Albini GROUP

ANNUAL REPORT 2018

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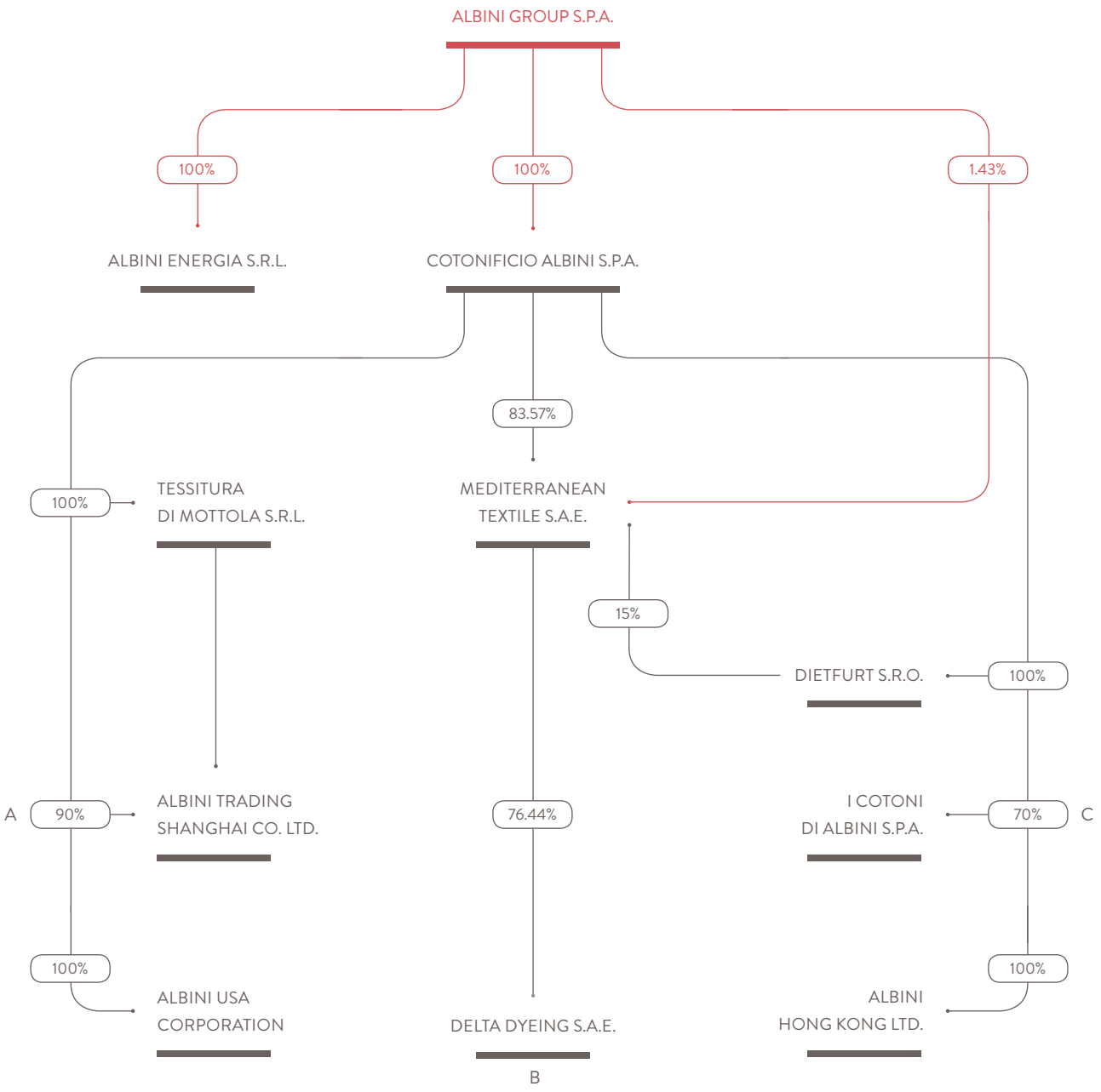
DIRECT PRESENCE WORLDWIDE

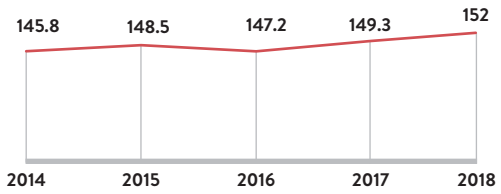
GROUP STRUCTURE AS AT 31.12.2018



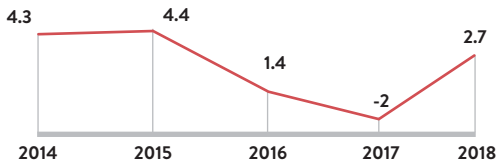
A Essence Trading Co. Ltd. 10%
B Setcore Spinning 11,31% - Alba Albin Breitenmoser Holding AG 12,25%
C Modern Nile Cotton Co. 30%

ECONOMIC AND FINANCIAL INDICATORS

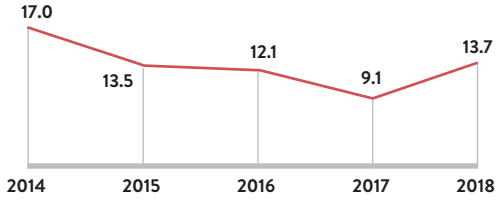
NET REVENUE
(in millions of euro)



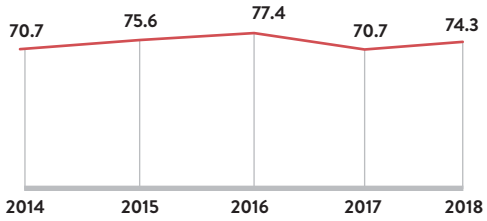
NET INCOME
(in millions of euro)



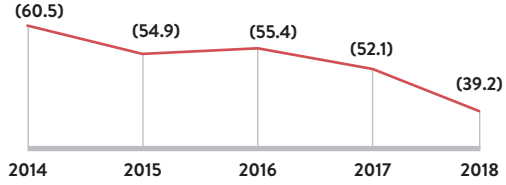
EBITDA
(in millions of euro)



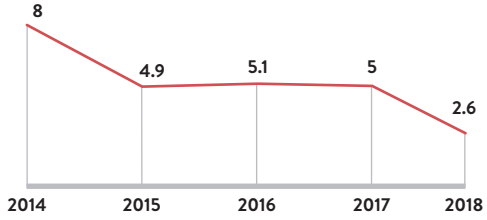
CONSOLIDATED SHAREHOLDERS' EQUITY
(in millions of euro)



NET FINANCIAL POSITION
(in millions of euro)



INVESTMENTS
(in millions of euro)



ALBINI GROUP S.P.A. - CORPORATE BODIES

BOARD OF DIRECTORS*

CHAIRMAN	Fabio Albini
DIRECTORS	Andrea Albini Giovanni Albini Giovanni Carlo Albini Laura Albini Monica Albini Stefano Albini Elena Guffanti Pesenti Marino Guffanti Pesenti

BOARD OF STATUTORY AUDITORS

CHAIRMAN	Danilo Arici
STATUTORY AUDITORS	Lorenzo Gelmini Fabrizio Lecchi
SUBSTITUTE AUDITORS	Maria Speranza Crippa Laura Bertacchi

EXTERNAL AUDITOR

KPMG S.P.A.

COTONIFICIO ALBINI S.P.A. - CORPORATE BODIES

BOARD OF DIRECTORS**

CHAIRMAN	Stefano Albini
DIRECTORS	Fabio Albini Andrea Albini Giovanni Carlo Albini Leonardo Mangili GIUSEPPE E ANTONIO S.R.L.S. (in the person of Mr Tamburini Fabio)

BOARD OF STATUTORY AUDITORS

CHAIRMAN	Danilo Arici
STATUTORY AUDITORS	Lorenzo Gelmini Fabrizio Lecchi
SUBSTITUTE AUDITORS	Maria Speranza Crippa Laura Bertacchi

EXTERNAL AUDITOR

KPMG S.P.A.

*Nominated on 25/05/2017 - term of office until approval of the financial statements as at 31/12/2019

**Nominated on 13/09/2018 - term of office until approval of the financial statements as at 31/12/2020

Andrea Albini

Fabio Albini

Stefano Albini

OUR MISSION

SINCE 1876 OUR COMMITMENT AND AMBITION HAS BEEN TO CREATE THE MOST BEAUTIFUL FABRICS FOR SHIRTS IN THE WORLD

OUR VALUES:

INNOVATION - PRODUCT EXCELLENCE - SERVICE THAT CREATES VALUE - BRAND IDENTITY - FAMILY AND TERRITORY - SUSTAINABILITY

We design and manufacture our products for the International market, guaranteeing the style, innovation and quality that distinguish the Made in Italy brand.

In memory of Silvio Albini Cavaliere del Lavoro, director and historic president of Cotonificio Albini S.p.A.
He was a valuable, sensitive, determined and innovative entrepreneur, an ambassador of Italian excellence in the textile business. In his memory, the Albini Group continues to pursue the pathway he once set out, with all the pride, passion and respect for what he created along with a view to continuous improvement.

THE PRESIDENT'S LETTER

2018 was a year of substantial changes for the Albini Group. The passing of Silvio Albini, which hit the company at a time that was rather difficult for the market in which the Group was engaged in important productivity recovery processes, inevitably led to a strong assumption of responsibility throughout the entire corporate set-up. We have made key decisions, in some cases courageous and innovative. We acted in a swift and coordinated manner in reorganising the governance of Cotonificio Albini with the introduction of a new CEO and the entry of new managers. We set ourselves challenging goals, overcoming this difficult moment with great energy, passion and cohesion.

This year our Group was able to tap into the positive propensity of Consumers to purchase textile products. We achieved a turnover of €152 million, showing a 2% growth in line with our forecasts. EBITDA rose by 50%, reaching €13.7 million, equal to 9% of turnover. The financial position dropped by 25% compared to the previous year, with a financial debt to shareholders' equity ratio of a positive 0.5.

In a year of investments focused on product and process innovation, the Group accomplished important results in the use of new natural and performing raw materials. We thereby continued the strategy of further enhancing our product range, which today includes, in addition to shirt fabrics, other key categories such as overshirts, jackets and trousers. The sales results will be fully achieved in 2019.

The products we design, conceive and manufacture, the partners we choose and the way in which we work, guarantee our Customers consistent and ultimate excellence, intended as a corporate culture that is handed down and transformed from generation to generation.

In this continuous search for innovation, the collaboration and stimulation of many Customers in a relationship of real and fruitful partnership plays a key role.

We also continued our focus on the issue of ethical and environmental sustainability, which for us represents a corporate lifestyle that has distant roots and is dedicated to ensuring correct conditions for the future of the generations to come, with an awareness of identity and corporate and personal commitment on the part of all of us.

To conclude, I would like, once again, to thank our stakeholders and in particular all our collaborators who contributed to achieving this year's excellent results. We must now face new important challenges. The significant market slowdown that occurred in the first few months of 2019 is a symptom of a highly uncertain and inverse macroeconomic and geopolitical situation in many industrial sectors, along with a drop in consumptions mainly on the international reference markets. We therefore strive to continue our process of improving the efficiency of our industrial structure and investing in product innovation, in partnership with our Customers.

Best regards to all

The President of Cotonificio Albini S.p.A

(Mr Stefano Albini)

142 YEARS OF SUCCESSES

1876

Zaffiro Borgomanero founds the company "Z. Borgomanero & C." in Desenzano sul Serio, in the borough of Albino (Bergamo - Italy).

1890

Giovanni Albini, grandson of Zaffiro Borgomanero, inherits the company and establishes itself on the local economy scene.

1919

His children, Riccardo and Silvio, respectively inherit the spinning mill, Industrie Riunite Filati, and the weaving mill, which took the name of "Dr. Silvio Albini & C.".

1930

New forms of organization and large investments in production facilities make it possible to face the 1929 crisis with a positive outcome.

1962

Installation of a new weaving room. The company management is handed down to the fourth generation: Giancarlo, Marino, Piero and Gianni.

1984-1990

Gradually enters the company the fifth generation of the Albini family, composed of Silvio, Stefano, Fabio and Andrea. In these years a great international development begins, accompanied by important investments for the modernization of the productive structure.

1992

Three historic British brands are taken over: Thomas Mason, David & John Anderson and Ashton Shirtings, along with a historical archive of over 700 volumes.

1996

The path of vertical integration starts with the acquisition of the finishing plant of Brebbia (North of Italy).

It is during these years that the Albini Group starts to take shape. Manifattura di Albiate and Dietfurt S.r.o. (in Czech Republic) are purchased. In 2003, the production site in Mottola (South of Italy), an exceedingly modern facility for fabric preparation and weaving was inaugurated.

2000-2006

The new Logistics Centre is built in Gandino (Bergamo-Italy), which also carries out final controls and chemical-physical tests on finished fabrics.

2008

2009-2010

The Mediterranean Textile weaving mill and the Delta Dyeing dye facility in Egypt become operational. In 2010 Albini Group begins the innovative project of cultivation of the finest cotton in Egypt called Giza 87 and Giza 45.

Albini Energia and I Cotoni di Albini are established and Albini Donna is born: a collection dedicated to the female universe.

2012

2011

Albini Trading Shanghai is founded and the finished fabric laboratory of the Group receives the prestigious ACCREDIA accreditation.

Albini Group becomes an increasingly global reality and opens two new sales offices, one in Hong Kong and one in New York.

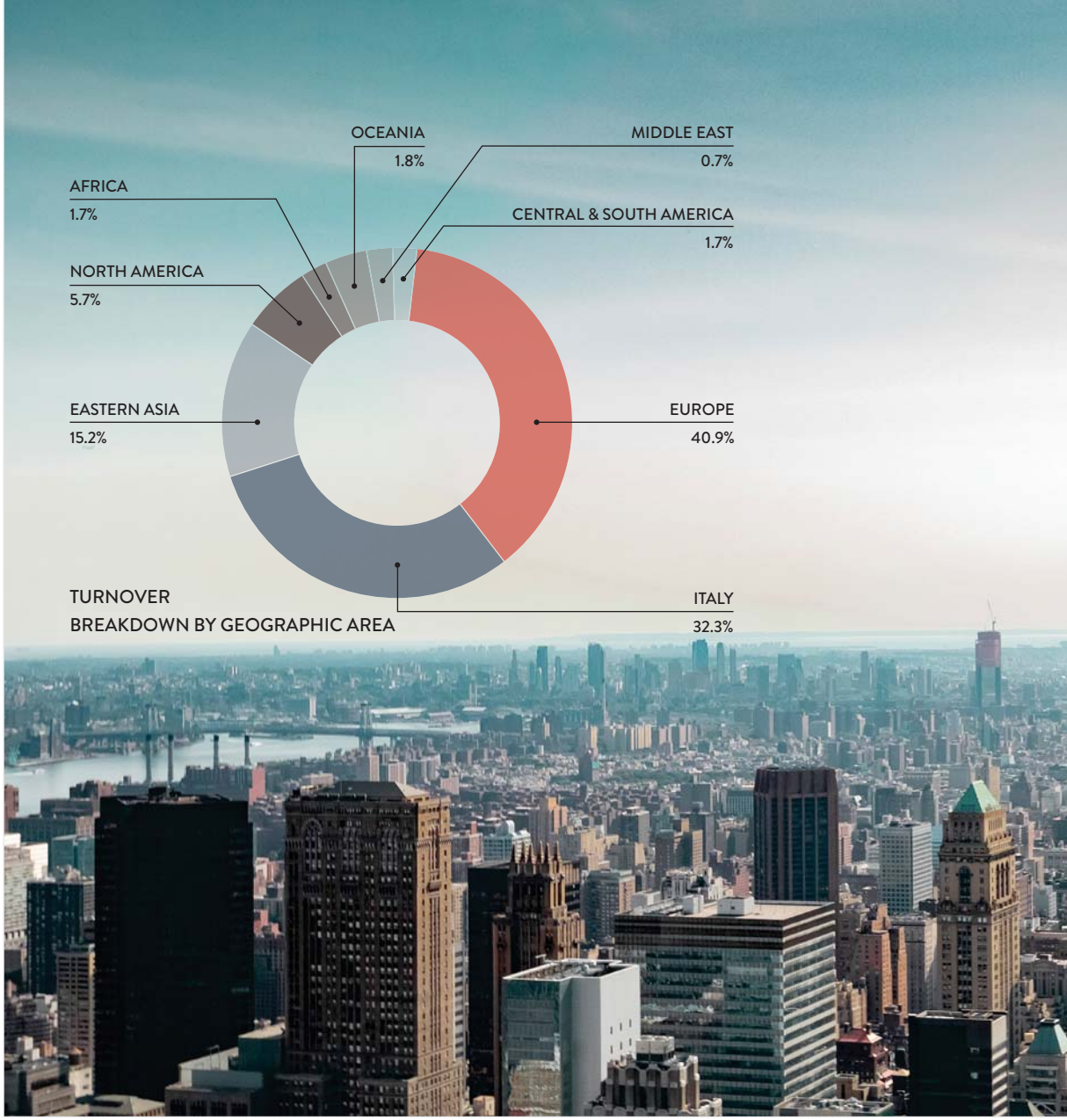
2013-2014

2017

The company invests in digital media through influencer marketing projects and launches the "Fabric Butler by Albini Group" app.

2018

In January the memorable President Silvio Albini suddenly dies. Stefano becomes the new President. The Brebbia production site is awarded ISO 14001:2015 environmental certification and the “Traceable Fashion” project is born, in collaboration with Oritain.



INTERNATIONALISATION

MADE IN ITALY, GLOBAL STRATEGY

Italian roots and an International vocation: this is the key to the success of the Albini Group which, in 2018, directly exported 68% of its turnover to 80 countries worldwide. An internationalisation strategy with a global approach that, starting from local investments and attention, allows the Group to anticipate and respond more efficiently to the demands of each individual market. The Made in Italy quality of the Albini Group, along with the services provided, continue to be highly appreciated and sought after, making the Group a highly desired industrial partner whilst demonstrating continued growth in awareness and attention to the values that Albini Group fabrics represent in the world: quality, creativity, excellence and innovation.

The internationalisation strategy pursued in 2018 saw the consolidation of the Albini Group in the high and medium-high end of the Italian market, accounting for 32% of total turnover. The European continent confirmed itself as the reference market for Albini Group which, thanks to strategic interventions of growth and penetration within specific Countries and segments, accounted for 40.9% of total turnover. 2018 also saw the consolidation of the Group's presence in North America and in the Middle East and accomplished exceptional levels of penetration in the increasingly important markets of Africa, Central and South America and Asia.

HUMAN RESOURCES AND TRAINING

THE VALUE OF HUMAN RESOURCES

The corporate vision adopted by the Albini Group reflects a strong interest in equal opportunities, multiculturalism and family. As far as the Group is concerned, each and every collaborator has a unique value, which must be protected and encouraged so that each individual is able to fulfil and accomplish corporate and personal goals.

Valorisation of skill-sets

In line with the principle of valorising talents and skill-sets, each year Albini Group invests in its collaborators, offering the possibility of attending highly specialised courses. In 2018 a young new employee completed a Master Degree in Technology and Processes of the Textile Supply Chain at the University of Bergamo and a second resource attended the Postgraduate Course in Digital Media Marketing. 2018 saw the continuation of the "Albini Academy", a study pathway on fabric design techniques for the style and product development offices. The usual language and vocational training courses also took place during the year.

Safety, protection and well-being

Strict standards of ethical conduct which promote the safety, health and well-being of all workers are endorsed and respected throughout all our facilities. The training and the raising of awareness of the various professional figures on procedures and organisation of safety conditions continued in 2018. The company has always paid particular attention to safety and ergonomics, as well as the reduction of manual operations. Also in 2018 this commitment led to a consistent decrease in the number of total injuries that occurred within the Group's plant facilities.

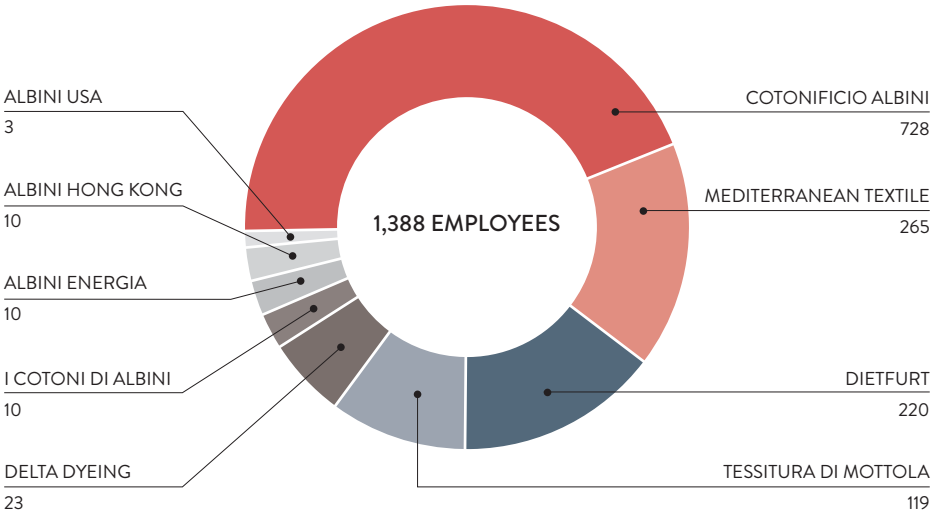
The importance of collaboration

Albini Group believes in the work and talent of future generations and in the excellence of Italian fashion schools. For this reason it collaborates every year with the top institutes and universities in the area, offering training courses, vocational courses and taking part in the initiatives organised by the same. Once again the collaborations with MAFED, Master in Fashion, Experience & Design Management of the Bocconi University and with the Biella Master of Noble Fibres were renewed this year. New collaborations were also inaugurated with the Bocconi University Summer School and the Marangoni Institute in Milan. Collaborations also continued with the technical institutes in the area, encouraging the orientation of youngsters towards the textile sector.

