MONNALISA S.p.A.

Subject to the direction and coordination activities of Jafin Due S.p.A.

Financial Statements 2018

summary

Report on operations
Corporate Boards
Board of Directors

The adoption of new by-laws, functional to the process of listing on the AIM Italia - Alternative Capital Market multilateral trading facility, managed and organized by Borsa Italiana S.p.A. ("AIM Italia"), was approved by the shareholders' meeting on June 15, 2018. The board of directors was also appointed on that date, to serve a term of office of three years, until the approval of the financial statements at and for the year ending December 31, 2020. The members of the new board of directors are as follows.

PIERO IACOMONI
Chairman

CHRISTIAN SIMONI
Chief Executive Officer

PIERANGELO ARCANGIOLI
Director

MATTEO TUGLIANI
Director

SIMONE PRATESI
Independent Director

BOARD OF STATUTORY AUDITORS

MICAELA BADIALI	*Chairperson*
GABRIELE NARDI	*Statutory Auditor*
SUSANNA SGREVI	*Statutory Auditor*
PATRIZIA BELLI	*Alternate Auditor*
GIANNI PAPI	*Alternate Auditor*

INDEPENDENT AUDITORS EY S.p.A.

NOMAD CFO Sim S.p.A.

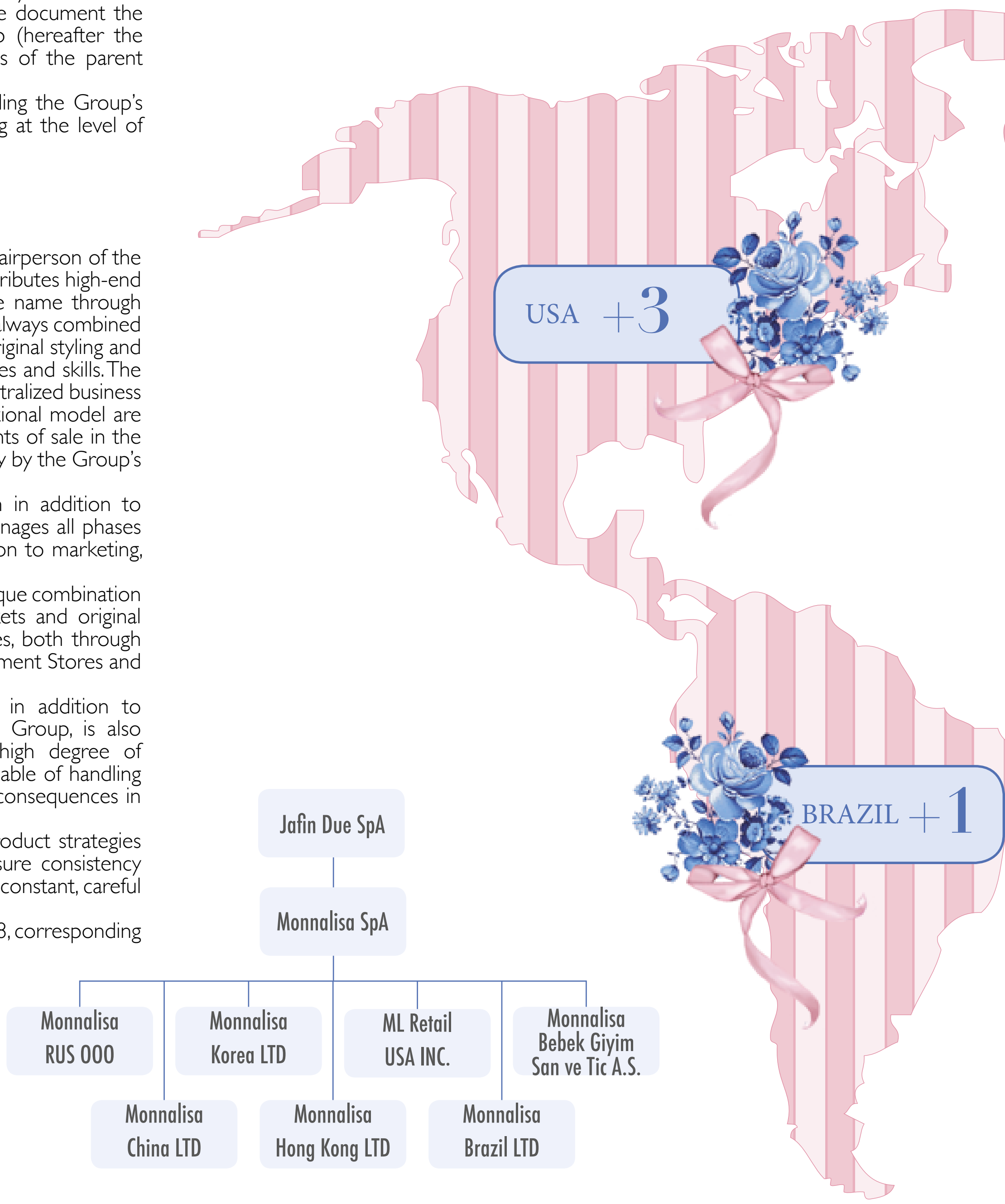
Dear Shareholders,
Consolidated profit for the year ended December 31, 2018 amounted to Euro 1,293,338, including a minority interest share of Euro 1,486. At the level of the separate financial statements of the parent company, Monnalisa S.p.A. ("Monnalisa"), the profit amounted to Euro 3,290,556 for the same period.

Introduction

Pursuant to Art. 40 of Leg. Decree 127/1991, as amended by Art. 2, letter d) of Leg. Decree 32/2007, this report presents in a single document the consolidated financial statements of the Monnalisa Group (hereafter the "Monnalisa Group") and the separate financial statements of the parent company Monnalisa, prepared according to Italian GAAP.
In this document, we provide you with information regarding the Group's consolidated situation and operating performance, including at the level of the parent company, Monnalisa, on a stand-alone basis.

Activities

Founded in Arezzo in 1968 by Piero Iacomoni, currently Chairperson of the Board of Directors, Monnalisa designs, manufactures and distributes high-end childrenswear for ages 0-16 under the brand of the same name through various distribution channels. The company's philosophy has always combined entrepreneurship, innovation, the search for new markets, original styling and a particular focus on the development of company resources and skills. The Monnalisa Group (the "Group" or the "Company") has a centralized business structure where almost all activities relating to its organizational model are performed, except for distribution and management of points of sale in the various geographical areas, which are instead handled directly by the Group's various commercial entities in their target markets.
Monnalisa is thus an operational holding company, which in addition to holding interests in the international trading companies, manages all phases of the production process, from product design and creation to marketing, only outsourcing certain phases of production.
For 50 years, Monnalisa's philosophy has been based on a unique combination of entrepreneurship, innovation, the search for new markets and original styling. Today, the Company distributes in over 60 countries, both through direct flagship stores and at the world's best-known Department Stores and over 750 multibrand sales points.
Insourcing of the product design and creation process, in addition to representing a highly distinctive aspect of the Monnalisa Group, is also intended to pursue the key objective of achieving a high degree of industrialization of this process. The Group is therefore capable of handling all strategic processes internally, with the resulting positive consequences in terms of increased sales and margins.
The Group is organized according to a model in which product strategies and communications activity are intertwined, so as to ensure consistency with Monnalisa's brand image and style. This model features constant, careful monitoring by the Company of its value chain.
The structure of the Monnalisa Group at December 31, 2018, corresponding to the scope of consolidation, is presented below:



Admission to AIM Italia – Alternative Capital Market

On July 10, 2018 the Company's ordinary shares were admitted to trading on the AIM Italia - Alternative Capital Market, a multilateral trading facility organized and managed by Borsa Italiana S.p.A. Trading of the Company's ordinary shares began on July 12, 2018.
Admission to trading followed the placement of a total of 1,290,800 ordinary shares, of which 1,236,300 shares associated with the capital increase, undertaken by placement primarily with qualified Italian and international institutional investors, and 54,500 shares sold by the controlling shareholder, Jafin Due S.p.A.
The placement price of the ordinary shares was set at Euro 13.75, resulting in a market capitalization for the Company at the date of commencement of trading of Euro 72 million and a free float of approximately 25% of share capital, assuming the full exercise of the greenshoe option for an additional 54,500 shares (used for total 45,500 shares). The IPO price was set by the Company, in concert with the global coordinator, CFO SIM S.p.A., in view of the quantity and characteristics of the shows of interest received in the placement process and with the aim of favouring a book composition characterized by the presence of investors of high standing with a medium-to-long-term investment horizon. The global offering, which was concluded on July 6, 2018, met with strong subscription demand from approximately 30 Italian and international institutional investors.
The purpose of the IPO was to contribute to further accelerating the Group's growth process and international presence, with regard to the retail channel and e-commerce.

Key Stock Exchange Indicators

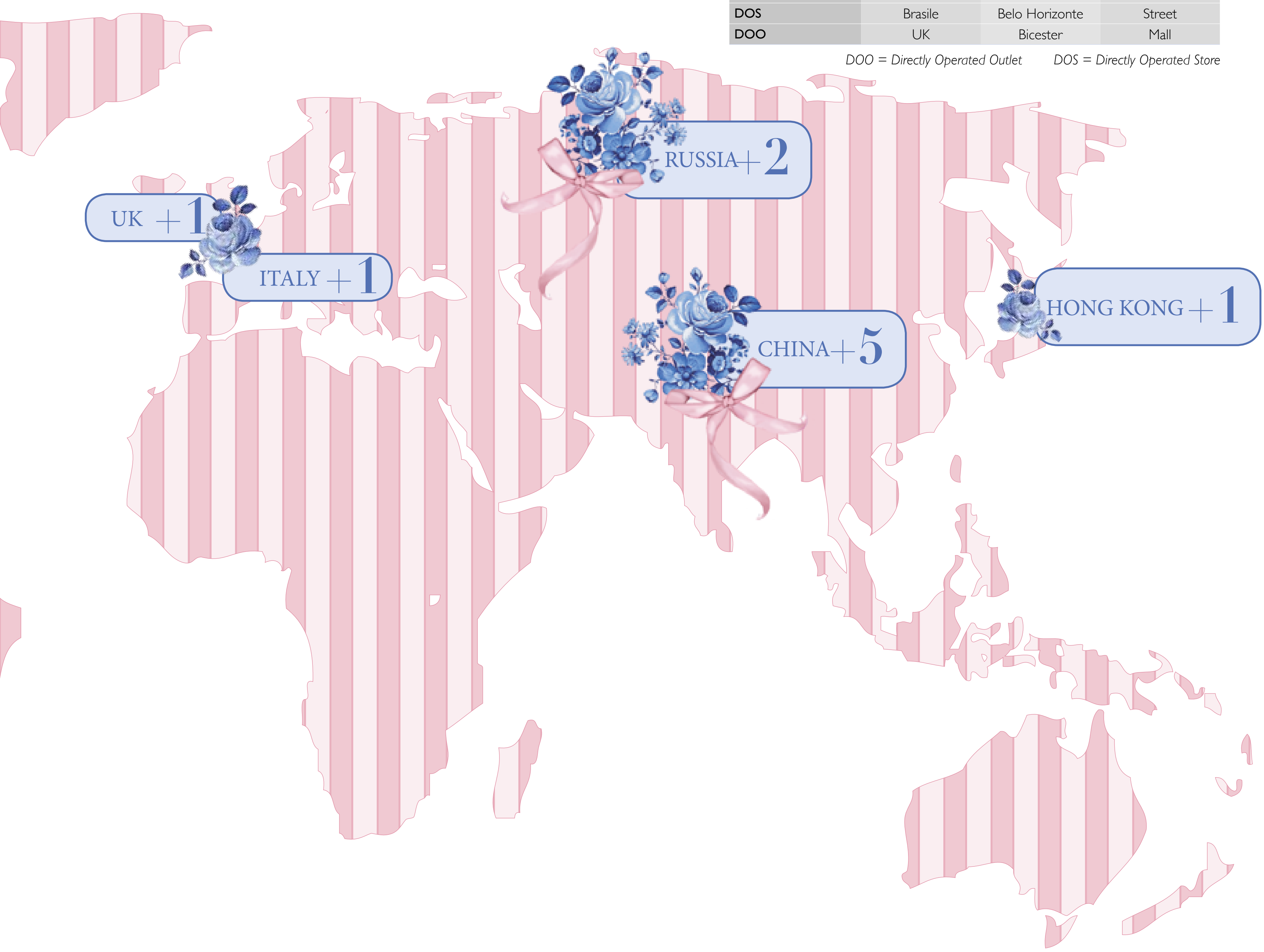
Official price at December 28, 2018	9.5
Minimum price 28/12/18	9.5
Maximum price 13/07/2018	14.18
Market capitalization at December 31, 2018	49,744,850 €
No. of shares outstanding at December 31, 2018	5,236,300

Operating performance

In 2018, in accordance with its development plan, the Company continued with its retail expansion project, investing both its own resources and those arising from the IPO completed in July.
The details of the new store locations opened in 2018 are provided below:

Type	Country	City	Location
DOS	USA	New York	Street
DOS	USA	Beverly Hills	Street
DOS	USA	Philadelphia	Mall
DOS	Hong Kong	Hong Kong	Dept Store
DOS	Russia	Moscow	Mall
DOS	Russia	Moscow	Street
DOS	Cina	Xian	Dept Store
DOS	Cina	Shenzhen	Mall
DOS	Cina	Wuhan	Mall
DOO	Cina	Tianjin	Mall
DOS	Cina	Chongqing	Mall
DOO	Italia	Marcianise	Mall
DOS	Brasile	Belo Horizonte	Street
DOO	UK	Bicester	Mall

DOO = Directly Operated Outlet *DOS = Directly Operated Store*



During the same period, according to plan, three low-traffic stores were closed in China (Yintai, Grand Gateway and Scitech), along with one in Italy, at Naples Airport.
Accordingly, at the end of 2018 the Monnalisa Group had a total of 42 direct stores, including both DOSs and DOOs.

Revenues by distribution channel
Revenues by distribution channel saw major growth on the retail and B2C channels, respectively +39% and +17% at current exchange rates and +43% and +17% at like-for-like exchange rates. This performance reflects the Group's growth strategy focused on retail channel development, whose share of consolidated revenues rose 6 points through the opening of new direct sales points - principally overseas. The decline in wholesale channel revenues is due to the interruption of supplies to a Russian customer who had 4 TPOS (Third Party Operated Stores) in the city of Moscow, three of which reopened as DOS (Directly Operated Stores) in 2018, and the acquisition of a business unit of a US customer consisting of two mono-brand Monnalisa sales points. The wholesale channel was also affected by foreign exchange performance, excluding which the change on the previous year decreases by one percentage point.

Revenues by geographic segment
Revenues by region indicate growth in Italy, particularly on the retail channel, and in Europe, respectively up 9% and 6%.
The small decrease in the Rest of the World relates to the previously-stated channel dynamics in Russia and in the United States of America and currency movements.
From the standpoint of financial performance, Monnalisa reported total revenues at the consolidated level of Euro 51 million, up by 7% on the same period of the previous year (+9% at constant exchange rates) and a reported EBITDA of Euro 5.2 million (11% versus 14% in the previous year).
After depreciation, amortization and provisions of Euro 3.1 million (up by Euro 0.8 million), EBIT amounted to Euro 2 million (Euro 3.5 million in the previous year).
After accounting for income taxes of Euro 0.4 million (Euro 0.9 million), the profit for the year came to Euro 1.3 million (Euro 2.2 million).
The new openings, still in the full start-up phase, had a negative impact on margins, absorbing resources above all as a result of overhead costs (personnel and rent) to a more-than-proportional extent in respect of the increase in revenues.
Monnalisa's adjusted EBITDA in 2018 amounted to approximately Euro 7.3 million, slightly below the 2017 adjusted EBITDA of Euro 7.6 million.
The adjustments to reported EBITDA, in addition to those made in the first half of the year, concern the DOS openings and closings during the year, for comparability and to ensure uniformity with 2017 Adjusted EBITDA.
Adjusted EBITDA at like-for-like exchange rates amounts to Euro 7.6 million, in line with 2017.
The financial situation at December 31, 2018 was particularly solid, with total commitments of Euro 75 million, covered by equity of Euro 47.4 million and net debt of Euro 13.5 million.
In addition to covering all fixed assets, amounting to Euro 25.7 million, equity thus also finances approximately 44% of working capital, amounting to Euro 49.2 million, with borrowings of Euro 13.5 million and total provisions (risks and post-employment benefits) of Euro 2.4 million.
Net working capital – typically higher at the end of December due to the seasonal effect – amounted to Euro 24 million (21.5), as a consequence, in terms of commitments, of greater inventories (converted into revenues in the following months) and, on the sources side, a decrease in current non-financial liabilities to Euro 11.6 million from Euro 13.1 million at December 31, 2017.
From the standpoint of cash flows, during the reporting period the Company generated cash of approximately Euro 2.1 million in its core business, compared with cash of Euro 1.5 million used in 2017. Despite lesser self-financing (profits plus depreciation and amortization), working capital performance accounted for less than half the resources used in the previous year.
Investing activity used cash of approximately Euro 8.8 million, of which Euro 2.5 million was invested in intangible assets, specifically goodwill on the acquisition of business units (two stores in the USA and one store in France) and expenses incurred on third-party assets for the opening of direct stores. The remaining investments related to the completion of the new building and the costs incurred for the listing on the AIM, capitalized in full under start-up and expansion costs.
Net debt amounted to Euro -0.1 million at December 31, 2018 (Euro 9.6 million at December 31, 2017) due to the current liquidity of Euro 13.6 million, arising in part from the listing process.

** As the composition of EBITDA is not regulated by the applicable accounting standards, the criterion used in the calculation by the Group may not be uniform with that adopted by other groups and, therefore, may not be comparable. "Adjusted EBITDA" means the profit or loss that the company would have reported in the absence of non-recurring items. The Company calculates this indicator by adding non-recurring costs to and subtracting non-recurring income from, EBITDTA*

Ended 31 December (at current exchange rates)

in thousands of €	31.12.2018	% on revenues	31.12.2017	% on revenues	Var %	Var %
Retail	12,334	25%	8,897	19%	3,437	39%
Wholesale	35,333	72%	36,861	78%	(1,528)	-4%
B2C	1,463	3%	1,254	3%	209	17%
Total	**49,129**	**100%**	**47,011**	**100%**	**2,118**	**5%**

Ended 31 December (at constant exchange rates)

in thousands of €	31.12.2018	% on revenues	31.12.2017	% on revenues	Var %	Var %
Retail	12,720	25%	8,897	19%	3,823	43%
Wholesale	35,756	72%	36,861	78%	(1,105)	-3%
B2C	1,464	3%	1,254	3%	210	17%
Total	**49,940**	**100%**	**47,011**	**100%**	**2,928**	**6%**

Ended 31 December (at current exchange rates)

in thousands of €	31.12.2018	% on revenues	31.12.2017	% on revenues	Var %	Var %
Italy	16,876	34%	15,439	33%	1,437	9%
Europe	12,256	25%	11,508	24%	748	6%
Rest of the world	19,997	41%	20,064	43%	(67)	4%
Total	**49,129**	**100%**	**47,011**	**100%**	**2,118**	**6%**

Ended 31 December (at constant exchange rates)

in thousands of €	31.12.2018	% on revenues	31.12.2017	% on revenues	Var %	Var %
Italy	16,876	34%	15,439	33%	1,437	9%
Europe	12,256	25%	11,508	24%	748	6%
Rest of the world	20,807	41%	20,064	43%	743	4%
Total	**49,940**	**100%**	**47,011**	**100%**	**2,929**	**6%**

Context. The junior fashion market continued to grow in 2018, albeit at a weaker rate than witnessed in 2017. The international market accounts for approximately 40% of the industry's turnover, and imports increased by 0.9% on an annual basis.

Tab. 3.1 Comparative figures for childrenswear sector over the past three years

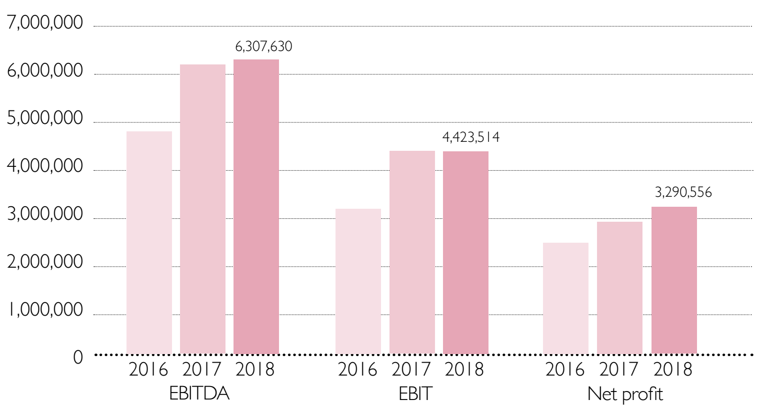
Description (Euro millions)	2016	Cge. %	2017	Cge. %	2018 (estimated data)	Cge. %
Revenues	2,774	+3.2%	2,861	+3.6%	2,926	+2.3%
Value of production	987	+0.7%	969	-0.8%	978	+0.8%
Exports	1,041	+4.4%	1,102	+5.9%	1,174	+6.5%
Imports	1,767	-1.1%	1,787	+0.6%	1,804	0.9%
Commercial balance	-726		-685		-629	
Final consumption	4,231	-0.3%	4,224	-0.2%	4,139	-2%

Source: Confindustria Moda on ISTAT datas

Positioning. According to Databank's annual report on childrenswear, Monnalisa's share of the high-end of the Italian domestic market increased by over 5% from 2016 to 2018, driven by a CAGR of 6.5%, which yielded a growth performance of eight percentage points in excess of the market average.
Monnalisa also had the highest EBITDA margin of its peer group in 2017.
Other positive aspects that set the company apart from its competitors include its high level of exports (67%) and its production and distribution exclusively through own-brand facilities.

THE SITUATION OF THE PARENT COMPANY AND THE GROUP

Chart. 3.1 Operating performance of the parent company, 2016-2018



Operating performance

Performance in 2018 – above all from the standpoint of financial position and cash flows – was due to several important investment transactions undertaken by the company during the year, in continuity with events in the previous year.
The international subsidiaries were capitalized and financed in order to support extensive investments in the retail sector.
A new company was also opened in Turkey to manage direct retail operations, specifically a store at the new Istanbul Airport, set to be opened in April 2019.

OPERATING AND FINANCIAL OVERVIEW

The operating and financial overview is based on the reclassified balance sheet, drawn up as per Articles 2424 and 2424-bis of the Italian Civil Code, and the reclassified income statement, drawn up as per Articles 2425 and 2425-bis of the Italian Civil Code. In the interest of completeness of information, the details of the analysis are provided at the level of Monnalisa on a stand-alone basis as well as at the Group level.
The Monnalisa Group in addition utilises alternative performance indicators, which are not recognised under Italian GAAP, to better assess Group performance. The criterion applied by the Group and the relative results may therefore not be uniform and comparable with those of other groups. These indicators are based solely on the Group's historical data for the reporting period and the comparative periods, without referring to the Group's expected performance, and should not be considered as replacements for the indicators required by the applicable accounting standards (Italian GAAP - OIC).
The alternative performance indicators utilised are the following:

EBITDA ***(Earnings Before Interest, Taxes, Depreciation, Amortization)***: the operating result before amortisation, depreciation and provisions, financial management and taxes. The doubtful debt provision was included in this indicator for the reclassification. As the composition of EBITDA is not regulated by the applicable accounting standards, the criterion used in the calculation by the Group may not be uniform with that adopted by other groups and, therefore, may not be comparable.

Net Capital Employed: the difference between total net liabilities and non-interest-bearing payables. Specifically, this comprises the sum of net operating capital employed and non-operational uses (financial fixed assets, current financial assets, non-operating prepayments/accrued income); in which net operating capital employed is the difference between operating capital employed (tangible and intangible assets, inventories, receivables, cash and cash equivalents, prepayments and accrued income) and operating liabilities (provisions for risks and charges, the severance pay provision, payables net of bank payables, accrued liabilities and deferred income).

EBIT ***(Earnings Before Interest and Taxes)***: corresponding to the operating profit. This is the result before taxes and financial charges.

The balance sheet reclassified according to the financial method is useful in understanding the composition of commitments and sources of funds and in calculating short- and long-term financial stability indicators (tab 3.2 - 3.2bis). On the other hand, the balance sheet reclassified by segment is useful in understanding funding requirements and financial structure dynamics, permitting categories of commitments and sources of funds to be correlated with one another, which can then be compared with the corresponding financial margins to calculate specific profitability indicators. (tab 3.3 - 3.3bis). The reclassified income statement is divided into segments by distinguishing between ordinary operations (core and non-core), extraordinary operations and financial operations.
The parent company's gross revenues, net of transfers to subsidiaries, are 82% derived from the wholesale channel, 15% from retail and 4% from e-commerce. At the consolidated level, the weight of the retail channel rises as a percentage of total gross revenues, climbing to 25%, with the wholesale channel accounting for 72%.
In the interest of a more accurate and prudent presentation of line items, operating grants have not been included among other income, but accounted for as reducing the costs for the year to which they refer (tab 3.4 - 3.4bis).

