

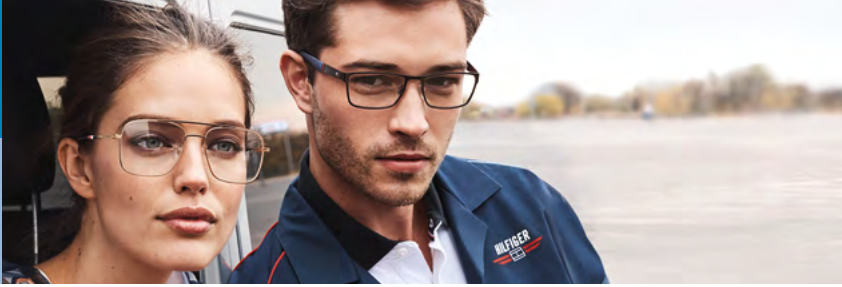
# ANNUAL REPORT 2017



**Safilo**<sup>®</sup>  
GROUP



ANNUAL  
REPORT  
2017



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# PORTFOLIO OF BRANDS

**CARRERA**  
EYEWEAR SINCE 1956

SMITH

 **Polaroid**

OXYDO

SAFILO

---

**Dior**

**FENDI**

**MaxMara**

**GIVENCHY**  
PARIS

ELIE SAAB

**BOSS**  
HUGO BOSS

**MOSCHINO\***

MARC JACOBS

rag & bone\*  
NEW YORK

  
kate spade  
NEW YORK

JIMMY CHOO

TOMMY  HILFIGER

REBECCA MINKOFF\*

**LOVE**  
**MOSCHINO\***

swatch  
the@eyes

**BOSS**  
HUGO BOSS

BOBBI BROWN

**havaianas®**

**pierre cardin**  
PARIS

**MAX&Co.**

BANANA REPUBLIC

**FOSSIL**

LIZ claiborne

*Juicy Couture*  
BLACK LABEL  
*los angeles*

JACK SPADE

*Fake*  
*Fifth*  
*Avenue*

(\*) From 2018 Moschino, Love Moschino, rag & bone and Rebecca Minkoff.

# GROUP PROFILE

With over 80 years of experience in the eyewear industry, Safilo Group is the world's second largest manufacturer of sunglasses and prescription eyewear and is engaged in the design, production, wholesale and retail distribution of products for the eyewear market. The Group is a global leader in high-end eyewear and is one of the world's leading manufacturers and distributors of sports eyewear.

Safilo manages a portfolio of proprietary and licensed brands, which are selected based on their competitive positioning and international prestige by way of a consumer segmentation strategy.

Distribution takes place through sales to multiple channels, including opticians, retail chains and specialist shops.

The Group directly controls the entire production-distribution value chain, divided into the following phases: research and technological innovation, product design and development, planning, programming and purchasing, production, quality control, marketing and communications, sales, distribution and logistics.

Safilo has core strengths in product development and design, this activity is conducted by a significant organization of designers able to ensure the continual stylistic and technical innovation which has always been a distinguishing feature of the Company.

The key factors of success which provide Safilo Group with a distinctive identity in the world's eyewear industry are represented by its diverse brand portfolio with prestigious brands in the fashion luxury segment and strong brands in Lifestyle, Sport and the "Mass/Cool" segment, its excellence in design, innovation and quality of its products, its coverage of the marketplace by way of a worldwide sales, distribution and customer service network, and the diverse nature of its offer in terms of clientele and target markets.

# SAFILO BUSINESS MODEL



DESIGN,  
INNOVATION  
& PRODUCT CREATION



GLOBAL PRODUCT  
SUPPLY & DISTRIBUTION



GLOBAL BRAND  
BUILDING  
& MARKETING



GO TO MARKET

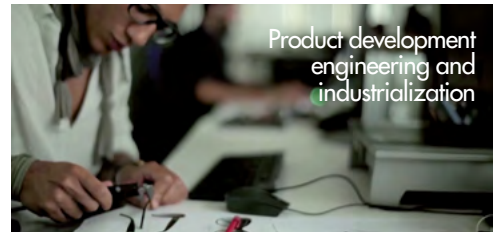




We will be a leading **Global Eyewear Creator** with a **balanced Portfolio of superior brands** that will delight the world's **consumers**, create mutual value with our **partners** and reward Safilo with leadership **shareholder** value creation.



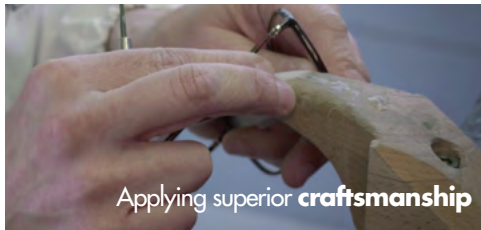
An **alchemist of trends** from a global network of Design Studios



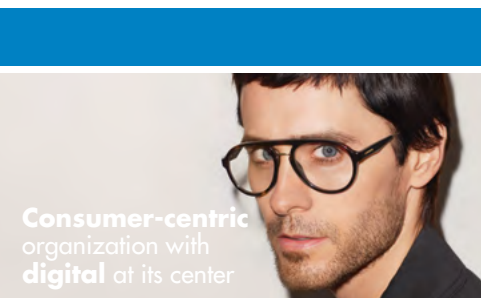
Product development engineering and industrialization



Converting raw material through **innovative processing system**



Applying superior **craftsmanship**



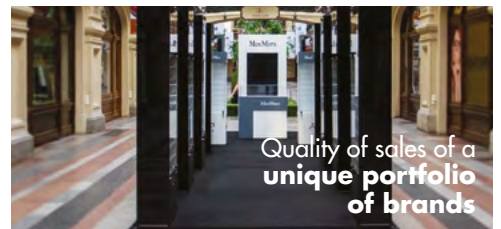
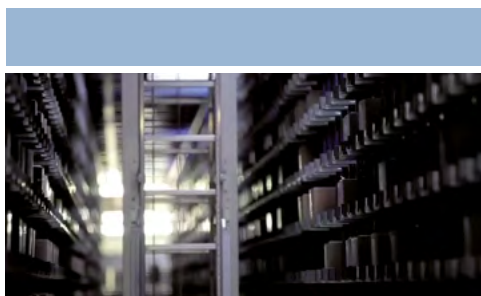
**Consumer-centric** organization with **digital** at its center



World-class **PR** and **communications**



Nearly **100,000 points of sales** in 5 continents



Quality of sales of a **unique portfolio of brands**

# BRANDS

**CARRERA**  
EYEWEAR SINCE 1956



 **Polaroid**



**SAFILO**



SMITH



OXYDO



BOBBI BROWN



**BOSS**  
HUGO BOSS



**BOSS**  
HUGO BOSS



Dior



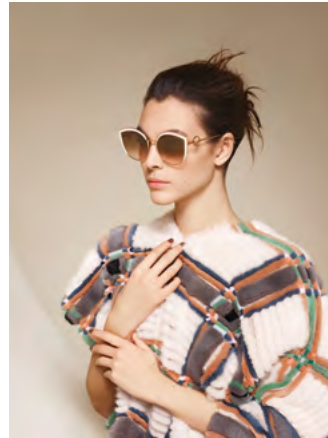
DIOR HOMME



ELIE SAAB



**FENDI**



**FOSSIL**



**GIVENCHY**  
PARIS



**havaianas**



JIMMY CHOO



**Juicy Couture**  
BLACK LABEL  
*los angeles*



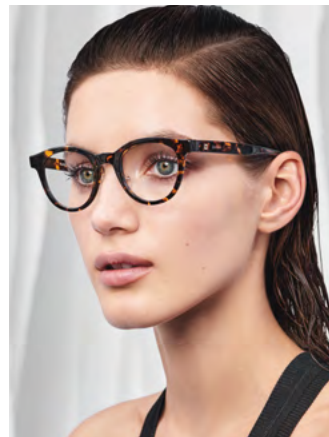
  
kate spade  
NEW YORK



MARC JACOBS



MaxMara





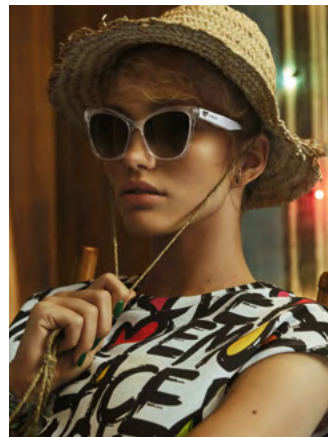
MAX&Co.



