**

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

27. CASH AND CASH EQUIVALENTS

	Dec. 31, 2017	Dec. 31, 2016	Changes
Bank and postal deposits	1,545,161	1,225,660	319,501
Cash in hand and similar	15,362	11,315	4,047
Total cash and cash equivalents	**1,560,523**	**1,236,975**	**323,548**

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

SHAREHOLDERS' EQUITY & LIABILITIES

28. SHAREHOLDERS' EQUITY

	Dec. 31, 2017	**Dec. 31, 2016**	**Changes**
Share capital	31,716,673	31,716,673	-
Treasury shares	(14,494,992)	(11,889,813)	(2,605,179)
Legal reserve	5,437,801	5,066,738	371,063
Treasury shares in portfolio reserve	14,494,992	11,889,813	2,605,179
Other reserves:			
- cash flow hedge reserve	(20,582)	(49,364)	28,782
- remeasurement reserve for defined benefit plans (IAS 19)	(80,947)	(69,263)	(11,684)
- retained earnings	43,820,503	42,699,624	1,120,879
Net Profit	4,507,885	7,421,259	(2,913,374)
Total Shareholders' Equity	**85,381,333**	**86,785,667**	**(1,404,335)**

The account includes:

- The "legal reserve", amounting to approx. Euro 5.4 million, which increased by approx. Euro 371 thousand following the allocation of the result for the previous year, as approved by the Shareholders' AGM of April 27, 2017;
- The "reserve for treasury shares in portfolio", amounting to Euro 14.5 million, which equates to the carrying value of the BasicNet shares held in portfolio at year-end, and was set up through utilization of the "Retained earnings" following the Shareholders' AGM resolution, which authorized 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, 2017, 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 1.1 million following the allocation of the result for the previous year, as approved by the Shareholders' AGM of April 27, 2017, 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 2017, as approved by the Shareholders' AGM of BasicNet S.p.A. of April 27, 2017, in relation to the allocation of the 2016 net profit, a dividend of Euro 0.06 per share was distributed to each of the ordinary shares in circulation, for a total pay-out of approx. Euro 3.2 million.

Based on the share buy-back programme, at the reporting date the Company held 6,140,728 shares, equal to 10.07% of the share capital, for a total investment of approx. Euro 14.5 million. The weighted average number of shares outstanding in the year was 55,308,514.

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

(Euro thousands)	**Dec. 31, 2017**	**Dec. 31, 2016**	**Changes**
Effective part of the Gains/losses on cash flow hedge instruments	*40*	*15*	*25*
Re-measurement of post-employment benefits (IAS 19) (*)	*(15)*	*(10)*	*(5)*
Tax effect relating to the Other items of the comprehensive income statement	*(8)*	*(1)*	*(7)*
Total other gains/(losses), net of tax effect	**17**	**4**	**13**

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

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

(Euro thousands)	**December 31, 2017**			**December 31, 2016**		
	Gross value	**Tax Charge/ Benefit**	**Net value**	**Gross value**	**Tax Charge/ Benefit**	**Net value**
Effective part of Gains/losses on cash flow hedge instruments	40	(11)	29	15	(4)	11
Re-measurement of post-employment benefits (IAS 19) (*)	(15)	3	(12)	(10)	3	(7)
Total other gains/(losses), net of tax effect	**25**	**(8)**	**17**	**5**	**(1)**	**4**

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

The statement on the availability of the reserves at December 31, 2017 is show below:

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

		Dec. 31, 2017	**Dec. 31, 2016**	**Changes**
Share capital		31,716,673	31,716,673	-
Treasury shares		(14,494,992)	(11,889,813)	(2,605,179)
Share premium reserve		-	-	-
Legal reserve	B	5,437,801	5,066,738	371,063
IAS adjustment reserve		-	-	-
Reserve for treasury shares in portfolio		14,494,992	11,889,813	2,605,179
Ordinary reserve		-	-	-
Extraordinary reserve		-	-	-
Other reserves:				
Cash Flow Hedge Reserve	D	(20,582)	(49,364)	28,782
Remeasuring reserve of employee defined benefit plans (IAS 39)	D	(80,947)	(69,263)	(11,684)
Retained earnings	A,B,C	43,820,503	42,699,624	1,120,879
Exchange gains reserve		-	-	-
Net profit		4,507,885	7,421,259	(2,913,374)
Total		**85,381,333**	**86,785,667**	**(1,404,335)**