A bridge to the future

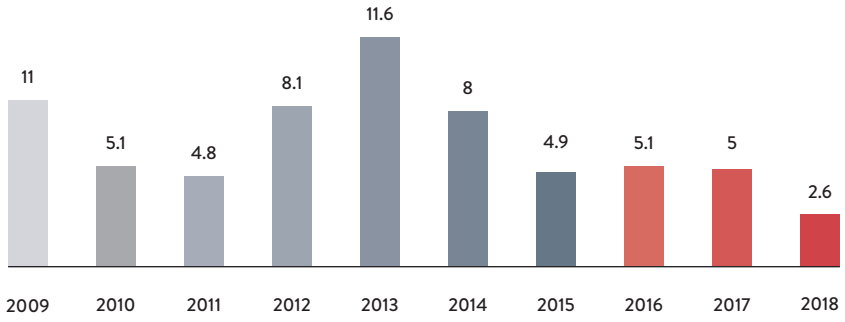
Albini Group invests in youngsters with the objective of discovering new talents, enhancing their growth path and strengthening relationships between the company, schools and universities across Italy. In fact, the professional growth of youngsters is a key priority for the Group and, in 2018 alone, 33 internships were offered of a curricular, extracurricular and school-work alternation type.


I made your fabric
#IMADEYOURCLOTHES
FASHIONREVOLUTION.ORG


1,388 EMPLOYEES
ALBINI USA
3
ALBINI HONG KONG
10
ALBINI ENERGIA
10
I COTONI DI ALBINI
10
DELTA DYEING
23
COTONIFICIO ALBINI
728
MEDITERRANEAN TEXTILE
265
DIETFURT
220
TESSITURA DI MOTTOLA
119

INVESTMENTS IN 2018
FOR A STATE-OF-THE-ART COMPANY

Albini Group brought 2018 to a close with a 2% increase in turnover compared to the previous year and a significant improvement in margins. The improvement in the economic and financial indicators was the result of an exceptionally well-structured investment plan, which rendered production more efficient and allowed the Group to continue to guarantee superior quality standards and services to increasingly demanding Clients and Consumers. Albini Group has always believed in the importance of continuous investments both in terms of plant and production facilities as well as in Research and Development. The investments made by the Group during 2018 amounted to 2.6 million euros, intended for works to modernise the plants and machineries used within the Group's production facilities, to upgrade IT tools and purchase new softwares. To these investments have to be added more than 4 million euros of resources allocated to the R&D function, with the aim of studying and obtaining new solutions that can guarantee the Company a competitive advantage on the market. Albini Group has adopted a global investment plan, which involves every single area of the Group and allows the Company to maintain its leadership position in the textile sector.



INVESTMENT PERFORMANCE (million Euro)

SUSTAINABILITY
A GLOBAL APPROACH

Since 1876 the commitment of Albini Group has been to offer Customers superior quality fabrics, while protecting the environment and safety, contributing to the welfare of employees and the communities in which it operates. Fully aware that "textiles and clothing" is a particularly exposed sector in terms of environmental impact, the Albini Group adopted some years ago a policy that is focused on accomplishing sustainability and continuous improvement.

A process based on continuous improvement

2018 was a particularly important year for the Group regarding sustainability aspects which, in addition to continuing the path undertaken in previous years, was also obtained ISO 14001:2015 Environmental Management System Certification for the Brebbia production site, it became contributor to ZDHC and set up Sustainable Fashion, a project of international importance launched in collaboration with Oritain and Supima.

ISO 14001:2015

In November 2018 the Brebbia production site obtained ISO 14001:2015 Environmental Management System Certification, providing the company with a reference framework for environmental protection and responding to the changing requirements at an institutional, social and competitive level. The Environmental Certification of this production site, which focuses in particular on the monitoring of water and electricity consumptions in the finishing process and on the correct management of chemical substances, fits perfectly within the Group's strategy towards an increasingly sustainable development, achieved by implementing significant investments in the various plant facilities.

ZDHC

Albini Group has become an official ZDHC (Zero Discharge of Hazardous Chemicals) contributor, the NGO that aims to protect the health and environment of Consumers, workers and the territory, thanks to a management system of all chemical substances used inside and outside of textile and fashion sector enterprises. A commitment that goes beyond compliance with standards and regulations and sets significant improvement

goals for the elimination of harmful substances from the production cycle, also thanks to the mapping of suppliers. Together with the Albini Group, another 107 international enterprises are part of ZDHC, including the Kering group, Burberry, Hugo Boss, Levi Strauss & Co., G-Star Raw and many others.

Traceable Fashion

Thanks to the partnership with Supima, the highly renowned association cotton growers, and Oritain, the world leader in forensic science, the very first 100% scientifically traceable fabric has now been launched. Sponsored by the Albini Group, this project contributes to giving life to a production integration process that has adopted transparency as its major essential requirement. The cotton grown by Supima, then dyed and transformed into fabric by Albini, is completely traceable by the end customer: a guarantee not only of the origin, but also of the quality and ethical production. All this is possible thanks to a vertically integrated supply chain and a highly innovative scientific method developed by Oritain.

Orientation towards increasingly sustainable fabrics

The Albini Group has created its own in-house specialised team that works consistently on the research of the most prestigious and sustainable raw materials, in line with the Group's strategy and consistently with the market's increasing demand for sustainable products. In fact, 2018 saw a marked increase in the use of Organic Cotton and TENCEL™ Lyocell within the collections of the four brands of the Group, producing fabrics that meet and surpass the highest standards of sustainability. For the Albini Group, producing sustainable fabrics also means extending the adoption of more transparent agricultural practices within new geographical and productive contexts. This commitment is demonstrated by the partnership that the Group established in 2018 with UNIDO and BCI in favour of *The Egyptian Cotton Project.*

Concrete evidence of sustainability

The Albini Group pays utmost attention to saving electricity and water throughout all its processing phases. At the Brebbia facility, in fact, all the water used during the finishing process is suctioned directly from the river and returned 100% purified, thanks to the use of the internal purification plant. Of the different phases of the production process, the dye process is the sector that requires the greatest amount of water. Thanks to the attention that the Albini Group pays to every phase of the process, to the state-of-the-art and highly specialised machinery it uses and to the skill sets of its employees, in 2018 the consumption of water used in the dyeing phase decreased by 30%, a significant drop in consumption from 274 l. of water per kg of fabric to 190 l/kg. Also in terms of energy savings, 2018 saw a 7% reduction in electricity per metre. It is also important to underline that, thanks to the use of the cogenerator, 70% of the electricity consumed during the year was self-produced. Utmost attention was paid to the production, recovery and recycling of waste, achieving significant results also in this area:

- 46% decrease in the waste produced;
- 99% recovery of the waste produced;
- 70% recycling of the plastic waste produced.

For the first time ever, 2018 saw the start-up of recycling procedures for textile waste, accomplishing a recycling percentage of 31% of total textile waste.

Social sustainability: people and territory

The goal that the Albini Group set itself is to make employees thrive in safe environmental and working conditions, providing the necessary know-how to carry out their duties to the best. The Albini Group has in fact become a point of reference for the places in which it operates, collaborating actively with the public administrations and the main local organisations. Environmental and social sustainability for the Group represents the starting point for the creation of shared values that result in a growth path continuous improvement.

Our sustainability strategy

1. TRACEABILITY

2. QUALITY

3. RAW MATERIALS

4. ENERGY CONSUMPTION

5. WATER CONSUMPTION

6. NO HAZARDOUS CHEMICALS

7. ETHICS

RAW MATERIALS

PRESTIGIOUS, RARE AND SUSTAINABLE

Giza 45

The finest among the Extra-Long Staple Egyptian cottons, with a long and particularly resistant fibre. Cultivated in a small area in the eastern part of the Nile Delta, this cotton is harvested manually and has an average production of 90 bales per annum (equal to 0.4% of all Egyptian cotton). What makes this cotton so exceptional, however, is the fineness of its fibres, ideal for creating fabrics of extraordinary quality.

Giza 87

One of the most exclusive cottons in the world, Giza 87 is the brightest version of the Extra-Long Staple Egyptian cottons. Ideal for the production of exceptionally bright and brilliant white fabrics that do not degrade over time, on the contrary, their softness and freshness increase wash after wash.

Sea Island

The West Indian Sea Island is one of the rarest and most ancient and precious variety of cotton in the world. Mainly cultivated in Jamaica and Barbados, Sea Island cotton stands apart from all other species due to its unique characteristics: the remarkable length and strength of the fibre, the excellent percentage of uniformity and the unique shine and brightness. This combination makes it possible to produce incredibly fine, hard-wearing, bright and silky fabrics, ideal for exclusive and refined garments.

Supima

Supima is an Extra-Long Staple cotton renowned for its unique long and fine white fibres. Cultivated mainly in California, among its identifying characteristics is the absence of fibre pollution due to mechanical harvesting and a remarkable resistance to pilling. The particular clean bright aspect makes it ideal for the production of white fabrics.

Organic Cotton

Extra-Long Staple cotton, originating from organic cultivations that do not use pesticides, insecticides and chemical fertilisers. The cultivation of organic cotton minimises water consumption and gives rise to the production of hypoallergenic, breathable fabrics with a unique stylistic performance. Choosing an organic cotton fabric is a key ethical choice to showing respect for the environment and its populations, without however foregoing the Made in Italy style.

GIZA 45

An average production of 90 bales per annum (0.4% of all Egyptian cotton).

GIZA 87

Giza 87 is one of the brightest versions of the Extra-Long Staple Egyptian cottons.

SEA ISLAND

The Albini Group has exclusivity rights over the production in Barbados.

SUPIMA

Its length, resilience and finesse are above normal standards.

ORGANIC COTTON

Organic production systems are used to cultivate this cotton.

TENCEL™ Lyocell

Of plant origin, this fibre is extracted from the cellulose from the forests of eucalyptus trees in South Africa, whose cultivation is managed in a sustainable way. Thanks to the natural, smooth and voluminous structure of the TENCEL ™ Lyocell fibre, the fabrics are particularly silky and soft on the skin, giving a feeling of comfort and naturalness.

Linen

The secret behind the finest linen shirting fabric in the world is hidden in a beautiful light blue flower that grows on the Normandy cliffs. The linen grown in northern Europe is recognised to be the best in the world. Its quality makes it possible to create refined and natural fabrics, with excellent characteristics: maximum durability, high moisture absorption capacity, insulating and thermoregulating properties.

FOUR BRANDS
FOR ABSOLUTE QUALITY

The Albini Group collections are based on four different brands, linked together by the Group's DNA, and the result of a painstaking selection of the most precious raw materials, meticulous attention to detail and an excellent manufacturing tradition. Albini 1876, Thomas Mason, Albiate 1830 and Albini Donna target consumers with defined tastes and different demands, and their collections testify to the excellence of the Albini Group across the globe.

ALBINI 1876

The art of creating fabrics by interpreting 100% Made in Italy taste, thanks to the superior raw materials, continuous research and attention to every detail.

ALBINI DONNA

An innovative collection dedicated to the female world, boasting a perfect balance of contrasts: Albini Donna is versatility, experimentation and extensive research.

THOMAS MASON

With its British inspiration flaunting an eccentric and refined touch, Thomas Mason has always represented a stylistic revolution and timeless elegance.

ALBIATE 1830

Expression of a unique creative research which is able to reveal constantly new itineraries and pristine destinations for contemporary casualwear.

Excellence guaranteed

In addition to exceptionally versatile seasonal collections capable of responding to the specific demands of each market, the four brands also guarantee important services to their Customers. Thanks to their innovative service programs, they offer a wide range of fabrics that are always in stock and promptly available. This proposal is renewed every six months, to stay abreast of changing demands and the trends of the moment. Furthermore, every season the Albini Group creates an average of 4,000 exclusive fabrics: bespoke products to meet the specific requests of a single Customer, which not only guarantees the uniqueness and exclusivity of the design, but also the colour of the yarn used. This prestigious service allows the Customer to be able to count on a customised and bespoke creative development: no one else will have that same fabric.

Albini 1876

100% Italian taste, textile know-how, creativity and continuous research are the distinctive features that set Albini 1876 apart, the Group's historic brand which, for over 140 years, has been delivering collections that meet all the most demanding market requirements. Given their Made in Italy design and manufacturing with cutting-edge machinery and state-of-the-art technology , the Albini 1876 fabrics have a history of pure excellence. The essence of the brand is brought to life by the research conducted on the rarest and most precious cottons and linens across the world, combining tradition, elegance and craftsmanship. This important textile know-how is interwoven with a strong creative vision, expressing a contemporary and deep-rooted Italian taste. Graphics, structures and colours are renewed every season, becoming the benchmark for fashion trends whilst inspiring designers, fashion houses, tailors and retailers across the globe. From a classic and sophisticated mood to a more contemporary version, all the Albini 1876 fabrics are surprisingly eye-catching and innovative, representing the excellence of Made in Italy all over the world.

THOMAS MASON
1796

Lancashire, 1796: the core of the English Industrial Revolution. This is the historical background of a brand that since then has continued to weave new stories of elegance and style, becoming the reference point in the world of men's tailoring. The Thomas Mason collection boasts the use of double twisted fabrics made with the finest extra-long staple yarns in the world, capable of reinterpreting and revolutionising the stylistic canons of every era, without losing that eccentric touch and the British taste that never seems to go out of fashion. Thomas Mason flaunts a timeless elegance, in which the meticulous attention to quality and details is flanked by continuous research and experimentation. Creativity and innovation have in fact given life to an immense historical archive of inestimable value, in which bright colours accompany refined and sometimes eccentric designs and patterns. The strictly British imprinting of these historic fabrics is now reinterpreted on trendy and innovative bases, generating new rules of elegance and style for the contemporary gentlemen.

Albini, donna

Albini Donna is versatility, experimentation and extensive research. A brand whose recent roots interweave in a new exciting pathway, bringing a unique proposal, conceived and designed by women for women. Combinations of precious raw materials, the use of special, imaginative, refined jacquard and fil coupé yarns, give life to versatile fabrics, conceived for a more sophisticated and intriguing woman. Thanks to these fabrics, Albini Donna defines a new universal code for feminine elegance, bestowing a modern style and a cutting-edge mood to the more traditional bases. Tradition hence evolves, transforming itself into the perfect style for a refined and elegant woman, who loves timeless garments and pure class whilst embracing surprising contemporary and inspiring trends. A woman who is independent, dynamic and never bland, who also wants to express her own personality and femininity in her outfits.

ALBIATE 1830

ITALIAN TEXTILE EXPLORERS

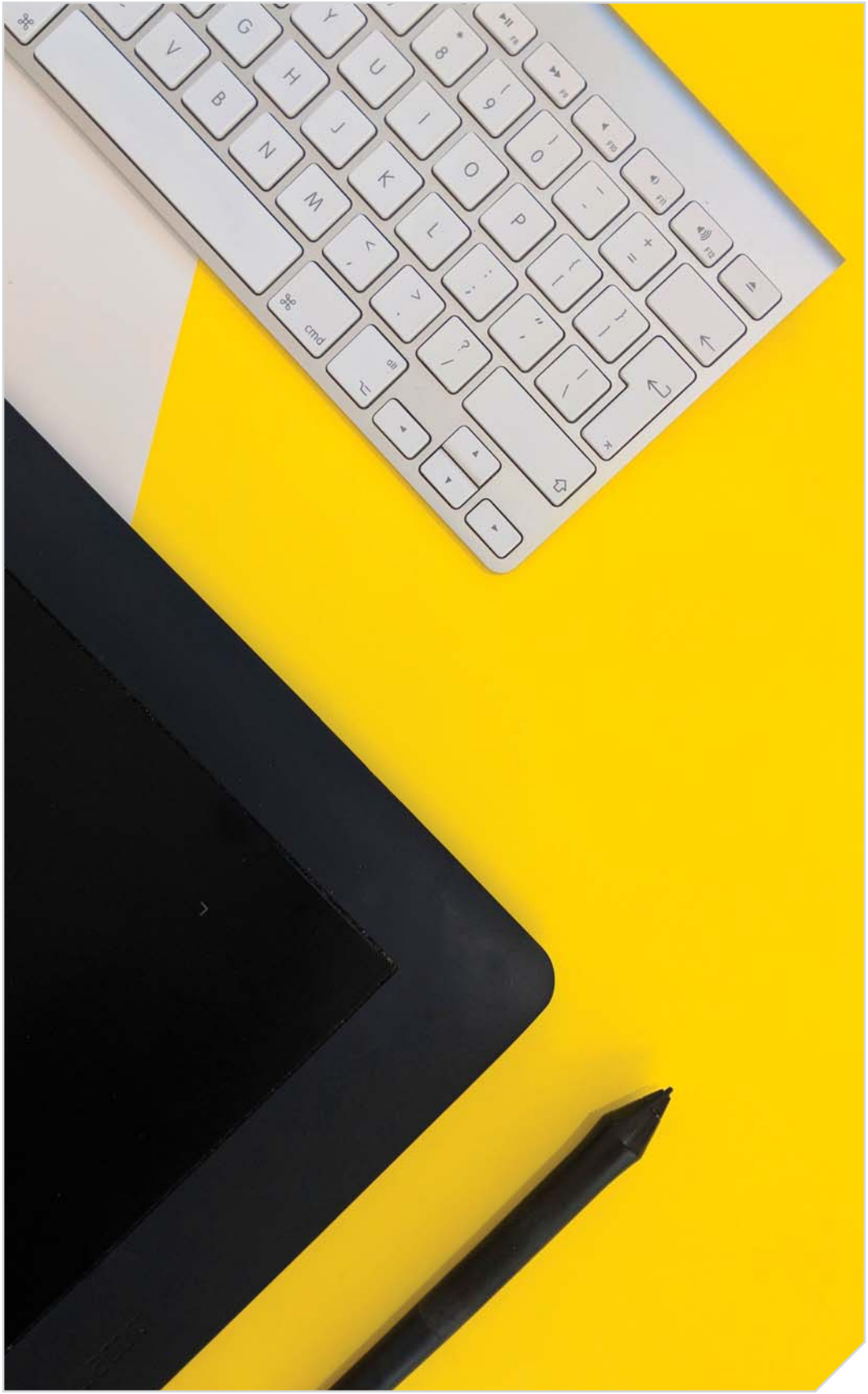
Creativity, innovation and experimentation: these are the coordinates that characterise the research path of which Albiate 1830 is the protagonist *par excellence*. Thanks to its dynamic and pioneering identity, it is able to reveal new itineraries and pristine destinations for its contemporary casualwear, in a journey of exploration that strengthens the link with emerging fashion trends, without ever losing sight of the exceptional manufacturing tradition that has been the heart and soul of the brand for almost two centuries. An essence that drives the Italian Textile Explorers of Albiate 1830 to design fabrics of unparalleled style and quality. With its casual bases, eccentric prints, original jacquards and denim in a thousand different shades, Albiate 1830 aims to attract a younger target with a rebellious soul, confirming itself as the undisputed leader in luxury streetwear. Albiate 1830 is much more than a simple brand: it is the expression of a unique creative research, in which exclusive raw materials, iconic details and experimentation give life to an unexpected and surprising style journey.

BESPOKE

AN INNOVATIVE MADE-TO-MEASURE SERVICE

In 2018 the Albini Group pursued its commitment to its "Bespoke" project and its target of becoming a leader in this market and to serve the best tailors and shirtmakers in the world in an increasingly efficient manner. A business in constant growth which allowed the Albini Group to achieve excellent results during the year and gain a strategic position on this market too. The Group's “bespoke” service comprises two distinct lines: Thomas Mason Bespoke and Albini Su Misura, the lines with which Albini Group gives tailors and shirt makers the opportunity to choose from a wide range of superior quality products, guaranteeing delivery in 24/48 hours from receiving the order.

The entire Bespoke collection is also available via an e-commerce platform, where Customers can place their orders directly on-line. Thomas Mason Bespoke and Albini Su Misura represent the first Tailoring 2.0 proposal in the world: the physical collections are in fact supported by an app, Fabric Butler. 2018 recorded a huge rise in on-line shopping requests, thus confirming the importance of the digital channel within this market sector. The foundations were laid during the year for the revamping of Albini Su Misura which, in 2019, will be able to amaze the "bespoke" specialists with an even more innovative proposal.



MARKETING
A MULTICHANNEL STRATEGY

For an enterprise with a long history of success and a Made in Italy product *par excellence*, it is important to be able to effectively communicate its core values and its distinctive elements to all of the stakeholders. To achieve this goal, the Albini Group continues to make targeted investments in marketing and communication both on-line and off-line, with an incredibly varied and dynamic strategy. During 2018 the foundations were laid for a corporate communication strategy which is increasingly oriented towards the digital world. A dedicated Instagram page has been created for each brand, making it possible to highlight the individual features and reach the target segments more effectively. Opening the doors to more digital communication does however not mean losing sight of the strategic importance of more traditional practices based on direct relations and collaboration with the Customer. In fact, the Albini Group engaged in various co-branding activities in 2018 with the most important names in fashion at an international level, also involving joint communication projects. These projects include the creation of customised books and dedicated marketing tools, with the dual purpose of supporting the Customer and highlighting the value of the product. In 2018 the Albini Group continued its participation in the most important sector trade fairs, fundamental opportunities for direct contact with its Customers. Customer, school and international university visits to the Group plant facilities increased considerably throughout the year, along with training activities for Customers all over the world, an important way to convey the Group's values and its business *modus operandi*. 2018 also saw the launch of organisational restructuring activities, which gave rise to the new "Markets & Communication" division. Marketing and merchandising have been incorporated within one single department, with the aim of providing increasingly more customised services addressing the specific characteristics and demands of every single market.

ALBINI ENERGIA
FOR A SUSTAINABLE FUTURE

Born from the extensive experience gained in the technical and industrial field within the Group, Albini Energia is a certified Energy Service Company that promotes environmental sustainability through the pursuit of energy saving research, providing consulting services and designing low environmental impact industrial solutions. In particular in 2018 Albini Energia consolidated its range of service.

Energy consulting services

Albini Energia core business is the implementing and managing of efficiency measures aimed at reducing energy consumption. In particular, in 2018 it carried out important feasibility studies followed by technical-economic analysis and choice of the most advantageous solutions for energy efficiency and economic convenience. By constantly monitoring and checking energy consumption and the performance of plant systems at the Customers' facilities, Albini Energia periodically delivers consumption and savings comparisons, along with different possibilities to access incentive/facilitation tools.

Engineering services

In 2018 Albini Energia supported its Customers during the study of turnkey industrial plants, mainly in relation to the architectural, mechanical and electrical design of buildings and departments, as well as the layout of the production facilities. The proposals provided by Albini Energia maximize energy efficiency, reducing consumptions and costs, thanks to the study of effective

construction methods and a conscious use of available energy resources. Albini Energia also guarantees technical support to its Customers, accompanying them throughout all the operational phases.