MOSCHINO



LOVE  
MOSCHINO



**pierre cardin**  
PARIS



**rag & bone**  
NEW YORK



**swatch**  
the<sup>oo</sup>eyes



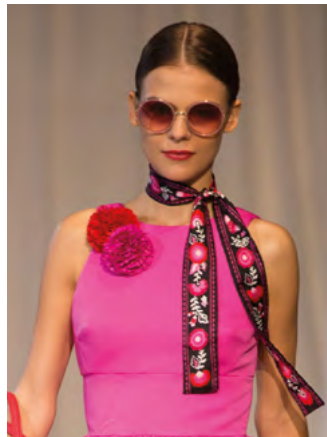
TOMMY  HILFIGER



BANANA REPUBLIC



**JACK SPADE**



LIZ CLAIBORNE





# SAFILO IN THE WORLD



The Safilo Group has a **commercial network** in **40 countries** and **independent distributor partners** able to reach nearly **100,000 selected sales stores** all over the world.

## COMMERCIAL NETWORK

### THE AMERICAS

Brasil  
Canada  
Mexico  
**Usa**

### EUROPE

Austria  
Belarus  
Belgium  
Denmark  
Estonia  
Finland  
France  
Germany  
Greece  
UK  
Ireland  
Kazakistan  
**Italy**  
Latvia  
Lithuania  
Norway  
Netherlands  
Portugal  
Czech Rep.  
Slovenská Rep  
Russia  
Slovenija  
Spain  
Sweden  
Switzerland  
Turkey  
Hungary

### ASIA PACIFIC

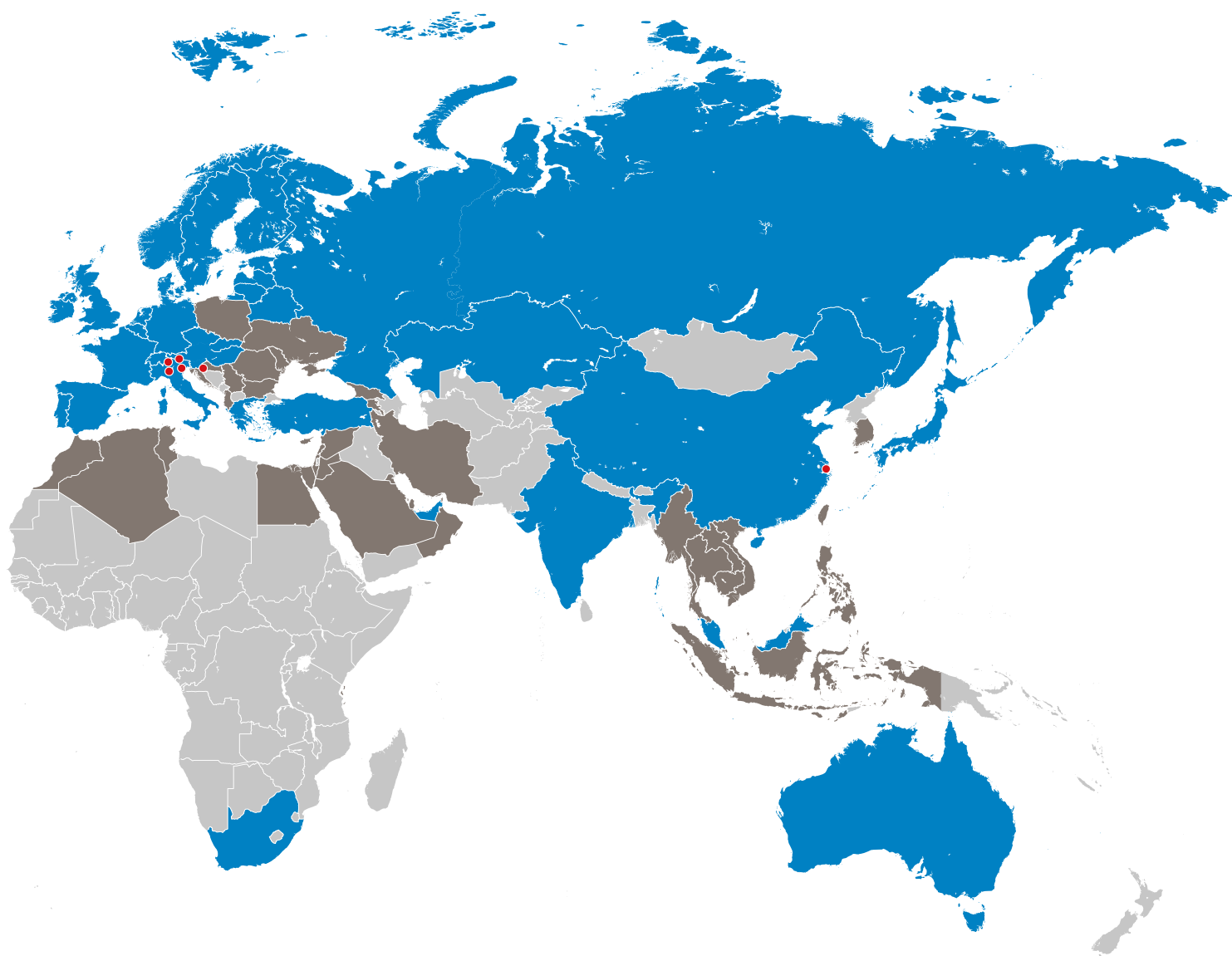
Australia  
China  
Japan  
**Hong Kong**  
India  
Malaysia  
Singapore

### REST OF THE WORLD

South Africa  
United Arab Emirates

### MANUFACTURING FACILITIES

- Longarone (Italy)
- S. Maria di Sala (Italy)
- Martignacco (Italy)
- Bergamo (Italy)
- Ormoz (SLO)
- Sal Lake City (USA)
- Suzhou (RPC)



## INDEPENDENT DISTRIBUTOR PARTNERS

### THE AMERICAS

Argentina  
 Bolivia  
 Caribbean  
 Chile  
 Colombia  
 Costa Rica  
 Ecuador  
 Guatemala  
 Paraguay  
 Peru  
 Dominican Republic  
 Uruguay  
 Venezuela

### EUROPE

Albania  
 Armenia  
 Bulgaria  
 Croatia  
 Georgia  
 Moldova  
 Poland  
 Romania  
 Serbia  
 Ukraina

### ASIA PACIFIC

Cambodia  
 Philippines  
 Indonesia  
 Myanmar  
 South Korea  
 Taiwan  
 Thailand  
 Vietnam

### REST OF THE WORLD

Algeria  
 Saudi Arabia  
 Cyprus  
 Gulf Coop. Council  
 Egypt  
 Jordan  
 Iran  
 Israel  
 Lebanon  
 Morocco  
 Syria  
 Tunisia  
 United Arab Emirates

# HISTORY OF THE GROUP

Safilo was founded in 1934

Safilo was founded in 1934 when Guglielmo Tabacchi assumed control over the company "Società Azionaria Fabbrica Italiana Lavorazione Occhiali" which produced lenses and frames. This company had been founded in 1878 in northeast Italy with its production unit in Calalzo di Cadore (Belluno), the region that houses the eyewear district. In 1964 the second production unit in Santa Maria di Sala (Venice) was inaugurated and the production of acetate and cellulose frames was transferred there. In the Seventies the production unit in Calalzo di Cadore was extended and the offices in Padua were opened, the latter currently serve as the secondary office and main distribution centre for the Group.

The first commercial subsidiaries were opened in Europe and the USA in the 1980s

In the 1980s, the first commercial subsidiaries were opened in Belgium, Spain, Germany and France. From 1983 to 1986, a controlling interest was acquired in Starline Optical Corp. (now Safilo USA Inc.), a leading U.S. commercial firm active in the eyewear industry that had been a distributor of the Group's products in the United States since 1962.

The industrial development plan was implemented in 1989 when the production facility in Longarone (Belluno) was built, and is still the largest Italian unit in the Group. In 2001, the automated distribution centre was inaugurated in the Padua headquarters.

Over the last 20 years the Group has pursued a strategy to strengthen and expand the distribution network by opening subsidiaries in the most promising markets with the final aim of directly controlling distribution in the main geographic regions. In order to implement this strategy, relationships with the Group's clients have been constantly strengthened.

The first commercial subsidiary was opened in the Far East in the 1990s

In 1994, Safilo Far East, the distribution branch in Hong Kong was established, thereby opening the gateway to the Asian and Australian markets. At the end of the Nineties, the Group's presence in Europe was further strengthened by opening subsidiaries in the United Kingdom, Greece, Austria, Portugal and Switzerland, and in the rest of the world in Australia, South Africa, Japan, Brazil, India, Singapore, Hong Kong and Malaysia. In 2004, a branch was opened in Shenzhen - China, one of the markets with great growth potential.