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

29. LOANS

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

(Euro thousands)	**31/12/2016**	**New loans**	**Repayments**	**31/12/2017**	**Short-term portion**	**Medium/long-term portion**
"Intesa Loan"	9,375	-	3,750	5,625	3,750	1,875
"BNL Loan"	7,500	-	1,250	6,250	1,250	5,000
"MPS Loan"	-	13,000	-	13,000	-	13,000
Balance	**16,875**	**13,000**	**5,000**	**24,875**	**5,000**	**19,875**

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

	Dec. 31, 2017	**Dec. 31, 2016**	**Changes**
Loans:			
- "Intesa Loan"	1,875,000	5,625,000	(3,750,000)
- "BNL Loan"	5,000,000	6,250,000	(1,250,000)
- "MPS Loan"	13,000,000	-	13,000,000
- Other lenders	126,288	85,323	40,965
Total loans	**20,001,288**	**11,960,323**	**8,040,965**

The "Intesa Loan" was issued in April 2015 for Euro 15 million and is of four-year duration, repayable in quarterly instalments at a quarterly Euribor rate plus 185 basis points. In July 2015, the variable Euribor rate was converted (under an interest rate swap) into a fixed rate of 0.23% annually. The loan will support developmental investments, in addition to optimizing the duration of loans undertaken; it is supported by a pledge on Superga Trademark S.A. shares with obligation to maintain the full investment in the company by the Group.

The contractual conditions do not include financial covenants. The loan contract stipulates the maintenance of a number of ownership conditions concerning BasicNet S.p.A., in particular that the overall investment (direct or indirect) of BasicWorld S.r.l. in BasicNet S.p.A. should not reduce below 30%.

The "BNL Loan" was disbursed in November 2016 for Euro 7.5 million; it has six-year duration and is repayable in quarterly instalments at a quarterly Euribor rate increased by 95 basis points. No financial covenants are stipulated, although the maintenance of a number of ownership conditions are required concerning BasicNet S.p.A., in particular that the overall investment (direct or indirect) of BasicWorld S.r.l. in BasicNet S.p.A. should not reduce below 30%. The loan is supported by a second level mortgage on the BasicVillage building in Turin and a first level mortgage on the adjacent building, acquired at the end of 2016.

The "MPS Loan" was issued in July 2017 for Euro 13 million and is of six-year duration, repayable in quarterly instalments from December 2019 at a quarterly Euribor rate (although not below zero) plus 170 basis points. No financial covenants are stipulated, although the maintenance of a number of ownership conditions are required concerning BasicNet S.p.A., in particular that the overall investment (direct or indirect) of BasicWorld S.r.l. in BasicNet S.p.A. should not reduce below 30%. The loan is supported by a pledge on the shares of TOS S.r.l., owner of the Sebago brand, with obligation to maintain the full investment in the company by the Group.

“Payables to other lenders” relate to the accounting of the capital line of finance leases recorded in the accounts under the finance method as per IAS 17.

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

	Dec. 31, 2017	**Dec. 31, 2016**	**Changes**
Medium/long term loans:			
- due within 5 years	17,437,500	10,937,500	6,500,000
- due beyond 5 years	2,437,500	937,500	1,500,000
Total medium/long term loans	***19,875,000***	***11,875,000***	***8,000,000***
Leasing payables	126,288	85,323	40,965
Total leasing payables (maturity within 5 years)	***126,288***	***85,323***	***40,965***
Total loans	**20,001,288**	**11,960,323**	**8,040,965**

30. BANK PAYABLES

	Dec. 31, 2017	**Dec. 31, 2016**	**Changes**
Bank payables due within one year:			
- short-term portion of medium/long-term loans	5,000,000	5,000,000	-
- bank overdrafts and bills	5,000,000	6,001,204	(1,001,204)
- interest expense on loans	28,504	55,803	(27,299)
Total bank payables	**10,028,504**	**11,057,007**	**(1,028,503)**

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

	Dec. 31, 2017	**Dec. 31, 2016**
cash advances	0.10%	0.69%
medium-term loan	1.34%	1.44%

“Bank payables” include the short-term portion of loans, outlined at Note 29 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.

31. EMPLOYEE AND DIRECTOR BENEFITS

The account includes the post-employment benefits for employees of Euro 1.3 million and the termination indemnities of Directors of Euro 0.8 million.