Environmental engineering services

Protecting the environment and use of eco-sustainable processes was the primary objective of Albini Energia, which in 2018 designed purification plants using ZLD (Zero Liquid Discharge) technology and emission treatment systems (scrubbers, post-combustors, electro-filters). Albini Energia also provides support to its Customers in choosing the most suitable suppliers for their needs and in obtaining authorisations and environmental certifications.

Plant design

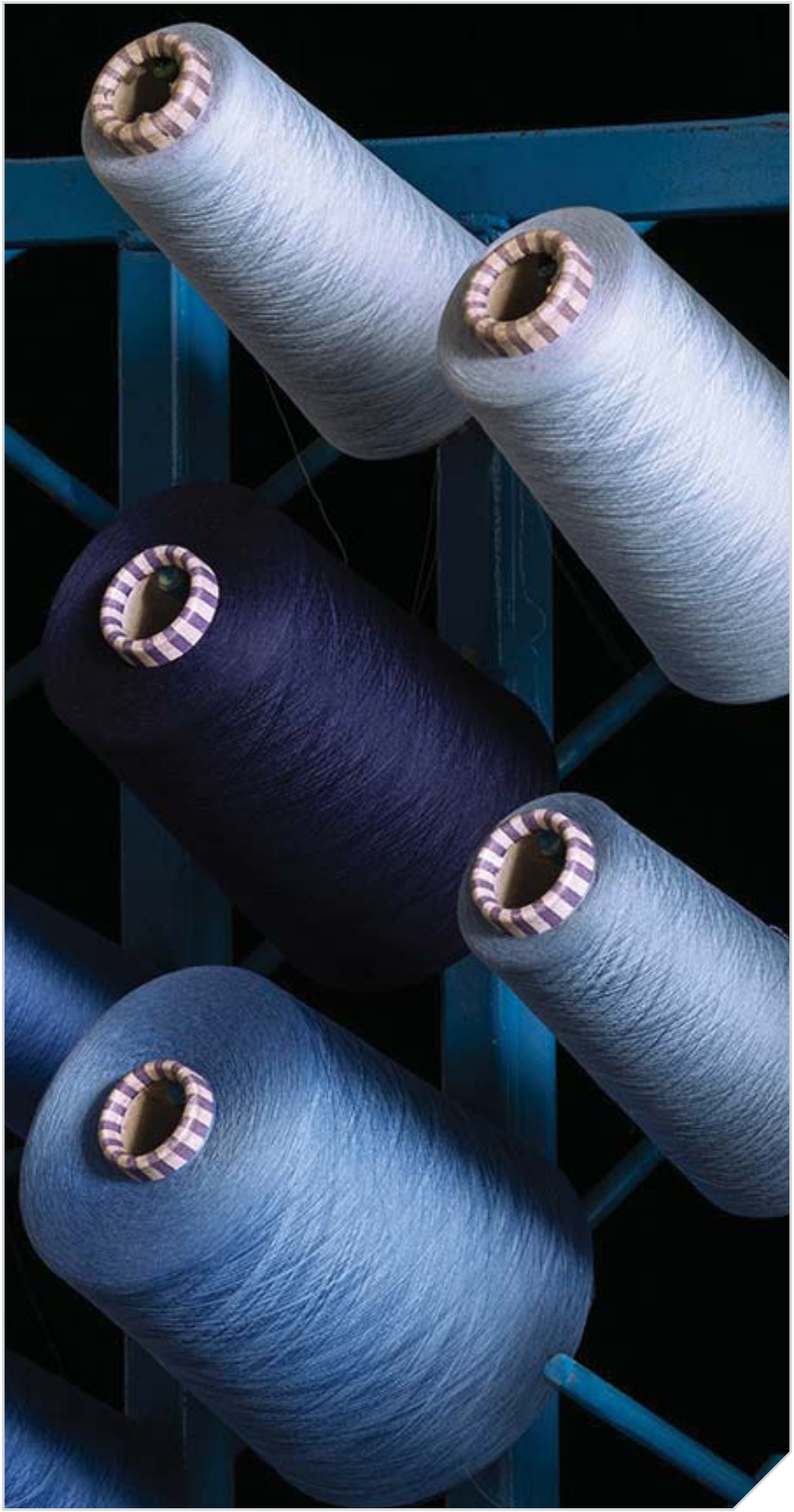
Albini Energia provides plant design services, based on the energy and production demands of its Customers. Systems for reducing thermal and electrical consumption were studied and installed during 2018 which, thanks to the use of exchangers patented by Albini Energia itself, guarantee heat exchange efficiency of over 85% which remains consistent over time. In addition, further systems were designed and installed for the pressurisation of fluids and for the management of water, steam and air circuits, as well as the most consolidated systems for extracting and treating white waters.

I COTONI DI ALBINI
RESEARCH, INNOVATION AND QUALITY

I Cotoni di Albini is an Albini Group company whose business purpose is the research and development of yarns with a high quality content, made from the very finest raw materials in the world. Research, product innovation, excellent quality and attention to sustainability are the core values that characterise the I Cotoni di Albini products, which are the ideal response to the growing market demand for increasingly performing yarns which comply with all environmental and human resource standard requirements. In this context I Cotoni di Albini allows the Group to fine-tune the direct control it exercises over the production chain, an essential condition for ensuring the complete sustainability and traceability of every metre of fabric produced.

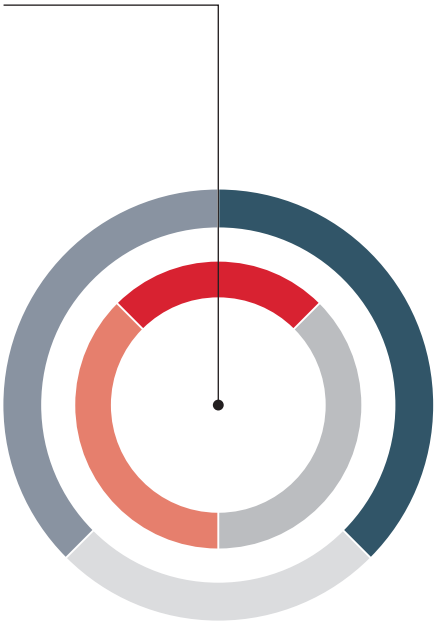
A process that generates value

2018 was a positive year for I Cotoni di Albini, which closed with a turnover of € 23.5 million, in line with that of the previous year, a year that had also grown by 24.14%. Sales to independent Customers, with respect to the parent company Cotonificio Albini S.p.A., exceeded 70%, against 68% in 2017. Another major result achieved during the year was the growth in exports, which reached 55% (compared to the previous year at 40%), confirming the international vocations of the Group. 2018 also saw the development of yarns made with exceptionally high percentages of noble fibres, such as extra-fine wool and cashmere, allowing I Cotoni di Albini to once again confirm itself as the benchmark for the medium-high end of the market. The I Cotoni di Albini Customers differ greatly in terms of business model and reference sector, testifying the incredible quality and versatility of the yarns produced. For selected Customers the I Cotoni di Albini team also offers an exclusive yarn development service. It is with these Customers and other international enterprises, that innovative partnerships were launched during 2018, characterised by mutual collaboration and shared research. Continuous research and product innovation have always been and continue to be the distinctive element that makes I Cotoni di Albini yarns a widely appreciated product sought after by the international market.



ALBINI GROUP S.P.A.

DIRECTORS' REPORT



Registered office: Via Dr. Silvio Albini 1, Albino (BG)
Share capital: €2,028,000.00, of which €208,000,00 reserved for the conversion of the subsidiary Cotonificio Albini S.p.A.'s bonds; actual share capital: €1,820,000.00, fully paid-up.
Bergamo company registration no. and tax code: 01736210160

Dear shareholders,
The consolidated net turnover came to €152 million in 2018, a 2% increase on the €149 million of 2017. This turnover includes revenues from the energy segment and fabric consultancy services in order to give a more complete view of the diversified nature of the group's activities. Net profit for the year attributable to the group came to €2.75 million, compared to a net loss of €1.99 million in 2017. Amortisation and depreciation of the year totalled €7.98 million, compared to €7.89 million in 2017. Current taxes for the year totalled €1.4 million, compared to €0.6 million in 2017. EBITDA increased from €9.1 million in 2017 to €13.7 million in 2018. Cash flows came to €11.8 million, compared to €5.7 million in 2017. The net financial indebtedness of €39.2 million at 31 December 2018 decreased by €12.9 million on the previous year-end balance.

OPERATIONS AND DEVELOPMENTS

2018 will go down in the century-long history of the group, especially the subsidiary Cotonificio Albini S.p.A.. The loss of its chairman, Silvio Albini, left all of the employees and the global textile world in mourning. Against such a difficult backdrop, the enormous legacy that the chairman had built along with the Albini family throughout his long years at the helm of the group proved its great solidity.

The fearless firm manner in which the entire management body and each employee took responsibility led to a positive reaction, with the results materialising, to an even more satisfactory extent than expected in terms of cost control and revenue quality.

The domestic and global economic climate was more positive than in 2017. Consumer confidence, and thus spending, was up until the third quarter when some concern arose especially in European countries.

In fact, certain negative factors converged in Europe towards the end of 2018 and also continued more acutely in early 2019:

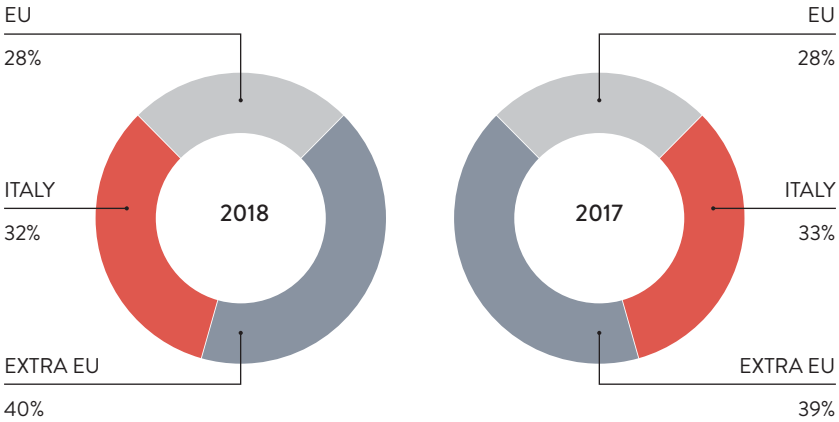
- the climate factor which slowed down winter sales during their first stage from September to almost mid-November;
- protests on the streets of France which kept tourists and consumers away from the shops of some cities, especially Paris;
- the imminent Brexit, the strong slackening of the German economy and the Italian economy's zero growth which had repercussions on consumer confidence and thus reduced consumption.

The conflict between the US and China on economic trade has also triggered negative effects on worldwide consumption. In addition, the severe economic and political uncertainties in countries such as Turkey, the Mediterranean region and the Middle East hindered the performance of the respective consumer markets and generated damaging inflation events.

However, the group's figures confirmed the global growth forecast for the textile and fashion industry in 2018 (roughly 2.4%).

The percentage of exports came to 68%, with a balance between Italy (32%), EU (28%) and non-EU (40%), more or less in line with 2017.

TURNOVER BY GEOGRAPHICAL SEGMENT



The leaning towards a style more directed at young people was confirmed once more in the end market of the group's textile customers, where streetwear fashion has been well established for some time with the use of more casual, comfortable and certainly less formal clothing. This trend has led to problems selling classical suits and, accordingly, formal shirts. The introduction of innovative fabrics in the field of heavier clothing, known as everywear, and the womenswear collection, which has grown significantly, made a positive contribution to the annual results.

Luxury brands enjoyed great success globally, with the more famous Italian and French names certainly standing out. The quality and style which have always set the group apart meant it gained an increased market share at these key partner customers.

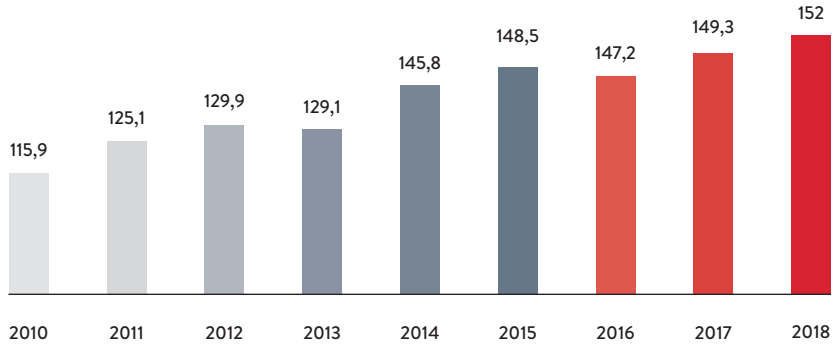
In the yarn sales market, the group worked with particular focus and effort on pursuing a top quality product portfolio, simultaneously selecting customers

and focusing on the sector's key and reference parties, continuing the process already initiated in 2016 and 2017. In 2018, the group also worked intensely on further upgrading yarn quality with refined and exclusive productions using the best raw materials: pure wool and cotton along with precious mixtures (cashmere and Sea Island cotton).

With regard to the energy sector, the group via the subsidiary Albini Energia S.r.l. confirmed turnover in line with 2017 in the various core activities (white certificates, selling systems and selling energy from renewable sources), while turnover from consultancy activities improved slightly, chiefly due to the design of a new facility in Ethiopia on behalf of a customer. Investments related to building renewable energy systems were temporarily suspended pending the publication of a new decree which should regulate this market over the coming years. In the meantime, the subsidiary continued exclusively with engineering activities aimed at obtaining new concessions. More generally, it overhauled its structure to expand its product portfolio, moving towards more complex systems customised to specific customer needs.

As a result of the good performance of the sector and all of efforts mentioned above, the group's turnover increased €2.7 million, as seen in the graph below, mainly comprised of fabric and yarn sales. The largest contributor was the subsidiary Cotonificio Albini S.p.A. with revenues of €129 million, followed by the other subsidiaries which are becoming increasingly more independent and key to the group: I Cotoni di Albini S.p.A. with €17 million, Albini Energia S.r.l. with €3 million, Albini Hong Hong Ltd with €2 million, Delta Dyeing with €743 thousand and Albini Shanghai with €107 thousand.

NET REVENUES (In million Euros)



2018 also saw an important structural change in management, with the focus clearly placed on building a unified team oriented towards defined, measurable

results. The governance and organisational structure of the subsidiary Cotonificio Albini S.p.A. was also reinvented in order to best manage the company after the untimely passing of the chairman and managing director, Silvio Albini. The family group decided on an organisational structure that gives greater responsibilities to internal managers and introduces new roles. To this end, the subsidiary called on the experience of an external managing director, already known as a company consultant, to help it through this difficult transition.

Again on an organisational level, the group companies focused on the foreign market made a specific effort, which will continue throughout 2019, to improve their services to end customers in terms of delivery speed and reliability. A new organisational structure and improved company data analyses will enable the group to anticipate the quality issues that affect the entire production process and deal with them more effectively.

The digitalisation area was, and will continue to be, a sector where all group companies can pursue efficiency and greater interconnection with customers.

With regard to raw materials, an analysis of raw cotton prices in 2018 shows a downward trend, with a presumable further slowdown in prices in 2019 due to the general drop in demand.

With reference to products, the group continued to particularly focus on cutting back on the range offered. Furthermore, it strove to offer innovative products to the market, not solely thanks to stylistic research, but also thanks to research into performance and comfort, characteristics that the market is increasingly appreciating. The subsidiary I Cotoni di Albini S.p.A.'s innovation in raw materials, mixtures and yarn is making significant contributions.

In conclusion, despite it being a tough year the group achieved good profitability, marking a significant turnaround on 2017. It managed to reduce its bank loans and borrowings by €12.9 million thanks to its restrained investment policy, as explained below, and further reduce working capital.

Against this positive background, we believe that the groundwork has been laid for a new way forward for the group after the tragic passing of the chairman, Silvio Albini.

INVESTMENTS

Investments in 2018 came to €2.6 million and mainly related to the restructuring of plant and buildings at the Albino and Brebbia facilities and

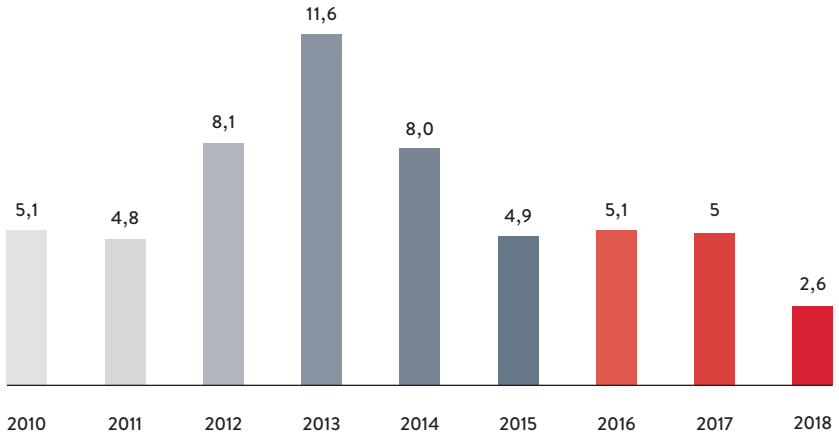
the purchase of new spinning and weaving machinery at the subsidiaries I Cotoni di Albini S.p.A. and Dietfurt Sro.

Investments were made to purchase new software to manage group data, design systems and plan production. IT equipment was also enhanced at the various group companies. During the year, the group also upgraded its production structures to improve their energy consumption and compliance with environmental and safety legislation.This also involved the subsidiary Albini Energia S.r.l..

Investments in intangible and tangible fixed assets from 2010 to 2018 are described below.

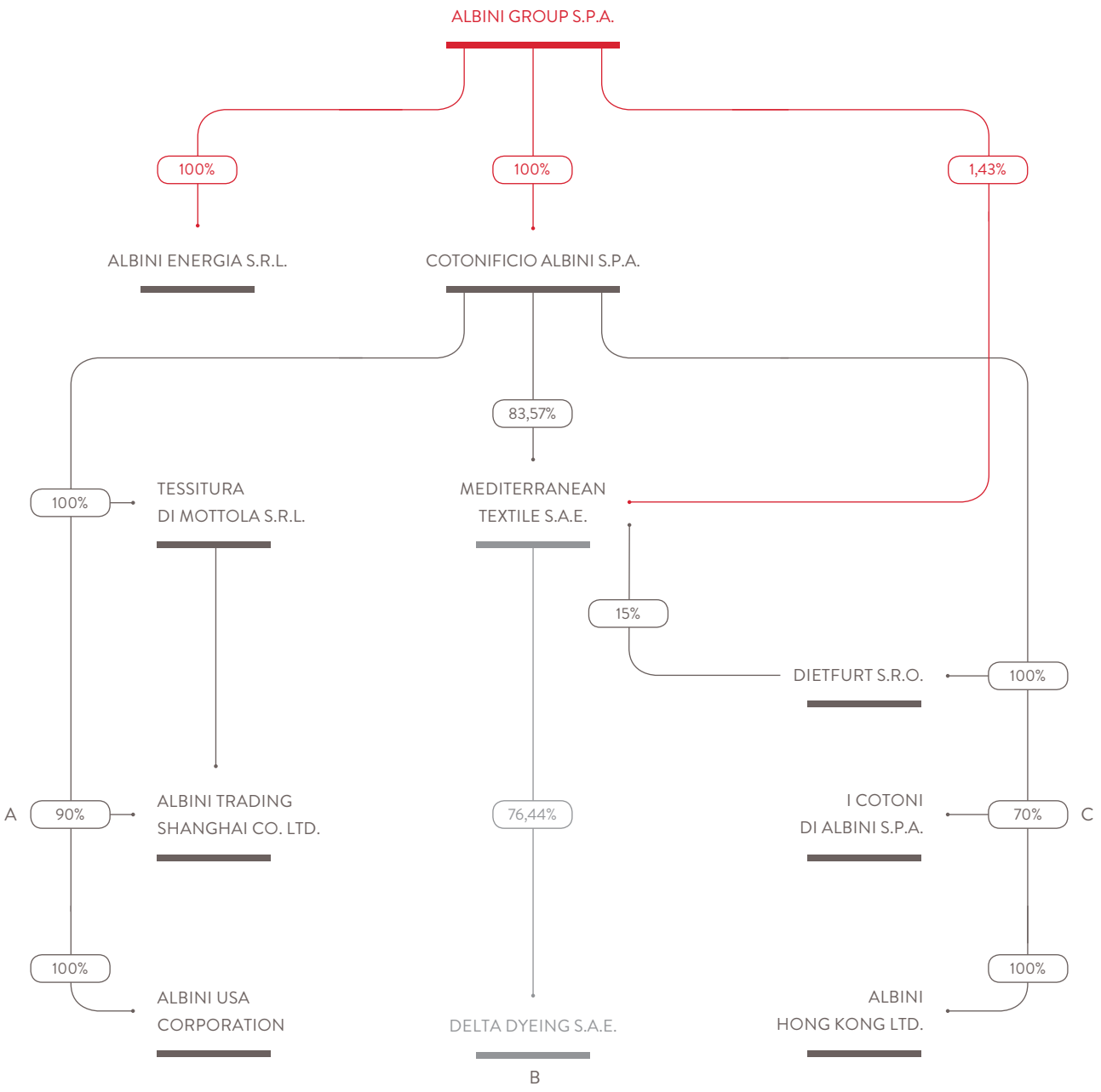
INVESTMENTS IN INTANGIBLE AND TANGIBLE FIXED ASSETS

(In million Euros)



In addition to capital expenditure, the group again expensed large R&D costs incurred this year, as described later, for ongoing product innovation, the research into new fabrics and technological improvement in all production phases.

The Group Structure at 31.12.2018



A Essence Trading Co. Ltd. 10%
B Setcore Spinning 11,31% - Alba Albin Breitenmoser Holding AG 12,25%
C Modern Nile Cotton Co. 30%

Cotonificio Albini S.p.A.

This direct subsidiary and industrial and operating sub-holding recognised a net profit for the year of €1.2 million, compared to a net loss for 2017 of €1.7 million, after amortisation and depreciation of €4.2 million, in line with 2017 figures.