In 1996 the acquisition of a business unit of Carrera GmbH, a specialised manufacturer of sports eyewear, led the Group to acquire the know-how of Optyl for the production of plastic frames as well as the two factories in Traun (Austria) and in Ormoz (Slovenia). The acquisition in the same year of the American company Smith Sport Optics Inc. added a range of sports goggles to the Group collections.

Delisting and leveraged buy-out (2001 - 2002)

In July 2001, Vittorio Tabacchi, acquired a majority stake in the Company and launched a public takeover bid through a special-purpose vehicle. After the takeover bid was completed, Safilo S.p.A. was delisted in December 2001, almost 14 years after it was first listed in 1987 and then was object of a leveraged buy out. On 14<sup>th</sup> September 2005, further to a resolution by an extraordinary shareholders' meeting, the parent company changed its name from Safilo Holding S.p.A. to Safilo Group S.p.A..

In 2005 Safilo Group was back on the Stock Exchange

On 9<sup>th</sup> December 2005, the shares of Safilo Group S.p.A. were listed on the Milan Stock Exchange.

In 2010 the entry of new reference shareholder, HAL Holding N.V.

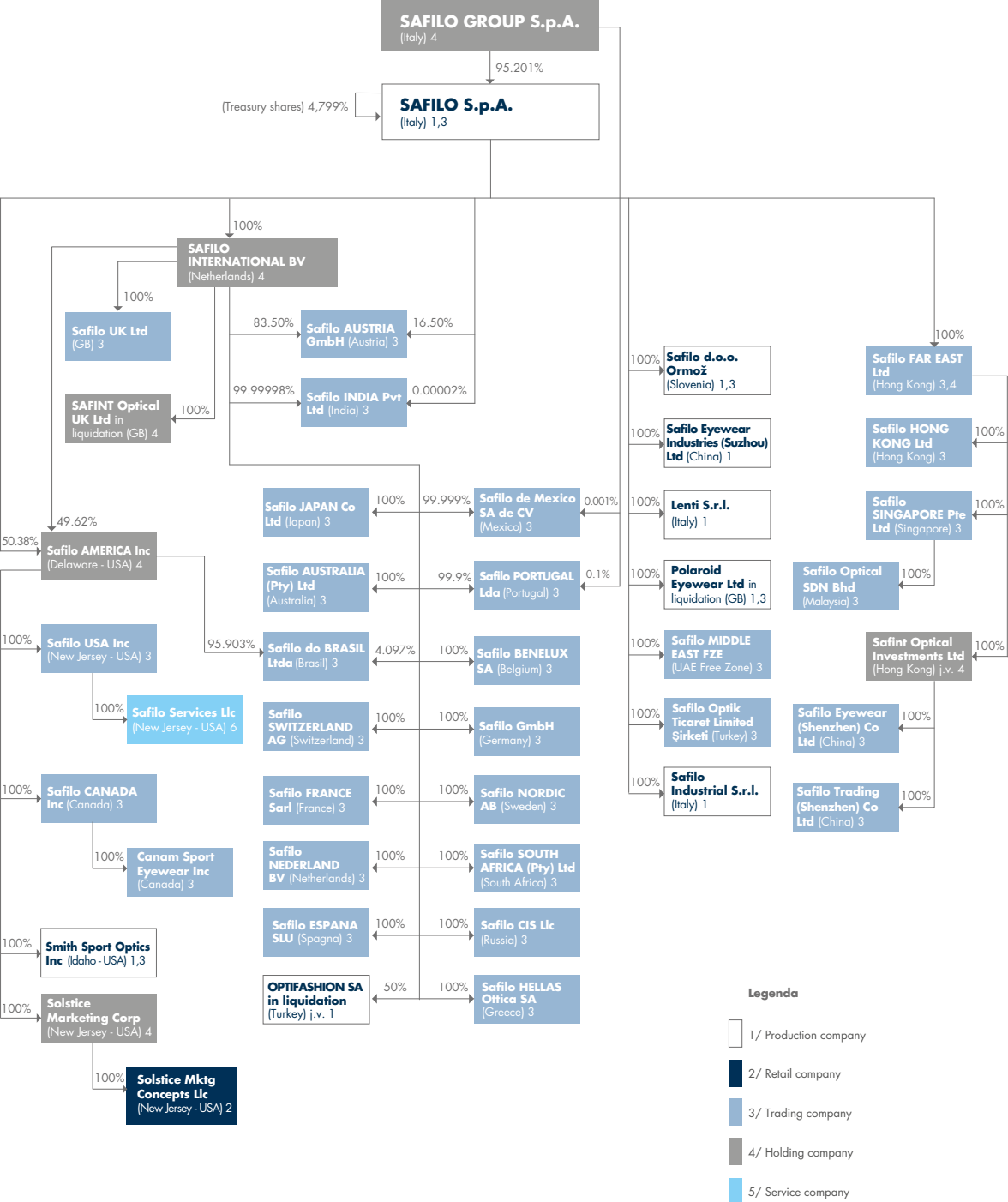
In March 2010, a capital increase of the parent company was concluded, and led to the entry of HAL Holding N.V., an international investment company, as the new reference shareholder.

HAL is both a financial and industrial partner for the Group, and has had a presence in the eyewear retail sales sector since 1996, through a vast retail network that includes chains such as Grand Optical, Solaris and Avanzi.

The acquisition of the Polaroid Eyewear business

On 3<sup>rd</sup> April 2012, the Group completed the acquisition of the Polaroid Eyewear business, a world leader in optics and polarized lens technology and a global eyewear manufacturer and distributor, with a strong and recognizable market positioning.

# GROUP STRUCTURE



# CRITICAL FACTORS FOR THE GROUP'S SUCCESS

Safilo Group's business model is based on product quality, a portfolio of prestigious brands, production flexibility, international distribution capabilities, and product diversity

The Group owes its success to a number of areas of strength, which, taken together, distinguish it within the worldwide eyewear industry:

- **design excellence, innovation and product quality:** the Group's products are highly appreciated by eyewear resellers and by the consumer due to their superior quality and their innovation in both materials and design. The Group sees quality to be key to success in the market and in effectively managing its brand portfolio;
- **a prestigious brand portfolio across market segments:** the Group manages a portfolio of brand names focusing on long-term brand partnerships as a licensee to leading fashion houses;
- **production flexibility:** for a number of years, the Group has been engaged in rationalising its organisation and production processes in order to increase efficiency and productivity and to reduce total production times. The use of outsourcing also provides the necessary flexibility in production in order to manage peaks and troughs in demand;
- **global distribution platform and territorial coverage:** the Group's logistics platform represents a key competitive advantage in supporting the business model thanks, above all, to the high level of coverage of all of the world's main markets. This plays a significant role both in supporting development strategies worldwide for fashion's leading labels and in enhancing the brand portfolio in local markets, and the distribution system is designed to reach nearly 100,000 select points of sale in 130 nations. The Group ensures its market presence through a mixed distribution model comprising direct management and indirect management, through exclusive agreements with independent distributors;
- **excellence in customer service:** the Group features: (i) a large, expert sales force able to cover the entire market; (ii) a team of key account managers dedicated to assisting the main distribution chains; and (iii) modern, multi-language call centres to manage orders and customer service, using specialised software, which enables creating precise customer profiles to personalise the services even further;

- diversification in revenues: diversification in the portfolio of proprietary and licensed brands and in the target markets and consumer segments concerned enables the Group both to mitigate the risks related to potential slowdowns in the performance of specific markets and the general risk of changes in customer buying habits, as well as to take advantage of opportunities in emerging markets and customer segments.

# PRIMARY GROUP PROCESSES AND ACTIVITIES

Manufacturing and distribution chain

On the basis of the success factors described above and in an attempt to effectively manage risk, Safilo Group directly controls the entire production-distribution chain; which is divided into the following phases and processes:



## Research, development and design

R&D is based on product design and the development of new materials and production processes

Research and development mainly focuses on two types of activities:

- Product Creation and Design;
- research and development of new materials, technologies, production processes and tools/machinery.

A new Product Creation Department was created in late 2014 with the purpose of bridging the gap between Designers and Product Supply. Its mission is to drive the development of the most unique and desirable eyewear collections by combining product development, innovation and the coordination of the multifunctional process from design to manufacturing.

Research and development of materials, production processes, technologies and instruments/machinery

Research and development of materials, product and processes aims, on one hand, to improve the technical characteristics of the products and, on the other, to develop innovations of the production process which increase its effectiveness, efficiency, quality and speed to market.