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

	Dec. 31, 2017			Dec. 31, 2016		
	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	1,281,102	-	1,281,102	1,322,988	-	1,322,988
Interest	22,794	-	22,794	24,057	-	24,057
Pension cost, net of withholdings	16	434,907	434,923	(22,057)	413,041	390,984
Benefits paid	-	-	-	(41,581)	-	(41,581)
Payments to the INPS treasury fund	-	(41,399)	(41,399)	-	(147,443)	(147,443)
Payments to other supp. pension fund	-	(393,507)	(393,507)	-	(265,598)	(265,598)
- Actuarial gains/(losses)	15,374	-	15,374	10,067	-	10,067
Internal transfers to the Group	-	-	-	(12,372)	-	(12,372)
Net liabilities recognized in the accounts	**1,319,286**	**-**	**1,319,286**	**1,281,102**	**-**	**1,281,102**
Change in the income statement:						
Interest	22,794	-	22,794	24,057	-	24,057
Pension Cost	4,465	434,907	439,371	(18,267)	413,041	394,774
Actuarial gains/(losses)				-	-	-
Total charges/(income) for post-employment benefits	**27,259**	**434,907**	**462,166**	**5,790**	**413,041**	**418,831**

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 recognized as defined benefit plans in accordance with *IAS 19 – Employee benefits*; those matured subsequent to this date are on the other hand recognized 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, 2017	**Dec. 31, 2016**
discount rate	1.610%	1.790%
inflation rate	1.500%	1.500%
annual increase in post-employment benefit	2.625%	2.625%
annual increase in salaries	1.000%	1.000%

The change in the annual discount rate reflects the decrease in the yields of the “corporate bonds” of the basket utilized (Iboxx Eurozone Corporate) at the balance sheet date.

The sensitivity analysis carried out on the basis of the following variables: 1) inflation rate +0.25%/-0.25%, 2) discount rate +0.25%/-0.25%, 3) turnover rate +1%/-1% shows non-material impacts of less than Euro 10 thousand.

32. DEFERRED TAX LIABILITIES

The breakdown is shown below:

	Dec. 31, 2017	Dec. 31, 2016	Changes
Net deferred tax asset (liability)	297,430	308,095	(10,665)
Total deferred tax liabilities	**297,430**	**308,095**	**(10,665)**

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

(in thousands of Euro)	Dec. 31, 2017			Dec. 31, 2016			
	Amount of temporary differences	**Rate %**	**Tax effect**	**Amount of temporary differences**	**Rate %**	**Tax effect**	**Changes 2017/2016**
Deferred tax assets:							
- Excess doubtful debt provision not deductible	(1,070)	24.00%	(258)	(1,070)	24.00%	(257)	-
- Inventory obsolescence provision	(1,323)	24.00%	(345)	(1,033)	24.00%	(276)	(70)
- Prudent exchange differences, net	(343)	24.00%	(82)	59	24.00%	14	(96)
- ROL surplus	(455)	24.00%	(109)	(456)	24.00%	(109)	-
- Other	(416)	24.00%	(100)	(230)	24.00%	(55)	(44)
Total	**(3,607)**		**(892)**	**(2,730)**		**(683)**	**(211)**
Deferred tax liabilities:							
- Dividends not received	93	24.00%	22	75	24.00%	18	4
- Amortization/Depreciation tax basis	4,184	27.90%	1,167	3,488	27.90%	973	194
Total	**4,276**		**1,189**	**3,563**		**991**	**198**
Net deferred tax liability (asset)			297			308	(11)
Deferred tax asset relating to fiscal losses			-			-	
Deferred tax liability/(asset) as per financial statements			**297**			**308**	**(11)**

33. OTHER NON-CURRENT LIABILITIES

	Dec. 31, 2017	Dec. 31, 2016	Changes
Guarantee deposits	858,583	759,414	99,168
Total other non-current liabilities	**858,583**	**759,414**	**99,168**

The "guarantee deposits" include the guarantees received from licensees (in place of bank or corporate guarantees), to cover the minimum royalties guaranteed contractually. The movement concerns the agreement of new contract licenses for Euro 239 thousand and a decrease of Euro 160 thousand for the utilization to cover overdue receivables.