Net turnover came to €133.8 million, in line with 2017 (€133.1 million, +0.5%). The subsidiary posted net cash inflows of €5 million, compared to €1.9 million in 2017. Current income taxes of the year came to €1.1 million, versus €29 thousand in 2017. Capital expenditure in 2018 totalled €2.2 million.

Tessitura di Mottola S.r.l.

This subsidiary, which is wholly-owned through Cotonificio Albini S.p.A., recognised turnover for processing performed for the group companies of €5.7 million, down on €6.07 million in 2017.

It recognised a net profit for the year of €87 thousand (2017: €145 thousand), after amortisation and depreciation of €328 thousand (2017: €334 thousand) and current income taxes of €73 thousand (2017: €114 thousand). Cash inflows for the year amount to €290 thousand (5% of turnover), compared to €382 thousand for 2017 (6% of turnover). This subsidiary purchased new machinery, plant, equipment and other assets of €88 thousand.

Dietfurt S.r.o.

The Czech company is also a fully-owned subsidiary of Cotonificio Albini S.p.A.. It recognised a net profit for the year of €83 thousand (2017: €166 thousand), after amortisation and depreciation of €950 thousand (2017: €886 thousand).

Turnover from processing totalled €5.4 million in 2018, in line with 2017, and relates to processing carried out for the parent, Cotonificio Albini S.p.A.. The company invested in new machinery and software for €236 thousand.

Mediterranean Textile S.a.e.

The Egyptian company is now wholly owned (1.43% directly by the parent and the remainder indirectly via the subsidiaries Cotonificio Albini S.p.A. and Dietfurt S.r.o.).

The subsidiary recognised a net profit for the year of €515 thousand, compared to €164.7 thousand in 2017. It recognised amortisation and depreciation of

€1 million (2017: €1.2 million). Turnover was €12.8 million, in line with 2017 (€12.7 million), exclusively for fabric sales to the parent, Cotonificio Albini S.p.A.. The company invested €131 thousand in buildings and electronic machinery during the year.

Delta Dyeing S.a.e.

Indirectly owned (76.44%) through Mediterranean Textile S.a.e., Delta Dyeing S.a.e. posted a net profit for the year of €86 thousand, compared to a net loss of €572 thousand in 2017. 2018 turnover totalled €2.8 million and related to the sale of yarns and dyeing on behalf of the group and third parties, compared to €2.1 million in 2017. This subsidiary recognised amortisation and depreciation of €406 thousand (2017: €436 thousand) and invested €8 thousand in buildings.

Albini Energia S.r.l.

A direct subsidiary of the parent, this company continued its research, study, design, construction and operation of energy plant and systems to improve energy efficiency in industrial processes. During the year, it also pursued supplying engineering consultancy services and selling heat recovery systems and automation software in various industrial fields. Its new commercial strategy is veering more towards selling turnkey systems, also complex ones, including the entire installation process. It provides these services to both group companies and third party customers. The company posted a net profit for the year of €103 thousand, compared to €163 thousand in 2017. Turnover for 2018 came to €3.9 million, compared to €4.1 million in 2017 (-7.3%). The decrease in turnover was chiefly due to the drop in sales of white certificates, linked to the gradual winding down of the allocation of such certificates, partially offset by the increase in turnover from the design of complex systems. Investments in 2018 (€118 thousand) mainly related to the acquisition of design software, setting up a new website and works to build new hydroelectric and wind power plant.

I Cotoni di Albini S.p.A.

Cotonificio Albini S.p.A. owns 70% of this company, which manages the production and sale of yarns for the group and third parties. Turnover from the sale of cotton, raw yarns and dyed yarns in Italy and abroad decreased by 5.2% to €23.5 million from €24.8 million in 2017. It consists of both sales to the parent and third parties in Italy and abroad, with the percentage of sales to third party customers up again in 2018. The subsidiary posted a net profit for the year of €256 thousand compared to €597 thousand in

2017, after amortisation and depreciation of €234 thousand (2017: €228 thousand). Investments made during the year (€102 thousand) mostly related to new spinning machinery and production planning software.

Albini Trading Shanghai Co. Ltd.

The company is 90% owned by Cotonificio Albini S.p.A.. It provides sales and marketing support for the parent's sales on the Chinese market. Turnover from fabric sales totalled €107 thousand compared to €195 thousand in 2017 (-45%). The company recognised a net loss for the year of €68 thousand, down on 2017 (€212 thousand) thanks to operating cost cutting actions that will continue into 2019. In order to boost the subsidiary's net equity, Cotonificio Albini S.p.A. waived a receivable from the company which was then used to increase net equity reserves.

Albini Hong Kong Ltd.

This company is wholly owned by Cotonificio Albini S.p.A. and carries out commercial activities for the "Bespoke" business and provides commercial and marketing support for the parent's sales in Hong Kong and Southeast Asia. In 2018, it reinforced the group's coverage of the local market by further strengthening the sales force. Its net profit for the year came to €220 thousand, compared to €201 thousand in 2017. Turnover from fabric sales rose from €1.8 million in 2017 to €2 million in 2018, providing a substantial contribution to group turnover.

Albini Usa Corporation

Wholly-owned by Cotonificio Albini S.p.A., this company is based in New York and bolsters the group's direct presence in North America, contributing to the development of commercial and marketing activities targeting North American customers. As part of a general overhaul of commercial activities, the subsidiary became an agent for Cotonificio Albini S.p.A. during the year. It recorded turnover from income on sales of its parent's fabrics of €626 thousand compared to €435 thousand earned in 2017 from consultancy activities. It posted a net loss for the year of €60 thousand, compared to a net profit of €18 thousand in 2017. The main reason for the drop was the roll out of the company's new agent role and the additional costs incurred to launch this activity which will help bring the group closer to customers and the market.

GROUP PERFORMANCE

The group's balance sheet and profit and loss account, reclassified according to management criteria, are attached as annexes 1 and 2 to this report.
The following table gives the highlights from the 2018 financial statements and the previous two years.

Highlights	2016	2017	2018
Net revenues (€ millions)	147,2	149,3	152,0
GOP (€ millions)	29,7	26,5	29,2
EBIT margin (€ millions)	3,8	1,1	5,5
EBITDA margin (€ millions)	12,1	9,1	13,7
Net profit (loss) for the year attributable to the group (€ millions)	1,4	(2,0)	2,7
Personnel expenses (€ millions)	41,8	41,1	41,0
Cash flows from operating activities (€ millions)	10	5,7	11,8
Bank loans and borrowings (€ millions)	(55,4)	(52,1)	(39,2)
Consolidated net equity (€ millions)	77,4	70,7	74,3
Turnover per employee (€ thousands)	106	107	109
Personnel expenses per employee (€ thousands)	30,1	29,4	29,3
Average number of employees in the year	1.390,5	1.399,5	1.398,0
Earnings (loss) per share (€)	0,4	(0,6)	0,8

Total consolidated current and non-current net bank loans and borrowings decreased from €52.1 million to €39.2 million. The percentage of debt due after one year was 53% at 31 December 2018, in line with the previous year end. The main performance indicators compared with the previous two years are shown below:

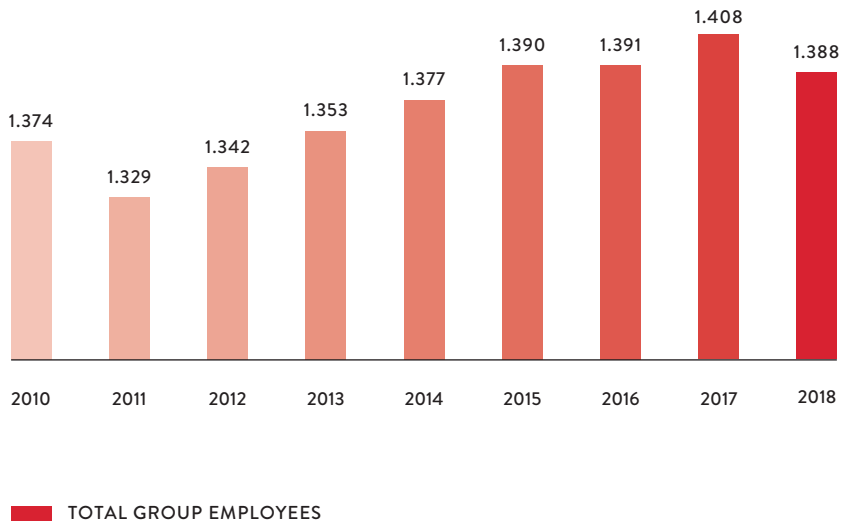
Performance indicators	2016	2017	2018
Return on equity (R.O.E.)	1,8%	(2,8)%	3,7%
Return on sales (R.O.S.)	2,6%	0,7%	3,6%
Return on investment (R.O.I.)	2,5%	0,7%	4,1%
Equity ratio	0,37	0,36	0,39
NFD/Net equity	0,72	0,74	0,53
EBIT margin	2,6%	0,7%	3,6%
EBITDA margin	8,2%	6,1%	9,0%
Bank loans and borrowings/EBITDA	4,6	5,7	2,9
Cash flows as a percentage of sales	6,8%	3,9%	7,7%
Net working capital as a percentage of sales	51,6%	48,9%	45,1%
DSO	81,0	84,2	83,68
Inventory turnover	202	191	178
Research and development costs as a percentage of sales	3,4%	3,1%	3,1%

WORKFORCE

Group employees totalled 1,388 at 31 December 2018, 20 less than at 31 December 2017. They are distributed across the various group companies as follows:

	2018	2017
Cotonificio Albini S.p.A.	728	753
Tessitura di Mottola S.r.l.	119	119
Albini Energia S.r.l.	10	9
I Cotoni di Albini S.p.A.	10	6
Albini Trading Shanghai Co. Ltd.	-	-
Albini Hong Kong Ltd.	10	9
Dietfurt S.r.o.	220	215
Mediterranenan Textile S.a.e.	265	272
Delta Dyeing S.a.e.	23	23
Albini USA corporation	3	2
Total employees	**1.388**	**1.408**

The trend in employee numbers over the last eight years is shown in the following:



We wish to extend our thanks to all group company employees for their unstinting commitment to improvement in all company areas.

OTHER INFORMATION

Pursuant to article 2428.2.6-bis of the Italian Civil Code, we set out below the group's financial risk management objectives and policies. The risk analysis performed covers all risk types, including strategic, management and financial risks.

Group risk factors

Effective risk management is essential to maintaining the group's value over time.

Monitoring of the key risks is focused on the subsidiary Cotonificio Albini S.p.A. and the companies that have invoiced external customers, such as I Cotoni di Albini S.p.A., Albini Energia S.r.l., Delta Dyieng S.a.e., Albini Hong Kong Ltd. and Albini Trading Shanghai Co Ltd.. The other group companies almost exclusively perform work commissioned by Cotonificio Albini S.p.A..

Risks are analysed monthly at a meeting covering group results, opportunities and risks in its various geographical and operating segments.

The identified risks are:
Strategic and market risks
Operational risks
Financial risks

Strategic and market risks

The textile and clothing sectors are risky by their very nature, as the season's collection has to interpret fashion trends which are by definition uncertain and subjective.

This risk cannot be entirely eliminated but over time we have developed a method to create our products involving: intense research and development activities entailing significant resources, sales and marketing managers continually monitoring the market and its trends and working closely with key customers on styling, which is a win-win situation for both parties. Moreover, to mitigate the risks linked to our products' high degree of specialisation and the natural ups and downs dictated by fashion as mentioned earlier, we have for many years now concentrated on diversifying across a large number of customers, both in geographical terms and in terms of the sectors in which they operate. Close attention is paid to emerging markets, where sales are

currently limited but which should experience the highest growth rates.

The textile/clothing sector is one of the most globalised and competitive. The risk is that changes in competitive conditions (costs and exchange rate fluctuations) would cause some of our customers to start purchasing from other parts of the world. We have responded to this threat by diversifying our customer base, pursuing greater competitiveness and diversifying our production facilities.

On the other hand, a long-term goal of ours has been to shift our competitive edge as far as possible away from the price factor to elements such as product innovation, quality, service and marketing, to defend our position in the premium market. However, we are also aware of how important and influential the price/quality ratio is.

In addition to the fabric segment, the energy business in which Albini Energia S.r.l. operates, is taking on an increasingly greater role in analysis and discussion. This has also enabled us to diversify risks, although the impact of energy revenues on total turnover is still marginal.

Operational risks

The main operational risks the group faces relate to:

- raw materials
- international economic situation
- health and safety in the workplace

We have a strong knowledge of the raw materials markets and their trends thanks to our presence in the spinning field and our close relationships with cotton producers, and our partnerships with some strategic yarn suppliers are increasingly close. We have also rolled out a policy of diversifying purchases across different geographical areas of the world so as to have alternative options available in the event of unexpected economic, exchange rate or political changes in one of these areas.

We have already noted several times how changeable and uncertain the international economic situation currently is. We have also examined structural and economic initiatives to match production levels to demand trends and to decrease costs, particularly overheads.

Lead times continue to be vital and the focus we have always had on efficient, reliable management control means we can quickly recognise and respond to changes as they occur.

The group is also exposed to health and safety in the workplace issues,

consisting of the risk of serious injury in the workplace, environmental pollution and failure to comply or incomplete compliance with legislation and sector regulations. These risks are significant for a substantially manufacturing group such as ours. The group companies carry out ongoing, systematic evaluation of the risks applicable to them and consequently eliminate those deemed unacceptable under the legislation in force in those countries where the production facilities are located.

The function dedicated to these issues has been strengthened with specialised personnel, dedicated software and revised training and awareness programmes for all personnel of the various operational and hierarchical levels.

Financial risks

Credit risk

There is no significant concentration of credit risk at the reporting date, despite the difficulties of making collections from customers during the year which, however, are adequately monitored. The group partially hedges credit risk by insuring its receivables and the sales and administrative department carefully monitors customer solvency and any overdue amounts. With reference to trade receivables, the provision for bad debts accrued in the financial statements is adequate to cover bad debts.

Interest rate risk

The group's financial debt is mainly subject to floating interest rates and the group is therefore exposed to risks of fluctuations. To reduce this risk, the group has agreed hedging contracts with counterparties deemed solvent by the market. IRS contracts hedged approximately 31.6% of non-current floating-rate debt at year end, whereby the group receives the floating interest rate from the bank and pays a fixed rate.

The aim is to fix the borrowing cost for part of the debt, benefiting from sustainable fixed rates for the hedged portion.

Currency risk

As the group operates on international markets, it is exposed to currency risk, mainly in relation to the US dollar, the pound sterling, the Japanese yen, the Czech koruna and the Egyptian lira. The group makes use of natural

hedges between receivables and payables and only partially hedges the net foreign currency amounts, mainly using financial hedging instruments such as forward sales and purchase agreements. This policy therefore reduces the exposure to currency risk.

Liquidity risk

The parent, Cotonificio Albini S.p.A., manages the treasury for the entire group in order to ensure the efficient and effective management of financial resources. Current and non-current liquidity requirements are monitored closely such to ensure financial resources are promptly available or the appropriate investment of liquid funds, and that the make-up of debt is consistent with the investments made. Moreover, the group seeks to optimise liquidity among group companies, including through non-current loans bearing market interest rates.

Risks covered by insurance

Group companies have insurance policies in place to minimise financial effects. The analysis and insurance coverage of the risks faced by the group were performed with the assistance of the broker, Aon S.p.A., whose Italian and international organisation offers this service and manages any claims that may arise.

Briefly, all group companies are insured against the following risks: third party liability, accident, fire - all risks and business continuity.

RESEARCH AND DEVELOPMENT EXPENSE

The subsidiaries Cotonificio Albini S.p.A. and I Cotoni di Albini S.p.A. continued to develop new fabrics, research innovative yarns and finishes and improve production technologies in 2018. Cotonificio Albini S.p.A. focused on the study and development of new fabrics for the clothing industry, the design, re-engineering and optimisation of maintenance procedures and the IT maintenance system, the study and design of new technological solutions to improve company IT services and the study and development of new systems for tracing pieces within the production flow. I Cotoni di Albini S.p.A. continued its R&D activities, concentrating on the analysis, study, design, prototyping and testing of new yarn development, also for raw materials other than cotton.

Research and development activities took place at the Albino, Brebbia and Gandino facilities and supplier production sites. They also involved the assistance of external consultants and collaborators.

The expense incurred, totalling €4.7 million (3.08% of net turnover), mainly includes personnel expenses for employees involved in research, consultancies for the development of stylistic, materials and new colour trends and the costs incurred for research into new materials and textile testing, as well as the depreciation and maintenance of machinery and equipment used directly in these activities.

The activities performed resulted in prototypes and the subsequent production of innovative and exclusive fabrics and yarns, which performed well on Italian and foreign markets. The subsidiary's ongoing commitment to product research and development efforts continued to be well received among customers. New digital projects were also launched to interconnect with customers and improve IT services and data analyses. All costs incurred were expensed.

The subsidiaries intend to apply for the R&D tax credit provided for by article 1.35 of Law no. 190 of 23 December 2014 for these costs that increase the value of assets and to use this credit as allowed by the law. They will continue their research activities in 2019.

OUTLOOK

There was a general slowdown in the economy in the first quarter of 2019, especially in Europe. The geo-economic factors already mentioned led to a slackening in orders from some customers in the region. Therefore, the group has continued with even greater effort and determination to boost relations with its key customers and promote product innovation. However, the second half of the year could see a slight recovery in the general economy along with a small pickup in spending. In contrast, the yarn sales segment recorded an upswing in turnover in the first few months of 2019.

The group will continue its cost containment actions, with regard to both production costs and the indirect costs of the various Italian and foreign subsidiaries.

Investments are expected to exceed 2018. The most significant will refer to the overhaul of the Italian spinning and finishing production structure. There will also be particular focus on inventory management thanks to new tools for preventive analysis and the spending budget.

In the energy sector, the subsidiary Albini Energia S.r.l. is continuing to direct its own commercial strategy towards the sale of turnkey systems, including complex ones (new power stations, cooling and conditioning systems, cogeneration systems, purification systems, etc.). The aim of this strategy is to offset the fall in revenue from the sale of white certificates expected in 2019 due to the gradual winding down of the allocation of such certificates.

Albino, 29 March 2019

On behalf of the board of directors
The Chairman
(Fabio Albini)

Annex 1

RECLASSIFIED BALANCE SHEET

(€'000)	2018	2017
Intangible fixed assets	1.642	1.598
Tangible fixed assets	63.586	68.590
Financial fixed assets	3	3
Provisions and employees' leaving entitlement	(12.706)	(12.993)
Net working capital	68.507	72.968
Net other medium-term receivables	1.221	1.221
Net invested capital	**122.253**	**131.387**
Net financial debt	**(39.244)**	**(52.098)**
Shareholder loans	**(8.757)**	**(8.757)**
Consolidated net equity	**74.348**	**70.655**
of which:		
- attributable to the group	73.646	70.073
- minority interests	702	582

Net working capital	**2018**	**2017**
Inventory	73.420	74.522
Trade receivables	34.846	34.437
Trade payables	(32.306)	(29.120)
Other net payables	(7.453)	(6.871)
Total	**68.507**	**72.968**

Net financial debt	**2018**	**2017**
Bank loans and borrowings	(38.379)	(53.677)
Bonds	(2.455)	-
Loans and borrowings from other financial backers	(7.973)	(8.041)
Bank deposits and cash and cash equivalents	9.563	9.620
Total	**(39.244)**	**(52.098)**

Annex 2

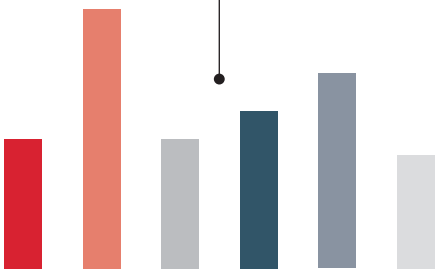
RECLASSIFIED PROFIT AND LOSS ACCOUNT (*)

(€'000)	2018	2017
Net revenues	151.998	149.251
Cost of sales	(120.598)	(122.759)
Gross operating profit	**31.400**	**26.492**
Sales costs	(13.655)	(15.051)
Product research costs	(3.458)	(2.864)
Administrative costs and overheads	(9.313)	(7.883)
Other operating income	536	366
Operating profit (EBIT)	**5.510**	**1.060**
Net financial charges	(1.683)	(3.505)
Net extraordinary income/expense	0	0
Pre-tax profit (loss)	**3.827**	**(2.445)**
Income taxes	(1.008)	491
Net profit (loss) for the year, including minority interests	**2.819**	**(1.954)**
Minority interests	**70**	**35**
Net profit (loss) for the year attributable to the group	**2.749**	**(1.989)**
As a % of net revenues		
Gross operating profit	20,7%	17,7%
EBITDA margin	9,0%	6,1%
EBIT margin	3,6%	0,7%
Net profit (loss)	1,8%	(1,3)%
Cost of sales	79%	82%
Sales costs	9%	10,1%
Product research costs	2,3%	1,9%
Administrative costs and overheads	6,1%	5,3%

(*) reclassified by allocating costs to cost centres

ALBINI GROUP S.P.A.

CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2018



CONSOLIDATED FINANCIAL STATEMENTS AS AT 31.12.2018

BALANCE SHEET

ASSETS	31.12.2018		31.12.2017	
(€'000)	Partial	Total	Partial	Total
A) Share capital proceeds to be received				
B) Fixed assets				
I. Intangible fixed assets				
1) Start-up and capital costs				
2) Development costs				
3) Industrial patents and intellectual property rights		224		162
4) Concessions, licences, trademarks and similar rights		233		226
5) Goodwill		484		538
6) Assets under development and payments on account		142		98
7) Other		559		574
Total		**1.642**		**1.598**
II Tangible fixed assets				
1) Land and buildings		47.145		47.188
2) Plant and machinery		13.983		17.608
3) Industrial and commercial equipment		32		37
4) Other assets		1.161		1.075
5) Assets under construction and payments on account		1.265		2.682
Total		**63.586**		**68.590**
III. Financial fixed assets				
2) Financial receivables				
d bis) from others		3		3
Total		**3**		**3**
Total fixed assets		**65.231**		**70.191**
C) Current assets				
I. Inventory				
1) Raw materials, consumables and supplies		27.866		28.997
2) Work in progress and semi-finished products		20.615		20.842
3) Contract work in progress		209		274
4) Finished goods		24.730		24.409
5) Payments on account				
Total		**73.420**		**74.522**

ASSETS	31.12.2018		31.12.2017	
(€'000)	Partial	Total	Partial	Total
II. Financial receivables				
1) Trade receivables				
due within one year		34.846		34.437
due after one year				
5bis) Tax receivables due within one year		1.602		2.531
Tax receivables due after one year		1.104		1.104
5ter) Deferred tax assets due within one year		1.799		1.610
Deferred tax assets due after one year				
5quater) From others due within one year		2.138		1.448
From others due after one year		117		117
Total		**41.606**		**41.247**
III. Current financial assets				
1) Investments in subsidiaries				
2) Investments in associates				
3) Investments in parents				
3bis) Investments in subsidiaries of parents				
4) Other equity investments				
5) Derivatives		96		123
6) Other securities				
Total		**96**		**123**
IV. Liquid funds				
1) Bank and postal accounts		9.544		9.607
2) Cheques on hand		1		1
3) Cash-in-hand and cash equivalents		18		12
Total		**9.563**		**9.620**
Total current assets		**124.685**		**125.512**
D) Prepayments and accrued income				
- prepayments and accrued income		128		170
Total prepayments and accrued income		**128**		**170**
Total assets		**190.044**		**195.873**

CONSOLIDATED FINANCIAL STATEMENTS AS AT 31.12.2018

BALANCE SHEET

LIABILITIES	31.12.2018		31.12.2017	
(€'000)	Partial	Total	Partial	Total
A) Net equity				
I. Share capital		1.820		1.820
II. Share premium reserve		828		828
III. Revaluation reserve				
IV. Legal reserve		364		364
V. Riserve statutarie				
VI. Other reserves:				
- Extraordinary reserve	2.610		2.834	
- Capital injections	207		207	
- Revaluation reserve as per Law no. 342/00	2.537		4.221	
- Revaluation reserve as per Law no. 266/05	4.592		4.592	
- Revaluation reserve as per Law no. 02/09	12.247		12.247	
- Translation reserve	2.443	24.636	1.864	25.965
VII. Hedging reserve		(101)		(408)
VIII. Undistributed profits of subsidiaries		43.350		43.493
IX. Net profit (loss) for the year		2.749		(1.989)
X. Reserve for own shares				
Total net equity attributable to the group		**73.646**		**70.073**
Minority interests in net equity		632		547
Minority interests in net profit for the year		70		35
Total minority interests in net equity		702		582
Total consolidated net equity		**74.348**		**70.655**
B) Provisions for risks and charges				
1) Pension and similar provisions		1.584		1.606
2) Tax provision, including deferred tax liabilities		4.211		4.324
3) Derivatives		213		490
4) Other provisions		447		
Total provisions for risks and charges		**6.455**		**6.420**
C) Employees' leaving entitlement		**6.251**		**6.573**
D) Payables				
1) Bonds				
Due within one year		333		
Due after one year		6.279		4.157
2) Convertible bonds				
Due within one year				
Due after one year		4.600		4.600

LIABILITIES	31.12.2018		31.12.2017	
(€'000)	Partial	Total	Partial	Total
3) Shareholder loans				
Due within one year				
Due after one year				
4) Bank loans and borrowings				
Due within one year		25.479		32.623
Due after one year		12.900		21.054
5) Loans and borrowings from other financial backers				
Due within one year		2.344		1.262
Due after one year		5.629		6.779
6) Payments on account due within one year		964		740
7) Trade payables				
Due within one year		32.306		29.120
Due after one year				
8) Commercial paper				
Due within one year				
Due after one year				
12) Tax payables due within one year		1.859		1.350
13) Social security charges payable due within one year		2.065		2.119
14) Other payables due within one year		6.603		6.699
Total payables		**101.361**		**110.603**
E) Accrued expenses and deferred income				
- accrued expenses and deferred income		1.629		1.722
Total accrued expenses and deferred income		**1.629**		**1.722**
Total liabilities		**115.696**		**125.218**
Total net equity and liabilities		**190.044**		**195.873**

PROFIT AND LOSS ACCOUNT

	31.12.2018		31.12.2017	
(€'000)	Partial	Total	Partial	Total
A) Production revenues				
1) Turnover from sales and services		151.998		149.251
2) Change in work in progress, semi-finished products and finished goods		72		(4.339)
3) Change in contract work in progress		(65)		15
4) Internal work capitalised		30		21
5) Other revenues and income:				
- sundry	2.341		2.123	
- grants related to income	892	3.233	737	2.860
Total production revenues (A)		**155.268**		**147.808**
B) Production cost				
6) Raw materials, consumables, supplies and goods		56.299		52.249
7) Services		41.014		41.542
8) Use of third party assets		599		760
9) Personnel expenses:				
a) Wages and salaries	29.731		29.178	
b) Social security contributions	9.206		9.084	
c) Employees' leaving entitlement	1.787		1.832	
d) Pension and similar costs				
e) Other costs	272	40.996	996	41.090
10) Amortisation, depreciation and write-downs:				
a) Amortisation of intangible fixed assets	599		528	
b) Depreciation of tangible fixed assets	7.385		7.364	
c) Other write-downs of fixed assets				
d) Write-downs of current receivables and liquid funds	176	8.160	186	8.078
11) Change in raw materials, consumables, supplies and goods		1.364		2.015
12) Provisions for risks				
13) Other provisions				
14) Other operating costs		1.326		1.014
Total production cost (B)		**149.758**		**146.748**
Operating profit (A-B)		**5.510**		**1.060**

	31.12.2018		31.12.2017	
	Partial	Total	Partial	Total
C) Financial income and charges				
16) Other financial income:				
d) Other income:				
- Other	8	8	33	33
17) Interest and other financial charges:				
- Other	(2.102)		(2.349)	
17 bis) Net exchange rate gains (losses)	491	(1.611)	(1.225)	(3.574)
Net financial charges (15+16-17±17bis)		**(1.603)**		**(3.541)**
D) Adjustments to financial assets				
18) Write-backs:				
a) Investments				
b) Financial fixed assets which are not equity investments				
c) Securities classified as current assets				
d) Derivatives	175	175	625	625
19) Write-downs:				
a) Investments				
b) Financial fixed assets which are not equity investments				
c) Securities classified as current assets				
d) Derivatives	(255)	(255)	(589)	(589)
Total adjustments (18-19)		**(80)**		**36**
Pre-tax profit (loss) (A-B±C±D)		**3.827**		**(2.445)**
20) Income taxes				
- current	(1.453)		(565)	
- deferred	414		329	
- income from participation in the national tax consolidation scheme	31		727	
Total current and deferred taxes		**(1.008)**		**491**
21) Net profit (loss) for the year before minority interests		2.819		(1.954)
Minority interests		70		35
21 bis) Net profit (loss) for the year attributable to the group		**2.749**		**(1.989)**

On behalf of the board of directors
The Chairman
(Fabio Albini)

CASH FLOW STATEMENT

(indirect method)

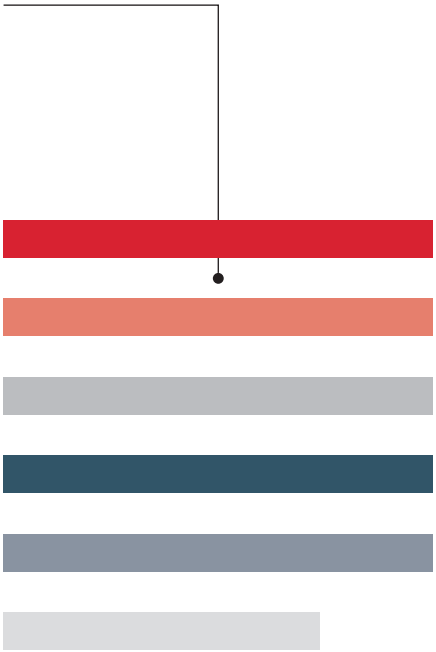
(€'000)	2018	2017
A. Cash flows from operating activities		
Net profit (loss) for the year	2.819	(1.954)
Income taxes	1.008	(491)
Net interest expense	794	1.028
Dividends	-	-
Gains on the sale of assets	(238)	(39)
1. Profit (loss) for the year before income taxes, interest, dividends and gains/losses on the sale of assets	**4.383**	**(1.456)**
Adjustments for non-monetary elements that did not affect net working capital		
Increase in provisions	3.257	2.420
Amortisation and depreciation	7.984	7.892
Write-downs for impairment	-	-
Write-downs of derivatives that did not involve cash flows	57	613
Other non-monetary adjustments	-	-
2. Cash flows before changes in net working capital	**15.681**	**9.469**
Changes in net working capital		
Decrease in inventory	352	7.070
Increase in trade receivables	(266)	(1.678)
IIncrease/(decrease) in trade payables	3.186	(1.685)
Decrease/(increase) in prepayments and accrued income	42	(6)
Decrease in accrued expenses and deferred income	(93)	(124)
Other changes in net working capital	(277)	1.102
3. Cash flows after changes in net working capital	**18.625**	**14.148**
Other adjustments		
Interest paid	(794)	(1.028)
Income taxes paid	(323)	(139)
Dividends collected	-	-
Utilisation of provisions for risks	(2.547)	(2.576)
Other collections/payments	-	-
Cash flows from operating activities (A)	**14.961**	**10.405**

(€'000)	2018	2017
B. Cash flows from investing activities		
Tangible fixed assets		
(Investments)	(1.994)	(4.439)
Proceeds from sales	462	41
Intangible fixed assets		
(Investments)	(624)	(595)
Proceeds from sales	-	-
Financial fixed assets		
(Investments)	-	-
Disinvestments	-	-
Current financial assets		
(Investments)	-	-
Proceeds from sales	-	-
Cash flows used in investing activities (B)	**(2.156)**	**(4.993)**
C. Cash flows from financing activities		
Third party funds		
Increase (decrease) in current bank loans and borrowings	(2.685)	6.223
New loans	2.455	4.007
Repayment of loans	(12.688)	(11.657)
Own funds		
Capital increase against payment	-	-
Dividends and interim dividends paid	(41)	(534)
Cash flows used in financing activities (C)	**(12.959)**	**(1.961)**
Increase (decrease) in liquid funds (A ± B ± C)	**(154)**	**3.451**
Exchange rate effect on liquid funds	97	(1.580)
Net increase (decrease) in liquid funds	**(57)**	**1.871**
Liquid funds at 1 January	**9.620**	**7.749**
Including:		
Bank and postal accounts	9.607	7.730
Cheques on hand	1	2
Cash-in-hand and cash equivalents	12	17
Liquid funds at 31 December	**9.563**	**9.620**
Including:		
Bank and postal accounts	9.544	9.607
Cheques on hand	1	1
Cash-in-hand and cash equivalents	18	12

On behalf of the board of directors
The Chairman
(Fabio Albini)

ALBINI GROUP S.P.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



Registered office: Via Dr. Silvio Albini 1, Albino (BG)
Share capital: €2,028,000.00, of which €208,000,00 reserved for the conversion of the subsidiary Cotonificio Albini S.p.A.'s bonds; actual share capital: €1,820,000.00, fully paid-up.
Bergamo company registration no. and tax code: 01736210160

GROUP OPERATIONS

The group's business object is to produce and sell shirting fabrics.

GROUP COMPOSITION, CONSOLIDATION SCOPE AND CHANGES FROM THE PREVIOUS YEAR

The consolidated financial statements include the financial statements of Albini Group S.p.A., with registered office in Albino (Bergamo), and those of the direct subsidiaries Albini Energia S.r.l., Cotonificio Albini S.p.A. and its subsidiaries, which the parent controls pursuant to article 26 of Legislative decree no. 127/91, as listed below:

COMPANY		SHARE/QUOTA CAPITAL	
ALBINI GROUP S.P.A. Financial holding company Registered office in Albino (Bergamo)		EUR	1.820.000
COTONIFICIO ALBINI S.P.A. Operating parent - registered office in Albino (Bergamo) 100% directly owned		EUR	10.000.000
ALBINI ENERGIA S.R.L. Registered office in Albino (Bergamo) 100% directly owned		EUR	50.000
TESSITURA DI MOTTOLA S.R.L. Registered office in Mottola (Taranto) 100% indirectly owned	(1)	EUR	1.000.000
DIETFURT S.R.O. Registered office in Letohrad, Czech Republic 100% indirectly owned	(1)	CZK	60.100.000
MEDITERRANEAN TEXTILE S.A.E. Registered office in Borg El Arab, Alexandria, Egypt 1.43% directly owned 98.57% indirectly owned	(3)	USD	14.000.000
DELTA DYEING S.A.E. Registered office in Borg El Arab, Alexandria, Egypt 76.44% indirectly owned	(2)	USD	5.200.000
ALBINI TRADING SHANGHAI CO. LTD. Registered office in Shanghai, China 90% indirectly owned	(1)	CNY	4.225.355

I COTONI DI ALBINI S.P.A.	(1)	EUR	1.000.000
Registered office in Albino (Bergamo)			
70% indirectly owned			
ALBINI HONG KONG LTD.	(1)	HKD	3.500.000
Registered office in Hong Kong			
100% indirectly owned			
ALBINI USA CORPORATION	(1)	USD	500.200
Registered office in New York, USA			
100% indirectly owned			

(1) Owned by Cotonificio Albini S.p.A.
(2) Owned by Mediterranean Textile S.a.e.
(3) Owned by Cotonificio Albini S.p.A. and Dietfurt S.r.o.

The aforementioned companies are consolidated on a line-by-line basis.

The consolidation scope did not change in 2018.

The investment in Stil Novo Partecipazioni S.r.l., in liquidation, has been excluded from the consolidation scope. Being a minority interest and being irrelevant for the purposes of giving a true and fair view of the group's consolidated financial statements since it had already been written off in 2015 after it was put into liquidation, the company was measured at cost.

BASIS OF PRESENTATION

The consolidated financial statements as at and for the year ended 31 December 2018, comprised of a balance sheet, a profit and loss account, a cash flow statement and these notes, have been prepared in compliance with articles 2423 and following articles of the Italian Civil Code and the provisions of Legislative decree no. 127/91, interpreted in the context of and integrated by the reporting standards issued by the Italian Accounting Standard Setter (Organismo Italiano di Contabilità, OIC) ("OIC").

The reporting dates of the consolidated financial statements and the financial statements to be consolidated are the same as that of the parent and all the consolidated companies. The consolidated financial statements were prepared on the basis of the financial statements as at and for the year ended 31 December 2018 prepared by the directors of each consolidated group company and approved by their share/quotaholders or boards of directors,

adjusted, where necessary, to comply with the group accounting policies or based on the financial information (reporting packages) submitted by the consolidated companies, prepared in accordance with the parent's instructions.

The accounting policies applied to prepare the consolidated financial statements are those applied by the parent for the preparation of its financial statements, and by most of the consolidated subsidiaries. The assets and liabilities with identical or similar name and content in the financial statements of the group companies, which make up the same consolidated financial statements captions, are measured consistently.
Each balance sheet and profit and loss account caption presents the corresponding figures of the previous year. Where necessary, the latter are adjusted for comparative purposes and the related effects are disclosed in the notes, if material.

If the disclosure required by specific legal provisions is not sufficient to give a true and fair view, additional information is included, as deemed necessary to this end. Specifically, the following information is presented as tables in these notes:

- a statement of reconciliation between the parent's and the group's net equity and net profit for the year;
- a statement of changes in net equity.

In order to provide more complete disclosure on the group's financial position and financial performance, a cash flow statement is presented showing the reasons for increases or decreases in the liquid funds during the year. The cash flow statement has been prepared under the indirect method, using the layout provided for by OIC 10.

The amounts presented in the balance sheet, profit and loss account, cash flow statement and these notes are stated in thousands of Euros, except as otherwise specified.

Reference should be made to the directors' report that accompanies these consolidated financial statements for information on the group's activities and transactions with associates, subsidiaries of parents and other related parties.

The post-balance sheet events and the total off-balance sheet commitments, guarantees and contingent liabilities are commented on in specific sections of these notes.

BASIS OF CONSOLIDATION

The post-balance sheet events and the total off-balance sheet commitments, guarantees and contingent liabilities are commented on in specific sections of these notes.

All companies included in the consolidation scope and subsidiaries are consolidated on a line-by-line basis, which may be summarised as follows:

- recognition of the full amount of assets and liabilities and costs and revenues, irrespective of the investment percentage;
- elimination of receivables and payables and costs and revenues between consolidated companies;
- elimination of the carrying amount of those investments in companies included in the consolidation scope against the corresponding elimination of the portions of net equity.

Any excess amount paid with respect to the carrying amount of the investees' net equity at the date of acquisition has been allocated to the individual asset and liability captions to which such amount relates. Any residual positive amount, representing goodwill, is recognised under "Goodwill arising on consolidation".

As they are due to changes in the investees' net equities occurring after acquisition, other differences arising from the elimination of the investees' carrying amount against their net equity are recognised as an increase in consolidated net equity under "Undistributed profits of subsidiaries". Minority interests in net equity and net profit (loss) for the year are shown in separate captions under balance sheet liabilities and the profit and loss account.

The financial statements of foreign subsidiaries prepared in currencies other than the Euro are translated into the reporting currency at the closing rate for the balance sheet and at the estimated average exchange rate for the year for the profit and loss account. Exchange rate gains and losses arising from the translation of the opening net equity captions at closing rates compared to those in force at the end of the previous year are recognised in the "Translation reserve". Differences generated by the translation of the net profit (loss) for the year at average exchange rates compared to the translation at closing rates are also recognised in the "Translation reserve".

The exchange rates applied for the translation into Euro are as follows:

Currency	Exchange rate at 31.12.2018	Average exchange rate 2018	Exchange rate at 29.12.2017	Average exchange rate 2017
Czech koruna	25,724	25,647	25,535	26,3272
US dollar	1,145	1,181	1,1993	1,1293
Chinese renmimbi	7,8751	7,8081	7,8044	7,6264
HK dollar	8,9675	9,2559	9,372	8,8012

Significant receivables, payables, costs and revenues on transactions between consolidated companies and any material unrealised intercompany profits due from third parties are eliminated, taking into account the tax effect where necessary. Leases are classified using the "financial method" so as to determine the original cost of the asset net of the related depreciation.

ACCOUNTING POLICIES

The financial statements captions have been measured in accordance with the general principles of prudence and accruals on a going-concern basis. They are presented considering the substance of the transaction or contract, in compliance with the Italian Civil Code and the OIC.

Under the prudence principle, the group measures the individual assets and liabilities separately, in order to avoid offsetting losses that should be recognised against unrealised profits that should not be recognised. Specifically, the group recognises profits only if realised before the reporting date, whereas it considers risks and losses on an accruals basis, even when they become known after the reporting date.

In accordance with accruals-based accounting, the group recognises the effects of transactions in the year to which the transaction relates rather than that in which the associated collections and payments occur. The accounting policies have not changed compared to those applied in the previous year for comparative purposes. No exceptional events took place during the year, which would have led the group to depart from the accounting policies, as permitted by article 29.4 of Legislative decree no. 127/91, in order to give a true and fair view of its financial position, financial performance and cash flows. Moreover, the group did not make any revaluations under specific laws.

The preparation of financial statements requires management to make estimates that affect the carrying amount of assets and liabilities and the related disclosures. Actual results may differ. Estimates are revised regularly and the effect of any changes, if not related to errors, are recognised in the

profit and loss account when the estimates are changed, if they affect just one year, and also in the following years, if they affect both the current and subsequent years.

ACCOUNTING POLICIES

The accounting policies used for the consolidated financial statements are usually the same as those adopted by the parent. Should certain asset or liability items included in the consolidated financial statements not be presented in the parent's financial statements, the accounting policies used by most of the consolidated companies will be applied thereto.

Intangible and tangible fixed assets

Intangible fixed assets are recognised at acquisition or development cost with the approval of the board of statutory auditors, where required. They are stated net of accumulated amortisation and any impairment losses. The acquisition cost includes the related transaction costs. The development cost includes all directly attributable costs and the reasonably attributable portion of other costs incurred from development up to when the asset is available for use.

Intangible fixed assets are amortised systematically and the amortisation expensed each year reflects the allocation of the cost incurred over their entire useful life. Amortisation begins when the asset is available for use. The amortisation pattern depends on how the benefits are expected to flow to the group.

Intangible fixed assets are amortised at the following rates:

Categories	Rate
Start-up and capital costs	20%
Industrial patents and intellectual property rights	33,33%
Concessions, licences, trademarks and similar rights	10%
Goodwill	10%
Other:	
- Software	33,33%
- Other	20%

If the carrying amount of an asset indicates an impairment loss at the reporting date, it is written down accordingly.
With the exception of goodwill and deferred costs, the original amount is reinstated in subsequent years if the reasons for such write-down cease to exist.

Tangible fixed assets are recognised at purchase or production cost, adjusted by accumulated depreciation and write-downs. The purchase cost is the cost actually incurred to purchase the asset and includes the related transaction costs. The production cost includes all directly attributable charges and the reasonably attributable portion of other costs incurred from production up to when the asset is available for use. Ordinary maintenance costs related to recurring maintenance and repair to keep assets in good working order to ensure their expected useful life, capacity and original productivity, are expensed when incurred. Costs incurred to expand, modernise or improve structural elements of a tangible fixed asset, including changes made to make it more compliant with its intended use, are capitalised if they result in a significant and measurable increase in its production capacity, safety or useful life. If not, they are treated as ordinary maintenance costs and are expensed.

Tangible fixed assets of the parent and consolidated companies are revalued, to the extent of their recoverable amount, only if the law requires or permits so in the relevant country, as shown in annex.

The legal revaluations made to assets still owned by the group at 31 December 2018 are:

- Law no. 576 of 2 December 1975;
- Law no. 72 of 19 March 1983;
- Law no. 413 of 31 December 1991;
- Law no. 342 of 21 November 2000;
- Law no. 448 of 28 December 2001;
- Law no. 266 of 23 December 2005;
- Law no. 2 of 28 January 2009.

A further revaluation was made pursuant to article 16 of Presidential decree no. 598, following the merger which took place in 1987.