Tab. 3.2 Financial balance sheet of the parent company

	2016	%	2017	%	2018	%
ASSETS						
FIXED ASSETS	19,711,799	38,22%	24,313,712	42,13%	32,567,689	41,16%
Intangible assets	1,462,058		1,186,568		2,647,997	
Tangible assets	13,084,902		15,022,495		17,321,621	
Financial Assets	5,164,839		8,104,649		12,598,071	
CURRENT ASSETS	31,868,701	61,78%	33,395,413	57,87%	46,550,904	58,84%
Inventory	13,325,009		14,922,522		15,194,460	
Deferred Cash	15,533,320		16,892,986		20,364,627	
Cash on hand	3,010,371		1,579,905		10,991,817	
INVESTED CAPITAL	51,580,501	100%	57,709,126	100%	79,118,593	100%
LIABILITIES						
EQUITY	28,015,472	54,31%	31,040,729	53,79%	51,398,143	64,96%
Share Capital	2,064,000		2,064,000		10,000,000	
Reserves	23,455,494		26,069,123		38,107,588	
Profit/(loss) for the period	2,495,978		2,907,606		3,290,556	
NON CURRENT LIABILITIES	3,034,245	5,88%	6,393,163	11,08%	9,977,477	12,61%
Financial	840,499		4,199,012		7,370,295	
Non financial	2,193,746		2,194,151		2,607,182	
CURRENT LIABILITIES	20,530,783	39,80%	20,275,233	35,13%	17,742,972	22,43%
Financial	8,120,340		8,541,867		7,202,603	
Non financial	12,410,444		11,733,366		10,540,368	
FINANCING CAPITAL	51,580,501	100%	57,709,126	100%	79,118,593	100%

Tab. 3.2bis Group financial balance sheet

	2016	%	2017	%	2018	%
ASSETS						
SUBSCRIBED CAPITAL UNPAID	1,457		32			
FIXED ASSETS	16,699,538	33.30%	19,349,759	34.03%	25,733,073	34.03%
Intangible assets	2,109,579		2,531,744		5,427,809	
Tangible assets	13,323,836		15,351,891		18,137,073	
Financial Assets	1,266,123		1,466,124		2,168,191	
CURRENT ASSETS	33,444,350	66.69%	37,506,903	65.97%	49,150,933	65.97%
Inventory	13,963,395		16,774,262		17,826,800	
Deferred Cash	15,467,868		17,920,718		17,745,383	
Cash on hand	4,013,087		2,811,923		13,578,750	
INVESTED CAPITAL	50,145,345	100%	56,856,694	100%	74,884,006	100%
LIABILITIES						
EQUITY	27,443,735	54.73%	29,203,237	51.36%	47,397,682	63.29%
Share Capital	2,064,000		2,064,000		10,000,000	
Reserves	23,439,934		24,885,583		36,104,344	
Profit/(loss) for the period	1,939,330		2,248,215		1,291,853	
Profit/(loss) attributable to minority interest	471		5,439		1,486	
NON-CURRENT LIABILITIES	3,034,726	6.05%	6,243,163	10.98%	9,797,477	13.08%
Financial	840,499		4,199,012		7,370,295	
Non financial	2,194,227		2,044,151		2,427,182	
CURRENT LIABILITIES	19,666,884	39.22%	21,410,295	37.66%	17,688,846	23.62%
Financial	6,508,682		8,278,706		6,154,475	
Non financial	13,158,202		13,131,589		11,534,371	
FINANCING CAPITAL	50,145,345	100%	56,856,695	100%	74,884,006	100%

Tab. 3.3 Balance sheet of the parent company by segment

	2016	%	2017	%	2018	%
USES						
OPERATING INVESTED CAPITAL	46,415,661		49,596,809		66,461,218	
Operating Liabilities	16,215,848		14,190,677		14,483,952	
NET OPERATING INVESTED CAPITAL	30,199,813	85%	35,406,132	81%	52,013,562	80%
NON-OPERATING INVESTMENTS	5,164,840	15%	8,112,317	19%	12,657,375	20%
NET INVESTED CAPITAL	35,364,653	100%	43,518,449	100%	64,670,938	100%
SOURCES						
EQUITY	28,015,473	79%	31,040,730	71%	51,398,145	79%
FINANCIAL LIABILITIES	7,349,180	21%	12,477,718	29%	13,272,793	21%
FINANCING CAPITAL	35,364,653	100%	43,518,448	100%	64,670,938	100%

Tab. 3.3bis Consolidated balance sheet by segment

	2016	%	2017	%	2018	%
USES						
OPERATING INVESTED CAPITAL	48,877,765		55,382,871		72,656,510	
Operating Liabilities	15,352,429		15,175,780		13,973,418	
NET OPERATING INVESTED CAPITAL	33,525,336	96%	40,207,091	96%	58,683,092	96%
NON-OPERATING INVESTMENTS	1,267,580	4%	1,473,823	4%	2,227,496	4%
NET INVESTED CAPITAL	34,792,916	100%	41,680,914	100%	60,910,588	100%
SOURCES						
EQUITY	27,443,735	79%	29,203,197	70%	47,397,682	78%
FINANCIAL LIABILITIES	7,349,181	21%	12,477,718	30%	13,512,906	22%
FINANCING CAPITAL	34,792,916	100%	41,680,914	100%	60,910,588	100%

Tab. 3.4 Reclassified income statement of the parent company

Description	2016	%	2017	%	2018	%
Revenues from sales	38,993,302		42,272,824		43,064,801	
Profit/(loss) non-core income	380,216		661,139		1,798,088	
Total Revenues	39,373,518	100%	42,933,963	100%	44,862,889	100%
Product Manufacturing Costs	(18,401,786)		(19,736,580)		(22,646,005)	
Costs for raw materials/finished products	(12,656,357)		(13,320,190)		(16,764,100)	
Costs for production services	(5,745,429)		(6,416,390)		(5,881,905)	
Costs for use of third-party assets	(1,463,861)		(1,605,082)		(1,867,279)	
Marketing Costs	(1,953,486)		(1,582,193)		(1,851,572)	
Costs for other services	(5,645,068)		(5,926,811)		(5,354,827)	
ADDED VALUE	11,909,317	30%	14,083,297	33%	13,143,206	29%
Personnel Costs	(6,628,912)		(7,069,608)		(6,274,552)	
Miscellaneous operating costs	(240,020)		(412,223)		(439,127)	
Provisions for bad and doubtful accounts	(200,105)		(370,000)		(121,897)	
EBITDA	4,840,279	12%	6,231,466	15%	6,307,630	14%
Depraciation tangibles	(786,942)		(778,337)		(1,066,444)	
Amortization intangibles	(457,787)		(487,274)		(769,397)	
Non recurring operations	(154,214)		(557,548)		(48,274)	
EBIT	3,441,336	9%	4,408,307	10%	4,423,514	10%
Financial income/(expenses)	(164,926)		(311,481)		(299,286)	
Profit/(Loss) before taxes	3,276,410	8%	4,096,826	10%	4,124,228	9%
Taxes	(780,432)		(1,189,220)		(833,673)	
Net Profit	2,495,978	6%	2,907,606	7%	3,290,556	7%

Tab. 3.4bis Reclassified consolidated income statement

Description	2016	%	2017	%	2018	%
Revenues from sales	40,106,117		47,011,251		49,129,438	
Profit/(loss) non-core income	378,932		684,342		1,943,111	
Total Revenues	40,485,049	100%	47,695,593	100%	51,072,549	100%
Product Manufacturing Costs	(18,472,497)		(19,832,715)		(20,409,377)	
Costs for raw materials/finished products	*(12,543,925)*		*(12,703,550)*		*(13,396,440)*	
Costs for production services	*(5,928,572)*		*(7,129,165)*		*(7,012,937)*	
Costs for use of third-party assets	(2,101,844)		(3,314,110)		(4,877,477)	
Marketing Costs	(1,992,190)		(1,751,943)		(2,140,082)	
Costs for other services	(6,066,972)		(6,875,626)		(7,077,065)	
ADDED VALUE	11,851,546	29%	15,921,199	33%	16,568,547	32%
Personnel Costs	(7,220,855)		(8,721,525)		(10,614,232)	
Miscellaneous operating costs	(258,237)		(450,670)		(594,915)	
Provisions for bad and doubtful accounts	(170,000)		(170,000)		(121,897)	
EBITDA	4,202,454	10%	6,579,004	14%	5,237,502	10%
Depreciation tangibles	(796,238)		(883,919)		(1,281,960)	
Amortization intangibles	(681,303)		(1,374,191)		(1,799,370)	
Non recurring operations	(30,105)		(801,743)		(75,051)	
EBIT	2,694,808	7%	3,519,151	7%	2,081,122	4%
Financial income/(expenses)	(181,798)		(373,591)		(369,043)	
Profit/(Loss) before taxes	2,513,009	6%	3,145,560	7%	1,712,079	3%
Taxes	(573,208)		(891,906)		(418,741)	
Consolidated Net Profit	1,939,801	5%	2,253,654	5%	1,293,338	3%

Income statement

Profitability represents the company's ability to generate income adequate to the capital invested in it over the long term.
Consolidated profitability levels were affected by the increase in subsidiaries' overhead costs and greater depreciation and amortization, resulting from the numerous investments in fixed assets undertaken during the year, often associated with a rather short depreciation period. Subsidiaries are mostly concentrated in the retail channel and thus on the opening of direct stores around the world. Overhead costs rose due to the increased headcount and rent and utilities costs. Investments in fixed assets were concentrated above all in the categories "leasehold improvements" relating to renovation and decoration work on stores and "furniture and fittings".

Balance sheet

The analysis of the financial situation focuses on stability, which represents the company's ability to face external and internal adverse events.
Despite the volume of the investments undertaken during the year, the company further improved its capitalization, due to the capital increase as part of the IPO process, ending the year with consolidated equity of Euro 47.4 million and fixed assets of Euro 25.7 million.

Tab. 3.5 Profitability indicators

Contents	Formula	2016	2017	2018	Consolidated		
					2016	2017	2018
ROI	Operating income/net operating invested capital	10.67%	15.19%	7.93%	6.99%	6.59%	3.55%
ROE	Net result/Equity	8.91%	9.37%	6.40%	7.07%	7.72%	2.73%
ROS	Operating income/Revenues from sales	8.16%	12.20%	8.97%	5.77%	5.64%	4.24%

Tab. 3.6 Financial stability indicators

Contents	Formula	2016	2017	2018	Consolidated		
					2016	2017	2018
Debt Ratio	Non-current and current liabilities/debt capital	45.69%	46.21%	35.04%	45.27%	48.64%	36.71%
Equity ratio	Equity/debt capital	54.31%	53.79%	64.96%	54.73%	51.36%	63.29%
Primary ratio	Equity/fixed assets	1.42	1.28	1.58	1.64	1.51	1.84

Financial overview

Liquidity represents the company's ability to remain constantly solvent over time. The time horizon for this type of analysis is the short term, and it thus specifically concerns items included in working capital (tab. 3.7).

Net financial position. Net financial position, which refers to the company's net debt, is a concise representation of the balance of sources and investments of a financial nature. It is calculated as current cash and equivalents, plus financial receivables, less financial payables (i.e., not attributable to the commercial cycle) of both a short-term and a medium-to-long-term nature (tab. 3.8 - 3.8bis).
Net financial position has been prepared according to the scheme set out in CONSOB Communication No. DEM/6064293 of July 28, 2006. By convention, the minus sign means cash (cash and financial receivables exceed financial payables).
The breakdown of debt into short- and long-term is more balanced than in 2017 as a result of a residential mortgage loan contracted in December 2018, which replaced the bridge loan for the construction of the expansion of the company's headquarters.

Tab. 3.7 Liquidity indicators

Contents	Formula	2016	2017	2018	consolidated		
					2016	2017	2018
Current ratio	Working capital/ current liabilities	1.55	1.65	2.62	1.70	1.70	2.78
Treasury ratio (acid test)	Current and deferred liquidity/ current liabilities	0.90	0.91	1.77	0.99	0.94	1.77
Treasury margin (€)	Current and deferred liquidity – current liabilities	-1,987,092	-1,802,342	13,613,472	-185,929	-1,389,406	13,635,287

Tab. 3.8 Net financial position of the parent company

In thousands of €	31/12/16	31/12/17	31/12/18
A- Cash on hand	33	1,524	53
B- Bank and postal deposits	2,977	56	10,939
D- Cash and cash equivalents (A+B)	**3,010**	**1,580**	**10,992**
E- Other current financial assets	**1,355**	**3,318**	**5,352**
F- Current bank payables	5,886	6,991	3,665
G- Current part of non-current debt	623	1,288	2,237
H- Other current financial liabilities	1,612	263	1,300
I- Current Financial Debt (F+G+H)	**8,120**	**8,542**	**7,203**
J- Net Current Financial Debt (I-E-D)	**3,755**	**3,644**	**(9,141)**
K- Non-current bank payables	840	4,199	7,370
L- Bonds issued	-	-	-
M- Other non-current financial liabilities	-	-	-
N- Non-current financial debt (K+L+M)	**840**	**4,199**	**7,370**
O- Net Financial Debt or NPF (J+K)	**4,595**	**7,843**	**(1,771)**

Tab. 3.8bis Net financial position of the group

In thousands of €	31/12/16	31/12/17	31/12/18
A- Cash on hand	37	65	62
B- Bank and postal deposits	3,976	2,747	13,519
D- Cash and cash equivalents (A+B)	**4,013**	**2,812**	**13,581**
E- Other current financial assets	**1,200**	**1,400**	**2,435**
F- Current bank payables	5,886	4,276	3,905
G- Current part of non-current debt	623	4,002	2,237
H- Other current financial liabilities	-	-	-
I- Current Financial Debt (F+G+H)	**6,509**	**8,278**	**6,143**
J- Net Current Financial Debt (I-E-D)	**1,296**	**4,066**	**(9,873)**
K- Non-current bank payables	840	4,199	7,370
L- Bonds issued	-	-	-
M- Other non-current financial liabilities	-	-	-
N- Non-current financial debt (K+L+M)	**840**	**4,199**	**7,370**
O- Net Financial Debt or NPF (J+K)	**2,136**	**8,265**	**(2,503)**

CALCULATION AND ALLOCATION OF VALUE ADDED

The statement of value added is designed to highlight the value added in view of its distribution to the company's various stakeholders. Value added fact measures the wealth generated by the company during the year in respect of the stakeholders to which it is distributed. In identifying the items in this reclassification, it was decided not to interpret sister companies, contract manufacturers and agents as sources of costs, but rather to regard them as beneficiaries, due to the downstream business generated by the company, of the distribution of value added (Tab. 3.9).
The statement reclassifies the income statement for the year, considering the income generated by the sale of products, on the one hand, and the costs incurred for the purchase of goods and services, on the other. Ancillary activity revenues, together with depreciation and amortization (where net global value added is desired), are then added to the difference between the above items - even though depreciation and amortization constitute a sort of remuneration for the company, which thereby replenishes the capital invested in the factors of production. The resulting value-added measures Monnalisa's ability to create and distribute wealth to its various stakeholders.
The distribution of value added (tab. 3.10) instead represents the portion of the wealth produced by the company that is allocated to the stakeholders who contributed in various ways to generating it; it therefore depends directly on the map of company stakeholders and on the degree to which they are involved in its activity.
Subsidies towards operating expenses related to the photovoltaic incentive (Euro 20,449.02), the work-study incentive (Euro 1,200), the business internalization grant (Euro 15,314.48), the Fondimpresa professional training grant (Euro 7,200) and the R&D grant (Euro 1,079,564.24).

Tab. 3.9 Statement of value added of the parent company

	31/12/16	31/12/17	31/12/18
Value of Production	**40,271,058**	**44,170,381**	**44,730,494**
Net Revenues from sales and services	39,495,029	42,272,824	42,997,287
Changes in inventories of work-in-progress, semi-finished goods and finished products	395,814	1,236,418	(132,395)
Other revenues and income	380,216	661,139	1,865,602
Revenues from core production	**40,271,058**	**44,170,381**	**44,730,494**
Intermediate production costs for:	**23,241,781**	**25,308,551**	**25,240,403**
Consumption of raw materials	13,300,356	15,175,794	14,655,641
Costs for services	7,265,387	7,925,902	8,027,222
Cost use of third-party assets	1,709,285	2,029,249	2,623,328
Provision for risks	200,105	370,000	121,897
Changes in inventory of raw, ancillary and consumable materials and goods	(125,575)	(328,311)	(390,751)
Other operating charges	641,073	135,917	203,065
GROSS VALUE ADDED FROM ORDINARY OPERATIONS	**17,029,278**	**18,861,830**	**19,490,091**
Other income and expenses	**(154,214)**	**(557,548)**	**(48,274)**
+/- balance of additional management	(154,214)	(557,548)	(48,274)
Other expenses	(154,214)	(557,548)	(48,274)
GLOBAL GROSS ADDED VALUE	**16,875,064**	**18,304,282**	**19,441,817**
Adjustments		150,625	51,767
Period Amortization	1,244,729	1,265,611	1,928,516
GLOBAL NET ADDED VALUE	**15,630,335**	**16,888,045**	**17,461,534**

Tab. 3.10 Distribution of value added

	2016	%	2017	%	2018	%
Personnel Payments	**6,955,236**	**44%**	**7,510,138**	**44%**	**8,783,864**	**50%**
Employees	6,955,236		7,510,138		8,783,864	
a) direct remuneration and bonuses (including the employees at the Galeries Lafayette Corner, the employee at the P.R. office in Russia, at the showroom in Germany and UK, and at the Spanish branch)	4,879,054		5,296,427		6,076,575	
b) indirect remunerations	1,730,635		1,836,504		2,157,724	
c) reimbursement of expenses and safety expenses	152,857		153,623		154,317	
d) canteen expenses	93,581		109,267		123,414	
e) training	27,509		23,319		68,761	
f) welfare	71,600		90,998		203,073	
Payments to linked industries: subcontractors	**4,629,911**	**30%**	**5,089,993**	**30%**	**4,568,174**	**26%**
Cost for embroidery, printing, sewing, ironing and dyeing	4,629,911		5,089,993		4,568,174	
Payment to linked industries: agents and representatives	**1,240,903**	**8%**	**905,117**	**5%**	**627,773**	**4%**
a) direct remunerations	1,205,992		877,509		573,925	
b) indirect remunerations	34,911		27,608		53,848	
Payments to the Public Administration	**132,056**	**1%**	**177,160**	**1%**	**(81,524)**	**0%**
Direct Taxes	780,432		1,189,220		833,673	
Indirect Taxes	85,684		135,937		208,532	
Subsidies for the period	734,061		1,147,997		1,123,728	
Payment on credit capital	**164,926**	**1%**	**287,529**	**2%**	**262,191**	**2%**
Costs for short-term capital	155,357		248,602		215,611	
Costs for long-term capital	9,569		38,927		46,580	
Remuneration of risk capital	**0**	**0%**	**0**		**0**	
Dividends	0		0		0	
Company Remuneration	**2,495,978**	**16%**	**2,907,606**	**17%**	**3,290,556**	**19%**
Changes in provisions	2,495,978		2,907,606		3,290,556	
External Charity Donations	**11,325**	**0%**	**10,503**	**0%**	**10,500**	**0%**
GLOBAL NET ADDED VALUE	**15,630,335**	**100%**	**16,888,045**	**100%**	**17,461,534**	**100%**

MAP OF THE

STAKEHOLDERS

and distribution of value added in 2018

The company distributes 76% of its wealth to its employees and contract manufacturers.

ANALYSIS OF THE MONNALISA GROUP'S RISKS

In managing its business and implementing its strategy, the Group, like all companies, is naturally exposed to a series of risks that, where not properly managed and mitigated, may affect its operating results, as well as its current and prospective financial position.

Monnalisa S.p.A. has implemented risk management procedures for the most exposed areas with the aim of eliminating or reducing positive negative impacts on the Company's financial situation.

MARKET RISK

The Monnalisa Group operates in the luxury fashion market where there is strong competition, above all from adult brands with childrenswear lines, as well as volatility, with a very short product life cycle and frenetic, constant availability of new products and brands. This risk is accompanied by that associated with the countries in which the company does business, each of which has its own economic and political situation, and with those nations where the Group maintains a direct presence. These risks are managed by investing in innovation and research, encouraging creativity through constant stimuli and challenges. In addition, having a widespread presence in a significant number of global markets enables the Group to mitigate the risk associated with a potential deterioration in the economic or political situation in certain markets.

RISKS RELATED WITH IMAGE

The market in which the Monnalisa Group operates is influenced by the retailer and end customer's perception not only of the style proposed by the company, but also of the intrinsic quality of the product and the brand's reputation. In order to mitigate these risks, the image of the product and the brand is carefully managed (brand, product, company and group communication). The public relations function is internal, in order to ensure more effective coverage of the messages to be communicated externally, ensuring that they are consistent in terms of brand identity and the group situation.
In order to protect the end consumer and safeguard against the resulting reputational risk, considerable attention is devoted to product safety and the materials used, through quality control, chemical and physical tests on specific products, compliance with the REACH Regulation and satisfaction of very stringent requirements for access to large Chinese and Korean malls, through specific product certifications.

DISTRIBUTION NETWORK RISKS

The risks associated with the retail and wholesale channel relate to the solvency and solidity of clients, which are regularly monitored by prudently assessing the credit limits to be granted, in addition to relying on a credit insurance and management service. An additional service that provides online access to commercial information in real time is also used to monitor whether the credit limits granted remain sound over time.
In a market of this nature, it is also essential to be able to obtain and to maintain the most desirable locations in the world's most important cities and prestigious department stores. The main risk associated with this type of channel relates to the term of the lease agreements, their possible renewable and the revision, if any, of the conditions applied.
The group invests constantly in the distribution channel, according to a win-win approach for both the client and supplier, by providing personalized support for store layout and set-up, assistance in preparing the initial order, monitoring of the mix of products stocked, training for sales personnel, visual merchandising initiatives, management and co-management of in-store events, product exchange service and modular support with the management of unsold articles.

RISKS RELATED TO RELATIONS WITH MANUFACTURERS AND SUPPLIERS

Production is outsourced to small local workshops (contract manufacturers) and manufacturers that also produce their own product lines based on Italy and internationally (China, Turkey and Egypt). Collaboration with our main suppliers is based on an approach oriented towards long-term partnership, founded on common goals and methods to identify quality professional solutions and achieve mutually satisfactory results, with a focus on relationship stability, while also limiting the risk of dependency on key suppliers, in terms of workload or the type of product/service offered. Although the group is not materially dependent on any single supplier, there is still a potential risk that existing supply arrangements may be interrupted. Accordingly, the workloads assigned to each supplier are regularly monitored and intense worldwide scouting of new suppliers is conducted.

RISKS RELATED TO THE LOSS OF KNOW-HOW AND TALENT

The group's success depends strongly on the people who work with it, their expertise and their professionalism. Accordingly, it is sought to prevent the loss of talent by ensuring a stimulating, challenging working environment offering a wealth of opportunities for learning and growth. In addition, the sharing of individual knowledge is promoted, in the form of the transversal growth and spread of skills through direct training of colleagues and publication on the server of everything that can be codified into procedures and instructions.

When new international branches are opened in countries with cultures profoundly different from those of the parent company, it also becomes crucial to understand how individuals of another nationality approach their work and what motivates them, by developing ad hoc policies and taking account of a different attitude to company loyalty over time.

RISKS RELATED TO THE LOSS OF INFORMATION AND DATA

The Monnalisa Group has added data management and back-up procedures to the instructions contained in the Parent Company's ISO 9001 manual, even though the obligation to prepare and update the security planning document has ceased to apply. No complaints regarding privacy breaches or data losses have ever been received. One of the three individuals in the IT office is tasked with constantly updating IT systems to avoid the risk of obsolescence, and there is also a management committee that focuses on technological development at the level of software. Secure payment systems managed by certified companies that employ the best security protocols are used in online product marketing systems. Internal controls are applied to ensure that transactions are formally and substantially correct.

Company privacy roles (data controller, data supervisor and DPO) pursuant to Regulation (EU) No. 2016/679 were formalized during the meeting of the Board of Directors held on May 21, 2018.

LIQUIDITY RISKS

The Monnalisa group plans its financial performance so as to reduce its liquidity risk. On the basis of its financial needs, the group makes use of lines of credit provided by the banking system, relying on the most appropriate sources, from the standpoint of term, in view of the uses of the funds. In order to optimize the use of liquidity due to the increase in working capital, the volume and composition of the liquidity used are constantly monitored, seeking to contain it or render it uniform in its various components (accounts receivable, accounts payable and inventory) in terms of both volume and duration. At the same time, the group assesses the value of its inventory at its various facilities, ensuring that it is consistent with presumed realizable value, and identifies the methods and channels to be used to dispose of the remaining articles.

FINANCIAL RISKS

Financial risks, i.e. the possibility that the group may not be in a position to weather adverse events of an external or internal nature, are thoroughly mitigated by the policy adopted by the company, which resulted in retention of earnings over a considerable period. This was further borne out by the increase in equity resulting from the IPO on the AIM Italia Market.

EXCHANGE RATE RISK

In its operations, the group conducts purchase and sale transactions on international markets denominated in currencies other than the euro. Since the volume of the parent company's purchases in U.S. dollars is out of alignment with the schedule according to which price lists are set, where it is deemed appropriate to do so the exchange rates fixed when the bill of materials is drawn up are hedged using flexible forwards, solely for protection purposes, and never with speculative intent, in view of ensuring that the planned margins are achieved. According to the same rationale, where the requirements are met, payment flows in foreign currencies relating to sales transaction on international markets are also hedged.

RISKS RELATED TO CORRUPTION

Since the group does not work with either the public administration or large retail chains, the risk of corruption is considered to be low. In addition to the Board of Statutory Auditors in its control function, company governance system and processes also contribute to keeping the risk of corruption low by establishing the separation of functions. Management of activities relating to the management of the risk of corruption falls within the areas contemplated when preparing the 231/01 system, the general and special sections of the model for which – along with the code of ethics – were approved by the Board of Directors in December 2017. The process of voluntarily implementing an Organization, Management and Control Model pursuant to Legislative Decree No. 231/2001 made it possible to refine risk analysis further, and in particular to enter into further detail regarding risks giving rise to criminal liability under the Decree. The reporting mechanisms in place within the organization, and also extending beyond it, contribute to mitigating this risk, by making it possible to enter into direct contact with the external certification authority or even the SA8000 accreditation authority. As in previous years, no reports of possible attitudes or phenomena of corruption were received during the half-year.

RISKS RELATED TO GOVERNANCE

The parent company is a first-generation family business in which the founders are still actively involved in terms of contributions and guidance. Accordingly, there are clearly potential continuity and succession risks. In order to mitigate this type of risk, a Board of Directors was formed in 2010, and reappointed in 2018, with members currently including, in addition to Chairman Piero Iacomoni, three external members, including Chief Executive Officer Christian Simoni, and an independent director. Whether to expand the Board of Directors to include new members remains an open question.

RISKS RELATED TO ACCOUNTING ACTIVITY

The parent company's accounting activity is internal and is conducted by individuals with an average of 20 years of experience in their roles. The professionalism ensured by our personnel is accompanied by ongoing training and support from high-profile external consultants. The auditing firm EY S.p.A. has been named the company's independent auditors, in addition to being commissioned to certify the separate financial statements of the parent company and the consolidated financial statements. At the level of the subsidiaries, accounting is entrusted to local consultancy firms with international experience. The subsidiary companies with the greatest revenues (Russia, China and Hong Kong) are audited by local auditors or local offices of EY. There have never been any cases of fines or other penalties for breaches of laws and regulations.

There were no ongoing disputes with the revenue authorities at the reporting date.

The Group operates in various countries (in Europe and beyond). Within this framework, goods are sold and services are rendered between the various Group entities residing in the various countries. In particular, relationships between the parent company and its international subsidiary companies are subject to transfer-pricing rules. In the management's opinion, the transactions between the parent company and other group company have been undertaken in the course of ordinary business operations and carried out in full accordance with the arm's-length principle, as incorporated into Italian legislation and defined (at the international level) by the guidelines provided by the OECD.

Relations with financial institutions and ratings agencies
Debt is generally carried by the parent company only. Bank-company relations involve mortgage credit, foreign exchange hedging, factoring, collection and payment services, financing and credit facilities and documentary credits. Debt structure is well balanced between short- and long-term elements.

Tab. 3.11 EBITDA to financial charges at the level of the parent company

	EBITDA	Financial charges	EBITDA/financial charges
2016	4,840,279	164,926	29.34
2017	6,231,466	311,481	20.00
2018	6,307,630	299,286	21.07

The rating yielded by the simulation model based on the ratio of EBITDA to financial charges represents the sustainability of financial charges, viewed as the amount of the margin available to cover such charges.

Use of financial instruments
Derivative financial instruments are used to hedge the financial risks related to fluctuations in the exchange rate on commercial transactions in foreign currencies and to hedge the financial risks related to fluctuations in the variable interest rates associated with specific medium-to-long-term financing transactions. See the notes for further information.

Investments
Investments were made in the following areas during the year:

Fixed assets	Acquisitions in the year by the Parent Company	Acquisitions in the year by the Group
Start-up and expansion costs	1,336,196	1,341,562
Industrial patent rights	82,407	96,126
Other intangible assets	818,837	3,237,611
Land and buildings	2,292,580	2,292,580
Plant and machinery	721,178	833,765
Industrial and commercial equipment	12,154	334,027
Other assets	577,756	751,684
Work in progress & advance payments	0	64,871
TOTAL	**5,841,108**	**8,952,226**

Environmental information
The following information is provided in accordance with Art. 2428, paragraph 2, of the Italian Civil Code:
- no complaints regarding damages to the environment were filed during the year;
- no definitive fines or penalties for criminal offences or environmental damages were imposed;
- no violations of environmental protection legislation were alleged.

The company has not adopted particular environmental impact policies because they are not required in respect of its activity.

Disclosures on personnel relations
Further to that reported in the Explanatory Notes, we report:
- no employee deaths took place during the year;
- no serious workplace accidents of employees took place during the year involving serious injury;
- no issues in relation to workplace health matters concerning employees or ex-employees or misconduct against the company arose in the year;
- our company has implemented safety measures for its personnel in order to ensure compliance with the relevant legal requirements.