34. TRADE PAYABLES

	Dec. 31, 2017	Dec. 31, 2016	Changes
Trade payables - Italy	4,322,386	3,746,535	575,852
Trade payables - Foreign	1,716,688	1,011,091	705,597
Total trade payables	**6,039,074**	**4,757,626**	**1,281,449**

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

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

	Dec. 31, 2017	Dec. 31, 2016	Changes
Europe	468,616	260,164	208,452
The Americas	117,566	43,455	74,111
Asia and Oceania	1,126,501	697,770	428,731
Middle East and Africa	4,005	9,702	(5,697)
Total	**1,716,688**	**1,011,091**	**705,597**

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, 2017	Dec. 31, 2016	Changes
Tax payables:			
IRES	1,135,049	1,210,492	(75,442)
Withholding taxes	19,836	9,752	10,083
VAT	1,283,550	13,221,367	(11,937,817)
Employee contributions	371,272	294,475	76,797
Total tax payables	**2,809,708**	**14,736,086**	**(11,926,378)**

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 Group VAT payable at December 31, 2016 was settled on March 31, 2017.

The "Non-recurring tax charge" was fully settled during the year.

36. OTHER CURRENT LIABILITIES

	Dec. 31, 2017	Dec. 31, 2016	Changes
Payables to Group companies	2,335,409	1,159,392	1,176,017
Other payables	2,774,040	2,646,478	127,562
Accrued expenses	285,037	271,313	13,724
Total other current liabilities	**5,394,487**	**4,077,183**	**1,317,303**

"Other payables" at December 31, 2017 principally include payables to social security institutions of Euro 538 thousand for the year 2017 and paid in 2018, employee, consultant and director payables of approx. Euro 1.6 million, which include vacation days matured at December 31, 2017 and other items of Euro 612 thousand. All payables are due within one year.

The "accrued expenses" refer to employee costs for the 14th month of the year.

The breakdown of "Payables to Group companies" are shown below:

	Dec. 31, 2017	Dec. 31, 2016	Changes
Trade payables:			
Basic Properties America Inc.	731,731	819,598	(87,867)
BasicNet Asia Ltd.	366,802	256,178	110,624
Basic Village S.p.A.. with sole shareholder	56,443	77,417	(20,974)
Fashion S.r.l	4,558	6,199	(1,641)
BasicItalia S.p.A.. with sole shareholder	165	-	165
Jesus Jeans S.r.l. with sole shareholder	1,573	-	1,573
Trade payables	**1,326,107**	**1,159,392**	**166,715**
Financial payables			
Basic Trademark S.A.	819,055	-	819,055
TOS S.r.l.	190,247	-	190,247
Total financial payables	**1,009,302**	**-**	**1,009,302**
Total	**2,335,409**	**1,159,392**	**1,176,017**

37. DEFERRED INCOME

	Dec. 31, 2017	Dec. 31, 2016	Changes
Royalties	270,069	182,732	87,337
Total deferred income	**270,069**	**182,732**	**87,337**

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

38. DERIVATIVE FINANCIAL INSTRUMENTS

	Dec. 31, 2017	Dec. 31, 2016	Changes
Derivative financial instruments	27,082	67,064	(39,982)
Total	**27,082**	**67,064**	**(39,982)**

The account at December 31, 2017 includes the adjustments to the market value of the interest rate hedging operations on the "Intesa Loan", which converted the variable Euribor quarterly rate into a fixed annual rate of 0.23% (cash flow hedge), in addition to a spread of 185 basis points.

An equity reserve was recorded of Euro 28 thousand, net of the tax effect.

In the case of the Interest Rate Swap (IRS) agreed by the Company, the specific hedge of the variable cash flow realized 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, 2017	Dec. 31, 2016	Changes
- Guarantees to: subsidiaries	51,000,000	52,200,000	(1,200,000)
Total	**51,000,000**	**52,200,000**	**(1,200,000)**

- *Sureties given on behalf of subsidiaries*

The sureties given on behalf of the subsidiaries refer for Euro 5.7 million to the guarantee given to the Unicredit Group on behalf of Basic Village S.p.A. against the loan granted in 2007 for the purchase of the building, guaranteed also by a first level mortgage on the building, for Euro 4.1 million to the guarantee given in 2008 by Intesa Sanpaolo S.p.A. on behalf of BasicItalia S.p.A. against 50% of the mortgage loan granted for the purchase of the building, Euro 6.5 million of a surety issued by a leading bank in guarantee of contractual commitments for a sponsorship contract and for the remainder, Euro 34.7 million, guarantees given on behalf of BasicItalia S.p.A., to various credit institutions, to guarantee the commercial credit lines.