Depreciation is calculated systematically and on a straight-line basis, using rates held to reflect the asset's estimated useful life. Depreciation begins when the asset becomes available for use. In accordance with the principle of materiality set out in article 2423.4 of the Italian Civil Code and the applicable reporting standard, the depreciation rates are halved in the first year in which the asset is available for use. Temporarily unused assets are also depreciated. The amount to be depreciated is the difference between the cost of the asset

and, when it can be calculated, the residual amount at the end of its useful life which is estimated when the depreciation plan is prepared and periodically revised in order to check that the initial estimate is still valid. When the check shows that an asset's estimated residual value is equal to or higher than its carrying amount, the asset is no longer depreciated.

The depreciation rates used are as follows:

Categories	Rate
Operating buildings	3%
Plant and machinery	da 10% a 20%
Hydroelectric plant	7%
Photovoltaic systems	4%
Industrial and commercial equipment	18-25%
Other assets:	
- Office furniture and equipment	12%-20%
- Cars	25%
- Trolleys	20%

If, at the reporting date, there are indications of impairment losses on tangible and intangible fixed assets, the recoverable amount of such assets is estimated.

If the recoverable amount, being the higher of value in use and fair value less costs to sell, is lower than the corresponding carrying amount, the assets are written down.

The write-down is not maintained in subsequent years if the reasons therefor cease to exist. The write-down is reversed up to the amount the asset would have had if the write-down had never taken place, that is, net of the amortisation/depreciation that would have been recognised in the absence of the write-down. Write-downs of goodwill and deferred charges cannot be reversed.

Assets under finance leases

Assets under finance leases, for which most of inherent risks and rewards are transferred to the group, are included under tangible fixed assets with a balancing entry representing the liability to the lease company under "Loans and borrowings from other financial backers" for the principal of the lease instalments due, using the amortised cost method. The profit and loss account will include the relevant portion of depreciation of the year and interest

expense on the financing instead of the accrued lease payments.

Financial fixed assets

Equity investments, debt instruments and own shares which the group intends and has the capacity to hold in the long term, are recognised under financial fixed assets. Otherwise, they are recognised under current assets.
Transfers in or out of the two categories are recognised in accordance with the accounting policies applicable to the portfolio which the asset comes from.
Receivables are recognised under fixed or current assets depending on their intended use in relation to the company's ordinary activities that generate them. Accordingly, financial receivables are recognised under financial fixed assets, whereas trade receivables are recognised under current assets, regardless of their due date. They are measured as detailed below.

Inventory

Inventory is initially recognised at purchase or production cost and subsequently measured at the lower of cost and estimated realisable value based on market trends.

Purchase cost is the actual cost paid upon purchase including related charges, less borrowing costs.

The purchase cost of raw materials includes their price, transport costs, customs and other duties and other directly attributable costs. Returns, commercial discounts, rebates and bonuses are deducted from costs.
Production cost is purchase costs plus manufacturing costs and includes all direct costs and the reasonably attributable portion of indirect costs incurred from production up to when the asset is available for use, based on normal production capacity. Production cost excludes general and administrative costs, distribution costs and research and development costs.

Cost is determined as the weighted average cost, as follows:

- raw cotton, unbleached yarns, unbleached materials and finished fabrics are recognised at the weighted average cost of the year;
- work in progress and dyed yarns in stock and at third parties are measured based on their progress;
- stocks of consumables and spare parts are recognised at their weighted average cost for the year.

The estimated realisable value based on market trends is the estimate of ordinary sales prices of goods and finished products, net of estimated

completion costs and direct sales costs. Obsolescence and turnover are also taken into account in calculating the estimated realisable value based on market trends. Obsolete and slow-moving items are written down to reflect their estimated possibility of use or sale.

Should the reasons for the write-down applied as an adjustment to the realisable value based on market trends cease to exist, in whole or in part, the write-down is reversed to the extent of the originally incurred cost.

Contract work in progress

If the group has a binding agreement with the counterparty and is able to measure the contract profit or loss reliably, contract work in progress is recognised based on the stage of completion (or percentage of completion), whereby contract costs, revenues and profits or losses are recognised on the basis of the work performed. The group measures the percentage of completion using the cost to cost method.

This method reflects the best estimate of work performed at the reporting date. The underlying estimates are updated regularly. Any resulting profits or losses are recognised in the profit and loss account when the update is made.

Contract revenues include all contractual consideration, as well as approved variations to work, price escalation clauses, claims and incentives to the extent they can be determined reliably and their collection is reasonably certain.

Contract costs include all costs directly related to the contract, indirect costs attributable to the entire production process and attributable to the contract, as well as any other costs that may be specifically charged to the customers under the contract terms. The calculation of the percentage of completion excludes pre-operating contract costs and includes the costs to be incurred after the completion of the contract.

If the group is unable to determine the outcome of a contract reliably, its carrying amount is calculated on the basis of the costs incurred, if their recovery is reasonably certain and, therefore, without recognising any profit.

The group recognises the consideration to which it is definitively entitled as revenue, while it recognises the change in contract work in progress, which is the difference between the opening and closing inventory for work carried out and not yet definitively settled, in the specific profit and loss account

caption. Accrued revenues are recognised only when the group is certain that it will definitively collect them as consideration for the work carried out. In the case of progress billings, since advances and payments on account are financial transactions, they do not affect revenue recognition and are always recognised as liabilities as they are not necessarily calculated on the basis of work carried out. Upon final billing, the group reverses the relevant amount of advances and payments on account from liabilities.

When the total estimated costs of an individual contract are likely to exceed total estimated revenues, the contract is measured at cost and the probable loss to complete the contract is recognised as a decrease in contract work in progress when it is forecast, based on an objective and reasonable assessment of the existing circumstances and regardless of the contract's stage of completion. If the loss exceeds the carrying amount of contract work in progress, the difference is accrued in a provision for risks and charges.

Receivables

Receivables are rights to receive fixed or determinable amounts of cash or its equivalent from customers or other third parties at identified or identifiable due dates. Receivables arising from the sale of goods and supply of services are recognised in accordance with the requirements set out in the section on revenues. Receivables arising for other reasons are recognised if they result in a right to a receivable, i.e., if they actually give rise to a third party obligation to the company. Receivables are recognised at amortised cost, considering the time value of money and their estimated realisable value.

The amortised cost method is not applied when its effects are irrelevant, which is usually the case for current receivables or when transaction costs, commissions paid between the parties and any other difference between the original and recoverable amounts at the due date are insignificant.

Receivables are initially recognised at their nominal amount, net of bonuses, discounts and allowances contractually provided for or, in any case, granted. They are subsequently measured at their nominal amount plus interest calculated at the nominal interest rate, reduced by principal and interest collected and net of estimated write-downs and expected credit losses recognised to adjust their carrying amount to their estimated realisable value.

Cash discounts and allowances, that were not included in the calculation

of the estimated realisable value as they could not be determined when the receivable was originally recognised, are recognised upon collection.

The group recognises these receivables at their estimated realisable value by writing down their carrying amount through the provision for bad debts, in order to provide for any risk of impairment. To this end, the group considers specific indicators based on past trends and any other useful information about a probable impairment. The write-downs are estimated on an individual basis for significant receivables and collectively for the others, by calculating the expected impairment losses at the reporting date.

Receivables are derecognised when the contractual rights to the cash flows from the receivable are extinguished or title thereto is transferred along with nearly all the related risks. To verify transfer of the risks, the group considers all the contractual clauses.

When the above-mentioned conditions are met and the receivable is derecognised, any difference between the amount collected and the receivable's carrying amount is recognised as an impairment loss in the profit and loss account, unless another classification, including financial, may be identified based on the transfer agreement.

Derivatives

A derivative is a financial instrument or other contract with all three of the following characteristics:

a) its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the underlying);
b) it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors;
c) it is settled at a future date.

Derivatives include agreements to purchase or sell goods that give one of the counterparties the right to settle the agreement in cash or using another financial instrument except when the following conditions concurrently take place:

a) the contract is agreed or maintained to meet the requirement of purchasing, selling or using the goods;
b) they have had that purpose since when they were entered into;
c) their expected performance is the delivery of the non-financial item.

The group recognises a derivative when it becomes party to its contractual provisions, i.e., when it signs the contract and is, therefore, subject to its rights and obligations. It recognises derivatives, including embedded derivatives, at fair value. Derivatives embedded in hybrid contracts are separated from the non-derivative host and recognised separately if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host and a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative provided for in OIC 32. The group assesses whether it is required to separate an embedded derivative and recognise it separately only at the hybrid instrument's initial recognition or at the date when its contractual clauses are amended.
At each reporting date, the group measures derivatives at fair value and presents them in the specific balance sheet captions as current or fixed (in the case of hedges of fixed assets or liabilities due after one year) assets, if their fair value is positive, or under provisions for risks and charges, if their fair value is negative. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The group measures the fair value of unlisted derivatives using adequate valuation techniques and the assumptions, parameters and fair value hierarchy levels required by the relevant OIC.

Fair value gains or losses on derivatives that do not meet the hedge accounting requirements are recognised in the specific profit and loss account captions.

Hedge accounting

A derivative qualifies for hedge accounting if all of the following criteria are met:

a) the hedging relationship consists only of eligible hedging instruments and eligible hedged items;

b) at the inception of the hedging relationship there is formal designation and documentation of the hedging relationship and the group's risk management objective and strategy for undertaking the hedge;

c) the hedging relationship meets the qualitative and quantitative hedge effectiveness requirements.

Therefore, if the group uses derivatives as hedges from a management perspective but the hedging relationship does not fully meet hedge accounting requirements, it recognises them based on the general treatment described earlier. The hedge effectiveness is documented at initial recognition and also on an ongoing basis. At each reporting date, the group assesses whether the hedging relationship is still effective.

If all the requirements mentioned above are met, hedging relationships may be accounted for using the following models.

Fair value hedges

If a derivative is designated as a hedge of the exposure to changes in fair value of a recognised asset or liability or a firm commitment that is attributable to a particular risk and could affect the net profit or loss, the gain or loss on both the hedging instrument and the hedged item attributable to the hedged risk is recognised in the specific profit and loss account caption, to the extent that the gain or loss on the hedged item does not exceed the fair value gain or loss of the hedging instrument. Any surplus is recognised in the profit and loss account caption affected by the hedged item. The fair value gain or loss attributable to the hedged risk adjusts the carrying amount of the hedged item in the balance sheet to the extent, for assets, of their recoverable amount.

Cash flow hedges

If a derivative is designated as a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability, a firm commitment or a highly probable forecast transaction and could affect the net profit or loss, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in the specific net equity reserve, whereas the ineffective portion of the gain or loss on the hedging instrument is recognised in the profit and loss account.

The gains or losses accumulated in the net equity reserve are reclassified to the profit and loss account in the year or over the years during which the hedged future cash flows affect the net profit or loss. If a firm commitment or a highly probable forecast transaction subsequently results in the recognition of a non-financial asset or liability, the associated gains or losses that were recognised in the specific reserve are reclassified from equity to the carrying amount of the asset (to the extent of its recoverable amount) or liability upon its recognition.

When the group discontinues hedge accounting for a cash flow hedge, but the hedged future cash flows are still expected to occur, the amount that has been accumulated in the reserve remains in net equity until the future cash flows occur. If the hedged future cash flows are no longer expected to occur or the forecast transaction is no longer highly probable, that amount is immediately reclassified from the reserve to the profit and loss account.

The disclosures required by article 2427-bis.1 of the Italian Civil Code on the fair value of derivatives and those required by OIC 32 are provided in a specific section of these notes.

Liquid funds

These are the positive balances of bank and postal accounts and cheques, as well as the cash-on-hand and cash equivalents at year end.

Bank and postal accounts and cheques are recognised at their estimated realisable value, cash and revenue stamps at their nominal amount, while foreign currency is measured at the closing rate.

Prepayments and accrued income and accrued expenses and deferred income

Accrued income and expense are respectively portions of income and expenses pertaining to the year but that will be collected/paid in subsequent years. Prepayments and deferred income are respectively portions of expenses and income collected/paid during the year but pertaining to one or more subsequent years.

Accordingly, these captions comprise only portions of expenses and income relating to two or more years, whose amount varies on a time or economic accruals basis.

At each year end, the company analyses the conditions underlying their initial recognition and makes any necessary adjustments. Specifically, the balance of accrued income varies not only over time, but also based on the expected realisable value, whereas that of prepayments is based on the future economic benefits of the deferred costs arising therefrom.

Provisions for risks and charges

Provisions for risks and charges are recognised to cover specific liabilities that are certain or probable, but whose amount or due date is unknown at the reporting date. Specifically, provisions for risks relate to specific liabilities whose occurrence is probable and amount estimated, while provisions for charges relate to specific liabilities, whose occurrence is certain and amount or due date estimated, that arise from obligations already taken on at the reporting date but which will be paid in subsequent years.

Accruals to provisions for risks and charges are recognised in the profit and loss account section to which the transaction relates, privileging the classification of costs by nature. The amount of the accruals to the provisions is based on the best estimate of costs, including the legal expenses, at each reporting date and is not discounted. If the measurement of the accruals gives a range of

values, the accrual represents the best possible estimate between the upper and lower thresholds of the range.

The provision is subsequently used directly and solely for those costs and liabilities for which it was originally set up. If the provision is not sufficient or is redundant, the shortfall or surplus is recognised in the profit and loss account in line with the original accrual.
Risks for which a liability is only possible are disclosed in the notes without making an accrual to a provision.

- Agents' termination indemnity:

  The agents' termination indemnity comprises accruals for the amounts due to agents in the event the group withdraws from the agency agreement, in the event of the agent's death if the agent is a natural person, or on retirement.
  The criterion used by the group to determine this amount differs for Italian and foreign agents. For the Italian agents, the group has specific obligations set out in the national collective contract for agents and the accrual therefore represents the entire amount due under current legislation, including the amount based on performance. For foreign agents operating within the European Community, the accrual represents an annual amount calculated on the average commissions paid over the last five years, pursuant to the provisions of the Italian Civil Code.

- Tax provision, including deferred tax liabilities:

  This caption includes deferred tax liabilities calculated on taxable temporary differences.

- Derivatives:

  The caption shows derivatives with a negative fair value at the measurement date.

- •Other provisions for risks:

  These comprise the accruals made for the estimated contingent liabilities of the various group companies.

Employees' leaving entitlement

The Italian employees' leaving entitlement (TFR) is the benefit to which employees are entitled in any case of termination of employment pursuant to article 2120 of the Italian Civil Code and considering the change in legislation

introduced by Law no. 296 of 27 December 2006. The overall accrued benefit considers any type of continuous remuneration and is net of any payments on account and partial advances paid by virtue of national or individual labour contracts or company agreements which are not required to be repaid. The provision is shown net of advances paid and transfers made to the INPS (the Italian Social Security Institution) treasury fund and other supplementary pension funds for the relevant employees pursuant to legislation in force since 2009. The related liability is the amount that the company would have paid had all employees left at the reporting date.

Payables

Payables are stated at their nominal amount.

Trade payables are initially recognised when the significant risks, charges and benefits relating to ownership have been transferred. Payables relating to services are recognised once the services have been provided.

Loans and borrowings and payables unrelated to the procurement of goods and services are recognised when the group has an obligation vis-a-vis the counterparty.

In the event of early settlement, the difference between the residual outstanding amount and the overall outlay to settle the obligation is recognised as financial income or charge.

Trade payables that are due after one year at initial recognition and do not bear interest or bear interest at unreasonably low rates are recognised at their nominal amount. The balancing entry in the profit and loss account is recognised by separating the portion relating to the purchase of goods or the provision of services at market conditions with short-term due dates from the portion of interest implicitly arising from the payment extension.

Foreign currency transactions, assets and liabilities

Assets and liabilities generated by foreign currency transactions are initially recognised in the currency of the relevant group company (in Euros for Italian companies), applying the transaction-date spot rate between the Euro and the foreign currency to the foreign currency amount.

Foreign currency items are translated at the closing spot rates, and the related gains and losses are taken to the profit and loss account. Non-monetary

foreign currency assets and liabilities are maintained in the balance sheet at the exchange rate ruling at their date of purchase; consequently, the exchange rate gains and losses do not give rise to an independent and separate recognition.

For the Italian companies, any unrealised net exchange rate gain on foreign currency monetary items forms part of the net profit or loss for the year and, when the financial statements and consequent allocation of the net profit or loss for the year are approved, it is recognised in a undistributable reserve for the part not used to cover the net loss for the year. Should the net profit for the year be lower than the unrealised net exchange rate gain, the amount recognised in the undistributable reserve is equal to the net profit for the year.

If foreign currency items are designated as hedged items or hedging instruments in a hedging relationship, the group applies the accounting treatment described in the "Derivatives" section.

Revenues and costs

Revenues and income, costs and charges are stated net of returns, allowances, discounts and premiums, as well as taxes directly related to the sale of goods or provision of services, in compliance with the accruals and prudence concepts. Revenues from the sale of goods are recognised when the production process of goods has been completed and the exchange has already taken place i.e., upon the substantial rather than formal transfer of title, with the transfer of risks and benefits being the key parameter. Revenues from the provision of services are recognised once the services have been provided, i.e., when they have been carried out.

Revenues and income, costs and charges relating to foreign currency transactions are translated using the spot exchange rate ruling on the date of the relevant transaction.

Grants received

Grants pursuant to Laws no. 181/89 and 513/93

Grants received pursuant to Laws no. 181/89 and 513/93 by Tessitura di Mottola S.r.l. are treated as items that adjust the cost of the goods to which they relate; they are gradually taken to profit or loss over the useful life of such assets. The grants received are recognised under the profit and loss account caption, "Other revenues and income", in line with the depreciation rates

of the assets to which they relate, and the portion pertaining to subsequent years under deferred income. The grant received to purchase land, which is not depreciated, has been deducted from the purchase cost of the land.

GSE grants and Eko Energia grants

The grants received from GSE (the company that manages energy services in Italy) for energy production by the photovoltaic system installed in Mottola are taken to the profit and loss account on an accruals basis, considering the energy generated during the year.

The grants received for the Eko Energia programme by Dietfurt S.r.o., granted by the Ministry for Industry and Trade of the Czech Republic, are treated as items that adjust the cost of the assets to which they relate and are recognised as a reduction in the purchase cost of the relevant assets. The subsidiary's 2007-2012 investment plan for plant and machinery also benefited from an incentive scheme of the Czech Ministry for Industry and Trade funded by the European Community and aimed at the development of investments and new technologies in the textile sector. The investment plan has generated a tax credit which was partly used to reduce the tax charge for the year and for previous years from 2011 to 2015.

Other grants

The grants received by the subsidiary Cotonificio Albini S.p.A. for training projects are taken to the profit and loss account on an accruals basis, considering the training costs incurred during the year. The grants for export received by the Egyptian subsidiaries are taken to the profit and loss account for the portion of revenues accrued in the year.

Income taxes

Current income taxes for the year are calculated on the basis of a realistic forecast of the taxable profit under the relevant tax legislation in the country of reference and applying the enacted tax rates at the reporting date. The related tax payable is stated at its nominal amount in the balance sheet, net of payments on account, withholding taxes and tax receivables which may be offset and have been not claimed for reimbursement. A tax asset is recognised for payments on account, withholdings and receivables exceeding the taxes payable. Tax receivables and payables are measured at amortised cost, except when they are due within one year.

Deferred tax assets and liabilities are calculated on the accumulated amount of all temporary differences between the carrying amounts of assets and liabilities and their tax base that will reverse in subsequent years.

Deferred tax liabilities arising from taxable temporary differences relating

to transactions giving rise to reserves taxable on distribution are always recognised unless the specific requirements provided for by the relevant standard are met.

Deferred taxes related to transactions that directly affect net equity are not recognised in the profit and loss account but are initially recognised in the provisions for risks and charges by reducing the matching net equity caption.

Deferred tax assets and liabilities are recognised when the temporary differences arise and are calculated at the tax rates that will be applicable in the year in which the temporary differences reverse, if they have already been established at the reporting date, otherwise at the enacted tax rates at the reporting date.

The deferred tax assets on deductible temporary differences and on the benefit connected with the carry forward of tax losses are recognised and maintained only when their future recoverability is reasonably certain, through the availability of future taxable profits against which the deferred tax assets may be used or the availability of sufficient taxable temporary differences to recover them in the years in which they reverse.

Deferred tax assets not recognised or impaired in prior years as the requirements for their recognition were not met are recognised or reinstated in the year in which the relevant requirements are met.

Deferred tax assets and liabilities are offset if the relevant requirements are met (offsetting ability and intention) and the resulting positive or negative balance is respectively stated under the specific captions of current assets or provisions for risks and charges.

The tax parent, Albini Group S.p.A., renewed the option to participate in the national tax consolidation scheme pursuant to articles 117-129 of Presidential decree no. 917 of 22 December 1986 for the 2017-2019 three-year period, along with Cotonificio Albini S.p.A. and Tessitura di Mottola S.r.l., and for the 2018-2020 three-year period with I Cotoni di Albini S.p.A..

Under this option, the consolidated companies calculate their tax base and transfer it to the tax parent: the tax charge is then recognised in caption 20 (Income taxes, current and deferred) of the latter's profit and loss account. Deferred taxation is also shown under this caption. If the group recognises a tax loss, the related amount paid by the consolidating company is likewise recognised under caption 20 of the profit and loss account.

Post-balance sheet events

These events modify conditions existing at the reporting date. They require adjustments to the carrying amounts of recognised assets and liabilities in

accordance with the relevant accounting policy. They are recognised on an accruals basis to present their reporting-date effect on the group's financial position, financial performance and cash flows. The post-balance sheet events that modify situations existing at the reporting date, but do not require adjustments to the carrying amounts under the relevant accounting policy as they relate to the subsequent year, are not recognised but are disclosed in the notes if necessary to give a more complete view of the group's position. The date within which an event shall be considered a post-balance sheet event is the date on which the directors prepare the draft financial statements, unless events that take place during the period from such date to the date on which the financial statements are expected to be approved by the shareholders have a significant impact on the financial statements.

NOTES TO THE MAIN ASSET CAPTIONS

All amounts in the notes to the consolidated financial statements are in thousands of Euros, except otherwise specified.

FIXED ASSETS

The schedules prepared for intangible and tangible fixed assets are presented in the following pages, showing the historical cost, accumulated depreciation/amortisation, changes of the year, closing balances, and total revaluations at year end for each caption.