Manufacturing is planned on the basis of information that is gathered internally and externally. Internal production is carried out in seven factories in Italy, Slovenia, China and the USA

## Planning, programming and purchases

The Planning Office uses the information that has been collected internally and externally to define the production needs on a weekly basis.

Demand Planning aims at forecasting future turnover in units by product. In order to ensure all business plans are aligned to the same targets, Demand Planning also manages the Group's Sales & Operations Planning process, in which all key planning risks and opportunities are proactively highlighted and addressed.

Based on analyses of the production needs a weekly production plan is created.

The Global Sourcing Department is mainly responsible for buying raw materials, components and equipment to feed internal production needs. The Sourcing organization purchases also finished goods (frames and sunglasses).

In order to ensure the quality of raw materials, semi-finished and finished goods, the Group carefully selects suppliers and evaluates them on an ongoing basis based on their delivery times and their ability to ensure certain quality standards, as well as on their available production capacity and cost competitiveness.

The provisioning is done both in Europe and in other markets. Since the acquisition of a majority stake in Lenti S.r.l. in 1996, Safilo has the know-how to produce lenses for sunglasses in-house.

## Manufacturing and quality control

Safilo products are produced both within the facilities of the Group and by third parties. Safilo directly produces sunglasses, prescription frames and ski goggles in its facilities in Italy, Slovenia, China and the U.S.

## Quality

Quality in terms of product safety and compliance with the strictest international regulations and customer expectations: the necessary conditions to compete

Quality for Safilo Group has always taken a dimension which goes beyond the very “tangible” aspect and beyond the objective compliance of the Product, through the increasingly intensive interpretation of the “perceived” aspect as a key element for the customer’s absolute, total and unconditional satisfaction.

Creating, designing, engineering, manufacturing and distributing products of high quality, both objective and perceived, complying with the most demanding international regulation and standards have always had a key position within the strategy and the objectives of the Group.

Quality management has evolved from a strong, practical and effective attention to the single product to an increasingly holistic philosophy, integrating the quality discipline into the culture and activities of the whole organization. The fundamental step change goes from defect detection to defect prevention.

The respect of any International regulation is considered a “given”.

Safilo Group leverages quality as a competitive lever by constantly challenging the “status quo” in terms of Performance, Durability, Reliability and Perceived Quality. This is true both for products manufactured in-house and those created at suppliers, whether they supply components, semi-finished goods or finished products.

Safilo’s Quality System is ISO 9001:2008 certified.

## Marketing and communications

Marketing actions are defined at global level on the basis of medium-long term plans

The Marketing and communications campaigns to support Safilo’s brand portfolio, are one of the key factors for the Group’s success. The main aims of the Group marketing strategies include:

- ensuring the right positioning for all the brands in the portfolio by deeply understanding each brand’s unique DNA and bringing that to life through a combination of unexpected creativity and high level of operational discipline;
- ensuring the development of Safilo’s brands, through an effective marketing mix and adequate investments in communications and trade marketing;
- to communicate the desired brand equities as well as the distinctive features in terms of design and technology of products in the different categories (prescription, sunglasses, sports products).

Marketing actions are addressed to consumers on one hand and to sales points of customers and the Group on the other (trade marketing)

The Group develops a specific marketing plan for each brand in its portfolio, adopting different strategies and actions in order to ensure the best position for each one. For licensed brands, the Group develops the strategy in close partnership with its licensors.

Marketing and communications activities mainly consist of direct consumer campaigns and trade marketing activities focused on campaigns conducted in partnership with customers.

Consumer-oriented activities account for roughly 60% of the Group's marketing and advertising investment, and the main outlets used are print media, out of home and digital media, sponsorships, and public relations with journalists and opinion leaders in the fashion, entertainment and sports industries. Digital marketing has become an increasingly important communication vehicle and will continue to be due to its efficient targeting capabilities and the changing media consumption habits of our consumers.

Trade marketing actions focus on the main customers' points of sale and account for about 40% of the Group's advertising and promotion costs; they are of fundamental importance to guide the end customer's choice and to build up customer loyalty.

Corporate communication

The main objective of Safilo's corporate communication is to further develop and protect the Group's goals, branding and reputation, raising the profile and shaping the perception of its identity among Safilo's multiple stakeholders, and supporting its commercial ability to operate successfully in the markets.

Safilo's corporate communication is rooted in the Group's values and is mainly executed through the Group's website [safilogroup.com](http://safilogroup.com), social media platforms, as well as media relation plans for an effective press coverage both on-line and offline.

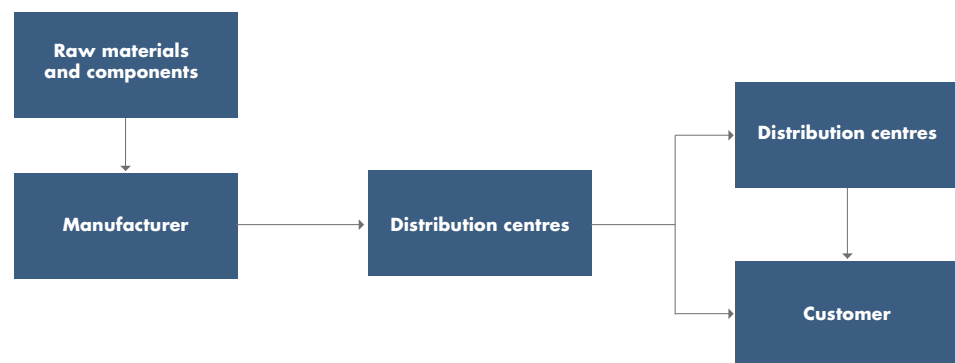


## Sales and distribution

### Distribution

The products are distributed through specialised distribution centres

Distribution processes aim at supplying finished products to the various distribution centres.



### Distribution through the wholesale channel

The Group operates in 40 countries through its own extensive subsidiary network

Safilo Group sells its products with an extensive subsidiary network in 40 countries in North and Latin America, Europe, Middle East and Africa, Asia Pacific and China and a network of more than 50 independent distribution partners covering the other countries. Safilo reaches nearly 100,000 points of sale all over the world including opticians, optometrists, ophthalmologists, distribution chains, department stores, specialised retailers, licensors' own stores, duty free shops and sports shops.

Over recent years the Group has opened showrooms in prestigious locations in Milan, New York, London, Paris, Barcelona, Madrid, New Delhi, Miami, Sao Paolo, Dubai and Mexico City to present products to its retail partners.

The wholesale distribution network is structured in regions

Safilo's distribution network is geographically organised in regions, which respectively cover North America, Europe, Asia-Pacific, and Rest of World.

Below is a brief description of the regional divisions:

#### EUROPE

*Europe.* The main centre is in Padua in Italy. The Group's European clientele is very varied: in Italy, the majority of customers are independent opticians, in the UK they are mainly chain stores, while in Germany the main customers are buying groups and distribution chains. The Group directly distributes its products to 28 European countries. Most of the sales force is linked, by a specific iPad app for sales management and trade marketing, to the distribution system so as to reduce order processing time. Sales and other marketing data can therefore be obtained on a daily basis. In those countries where the Group has no sales branches, long-standing relationships have been established with local distributors.

Thanks to the inauguration of local representation offices, the Group has been operating directly in the Baltic republics since the beginning of 2007. During 2008 Safilo S.p.A. set up stable organization units in the Czech Republic, Slovak Republic and Hungary for direct coverage of these markets. Starting from 2015 the Group has a wholly owned subsidiary in Turkey making it the hub of its new Central & Eastern European Division.

#### ASIA - PACIFIC

*Asia - Pacific.* The APAC business region manages the wholesale distribution of sunglasses and prescription frames through a direct presence with sales branches in the main markets (China, Hong Kong, Japan, South Korea, Singapore, Malaysia, and Australia) and in partnership with local distributors in all the other markets (Thailandia, Indonesia, Philippines, Taiwan, South Korea, Vietnam, Cambodia, New Zealand, Mongolia, Nepal and Myanmar).

#### NORTH AMERICA

*North America* covering the USA and Canada, headquartered in New Jersey, USA. Marketing and distribution in the USA is implemented through three main distribution channels: (i) opticians, ophthalmologists and optometrists; (ii) department stores and chains; (iii) sports stores.

#### REST OF WORLD

The commercial structure comprises mainly the Group's business in Latin America and India, Greece, Middle East & Africa with affiliates in Greece, India, Brazil, South Africa, Dubai and Mexico and a distributor presence in the remaining markets.

## Distribution through the retail channel

Refocus of Group strategy and sale of non-strategic chains

The business model defined following the reorganisation completed during 2010 saw the Group refocus on the Wholesale segment, and it is consequently no longer pursuing the expansion plan for the Retail segment implemented over the last decade. This strategy had at the time led to the sale of the retail chains owned by the Group, with the sole exception of the US chain Solstice.