The shares of the subsidiary Superga Trademark S.A. are subject to a pledge in favor of Intesa Sanpaolo S.p.A. in guarantee of the loan issued in April 2015 and the shares of TOS S.r.l. are subject to a pledge in favor 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 amortized cost**	**Non-listed investments valued at cost**	**Book value at 31.12.2017**	**Fair value at 31.12.2017**
	P&L	**Share. Equity**				
Assets:						
Equity invest. & other financial assets	-	-	-	33,275	**33,275**	**33,275**
Trade receivables	-	-	12,056	-	**12,056**	**12,056**
Other current assets	-	-	65,755	-	**65,755**	**65,755**
Derivative financial instruments	-	-	-	-	-	-
Liabilities:						
Medium/long-term loans	-	-	20,001	-	**20,001**	**20,001**
Trade payables	-	-	6,039	-	**6,039**	**6,039**
Other current liabilities	-	-	5,394	-	**5,394**	**5,394**
Derivative financial instruments	-	27	-	-	**27**	**27**

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 fiber 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 2017, exchange losses were recorded of Euro 155 thousand, while unrealized exchange losses were recorded of Euro 343 thousand, for net exchange losses of Euro 498 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, 2017 is shown below:

	Dec. 31, 2017	%	Dec. 31, 2016	%
Fixed rate	10,653,504	35.5%	15,432,006	67.0%
Variable rate	19,376,288	64.5%	7,585,323	33.0%
Gross debt	**30,029,792**	**100.0%**	**23,017,329**	**100.00%**

The interest rate fluctuation risks of the medium-term “Intesa Loan” was hedged with conversion of the variable rate into fixed rates; as described in Note 38 on the remaining part of the debt the Company is exposed to currency risk.

The interest on the short-term credit lines are on an average 0.10% in accordance with the type of lending, as illustrated in Note 30.

Where at December 31, 2017 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 +198 thousand and Euro -198 thousand.

Credit risk

The doubtful debt provision (Note 24) which includes provisions against specific credit positions and a general provision on receivables not covered by guarantees, represents approx. 11.37% of trade receivables at December 31, 2017.

Liquidity risk

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

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

(in Euro thousands)	**Book value**	**Future interest income/ (expense)**	**Contractual cash flows**	**Within 1 year**	**From 1 to 5 years**	**Beyond five years**
“BNL Loan”	6,250	136	6,386	1,295	5,092	-
“Intesa Loan”	5,625	79	5,704	3,822	1,882	-
“MPS Loan”	13,000	867	13,867	225	11,186	2,456
Lease payables	126	2	129	59	69	-
Total financial liabilities	**25,001**	**1,084**	**26,086**	**5,401**	**18,228**	**2,456**

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:

- Organizational, commercial, IT, and administrative services in accordance with specific contracts;
- The granting of rights for the use of know-how developed on the products;
- the granting under license of the K-Way and Sabelt brands to the subsidiary BasicItalia S.p.A.;
- Financial support for the management of the centralized 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 centralized management system, at market rates.

The income statement effects deriving from these transactions are summarized as follows:

REVENUES

BasicNet Group companies	Direct sales	Other income	Royalty income	Financial income	Dividends	Total
BasicItalia S.p.A.. with sole shareholder	2,092,666	265,734	6,485,759	140,212	-	**8,984,370**
Basic Trademark S.A.	-	5,500,000	-	-	-	**5,500,000**
Superga Trademark S.A.	-	250,000		224,946		**474,946**
Basic Properties B.V.	-	-			1,850,000	**1,850,000**
Basic Village S.p.A.. with sole shareholder	-	50,014		11,979		**61,993**
BasicNet Asia Ltd.	18,352	-	-	-	-	**18,352**
Jesus Jeans S.r.l. with sole shareholder	-	5,000	-	-	-	**5,000**
Fashion S.r.l.	-	1,500	-	-	-	**1,500**
TOS S.r.l.	-	-	-	69,260	-	**69,260**
Total	**2,111,018**	**6,072,247**	**6,485,759**	**446,397**	**1,850,000**	**16,965,421**