The Company adopts all measures appropriate to protecting health and safety in the workplace by applying traditional procedures (risk assessment and health monitoring plan) and obtaining support from competent professionals (executives, officers, company-appointed physician and head of the prevention and protection service pursuant to Leg. Decree 81/2008).
Prevention of work-related risks is a fundamental principle that inspires the Company and that represents an opportunity for improving quality of life in the Company's facilities and offices. In view of this goal, initiatives continued with the aim of training and raising awareness amongst employees and all workers generally regarding workplace safety issues. The process involved training and information sessions (in the form of specific courses), the implementation of a health monitoring plan, and the circulation of notices and circulars in accordance with the relevant legislation. In accordance with Law Decree 81 of 2008, additional investments were made to improve the compliance of installations and equipment with the legislation concerned.

Research and development
The following information is provided in accordance with Article 2428, paragraph 2, no. 1), of the Italian Civil Code:
- No research and development costs were capitalized during the year. It should be noted that the Company undertook research and development in the textile and apparel sector with a focus on advanced, innovative product and process technologies, as described in further detail elsewhere in the financial report,
- The costs relating to these activities have been expensed in full to the income statement,
- The total costs incurred for R&D activity in 2018 amounted to Euro 2,400,097.85,
- The total R&D tax credit pursuant to Ministerial Decree 174 of May 27, 2015 – accounted for as a grant towards operating expenses – amounted to Euro 1,079,564.22.

Drafting and/or updating of the Security and Privacy Protection Policy
Declaration in accordance with Legislative Decree 196 of June 30, 2003
Pursuant to Art. 29 of Annex B to Legislative Decree 196/03 on the processing of personal, sensitive and legal data within companies, as amended, it is reported that the Company has revised its Privacy Plan and its entire privacy management system, under a service agreement, together with the processing of specific databases.

Intra-group and related-party transactions
Transactions between the various companies take place at current market conditions. The content of the related-party transactions report for 2018 is broken down by company below:
- Jafin SpA: a financial vehicle that has issued a bond for which Monnalisa has subscribed
- PJ Srl: a real-estate company that leases the showroom, for business promotion purposes, and other premises used in production, and from which Monnalisa acquired a building used in its production process by exchanging it for a property not functional to its business
- Monnalisa Hong Kong Ltd: retail development in HK
- Monnalisa China Ltd: retail development in China
- Monnalisa Korea Ltd: retail development in South Korea
- Monnalisa Russia Llc: retail and wholesale development in Russia
- Monnalisa Brasil Ltda: retail development in Brazil
- ML Retail USA Inc: retail development in the USA
- Monnalisa Bebek Gygim Sanayi Ve Ticaret A.S.: retail development in Turkey.

The following table presents the impact of the transactions undertaken during the year ended December 31, 2018 from the standpoint of operating result and financial performance.

Company	In-vestments	Trade Recei-vables	Other receivables	Trade payables	Other payables	Sales	Purchases
Jafin Due Spa		3,660				3,000	
Monnalisa China Ltd	4,800,000	2,444,362	-	86.603	900,000	289,539	17,936
ML Retail USA Inc.	591,156	777,712	3,004,851		-	726,430	
Monnalisa Rus Llc	136	655,878	-		-	2,633,763	
Monnalisa Brasil Ltda	500,036	166,655	700,000		-	148,404	
Monnalisa Korea Ltd	81,000.00	98,296	100,000		-	1,000	
Monnalisa HK Ltd	50,000.00	1,338,861	-	95,910	-	576,252	
Monnalisa Bebek Gygim Sanayi Ve Ticaret A.S.	1,215,434	-	-	-	400,105		
Jafin SpA		16,200	1,300,000	-	-	14,000	
Pj Srl		25,620	116,580	1,142	11,000	1,005,000	1,372,063
Monnalisa &Co. Srl		10,980	-	-	-	3,000	
Fondazione Monnalisa		156,754				-	-
DiDj srl				702	54,000		49,955
Hermes & Athena Consulting Srl		-		-	200,000	-	200,000
Arcangioli Consulting Srl		-	61,000	-		-	49,000
Arcangioli Pierangelo		-		-		-	95,776
Barbara Bertocci		-		-		-	104,000
TOTALE	**7,237,762**	**5,694,978**	**5,282,431**	**1,844**	**1,565,105**	**6,257,371**	**1,870,794**

The shares in Monnalisa are 75% held by Jafin Due SpA, which therefore exercises management and coordination activity pursuant to Art. 2497-sexies of the Italian Civil Code.

Treasury shares and shares in parent companies
At year-end, the company did not hold any treasury shares.
On January 16, 2019, the Board of Directors of Monnalisa S.p.A., inter alia, approved the share buy-back and sale program in accordance with the shareholders' meeting resolution dated June 15, 2018. The Board of Directors established the programme duration as between January 28, 2019 and December 15, 2019.
The plan is required in order to: (i) utilise treasury shares for the efficient investment of the liquidity generated by ordinary company operations; (ii) acquire treasury shares from the beneficiaries of any incentive plans; (iii) permit the use of treasury shares in corporate transactions where the opportunity arises for share swaps, mainly for mergers with potential strategic partners; in addition to (iv) intervene, in accordance with applicable provisions (and where possible), to contain anomalous share price movements and to regularise trading and prices, against temporary distortions related to excessive volatility or reduced levels of trading.
Purchases may be made also in a number of tranches and in any case up to a maximum amount, considering the ordinary company shares held, at any given time, by the company and its subsidiaries, overall of not more than

15% of the shares comprising the share capital. Purchases shall however be made within the limits of the distributable profits and available reserves stated in the latest approved financial statements, and within the maximum daily volume limits as per the applicable provisions.
Treasury share purchases may be executed at a unitary price of not more than 15% below, as a minimum, and not greater than 15% above, as a maximum, the share price recorded during the trading session before each transaction - except where the shares are swapped, conferred, assigned or subject to other non-monetary disposals, whereby the financial terms of the transaction are based on, as per the applicable regulation, the nature and characteristics of the transaction.
Treasury shares may also be disposed of at any moment, in full or in part, on one or more occasions, even before the maximum number of shares have been purchased, through disposals on the market, in blocks or otherwise off-market, accelerated bookbuilding, or through the sale of any secured and/or unsecured rights thereto (including, for example purposes, securities lending), and also as part of industrial projects or corporate finance transactions, through exchanges, conferments or other means requiring the transfer of treasury shares, at a price or value which is appropriate and in line with the transaction, taking account also of the market performance.
The share purchase programme shall be co-ordinated by an entrusted intermediary, who shall make the purchases entirely independently and without influence from Monnalisa in terms of the moment at which to execute purchases.
Any subsequent amendments to the above-mentioned buy-back programme will be communicated by the company according to the means and terms established by the applicable regulation.
The transactions undertaken shall be disclosed to the market according to the means and terms established by the applicable regulation.
In order to comply with the provisions of the AIM Italia – Alternative Capital Market Issuers' Regulation, as updated on January 3, 2018, the Company has adopted specific corporate governance procedures such as:

- internal dealing procedures governing reporting obligations applicable to certain transactions undertaken by the Company's directors;
- a regulation on the management and processing of company information and external disclosure of inside information;
- related-party transactions procedure governing the identification, approval and execution of transactions undertaken by the Company with related parties in order to ensure that such transactions are transparent and correct both in substance and from a procedural viewpoint;
- procedure for complying with reporting obligations vis-a-vis the nomad.

Subsequent events and outlook
The management team has been strengthened with the hiring of new key positions at the Group, particularly in the Retail area. A new retail manager with significant experience in worldwide retail was recruited. This position will be involved in optimising the performances of the 42 directly owned stores, identifying new opportunities to open on target markets and roll out the expansion strategy through directly owned boutiques.
With the entry of the new Retail Manager, the position of Digital Manager was defined with the responsibility to manage full time all Monnalisa digital operations, including direct and indirect e-commerce and omnichannel strategies worldwide.
A senior executive joined the Chinese subsidiary to manage retail operations at the local level, in order to ensure prompter and more immediate coverage of the market with the largest number of stores.
Industrial investments, funded by new own resources obtained from the AIM Italia market listing, continued according to the business plan. In particular, new direct sales points were opened at the Sawgrass Mills outlet in Miami and at the MIXC Shenzhen Mall in China.
A subsidiary was incorporated in the UK for the opening of a concession at Harrods. In April 2019, sales points shall be opened in Istanbul, at the new airport of Fidenza and in Barcelona at El Corte Ingles.
Investments were also agreed and under execution for the opening of a sales point in Recife (Brazil) and in Guam (United States).
Finally, a company is being incorporated in Taiwan for the opening of direct sales points on this market.
At the product level, research and selection of a new stylist for the menswear line began with the aim of increasing market share in this segment of the market as well. The roll-out of perfumes is continuing, together with the development of new products in the cosmetics line, to be launched in the coming months.
In logistics, plans call for continuing renovation of the warehouse, with the related revision of logistics processes and implementation of the warehouse management system software, along with the revision of production, logistics and administrative planning and management processes in order to permit deliveries from China to non-EU countries, so as to reduce the impact of customs duties and shipping and transit costs and times, as well as feasibility analyses of a transition in production and logistics management from a client model to a technical box model, inclusive of the implementation of an RFID system.
Other significant investments in 2019 will extend to technological innovation to improve the relationship with end clients, with the implementation of a new e-commerce platform and a customer relationship management system, with very significant expected results, above all in the coming years, in terms of retention and increased lifetime value of our clients.
In other technological developments, one important innovation project transversal to all functional areas is the adoption of a product lifecycle management (PLM) system aimed at increasing the efficiency of all processes relating primarily to the product.
Finally, another very significant strategic project focuses on the consumer experience, both in physical stores and online, with the aim of creating a unique experience that truly sets us apart from the competition. Its core principles are customer engagement, experience, entertainment, product customization and a multi-channel approach.

Local Units
The Company operates at the following locations, in addition to its registered office:

Arezzo, Via Madame Curie n. 7/G

Arezzo, Loc. Ponte alla Nave n. 8

Arezzo, Via Beniamino Franklin n.11-13

Arezzo, Civitella Val di Chiana, Via di Pescaiola n. 78

Arezzo, Civitella Val di Chiana, Via di Basserone n. 12/A

Arezzo, Via Fabroni n.15-27

Arezzo, Via Pasqui 23,25, 49, 43

Arezzo, Via Morse n.1

Arezzo, Via Puccini n.119

Florence, Via del Corso n. 66/R

Florence, Via degli Strozzi 22/R

Milan, Via della Spiga n. 52

Milan, Corso Buenos Aires n.1

Paris, Avenue de Wagram n.58

Naples, Via Toledo n.256

Naples, Piazza dei Martiri n. 52

Serravalle Scrivia (AL), Viale della Moda 1

Madrid, Calle Velasquez 20, 6 DC

Marcianise, Strada Provinciale 363

Moscow, Presnenskaya naberegnaya, 8 str.1, floor 2, office 44

Viernheim, Robert-Kochstrasse 10

Forte dei Marmi, Via Vittorio Veneto 4

Agira (EN), Località Mandre Bianche (Sicilia Outlet Village)

London - Logan Studios - Logan Place

Florence, Via del Termine 11

Rome - Via L.Luciani 1 P2 I5A

CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2018

INCOME STATEMENT	31.12.2018	31.12.2017
A) Value of Production		
1) Revenues from sales	49,129,438	47,011,251
2) Changes in inventories of work in progress, semi-finished goods and finished products	546,466	2,577,163
4) Capitalization of internal work	30,897	47,330
5) Other revenues and income	3,035,942	1,785,009
Total value of production	***52,742,743***	***51,420,752***
B) Costs of Production		
6) Raw materials, consumables and goods for resale	14,801,858	15,901,998
7) Services	16,153,629	16,187,247
8) Use of third-party assets	5,609,186	3,738,620
9) Personnel Costs		
a) Wages and salaries	8,068,473	6,485,165
b) Social security charges	1,874,913	1,692,279
c) Termination indemnities	281,358	239,083
d) Pensions and similar obligations	154,413	128,849
e) Other costs	235,075	176,149
Total personnel Costs	*10,614,232*	*8,721,525*
10) Amortization, depreciation and write-downs		
a) Amortization of intangible fixed assets	1,799,370	1,374,191
b) Depreciation of tangible fixed assets	1,281,960	883,919
d) Write-downs of receivables in current assets and cash and cash equivalents	121,897	506,762
Totale amortization, depreciation and write-downs	*3,203,226*	*2,764,873*
11) Change in inventory of raw, ancillary, consumable materials and goods	(391,431)	(328,311)
14) Other operating costs	611,198	373,997
Total production costs	***50,601,898***	***47,359,948***
Difference between value and production cost (A-B)	**2,140,845**	**4,060,804**
C) Financial income and expenses		
16) Other financial income:		
b) from securities classified as fixed assets	30,000	30,000
d) others	24,725	17,124
Totale financial income	*54,725*	*47,124*
17) Interests and other financial expenses		
- other	423,767	420,715
Total financial expenses	*423,767*	*420,715*
17-bis) Losses and gains on currency exchange	75,051	564,980
Total financial income and expenses	***(444,094)***	***(938,571)***
D) Value adjustments to financial assets		
18) Write-backs:		
d) financial derivative instruments	37,095	23,952
Totale write-backs	*37,095*	*23,952*
19) Write-downs:		
d) financial derivative instruments	21,767	625
Total write-downs	*21,767*	*625*
Total value adjustments to financial assets (D)	***15,328***	***23,327***
Profit/(Loss) before taxes (A-B±C±D)	**1,712,079**	**3,145,560**
a) Current taxes	784,743	1,323,934
b) Deferred taxes	(366,002)	(432,028)
Total Income, current, deferred taxes	*418,741*	*891,906*
21) Profit (loss) for the year	**1,293,338**	**2,253,654**
Profit (loss) attributable to the Group	1,291,853	2,248,215
Profit (loss) attributable to minority interests	1,486	5,439

ASSETS	31.12.2018	31.12.2017
A) Subscribed capital unpaid	**0**	**32**
B) Fixed Assets		
I - Intangibles Assets		
1) Start-up and expansion costs	1,074,411	
3) Industrial Patent and Intellectual Property Rights	153,444	185,987
4) Concessions, licences, trademarks and similar rights	-	1,134
5) Goodwill	2,145,599	697,953
6) Work in progress and advance payments	138,258	0
7) Other	1,916,097	1,646,670
Total Intangible assets	*5,427,809*	*2,531,744*
II - Tangible Assets		
1) Land and Buildings	11,100,937	3,309,586
2) Plants and equipment	4,186,066	750,665
3) Industrial and commercial equipment	315,309	240,034
4) Other Assets	2,469,890	2,248,172
5) Work in progress and advance payments	64,871	8,803,434
Total Tangible Assets	*18,137,073*	*15,351,891*
III - Financial Assets		
1) Equity investments in:		
D bis) other companies	8,624	8,624
Total Equity Investments	*8,624*	*8,624*
2) Receivables		
d bis) due from others		
within 12 months	959,567	257,500
3) Other Securities	1,200,000	1,200,000
Total Financial Assets	*2,168,191*	*1,466,124*
B) Total Fixed Assets	***25,733,073***	***19,349,759***
C) Current Assets		
I - Inventory		
1) Raw, supplies and consumable materials	2,414,560	2,023,132
2) Work in progress and semi-finished products	1,672,876	1,618,539
4) Finished products and goods	13,657,266	13,064,076
5) Advances	82,098	68,515
Total inventory	*17,826,800*	*16,774,262*
II - Receivables		
1) Due from customers		
- within 12 months	11,257,074	11,107,829
Total Due from customers	*11,257,074*	*11,107,829*
5-bis) Tax Receivables		
- within 12 months	3,735,433	4,314,994
Total Tax Receivables	*3,735,433*	*4,314,994*
5-ter) Deferred tax assets		
- within 12 months	1,604,390	593,029
Total Deferred tax assets	*1,604,390*	*593,029*
5-quater) Due from others		
- within 12 months	715,704	1,644,052
- beyond 12 months		119,593
Total Due from others	*715,704*	*1,763,645*
Total Receivables	*17,312,601*	*17,779,497*
III - Financial Assets (other than fixed assets)		
5) Derivative financial instrument assets	59,304	7,667
Total financial assets (other than fixed assets)	*59,304*	*7,667*
IV - Cash and cash equivalents		
1) Bank and postal deposits	13,518,370	2,746,976
3) Cash on hand	60,379	64,947
Total cash and cash equivalents	*13,578,750*	*2,811,923*
C) Total current assets	***48,777,455***	***37,373,349***
D) Accrued income and prepaid expenses		
Prepaid expenses	373,478	133,554
D) Total accrued income and prepaid expenses	***373,478***	***133,554***
TOTAL ASSETS	**74,884,006**	**56,856,694**

LIABILITIES AND SHAREHOLDERS' EQUITY	31.12.2018	31.12.2017
A) Shareholders' Equity		
I Share capital	10,000,000	2,064,000
II - Share premium reserve	9,063,125	-
III Revaluation reserve	2,959,446	2,959,446
IV Legal reserve	943,276	943,276
VI - Other reserves, indicated separately		
Translation differences	(717,937)	(554,920)
Other reserves	51,576	51,576
Total other reserves	*(666,360)*	*(503,344)*
VII - Cash flow hedge reserve	44,459	(23,275)
VIII Profit (loss) carried forward	23,751,400	21,504,228
IX Profit (loss) for the period	1,291,853	2,248,215
Total Group Shareholder's Equity	***47,387,198***	***29,192,546***
Minority Shareholder's Equity		
Third Party capital and reserves	8,999	5,252
Profit (loss) attributable to minority interests	1,486	5,439
Total Minority Shareholder's Equity	*10,485*	*10,691*
Total Shareholder's Equity	***47,397,683***	***29,203,237***
B) Provisions for risks and charges		
1) Provisions for pensions or similar obligations	54,257	59,621
2) Provisions for taxes, including deferred	256,843	58,658
3) Derivative financial instrument liabilities	-	38,292
4) Other	420,855	372,855
Total provisions for risks and charges	***731,955***	***529,426***
C) Employee termination indemnities	**1,607,423**	**1,426,921**
D) Payables		
4) Payables due to banks		
- within 12 months	5,733,506	8,278,706
- beyond 12 months	7,779,400	4,199,011
Total payables due to banks	*13,512,906*	*12,477,717*
5) Payable due to other financial institutions		
- within 12 months	11,865	-
Total payable due to other financial institutions	*11,865*	-
6) Advances		
- within 12 months	1,324,853	1,405,190
Total advances	*1,324,853*	*1,405,190*
7) Trade payables		
- within 12 months	7,758,687	9,546,033
Totale trade payables	*7,758,687*	*9,546,033*
12) Tax payables		
- within 12 months	425,632	583,226
Total tax payables	*425,632*	*583,226*
13) Payables to pension funds and social security agencies		
- within 12 months	492,303	395,378
Total payables to pension funds and social security funds	*492,303*	*395,378*
14) Other payables		
- within 12 months	1,400,026	1,169,914
- beyond 12 months	87,804	87,804
Total other payables	*1,487,829*	*1,257,718*
Total payables	***25,014,074***	***25,665,262***
E) Accrued liabilities and deferred income		
Accrued liabilities	132,871	31,848
Total accrued liabilities and deferred income	***132,871***	***31,848***
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**74,884,006**	**56,856,694**

CONSOLIDATED CASH FLOW STATEMENT

INDIRECT METHOD AT 31/12/2018

CASH FLOW STATEMENT CASH AND CASH EQUIVALENTS	31/12/2018	31/12/2017
A) Cash flow from operating activities (indirect method)		
Profit for the year	1,293,338	2,253,654
Income tax	418,741	967,845
Interest expenses/(income)	369,043	373,591
(Dividends)	-	-
(Gains)/losses on asset disposals	(847,962)	(32,945)
1) Profit for the year before taxes, interest, dividends and capital gains/ losses on disposals	**1,233,160**	**3,562,145**
Non-cash adjustments not impacting working capital		
Provisions	326,897	286,696
Amortisation & depreciation	3,081,330	2,258,110
Impairments	-	-
Adjustments to non-cash financial instrument assets and liabilities	(13,236)	(23,328)
Other non-cash increases/(decreases)	-	-
Non-cash adjustments not impacting working capital	**3,394,991**	**2,521,478**
2) Cash flow before working capital changes	**4,628,151**	**6,083,624**
Change in net working capital		
Decrease/(Increase) in inventories	(1,052,539)	(2,810,866)
Decrease/(Increase) in trade receivables	(149,245)	(634,263)
Increase/(Decrease) in trade payables	(1,787,346)	(550,169)
Decrease/(Increase) in accrued income and prepaid expenses	(254,299)	(29,357)
Increase/(Decrease) in accrued liabilities and deferred income	101,023	6,848
Other Decreases/(Other Increases) in net working capital	1,864,756	(1,615,970)
Total changes in net working capital	**(1,277,649)**	**(5,633,777)**
3) Cash flow after net working capital changes	**3,350,502**	**449,846**
Other adjustments		
Interest received/(paid)	(369,043)	(373,591)
(Income taxes paid)	(1,271,802)	(750,640)
Dividends received	-	-
(Utilisation of provisions)	(148,818)	(168,128)
Other receipts/(payments)	(65,751)	(611,802)
Total other adjustments	**(1,855,414)**	**(1,904,161)**

CASH FLOW FROM OPERATING ACTIVITIES (A)	**1,495,088**	**(1,454,315)**
Tangible fixed assets	(4,067,141)	(2,879,030)
(Investments)	(4,249,867)	(2,911,975)
Divestments	182,726	32,945
Intangible fixed assets	(4,695,436)	(1,796,355)
(Investments)	(4,695,436)	(1,796,355)
Divestments	-	-
Financial fixed assets	-	(200,000)
(Investments)	-	(200,000)
Divestments	-	-
Current financial assets	-	-
(Investments)	-	-
Divestments	-	-
CASH FLOW FROM INVESTING ACTIVITIES (B)	**(8,762,577)**	**(4,875,386)**
Third party funds		
Increase/(Decrease) in short-term bank payables	(2,376,209)	1,770,025
New loans	6,740,113	3,358,512
(Repayment of loans)	(3,328,717)	-
Own funds	**-**	
Paid-in share capital increase	16,999,125	-
(Repayment of share capital)	-	-
Disposal/(Acquisition) of treasury shares	-	-
(Dividends and advances on dividends paid)	-	-
CASH FLOW FROM FINANCING ACTIVITIES (C)	**18,034,312**	**5,128,537**
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (A ± B ± C)	**10,766,823**	**(1,201,165)**
Opening cash and cash equivalents	**2,811,923**	**4,013,087**
of which:		
bank and postal deposits	2,746,976	3,976,409
Cheques	-	-
Cash on hand	64,947	36,678
Closing cash and cash equivalents	**13,578,750**	**2,811,923**
of which:		
bank and postal deposits	13,518,370	2,746,976
Cheques	-	-
Cash on hand	60,379	64,947

Notes to the consolidated financial statements

at 31/12/2018

Introduction

Monnalisa S.p.A. (hereafter "the Company" or "the Parent Company") is a company incorporated under the laws of the Italian Republic and domiciled in Italy, with its registered office in Arezzo at Via Madame Curie No. 7.

These consolidated financial statements comprising the balance sheet, the income statement, the cash flow statement and the explanatory notes were prepared in accordance with Article 29 of Legislative Decree 127/91, as reported in these Explanatory Notes, prepared in accordance with Article 38 of the same Decree. The principles of Italian GAAP (set by the Italian Accounting Standard-Setter OIC) have been applied.

In addition to the various appendices as required by law, reconciliation schedules are also included of the net result and equity of the parent company and of the consolidated financial statements.

The financial statements are expressed in Euro to the nearest unit. Any rounding differences are indicated in the account "Euro rounding reserve" under Shareholders' Equity.

The explanatory notes outline the balance sheet and income statement accounts on the basis of the order in which they appear in the respective financial statements.

Pursuant to Art. 29, paragraph 4, of Leg. Decree 127/91, it is reported that it was not necessary to apply exceptions to the said Leg. Decree.

The notes and annexes provide additional information that, while not expressly required by applicable legislation, has been deemed useful to providing a complete representation of the Company's situation.

No items of the balance sheet or income statement have been merged, and the financial statements for the reporting year are comparable with those for the previous year. As per Article 2424 there are no asset or liability items that could be classified in more than one account.

Consolidation scope and methods

The consolidated financial statements are based on the financial statements of Monnalisa S.p.A. as parent and the companies in which the parent directly or indirectly holds a controlling interest. The financial statements of companies included in the consolidated financial statements are incorporated on a line-by-line basis. The list of these companies is provided below:

Company	Registered Office	Share capital		Shareholders	Holding	Consolidated
		currency	currency value			
Monnalisa Brazil Ltda	San Paolo (Brazil)	Real	1,680,390	Monnalisa SPA; Jafin SPA	99%	100%
Monnalisa China Llc	Shanghai (China)	Yuan	36,505,707	Monnalisa SPA	100%	100%
Monnalisa Hong Kong Ltd	HK	HKD	427,565	Monnalisa SPA	100%	100%
Monnalisa Korea Ltd	Seoul (Korea)	WON	100,000,000	Monnalisa SPA	100%	100%
Monnalisa Rus OOO	Moscow (Russia)	RUR	10,000	Monnalisa SPA; Jafin SPA	99%	100%
ML Retail Usa Inc	Houston Texas (USA)	USD	644,573	Monnalisa SPA	100%	100%
Monnalisa BEBEK GİYİM SANAYİ VE TİCARET A.Ş.	Istanbul (Turkey)	TRY	7,450,000	Monnalisa SPA	100%	100%

The details of the subsidiary companies are set out below:

Monnalisa Hong Kong Ltd

incorporated on August 25, 2015 and based in Hong Kong, it is a fully owned subsidiary of Monnalisa S.p.A. intended to pursue development of the local retail market. The subsidiary currently operates three monobrand stores, one of which was opened in the first half of 2018, based in Sogo Causeway Bay;

Monnalisa Rus LIC

incorporated on January 14, 2016 and 99%-owned by Monnalisa S.p.A. and 1% by Jafin S.p.A., with the aim of increasing the efficiency of management of the local wholesale market and entry into the retail market through the direct opening of monobrand stores. In 2018 two new stores were opened in Moscow, thus bringing the number of direct stores to four;

Monnalisa China Ltd

incorporated on February 17, 2016, with registered office in Shanghai and wholly-owned by Monnalisa S.p.A. The company was established to control the quality of products procured in China and to develop the local retail market through the opening of monobrand stores in the best-known malls in Shanghai, Beijing and other major cities. In 2018 a capital increase of Euro 1,500,000 was undertaken in accordance with this development approach. Three low-traffic stores (Yintasi, Grand Gateway and Scitech) were closed in 2018 and five new store between DOS and DOO were opened;

ML Retail Usa, Inc.

incorporated on September 22, 2016, wholly-owned by Monnalisa S.p.A., managing retail operations in Miami and at the nine sales points in New York and Los Angeles, acquired in 2018. It was decided to provide the subsidiary with an additional interest-bearing loan in 2018 totalling USD 1,500,000. In 2018 a new store in Philadelphia (King of Prussia) was opened;

Monnalisa Korea Ltd

incorporated in December 2016, wholly-owned by Monnalisa S.p.A. This company was established to operate on the Korean retail market and improve operating efficiency;

Monnalisa Brazil Participasoes Ltda

incorporated on December 22, 2016 to manage retail market operations in Brazil through two sales points at San Paolo and Belo Horizonte, the latter opened during the year. The subsidiary is held 99%;

Monnalisa BEBEK GİYİM SANAYİ VE TİCARET A.Ş.

incorporated on December 11, 2018, based in Turkey and fully owned by Monnalisa S.p.A., intended to develop the local retail market.