While smaller than in the past, Safilo Group's presence in the Retail sector represents for the US market an important lever in terms of Safilo brand and product visibility in a very competitive environment.

US chain Solstice

Purchased from the LVMH group in 2002, Solstice is a retail store chain specialised in the sale of sunglasses positioned in the high-end and luxury segments of the market, operating a total of 102 stores in the USA at the end of 2017.

## The Group's own and licensed brands

The Group's portfolio contains both Safilo and licensed brands

The Group's brand portfolio comprises a well balanced set of Own Core Brands, with collections of optical frames, sunglasses and sports goggles and helmets, as well as licensed brands for prescription frames and sunglasses.

Safilo's brand portfolio management is consistent with the Group's strategy to diversify across all the different and strategic segments of the eyewear industry, with a product/brand offer which spans from the highest price points and brand positioning, in the Atelier segment (Elie Saab Couture and OXYDO), to the licensed brands active in the Fashion Luxury (e.g. Dior and Jimmy Choo) and Premium Fashion (e.g. Max Mara and Hugo Boss), to the Contemporary Fashion and Lifestyle (e.g. Carrera, Tommy Hilfiger, Kate Spade), to the Sport and Outdoor inspired Smith.

In the last couple of years, Safilo has also been increasing its presence and relevance in the fast growing, lower price point branded Mass Cool segment, with its own core brand Polaroid, and havaianas and Swatch.

2017 new licensing agreements for the Group

2017 was another year in which the Group continued to sign new strategic agreements as well as confirming key partnerships. In April, Safilo renewed until the end of 2022 its agreement for the design, manufacturing and distribution of the Juicy Couture eyewear collections. Similarly, in July 2017, the partnership

for the Liz Claiborne brand was renewed for further 5 years. In October, Safilo also announced a new licensing agreement for the design, manufacturing and distribution of the Rebecca Minkoff collections of sunglasses and optical frames, which will be launched in the fourth quarter of 2018. The agreement will run for seven years through December 31, 2024.

In January 2017, Safilo opened its Atelier Division with Elie Saab Couture and OXYDO, the first brands to offer differing Atelier Eyewear expressions. Safilo Atelier draws its inspiration from a long tradition of eyewear craftsmanship dating back to 1878. Today, the Padua based Product Design and Creation Studio embodies this 140 year old craftsmanship tradition, blending savoir-faire, passion and dedication with cutting-edge technical solutions and state-of-the art 3D printing production technology for the creation of unique pieces of eyewear.

Today, the Group's brand portfolio consists of 32 main brands.

## Own Core Brands

Safilo's Own Core Brands are of high strategic importance for the Group's future development and objectives, each playing a key role in the respective market segment.



Since its foundation in 1956 by Wilhelm Anger, Carrera has been delivering unique eyewear collections while introducing revolutionary innovations over time, such as interchangeable lenses, folding glasses and the patent for Optyl.

With its great heritage, Carrera continues to draw inspiration from its history and looks to the future reinterpreting vintage styles through a modern use of colours and original shapes. The brand perfectly expresses the *zeitgeist* whilst remaining authentic, original and innovative.

Italian design, lightweight materials and artisanal care for details mark the excellence of Carrera's collections: beautifully crafted and perfectly balanced between fit and style, these styles are designed to make one stand out from the crowd.



Pioneering a synthesis of design, art and innovation, Oxydo brings to life an avant-garde vision of Wearable Sculptures, deeply engrained in modern art. Its continuous drive for research and experimentation encompasses special collaborations with the most unique talents of the contemporary art scene, and mixes inventively Crafted

in Italy, advanced technologies such as 3D print, and Architectural constructions. Oxydo creations transcend the boundaries of the established eyewear propositions, representing the fusion of materials and techniques into an eclectic and iconic range. They are conceived for sophisticated and cosmopolitan individuals, absolutely engaged by the unique and distinctive styles. Each piece is available in a limited edition, exclusively made for the customer, and is marked by an identifying code highlighting the numeric progression in the year of the model release.



*Polaroid Eyewear* is the iconic brand acquired by Safilo Group in April 2012. Polaroid pioneered polarized lens technology with Edwin Land, the visionary scientist who founded Polaroid Inc., inventing the first synthetic light-polarizing material in 1929.

After 80 years dedicated to research, innovation and style, Polaroid is today a leading eyewear brand for people looking for quality of vision, cool design and value for money.

All Polaroid sunglasses are fitted with Polaroid UltraSight™ polarized lenses, synonymous with perfect vision, high protection and comfort.

After the global re-launch of Polaroid within Safilo Group, and the completion of its integration into the Group's global capabilities and network, the brand continues to develop with increasing success thanks to its new collections and the international expansion.



*Safilo* has been synonymous with quality eyewear since the 1930s. Today, the SAFILO brand benefits from the prestigious signature of the Company's name and its continuous technical research, offering high-quality frames. SAFILO offers a wide and complete collection of optical frames targeting those who are looking for a technical, refined and distinctive product. Men and women who choose SAFILO frames pay attention to design, stylistic details and quality of manufacturing and materials.

SAFILO continues to enhance its collection with a wider choice of new Made in Italy models with great attention to detail and exclusive hinges continuing the tradition of the brand's classic hinge, Elasta, famous for its quality and durability. SAFILO also partnered with world-class designers such as Marc Newson and Marcel Wanders for exciting eyewear collaborations.

The Seventh Street collection targets a younger age group (school kids and teens) with a range of colourful and fresh products.

*Kids by Safilo* is Safilo's line of prescription frames specifically designed to respond to the complex demands of children's eyewear, thereby improving children's quality of vision and their healthy development. Conceived in collaboration with SIOF (Italian Society of Paediatric Ophthalmologists), and in accordance with guidelines set out by WSPOS (World Society of Paediatric Ophthalmology and Strabismus), this collection can guarantee to the children safe and durable eyeglasses, created with bio-based materials and the best fitting.

## SMITH

*Smith* was created in 1965 when Dr. Bob Smith invented the first thermal sealed ski goggles with double lenses to eliminate fogging and allow skiers to have more fun outdoors. More than 50 years later, Smith is one of the leading manufacturers of ski goggles, sunglasses and ski and bike helmets. Since the acquisition by Safilo in 1996, Smith continued to grow both in Europe and in the rest of the world, especially in the sunglasses sector. Designed for active sports enthusiasts, e.g. snowboarding, freestyle or off-track skiing, surf and mountain/road biking, Smith products target consumers who seek products that blend refined style with performance tuned for thrilling experiences.

Safilo's own core brand portfolio also includes other minor local brands, mainly for the North American market, such as Adensco, Chesterfield, and Denim.

A very prestigious brand portfolio

## Licensed brands

Each of the licensed brands is designed and positioned for a specific market segment and target consumer. Safilo Group's portfolio of licensed brands is one of the most important and diversified in the eyewear market. Numerous fashion houses rely on the Group, many of them for world-renowned global brands, others operating in certain countries only. The Group's licences are ruled by exclusive contracts that provide for royalties and marketing contributions to the licensors, calculated as a percentage of net sales generated from the collections and with minimum annual guaranteed amounts. In many cases, such guaranteed amounts are based on a percentage of the turnover achieved by the licensed brand in the previous year.



(\*) From 2018 Moschino, Love Moschino, rag & bone and Rebecca Minkoff.

(\*\*) Swatch the Eyes is a collaboration agreement.

Below is a summary and a brief description of Safilo's licensed brands:

*Banana Republic.* Banana Republic is a global brand of accessible luxury offering the best of urban style. With high design content and luxury processing, Banana Republic lifestyle collections include clothing, shoes, bags, jewellery and perfume. Since its launch in 2008, the eyewear collection has enjoyed great success. This is also the merit of Made in Italy materials and items, sophisticated colours, and special treatments of temples and components that highlight the brand, to create a collection with timeless appeal.

*Bobbi Brown.* Bobbi Brown is the first make-up artist with a signature line of eyewear. Her goal in designing her eyewear collection is to help women select frames that enhance their natural beauty and complement their skin tones and style. Her eyewear collection is designed with elements from her cosmetic line. Bobbi Brown remains one of the world's most celebrated makeup artists.

*BOSS – HUGO BOSS.* This brand embodies class and elegance, attention to detail and to high-quality materials. The Boss Black collection offers contemporary styles with moderate fashion inspiration, clean and understated design that expresses the wearer's personality, a versatile collection that can be worn on almost every occasion.