Intangible fixed assets

The changes in historical cost, amortisation and the carrying amount of the items under this caption are shown below.

	HISTORICAL COST					ACCUMULATED AMORTISATION				CARRYING AMOUNT
	Balance at 31.12.17	Purchases	Reclassification	Exchange rate fluctuation	Balance at 31.12.18	Balance at 31.12.17	2018 amortisation	Exchange rate fluctuation	Balance at 31.12.18	Net intangible fixed assets at 31.12.18
Industrial patents and intellectual property rights	2.754	232	-	-	2.986	(2.592)	(169)	(1)	(2.762)	224
Concessions, licences, trademarks and similar rights	1.329	45	-	-	1.374	(1.103)	(38)	-	(1.141)	233
Goodwill	761	-	-	-	761	(223)	(75)	21	(277)	484
Assets under development and payments on account	98	138	(94)	-	142	-	-	-	-	142
Other	12.132	209	94	-	12.435	(11.558)	(317)	(1)	(11.876)	559
Total	**17.074**	**624**	**-**	**-**	**17.698**	**(15.476)**	**(599)**	**19**	**(16.056)**	**1.642**

Industrial patents and intellectual property rights increased by €232 thousand in 2018, mainly related to the purchase of new software licences for the Italian and foreign companies.

Concessions, licences, trademarks and similar rights increased by €45 thousand due to new costs to register the group's trademarks.

Assets under development and payments on account increased by €138 thousand, related to new software projects for maintenance control, production planning and the laboratories of the subsidiary Cotonificio Albini S.p.A..

The €209 thousand increase in "Other" is mainly due to the renewal and expansion of websites and new implementations on e-commerce websites and the development of new online sales applications of the subsidiary Cotonificio Albini S.p.A..

Tangible fixed assets

Changes of the year are set out in the following table.

DESCRIPTION	B.II.1 Land and buildings	B.II.2 Plant and machinery	B.II.3 Industrial and commercial equipment	B.II.4 From others assets	B.II.5 Assets under construction	TOTAL
Cost at 31.12.2017	74.672	108.866	1.281	4.266	2.682	191.767
Accumulated depreciation at 31.12.2017	(27.484)	(91.258)	(1.244)	(3.191)	-	(123.177)
Balance at 31.12.2017	**47.188**	**17.608**	**37**	**1.075**	**2.682**	**68.590**
Changes of the year						
Historical cost:						
- acquisitions	250	365	18	503	858	1.994
- exchange rate fluctuations	718	300	15	19	(1)	1.051
- reclassifications	1.505	707	-	40	(2.252)	-
- gross disinvestments	-	(2.856)	-	(220)	(22)	(3.098)
Accumulated depreciation:						
- depreciation of the year	(2.304)	(4.600)	(25)	(456)	-	(7.385)
- exchange rate fluctuations	(212)	(196)	(13)	(19)	-	(440)
- disinvestments	-	2.655	-	219	-	2.874
Total changes of the year	**(43)**	**(3.625)**	**(5)**	**86**	**(1.417)**	**(5.004)**
Cost at 31.12.2018	77.145	107.382	1.314	4.608	1.265	191.714
Accumulated depreciation at 31.12.2018	(30.000)	(93.399)	(1.282)	(3.447)	-	(128.128)
Balance at 31.12.2018	**47.145**	**13.983**	**32**	**1.161**	**1.265**	**63.586**

The main increases of the year were as follows:

a) land and buildings (+€250 thousand), mainly relating to upgrades to the buildings in Albino and Brebbia. The largest investments at Albino were made in upgrading the building's fireproof system, while investments at Brebbia related to restructuring offices with particular focus on the environment and energy savings. Works were carried out on the lighting lines of the buildings in the Borg El Arab facility and new scaffolding was built. All the works were carried out with a particular focus on the environment and energy savings;

b) plant and machinery (+€365 thousand), mainly relating to:
- new autoclaves for the dyeing machines at the Albino site;
- the purchase of new accessories for winding machines at the Letohrad site;
- the purchase of devices for winders and a new steam meter for sizing machines at the Mottola facility;
- the replacement of some electric systems at the Brebbia facility;
- the purchase of a new spinning unit and a drawing frame at the outsourced spinning mill of the subsidiary I Cotoni di Albini S.p.A.;
- the purchase of new warping machinery at the Borg El Arab site.

A portion of the work that began in the previous year and completed in the year is included in the caption Reclassifications;

c) equipment (+€18 thousand) purchased for the Albino facility;

d) other assets (+€503 thousand) mainly related to the renovatcion of the car and truck fleet, electronic machinery and furniture of the Albino, Mottola and Letohrad facilities. Investments were also made in hardware for the offices of the subsidiaries in New York and Hong Kong;

e) assets under construction (+€858 thousand) mainly related to plant and machinery designed for the Albino, Brebbia and Letohrad facilities, the installation of new energy efficiency systems and the utilisation of renewable energy by the subsidiary Albini Energia S.r.l..

The main disinvestments relate to the sale of warping machines, a sizing machine, a winder and spinning machines by the Italian subsidiaries and looms and dyeing machines at the Letohrad and Borg El Araba facilities. These sales generated net gains of €238 thousand.

The reclassifications mainly relate to the allocation of work in progress at the previous year end to plant and machinery, consisting of both buildings and plant and machinery, as described earlier.

Machinery, plant and equipment comprise yarn processing machinery, processing tubes and small tubes for the subsidiary I Cotoni di Albini S.p.A.'s spinning units, located at Filatura Prealpina S.r.l.'s facility.

Ordinary depreciation, disclosed in the relevant schedule at the beginning of these notes, was calculated using rates deemed to represent the residual useful lives of the related assets.

Pursuant to article 10 of Law no. 72 of 19 March 1983 and article 2427 of the Italian Civil Code, the following table discloses the revaluations performed on those assets still in the balance sheet at 31 December 2018 carried out by Cotonificio Albini S.p.A.:

a) Historical (gross) value of revaluations at 31.12.2018:

(In Euros)	Land and buildings	Plant and machinery	Industrial and commercial equipment	Other assets	Total
Historical cost of the revalued assets	**13.508.818**	**16.456.969**	**57**	**-**	**29.965.844**
Monetary revaluations on assets recognised at year end:					
- pursuant to Law no. 576/1975	102.852	2.678	-	-	105.530
- pursuant to Law no. 72/1983	256.312	6.684	-	-	262.996
- pursuant to Law no. 413/1991	812.436	-	-	-	812.436
- pursuant to Law no. 342/2000	-	4.522.189	-	-	4.522.189
- pursuant to Law no. 448/2001	-	10.723	492	5	11.220
- pursuant to Law no. 266/2005	-	2.520.113	-	-	2.520.113
- pursuant to Law no. 2/2009	17.852.649	-	-	-	17.852.649
Economic revaluations on assets recognised at year end:					
- related to the 1987 merger	206.583	3.615	-	-	210.198
Total revaluations	**19.230.832**	**7.066.002**	**492**	**5**	**26.297.331**

b) Carrying amount of revaluations at 31.12.2018:

(In Euros)	Land and buildings	Total
Monetary revaluations on assets recognised at year end:		
- pursuant to Law no. 413/1991	331.959	331.959
- pursuant to Law no. 2/2009	12.308.829	12.308.829
Total revaluations	**12.640.788**	**12.640.788**

No monetary or economic revaluations other than those set out above have been performed, nor were the departures as per articles 2423 and 2423-bis and ter of the Italian Civil Code applied.

As discussed in the section on loans, there are mortgages in favour of the banks and other lenders that grant the group loans on the Albino and Brebbia buildings of the direct subsidiary Cotonificio Albini S.p.A. and on the machinery of Borg El Arab of the indirect subsidiary Delta Dyeing S.a.e..

Financial fixed assets

Investments in associates and other companies

Investments in associates and other companies consist of the subsidiary Cotonificio Albini S.p.A.'s minority investment in Stil Novo Partecipazioni S.p.A. in liquidation, which has been written off.

Financial receivables due from others

The €3 thousand balance refers to the loan granted to Stil Novo Partecipazioni S.r.l. in liquidation for the completion of activities to wind up the company.

CURRENT ASSETS

Inventory

This caption is as follows at year end:

	31.12.2018	31.12.2017
Raw materials, consumables and supplies	27.866	28.997
Semi-finished products	20.615	20.842
Contract work in progress	209	274
Finished goods	24.730	24.409
Total inventory	**73.420**	**74.522**

The group decreased raw materials by €1.13 million, net of the provision for the write-down of inventory (€715 thousand) prudently set up by the subsidiaries Cotonificio Albini S.p.A. and I Cotoni di Albini S.p.A.. The provision increased by €515 thousand to take into consideration the risk of obsolete or slow-moving raw materials. The group continued its actions to decrease the number of yarn codes used and the dyeing colours. With respect to procurement, it also continued to adopt a more accurate forecasting system designed to increase inventory turnover.

Finished goods are shown net of the provision for the write-down of inventory (€392 thousand) prudently set up by the subsidiary Cotonificio Albini S.p.A. and which was increased by €235 thousand following a timely analysis of various inventory items.

The increase in raw materials and finished goods of the subsidiary I Cotoni di Albini S.p.A. was largely offset by the significant decrease in the inventory of the subsidiary Cotonificio Albini S.p.A., which continued its actions to decrease the number of yarn codes used and to optimise the stocks of finished fabrics in relation to the Service Program.diminuzione dei codici filati utilizzati e alla ottimizzazione delle giacenze di tessuti finiti della parte relativa al servizio di "Service Program".

Contract work in progress reflects the percentage accrued for engineering projects managed by the subsidiary Albini Energia S.r.l..

Receivables

Trade receivables

This caption was as follows at 31 December 2018:

	Gross amount	Provision for bad debts	Net amount
Trade receivables due within one year	35.840	(994)	34.846
Total	**35.840**	**(994)**	**34.846**

The above provision for bad debts reflects the adjustment of the receivables' carrying amount to their estimated realisable value.

Changes of the year in the provision for bad debts were as follows:

	31.12.2017	Accrual	Utilisation	31.12.2018
Provision for bad debts	1.137	176	(319)	994

Trade receivables arise from normal sales transactions and relate to both foreign and Italian customers. The caption includes collection orders at the group and with banks.

Trade receivables by geographical segment:

	31.12.2018	31.12.2017
Italian customers	13.670	14.893
EU customers	8.361	7.177
Non-EU customers	13.809	13.504
Total gross receivables	**35.840**	**35.574**

Tax receivables

Tax receivables may be analysed as follows:

	31.12.2018	31.12.2017
Net tax receivables	1.390	2.312
Tax credit for investment bonus - portion due within one year	-	51
Tax credit for R&D costs as per Law no. 190/2014	212	168
Total tax receivables due within one year	**1.602**	**2.531**
IRAP reimbursement claim pursuant to Law decree no. 201/2011	1.104	1.104
Total tax receivables due after one year	**1.104**	**1.104**

Tax receivables includes VAT receivables of €1,369. Compared to the previous year when the group recognised net tax receivables, the payments on account made during the year are shown net of tax payables, described in the specific liabilities section.

Deferred tax assets

Deferred tax assets total €1,799 thousand (31 December 2017: €1,610 thousand) and mainly relate to Cotonificio Albini S.p.A., Tessitura di Mottola S.r.l., Mottola S.r.l. and I Cotoni di Albini S.p.A.. They refer to the tax effect of the temporary differences between the carrying amounts of assets and liabilities in the balance sheet and the corresponding amounts recognised for tax purposes (mainly taxed provisions and differences between amortisation and depreciation recognised for statutory and tax purposes), whose future realisation appears reasonably certain. The caption also includes the tax effects of consolidation adjustments to leases and assets. The changes of 2018 were as follows:

Balance at 31.12.2017	**1.610**
Use of prior year deferred tax assets	(394)
Exchange rate differences and other changes	(2)
Deferred tax assets recognised in the year	585
Balance at 31.12.2018	**1.799**

Receivables from others

These amount to €2,255 thousand (31 December 2017: €1,565 thousand) and consist of advances to third parties of €578 thousand, mainly for payments on account to take part in textile trade fairs in 2019. The caption also comprises receivables from insurance companies of €176 thousand related

to compensation for credit losses accrued during the year, but collected in 2019. The residual balance is comprised of receivables of €907 thousand for export subsidies due to the Egyptian subsidiaries, guarantee deposits of €117 thousand, receivables of €279 thousand that were accrued and recognised on the subsidiary Albini Energia S.r.l.'s sales of white certificates (for the part accrued in the current and previous years and not yet realised), receivables from INPS (the Italian social security institution) of €6 thousand, accrued by the subsidiary Tessitura di Mottola S.r.l. (for advances paid to employees during the year under the government-sponsored lay-off scheme) and other receivables of €192 thousand.

Liquid funds

Liquid funds total €9,563 thousand (31 December 2017: €9,620 thousand) and comprise:

	31.12.2018	31.12.2017
- Bank deposits	9.544	9.607
- Cheques, cash-in-hand and cash equivalents	19	13
Total	**9.563**	**9.620**

Reference should be made to the cash flow statement for a greater understanding of the cash flows.

PREPAYMENTS AND ACCRUED INCOME

Prepayments and accrued income amount to €128 thousand (31 December 2017: €170 thousand) and mainly consist of adjustments to correctly allocate costs relating to insurance, machinery maintenance and personnel training to 2018 on an accruals basis.

Prepayments and accrued income are as follows:

	31.12.2018	31.12.2017
- Maintenance/assistance instalments	28	23
- Factoring prepayments	10	-
- Personnel training costs	23	26
- Insurance and other premiums	67	121
Total prepayments	**128**	**170**

NOTES TO THE MAIN LIABILITY CAPTIONS

NET EQUITY

Net equity changed as follows during the year:

Description	Share capital	Share premium reserve	Legal reserve	Revaluation reserve	Capital injections	Extraordinary reserve	Translation reserve	Hedging reserve	Undistributed profits of subsidiaries	Net profit (loss) for the year	Net equity attributable to the group	Net equity attributable to minority interests	Consolidated net equity
Balance at 31.12.2016	**1.820**	**828**	**364**	**21.060**	**207**	**238**	**2.174**	**174**	**45.784**	**1.375**	**74.024**	**3.377**	**77.401**
Restatement of derivatives at 31.12.2017	-	-	-	-	-	-	-	(582)	-	-	(582)	-	(582)
Allocation of the net profit for 2016	-	-	-	-	-	-	-	-	1.375	(1.375)	-	-	-
Dividend distribution	-	-	-	-	-	-	-	-	(534)	-	(534)	-	(534)
Translation differences and other changes	-	-	-	-	-	2.596	(310)	-	(3.132)	-	(846)	(2.830)	(3.676)
Net profit for 2017	-	-	-	-	-	-	-	-	-	(1.989)	(1.989)	35	(1.954)
Balance at 31.12.2017	**1.820**	**828**	**364**	**21.060**	**207**	**2.834**	**1.864**	**(408)**	**43.493**	**(1.989)**	**70.073**	**582**	**70.655**
Adjustment to derivatives at 31.12.2018	-	-	-	-	-	-	-	307	-	-	307	-	307
Allocation of the net profit for 2017	-	-	-	-	-	-	-	-	(1.989)	1.989	-	-	-
Dividend distribution	-	-	-	-	-	-	-	-	(41)	-	(41)	-	(41)
Utilisation of the revaluation reserve to cover losses in 2017	-	-	-	(1.684)	-	-	-	-	1.684	-	-	-	-
Translation differences and other changes	-	-	-	-	-	(224)	579	-	203	-	558	50	608
Net profit for 2018	-	-	-	-	-	-	-	-	-	2.749	2.749	70	2.819
Balance at 31.12.2018	**1.820**	**828**	**364**	**19.376**	**207**	**2.610**	**2.443**	**(101)**	**43.350**	**2.749**	**73.646**	**702**	**74.348**

The main net equity captions and changes therein are discussed below.

Share capital

The parent's share capital at 31 December 2018 is comprised of 3,500,000 ordinary shares with a nominal amount of €0.52 each, for a total of €1,820 thousand.

Share premium reserve

This caption is unchanged from the previous year end and equals €828 thousand.

Legal reserve

The legal reserve amounts to €364 thousand at 31 December 2018 and is

unchanged from 31 December 2017.

Other reserves

This caption is as follows:

	31.12.2018	31.12.2017
1. Extraordinary reserve	2.610	2.834
2. Capital injections	207	207
3. Revaluation reserve as per Law no. 342/00	2.537	4.221
4. Revaluation reserve as per Law no. 266/05	4.592	4.592
5. Revaluation reserve as per Law no. 02/09	12.247	12.247
6. Translation reserve	2.443	1.864
Total	**24.636**	**25.965**

The revaluation reserves relate to the direct subsidiary Cotonificio Albini S.p.A. and comprise:

- the revaluation reserve for plant and machinery pursuant to Law no. 342 of 21 November 2000 (€9.94 million, net of the related substitute tax of €2.33 million); €5.72 million and €1.68 million of this reserve were used in 2009 and 2017, respectively, to cover the losses of the subsidiary Cotonificio Albini S.p.A.;
- the revaluation reserve for plant and machinery pursuant to Law no. 266 of 23 December 2005 for €4.59 million, net of the related substitute tax of €612 thousand;
- the revaluation reserve for plant and machinery pursuant to Law no. 266 of 23 December 2005 for €4.59 million, net of the related substitute tax of €612 thousand;
- the revaluation reserve for land and buildings pursuant to Law no. 2 of 28 January 2009 for €12.25 million, net of deferred taxes of €5.61 million (recognised under provisions for risks and charges at 31 December 2008 and changed starting from 2009 in line with the depreciation charged on buildings).

The extraordinary reserve decreased by €224 thousand as a result of covering the parent's net loss for the previous year.

The translation reserve decreased over the previous year end due to the exchange rate fluctuations in the currencies of the foreign subsidiaries,

particularly as relates to the US dollar and the Hong Kong dollar.

Hedging reserve

The hedging reserves, set up as from 2016, include fair value gains and losses on the effective portion of both currency and interest rate hedging derivatives.

The caption is comprised of:

	31.12.2018	31.12.2017
1. Reserve for currency hedges	(1)	(284)
2. Reserve for interest rate hedges	(100)	(124)
Total	**(101)**	**(408)**

These reserves are net of the related deferred tax liabilities presented under "Provisions for risks and charges".

Undistributed profits of subsidiaries

Undistributed profits of subsidiaries decreased from €43,493 at 31 December 2017 to €43,350 at the end of 2018. During the year, this reserve decreased to cover the net loss for 2017, the distribution of dividends in 2018 and the exchange rate differences affecting the net equity of foreign investees.

Reconciliation between the parent's financial statements and the consolidated financial statements:

	2018	2017
Net profit (loss) for the year of Albini Group S.p.A.	**109**	**(224)**
- Elimination of net intercompany dividends	(247)	(1.260)
- Net profit (loss) for the year of the consolidated companies	2.406	(919)
- Write-downs/(write-backs) of investees	409	(60)
- Measurement of leases using the financial method	206	286
- Restatement of derivatives	5	(22)
- Elimination of intercompany transactions	(69)	245
Consolidated net profit (loss) for the year (A)	**2.819**	**(1.954)**
(A) comprises:		
Net profit (loss) for the year attributable to the group	2.749	(1.989)
Net profit (loss) for the year attributable to minority interests	70	35
Total	**2.819**	**(1.954)**

	2018	2017
Net equity and net profit (loss) for the year of Albini Group S.p.A.	**5.938**	**5.829**
- Carrying amount of the consolidated equity investments	(23.578)	(23.183)
- Net equity and net profit (loss) for the year of the consolidated companies	90.831	86.958
- Allocation of the gain on the Mottola land, goodwill	322	323
- Effect of recognising leases using the financial method	954	747
- Restatement of derivatives	4	(24)
- Elimination of intercompany transactions	(123)	5
Consolidated net equity (A)	**74.348**	**70.655**
(A) comprises:		
Net equity attributable to the group	73.646	70.073
Net equity attributable to minority interests	702	582
Total	**74.348**	**70.655**

PROVISIONS FOR RISKS AND CHARGES

The breakdown of and changes in these provisions are as follows:

	31.12.2017	Accruals	Reclassifications - Exchange rate differences	Utilisation	31.12.2018
Pension and similar provisions	1.606	97	-	(119)	1.584
Deferred taxation	4.324	215	110	(438)	4.211
Derivatives	490	-	-	(277)	213
Provision for other risks and charges	-	447	-	-	447
Total	**6.420**	**759**	**110**	**(834)**	**6.455**

The provision for pension and similar provisions includes the agents' termination indemnity and the provision for agents' performance-based amount. The calculation is based on an estimate of the amount to be paid to the group's agents. The utilisation of this provision reflects the amounts paid to agents no longer working with the group and the release of the amount of the provision exceeding the indemnities vested.

The provision for deferred taxation is accrued for those captions whose tax burden is deferred over more than one year (mainly the deferral of realised gains, the non-deductibility of depreciation related to the revaluation of industrial buildings carried out only for statutory purposes in 2009, the deduction

of fiscally-driven depreciation recognised in previous years, the deferred taxation on the elimination of the effects related to asset sales between group companies and the deferral of exchange rate gains or losses generated by the adjustment of receivables and payable at closing rates). Utilisation of the year amounts to €438 thousand. The reclassifications include a positive €110 thousand for the deferred taxes recognised in connection with the hedging reserve set up under net equity and exchange rate differences. Derivatives of €213 thousand include the fair value measurement of interest rate hedges agreed for the group's loans at the year end, described in the note to bank loans and borrowings (€132 thousand) and the fair value measurement of currency hedges (€81 thousand). The provision for other risks and charges includes accruals prudentially made for payments to third parties that were recognised during the year but whose amount and date are only estimated.

EMPLOYEES' LEAVING ENTITLEMENT

The changes in this caption were as follows:

Balance at 31.12.2017	**6.573**
Portion vested and accrued in the profit and loss account	1.787
Payments to pension/supplementary funds	(1.630)
Payments of the year	(456)
Tax on the revaluation of employees' leaving entitlement and other changes	(23)
Balance at 31.12.2018 Saldo 31.12.2018	**6.251**

The amount reflects the actual amount due to the employees of the Italian group companies at 31 December 2018.

PAYABLES

The breakdown and changes of the year in the items making up this caption are discussed below.