Basis of Consolidation

At a preliminary level, it should be noted that as the Parent Company directly promoted and participated in the incorporation of the individual consolidated companies, following the subscription of the nominal share capital it was not necessary to eliminate the value of the equity investments and thus to allocate the resulting consolidation difference.
The main consolidation principles are as follows:

- All subsidiaries are consolidated line-by-line. The minority interests' share in equity is shown separately in the balance sheet. Their portion of the result for the period is likewise shown separately in the income statement
- Transactions and balances between consolidated companies are fully eliminated. Gains and losses from transactions between consolidated companies not arising from transactions with third parties are eliminated from the relevant items of the financial statements. In particular, intra-Group gains on period-end inventories due to intra-Group purchases of finished goods are eliminated;
- On pre-consolidation, the exclusively fiscal items were eliminated and the relative deferred taxes provisioned.
- The conversion of overseas subsidiary company financial statements was undertaken at the reporting date exchange rate for assets and liabilities and at the average exchange rate for the income statement items. The net effect of the translation of the investee financial statements to the financial statements' currency is recorded in the "Translation reserve". For the conversion of the financial statements in foreign currencies, the exchange rates reported on the official Bank of Italy website were utilised, as indicated in the following table. The average is calculated as the average of the individual month average exchange rates:

Currency	Exchange rates as at 31/12/2018	Exchange rates Average 2018
US Dollar	1,145	1,1815
Chinese Yuan	7,8751	7,8074
Hong Kong Dollar	8,9675	9,2599
Southkorean Won	1277,93	1299,25
Russian Ruble	79,7153	74,0551
Brasilian Real	4,444	4,3087
Turkish lira	6,0588	5,6986

Accounting policies

The accounting policies for the consolidated financial statements at 31/12/2018 are those utilised for the statutory financial statements of the parent company which prepares the consolidated financial statements and do not differ from those normally used.
The financial statement accounts have been measured according to the prudence and accruals concepts and on a going concern basis.
In applying the materiality principle, the obligations in terms of recognition, measurement, presentation and disclosure were not observed where not assisting the presentation of a true and fair view.
Recognition and presentation of the accounts was made taking into account the substance of the operations and of the contract.
The main recognition and measurement policies adopted in the preparation of the financial statements are illustrated below.

Fixed assets
They include intangible assets, property, plant and equipment and financial assets intended for long-term use within the company.

Intangible assets
Intangible assets consist of expenditures with a useful life of multiple years, associated with future benefits ensuring that they are recoverable. They are recognized at purchase price, inclusive of the ancillary costs directly attributable to the asset. Financial charges and other costs not specifically attributable to the intangible assets are not included. The carrying amount of intangible assets may also include any revaluations undertaken in accordance with specific provisions of law.
The costs thus recognized are stated net of the related amortization charges, systematically allocated on the basis of the useful lives of the assets concerned as initially estimated and periodically verified.
In detail:

- Start-up and expansion costs have been amortized over a period of five years, in consideration of their long-term utility.
- The costs of the use of intellectual property (software) have been amortized over a period of five years, in consideration of their long-term utility.
- The costs of acquiring, registering and protecting trademarks have been amortized on the basis of their future utility, estimated at ten years.
- Goodwill has been recognized with the consent of the Board of Statutory Auditors at the cost incurred to acquire certain retail companies. It was decided to estimate the useful life of goodwill at ten years, on the basis of the sector, the related image factor and the specific operational conditions of the acquirees.
- Other intangible assets primarily include improvements to third-party assets, amortized on the basis of the residual useful lives of the assets, and sample garments, relating to previous seasons, obtained through a merger undertaken by the Parent Company in 2015. Similarly to the approach taken to goodwill, they have been amortized according to their useful lives, estimated at ten years.
- Research and development costs are fully expensed to the income statement in the year incurred

At each reporting date, the company assesses whether indicators suggest that a fixed asset may have been impaired. Where such indicators exist, the company estimates the recoverable value of the asset (higher between value in use and fair value) and records a write-down where this is lower that the corresponding net book value. In the absence of indicators of potential losses in value it is not necessary to determine the recoverable value. Their original value is recovered, except for goodwill and capitalized expenses, when it is believed that the rationale for the previous impairment loss has ceased to apply, adjusted for the amortization charges not recognized due to impairment. The amortisation, depreciation and write-down methods adopted are described in the present notes.

Property, plant & equipment
Property, plant and equipment, which are tangible assets with useful lives of multiple years from which future benefits are expected to flow, ensuring that they may be recovered, are recognized at purchase cost, inclusive of directly attributable ancillary costs, net of presumed realizable value and less the relevant accumulated depreciation.
Financial charges and other costs not specifically attributable to the assets are not included. The amount stated in the financial statements includes ancillary costs and costs incurred for the use of the asset, reducing the cost for significant commercial and cash discounts.
There are no internally constructed assets.
Depreciation recorded in the income statement has been calculated on a straight-line basis in consideration of the use, intended purpose and economic-technical duration, on the basis of the residual possible useful life and in accordance with the actual use of the asset.
The depreciation schedule is periodically reviewed to verify whether there have been changes requiring a modification of the estimates adopted in determining residual useful life.
The depreciation applied coincides with the application of the maximum depreciation rates set out in the Ministerial Decree of December 31, 1988, to be regarded as representative of the period of normal use of the assets in the specific business sector concerned.
The rates applied, reduced by half in the year of entry into service of the asset, are as follows:

Category	%
Industrial Buildings	3%
Machines,tools,plants	12,5%
Cutting Machines and Automatic Machines	17,5%
Furniture and office equipments	12%
Electro-mechanical and electronic office machines	20%
Goods transportation vehicles	20%
Equipments	25%
Cars	25%
Photovoltaic System	9%

Incremental costs are only included in the acquisition cost where there is a real and measurable increase in the productivity or useful life of the assets and are depreciated according to their residual utilization. Any other cost concerning these assets is fully recognised to the Income Statement.
At each reporting date, the company assesses whether indicators suggest that a fixed asset may have been impaired. Where such indicators exist, the company estimates the recoverable value of the asset (higher between value in use and fair value) and records a write-down where this is lower that the corresponding net book value. In the absence of indicators of potential losses in value it is not necessary to determine the recoverable value. If and to the extent in subsequent years the reasons for the write-down no longer exist, the original value is restored, adjusted solely for the depreciation not recognized in view of the write-down.
Since the requirements had not been met, no write-downs were applied to either property, plant and equipment or intangible assets as a result of a reduced ability to generate future economic benefits, their expected useful lives or market values.
There are no assets payment for which has been deferred beyond normal market conditions.
No assets were discretionarily or voluntarily revalued and the asset values were determined objectively on the basis of their use.

Financial assets
Equity investments classified as financial fixed assets are carried at purchase cost less any impairment losses, where present.
The carrying amount of equity investments is tested for impairment on the basis of reasonable expectations of use and recoverability in future years. Specific impairment losses are recognized to adjust the book value of such equity investments. If the impairment of an equity investment exceeds its carrying amount, it is written off and the adjustment is taken to the income statement as an impairment loss. Such impairment losses may be reversed in subsequent years if the rationale for recognizing them ceases to apply. In the year in which the rationale for the impairment losses recognized ceases to apply, financial fixed assets are reversed through the income statement, up to their original value.
Receivables are classified as financial fixed assets or to a specific caption of working capital by type.
Receivables classified under financial assets are recognised according to their realisable value, therefore the method adopted is the same as that utilised for current receivables. This account also includes receivables for deposits.
In accordance with Italian GAAP standard OIC 20, it was decided to elect not to apply the amortized cost method to securities recognized before the financial year beginning January 1, 2016. Accordingly, such securities have been recorded at subscription cost, inclusive of directly attributable ancillary costs. They have not become impaired, nor have they undergone any reversals of impairment losses. No securities held as fixed assets have been reclassified; the Company regards such securities as long-term investments.

Capital grants
No capital grants were disbursed to the Company in 2018.

Finance leases
The Group did not have any finance lease transactions in place at December 31, 2018.

Inventory
Raw, supplies and consumable materials are stated at the lower of purchase cost, plus ancillary costs, and measured according to the LIFO method and their presumed realizable value. The value ascribed to the above categories does not differ significantly from the value that would result from using current costs or replacement cost at the reporting date.
Work in progress, semi-finished and finished goods are measured at the lesser of the production cost and their presumed realizable values, represented by the best estimate of the net price of sale that may be obtained. Production cost has been determined by including all costs directly attributable to the products, having regard to the phase reached in the production process.
As in previous seasons, this caption is inclusive of sample garments existing as at the reporting date, measured at the lesser of the production cost incurred and net realizable value.
The value of inventories thus obtained is written down to reflect the obsolescence of the goods, in addition to the effective possibility of sale on the base of their movement.

Inventories are written back in the period in which the reasons for the previous write-down no longer apply within the limits of the original cost incurred.
Internal profits on products sold to group companies in stock at the reporting date have been eliminated as unearned and the resulting deferred tax assets recognized.
The accounting policies adopted are unchanged from the previous year.

Receivables
Receivables are classified to financial fixed assets or a specific caption of working capital by type and are recognized at their nominal value.
In accordance with Italian GAAP standard OIC 15, it should be noted that the amortized cost criterion has not been applied to receivables recognized prior to the year beginning on January 1, 2016, nor has it been applied to receivables arising after that date, since the effects are immaterial to the presentation of a true and fair view.
The accounting policies adopted by the Company are as follows:

- receivables with maturity of less than 12 months are not discounted;
- receivables are not discounted where the effective interest rate does not differ significantly from the market interest rate;
- the amortized cost method is not applied where the transaction costs, commissions and any other difference between the initial value and the value on maturity are insignificant.

Receivables relating to revenues for the sale of goods or provision of services are recognized when the production process for the goods and services has been completed and ownership has been transferred in substantial and not merely formal terms.
Receivables arising from other circumstances are only recognized where there is legal title to collect them.
Receivables are written down to their presumed realizable value by recognizing a specific "write-down provision" accounted for as a direct reduction in their amount, based on an analysis of the individual positions and the total risk associated with all receivables, i.e. covering losses in both situations of default that have already become evident but are not yet definitive and situations that have not yet become evident but that experience and knowledge of the sector in which the Company operates lead to believe are inherent in the accounting balances.
Receivables are only derecognized when the contractual rights to the cash flows are extinguished or where ownership of the receivables has been transferred along with essentially all risks associated with them.

Prepaid expenses and accrued income and accrued liabilities and deferred income
These are recorded according to the accruals concept.
Prepaid expenses and accrued income include income accrued during the year but due in future periods and costs set to accrue in one or more future periods but paid during the year, whereas accrued liabilities and deferred income include costs accrued during the year due in future periods and income received during the year but set to accrue in one or more future periods.
The conditions which determined the original recording of long-term accruals and deferrals are verified, adopting appropriate changes where necessary.
These accounts include only costs and income, common to two or more periods, whose amount varies on the basis of the time period. Balances are updated at the end of each year, when account is taken not only of the passage of time but also of their recoverability, and the necessary impairment losses are recognized, where deemed necessary.

Provisions for risks & charges
The item includes liabilities the nature of which is known and the existence of which is certain or probable, but the date of occurrence and amount of which cannot be determined.
These provisions have been measured in accordance with the prudence and accruals concepts and no provision has been made for matters without any economic justification.
In particular, liabilities the nature of which is known and the existence of which is probable, but the values of which are estimated, are accounted for by recognizing provisions for risks, whereas liabilities the nature of which is known and the existence of which is certain, but the amount and date of occurrence of which are estimated, are accounted for by recognizing provisions for charges. Provisions for risks thus refer to contingent liabilities related to situations existing at the reporting date, although subject to a degree of uncertainty based on the possible occurrence of one or more future events, whereas provisions for charges refer to obligations already entered into at the reporting date, but that will be settled in future periods.
They are recognized on an accrual basis, when the liabilities are deemed probable and the amount of the relevant charge may be reasonably estimated, applying appropriate adjustments in future periods in the light of the new information obtained.
Estimates reflect all information and elements of cost that may be known and determined at the reporting date, even where ascertained thereafter, but before the date of preparation of this document. When estimating provisions for charges, where it is possible to arrive at a reasonably reliable estimate of the outlay and its date of occurrence, and it is so remote in time as to render it significantly different from the present value of the obligation, the time value of money may be taken into account.

This item of the balance sheet also includes provisions for deferred taxes, the measurement of which is described in the specific paragraph below "Income taxes and deferred tax assets and liabilities".

Employee termination indemnities
This provision represents the Company's actual liability at December 31, 2018 towards employees in service at that date, less any advances paid in accordance with applicable law and labour agreements, taking into account all forms of remuneration of an ongoing nature, less advances disbursed, and is equal to the sum that would have been due to the employees had their employment been severed on the date concerned.
The provision does not include indemnities matured from January 1, 2007, allocated to supplementary pensions as per Legislative Decree No. 252 of December 5, 2005 (or transferred to the INPS treasury fund). The provision is the total of the individual indemnities until December 2006 accruing in favour of employees at the balance sheet date, net of advances paid.
Employee termination indemnities with payment due before December 31, 2018 or by the following year were recorded to the account D.14 of the balance sheet under other payables.
The applicable labour agreement provides that workers with at least eight years' seniority of service may apply to their employer for an advance not to exceed 70% of the benefits to which they would be entitled in the event of severance of employment on the requested date. Such requests are contingent on the employee being required to incur significant expenses for healthcare, the purchase of a first home or themselves or their children, expenses relating to maternity leave or education.

Payables
The amortised cost criterion was not applied as the effects are irrelevant for the presentation of a true and fair view.
Payables set to come due within 12 months, and/or for which the effect of discounting is immaterial, are not discounted. Accordingly, payables are stated at their nominal value.

Revenue and costs
They are recognized net of returns, unconditional discounts, allowances and bonuses and are classified to the items of the income statement pursuant to Art. 2425 of the Italian Civil Code by nature.
They are recognized when the production process for the goods has been completed and ownership has been transferred in substantial and not only formal terms, which normally occurs when moveable property is delivered or dispatched or when the contract is executed for immoveable property, using the substantial transfer of the risks and benefits as the criterion for substantial transfer of ownership.
Revenues of a financial nature and revenues from services are recognised on an accruals basis.
The income and charges relating to sales operations with obligation of the return of goods, comprising the difference between the forward price and the spot price, are recorded according to the accruals principle.
Costs are always recognized in accordance with the principle of correlation with revenues for the year.
Where it is likely that contingent assets or profits will arise, they are not recognized, in accordance with the prudence principle. Rather, the necessary information is disclosed in this document.
Product returns are recognized in the year in which the goods are returned by the customer. On a prudential basis, it was decided to set aside Euro 48,000 to the provision for returned goods in connection with sales transacted in 2018.
Raw materials, ancillary, consumables and goods include ancillary acquisition costs (transport, insurance, etc.) where the supplier has included such in the purchase price, otherwise they are recorded separately under service costs based on their nature. Costs include not only those of a certain amount, but also those not yet documented for which transfer of ownership has already taken place or the service has already been received.
In accordance with the prudence principle, contingent assets or profits are not recognized. Rather, the necessary information is disclosed in this document.

Income taxes and deferred tax assets and liabilities
Income taxes are recorded in accordance with the accruals principle; therefore, they include:

- the provisions for taxes paid or to be paid for the year, in accordance with the income tax rates and regulations in force;
- the amount of deferred tax income and charges in relation to timing differences arising and reversed in the year.

Deferred tax assets and liabilities arise from timing differences between the carrying amount of assets and liabilities determined in accordance with the financial reporting criteria set out by the Italian civil code and their tax base. The tax liability is shown under "Tax payables" net of advances, taxes withheld by third parties and tax credits.
Deferred tax assets are recognized (and continue to be carried) if, and only if, it is reasonably certain that they will be recovered in full based on the Company's future taxable income. Where they are impaired, their values are recovered in future years to the extent it has become reasonably certain that they will be recovered.

Deferred tax liabilities are recognized only to the extent that it cannot be proved that it is unlikely that they will need to be discharged.

Transactions, assets and liabilities in foreign currencies
Revenues and costs relating to transactions in foreign currency are recognized at the current exchange rate (known as the "spot exchange rate") on the date on which the transaction concerned is executed (in the terms previously indicated), and the corresponding items of the balance sheet, typically receivables and payables, are also recognized at this same exchange rate.
Measurement differs for monetary assets and liabilities (which entail the right to collect, or the obligation to pay, amounts in a foreign currency) and non-monetary assets and liabilities (which do not entail such rights and obligations). The former includes, for example, receivables, payables, accruals and deferrals, cash and cash equivalents and debt securities, whereas the latter include intangible assets and property, plant and equipment that give rise to cash flows in foreign currency, equity investments and securities denominated in foreign currency, advances paid or received, and accruals and deferrals relating to transactions denominated in foreign currency.
Non-monetary assets and liabilities not yet settled at year-end are recognized at the spot exchange rate at the reporting date, measured according to the procedures established within the framework of the European System of Central Banks Current and published by the Bank of Italy in the Official Journal of the Italian Republic. Gains and losses on translation are recognized to the account "Exchange gains and losses" of the income statement.
However, non-monetary assets and liabilities in foreign currencies are recorded at the exchange rate at the moment of their purchase or at a lower rate at the year-end if the negative changes have resulted in a permanent impairment in the value.

If exchange rates perform unfavourably after the reporting date but before the date of preparation of the financial statements, they are disclosed in the notes where they entail material effects on the accounts.

Derivative financial instruments
Derivative financial instruments are only used for the hedging of financial risks related to exchange rate fluctuations on commercial transactions in foreign currency or for the hedging of interest rate risk in the case of medium/long-term debt.
They have been accounted for according to the hedge accounting approach in as much as:

- the hedging instrument is formally designated and documented at the start of hedging;
- the hedge is expected to be highly effective;
- such efficacy can be reliably measured;
- the hedge is highly effective during the various accounting periods for which it is designated.

All derivative financial instruments are measured at fair value.
Given that the derivative financial instrument is designated as a hedge to the exposure of the changes in the cash flows of an asset or liability recorded in the financial statements or of an operation considered highly probable and which may have effects on the income statement, the effective portion of the profits or of the losses of the financial instrument is recognised under equity; the cumulative profits or losses are reversed from equity and recognised to the income statement in the same period in which the operation subject to hedging influences the income statement; the profit or loss related to a hedge or the part of the hedge becoming ineffective is recognised to the income statement when such inefficacy is recognised.
If hedge accounting cannot be applied, gains or losses deriving from the fair value of the financial derivative instrument are recognised directly in the income statement.
Derivative financial instruments, even if embedded in other financial instruments, are initially recognised when the associated rights and obligations are acquired; they are measured at fair value both at the initial recognition date and at each reporting date. The changes in the fair value compared to the previous year are recorded in the income statement, or if the instrument hedges the risk of changes in expected future cash flows of another financial instrument or scheduled operation, directly to a positive or negative equity reserve.
Derivative financial instruments with a positive fair value are recorded in the balance sheet as assets. Their classification in fixed or current assets depends on the nature of the instrument itself:

- a derivative financial instrument designated as a hedge for cash flows or the fair value of an asset follows the classification of the hedged asset under current or fixed assets;
- a derivative financial instrument designated as a hedge for cash flows and the fair value of a liability, a firm commitment or a highly probable scheduled transaction, is classified under current assets;
- a non-hedging derivative financial instrument is classified under current assets.

The cash flow hedge reserve includes the changes in the fair value of the effective component of derivative financial instruments used for cash flow hedging purposes.
Derivative financial instruments with negative fair value were recorded in the balance sheet under provisions for risks and charges.

Guarantees, commitments and contingent liabilities
At the end of the year there were no debts secured by collateral on corporate assets (article 2427, first paragraph, no. 6, Civil Code) with the exception of the real estate loan signed on December 27, 2018 with Unicredit SpA for an amount of 5,000,000 euros, guaranteed by a mortgage guarantee on the property located in Arezzo in V. Madame Curie 7 / G.

Workforce
The workforce by category of the fully consolidated companies is presented below.

Workforce	31/12/2018	31/12/2017	Changes
Executives	1	0	1
Managers	8	6	2
White-collar	268	220	48
Blue-collar	37	38	(1)
Total	**314**	**264**	**50**

Notes to the income statement

Revenues by segment
A breakdown follows:

Description	31/12/2018	31/12/2017	Variazioni
Sales of goods	101,280	76,241	25,039
Sales of products	49,028,158	46,935,010	2,093,148
Total	**49,129,438**	**47,011,251**	**2,118,187**

As specified in greater detail in the Report on operations, to which reference should be made, revenue growth continued during the year, primarily in the retail and B2C area.

Revenues by geographical area
A breakdown of revenues by geographical area is provided below:

Area	31/12/2018
Italy	16,876,298
EU	12,255,693
Rest of the word	19,997,446
Total	**49,129,438**

See the Report on operations for further details of the composition of this item.

One-off revenues
Other revenues, presented in account A 5), amounting to Euro 3,035,942, comprised for Euro 1,079,564 the operating grant for the Research and Development Tax Credit introduced by Article 3 of Legislative Decree No. 145 of 23.12.2013, as replaced by Article I, paragraph 35, Law No. 190/2014 of the 2015 Stability Law. The tax break relates to the new product research and development costs.
The item also includes other revenues of Euro 847,962, consisting of the capital gain realized on the exchange transaction described below.

Subsidies, grants, paid positions and other economic advantages received from the public administration (as per Article 1, paragraph 125 of Law No. 124 of August 4, 2017)
Pursuant to Art. 1, paragraph 125 of Law No. 124 of August 4, 2017, in fulfilment of disclosure obligations, grants received are set out below in table form on an accrual basis:

Grantor	Grant amount	Purpose
GSE SPA	€ 20,449.02	Photovoltaic incentive
Sviluppo Toscana S.p.A.	€ 15,314.48	Business internationalization

Costs of production
A breakdown follows

Description	31/12/2018	31/12/2017	Changes
Raw materials, consumables and goods	14,801,858	15,901,998	(1,100,140)
Services	16,153,629	16,187,247	(33,618)
Use of third-party assets	5,609,186	3,738,620	1,870,566
Personnel costs	10,614,232	8,721,525	1,892,707
Amortisation	1,799,370	1,374,191	425,179
Depreciation	1,281,960	883,919	398,041
Write-downs of current receivables	121,897	506,762	(384,865)
Change in inventories of raw materials	(391,431)	(328,311)	(63,120)
Other operating costs	611,198	373,997	237,201
Total	**50,601,899**	**47,359,948**	**3,241,951**

The following should be noted with regard to the individual cost items:

Costs for raw materials, ancillaries, consumables and goods
These are strictly correlated to the comments in the Report on operations and the description of point A (Value of production) of the Income Statement and are recognised according to the revenue matching principle.
This item includes the costs required to produce the goods involved in core business activity.
The costs of purchasing goods are taken to the income statement when the goods are delivered. Revenues and income, and costs and charges are recorded net of returns, discounts, rebates and premiums.

Service costs
The item includes the costs associated with the purchase of services in core business activity, which are expensed to the income statement when the services are completed.
The account is broken down as follows:

Description	31/12/2018	31/12/2017	Changes
Production services costs	4,568,174	5,089,993	(521,819)
Independent auditors', Board of Statutory Auditors' and Board of Directors' emoluments	648,939	505,200	143,739
Cleaning and security	204,409	180,636	23,772
Maintenance	484,444	455,562	28,882
Transport	3,472,944	2,995,516	477,428
Utilities	374,882	276,793	98,089
Travel and transfer	336,471	319,205	17,266
Marketing	748,593	566,955	181,638
Canteen	123,414	109,267	14,147
Exhibits, fairs and fashion shows	493,171	441,871	51,300
Technical, administrative, indus. and commercial consultancy	2,826,151	3,405,436	(579,285)
Training courses	65,598	21,561	44,037
Agent cost	682,248	905,117	(222,869)
POA Commissions	390,362	313,217	77,146
Insurance	189,034	116,517	72,517
General services	544,795	484,401	60,394
Total	**16,153,629**	**16,187,247**	**(33,618)**

In further detail, service costs primarily include:

- Façon costs (sewing, ironing, embroidery, printing & other services),
- costs of agents and representatives;
- national and local advertising,
- national and local fashion shows and events,
- costs of non-financial banking services.
- technical, industrial, administrative and commercial consultancy.

This item also includes the agents' indemnity provision (FIRR and supplementary indemnity) and the provisions for termination of coordinated ongoing self-employment contracts.

Use of third-party assets
The item includes all costs relating to the use of goods owned by third parties. A breakdown by type and comparison to the previous year for such costs are provided below.

Description	31/12/2018	31/12/2017	Changes
Royalty costs	731,709	424,510	307,199
Rental costs	4,594,954	3,082,970	1,511,984
Hire costs	282,523	231,140	51,383
Total	**5,609,186**	**3,738,620**	**1,870,566**

The account includes costs incurred for cartoon character royalties, property lease charges and other condominium expenses.
The increase in rent was the direct result of the investments undertaken in 2018. In detail, the following locations were opened during the year:
- 3 new DOS in USA (New York, Beverly Hills, Philadelphia),
- 1 new DOS in Hong Kong (Hong Kong),
- 2 new DOS in Russia (Moscow),
- 4 new DOS in China (Xian, Shenzhen, Whuan, Chongqing) and 1 new DOO (Tianjin),
- 1 new DOS in Brazil (Belo Horizonte),
- 2 new DOO respectively in Italy (Marcianise) and UK (Bicester).

In addition, the Florence store was relocated to Via Strozzi.

Personnel costs
The personnel costs incurred during the year amounted to Euro 10,604,232, an increase of Euro 1,892,707 on the comparative year.
The account includes all costs for personnel including raises, promotions, vacation days not taken and provisions in accordance with law and national collective contractual agreements.
Employee termination indemnities, in addition to the portion accrued during the year, include the amount accrued and paid to personnel engaged and dismissed during the same period and the amount contributed to external pension funds.

The other costs associated with personnel have been allocated, in view of their strictly economic nature, to items B6 and B7.

Amortisation and depreciation/write-downs
Depreciation and amortisation were calculated according to the useful life of the assets and their utilisation in production, while the account B10 d) includes write-downs of trade receivables recorded under current assets.

Other operating charges
This account amounting to Euro 611,198 includes all operating costs not recognised to the other accounts of section b) of the income statement and ancillary management costs which are not of an extraordinary nature, in addition to all tax charges, other than direct income taxes. This account is principally composed of:

- Taxes and levies (property and waste disposal taxes) for Euro 295,090,
- Miscellaneous administrative expenses for Euro 15,735,
- Newspaper & magazine subscriptions for Euro 3,312,
- Charitable donations for Euro 10,500.

Financial income and charges
The figure for the year includes financial income of Euro 54,725, interest expense and other financial charges of Euro 423,767 and foreign exchange losses of Euro 75,051, with the following changes compared to the previous year:

Description	31/12/2018	31/12/2017	Changes
Interest income	54,725	47,124	7,600
Financial charges	(195,084)	(180,778)	(14,306)
Interest charges	(228,683)	(239,937)	11,254
Exchange gains	523,889	130,127	393,762
Exchange losses	(598,940)	(695,107)	96,168
Total	**(444,094)**	**(938,571)**	**494,478**

One-off costs
There were no one-off exceptional costs requiring disclosure herein.