*BOSS Orange.* A modern and casual brand for a young and up-to-date target, cool and contemporary design for individual style seekers: easy-to-wear styles with a modern appeal and contemporary design that adapt to an inner-city metropolitan lifestyle.

*Dior.* "Maison de Couture", a fabulous laboratory of ideas and a trend setter and leader in the luxury sector. Dior products have the right balance between creativity, aesthetics, comfort and quality. Dior is an aspirational brand thanks to its unique heritage from which it draws inspiration for inventing new and advanced concepts. Dior eyewear seduces thanks to the sophisticated shapes which are inspired by vintage concepts and the exceptional world of Haute Couture inherent to the brand's DNA. Dedicated and elegant colours, sophisticated materials and quality craftsmanship make Dior eyewear unique and distinctive. The collection is mainly aimed at a sophisticated female consumer, a fashion trend setter, but always elegant and attentive to detail.



*Dior Homme.* Combines elegance with a natural look and reshuffles the masculine codes by mixing day and evening, smart and casual, tradition and avant-garde, masculinity and vulnerability. A new classicism for the Dior Homme eyewear collection, identified and diversified collections: tailoring, couture, comfort, savoir-faire, elegance, design, luxurious materials, rigorous cuts, graphic colours, avant-gardism. High attention to details, enduring quality and finishings. The target consumer is male, aged 20 years and above, trend setter and trendy but elegant and with high attention to details.

*Elie Saab.* Elie Saab stands for the utmost sophistication, lightness, intricate details, precious materials, sheer beauty and savoir-faire – the dream of true Parisian luxury evocative of unique Beirut roots. The designer experiments with the central themes of femininity and romanticism, creating clothing that is cut-to-the-curve, with soft edges and exquisite detail including hand embroidery, beading and the use of luxurious fabrics such as mousseline and silk. Positioned in the Atelier segment, the eyewear collection reflects this exquisite personality of the brand, being developed with the highest sophistication in terms of product design, materials and craftsmanship.

*Fendi.* The savoir-faire, craftsmanship and innovation which have always distinguished Fendi are highlighted and fully transferred to the eyewear collection, created for a sophisticated, feminine and elegant woman, with a strong personality. Precious materials, refined details, daring colour combinations for a distinctive look, feminine and versatile.

*Fossil.* Fossil is inspired by the typical designs of the mid 1920s mixed with the desires of modern consumers. This “modern vintage” philosophy alludes to both classical and contemporary aesthetics. The collection targets consumers looking for fashionable sunglasses with clean and coloured shapes.

*Givenchy.* Givenchy, founded in 1952 by Hubert de Givenchy, is an international luxury house known for its Haute Couture, ready-to-wear and accessories’ collections for men and women. The house of Givenchy has just begun a new chapter in its history as British designer Clare Waight Keller unveiled her first foray into haute couture with a show which sought to celebrate the subversive side of fairytale fashion. As the label’s first female artistic director, Waight Keller succeeds Riccardo Tisci who left the label after 12 years at the helm. Givenchy’s distinct and modern creativity inspires unique eyewear creations of high quality and distinctiveness.

*havaianas*. Havaianas embodies the fun, vibrant and spontaneous way of Brazilian life. As the original flip-flops created in 1962, havaianas have been bringing the Brazilian spirit all around the world with high quality rubber and bright, joyful designs. The unique vibrant Brazilian personality of havaianas with its iconic creative simplicity has inspired innovative and cool eyewear collection with broad appeal for the world.

*Jack Spade*. Jack Spade is inspired by the enduring appeal of products that were designed with a purpose in mind, where every detail is considered and nothing is superfluous. The eyewear collection is designed with inherent style and utilitarian simplicity without being too self-serious. Jack Spade celebrates the insights and design innovations of everyday objects by incorporating them into the details of its products. These elements are about style following functionality, and finding the extraordinary in everyday life.

*Jimmy Choo*. An icon of luxury and quality accessories, positioned in the high-end sector with glamorous and sophisticated collections of sunglasses and ophthalmic frames. The innovative design emphasizes the fresh and distinctive Jimmy Choo style, with original colours and luxury trimmings, that recall the must-haves of the brand. An elegant and timeless brand, which represents a status symbol.

*Juicy Couture*. Juicy Couture is known throughout the world for the style of its tracksuits and soon became one of the fastest growing fashion brands in the world. The collections combine classical forms with the unmistakable details of the Juicy world and style, with logos and slogans recognisable to fans of the brand.

*Kate Spade*. Inspired by a timeless chic style, the Kate Spade collection recalls the 60s and their influence is seen in both the design and the colours. The ophthalmic sunglass lenses contain many of the fine and distinctive details of the bags and accessories from this brand, with audacious yet sophisticated collections as well as very attractive and easy to wear shapes and typically feminine colours.

*Liz Claiborne*. The Liz Claiborne collections of prescription frames and Rx-able sunglasses, like the women's clothing collections, target women who want a modern, top quality style where fit means design ranging from classic to modern.

*Marc Jacobs.* The brand is positioned at the high-end of the luxury market. The Marc Jacobs eyewear collection, featuring sophisticated and slightly retro shapes, stands out for its exclusive, sophisticated and glamorous style. A discreet collection with a very sophisticated image, heightened even further by the top-quality materials and scrupulous attention paid to details. The collection targets women between 25 and 45 years of age who want to affirm their identity and personality.

*Max Mara.* Max Mara is an expression of femininity and truly timeless elegance. It is marked by the high quality of its materials, its modern design and its tailored style. Max Mara products combine modernity and tradition, elegance and simplicity. The Max Mara brand targets modern women, aged 30 to 50, financially independent, looking for elegant and sophisticated eyewear with classical and unostentatious details. The products are sold worldwide, particularly in Europe and the Far East.

*Max & Co.* The Max&Co. brand mainly targets young (18-35 years), fashion-conscious, female consumers. The first Max&Co. eyewear collection was presented to the market in 2007. Young and easy to wear shapes with a modern fresh and feminine taste, colours, customized materials and details inspired from fabrics and garments of the Max&Co. world.

*Moschino.* Moschino is one of the most creative and desecrating luxury brand of the world, characterized by its high-quality garments and accessories. Moschino's provocative surrealist wit inspired the development of our eyewear collections that embody the vivid creativity of Moschino, always enriched by an irony touch, now so powerfully interpreted in Jeremy Scott's vision. The iconic design that well translates the subversive and pop spirit of the brand add a distinctive momentum to our premium offer within our brand portfolio. The first collection was released in January 2018, available worldwide in quality optical stores, department stores and in all Moschino Boutiques.

*Love Moschino.* Love Moschino is addressed at a young, fashion conscious clientele looking for timeless and easy to wear shapes, enhanced by daring colour association and smart details recalling the brand world. The casual taste is merged with a contemporary urban style for a fashion offer able to underline a creative and individual attitude. The collection, mainly focused on optical, is distributed through the major optical chains worldwide.

*Pierre Cardin.* Pierre Cardin products are typically refined, confirming a style that characterises successful products. Classical yet always current, they are also adorned with precious and classy details. This is a very well-known brand, with a contemporary design; its eyewear lines are sold at very affordable prices. The collection goes beyond tradition, exploring new routes in style: some models take inspiration from a futuristic design, according to the elegance typical of this brand.

*rag&bone.* Founded in New York in 2002, rag&bone takes its origins from a desire to create beautifully constructed clothing with directional modern design. Marcus Wainwright and David Neville's brand instantaneously acquired cult status by combining their British heritage with an inherent downtown New York aesthetic. Today, rag&bone offers a full range of men's and women's ready to wear, accessories and footwear collections, and is a well-recognized success in the international fashion world. rag&bone eyewear collections will cover both optical and sunglass ranges and will be distributed in all rag & bone directly operated stores, rag-bone.com, boutiques, department stores and the best optical stores worldwide for five years starting from January 2018 until December 31, 2022.

*Rebecca Minkoff.* With a vision of building a lifestyle brand for women like herself — whimsical, clever and passionate — Rebecca Minkoff has found a unique niche among fashion-forward, modern women around the world. Today, the Rebecca Minkoff brand spans ready-to-wear, bags, footwear, jewellery, eyewear and tech accessories. Her unique vision for the brand is singularly focused on her ideal millennial girl, who experiences all of life's exciting moments, with her confident, go-anywhere, do-anything attitude.

*Saks Fifth Avenue.* The Saks Fifth Avenue collection is addressed to smart, stylish, practical women who love fashion. The collections of prescription frames and sunglasses are refined and classic with beautiful details that capture the attention of women between 25 and 55 years of age.