COSTS

BasicNet Group companies	Cost of sales	Cost per sponsor	Personnel costs	Selling, gen. & administrative costs, royalties expenses	Financial charges	Total
Basic Village S.p.A.. with sole shareholder	-	-	-	1,895,352	-	**1,895,532**
BasicNet Asia Ltd.	-	-	-	903,115	-	**903,115**
BasicItalia S.p.A.. with sole shareholder	26,068	210,987	-	120,439	-	**357,494**
Superga Trademark S.A.	-	-	-	(8,167)	-	**(8,167)**
BasicRetail S.r.l. with sole shareholder	-	-	-	71,190	-	**71,190**
Total	**26,068**	**210,987**	**-**	**2,981,929**	**-**	**3,218,984**

A breakdown of the transactions with related parties with reference to the note to which they refer for the year 2017 is shown below:

	Investments (Note 22)	**Receivables** (Note 25)	**Payables** (Note 36)	**Revenues** (Note 41)	**Costs** (Note 41)
Subsidiaries	32,764,489	63,942,638	2,330,851	16,963,921	3,218,984
Interests in joint ventures:	500,000	-	4,558	1,500	-
Remuneration of Boards and Senior Executives and other related parties	-	-	-	-	4,173,521
Total	**33,264,489**	**63,942,638**	**2,335,409**	**16,965,421**	**7,392,505**

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 a strategic executive in 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 utilized for media events, shows, press gatherings together with the Brands and/or products of the Group, are subject to a renewable put and call agreement with BasicWorld S.r.l. The agreement is for a duration until July 31, 2020 and provides for an exercise price of the Call Option by BasicWorld equal to the cost incurred by BasicNet for the purchase of the Collection, as resulting from the accounting entries of BasicNet, in addition to a financial interest charge equal to the average rate applied to BasicNet at the exercise option date. The agreement was signed based on the eventual interest of BasicNet S.p.A. to sell the collection to guarantee the complete recovery of the costs incurred, including financial charges, utilizing 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 48).

For the Board of Directors

The Chairman

Marco Daniele Boglione

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INVESTMENTS AT DECEMBER 31, 2017

(in Euro)

Name/Registered office/Share capital	Share capital	Amount of the net equity	Profit (loss) for the year	Quota held directly	Quota held indirectly	Pro quota net equity	Book value
SUBSIDIARY COMPANIES							
BASICITALIA S.p.A. WITH SOLE SHAREHOLDER *Strada della Cebrosa, 106 10156 TURIN* Share Capital Euro 7,650,000	7,650,000	9,006,395	(1,277,171)	100.00	-	9,006,395	28,599,725
BASICNET ASIA LTD. *15 floor, Linkchart Centre No.2 Tai Yip Street Kwun Tong, Kowloon HONG KONG* Share capital HKD 10,000.	1,067	394,598	68,421	100.00	-	394,598	927
BASICRETAIL S.r.l. WITH SOLE SHAREHOLDER *Strada della Cebrosa, 106 10156 TURIN* Share capital Euro 10,000	10,000	1,835,862	762,004	-	100.00	-	-
BASIC PROPERTIES B.V. *Herikerbergweg 200 – LunArena – Amsterdam Zuidoost THE NETHERLANDS* Share capital Euro 18,160	18,160	6,410,501	1,901,370	100.00	-	6,410,501	3,657,747
BASIC PROPERTIES AMERICA, INC. *c/o Corporation Service Company 11 S 12th Street - PO BOX 1463 – Richmond VA 23218 – U.S.A.* Share capital USD 8,469,157.77	7,061,584	6,554,938	1,006,537	-	100.00	-	-
BASIC TRADEMARK S.A. *42-44 Avenue de la Gare L-1610 LUXEMBOURG* Share Capital Euro 1,250,000.	1,250,000	7,426,006	1,028,977	-	100.00	-	-
BASIC VILLAGE S.p.A. WITH SOLE SHAREHOLDER *Largo M. Vitale, 1 10152 TURIN* Share capital Euro 412,800	412,800	5,400,841	297,417	100.00	-	5,400,841	414,715
JESUS JEANS S.r.l WITH SOLE SHAREHOLDER *Largo M. Vitale, 1 10152 TURIN* Share capital Euro 10,000	10,000	85,831	17,015	100.00	-	85,831	81,375
SUPERGA TRADEMARK S.A. *42-44 Avenue de la Gare L-1610 Luxembourg* Share capital Euro 500,000	500,000	1,890,996	2,085,417	-	100.00	-	-
TOS S.r.l. WITH SOLE SHAREHOLDER *Largo M. Vitale, 1 10152 Turin* Share capital Euro 10,000	10,000	11,317	1,317	100.00	-	11,317	10,000