Income taxes for the year
Current taxes have been calculated on the basis of taxable profit taking account of the changes in the tax code applied by current legislation:

Description	31/12/2018	31/12/2017	Changes
Current taxes	784,743	1,323,934	(539,191)
Deferred tax charges/(income)	(366,002)	(432,028)	66,026
Total	**418,741**	**891,906**	**(473,165)**

Deferred tax charges/(income)
Deferred taxes are calculated based on the global allocation criteria, taking into account the cumulative amount of all of the temporary differences, based on the average expected rates in force when these temporary differences reverse. Deferred taxes derive from the accrual in the year to the deferred tax liability provision.
Deferred tax assets are recorded if there is reasonable certainty that the temporary differences will reverse in future years against assessable income not lower than the differences that will be reversed.
The consolidated income statement account is broken down as follows:

Deferred tax income and charges recognised to the income statement	31/12/2018	31/12/2017
Amortisation of brands	347	477
Amortisation of goodwill	(24,501)	(13,166)
Risks provision	(13,392)	(11,439)
Other	24,229	(42,432)
Intercompany margin on inventory	(83,038)	(167,132)
Subsidiary tax losses carried forward	(454,827)	(206,762)
Deferred tax income	**(551,182)**	**(440,454)**
Business unit disposal	(12,987)	(12,987)
Disposal of fixed assets	189,267	-
Other	8,901	4,561
Deferred tax charges	185,181	8,426
Deferred tax charges/(income)	**(366,002)**	**(432,028)**

Deferred tax income and charges and the consequent effects for the parent company Monnalisa S.p.A. are in addition outlined below:

Description	31/12/2018				31/12/2017			
	Amount IRES temporary differences	IRES tax result	Amount IRAP temporary differences	IRAP tax result	Amount IRES temporary differences	IRES tax result	Amount IRAP temporary differences	IRAP tax result
Deferred tax assets:								
Amortization Brands	(1,275)	(306)	(1,051)	(41)	(1,754)	(421)	(1,436)	(56)
Amortization Goodwill	87,817	21,076	87,821	3,425	53,057	11,181	53,057	1,985
Provision for risk 2018	244,000	58,560	244,000	9,516		-		-
Write-downs receivables 2017	(62,204)	(14,929)	-	-	312,209	74,930		-
Consultancy services 2015	(10,660)	(2,558)	(10,660)	(416)	(10,660)	(2,558)	(10,660)	(416)
Provision for risk 2016					(155,000)	(37,200)	(155,000)	(6,045)
Provision for risk 2017	(196,000)	(47,040)	(196,000)	(7,644)	196,000	47,040	196,000	7,644
Write-downs receivables 2016					(785,737)	(188,577)		-
Write-downs receivables 2018	70,354	16,885	-	-		-		-
ISC Provision	6,404	1,537	6,410	250	7,103	1,707	7,103	277
ISC Provision 2017	(10,200)	(2,448)	(10,205)	(398)		-		-
Exchange rate losses	(101,971)	(24,473)	-	-	107,589	25,821		-
Settlement ISC					(6,712)	(1,611)	(6,712)	(262)
Directors compensation	8,321	1,997	8,321	324		-		-
Total	**34,586**	**8,301**	**128,636**	**5,016**	**(283,905)**	**(69,687)**	**82,352**	**3,127**
Deferred tax liabilities:				-				
Exchange rate losses 2017	(128,521)	(30,845)	-	-	-	-		-
Sales of company branch	(54,110)	(12,987)	-	-	(54,110)	(12,987)		-
Sales of building	678,371	162,809	678,371	26,458	19,003	4,561		-
Exchange rate losses 2018	165,608	39,746	-	-	-	-		-
Total	**661,348**	**158,723**	**678,371**	**26,458**	**(35,107)**	**(8,426)**		**-**
Deferred tax assets and liabilities		**150,422**		**21,442**		**61,261**		**(3,127)**

In accordance with Italian GAAP standard OIC 26, the Company determined that the aforementioned deferred tax income was reasonably certain to be recovered on the basis of a projection of future taxable profit according to its business plans and an estimate of the amount of the deferred tax assets reasonably recoverable.

Notes to the Balance Sheet

ASSETS

The composition of, and changes compared with the previous year in, the general classes of assets presented in the balance sheet are presented below:

Description	31/12/2018	31/12/2017	Changes
A) Receivables for unpaid share capital		32	32
B) Fixed assets	25,733,073	19,349,759	6,383,314
C) Current assets	48,777,455	37,373,349	11,404,106
D) Prepaid expenses and accrued income	373,478	133,554	239,924
Total	**74,884,006**	**56,856,694**	**18,027,312**

B) NON-CURRENT ASSETS

The breakdown and the movements individual classes in the year are shown below:

Intangible assets

The movements in the account are as follows:

Description	31/12/2017	Exc. diffs.	Increases	Other changes	Amortisa-tion	31/12/2018
1) Set-up and expansion costs		88	1,341,562		(267,239)	1,074,411
3) Industrial patents	185,987	(531)	96,126		(128,138)	153,444
4) Concessions, licences, trademarks & similar rights	1,134				(1,134)	0
5) Goodwill	697,953	14,852	1,792,075		(359,281)	2,145,599
6) Assets in progress and advances		4,271	133,987			138,258
7) Other	1,646,670	2,026	1,311,549	(570)	(1,043,578)	1,916,097
Total	**2,531,744**	**20,707**	**4,675,299**	**(570)**	**(1,799,370)**	**5,427,809**

The costs recorded are reasonably correlated to their future use and are amortised on a straight-line basis in relation to their future residual utility.
Start-up and expansion costs were up by Euro 1,074 thousand net, due to the capitalization of the costs incurred by the Parent Company, Monnalisa S.p.A., in connection with the listing on the AIM Italia Market.
The increase in the "Goodwill" account is due to the goodwill respectively arising on acquisition by the US subsidiary ML Retail USA Inc. of the business unit comprising two stores located in Beverly Hills and New York, and on the acquisition by Monnalisa S.p.A. of the business unit comprising the store located in Florence, Via Strozzi.
The item "Other" primarily includes the costs of leasehold improvements, amortized according to the term of the lease. The increases during the period chiefly related to the new stores opened during the period (mainly China and Russia) and the improvements made as part of the renovation of the New York store.

At each reporting date, the Company reviews the carrying value of its intangible and tangible assets to determine if there are indications that these assets have incurred a loss in value. When it is determined that a potential loss exists, the directors make valuations on the recoverable amount of those assets in order to identify the potential amount of the loss. Where it is not possible to make an estimate of the recoverable value of an asset individually, the Company makes an estimate of the recoverable amount of the cash-generating unit the asset belongs to.
The recoverable value of the residual "Goodwill" was measured to ensure that the carrying amount in the financial statements does not exceed the recoverable value. The recoverable value is the higher between fair value less costs to sell and value in use. In determining the value in use, the estimated future cash flows are discounted on a pre-tax basis which reflects the market assessment of the time value of money and the risks specific to the asset. If the recoverable amount of an asset (or a CGU) is lower than its carrying amount, it is impaired to that recoverable amount. An impairment is recognised to the income statement immediately. If there is an indication that an impairment loss recognised on an asset other than goodwill may no longer exist or may have decreased, the carrying amount of the asset shall be increased to its recoverable amount, but shall not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset. The restated values are immediately recognised in the income statement.
The subsidiary ML Retail USA Inc. prepared a long-term budget and submitted it for the Board of Directors' approval. The residual value of the goodwill in the U.S. subsidiary has been compared with the company's estimated economic value according to an income-based method. The impairment test was performed using an average cost of capital of 8.19% and a "g" (growth rate) of 1.48%.
The directors, on the basis of the impairment test carried out and on operating performances and future projections from business plans, consider that the intangible assets do not present indicators of impairment.

Tangible fixed assets

The movements in the account are as follows:

Description	31/12/2017	Increases	Decreases	Reclassifi-cations	Exc. diffs.	Deprecia-tion	31/12/2018
1) Land and buildings	3,309,586	2,292,580	(152,037)	5,852,345		(201,537)	11,100,937
2) Plant and machinery	750,665	833,765		3,118,462	(1,089)	(515,737)	4,186,066
3) Industrial and commercial equipment	240,034	334,027		(149,211)	(24,335)	(85,207)	315,309
4) Other assets	2,248,172	751,684	(30,689)	(18,162)	(1,636)	(479,479)	2,469,890
5) Assets in progress and advances	8,803,434	64,871		(8,803,434)			64,871
Total	**15,351,891**	**4,276,926**	**(182,726)**	**0**	**(27,060)**	**(1,281,960)**	**18,137,072**

Land includes both the land adjacent to the factories and the land on which the factory buildings themselves stand.
The increases primarily relate to improvements on the existing factory facilities.
During the year the new building adjacent to the company's offices was completed, triggering the allocation of the costs recognized over the course of the construction, partly to the building itself, partly to generic installations and partly to the new automated warehouse, which became operational in 2018.
It should also be noted that a transaction was undertaken with PJ Srl during the year, involving the exchange of a property not functional to company's business located in Monte San Savino, appraised at Euro 1 million, against a net carrying amount of Euro 152 thousand, resulting in the recognition of a capital gain of Euro 848 thousand, for a property functional to its business located in Civitella appraised at Euro 1.3 million.

Write-downs and reversals of impairment losses in the year
No write-downs or reversals of impairment losses were made in the year.

Revaluations of tangible fixed assets at year-end
In 2008 the company applied the option under Legislative Decree 185 to revalue the industrial use building located in the Municipality of Arezzo, at Via Madame Curie 7.The properties, classified to a single category, subject to revaluation consist of an industrial building (with four floors, comprising offices, workshops and warehouses), identified in the New Urban Building Register of the Municipality of Arezzo in Sec. A, Page 103, Parcel 559, Census District 2, Category D/7.
The revaluation was made by taking the "market value" as a reference criterion - identified on a prudent basis - as per a report upon the estimate of the current value of assets at 31/12/08 drawn up by an independent expert.
From an accounting viewpoint, the revaluation was undertaken according to the historic cost increase accounting technique. The estimate of the residual useful life of the assets subject to revaluation was consequently reviewed.
From 2009 therefore, the depreciation was provisioned on the basis of the new useful life and of the new value of the assets.
From a tax viewpoint, the revaluation was made utilizing the option to apply for tax purposes, in addition, the higher revalued amount, through settlement of the IRES and IRAP substitution tax, deducted directly from the revaluation reserve specifically recognized in equity on a tax-suspension basis, subject to the restrictions on use and distribution established in the aforementioned law.
No assets were discretionarily or voluntarily revalued and the objectively deserved value in use of the asset represented the maximum limit on revaluations undertaken pursuant to precise provisions of law.

In accordance with Article 10 of Law No. 72 of March 19, 1983 the following is a list of the property, plant and equipment subject to monetary revaluations that is still on the books, together with the related amounts:

Description	Legal revaluations	Economic revaluations	Total revaluations
Land and buildings	3,050,975		3,050,975

The revaluation amount of Euro 3,050,975, net of registration tax, generated an impact on shareholders' equity of Euro 2,959,446, now reduced due to the increased accumulated depreciation on this amount.

Capitalisation of financial charges
During the year no financial charges were expensed to fixed assets.

Financial fixed assets: equity investments

List of other investments
"Investments in other companies" include the values of minority equity investments, as specified below:

Description	Book value	Fair value
CONSORZIO BIMBO	1,291	1,291
POLO UNIVERSITARIO ARETINO	510	510
CONAI	23	23
CONSORZIO SVILUPPO PRATACCI	500	500
CONSORZIO TOSCANA LOFT	1,300	1300
FONDAZIONE MADE IN RUSSEL	5,000	5000
Total	**8,624**	**8,624**

Financial assets were not recognised at amounts above fair value.
Financial assets were not revalued, in either the reporting year or in previous years.

Financial assets: financial receivables and other securities
"Financial receivables" may be broken down as follows:

Description	31/12/2017	Increases	Decreases	Reclassifi-cations	31/12/2018	Fair value
Other receivables	257,500	-	(100,000)	802,067	959,567	959,567
Total	**257,500**	**-**	**(100,000)**	**802,067**	**959,567**	**959,567**

The receivables in question may be broken down as follows:
- Jafin S.p.A. interest-bearing loan: Euro 100,000. Total amount financed of Euro 200,000, of which Euro 100,000 repaid in 2018, with the remaining Euro 100,000 repaid in the first few months of 2019;
- Director's severance indemnity policy: Euro 57,500.00;
- Financial receivables for guarantee deposits: Euro 802,067, reclassified to this item during the year in the interest of a better, more accurate representation in the balance sheet; they had previously been recognized to item "C.II.5-quater – Receivables from others.

Financial assets were not recognised at amounts above fair value. The figure "Other securities" comprise the residual of the bond loan issued by Jafin S.p.A. of Euro 1,200,000. No changes in this item are reported in the period.

Inventories
Inventories amounted to Euro 17,826,800 at December 31, 2018. They are broken down as follows:

Description	31/12/2018	31/12/2017	Changes
1) Raw materials, supplies and consumables	2,414,560	2,023,132	391,428
2) Work in progress and semi-finished products	1,672,876	1,618,539	54,337
4) Finished products and goods	13,657,266	13,064,076	593,190
5) Advances	82,098	68,515	13,583
Total	**17,826,800**	**16,774,262**	**1,052,538**

Write-downs of inventory was not necessary in view of the fact that finished products from the non-current season are listed at prices in excess of the production cost, both at directly owned and third-party stores.

Receivables
An analysis of consolidated receivable, after the elimination of intercompany items, is illustrated below:

Description	31/12/2018	31/12/2017	Changes
1) trade receivables	11,257,074	11,176,718	80,356
5-bis) - tax receivables	3,735,433	4,246,105	(510,672)
5-ter) deferred tax assets	1,604,390	593,029	1,011,361
5-quater) others	715,704	1,763,645	(1,047,941)
Total	**17,312,601**	**17,779,497**	**(466,896)**

Trade receivables are adjusted through a doubtful debt provision and whose movements were as follows:

Description	Total
Balance at 31/12/2017	**704,506**
Utilisation in the period	(62,206)
Provision in the period	121,897
Balance at 31/12/2018	**764,197**

The change in receivables from others was due in particular to the reclassification during the year of Euro 802,067 relating to guarantee deposits to the item "B.III.2.d-bis – Receivables from others" in the interest of a better, more accurate representation in the balance sheet.
The item "Tax receivables" primarily consists of VAT receivables of approximately Euro 1.6 million and the research and development tax credit of Euro 1 million.
For information regarding the item "Deferred tax assets", refer to the specific paragraph "Deferred tax assets/liabilities" below.

Cash and cash equivalents
Cash and cash equivalents comprise the current accounts held at banks and liquidity held in company accounts at year-end, reported at nominal value:

Description	31/12/2018	31/12/2017	Changes
1) Bank & postal deposits	13,518,370	2,746,976	10,771,394
3) Cash & cash equivalents on hand	60,379	64,947	(4,568)
Total	**13,578,750**	**2,811,923**	**10,766,827**

Prepaid expenses and accrued income
The account relates to costs and revenues recorded in accordance with the accruals principle. A breakdown follows:

Description	31/12/2018	31/12/2017
Maintenance fees	72,582	74,780
Rental	108,958	24,296
Other	52,229	21,561
Hire	4,211	12,917
Derivatives	117,625	
Consulting	9,652	
Insurance	8,222	
Total	**373,478**	**133,554**

LIABILITIES

Shareholders' Equity

Reconciliation between net income and equity as reported in the parent company and consolidated financial statements

	Shareholders' Equity	Net Income
Equity and net income for the year as reported in the parent company financial statements	**51,398,145**	**3,290,556**
Adjustments in compliance with accounting standards		
Elimination of book values of consolidated holdings:		
a) difference between book value and pro-quota equity		
b) pro-quota results of investees	(3,035,644)	(1,884,695)
c) gains/losses attributed at the acquisition date of the investees		
d) translation difference	(717,937)	
Elimination of the effects of transactions between consolidated companies	(257,366)	(114,008)
Equity and net income pertaining to Group	47,387,198	1,291,853
Equity and net income pertaining to minority interests	10,485	1,486
Consolidated equity and net income	**47,397,683**	**1,293,338**

Statement of changes in consolidated equity

	Share capital	Reserves	Translation differences	Profit/loss Carried forward	Profit/Loss for the year	Total
Opening balance at 01/01/2018	**2,064,000**	**3,931,023**	**(554,920)**	**21,504,228**	**2,248,215**	**29,192,546**
Changes in the year				2,248,215	(2,248,215)	-
Increases/(Decreases)	7,936,000	9,063,125		(1,043)		16,998,082
Net Income					1,291,853	1,291,853
Translation differences from conversion of financial statements expressed in foreign currencies			(163,017)			(163,017)
Other changes		67,734				67,734
Closing balance at 31/12/2018	**10,000,000**	**13,061,882**	**(717,937)**	**23,751,400**	**1,291,853**	**47,387,198**

Provisions for risks and charges
A breakdown follows:

Description	31/12/2018	31/12/2017
1) Provisions for pension and similar	54,257	59,621
2) taxation, including deferred taxes	256,843	58,658
3) derivative financial instruments		38,292
4) Others	420,855	372,855
Total	**731,955**	**529,426**

Provisions for risks and charges are recorded in respect of certain or probable losses or payables, the amount or due date of which could not be determined at the reporting date.
These provisions have been measured in accordance with the prudence and accruals concepts and no provision has been made for matters without any economic justification.
The contingent liabilities reflected in these provisions are probable and may be estimated with reasonable accuracy.
This account comprises:
- Agents indemnity provision of Euro 54,257;
- Environmental restoration/reclamation provision for Euro 176,855, set up in 2014 and considered appropriate as per OIC 16;
- Product return charges provision for Euro 244,000, set up in accordance with the joint application of the prudence and matching principles, given that the goods are returned by the preparation date of the financial statements and result in a contraction in revenues.

Tax provisions also include Deferred tax liabilities of Euro 256,843 concerning temporary assessable differences. For a description of these amounts, reference should be made to the paragraph 'Deferred tax assets/liabilities" of the present notes.

Post-employment benefit provision
The item includes the amount due to employees at the reporting date, calculated in accordance with Art. 2120 of the Italian Civil Code and any national and supplementary contracts in effect:

Description	31/12/2017	Provisions	Utilisations in the year	Other changes	31/12/2018
Post-employment benefits	1,426,921	269,781	89,279	0	1,607,423

Payables
Consolidated payables, after the elimination of inter-company balances, are valued at their nominal value and break down as follows:

Description	Within one year	Beyond one year	After 5 years	Total
4) Bank payables	6,142,610	7,370,295		13,512,906
5) Other lenders	11,865			11,865
6) Advances	1,324,853			1,324,853
7) Trade payables	7,758,687			7,758,687
12) Tax payables	425,632			425,632
13) Social security institutions	492,303			492,303
14) Other payables	1,400,026	87,804		1,487,829
Total	**17,146,871**	**7,867,204**	**0**	**25,014,074**

The account comprises:
- "Bank payables": including loans and reflecting the effective debt in terms of principal, interest and other ancillary charges matured and due at 31.12.2018. In December 2018 a mortgage loan was contracted, replacing the bridge loan entered into to build the expansion on the warehouse and head office;
- "Advances": including payments received for the provision of goods not yet supplied;
- "Trade payables": recorded net of commercial discounts; "cash" discounts are recorded on payment;
- "Tax payables": includes only definite tax liabilities, net of the relative advances, as the liabilities for probable income taxes or where the amount or the date of payment is uncertain, in relation to deferred tax liabilities, are recorded in account B.2 under liabilities (Deferred tax liabilities). The account amounted to Euro 425,632 and includes sums withheld from employees and self-employed workers and duly paid in 2019;
- "Other payables" mostly concern accrued commissions payable to agents of Euro 332,206, deferred amounts and additional months payable to employees of Euro 829,695, duly settled in 2019, and amounts due in connection with the end of service of the previous board of directors of Euro 67,500.

No transactions giving rise to the obligation to return goods were undertaken, nor do payables to shareholders for loans to be settled according to set maturities and subordination clauses exist.

Accrued liabilities and deferred income
Accrued liabilities and deferred income amounted to Euro 132,871 at December 31, 2018.

Description	Amount
United Kingdom companies taxes	36,297
Rent and other costs	83,390
Consulting	13,184
Total	**132,871**

The account relates to costs and revenues recorded in accordance with the accruals principle.
The criteria adopted for the measurement and translation of amounts recorded in foreign currencies are described in the first part of the present notes.
There are no accrued liabilities and deferred income at 31/12/2018 with a duration of more than five years.

Other information

Information relating to the fair value of derivative financial instruments
Derivative financial instruments are only used for the hedging of financial risks related to exchange rate fluctuations on commercial transactions in foreign currency or for the hedging of interest rate risk in the case of medium/long-term debt.
The fair value and information on the entity and nature of each category of derivative financial instruments issued by the company are detailed below. These are sub-divided by class taking into account the characteristics of the instruments and their purpose.
The hedging operations at December 31, 2018 with financial counterparties comprise:

Interest Rate Cap (1)	
Contract ID	11175923
Date of the operation	21/10/2017
Counterparty	Unicredit S.p.A.
Maturity Date	29/10/2021
Notional Amount	Euro 2,000,000
Premium	Euro 15,000
Bank Parameter Rate	Euribor 3 months
Client Parameter Rate	Euribor 3 months
Rate Cap	0%

At 31/12/18, the mark to market of the transaction was euro + 1,000.16.

Interest Rate Cap (2)	
Contract ID	12677683
Date of the operation	21/12/2018
Counterparty	Unicredit S.p.A.
Maturity Date	31/12/2026
Notional Amount	Euro 5,000,000
Premium	Euro 107,000
Bank Parameter Rate	Euribor 6 months
Client Parameter Rate	Euribor 6 months
Rate Cap	1%

At 31/12/18, the mark to market of the transaction was Euro + 58,303.06.

Information on loans for specific business purposes
In accordance with Article 2427, No. 21), no loans for specific business purposes exist.

Related party transactions
The amounts, nature of the amount and any additional information considered necessary with regards to these transactions, where considered significant and not at market conditions, is provided below.
Information upon the individual transactions is categorised by nature, except where separate indication is considered necessary to understand the effects of the transactions on the balance sheet, financial position and consolidated result of the company:

Company	Trade Receivables	Other receivables	Trade payables	Other payables	Sales	Purchases
Jafin Due Spa	3,660				3,000	
Jafin SpA	16,200	1,300,000			14,00	
PJ Srl	25,620	116,580	1,142	11,000	1,005,000	1,372,063
Monnalisa &Co. Srl	10,980				3,000	
Fondazione Monnalisa	156,754					
DiDj srl			702	54,000		49,955
Hermes & Athena Consulting Srl				200,000		200,00
Arcangioli Consulting Srl		61,000				49,000
Arcangioli Pierangelo						95,776
Barbara Bertocci						104,00
Total	**213,214**	**1,416,580**	**1,844**	**265,000**	**1,025,000**	**1,870,794**

Off-balance sheet agreements
There are no off-balance sheet agreements.

Independent auditor fees
In accordance with law the fees paid for services provided by the auditor to the group are reported below:

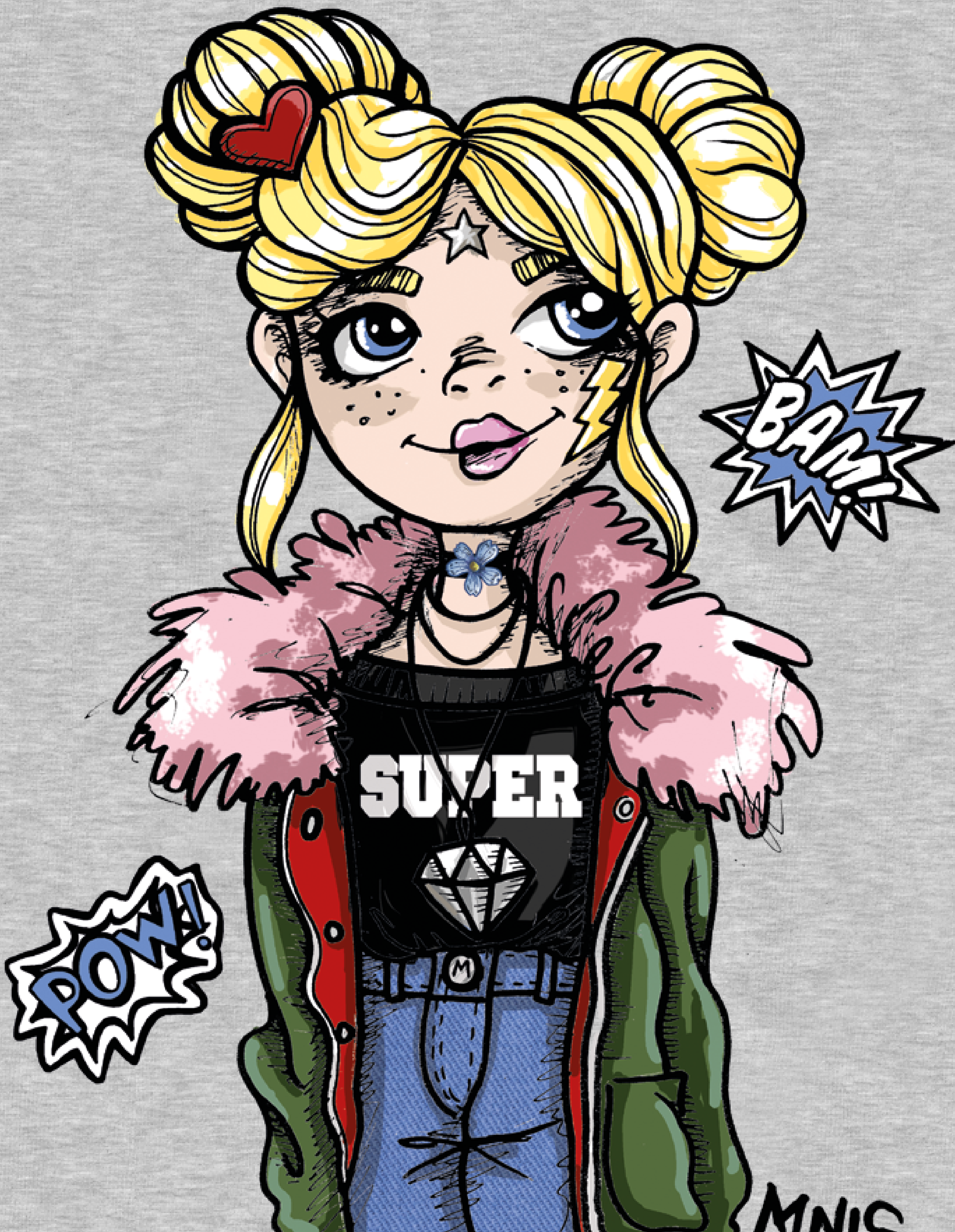
- consideration due for the audit of the Parent Company of Euro 73,000, of which Euro 41,000 for the statutory audit of the separate and consolidated financial statements, Euro 22,000 for the limited audit of the first interim consolidated financial statements at and for the period ended June 30, 2018 and the related audit of the comparative period, and Euro 20,000 for the issuance of comfort letters on the financial data in the Admission Document;
- consideration due to the other Group companies (the Russian subsidiary) of Euro 18.000.

Directors and statutory auditors' fees

As required by law, information is given below on the overall remuneration paid to parent company Directors and Statutory Auditors, including that for the performance of functions in other companies included in the consolidation.

Category	Fees
Directors	479,054
Board of Statutory Auditors	39,079
Total	**518,133**

Subsequent events
Reference should be made to the specific paragraph of the Report on operations.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Monnalisa S.p.A.

Consolidated financial statements as at December 31, 2018

Independent auditor's report in pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010

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Piazza della Libertà, 9
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Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010
(Translation from the original Italian text)

To the Shareholders of
Monnalisa S.p.A.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Monnalisa Group (the Group), which comprise the balance sheet as at December 31 2018, the income statement and consolidated cash flows statement for the year then ended, and explanatory notes.
In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at December 31 2018, and of its financial performance and its cash flows for the year then ended in accordance with the Italian regulations governing financial statements.

Basis for Opinion

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

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

The Directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with the Italian regulations governing financial statements, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Directors are responsible for assessing the Group's ability to continue as a going concern and, when preparing the consolidated financial statements, for the appropriateness of the going concern assumption, and for appropriate disclosure thereof. The Directors prepare the consolidated financial statements on a going concern basis unless they either intend to liquidate the Parent Company Monnalisa S.p.A. or to cease operations, or have no realistic alternative but to do so.
The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Group's financial reporting process.

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

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

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

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

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

Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated 27 January 2010

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

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations, with the consolidated financial statements of Monnalisa Group as at December 31 2018 and on its compliance with the applicable laws and regulations, and in order to assess whether it contains material misstatements.