*Swatch.* The Swatch Group takes its name from the extraordinarily successful story of Swatch, one of the world's most widely recognized consumer brand names. Less than 30 years ago, when the Swiss watchmaking industry was battling a serious crisis, the first Swatch watches were released. The years since then have seen the recovery of the Swiss watchmaking industry as a whole, and the establishment of The Swatch Group as a strong, diversified industrial holding. This solid foundation has allowed the Group to broaden its reach and extend its range of brands. Creative, playful and lifestyle-oriented, the eyewear collection *Swatch The Eyes* complements Safilo's portfolio in the vast and fast growing mass-cool consumer segment with a unique proposition that leverages the smart, playful, innovative DNA of Swatch.

*Tommy Hilfiger* is one of the most famous names in the fashion design sector. The Group creates and sells high-quality collections with men's, women's, children's and denim clothing lines. The eyewear collection epitomizes the brand's "preppy" image, the icon of the American cool spirit. The collections are characterized by a young style, combining coloured materials with unexpected details, creating a complete range of prescription frames and sunglasses, from the smart casual to the businessman. The collection embodies the Tommy Hilfiger brand essence, merging both vintage and modern styles.



SAFILO GROUP S.p.A.  
CONSOLIDATED  
FINANCIAL  
STATEMENTS AT  
31<sup>ST</sup> DECEMBER 2017

# BOARD OF DIRECTORS, COMMITTEES AND AUDITORS

BOARD OF DIRECTORS <sup>(1)</sup>	<i>Chairman</i>	Eugenio Razelli
	<i>Chief Executive Officer</i>	Luisa Deplazes de Andrade Delgado
	<i>Independent Director</i>	Jeffrey A. Cole
	<i>Director</i>	Melchert Frans Groot
	<i>Independent Director</i>	Robert Polet
	<i>Independent Director</i>	Guido Guzzetti
	<i>Independent Director</i>	Marco Jesi
	<i>Independent Director</i>	Ines Mazzilli
BOARD OF STATUTORY AUDITORS <sup>(2)</sup>	<i>Chairman</i>	Carmen Pezzuto
	<i>Regular Auditor</i>	Franco Corgnati
	<i>Regular Auditor</i>	Bettina Solimando
	<i>Alternate Auditor</i>	Marzia Reginato
	<i>Alternate Auditor</i>	Gianfranco Gaudio
SUPERVISORY COMMITTEE <sup>(3)</sup>	<i>Chairman</i>	Franco Corgnati
		Ines Mazzilli
		Carlotta Boccadoro
CONTROL RISK AND SUSTAINABILITY COMMITTEE <sup>(4)</sup>	<i>Chairman</i>	Ines Mazzilli
		Melchert Frans Groot
		Guido Guzzetti
REMUNERATION AND NOMINATION COMMITTEE <sup>(5)</sup>	<i>Chairman</i>	Jeffrey A. Cole
		Robert Polet
		Marco Jesi
TRANSACTIONS WITH RELATED PARTIES COMMITTEE <sup>(6)</sup>	<i>Chairman</i>	Ines Mazzilli
		Guido Guzzetti
		Marco Jesi
INDEPENDENT AUDITORS	Deloitte & Touche S.p.A.	

(1) Appointed by the Shareholders' Meeting held on April 27<sup>th</sup> 2015.

(2) Appointed by the Shareholders' Meeting held on April 26<sup>th</sup>, 2017.

(3) Appointed by the Board of Directors' Meeting held on April 27<sup>th</sup>, 2015; its composition was firstly changed with Board of Directors' resolution dated April 26<sup>th</sup>, 2017 and afterwards with Board of Directors' resolution dated May 9<sup>th</sup>, 2017.

(4) Appointed by the Board of Directors' Meeting held on April 27<sup>th</sup>, 2015, and renamed "Control Risk and Sustainability Committee" with Board of Directors' resolution dated December 13<sup>th</sup>, 2016; its composition was changed with Board of Directors' resolution dated April 26<sup>th</sup>, 2017.

(5) Appointed by the Board of Directors' Meeting held on April 27<sup>th</sup>, 2015.

(6) Appointed by the Board of Directors' Meeting held on April 27<sup>th</sup>, 2015; its composition was changed with Board of Directors' resolution dated April 26<sup>th</sup>, 2017.



# CHAIRMAN'S LETTER

Dear Shareholders,

2017 was a complex year for Safilo: we faced the transformation of the Gucci license into a supply agreement and a difficult start-up of a new Order-to-Cash IT system in the Padua distribution center, impacting our service levels and new order in-taking opportunities, in particular in our core European markets. The Group economic and financial results were significantly affected.

On the positive side, emerging markets showed positive trends during the full year, driven mainly by Central & Eastern Europe and India, Middle East & African markets, and in the second half of 2017 our Asian markets returned to going-forward portfolio growth for the first time in several years. Our own core brands performed better versus the previous years, driven by successful new collections and brand value recognition.

On the operational side, the Group progressed along its 2020 product supply strategy increasing in-house production, reducing the number of distribution centers and modernizing its manufacturing capabilities, and by December 2017 has executed about half of the Euro 25-30 million Overheads saving program announced in 2016, on track to complete the full program by end December 2018, one year ahead of plan.

Based on 140 years of product design and manufacturing experience and widely recognized product excellence, Safilo continues to be able to firmly count on a stable leading shareholder, an experienced board of directors, and many thousands of talented and skilled employees to support the company's growth strategy. We look towards 2018 as a brand new start for Safilo, with the appointment of Mr. Angelo Trocchia as new CEO to take the Company through a new phase of successful business execution and brand portfolio development.

*Eugenio Razelli*  
Chairman

# SUMMARY OF KEY CONSOLIDATED PERFORMANCE INDICATORS

<b>Economic data</b> (Euro million)	<b>2017</b>	<b>%</b>	<b>2016</b>	<b>%</b>
Net sales	1,047.0	100.0	1,252.9	100.0
Cost of sales	(527.4)	(50.4)	(537.3)	(42.9)
Gross profit	519.6	49.6	715.6	57.1
Ebitda	25.9	2.5	80.9	6.5
Ebitda pre non-recurring items	41.1	3.9	88.8	7.1
Operating profit/(loss)	(208.2)	(19.9)	(116.3)	(9.3)
Operating profit/(loss) pre non-recurring items	(0.8)	(0.1)	43.5	3.5
Group profit/(loss) before taxes	(222.2)	(21.2)	(122.6)	(9.8)
Profit/(Loss) attributable to the Group	(251.6)	(24.0)	(142.1)	(11.3)
Profit/(Loss) attributable to the Group pre non-recurring items	(47.1)	(4.5)	15.4	1.2

<b>Balance sheet data</b> (Euro million)	<b>December 31, 2017</b>	<b>%</b>	<b>December 31, 2016</b>	<b>%</b>
Total assets	1,160.5	100.0	1,527.1	100.0
Total non-current assets	554.6	47.8	843.5	55.2
Capital expenditure	40.2	3.5	52.4	3.4
Net invested capital	664.9	57.3	921.2	60.3
Net working capital	231.6	20.0	261.7	17.1
Net financial position	(131.6)	(11.3)	(48.4)	(3.2)
Group Shareholders' equity	533.2	45.9	872.8	57.2

<b>Financial data</b> (Euro million)	<b>2017</b>	<b>2016</b>
Cash flow operating activity	(31.1)	89.1
Cash flow investing activity	(39.0)	(44.3)
Cash flow financing activity	-	5.2
Closing net financial indebtedness (short-term)	20.8	99.0
Free cash flow	(70.1)	44.7

<b>Group personnel</b>	<b>2017</b>	<b>2016</b>
Punctual at period end	7,109	7,128
Average	7,120	7,068

<b>Earnings/(Losses) per share</b> (in Euro)	<b>2017</b>	<b>2016</b>
Earnings/(Losses) per share - basic	(4.015)	(2.269)
Earnings/(Losses) per share - diluted	(4.014)	(2.267)
Group Shareholders' equity per share	8.51	13.93

<b>Share and market data</b> (in Euro)	<b>2017</b>	<b>2016</b>
Share price at the end of the financial year	4.78	7.90
Maximum share price of the financial year	8.15	10.48
Minimum share price of the financial year	4.34	6.38
No. shares in share capital at December 31 <sup>st</sup>	62,659,965	62,659,965
Stock Market value at the end of the financial year	299,477,037	495,314,491

*It should be noted that non-recurring items refer to charges not related to the ordinary operations:*