ATTACHMENT 1
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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
JOINT VENTURES							
FASHION S.r.l. *C.so Stati Uniti, 41* *10129 TURIN* Share capital Euro 100,000	100,000	311,678	(51,515)	50.00	-	155,839	500,000

ATTACHMENT 1
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INVESTMENTS AT DECEMBER 31, 2017

Name/Registered office/Share capital	31/12/2016 Book value	Acquisitions/ Incor.	Capital payments to cover losses	Impairments investments	Disposals	31/12/2017 Book value	% held Parent
HOLDINGS IN SUBSIDIARY COMPANIES							
BasicItalia S.p.A.. with sole shareholder	31,599,725	-	-	(3,000,000)	-	28,599,725	100%
BasicNet Asia Ltd.	927	-	-	-	-	927	100%
Basic Properties B.V.	3,657,747	-	-	-	-	3,657,747	100%
Basic Village S.p.A.. with sole shareholder	414,715	-	-	-	-	414,715	100%
Jesus Jeans S.r.l. with sole shareholder	81,375	-	-	-	-	81,375	100%
TOS S.r.l. with sole shareholder	-	10,000	-	-	-	10,000	100%
TOTAL SUBSIDIARY COMPANIES	***35,754,488***	***10,000***	***-***	***(3,000,000)***	***-***	***32,764,488***	
HOLDINGS IN JOINT VENTURES							
Fashion S.r.l.	465,000	-	35,000	-	-	500,000	50%
TOTAL JOINT VENTURES	***465,000***	***-***	***35,000***	***-***	***-***	***500,000***	
HOLDINGS IN OTHER COMPANIES:							
Consortiums & other minor	128	-	-	-	-	128	
TOTAL OTHER COMPANIES	***128***	***-***	***-***	***-***	***-***	***128***	
TOTAL INVESTMENTS	**36,219,616**	**10,000**	**35,000**	**(3,000,000)**	**-**	**33,264,617**	
FINANCIAL RECEIVABLES							
Other receivables (guarantees)	10,251	-	-	-	-	10,251	
TOTAL RECEIVABLES	**10,251**	**-**	**-**	**-**	**-**	**10,251**	
TOTAL INVESTMENTS AND OTHER FINANCIAL ASSETS	**36,229,867**	**10,000**	**35,000**	**(3,000,000)**	**-**	**33,274,867**	

ATTACHMENT 2

DECLARATION OF THE FINANCIAL STATEMENTS PURSUANT TO ARTICLE 154-BIS PARAGRAPH 3 AND 4 OF LEGISLATIVE DECREE NO. 58 OF FEBRUARY 24, 1998 "FINANCIAL INTERMEDIATION ACT"

The undersigned Marco Daniele Boglione as Executive Chairman, Giovanni Crespi as CEO, and Paolo Cafasso as Executive Officer for Financial Reporting of BasicNet S.p.A., affirm, and also in consideration of Article 154-bis, paragraphs 3 and 4, of Legislative Decree No. 58 of February 24, 1998:

the adequacy for company operations and the effective application, of the administrative and accounting procedures for the preparation of the 2017 financial statements.

In addition, we certify that the financial statements:

a) corresponds to the underlying accounting documents and records;

b) were prepared in accordance with International Financial Reporting Standards adopted by the European Union and also in accordance with Article 9 of Legislative Decree 38/2005 and provide a true and fair representation of the balance sheet, financial position and results of the Issuer;

c) the Directors' Report includes a reliable analysis on the performance and operating result as well as the situation of the Issuer, together with a description of the risks and uncertainties to which they are exposed.

Marco Daniele Boglione
Chairman

Giovanni Crespi
Chief Executive Officer

Paolo Cafasso
Executive Officer for Financial Reporting

ATTACHMENT 3

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

Type of service	Service provider	Company	Fees earned 2017
Audit	EY S.p.A.	Parent BasicNet S.p.A.	48,000
		Subsidiaries	-
Certification services	EY S.p.A.	Parent BasicNet S.p.A.	-
Other services	EY S.p.A.	Parent BasicNet S.p.A.	-
Total			**48,000**