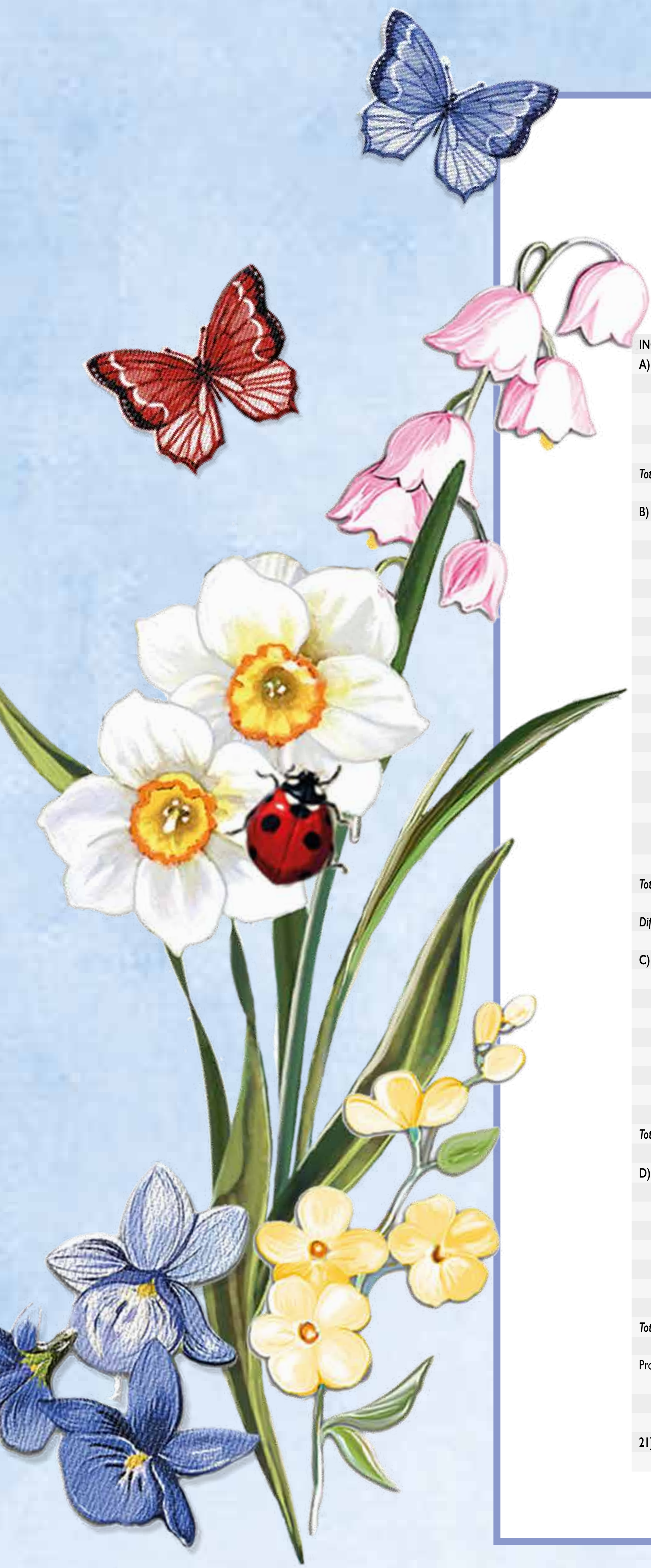
In our opinion, the Report on Operations is consistent with the consolidated financial statements of Monnalisa Group as at December 31 2018 and comply with the applicable laws and regulations.

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

Firenze, April 13 2019

EY S.p.A.
Signed by: Lorenzo Signorini, partner

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



FINANCIAL STATEMENTS

At December 31, 2018

INCOME STATEMENT	31.12.2018	31.12.2017
A) Value of Production		
1) Revenues from sales	43,064,801	42,272,824
2) Changes in inventories of work in progress, semi-finished goods and finished products	(132,395)	1,236,418
4) Capitalization of internal work		
5) Other revenues and income	2,921,817	1,809,136
Total value of production	***45,854,223***	***45,318,378***
B) Costs of Production		
6) Raw materials, consumables and goods for resale	14,666,955	15,177,893
7) Services	13,581,135	14,356,249
8) Use of third-party assets	2,623,328	2,029,249
9) Personnel Costs		
a) Wages and salaries	6,050,475	5,142,106
b) Social security charges	1,728,199	1,468,572
c) Termination indemnities	275,112	239,083
d) Pensions and similar obligations	154,413	128,849
e) Other costs	203,073	90,998
Total personnel Costs	*8,411,272*	*7,069,608*
10) Amortization, depreciation and write-downs		
a) Amortization of intangible fixed assets	776,011	487,274
b) Depreciation of tangible fixed assets	1,152,505	778,337
d) Write-downs of receivables in current assets and cash and cash equivalents	121,897	370,000
Totale amortization, depreciation and write-downs	*2,050,413*	*1,635,611*
11) Change in inventory of raw, ancillary, consumable materials and goods	*(390,751)*	*(328,311)*
14) Other operating costs	425,409	285,551
Total production costs	***41,367,761***	***40,225,850***
Difference between value and production cost (A-B)	***4,486,461***	***5,092,528***
C) Financial income and expenses		
16) Other financial income:		
b) from securities classified as fixed assets	30,000	30,000
d) others	44,706	21,586
Totale financial income	74,706	51,586
17) Interests and other financial expenses		
other	373,993	363,067
Total financial expenses	373,993	363,067
17-bis) Losses and gains on currency exchange	48,274	557,548
Total financial income and expenses	***(347,561)***	***(869,029)***
D) Value adjustments to financial assets		
18) Write-backs:		
d) financial derivative instruments	37,095	23,952
Totale write-backs	*37,095*	*23,952*
19) Write-downs:		
a) equity investment	30,000	150,000
d) financial derivative instruments	21,767	625
Total write-downs	*51,767*	*150,625*
Total value adjustments to financial assets (D)	***(14,672)***	***(126,673)***
Profit/(Loss) before taxes (A-B±C±D)	**4,124,229**	**4,096,826**
a) Current taxes	661,809	1,131,084
b) Deferred taxes	171,864	58,136
Total Income, current, deferred taxes	*833,673*	*1,189,220*
21) Profit (loss) for the year	**3,290,556**	**2,907,606**

ASSETS	31,12,2018	31,12,2017
A) Subscribed capital unpaid	**0**	**0**
B) Fixed Assets		
I - Intangibles Assets		
1) Start-up and expansion costs	1,068,957	-
3) Industrial Patent and Intellectual Property Rights	134,118	169,309
4) Concessions, licences, trademarks and similar rights	-	1,134
5) Goodwill	951,168	517,201
6) Work in progress and advance payments	-	-
7) Other	493,754	498,924
Total Intangible assets	*2,647,997*	*1,186,568*
II - Tangible Assets		
1) Land and Buildings	11,100,937	3,309,586
2) Plants and equipment	3,943,110	750,665
3) Industrial and commercial equipment	19,509	14,963
4) Other Assets	2,258,065	2,143,847
5) Work in progress and advance payments	0	8,803,434
Total Tangible Assets	*17,321,621*	*15,022,496*
III - Financial Assets		
1) Equity investments in:	7,237,761	4,520,452
a) Subsidiary companies	8,624	8,624
D bis) altre imprese;	7,246,385	4,529,076
Total Equity Investments	*7,246,385*	*4,529,076*
2) Receivables		
d bis) due from others		
within 12 months	3,804,851	2,118,073
d bis) due from others		
within 12 months	246,834	
beyond 12 months	100,000	257,500
3) Other Securities	1,200,000	1,200,000
Total Financial Assets	*12,598,071*	*8,104,649*
B) Total Fixed Assets	***32,567,689***	***24,313,712***
C) Current Assets		
I - Inventory		
1) Raw, supplies and consumable materials	2,413,883	2,023,132
2) Work in progress and semi-finished products	1,672,876	1,618,539
4) Finished products and goods	*11,025,603*	*11,212,336*
5) Advances	82,098	68,515
Total inventory	*15,194,460*	*14,922,521*
II - Receivables		
1) Due from customers		
- within 12 months	10,513,732	9,091,708
Total Due from customers	10,513,732	9,091,708
2) Due from subsidiariy companies		
- within 12 months	5,481,765	3,100,031
Total Due from subsidiary companies	5,481,765	3,100,031
5-bis) Tax Receivables		
- within 12 months	3,146,237	3,357,486
Total Tax Receivables	3,146,237	3,357,486
5-ter) Deferred tax assets		
- within 12 months	*356,582*	*352,456*
Total Deferred tax assets	*356,582*	*352,456*
5-quater) Due from others		
- within 12 months	493,759	730,491
- beyond 12 months		119,593
Total Due from others	*493,759*	*850,084*
Total Receivables	***19,992,075***	***16,751,765***
III - Financial Assets (other than fixed assets)		
5) Derivative financial instrument assets	*59,304*	*7,667*
Total financial assets (other than fixed assets)	***59,304***	***7,667***
IV - Cash and cash equivalents		
1) Bank and postal deposits	10,938,834	1,524,060
3) Cash on hand	52,983	55,845
Total cash and cash equivalents	*10,991,817*	*1,579,905*
C) Totale current assets	**46,237,656**	**33,261,859**

D) Accrued income and prepaid expenses		
Prepaid expenses	313,248	133,554
D) Total accrued income and prepaid expenses	***313,248***	***133,554***
TOTAL ASSETS	**79,118,592**	**57,709,125**

LIABILITIES AND SHAREHOLDERS' EQUITY	31,12,2018	31,12,2017
A) Patrimonio netto		
I Share capital	10,000,000	2,064,000
II - Share premium reserve	9,063,125	-
III Revaluation reserve	2,959,446	2,959,446
IV Legal reserve	943,276	943,276
VI - Other reserves, indicated separately		
Translation differences	-	-
Other reserves	51,575	51,576
Total other reserves	*51,575*	*51,576*
VII - Cash flow hedge reserve	44,459	(23,275)
VIII Profit (loss) carried forward	25,045,707	22,138,102
IX Profit (loss) for the period	3,290,556	2,907,606
Total Equity	***51,398,144***	***31,040,730***
B) Provisions for risks and charges		
1) Provisions for pensions or similar obligations	*54,257*	*59,621*
2) Provisions for taxes, including deferred	256,843	58,658
3) Derivative financial instrument liabilities	-	*38,292*
4) Other	600,855	522,855
Total provisions for risks and charges	***911,955***	***679,426***
C) Employee termination indemnities	**1,607,423**	**1,426,921**
D) Payables		
4) Payables due to banks		
- within 12 months	5,902,497	8,278,706
- beyond 12 months	7,370,295	4,199,012
Total payables due to banks	*13,272,793*	*12,477,718*
5) Payable due to other financial institutions		
- within 12 months	-	-
Total payable due to other financial institutions	-	-
6) Advances		
- within 12 months	871,287	838,370
Total advances	871,287	838,370
7) Trade payables		
- within 12 months	7,670,111	8,831,630
Totale trade payables	7,670,111	8,831,630
9) Payables to non-consolidated subsidiary companies		
- within 12 months	1,300,105	263,160
Total payables to non-consolidated subsidiary companies	1,300,105	263,160
12) Tax payables		
- within 12 months	324,963	564,975
Total tax payables	324,963	564,975
13) Payables to pension funds and social security agencies		
- within 12 months	492,303	395,380
Total payables to pension funds and social security funds	492,303	395,380
14) Other payables		
- within 12 months	1,145,408	1,101,876
- beyond 12 months	87,804	87,804
Total other payables	*1,233,212*	*1,189,680*
Total payables	***25,164,773***	***24,560,913***
E) Accrued liabilities and deferred income		
Accrued liabilities	36,297	1,135
Total accrued liabilities and deferred income	***36,297***	***1,135***
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	***79,118,592***	***57,709,125***

PARENT COMPANY CASH FLOW STATEMENT

INDIRECT METHOD AS AT 31/12/2018

CASH FLOW STATEMENT CASH AND CASH EQUIVALENTS	31/12/2018	31/12/2017
A) Cash flow from operating activities (indirect method)		
Profit for the year	3,290,556	2,907,606
Income tax	833,673	1,189,220
Interest expenses/(income)	299,286	311,481
(Dividends)		
(Gains)/losses on asset disposals	(847,962)	(32,945)
1) Profit for the year before taxes, interest, dividends and capital gains/ losses on disposals	**3,575,552**	**4,375,362**
Non-cash adjustments not impacting working capital		
Provisions	356,897	436,696
Amortisation & depreciation	1,928,516	1,265,611
Impairments		
Adjustments to non-cash financial instrument assets and liabilities	(13,236)	(23,327)
Other non-cash increases/(decreases)		
Total non-cash adjustments not impacting working capital	*2,272,177*	*1,678,980*
2) Cash flow before working capital changes	**5,847,730**	**6,054,342**
Change in net working capital		
Decrease/(Increase) in inventories	(271,938)	(1,597,512)
Decrease/(Increase) in trade receivables	(1,202,858)	1,222,161
Increase/(Decrease) in trade payables	(124,574)	(911,011)
Decrease/(Increase) in accrued income and prepaid expenses	(194,069)	(29,357)
Increase/(Decrease) in accrued liabilities and deferred income	35,161	1,135
Other Decreases/(Other Increases) in net working capital	(961,874)	(4,536,742)
Total changes in working capital	*(2,720,152)*	*(5,851,326)*
3) Cash flow after net working capital changes	**3,127,577**	**203,016**
Other adjustments		
Interest received/(paid)	(299,286)	(311,481)
(Income taxes paid)	(1,068,603)	(447,831)
Dividends received		
(Utilisation of provisions)	(148,818)	(168,128)
Other receipts/(payments)		
Total other adjustments	*(1,516,708)*	*(927,440)*

CASH FLOW FROM OPERATING ACTIVITIES (A)	**1,610,870**	**(724,425)**
Tangible fixed assets	(3,451,632)	(2,682,985)
(Investments)	(3,603,669)	(2,715,930)
Divestments	152,037	32,945
Intangible fixed assets	(2,237,440)	(211,784)
(Investments)	(2,237,440)	(211,784)
Divestments		
Financial fixed assets	(4,204,088)	(2,939,810)
(Investments)	(4,204,088)	(2,939,810)
Divestments		
Current financial assets		
(Investments)		
Divestments		
CASH FLOW FROM INVESTING ACTIVITIES (B)	**(9,893,160)**	**(5,834,580)**
Third party funds		
Increase/(Decrease) in short-term bank loans	(2,376,209)	1,770,025
New loans	6,500,000	3,358,513
(Repayment of loans)	(3,428,717)	
Own funds		
Paid-in share capital increase	16,999,125	
(Repayment of share capital)		
Disposal/(Acquisition) of treasury shares		
(Dividends and advances on dividends paid)		
CASH FLOW FROM FINANCING ACTIVITIES (C)	**17,694,199**	**5,128,538**
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (A ± B ± C)	**9,411,909**	**(1,430,466)**
Opening cash and cash equivalents	**1,579,905**	**3,010,371**
of which:		
bank and postal deposits	1,524,060	2,977,145
Checks		
Cash on hand	55,845	33,226
Closing cash and cash equivalents	**10,991,817**	**1,579,905**
of which:		
bank and postal deposits	10,938,834	1,524,060
Checks		
Cash on hand	52,983	55,845

Notes to the Financial Statements

Dear Shareholders,
These financial statements, presented for your examination and approval, report a net profit of Euro 3,290,556.

Assessment of the going concern assumption by the directors

The directors consider, on the basis of the operating performances and the solid equity and financial position, that no significant uncertainties exist which may compromise the capacity of the company to continue to operate as a continuing entity for a period of at least 12 months from the reporting date and has therefore prepared the financial statements at December 31, 2018 on a going concern basis.

Significant events in the year

In order to further speed up the Group's growth and international expansion, in particular on the retail and e-commerce channel, the company completed the process launched with the Elite project and on July 10, 2018 the Company's ordinary shares were admitted to trading on the AIM Italia - Alternative Capital Market, a multilateral trading facility organized and managed by Borsa Italiana S.p.A.. The trading of ordinary company shares began on July 12, 2018.
Admission to trading followed the placement of a total of 1,290,800 ordinary shares, of which 1,236,300 shares associated with the capital increase, undertaken by placement primarily with qualified Italian and international institutional investors, and 54,500 shares sold by the controlling shareholder, Jafin Due S.p.A.
The placement price of the ordinary shares was set at Euro 13.75, resulting in a market capitalization for the Company at the date of commencement of trading of Euro 72 million and a free float of approximately 25% of share capital, assuming the full exercise of the greenshoe option for an additional 54,500 shares (exercised for a total of 45,500 shares). The IPO price was set by the Company, in concert with the global coordinator, CFO SIM S.p.A., in view of the quantity and characteristics of the shows of interest received in the placement process and with the aim of favouring a book composition characterized by the presence of investors of high standing with a medium-to-long-term investment horizon.
In support of this strategy, in the initial part of 2018 a restructuring by shareholders of the Monnalisa share ownership into a single legal entity was undertaken.
In 2018, in order to maximise over the short and medium-term shareholder value, the industrial plan approved by the Board of Directors and communicated to the ownership was further executed.
Particular focus was placed on the company reorganisation initiated in 2015 to achieve greater operating efficiency and the restructuring of the company's presence on international markets, with the incorporation of other subsidiaries. For further information, reference should be made to the investments paragraph.

These investments were accompanied by other similarly significant investments in personnel and fixed assets, with the completion of the new building adjacent to the company's headquarters, providing therefore a complete solution to logistics, production and distribution needs, in implementation of the industrial plan.
Retail area development operations continued with the acquisition of the new business unit in Florence.

Subsequent events

Reference should be made in this regard to the Report on operations.

Accounting policies

These financial statements, comprising the balance sheet, the income statement, the cash flow statement and the explanatory notes, provide a true and fair view of the company financial statements and of the result for the year. The financial statements have been prepared in compliance with the provisions of Articles 2423 ter, 2424, 2424 bis, 2425, 2425 bis and 2425 ter of the Civil Code.
The financial statements are expressed in Euro to the nearest unit. Any rounding differences are indicated in the account "Euro rounding reserve" under Shareholders' Equity. In accordance with Article 2423, sixth paragraph of the Civil Code, the Notes were prepared in units of Euro.
The explanatory notes outline the balance sheet and income statement accounts on the basis of the order in which they appear in the respective financial statements.
The notes and annexes provide additional information that, while not expressly required by applicable legislation, has been deemed useful to providing a complete representation of the Company's situation.
It is noted that:
- no items of the balance sheet or income statement have been merged;
- the financial statement items for the present year may be compared with the previous year.

As per Article 2424 there are no asset or liability items that could be classified in more than one account.
The financial statement accounts have been valued in accordance with the general criteria of prudence and accruals and on a going concern basis.
The application of the prudence concept has resulted in the separate measurement of the elements forming each asset and liability account so as to avoid offsetting losses that ought to be recognized in the accounts, and profits that should not be recognized as they have not been realized.
The application of the accruals method of accounting referred to signifies that the effects of Company transactions are recorded in the year to which they in fact relate, as opposed to being recorded simply on a cash basis.
In applying the materiality principle, the obligations in terms of recognition, measurement, presentation and disclosure were not observed where not assisting the presentation of a true and fair view, as is the case for receivables and payables with maturity of less than 12 months.
Consistency in the application of the accounting policies is fundamental to ensure comparable financial statements from year to year.
Recognition and presentation of the accounts was made taking into account the substance of the operations and of the contract.

Fixed assets

Intangible assets

Intangible assets consist of expenditures with a useful life of multiple years, associated with future benefits ensuring that they are recoverable. They are recognized at purchase price, inclusive of the ancillary costs directly attributable to the asset. Financial charges and other costs not specifically attributable to the intangible assets are not included.

These are recognised at historic acquisition cost and reported net of straight-line amortisation according to the residual possibility of use.

- Start-up and expansion costs, comprising costs incurred for the AIM listing, are amortised over a period of five years.
- The costs of the use of intellectual property (software) have been amortized over a period of five years, in consideration of their long-term utility.
- The costs of acquiring, registering and protecting trademarks have been amortized on the basis of their future utility, estimated at ten years.
- Goodwill has been recognized with the consent of the Board of Statutory Auditors at the cost incurred to acquire certain retail companies and following the mergers undertaken in 2015. It was decided to estimate the useful life of goodwill at ten years, on the basis of the sector, the related image factor and the specific operational conditions of the acquirees.
- Other intangible assets primarily include improvements to third-party assets, amortized on the basis of the residual useful lives of the assets, and sample garments, relating to previous seasons, obtained through the merger with Babalai Srl. These garments, which form a historic archive, constitute concrete and intellectual assets and as such are to be mainly valued as an "intangible" component. Similarly to the approach taken to goodwill, they have been amortized according to their useful lives, estimated at ten years.

Research and development costs are fully expensed to the income statement in the year incurred.

At each reporting date, the company assesses whether indicators suggest that a fixed asset may have been impaired.

Where such indicators exist, the company estimates the recoverable value of the asset (higher between value in use and fair value) and records a write-down where this is lower that the corresponding net book value. In the absence of indicators of potential losses in value it is not necessary to determine the recoverable value. Their original value is recovered, except for goodwill and capitalized expenses, when it is believed that the rationale for the previous impairment loss has ceased to apply, adjusted for the amortization charges not recognized due to impairment. The amortisation, depreciation and write-down methods adopted are described in the present notes.

Property, plant & equipment

Property, plant and equipment, which are tangible assets with useful lives of multiple years from which future benefits are expected to flow, ensuring that they may be recovered, are recognized at purchase cost, inclusive of directly attributable ancillary costs, net of presumed realizable value and less the relevant accumulated depreciation.

Financial charges and other costs not specifically attributable to the assets are not included. The amount stated in the financial statements includes ancillary costs and costs incurred for the use of the asset, reducing the cost for significant commercial and cash discounts.

There are no internally constructed assets.

Depreciation recorded in the income statement has been calculated on a straight-line basis in consideration of the use, intended purpose and economic-technical duration, on the basis of the residual possible useful life and in accordance with the actual use of the asset.

The rates applied, which have not changed compared to the previous year and reduced by half in the year of entry into service of the asset, are as follows:

Category	%
Industrial Building	3%
Machinery,tools,plants	12,50%
Cutting Machines and Automatic Machines	17,50%
Furniture and office equipment	12%
Electro-mechanical and electronic office machines	20%
Goods transportation vehicles	20%
Equipment	25%
Cars	25%
Photovoltaic System	9%

Incremental costs are only included in the acquisition cost where there is a real and measurable increase in the productivity or useful life of the assets and are depreciated according to their residual utilization. Any other cost concerning these assets is fully recognised to the Income Statement.

Since the requirements had not been met, no write-downs were applied to either property, plant and equipment or intangible assets as a result of a reduced ability to generate future economic benefits, their expected useful lives or market values.

In 2008 the company applied the option under Legislative Decree 185 to revalue the industrial use building located in the Municipality of Arezzo, at Via Madame Curie 7. The properties, classified to a single category, subject to revaluation consist of an industrial building (with four floors, comprising offices, workshops and warehouses), identified in the New Urban Building Register of the Municipality of Arezzo in Sec. A, Page 103, Parcel 559, Census District 2, Category D/7.

The revaluation was made by taking the "market value" as a reference criterion - identified on a prudent basis - as per a report upon the estimate of the current value of assets at 31/12/08 drawn up by an independent expert.

From an accounting viewpoint, the revaluation was undertaken according to the historic cost increase accounting technique.

The estimate of the residual useful life of the assets subject to revaluation was consequently reviewed.

From 2009 therefore, the depreciation was provisioned on the basis of the new useful life and of the new value of the assets.

From a tax viewpoint, the revaluation was made utilizing the option to apply for tax purposes, in addition, the higher revalued amount, through settlement of the IRES and IRAP substitution tax, deducted directly from the revaluation reserve specifically recognized in equity on a tax-suspension basis, subject to the restrictions on use and distribution established in the aforementioned law.

At each reporting date, the company assesses whether indicators suggest that a fixed asset may have been impaired. Where such indicators exist, the company estimates the recoverable value of the asset (higher between value in use and fair value) and records a write-down where this is lower that the corresponding net book value. In the absence of indicators of potential losses in value it is not necessary to determine the recoverable value. If and to the extent in subsequent years the reasons for the write-down no longer exist, the original value is restored, adjusted solely for the depreciation not recognized in view of the write-down.

In the case in which payment is deferred in comparison to normal market conditions, for similar or equivalent operations, the asset is recognised to the financial statements at the present value of future contractual payments.

No assets were discretionarily or voluntarily revalued and the asset values were determined objectively on the basis of their use.

Capital grants

No capital grants were disbursed to the Company in 2018.

Finance leases

The Company does not have any finance leases.

Investments

Investments in subsidiaries and associates are considered as long-term and strategic by the company.

- they are recorded to financial assets;
- they are valued at acquisition or subscription cost, including direct ancillary costs, adjusted for impairments, including, where existing, the value of capital payments made, capital grants and the amount of any receivables waived by the granting shareholder.

The carrying amount is tested for impairment on the base of reasonable expectations of use and recoverability in future years. Specific impairment losses are recognized to adjust the book value of such equity investments. If the impairment of an equity investment exceeds its carrying amount, it is written off and the adjustment is taken to the income statement as an impairment loss. Such impairment losses may be reversed in subsequent years if the rationale for recognizing them ceases to apply.

In the year in which the rationale for the impairment losses recognized ceases to apply, financial fixed assets are reversed through the income statement, up to their original value. All investments are recognised at acquisition cost, with no impairment recognised as not having been written down.

Receivables are classified as financial fixed assets or to a specific caption of working capital by type.

Dividends are recognised when the right to the relative receivable arises following the passing of a distribution motion by the investee company. Following this issue, the recoverability of the value is verified.

No dividend was however received during the year.

Prudently, a provision was made to the Investee Company Losses Coverage Provision, among the Risks Provisions. This is in the belief that no impairment exists and in view of the company's intention to support it in the development process.

Securities
In accordance with Italian GAAP standard OIC 20, it was decided to elect not to apply the amortized cost method to securities recognized before the financial year beginning January 1, 2016, and which therefore continue to be recognised at subscription/acquisition cost.
Securities are not written down as not having been impaired.

Inventory
The accounting policies adopted are unchanged from the previous year.
The values are perfectly in line with the realisable values.
Raw, supplies and consumable materials are stated at the lower of purchase cost, plus ancillary costs, and measured according to the LIFO method and their presumed realizable value. The value ascribed to the above categories does not differ significantly from the value that would result from using current costs or replacement cost at the reporting date.
Work in progress, semi-finished and finished goods are measured at the lower of the production cost attributable to them and their presumed realizable values, represented by the best estimate of the net price of sale that may be obtained. Production cost has been determined by including all costs directly attributable to the products, having regard to the phase reached in the production process.
As in previous seasons, this caption is inclusive of sample garments existing as at the reporting date, measured at the lower of the production cost incurred and net realizable value.
The value of inventories thus obtained is written down to reflect the obsolescence of the goods, in addition to the effective possibility of sale on the base of their movement.
Inventories are written back in the period in which the reasons for the previous write-down no longer apply within the limits of the original cost incurred.
With regards to the changes in the individual categories, reference should be made to the income statement.

Receivables
Receivables are classified to financial fixed assets or a specific caption of working capital by type and are recognized at their nominal value.
In accordance with Italian GAAP standard OIC 15, it should be noted that the amortized cost criterion has not been applied to receivables recognized prior to the year beginning on January 1, 2016, nor has it been applied to receivables arising after that date, since the effects are immaterial to the presentation of a true and fair view.
The accounting policies adopted by the Company are as follows:

- receivables with maturity of less than 12 months are not discounted;
- receivables are not discounted where the effective interest rate does not differ significantly from the market interest rate;
- the amortized cost method is not applied where the transaction costs, commissions and any other difference between the initial value and the value on maturity are insignificant.