Bonds

Bonds are detailed as follows:

- bonds of €671 thousand redeemable in a single tranche on 31 December

2020, issued by Cotonificio Albini S.p.A.;

- bonds of €1,033 thousand redeemable in a single tranche on 31 December 2020, issued by Cotonificio Albini S.p.A.;

- bonds of €1,575 thousand redeemable in a single tranche on 31 December 2021, issued by Cotonificio Albini S.p.A.;

- bonds of €878 thousand redeemable in a single tranche on 31 December 2021, issued by Cotonificio Albini S.p.A.;

- Unicredit Banca non-convertible bonds of €2,500,000 with an amortised cost of €44,682 redeemable in 22 quarterly instalments from 21 June 2019 to 21 September 2024.

Convertible bonds

Convertible bonds are unchanged from the previous year end and are as follows:

- bonds of €4,600 thousand redeemable in a single tranche on 31 July 2022, issued by Cotonificio Albini S.p.A. and convertible into shares of the parent, Albini Group S.p.A..

The issue is comprised of 400,000 bonds of a nominal amount of €11.5, convertible into shares of Albini Group S.p.A. in the ratio of one share to each bond.

Bank loans and borrowings

This caption may be analysed as follows at 31 December 2018:

	31.12.2018 Due				31.12.2017
	Total	within one year	from 2 to 5 years	after 5 years	Total
Overdrafts	3.463	3.463	-	-	5.057
Advances on exports	13.860	13.860	-	-	16.150
Loans - Unicredit Sace, ECB and EIB	625	625		-	3.291
Mortgage loans - UBI Banca	3.044	895	1.693	456	4.400
Mortgage loans - EIB and Banco BPM	2.711	1.411	1.300	-	4.356
Mortgage loans - Mediocredito	4.278	1.222	2.889	167	5.500
Loans - Banca Popolare di Sondrio	3.164	1.261	1.903		4.117
Loan - Banca Sella	2.985	1.169	1.816		4.331
Loan - Banca Passadore	759	505	254		1.259
Mortgage loan - B.N.L.	2.000	571	1.429		2.571
Loan - Deutsche Bank	1.500	500	1.000		2.000
Loan - Alex Bank	-	-			658
Amortised cost	(10)	(3)	(7)		(13)
TOTAL	**38.379**	**25.479**	**12.277**	**623**	**53.677**

There are mortgages on the Albino and Brebbia buildings to secure the loans that UBI Banca, Mediocredito, Banco BPM and B.N.L. have granted to Cotonificio Albini S.p.A..

As noted earlier, the terms of the interest rate swaps are consistent with the repayment schedules for the outstanding loans. The fair value of these hedging instruments at 31 December 2018 is included in the hedging reserve and in derivatives under liabilities for €132 thousand.

Loans and borrowings from other financial backers

This caption totals €7,973 thousand at year end (31 December 2017: €8,041 thousand) and is comprised of lease liabilities and advances received from factors. No new loans were taken out during the year.

Loans and borrowings from other financial backers analysed by due date are as follows:

	Due within one year	Due after 1 year	Due after 5 years	Total
Loans and borrowings from other financial backers	2.344	2.996	2.633	7.973

Payments on account

This caption totals €964 thousand (31 December 2017: €740 thousand) and is comprised of advance payments made for the supply of goods.

Trade payables

The caption amounts to €32,306 thousand (31 December 2017: €29,120 thousand). It increased by €3,186 thousand on the previous year end mainly due to the policy to extend the payment terms of invoices due at year end and the concentration of purchases of yarn and fabrics at the end of the year.

Trade payables by geographical segment:

	31.12.2018	31.12.2017
Italian suppliers	18.747	19.176
EU suppliers	1.182	1.271
Non-EU suppliers	12.377	8.673
Total trade payables	**32.306**	**29.120**

Tax payables

This caption may be analysed as follows:

	31.12.2018	31.12.2017
Withholding taxes on:		
Income taxes net of payments on account	514	-
Withholdings on employees' remuneration	1.196	1.205
Bond coupons	97	97
Consultants' remuneration and other sundry amounts	52	48
Total	**1.859**	**1.350**

Social security charges payable

This caption amounts to €2.06 million, more or less in line with the previous year end, and relates to amounts due to social security institutions at year end for the relevant amounts withheld from December wages and salaries, and the amounts due to supplementary pension funds for employees and agents.

Other payables

This caption may be analysed as follows:

	31.12.2018	31.12.2017
Employees	5.898	5.904
Bondholders for coupons to be paid	324	324
Insurers	203	114
Sundry	178	357
Total	**6.603**	**6.699**

Due date of payables due after one year

The due dates of payables due after one year are as follows:

			Due
	From 1 to 5 years	After 5 years	Total
Shareholder loans	8.757	-	8.757
Bonds	1.789	333	2.122
Bank loans and borrowings	12.277	623	12.900
Loans and borrowings from other financial backers	2.996	2.633	5.629
Total	**25.819**	**3.589**	**29.408**

ACCRUED EXPENSES AND DEFERRED INCOME

This caption amounts to €1,629 thousand (31 December 2017: €1,722 thousand) and may be analysed as follows:

	31.12.2018	31.12.2017
Deferred grants	1.279	1.347
Interest expense	114	143
Deferred tax credit on investments	54	75
Accrued personnel expenses	20	-
Accrued costs due to FATF (Financial Action Task Force)	40	18
Other	122	139
Total accrued expenses and deferred income	**1.629**	**1.722**

Deferred grants consist of the grants related to income received by Tessitura di Mottola S.r.l. to purchase assets pursuant to Law no. 181/89 and recognised in line with the depreciation charged each year.

NOTES TO THE MAIN PROFIT AND LOSS CAPTIONS

PRODUCTION REVENUES

Turnover from sales and services

This caption amounts to €152 million, with an increase of €2.7 million (+1.8%) over the previous year.

Revenues are analysed by business segment below:

	2018	2017
Fabric sales	130.348	127.520
Yarn sales and yarn processing	18.143	18.343
Energy (profit on white certificate trading, sale of energy and energy saving systems)	2.904	2.812
Consultancy and services	583	287
Shirt accessories	20	289
Total	**151.998**	**149.251**

The increase in net turnover is mostly due to fabric sales (+2.2%) which performed well, especially in terms of profitability of sales.

On the other hand, sales of yarn and raw materials decreased slightly, reflecting the difficulties of the reference market, partly offset by the group's endeavours to improve and develop turnover.

Revenues from the energy sector and consultancy services showed an improvement on the previous year due to sales of white certificates, but, above all, the increase in sales of plant and consultancies offered by the subsidiary Albini Energia S.r.l. to third party customers.

Turnover from sales and services is analysed by geographical segment below:

	2018	2017
Italy	49.154	48.522
EU countries (excluding Italy)	42.108	42.337
Non-EU countries	60.736	58.392
Total	**151.998**	**149.251**

Internal work capitalised

This caption amounts to €30 thousand and includes the cost of labour used to build plant and machinery during the year.

Other revenues and income

This caption totals €3.23 million (2017: €2.86 million), of which sundry income of €2.34 million and grants related to income of €0.89 thousand.

Sundry income mainly consists of the recovery of transport costs (€754 thousand), gains on the sale of assets (€331 thousand), insurance reimbursements on receivables and other compensation (€283 thousand), the sale of marketing materials and other consumables (€274 thousand), prior year income mainly due to the recognition of tax credits for research and development activities (€224 thousand), income from white certificates due to energy savings at the group's production plants (€220 thousand) and lease income (€59 thousand). The caption also includes other sundry income and cost adjustments related to previous years.

Grants related to income are as follows:

	2018	2017
Grant related to assets pursuant to Law no. 181/89	68	68
Export grants for the Egyptian subsidiaries	486	316
GSE grants related to energy and subsidies to high energy consumers	262	287
Fondimpresa grants for personnel training	62	34
Grants for energy-consuming companies and other	14	32
Total	**892**	**737**

In compliance with regulations on transparency on public grants introduced by article 1.125-129 of Law no. 124/2017 as subsequently integrated and amended, it is noted that the group received grants during the year from Fondimpresa (€6,031.01) and CSEA - Cassa per i servizi energetici e ambientali (€35,028.09) for the 2016 Energivori project already accrued in previous years.

PRODUCTION COST

Raw materials, consumables, supplies and goods

These amount to €56.3 million, an increase of €4.05 million on the previous year mainly referred to yarn, unbleached materials and dyeing products, with regard to the increase in turnover in 2018. The caption comprises costs for the purchase of raw cotton, yarns and fabrics, as well as dyeing products, and other materials and packaging to be used in the production process. Purchases of raw materials refer to raw cotton and other natural fibres (e.g., linen), animal fibres (wool, silk, cashmere and vicuna) and artificial fibres (viscose) used in the production of innovative yarns. In 2018, the group continued its policy of ensuring it procures high-quality raw materials, directly sourcing raw cotton from the best plantations. This enabled a direct control over yarn production by identifying selected spinning companies to process yarns of the required quality, including on a processing and consignment basis. For certain fabrics, projects have also commenced in conjunction with external suppliers to which the group companies sell cotton and yarn and from which the group then repurchases the unbleached or finished fabric. This enables the group to maintain a close quality control over the entire production chain, including the outsourced stages.

Services

Services rose 1.3%, from €41.54 million in 2017 to €41.01 million in 2018. This caption includes outsourcing and transport costs, customs duties, fees, utilities and driving force.

The increase in the cost of utilities and transport costs was more than offset by the large reduction in fees and consultancies and the general decrease in maintenance costs.

Services also include the portion of costs for temporary workers (the portion related to personnel expenses is recognised under the caption of the same name), accruals to the provision for agents' leaving indemnities and directors' and statutory auditors' fees, which amount to €572 thousand and €80 thousand, respectively.

Use of third party assets

This caption amounts to €599 thousand (2017: €760 thousand) and mainly comprises lease instalments for employees and costs for civil buildings for €33 thousand, lease expense of industrial buildings and third party storage for €463 thousand and hire costs of €103 thousand incurred by the Italian and foreign subsidiaries.

Personnel expenses

The breakdown of these costs is already provided in the profit and loss account. Personnel expenses increased from €41.1 million in 2017 to €41 million in 2018, down by €0.1 million (0.2%).

As a result of the alternating order trend and in order to cut costs, the group again made use of the ordinary government-sponsored lay-off scheme in 2018 for the Albino, Brebbia and Mottola production facilities for a total of 31,220 hours, a significant increase on the 17,257 hours of the previous year, especially due to the slowdown of production in the last few months of the year.

At peak production times, the Italian companies of the group use temporary workers. However, this expense, included in "Other costs", considerable decreased on the previous year (-72.7%).

The changes of the year in the group's workforce by category are as follows:

	31.12.2017	New hires	Departures	31.12.2018	Average of the year
Managers	21	2	(3)	20	20,5
Junior managers and white collars	286	19	(24)	281	283,5
Blue collars and other employees	1.101	103	(117)	1.087	1.094,00
Total	**1.408**	**124**	**(144)**	**1.388**	**1.398**

Amortisation, depreciation and write-downs

Amortisation of intangible fixed assets of €599 thousand increased on the previous year (€528 thousand) as an effect of new investments. Depreciation amounts to €7.38 million (2017: €7.36 million). As required by the OIC, the group calculated depreciation of tangible fixed assets even if they had not been used during the year. Write-downs of current receivables and liquid funds include the €176 thousand accrual to the provision for bad debts for the portion necessary to adjust receivables to their estimated realisable value.

Other operating costs

This caption totals €1.33 thousand (2017: €1.01 million) and mainly relates to indirect taxes and duties of €604 thousand, contributions to trade associations of €190 thousand and losses on sales of assets of €93 thousand. Credit losses of €298 thousand were recognised during the year, net of the utilisation of the provision for bad debts.

FINANCIAL INCOME AND CHARGES

Other financial income

This caption includes interest income on bank accounts of €6 thousand and other interest income of €2 thousand.

Interest and other financial charges - Exchange rate gains and losses

Interest and other financial charges are comprised as follows:

	2018	2017
Interest expense on loans and advances	851	1.093
Bank interest expense	60	56
Interest expense on bonds	625	625
Discounts and financial charges	565	574
Other financial charges	1	1
Total	**2.102**	**2.349**

Net exchange rate gains come to €0.5 thousand (2017: net exchange rate losses of €1.22 thousand).

ADJUSTMENTS TO FINANCIAL ASSETS

Write-backs

Write-backs of derivatives of €175 thousand refer to the gains on the currency forwards on sales and purchases in US dollars, the Japanese Yen and the pound sterling.

Write-downs

Write-downs of derivatives include €255 thousand related to the losses on the currency forwards on sales and purchases in US dollars, the Japanese Yen and the pound sterling.

INCOME TAXES

This caption is as follows:

	2018	2017
Current:		
Income taxes	(1.453)	(565)
Total current taxes	(1.453)	(565)
Income from participation in the national tax consolidation scheme	31	727
Change in deferred tax assets	585	228
Use of deferred tax assets	(394)	(333)
Change in deferred tax liabilities	(215)	(120)
Use of deferred tax liabilities	438	554
Total deferred taxes	**414**	**329**
Total income taxes of the year	**(1.008)**	**491**

The reconciliation between the theoretical tax charge shown in the consolidated financial statements and the effective tax charge (IRES corporate income tax and IRAP regional tax on productivity) is set out below:

Description	Valore	Imposte	
Pre-tax profit	3.827		
Reversal of net profit (loss) of foreign investees	(823)		
Net effect of consolidation adjustments	(349)		
Theoretical IRES tax base	2.655	(a)	
Theoretical tax charge:			
IRES (%)	**24%**	**637**	
Temporary differences:			
Gains	(173)		
Taxed amortisation/depreciation	615		
Accruals to various non-deductible provisions, net of utilisations	1.004		
Other changes	(278)		
Total temporary differences	1.168	(b)	
Permanent differences:			
Adjustments to equity investments	409		
Non-deductible taxes	294		
Deduction for super and hyper depreciation	(378)		
ACE (aid to economic growth) incentives and IRAP deductions of personnel expenses	(89)		
Reversal of negative tax bases	(121)		
Other changes	125		
Total permanent differences	240	(c)	
IRES tax base (a + b + c)	4.063		
Net IRES	**24%**	**975**	**A**
Costs not deductible for IRAP purposes - Italian subsidiaries:			
Personnel expenses net of the deductible portions	1.056		
Write-downs of receivables and bad debts	471		
Net financial income	1.893		
Costs and revenues not deductible for IRAP purposes	581		
Accruals to sundry non-deductible provisions	806		
Non-deductible taxes	363		
Other changes	192		
Total IRAP adjustments	5.362	(d)	
IRAP (%) (a + d) PORTION AT 3.9%	**7.551**	**294**	**B**
IRAP (%) (a + d) PORTION AT 4.82%	**466**	**22**	**C**
ADJUSTMENT TO TAXES RELATIVE TO PRIOR YEARS		**7**	**D**
INCOME TAXES OF THE CZECH SUBSIDIARY		**118**	**E**
INCOME TAXES OF THE HONG KONG SUBSIDIARY		**37**	**F**
Total current taxes (A+B+C+D+E+F)		**1.453**	**G**
Tax credit on losses		**(31)**	**H**
Net taxes (G+H)		**1.422**	

COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES

This section describes the group's guarantees, commitments and contingent liabilities.

Third party assets - third party machinery installed at a subcontractor for production tests (€116 thousand).

Sureties given to third parties - these sureties were issued on behalf of Simest to third parties for a loan paid off in the current year (€141 thousand), to the Egyptian authorities (FATF) to guarantee the Egyptian subsidiaries' customs operations (€176 thousand) and to other parties for hydroelectric concessions (€39 thousand).

POST-BALANCE SHEET EVENTS

On 25 January 2019, the board of directors of the subsidiary Cotonificio Albini S.p.A. approved the new company organisational structure with a new managing director who is not a member of the Albini family, as already mentioned in the directors' report.

In February, UBI Banca granted a medium-term mortgage loan to the subsidiary Cotonificio Albini S.p.A. for €5 million, expiring in January 2027.
In the first quarter of 2018, there was a decrease in turnover from fabric sales which is expected to be recovered during the year, while turnover from yarn sales grew approximately 2%.

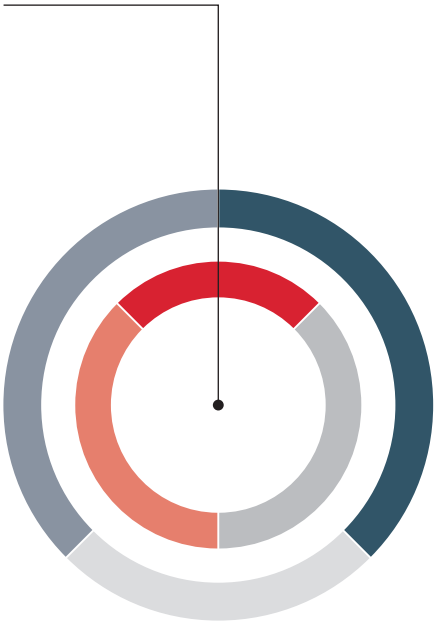
In general, the group has continued to focus on the reduction and streamlining of working capital and on cost monitoring and cutting measures, with the aim of further improving the positive outcome of these measures in 2019.

Albino, 29 March 2019

On behalf of the board of directors
The Chairman
(Fabio Albini)

STATURY AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT



ALBINI GROUP S.p.A. with registered office in Via Dr. Silvio Albini 1, Albino (BG) - Share capital: € 2,028,000,00.= of which € 208,000,00.= reserved for the conversion of the convertible bonds of the subsidiary Cotonificio Albini S.p.A.; actual share capital: € 1,820,000,00.= fully paid-up - Bergamo company registry and tax code: 01736210160

REPORT OF THE BOARD OF STATUTORY AUDITORS ON THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

Dear shareholders,

The consolidated financial statements are comprised, as per legislation, of a balance sheet, a profit and loss account, a cash flow statement and the notes thereto and are accompanied by a directors' report on the companies included in the consolidation scope.

The net loss for the year is made up of the following captions, whose amounts are given in thousands of Euros:

A.	Production revenues	155,268.=
B.	Production cost	149,758.=
•	Operating profit (A – B)	5,510.=
C.	Net financial expense	(1,603).=
D.	Adjustments to financial assets	(80).=
•	Pre-tax profit (A - B + C + D + E)	3,827.=
•	Income taxes, current and deferred	(1,008).=
•	Net profit for the year before minority interests	2,819.=
•	Minority interests	70.=
•	Net profit for the year attributable to the Group	2,749.=

We hereby state that no critical issues arose in relation to the consolidated financial statements, as stated in the auditors' report issued today.

After carrying out our checks and to the extent of our duties, we confirm the following:

- the consolidated financial statements were prepared on the basis of the financial

- we concur with how the consolidation scope was determined; such scope includes the direct and indirect subsidiaries Cotonificio Albini S.p.A., Albini Energia S.r.l., Tessitura di Mottola S.r.L., I Cotoni di Albini S.p.A., Dietfurt S.r.o., Mediterranean Textile S.a.e., Delta Dyeing S.a.e., Albini Trading Shanghai Co. Ltd, Albini Hong Kong Ltd and Albini USA Corp., consolidated on a line-by-line basis;
- the accounting policies were correctly applied;
- the directors' report adequately describes:
  - the group's results of operations and cash flows and the risks to which it is exposed;
  - the 2018 performance;
  - the outlook.

Our examination confirmed that the directors' report is consistent with the consolidated financial statements.

The independent auditors, KPMG S.p.A., issued their report pursuant to article 14 of Legislative decree no. 39 of 27th January 2010 bearing today's date. Such report does not highlight any significant deviations, disclaimer of opinion or the impossibility to express an opinion or matters of emphasis. Accordingly, it expresses a clean opinion.

The shareholders are only required to consider the consolidated financial statements and related documents for information purposes as they are not subject to approval.

Albino, 6th May 2019

f. The board of statutory auditors

(dr. Danilo Arici - Chairman)

KPMG S.p.A.
Revisione e organizzazione contabile
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PEC kpmgspa@pec.kpmg.it

(Translation from the Italian original which remains the definitive version)

Independent auditors' report pursuant to article 14 of Legislative decree no. 39 of 27 January 2010

To the shareholders of
Albini Group S.p.A.

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of the Albini Group Group (the "group"), which comprise the balance sheet as at 31 December 2018, the profit and loss account and cash flow statement for the year then ended and notes thereto.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Albini Group Group as at 31 December 2018 and of its financial performance and cash flows for the year then ended in accordance with the Italian regulations governing their preparation.

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 "*Auditors' responsibilities for the audit of the consolidated financial statements*" section of our report. We are independent of Albini Group S.p.A. (the "parent") in accordance with the ethics and independence rules and standards applicable in Italy to audits of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the parent's directors and board of statutory auditors ("Collegio Sindacale") for the consolidated financial statements

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with the Italian regulations governing their preparation and, in accordance with the Italian law, for such internal control as they determine is necessary to enable the preparation of consolidated 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 for the appropriate use of the going concern basis in the preparation of the consolidated financial statements and for the adequacy of the related disclosures. The use of this basis of accounting is appropriate unless the directors believe that the conditions for liquidating the parent or ceasing operations exist, or have no realistic alternative but to do so.

The *Collegio Sindacale* is responsible for overseeing, within the terms established by the Italian law, the group's financial reporting process.

Auditors' 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 auditors' 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 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 the 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 ISA Italia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

— identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain 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;

— obtain 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;

— evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;

— conclude on the appropriateness of the 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 auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the group to cease to continue as a going concern;

— evaluate 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;

— obtain 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 communicate with those charged with governance, identified at the appropriate level 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 other legal and regulatory requirements

Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10

The parent's directors are responsible for the preparation of the group's directors' report at 31 December 2018 and for the consistency of such report with the related consolidated financial statements and its compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the directors' report with the group's consolidated financial statements at 31 December 2018 and its compliance with the applicable law and to state whether we have identified material misstatements.

In our opinion, the directors' report is consistent with the group's consolidated financial statements at 31 December 2018 and has been prepared in compliance with the applicable law.

With reference to the above statement required by article 14.2.e) of Legislative decree no. 39/10, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Bergamo, 6 May 2019

KPMG S.p.A.

(signed on the original)

Ivan Lucci
Director of Audit