Receivables relating to revenues for the sale of goods or provision of services are recognized when the production process for the goods and services has been completed and ownership has been transferred in substantial and not merely formal terms.
Receivables arising from other circumstances are only recognized where there is legal title to collect them.
Receivables are written down to their presumed realizable value by recognizing a specific "write-down provision" accounted for as a direct reduction in their amount, based on an analysis of the individual positions and the total risk associated with all receivables, i.e. covering losses in both situations of default that have already become evident but are not yet definitive and situations that have not yet become evident but that experience and knowledge of the sector in which the Company operates lead to believe are inherent in the accounting balances.
Receivables are only derecognized when the contractual rights to the cash flows are extinguished or where ownership of the receivables has been transferred along with essentially all risks associated with them.

Prepaid expenses and accrued income and accrued liabilities and deferred income
These are recorded according to the accruals concept.

Provisions for risks & charges
Provisions for risks and charges are recorded in respect of certain or probable losses or payables, the amount or due date of which could not be determined at the reporting date.
These provisions have been measured in accordance with the prudence and accruals concepts and no provision has been made for matters without any economic justification.
The contingent liabilities reflected in these provisions are probable and may be estimated with reasonable accuracy.

Payables
The amortised cost criterion was not applied as the effects are irrelevant for the presentation of a true and fair view.
In particular, payables set to come due within 12 months, and/or for which the effect of discounting is immaterial, were not discounted. Accordingly, payables are stated at their nominal value.

Recognition of revenues and costs
Revenues from the sale of products are recognised on the transfer of the related risks and benefits, which normally takes place when the goods are shipped or delivered.
Revenues of a financial nature and revenues from services are recognised on an accruals basis.
The revenues and income, costs and charges related to transactions in foreign currencies are recorded at the exchange rate when the transaction took place.
The income and charges relating to sales operations with obligation of the return of goods, comprising the difference between the forward price and the spot price, are recorded according to the accruals principle.
Revenues and income, and costs and charges are recorded net of returns, discounts, rebates and premiums.
Product returns are recognized in the year in which the goods are returned by the customer. On a prudential basis, it was decided to set aside Euro 244,000 to the provision for returned goods in connection with sales transacted in 2018.
Purchase costs are recognized on the accruals principle.
Raw materials, ancillary, consumables and goods include ancillary acquisition costs (transport, insurance...) where the supplier has included such in the purchase price, otherwise they are recorded separately under service costs based on their nature.
Costs include not only those of a certain amount, but also those not yet documented for which transfer of ownership has already taken place or the service has already been received.
In accordance with the prudence principle, contingent assets or profits are not recognized. Rather, the necessary information is disclosed in this document.

Income taxes
Income taxes are recorded in accordance with the accruals principle; therefore, they include:

- the provisions for taxes paid or to be paid for the year, in accordance with the income tax rates and regulations in force;
- the amount of deferred tax income and charges in relation to timing differences arising and reversed in the period;
- the adjustment to deferred tax balances taking into account changes in the income tax rates.

The tax liability is shown under "Tax payables" net of advances, taxes withheld by third parties and tax credits.
Deferred tax assets and liabilities on IRES corporation tax arise from timing differences between the carrying amount of assets and liabilities determined in accordance with the financial reporting criteria set out by the Italian civil code and their tax base.
Current and deferred IRAP regional tax is determined exclusively with reference to the company.

Translation of foreign currency balances
Receivables and payables originally in foreign currencies, recorded using the exchange rates in force on the date on which they arose, are aligned to the exchange rates ruling at the balance sheet date.
Exchange gains and losses on the basis of the currency rate at year-end are recognised to account C17bis of the income statement.
The overall amount of net profits as per the income statement includes an unrealised component concerning profits of Euro 165,607 and losses of Euro 27,996.
There were no significant effects in terms of the changes in these exchange rates between the end of the financial year and the drafting of the financial statements (Article 2427, first paragraph, No. 6-bis of the Civil Code).

Derivative financial instruments
Derivative financial instruments are only used for the hedging of financial risks related to exchange rate fluctuations on commercial transactions in foreign currency or for the hedging of interest rate risk in the case of medium/long-term debt. They have been accounted for according to the hedge accounting approach inasmuch as:

- the hedging instrument is formally designated and documented at the start of hedging;
- the hedge is expected to be highly effective;
- such efficacy can be reliably measured;
- the hedge is highly effective during the various accounting periods for which it is designated.

All financial derivatives are measured at fair value.

Given that the derivative financial instrument is designated as a hedge to the exposure of the changes in the cash flows of an asset or liability recorded in the financial statements or of an operation considered highly probable and which may have effects on the income statement, the effective portion of the profits or of the losses of the financial instrument is recognised under equity; the cumulative profits or losses are reversed from equity and recognised to the income statement in the same period in which the operation subject to hedging influences the income statement; the profit or loss related to a hedge or the part of the hedge becoming ineffective is recognised to the income statement when such inefficacy is recognised.
If hedge accounting cannot be applied, gains or losses deriving from the fair value of the financial derivative instrument are recognised directly in the income statement.

Derivative financial instruments, even if embedded in other financial instruments, are initially recognised when the associated rights and obligations are acquired; they are measured at fair value both at the initial recognition date and at each reporting date. The changes in the fair value compared to the previous year are recorded in the income statement, or if the instrument hedges the risk of changes in expected future cash flows of another financial instrument or scheduled operation, directly to a positive or negative equity reserve.

Derivative financial instruments with a positive fair value were recorded in the balance sheet assets. Their classification in fixed or current assets depends on the nature of the instrument itself:

- a derivative financial instrument designated as a hedge for cash flows or the fair value of an asset follows the classification of the hedged asset under current or fixed assets;
- a derivative financial instrument designated as a hedge for cash flows and the fair value of a liability, a firm commitment or a highly probable scheduled transaction, is classified under current assets;
- a non-hedging derivative financial instrument is classified under current assets.

The cash flow hedge reserve includes the changes in the fair value of the effective component of derivative financial instruments used for cash flow hedging purposes.
Derivative financial instruments with negative fair value were recorded in the balance sheet under provisions for risks and charges.

Exceptions

There were no exceptional cases requiring exemptions as per Article 2423, paragraph 5 of the Civil Code.

Notes to the Income Statement

Value of production

Description	2018	2017	Changes
Revenues from sales and services	43,064,801	42,272,824	791,977
Changes in inventories of products	(132,395)	1,236,418	(1,368,813)
Other revenues and income	2,921,817	1,809,136	1,112,681
Total	**45,854,223**	**45,318,378**	**535,845**

As specified in greater detail in the Report on operations, to which reference should be made, revenue and margin growth continued during the year, primarily in the retail area.

Breakdown of revenues from sales and services by business line

By business line	Current year
Sales of goods	76,645
Sales of products	42,988,156
Total	**43,064,801**

Breakdown of revenues from sales and services by geographical area

Geographical area	Current year
Italy	16,889,450
Europe	12,272,287
Rest of the world	13,903,064
Total	**43,064,801**

One-off revenues
Other revenues include for Euro 847,962 the gain from the exchange operation outlined above.
Other revenues, presented in account A 5), comprised for Euro 1,079,564 the operating grant for the Research and Development Tax Credit introduced by Article 3 of Legislative Decree No. 145 of 23.12.2013, as replaced by Article I, paragraph 35, Law No. 190/2014 of the 2015 Stability Law. The tax break relates to the new product research and development costs.

Subsidies, grants, paid positions and other economic advantages received from the public administration (as per Article 1, paragraph 125 of Law No. 124 of August 4, 2017)
Pursuant to Art. 1, paragraph 125 of Law No. 124 of August 4, 2017, in fulfilment of disclosure obligations, grants received are set out below in table form on an accrual basis:

Grantor	Grant amount	Purpose
GSE SPA	€ 20,449.02	Photovoltaic incentive
Sviluppo Toscana S.p.A.	€ 15,314.48	Business internationalization

Costs of Production

Description	2018	2017	Changes
Raw materials, consumables and goods	14,666,955	15,177,893	(510,938)
Services	13,581,135	14,356,249	(775,114)
Use of third-party assets	2,623,328	2,029,249	594,079
Personnel costs	8,411,272	7,069,608	1,341,664
Amortisation	776,011	487,274	288,737
Depreciation	1,152,505	778,337	374,168
Write-downs of current receivables	121,897	370,000	(248,103)
Change in inventories of raw materials	(390,751)	(328,311)	(62,440)
Other operating charges	425,409	285,551	139,858
Total	**41,367,761**	**40,225,850**	**1,141,911**

Costs for raw materials, ancillaries, consumables and goods
These are strictly correlated to the comments in the Report on operations and the description of point A (Value of production) of the Income Statement and are recognised according to the revenue matching principle.
This item includes the costs required to produce the goods involved in core business activity.
The costs of purchasing goods are taken to the income statement when the goods are delivered.
Revenues and income, and costs and charges are recorded net of returns, discounts, rebates and premiums.

Service costs
Service costs are recognised to the Income Statement on completion.
The breakdown of the account is as follows:

Description	2018	2017	Change
Production services costs	4,617,965	5,136,288	(518,323)
Independent auditors', Board of Statutory Auditors' and Board of Directors' emoluments	634,800	523,585	111,215
Cleaning and security	172,271	158,998	13,273
Maintenance	412,054	370,304	41,751
Transport	2,530,831	2,241,476	289,354
Utilities	243,852	223,860	19,992
Travel and transfer	231,938	249,978	(18,040)
Marketing	1,076,531	1,173,008	(96,477)
Canteen	123,414	109,267	14,147
Exhibits, fairs and fashion shows	491,702	441,210	50,492
Technical, administrative, indus. and commercial consultancy	1,142,651	1,501,999	(359,349)
Training courses	65,448	20,124	45,324
Agent cost	627,773	901,298	(273,524)
POA Commissions	293,730	273,071	20,659
Insurance	161,552	111,884	49,668
General services	754,623	919,900	(165,277)
Total	**13,581,135**	**14,356,249**	**(775,114)**

Service costs include:
- Façon costs (sewing, ironing, embroidery, printing & other services) for Euro 4,568,174
- costs of agents and representatives for Euro 627,773
- national and local advertising for Euro 291,408
- national and local fashion shows and events for Euro 491,703
- technical, industrial, administrative and commercial consultancy for Euro 2,098,861.

This item also includes the agents' indemnity provision (FIRR and supplementary indemnity) and the provisions for termination of coordinated ongoing self-employment contracts.

Rent, leasing and similar costs
The account includes costs incurred for cartoon character royalties for Euro 731,709 and property lease charges and condominium expenses for Euro 1,609,095.

Personnel costs
The account includes all costs for personnel including increases, promotions, vacation days not taken and provisions in accordance with law and collective contractual agreements.
The other costs associated with personnel have been allocated, in view of their strictly economic nature, to items B6 and B7.

Amortization, depreciation and write-downs
Depreciation was calculated according to the useful life of the assets and their utilisation in production, while the account B10 d) includes write-downs of trade receivables recorded under current assets.

Other operating charges
This account includes all operating costs not recognised to the other accounts of section b) of the income statement and ancillary management costs which are not of an extraordinary nature, in addition to all tax charges, other than direct income taxes, as follows:

- Taxes and levies (IMU-TARSU-CCIAA);
- Miscellaneous administrative expenses;
- Newspaper & magazine subscriptions;
- Doubtful debts not covered by specific provisions;
- Charitable donations.

Charitable donations to non-profits totalled Euro 10,500.

Financial income and charges
The figure for the year includes financial income of Euro 74,706, interest expense and other financial charges of Euro 373,993 and foreign exchange losses of Euro 48,274, with the following changes compared to the previous year:

Description	31/12/2018	31/12/2017	Changes
Financial Income on bonds	30,000	30,000	0
Banks Financial Income	1,186	4,202	(3,016)
Others	43,52	17,384	26,136
Total financial income	**74,706**	**51,586**	**23,120**
Banks Financial expenses	(123,017)	(127,300)	4,193
Others	(250,886)	(235,767)	(15,119)
Total financial expenses	**(373,993)**	**(363,067)**	**(10,926)**
Gains on currency exchange	238,534	111,002	127,531
Losses on currency exchange	(286,808)	(668,550)	381,742
Total Gains/Losses on currency exchange	**(48,274)**	**(557,548)**	**(509,274)**

In the previous year currency losses were exceptional, mainly due to the settlement of trade receivables from previous years.

Description	31/12/2018	31/12/2017	Changes
Write-backs of financial derivative instruments	37,095	23,952	13,143
Write-downs of equity investment	(30,000)	(150,000)	(120,000)
Write-downs of financial derivative instruments	(21,767)	625	(21,142)
Total	**(14,672)**	**(126,673)**	**(112,001)**

Write-downs of investments concern the provision to the loss coverage reserve, as stated previously.

Current and deferred taxes

Income taxes	2018	2017	Changes
Current income taxes:	**661,809**	**1,131,084**	**(469,275)**
IRES	466,327	876,357	(410,030)
IRAP	195,482	254,727	(59,245)
Deferred tax charges/(income)	**171,864**	**58,136**	**113,728**
IRES	176,880	61,262	115,618
IRAP	(5,016)	(3,126)	(1,890)
Total	**833,673**	**1,189,220**	**(355,547)**

Income taxes
Income taxes are recorded in accordance with the accruals principle; therefore, they include:

- the provisions for taxes paid or to be paid for the year, in accordance with the income tax rates and regulations in force;
- the amount of deferred tax income and charges in relation to timing differences arising and reversed in the period;
- the adjustment to deferred tax balances taking into account changes in the income tax rates.

The tax liability is shown under Tax payables net of advances, taxes withheld by third parties and tax credits.
Deferred tax assets and liabilities on IRES corporation tax arise from timing differences between the carrying amount of assets and liabilities determined in accordance with the financial reporting criteria set out by the Italian civil code and their tax base.
Current and deferred IRAP regional tax is determined exclusively with reference to the company.

Reconciliation between the result and the taxable income

Description	Amount	Tax
IRES		
Pretax Income	**4,124,229**	
Theoretical tax charge (%)	24	**989,818**
Increases		
Taxes not deductible	68,759	
Charitable donations	10,500	
Non-deductible expenses for vehicles	165,558	
Prior year charges	30,717	
Doubtful debt provision	70,355	
Exchange losses	27,996	
Non-deductible amortisation & depreciation	150,640	
Other changes	358,411	
Gain on sale of business unit 2015	54,110	
Total increase		**937,046**
Decreases		
Prior year charges	(35,139)	
Exchange differences	(165,607)	
Deductible IRAP	(128,606)	
Ace	(378,794)	
20% IMU Property Tax	(13,550)	
Gain on sale building	(678,369)	
R&D contribution	(1,078,564)	
Hyper and Maxi amortisation	(353,857)	
Other changes	(285,754)	
Total decreases		**(3,118,240)**
Total taxable IRES income		1,943,035
Ires 2018 (24%)		466,328
IRAP		
Difference between the value and cost of production		**13,019,631**
Theoretical tax charge (%)	4	**507,766**
Changes		
Amortization	148,136	
Personnel costs	(7,755,414)	
Third party remuneration	509,289	
IMU Property tax	67,594	
R&D contribution	(1,079,564)	
Other	12,171	
Value of Net Production		**4,921,843**
Current IRAP		**195,482**

Deferred tax income/charges
Deferred taxes are calculated based on the global allocation criteria, taking into account the cumulative amount of all of the temporary differences, based on the average expected rates in force when these temporary differences reverse.
Deferred tax assets are recorded if there is reasonable certainty that the temporary differences will reverse in future years against assessable income not lower than the differences that will be reversed.
The temporary differences that resulted in the recording of deferred tax income and charges are shown in the table below together with the relative effect.

Recording of deferred tax assets and liabilities and consequent effects
For a breakdown of deferred tax assets and liabilities of the parent company, reference should be made to the Consolidated Explanatory Notes and the "Deferred tax assets/liabilities" paragraph.

Notes to the balance sheet

ASSETS

B) FIXED ASSETS

The breakdown and the movements individual classes in the year are shown below:

Intangible fixed assets
The movements in the account are as follows:

Description	Start-up and expansion costs	Industrial Patent and Intellectual Property rights	Concessions, licences, trademarks and similar rights	Goodwill	Other	Total
Value at the beginning of the year		169,309	1,134	517,201	498,924	1,186,568
Cost						
Value at the beginning of the year		**169,309**	**1,134**	**517,201**	**498,924**	**1,186,568**
Acquisition	1,336,196	82,407		643,536	175,301	2,237,440
Amortization	267,239	117,598	1,134	209,569	180,471	776,011
Total changes in the year	1,068,957	(35,191)		433,967	(5,170)	1,461,429
Cost	1,068,957	134,118		951,168	493,754	2,647,997
Value at the end of the year	**1,068,957**	**134,118**		**951,168**	**493,754**	**2,647,997**

The costs recorded are reasonably correlated to their future use and are therefore amortised on a straight-line basis in relation to their future residual utility.
The increase is principally due to leasehold improvements, amortised according to the lease duration, costs incurred for the AIM listing and the purchase of a sales point in Florence, Piazza Strozzi.
The directors, on the basis of the period performance and of future positive results from company plans, consider that the intangible assets do not present indicators of impairment. The analysis carried out concerns specific business units acquired, including the value of goodwill paid.

Composition of start-up and expansion costs and development costs
Start-up and expansion costs and development costs, in addition to the reasons for their recognition, are outlined below:

Description	31/12/2017	Increases	Decreases	Amortization	31/12/2018
AIM share capital increase	0	1,336,196	0	(267,239)	1,068,957
Total	**0**	**1,336,196**	**0**	**(267,239)**	**1,068,957**

Start-up and expansion costs are recognised on the base of the cause-effect relationship between the costs in question and the benefits expected. The account includes costs incurred for the listing on the AIM Italia alternative capital market (legal costs, sponsorship costs, audit firm costs, ...), capitalised as per OIC 24.

Tangible fixed assets

The movements in the account are as follows:

Description	Land & buildings	Plant and machinery	Commercial and industrial equipment	Other assets	Assets in progress and advances	Total property, plant & equipment
Opening balance						
Cost	4,350,307	4,731,052	172,711	6,145,069	8,803,434	24,202,573
Accumulated depreciation	1,040,721	3,980,387	157,748	4,001,222		9,180,078
Book value	**3,309,586**	**750,665**	**14,963**	**2,143,847**	**8,803,434**	**15,022,495**
Changes in the year						
Increases for acquisitions	2,248,792	721,178	12,154	577,756		3,559,880
Reclassifications	5,852,345	2,951,089			(8,803,434)	
Decrease for disposals	108,249					108,249
Depreciation	201,537	479,822	7,608	463,538		1,152,505
Total changes	**7,791,351**	**3,192,445**	**4,546**	**114,218**	**(8,803,434)**	**2,299,126**
Closing balance						
Cost	12,329,059	8,403,319	184,865	6,722,826		27,640,069
Accumulated depreciation	1,228,122	4,460,209	165,356	4,464,761		10,318,448
Book value	**11,100,937**	**3,943,110**	**19,509**	**2,258,065**	**0**	**17,321,621**

During the year the new building adjacent to the company's offices was completed, triggering the allocation of the costs recognized over the course of the construction, partly to the building itself, partly to generic installations and partly to the new automated warehouse (within the facility), which became operational in 2018.
During the year, the transaction was undertaken with the company PJ Srl by which Monnalisa acquired a production building through a property exchange, with the disposal of a building not required for operations.

Total revaluations of fixed assets at year-end

In accordance with Article 10 Law No. 72/1983, the following property, plant and equipment upon which revaluations were made was recognised to the company's financial statements at 31/12/2018.
As highlighted in the introduction to these Explanatory Notes, property, plant and equipment were revalued on the base of special laws (special, general or sector) and no discretionary or voluntary revaluations were made, with the revaluations, within the maximum limit of the value in use of the asset, objectively determined.

Description	Legal revaluations	Economic revaluations	Total revaluations
Land and buildings	3,050,975		3,050,975

The revaluation amount of Euro 3,050,975, net of registration tax, generated an impact on shareholders' equity of Euro 2,959,446, now reduced due to the increased accumulated depreciation on this amount.

Finance leases
The Company does not have any finance leases.

Financial fixed assets
The movements in the account are as follows:

Description	Equity investments in subsidiary companies	Equity investments in other companies	Long-term receivables from subsidiary companies	Other securities	Long-term receivables from others
Value at the beginning of the year					
Cost	4,520,452	8,624	2,118,072	1,200,000	257,500
Value at the beginning of the year	**4,520,452**	**8,624**	**2,118,072**	**1,200,000**	**257,500**
Increases	2,717,309		1,686,779		
Reclassification					189,334
Decreases					(100,000)
Value at the end of the year	**7,237,761**	**8,624**	**3,804,851**	**1,200,000**	**346,834**

Investments
No equity investments have been reclassified.

Investments in subsidiaries are outlined below:

Monnalisa Hong Kong Ltd

incorporated on August 25, 2015 and based in Hong Kong, it is a fully owned subsidiary of Monnalisa S.p.A. intended to pursue development of the local retail market. The subsidiary currently operates three monobrand stores, one of which was opened in the first half of 2018, based in Sogo Causeway Bay;

Monnalisa Rus LLC

incorporated on January 14, 2016 and 99%-owned by Monnalisa S.p.A. and 1% by Jafin S.p.A., with the aim of increasing the efficiency of management of the local wholesale market and entry into the retail market through the direct opening of monobrand stores. In 2018 two new stores were opened in Moscow, thus bringing the number of direct stores to four;

Monnalisa China Ltd

incorporated on February 17, 2016, with registered office in Shanghai and wholly-owned by Monnalisa S.p.A. The company was established to control the quality of products procured in China and to develop the local retail market through the opening of monobrand stores in the best-known malls in Shanghai, Beijing and other major cities. In 2018 a capital increase of Euro 1,500,000 was undertaken in accordance with this development approach. Three low-traffic stores (Yintasi, Grand Gateway and Scitech) were closed in 2018 and five new store (4 DOS and 1 DOO) were opened;

ML Retail Usa Inc.

incorporated on September 22, 2016, wholly-owned by Monnalisa S.p.A., managing retail operations in Miami and at the new sales points in New York and Los Angeles, acquired in 2018. It was decided to provide the subsidiary with an additional interest-bearing loan in 2018 totalling USD 1,500,000. In 2018 a new store in Philadelphia (King of Prussia) was opened;

Monnalisa Korea Ltd

incorporated in December 2016, wholly-owned by Monnalisa S.p.A. This company was established to operate on the Korean retail market and improve operating efficiency;

Monnalisa Brazil Participasoes LTDA

incorporated on December 22, 2016 to manage retail market operations in Brazil through two sales points at San Paolo and Belo Horizonte, the latter opened during the year. The subsidiary is held 99%;

Monnalisa BEBEK GİYİM SANAYİ VE TİCARET A.Ş.

incorporated on December 11, 2018, based in Turkey and fully owned by Monnalisa S.p.A., intended to develop the local retail market.

There are no restrictions on availability placed by the holding company on investees, nor options rights or other liens.
No significant transactions, with the exception of the increases in the holdings outlined above, regarding normal supplies and related to their funding, however at market conditions, was undertaken with the investees.
The breakdown of investments in other companies is shown below:

- CONAI as per Article 38 Legislative Decree 22/1997: Euro 23
- Aretino University Hub with offices in Arezzo: Euro 510
- Bimbo Italy Consortium with offices in Arezzo: Euro 1,291
- Consorzio Sviluppo Pratacci with offices in Arezzo: Euro 500
- Toscana Loft Consortium with offices in Florence: Euro 1,300
- Made in Italy Tuscany Academy Foundation with offices in Scandicci (FI): Euro 5,000

The other investments are recognised at acquisition or subscription cost.
The investments recorded at purchase cost have not been written down for impairments; no "restoration of values" were made.

Non-current investments in subsidiaries
The following information is provided in relation to investments held either directly or indirectly in subsidiary companies.

Companies	City whether in Italy, or foreign country	Share capital in Euro	Profit/ (Losses) for last year in Euro	Equity in Euro	Shares owned in Euro	Shares owned in %	Value in the financial statement of Monnalisa S.p.A.	Difference between Shares owned in Euro and value in the financial statement
MONNALISA HONK KONG LIMITED	HONG KONG	50,000	(188,543)	(164,255)	(164,255)	100	50,000	(214,255)
MONNALISA CHINA LLC	CHINA	4,800,000	(1,027,899)	2,449,289	2,449,289	100	4,800,000	(2,350,711)
MONNALISA RUSSIA LLC	RUSSIA	137	434,971	1,117,381	1,106,207	99	136	1,106,071
ML RETAIL USA INC	USA	591,156	(792,282)	(621,444)	(621,444)	100	591,156	(1,212,600)
MONNALISA KOREA LTD	KOREA	81,000	(16,272)	(118,587)	(118,587)	100	81,000	(199,587)
MONNALISA DO BRASIL IMPORTACAO E COMERCIO DE ROUPAS LTDA	BRASILE	505,087	(286,421)	(68,895)	(68,206)	99	500,036	(568,242)
Monnalisa BEBEK GİYİM SANAYİ VE TİCARET A.Ş	TURCHIA	1,215,434	(6,763)	1,223,256	1,223,256	100	1,215,434	7,822

The financial statements do not include financial assets in subsidiaries for which an impairment has been identified. With regards to the investment in Monnalisa China, the share capital has not been fully paid-in, recognising therefore a payable to the subsidiary of Euro 900,000, as is the case for Monnalisa Bebek GİYİM SANAYİ VE TİCARET A.Ş for Euro 400,105.
Monnalisa S.p.A.'s management has carried out a prudent analysis of the carrying amount of the investments recognised to its financial statements, making a comparison with the share of net equity identified through calculation of the economic value of the investees, according to an earnings criterion. The impairment test was carried out for the investments in the companies Monnalisa China LLC, ML Retail USA Inc. and Monnalisa Do Brasil Ltda.
The impairment test was carried out using an average cost of capital and a growth rate "g" as detailed here below:

Company	growth rate "g1"	growth rate "g2"	WACC
Monnalisa China LLC	5,60%	1,48%	9,65%
ML Retail USA Inc.	1,48%		8,19%
Monnalisa Do Brasil Ltda	2,22%	1,48%	12,85%

- Monnalisa China LLC→considering the high growth rates of the economy, even in the future, it was considered prudent to divide the value of the terminal value in two components corresponding to two different phases of growth. In detail, a growth rate for the first 5 years up to 2023 equal to 5.60% ("g1") and, subsequently, from the sixth year the "g rate" was reduced to 1.48% ("g2"), that can be considered reasonably the growth rate of a mature economy;
- ML Retail USA Inc. → the growth rate was assumed as a projection of future US economy growth of 1.48%;
- Monnalisa Do Brasil Ltda→considering the high growth rates of the economy, even in the future, it was considered prudent to divide the value of the terminal value in two components corresponding to two different phases of growth. In detail, a growth rate for the first 5 years up to 2023 equal to 2.22% ("g1") and, subsequently, from the sixth year the "g rate" was reduced to 1.48% ("g2"), that can be considered reasonably the growth rate of a mature economy.

The conclusions reached on the analysis upon the earnings forecasts led to Monnalisa S.p.A. management's conclusion of maintaining the carrying amount of the investments in the financial statements unchanged.
It is therefore not considered that indicators of impairment for the investments in subsidiaries exist, as the higher carrying amount of the investees against the corresponding share of equity from the latest financial statements of the investee is due to the start-up phase in which they are currently engaged, in view of the expected results in the 2019-2023 period.

Breakdown of the value of investments in other companies

Descrizione	Book value	Fair value
CONSORZIO BIMBO ITALIA	1,291	1,291
POLO UNIVERSITARIO ARETINO	510	510
CONAI	23	23
CONSORZIO SVILUPPO PRATACCI	500	500
CONSORZIO TOSCANA LOFT	1,300	1300
FONDAZIONE MADE IN RUSSEL	5,000	5000
Total	**8,624**	**8,624**

Other securities
"Other securities" comprise the residual of the bond loan issued by Jafin S.p.A. of Euro 1,200,000. No changes in this item are reported in the period.

Description	31/12/2018	31/12/2017	Changes
Other securities	1,200,000	1,200,000	0

Changes and maturity of non-current receivables
No long-term receivables of an amount greater than their fair value are recognised to the financial statements.
In accordance with Italian GAAP standard OIC 20, in view of the fact that the loans are mainly short-term and/or with zero or insignificant settlement costs, it was decided to elect not to apply the amortized cost method to receivables recognized before the financial year beginning January 1, 2016, while application of this criterion was considered irrelevant for those arising subsequently.

Description	Non-current receivables from subsidiaries	Non-current receivables from others	Total non-current receivables
Opening balance	**2,118,073**	**257,500**	**2,375,573**
Changes in the year	1,686,778	89,334	1,776,112
Closing balance	**3,804,851**	**346,834**	**4,151,685**
Due within 12 months	3,804,851	100,000	3,904,851
Due beyond 12 months		246,834	246,834

The changes in the year were as follows:

Description	31/12/2017	Acquisitions	Reclassifications	Reductions	31/12/2018
Subsidiaries	2,118,073	1,686,778			3,804,851
Others	257,500		189,334	100,000	346,834
Total	**2,375,573**	**1,686,778**	**189,334**	**100,000**	**4,151,685**

The account comprises:

- Interest-bearing Monnalisa Korea Ltd loan: Euro 100,000;
- Interest-bearing Monnalisa Brazil loan: Euro 700,000;
- Interest-bearing Monnalisa ML Retail loan: Euro 3,004,851;
- Interest-bearing Jafin S.p.A. loan: Euro 100,000;
- Director leaving indemnity policy: Euro 57,500;
- Guarantee deposits: Euro 189,334.

Within financial assets, guarantee deposits concerning rent were reclassified to "Other receivables" for a better, more accurate representation in the balance sheet; they had previously been recognized to item "C.II.5-quater – Receivables from others".

Breakdown of non-current receivables by geographical area
The breakdown of receivables by geographical area is reported in the table below as follows:

Geographical Area	Long-term receivables from subsidiary companies	Long-term receivables from others	Long-term receivables Total
Italy		232,480	232,480
Europe		114,050	114,050
Rest of the world	3,804,851	304	3,805,155
Total	**3,804,851**	**346,834**	**4,151,685**

In accordance with Italian GAAP standard OIC 20, it was decided to elect not to apply the amortized cost method to securities recognized before the financial year beginning January 1, 2016. Accordingly, such securities have been recorded at subscription cost, inclusive of directly attributable ancillary costs. They have not become impaired, nor have they undergone any reversals of impairment losses. No other receivables of an amount greater than their fair value are recognised to the financial statements.
No securities held as fixed assets have been reclassified. The Company regards such securities as long-term investments. This specifically concerned bonds issued by Jafin S.p.A.

C) CURRENT ASSETS

Inventories

Description	31/12/2018	31/12/2017	Changes
Raw material, ancillaries and consumables	2,413,883	2,023,132	390,751
Work-in-progress and semi-finished products	1,672,876	1,618,539	54,337
Finished products and goods	11,025,603	11,212,336	(186,733)
Advances	82,098	68,515	13,583
Total inventories	**15,194,460**	**14,922,521**	**271,939**

Write-downs of inventory was not necessary in view of the fact that finished products from the non-current season are listed at prices in excess of the production cost, both at directly owned and third-party stores.

Current receivables

Changes and maturity of current receivables

Description	31/12/2017	Changes	31/12/2018	Due within one year	Due beyond one year
Current trade receivables	9,091,708	1,422,024	10,513,732	10,513,732	
Current receivables from subsidiaries	3,100,031	2,381,734	5,481,765	5,481,765	
Current tax receivables	3,357,486	(211,249)	3,146,237	3,146,237	
Current deferred tax assets	352,456	4,126	356,582		
Current other receivables	850,084	(356,325)	493,759	493,759	
Total current receivables	**16,751,765**	**3,240,310**	**19,992,075**	**19,635,493**	

Trade receivables are adjusted through a doubtful debt provision and whose movements were as follows:

Description	Total
Balance at 31/12/2017	**704,506**
Utilisation in the period	(62,206)
Provisions	121,897
Balance at 31/12/2018	**764,197**

For the movements in the period of deferred tax assets, reference should be made to the "Deferred tax assets/liabilities" paragraph.

Breakdown of current receivables by geographical area

The geographic breakdown of receivables is reported in the table below as follows:

Region	Current receivables from customers	Current receivables from subsidiaries	Current tax receivables	Current deferred tax assets	Current other receivables	Total current receivables
Italy	5,657,982		3,104,353	356,582	493,239	**9,612,156**
World	3,484,304	5,481,765			520	**8,966,589**
Europe	1,818,513		41,884			**1,860,397**
Outside Europa	317,130					**317,130**
Doubtful debt provision	(764,197)					**(764,197)**
Total	**10,513,732**	**5,481,765**	**3,146,237**	**356,582**	**493,759**	**19,992,075**

Current receivables concerning transactions with the obligation for the return of goods

There were no current receivables concerning transactions with the obligation for the return of goods.

Current financial assets

The account is broken down below and reports the following movements:

Description	Opening balance	Changes in the year	Closing balance
Current derivative financial instruments - Assets	7,667	51,637	59,304
Total current financial assets	**7,667**	**51,637**	**59,304**

Cash and cash equivalents

Description	Opening balance	Changes in the year	Closing balance
Bank and postal deposits	1,524,060	9,414,774	10,938,834
Cash in hand and similar	55,845	(2,862)	52,983
Total cash and cash equivalents	**1,579,905**	**9,411,912**	**10,991,817**

The account reflects the balance of cash and cash equivalents on hand at year-end.
Bank and postal deposits and cheques are valued at realisable value, while cash is valued at nominal value. There are no restricted accounts.
Monetary amounts in foreign currencies are recognised at the exchange rate at the reporting date.

Prepaid expenses and accrued income

They relate to income and charges accounted for on an accruals basis, irrespective of the date of payment or receipt. The accounting policies adopted in the measurement and translation of foreign currency amounts are described in the first part of the present notes.
There are no prepaid expenses and accrued income at 31/12/2018 with a duration of more than five years.

Description	Accrued income	Prepaid expenses	Total prepaid expenses and accrued income
Opening balance		**133,554**	**133,554**
Changes in the year		179,694	179,694
Closing balance		**313,248**	**313,248**

A breakdown follows:

Description	Amount
Maintenance fees	72,582
Rental	77,563
Derivatives	117,625
Hire	4,211
Commercial information	12,169
Insurance	8,222
Consulting	9,652
Other minor amounts	11,224
Total	**313,248**

LIABILITIES

Shareholders' Equity

Description	Opening balance	Allocation of previous year result		Other changes		Profit/(loss) for the year	Value at year-end
		Dividends allocated	Other allocations	Increases	Decreases		
Share capital	2,064,000			7,936,000			10,000,000
Share premium reserve				9,063,125			9,063,125
Revaluation reserve	2,959,446						2,959,446
Legal reserve	943,276						943,276
Other reserves	51,575						51,575
Cash flow hedge reserve	(23,275)			67,734			44,459
Retained earnings	22,138,102		2,907,605				25,045,707
Net profit (loss) for the year	2,907,606		(2,907,605)			3,290,556	3,290,556
Total Shareholders' Equity	**31,040,730**		**0**	**17,066,859**		**3,290,556**	**51,398,144**

Availability and utilisation of shareholders' equity

The Shareholders' Equity accounts are divided by origin, the possibility of utilisation, distribution and any utilisation in the previous three years (Article 2427, first paragraph, No. 7 bis of the Civil Code)

Description	Amount	Origin / Nature	Possibility of utilisation	Available amount
Revaluation reserve				
Legal reserve	9,063,125	A,B,C,D		
Statutory reserves	2,959,446	A, B		2,959,446
Other reserves	943,276	A, B		
Cash flow hedge reserve	51,575			51,575
Retained earnings	44,459	A, B, C, D		
Negative reserve for treasury shares in portfolio	25,045,707	A, B, C, D		25,045,707
Total	**48,107,588**			**28,056,729**
Non-distributable amount				
Residual distributable amount				28,056,729

Key: A: for share capital increase B: for coverage of losses C: for distribution to shareholders
D: for other statutory restrictions E: other

Origin, possibility of use and distribution of miscellaneous other reserves

Description	Amount	Possibility of utilisation	Available amount
13) Provision as per Law 28/1977	51,576	A,B,C,D	51,576
Difference from Euro rounding	(1)	A,B,C,D	
Total	**51,575**		**51,575**

Key: A: for share capital increase B: for coverage of losses C: for distribution to shareholders
D: for other statutory restrictions E: other

Changes in cash flow hedge reserve

The movements in the cash flow hedge reserve were as follows (Article 2427 bis, paragraph 1, No. 1 b) quater).

Description	Cash flow hedge reserve
Opening balance	**(23,275)**
Increases due to fair value changes	67,734
Closing balance	**44,459**

Formation and utilisation of the equity accounts

Description	Share capital	Legal reserve	Reserve	Net Result	Total
At the beginning of the previous year	**2,064,000**	**943,276**	**22,512,216**	**2,495,578**	**28,015,470**
Other changes					
- Increases			2,732,889	2,907,606	5,640,495
- Decreases			(119,257)	(2,495,978)	(2,615,235)
Prior year result				2,907,606	
At the end of the previous year	**2,064,000**	**943,276**	**25,125,848**	**2,907,606**	**1,040,730**
Other changes					
- Increases	7,936,000		12,038,434	3,290,556	3,264,990
- Decreases				(2,907,606)	(2,907,606)
Result for the year				3,290,556	
At the end of the year	**10,000,000**	**943,276**	**37,164,312**	**3,290,556**	**51,398,114**

In accordance with accounting standard No. 28 on Shareholders' Equity, revaluation reserves of Euro 2,959,446 are reported. There are no statutory reserves.
The revaluation reserves only comprised the reserve as per Legislative Decree 185/2008 for Euro 2,959,446.
The shareholders' equity includes:

- Euro 9,063,125, as share premium reserve recognised on the share capital increase following the listing process;
- reserves or other provisions which in the event of distribution form assessable income of the company comprise the Provision as per Law 28/77 for Euro 51,575 and the above-stated revaluation provision as per Legislative Decree 185/2008;
- reserves or other provisions, which in the event of distribution, do not form assessable income for shareholders, independent of the period of formation, comprising profits as per s.n.c for Euro 128.

Provisions for risks & charges

Description	Pensions and similar obligations	Provision for taxation, including deferred tax liabilities	Derivative financial instruments - liabilities	Other provi-sions	Total provisions for risks and charges
Opening balance	**59,621**	**58,658**	**38,292**	**522,855**	**679,426**
Provisions	9,116	243,244		78,000	330,360
Utilisation in the year	14,480	45,059	38,292		97,831
Total changes	(5,364)	198,185	(38,292)	78,000	232,529
Closing balance	**54,257**	**256,843**		**600,855**	**911,955**

Provisions for risks and charges are recorded in respect of certain or probable losses or payables, the amount or due date of which could not be determined at the reporting date.
These provisions have been measured in accordance with the prudence and accruals concepts and no provision has been made for matters without any economic justification.
The contingent liabilities reflected in these provisions are probable and may be estimated with reasonable accuracy.
This item comprises that provisioned:

- to the Agent's indemnity provision of Euro 54,257;
- to the Environmental restoration/reclamation provision for Euro 176,855, set up in 2014 and considered appropriate as per OIC 16;
- product return charges provision for Euro 244,000, set up in accordance with the joint application of the prudence and matching principles, given that the goods are returned by the preparation date of the financial statements and result in a contraction in revenues;
- to the losses coverage reserve provision of investees for Euro 180,000, as stated previously.

Tax provisions also include Deferred tax liabilities of Euro 256,843 concerning temporary assessable differences. For a description of these amounts, reference should be made to the relative paragraph of the present notes.

Employee termination indemnities

Description	Employee termination indemnities
Opening balance	**1,426,921**
Provisions in the year	269,781
Utilisation in the year	89,279
Total changes	180,502
Closing balance	**1,607,423**

This provision represents the Company's actual liability at December 31, 2018 towards employees in service at that date, less any advances paid in accordance with applicable law and labour agreements, taking into account all forms of remuneration of an ongoing nature, less advances disbursed, and is equal to the sum that would have been due to the employees had their employment been severed on the date concerned.
The provision does not include indemnities matured from January 1, 2008, allocated to supplementary pensions as per Legislative Decree No. 252 of December 5, 2005 (or transferred to the INPS treasury fund). The provision is the total of the individual indemnities until December 31, 2016 accruing in favour of employees at the balance sheet date, net of advances paid.
Employee termination indemnities with payment due before December 31, 2018 or by the following year were recorded to the account D.14 of the balance sheet under other payables.
The applicable labour agreement provides that workers with at least eight years' seniority of service may apply to their employer for an advance not to exceed 70% of the benefits to which they would be entitled in the event of severance of employment on the requested date. Such requests are contingent on the employee being required to incur significant expenses for healthcare, the purchase of a first home or themselves or their children, expenses relating to maternity leave or education. Where possible, Monnalisa provides an advance to all those requesting post-employment benefits, also in higher percentages.

Payables

Payable maturities are as follows (Article 2427, first paragraph No. 6 of the Civil Code).

Description	Opening balance	Changes in the year	Closing balance	Due within one year	Due beyond one year	Of which beyond 5 years
Bank payables	12,477,718	795,074	13,272,792	5,902,497	7,370,295	
Advances	838,370	32,917	871,287	871,287		
Trade payables	8,831,630	(1,161,519)	7,670,111	7,670,111		
Payable due to subsidiaries	263,160	1,036,945	1,300,105	1,300,105		
Tax payables	564,975	(240,012)	324,963	324,963		
Payables due to social security institutions	395,380	96,923	492,303	492,303		
Other payables	1,189,680	43,532	1,233,212	1,145,408	87,804	
Total payables	**24,560,913**	**603,860**	**25,164,773**	**17,706,674**	**7,458,099**	

In detail:

- "Payables due to banks" include loan payments and reflecting the effective debt in terms of principal, interest and other ancillary charges matured and due at 31.12.2018;
- "Advances" include payments received for the provision of goods not yet supplied;
- "Trade payables" are recorded net of commercial discounts; cash discounts are recorded on payment;
- "Tax payables" includes only definite tax liabilities, net of the relative advances, as the liabilities for probable income taxes or where the amount or the date of payment is uncertain, in relation to deferred tax liabilities, are recorded in account B.2 under liabilities (Deferred tax liabilities); these overall amount to Euro 324,963; in particular, the value includes withholdings for employees and contractors, duly paid-in 2019;
- "Other payables" mostly concern accrued commissions payable to agents of Euro 332,205, deferred amounts and additional months payable to employees of Euro 829,695, duly settled in 2019, and amounts due in connection with the end of service of the previous board of directors of Euro 67,500.

No transactions giving rise to the obligation to return goods were undertaken, nor do payables to shareholders for loans to be settled according to set maturities and subordination clauses exist.
The account did not change significantly.
Over the final months of 2018, a mortgage of Euro 5,000,000 was drawn down with the bank Unicredit for the completion of the new building adjacent to the company's offices and for the settlement of the bridge loan which was granted with the same purpose in the initial investment phase.

Breakdown of payables by geographical area

The geographical breakdown of payables at 31/12/2018 is as follows.

Region	Bank payables	Advances	Trade payables	Payables to subsidiaries	Tax payables	Social security institutions	Other payables
Italy	13,272,793	6,431	6,574,138		285,189	475,272	1,233,212
Europe		280,683	163,784		39,774	17,031	
Outside Europe		36,592	(1,767)				
World		547,581	933,956	1,300,105			
Total	**13,272,793**	**871,287**	**7,670,111**	**1,300,105**	**324,963**	**492,303**	**1,233,212**

Accrued liabilities and deferred income

Description	Accrued liabilities	Total accrued liabilities and deferred income
Opening balance	**1,135**	**1,135**
Changes in the year	35,162	35,162
Closing balance	**36,297**	**36,297**

A breakdown follows:

Description	Amount
UK rates (rent rates)	36,297
Total	**36,297**

The account relates to costs and revenues recorded in accordance with the accruals principle.
The criteria adopted for the measurement and translation of amounts recorded in foreign currencies are described in the first part of the present notes.
There are no accrued liabilities and deferred income at 31/12/2018 with a duration of more than five years.

Other Information

Workforce
The changes in the workforce from the preceding year were as follows.

Workforce	31/12/2018	31/12/2017	Changes
Executives	1	0	1
Managers	5	3	2
White-collar workers	150	142	8
Blue-collar workers	37	33	4
Total	**193**	**178**	**15**

For the workforce dedicated to retail (sales employees and store managers), the national contract applicable is the commercial contract renewed on April 1, 2015. For the remaining collaborators, the work contract applied is that of the textile-clothing industry, formally renewed by the trade unions Filctem-Cgil, Femca-Cisl, Uiltec-Uil, together with SMI (Sistema Moda Italia), the Italian association of textile businesses belonging to Confindustria, of February 4, 2014, running from April 1,2013-March 31, 2016 and currently subject to further renewal.

Workforce	Average employees
Executives	1
Managers	4
White-collar workers	145
Blue-collar workers	37
Total	**187**

Remuneration, advances and receivables granted to directors and statutory auditors and commitments undertaken on their behalf

In accordance with current legislation, total remuneration payable to the Directors and the members of the Board of Statutory Auditors is indicated below.

Description	Directors	Statutory Auditors
Remuneration	479,054	39,079

Independent auditors' fees
The fees pertaining to this year for services provided by the independent auditor to the group for the audit of the Parent Company of Euro 73,000, of which Euro 41,000 for the statutory audit of the separate and consolidated financial statements, Euro 22,000 for the limited audit of the first interim consolidated financial statements at and for the period ended June 30, 2018 and the related audit of the comparative period, and Euro 20,000 for the issuance of comfort letters on the financial data in the Admission Document.

Classes of shares issued by the company
The share capital is composed of:

Shares	Number	Nominal value in Euro
Ordinary shares	5,236,300	10,000,000
Total	**5,236,300**	**10,000,000**

Description	Shares subscribed in the year, number	Shares subscribed in the year, nominal value	Opening amount, number	Closing amount, number	Opening amount, nominal value	Closing amount, nominal value
Shares	1,236,300	7,936,000	4,000,000	5,236,300	2,064,000	10,000,000
Total	**1,236,300**	**7,936,000**	**4,000,000**	**5,236,300**	**2,064,000**	**10,000,000**

Securities in circulation at the reporting date exclusively comprise 5,236,300 ordinary shares.

Information relating to the fair value of derivative financial instruments
Derivative financial instruments are only used for the hedging of financial risks related to exchange rate fluctuations on commercial transactions in foreign currency or for the hedging of interest rate risk in the case of medium/long-term debt. In this regard, reference should be made to the first part of these notes for the accounting policies.
The fair value and information on the entity and nature of each category of derivative financial instruments issued by the company are detailed below. These are sub-divided by class taking into account the characteristics of the instruments and their purpose.
The hedging operations at December 31, 2018 with financial counterparties comprise:

Interest Rate Cap

Interest Rate Cap (1)	
Contract ID	11175923
Date of the operation	21/10/2017
Counterparty	Unicredit S.p.A.
Maturity Date	29/10/2021
Notional Amount	Euro 2,000,000
Premium	Euro 15,000
Bank Parameter Rate	Euribor 3 months
Client Parameter Rate	Euribor 3 months
Rate Cap	0%

At 31/12/18, the mark to market of the transaction was euro + 1,000.16.

Interest Rate Cap (2)	
Contract ID	12677683
Date of the operation	21/12/2018
Counterparty	Unicredit S.p.A.
Maturity Date	31/12/2026
Notional Amount	Euro 5,000,000
Premium	Euro 107,000
Bank Parameter Rate	Euribor 6 months
Client Parameter Rate	Euribor 6 months
Rate Cap	1%

At 31/12/18, the mark to market of the transaction was Euro + 58,303.06.

Off balance sheet commitments, guarantees and contingent liabilities
There are no off-balance sheet commitments, guarantees or potential liabilities except for the mortgage guarantee already described above.

Information on equity and loans allocated to a specific business
At the reporting date, no equity or loans allocated to a specific business purpose are reported.

Information on related party transactions
With regards to transactions carried out with related parties, reference should be made to the Report on operations.

Off-balance sheet agreements
No significant off-balance sheet agreements as per No. 22-ter of Article 2427 of the Civil Code are reported.

Proposal to allocate profits or for the coverage of losses
A proposal will be made to the Shareholders' Meeting concerning the result as follows:

2018 Net Profit	Euro	3,290,556
5% to the legal reserve	Euro	165,000
To the non-distributable reserve For Exchange diffs.	Euro	137,611
To increase retained earnings	Euro	2,987,945

These Explanatory Notes were prepared in accordance with the Civil Code and the accounting policies. In compliance with the publication obligations of the companies registration office, once approved, they will be converted into XBRL format; they may therefore be subject to some formal changes in order to make the notes compatible with the format required for filing.
These financial statements, consisting of the balance sheet, income statement, the explanatory notes thereto and the cash flow statement, present a true and fair view of the Company's financial position and results of operations for the year and correspond to the underlying accounting records.

Chairman of the Board of Directors
Piero Iacomoni

REPORT OF THE BOARD OF STATUTORY AUDITORS TO
THE SHAREHOLDERS' MEETING

Statutory financial statements at 31.12.2018

To the Shareholders' Meeting of the company Monnalisa S.p.A.

INTRODUCTION
It is firstly stated that your company has assigned the Board of Statutory Auditors only oversight activities, while the legal audit of accounts has been assigned to the independent audit firm EY S.p.A.;
on this basis, we report upon our activities for the year ended December 31, 2018.

REPORT
During the year ended on December 31, 2018, in consideration of the fact that Monnalisa spa shares are currently listed on the AIM Italia market, our activity arises from the legal provisions and the Rules of Conduct of the Board of Statutory Auditors issued by the National Board of Chartered Accountants and Accounting Experts (Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili), taking account also of the recommended rules for listed companies, as suggested in the introductions thereto and assessing, as applicable, also in relation to the ownership structure and the individual transactions, the opportunity for aligning thereto, even where not expressly applicable to companies listed on the AIM alternative market and in respect of which we carried out a self-assessment, with a positive outcome, for each member of the Board of Statutory Auditors.

1) Oversight activities pursuant to Art. 2403 and following, of the Italian Civil Code
We have verified compliance with law and the company By-Laws and with the principles of correct administration.
We attended the Shareholders' Meetings and the Board of Directors Meetings and based on the available information we did not note any violations of law or the Company By-Laws, nor transactions which were imprudent, risk related, in potential conflict of interest or such as to compromise the integrity of the company assets.
We received from the Directors during the meetings information on the general performance and on the outlook, as well as on the most significant operations, in terms of size or nature, carried out by the Company and its subsidiaries and based on the information acquired we do not have any matters to report.
We reviewed the report of the Supervisory Board and noting their reports and with whom we also met, we do not indicate any critical issues with regards to the correct implementation of the organisational model to be reported herein.
We acquired knowledge and reviewed, within the ambit of our role, the adequacy and functioning of the organisational structure of the company, also through collecting information from the managers of the functions, and in relation to this there are no matters to report upon.
We acquired knowledge and reviewed, within the scope of our role, the adequacy and functioning of the administrative-accounting system, in addition to the reliability of this latter to correctly represent operating events, through obtaining information from the department managers and the review of company documents, and in this regard we do not have any observations to report.
We verified compliance with law regarding the preparation of the Directors' Report and in this regard we do not have particular observations to report.
No petitions as per Article 2408 of the Civil Code were received.
During the year, the Board of Statutory Auditors did not issue any legally-required opinions.
We supervise, to the extent of our scope, compliance with the Related parties' transactions policy with the applicable regulation and the AIM regulation, also with regards to the verification of the application of market conditions.
The Board of Statutory Auditors did not note any atypical and/or unusual transactions with Group companies, third parties or with related parties.
The above oversight activities were carried out through 9 Board of Statutory Auditors meetings and 15 Board of Directors' meetings, in addition to 2 Shareholders' Meetings.
During 2018, no situations in which the statutory auditors, on their own behalf or on behalf of third parties, had an interest in the execution of a certain transaction, were verified.
During the verifications as described above, no other significant matters emerged meriting mention in this report.

2) Observations on the statutory financial statements
The statutory financial statements were communicated to us in accordance with law, together with the Directors' Report and were prepared in accordance with Italian GAAP.
As our task is not to perform the legally-required audit, we verified the general preparation of the data, the general conformity to law in relation to the formation and structure - upon which there are no particular matters to report.
To our knowledge, the Directors did not make recourse to any exceptions as permitted by Article 2423, paragraph 4 of the Civil Code.
In accordance with Article 2426, No. 5 of the civil code, we expressed our agreement with the recognition to assets of start-up and expansion costs for Euro 1,336,196.
Under art. 2426, no. 6, of the civil code we expressed our consent to the inclusion of Euro 643,536 in the assets section of the balance sheet for goodwill.

Consolidated Financial Statements
The Board of Statutory Auditors notes that the company prepared the consolidated financial statements, submitting them for the legal audit of the Independent Audit Firm EY S.p.A.
The Board of Statutory Auditors carried out on the consolidated financial statements and the consolidated Directors' Report the same oversight activities as for the statutory financial statements, in particular overseeing, to the extent of its remit, compliance with law and the By-Laws and the correct definition of the consolidation scope and in this regard we do not have particular observations to report.

3) Observations and proposals regarding the approval of the financial statements
Considering also the results of the activities carried out by the independent audit firm EY S.p.A. on the legal audit contained in the report as per Article 14 of Legislative Decree No. 39 of January 27, 2010, issued today, which does not highlight issues regarding significant deviations, or negative opinions or an impossibility to express an opinion or a call for information, with therefore a positive opinion issued, the Board of Statutory Auditors proposes to the Shareholders' Meeting approval of the statutory financial statements at December 31, 2018, as prepared by the directors.
The Board of Statutory Auditors agrees with the net profit allocation proposal of the directors stated in the Explanatory Notes.

Arezzo, 13.04.2019
The Statutory Auditors:
Badiali Micaela
Nardi Gabriele
Sgrevi Susanna

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Monnalisa S.p.A.

Financial statements as at December 31, 2018

Independent auditor's report in pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010

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Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010
(Translation from the original Italian text)

To the Shareholders of
Monnalisa S.p.A.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Monnalisa S.p.A. (the Company), which comprise the balance sheet as at December 31 2018, the income statement and cash flows statement for the year then ended, and explanatory notes.
In our opinion, the financial statements give a true and fair view of the financial position of the Company as at December 31 2018, and of its financial performance and its cash flows for the year then ended in accordance with the Italian regulations governing financial statements.

Basis for Opinion

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

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

The Directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with the Italian regulations governing financial statements, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Directors are responsible for assessing the Company's ability to continue as a going concern and, when preparing the financial statements, for the appropriateness of the going concern assumption, and for appropriate disclosure thereof. The Directors prepare the financial statements on a going concern basis unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.
The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Company's financial reporting process.

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Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated 27 January 2010

The Directors of Monnalisa S.p.A. are responsible for the preparation of the Report on Operations of Monnalisa S.p.A. as at December 31 2018, including its consistency with the related financial statements and its compliance with the applicable laws and regulations.

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We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations, with the financial statements of Monnalisa S.p.A. as at December 31 2018 and on its compliance with the applicable laws and regulations, and in order to assess whether it contains material misstatements.

In our opinion, the Report on Operations is consistent with the financial statements of Monnalisa S.p.A. as at December 31 2018 and comply with the applicable laws and regulations.

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

Firenze, April 13 2019

EY S.p.A.
Signed by: Lorenzo Signorini, partner

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

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