- In 2017, the non-recurring items refer to an impairment loss on the goodwill allocated to its cash generating units for Euro 192.0 million and non-recurring costs for a total of Euro 15.3 million (Euro 15.2 and 12.5 million respectively on EBITDA and Net result) related to the reorganization of the Ormoz plant in Slovenia, cost saving initiatives and restructuring costs, and to some legal litigations. In the fourth quarter 2017, the non-recurring items on EBITDA refer to non-recurring restructuring costs for a total of Euro 10.9 million related to cost saving initiatives and to some legal litigations.*

*For the purpose of the financial leverage calculation, 2017 pre non-recurring EBITDA, besides the above mentioned Euro 15.2 million of non-recurring costs, excludes Euro 4 million of exceptional costs incurred in relation to the Padua DC Order-to-Cash IT system issues and includes the profit impact resulting from the lost revenues, estimated at Euro 45 million, in relation to the Padua DC Order-to-Cash IT system issues.*

- In 2016, the non-recurring items refer to an impairment loss on the goodwill allocated to the Far East cash generating unit for Euro 150.0 million and non-recurring restructuring costs for a total of Euro 9.8 million (Euro 7.9 and 7.5 million, respectively on EBITDA and Net result) due for Euro 8.6 million to overhead cost saving initiatives, such as the integration of Vale of Leven (Scotland) Polaroid lens production into Safilo's China based corporate supply network and for Euro 1.2 million to commercial restructuring costs in the EMEA region. In the fourth quarter 2016, the non-recurring items on EBITDA refer to non-recurring restructuring costs for a total of Euro 1.5 million.*

*The table below summarizes the reconciliation between the economic indicators and their adjusted value pre non-recurring items:*

(Euro million)	2017			2016		
	Ebitda	Operating profit/(Loss)	Profit/(Loss) attributable to the Group	Ebitda	Operating profit/(Loss)	Profit/(Loss) attributable to the Group
<b>Economic indicators</b>	<b>25.9</b>	<b>(208.2)</b>	<b>(251.6)</b>	<b>80.9</b>	<b>(116.3)</b>	<b>(142.1)</b>
Restructuring costs and other non recurring costs	15.2	15.3	15.3	7.9	9.8	9.8
Impairment of goodwill		192.0	192.0		150.0	150.0
Tax effect on non recurring items			(2.8)			(2.3)
<b>Economic indicators pre non recurring items</b>	<b>41.1</b>	<b>(0.8)</b>	<b>(47.1)</b>	<b>88.8</b>	<b>43.5</b>	<b>15.4</b>

### *It should be noted that:*

- *certain figures in this report have been subject to rounding adjustments. Accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be algebraic sums of the figures which precede them;*
- *the percentage variations and incidences in the tables have been calculated on the basis of data expressed in thousands and not those which are shown, rounded to the nearest million.*

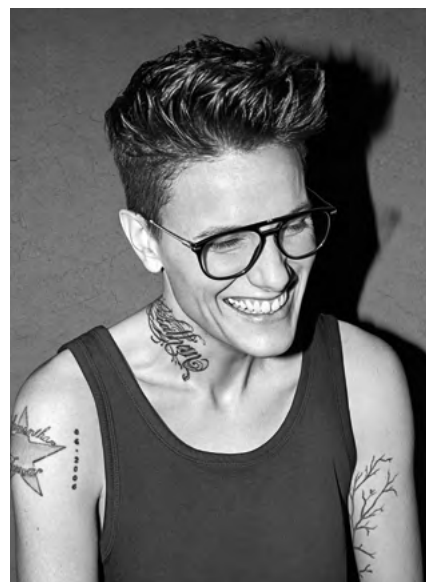
*Following the entry into force on March 18, 2016 of the Italian Legislative Decree no. 25 of 15 February 2016, which eliminates, in accordance with the European Union's Transparency Directive, the obligation to publish interim management statements, the Group releases on a voluntary basis a trading update for first and third quarter showing only financial KPIs.*

*Certain "alternative performance indicators", which are not foreseen in the IFRS accounting principles and are applied to the financial statements being audited, have been used in this Report. Their meaning and content is given below:*

- *Sales performance of the Going Forwards Brand Portfolio is calculated by excluding Gucci business;*
- *"EBITDA" stands for Earnings Before Interest, Taxes, Depreciation and Amortisation and is also stated before impairment losses to intangible assets such as goodwill;*
- *"Capital expenditure" refers to purchases of tangible and intangible fixed assets;*
- *"Net invested capital" refers to the sum of shareholders' equity of the Group and minority interests and the "Net financial position" (see below);*
- *"Free Cash Flow" means the sum of cash flow from/(for) operating activities and the cash flow from/(for) investing activities;*
- *"Net working capital" means the sum of inventories, trade receivables and trade payables;*
- *"Net financial position" means the sum of bank borrowings, short, medium and long-term borrowings, net of cash held in hand and at bank. Such indicator does not include the valuation at the reporting date of derivative financial instruments;*
- *"Financial leverage" is the ratio between "Net financial position" and "EBITDA";*
- *"ROS" is the ratio between operating profit and sales;*
- *"ROIC" is the ratio between operating profit net of adjusted taxes and net invested capital;*
- *"ROE" is the ratio between Group net profit (loss) and Group shareholders' equity.*

## *Disclaimer*

This report and, in particular, the section entitled “Significant events after the year-end and outlook” contains forward looking statements based on current expectations and projects of the Group in relation to future events. Due to their specific nature, these statements are subject to inherent risks and uncertainties, as they depend on certain circumstances and facts, most of which being beyond the control of the Group. Therefore actual results could differ, even to a significant extent, with respect to those reported in the statements.



1

DIRECTORS  
OPERATIONS REPORT

# INFORMATION ON THE OPERATIONS

Safilo's total net sales reached Euro 1,047.0 million in 2017, contracting by Euro 194 million at constant currency compared to 2016. The reduction of sales was mainly driven by the change of the Gucci license into a supply agreement, representing a net decline of Euro 155 million (-12%), and by the implementation of the new Order-to-Cash IT system in the Padua distribution center early in the year. That event negatively affected deliveries and, while operationally recovered from mid-year, impacted order taking and thus reduced sales and profit up to and including the fourth quarter.

In the year, the sales of the Going Forward Brand Portfolio decreased by 3.9% at constant exchange rates, with Southern European countries being more affected by the above described Padua distribution center issues and by the decline experienced by the Dior collections after several years of extraordinarily strong growth. On the other hand, Own Core Brands and the total of all other licensed brands grew single digits, thanks in particular to the significant progress recorded by the Group in the emerging markets.

At the operating level, 2017 EBITDA pre non-recurring items stood at Euro 41.1 million, with the margin at 3.9% of sales (Euro 88.8 million and 7.1% of sales in 2016). This result mainly reflected the contraction recorded by the Group at the gross profit level, following the dilutive effect of the change of the Gucci license into a supply agreement and the sales decline of the Going Forward Brand Portfolio. The latter event affected capacity absorption of the Group's Italian plants and the operational leverage of the year. In 2017, in line with the announced overheads productivity program, the Group achieved cost savings of Euro 13 million, partially counterbalanced by approximately Euro 4 million of exceptional costs incurred in relation to the abovementioned Padua distribution center issues.

Safilo closed 2017 with a Group net loss pre non-recurring items of Euro 47.1 million compared to the net profit pre non-recurring items of Euro 15.4 million recorded in 2016.

2017 net result pre non-recurring items does not include a non-cash impairment charge of Euro 192.0 million on goodwill allocated to its cash generating units and non-recurring costs of Euro 12.5 million (Euro 15.2 million on EBITDA).



# GROUP ECONOMIC RESULTS

<b>Consolidated statement of operations</b> (Euro million)	<b>2017</b>	<b>%</b>	<b>2016</b>	<b>%</b>	<b>Change %</b>
Net sales (*)	1,047.0	100.0	1,252.9	100.0	-16.4%
Cost of sales	(527.4)	(50.4)	(537.3)	(42.9)	-1.8%
<b>Gross profit</b>	<b>519.6</b>	<b>49.6</b>	<b>715.6</b>	<b>57.1</b>	<b>-27.4%</b>
Selling and marketing expenses	(415.5)	(39.7)	(512.8)	(40.9)	-19.0%
General and administrative expenses	(153.4)	(14.7)	(167.8)	(13.4)	-8.6%
Other operating income/(expenses) (**)	33.2	3.2	(1.3)	(0.1)	n.s.
Impairment loss on goodwill	(192.0)	(18.3)	(150.0)	(12.0)	28.0%
<b>Operating profit/(loss)</b>	<b>(208.2)</b>	<b>(19.9)</b>	<b>(116.3)</b>	<b>(9.3)</b>	<b>79.0%</b>
Financial charges, net	(14.0)	(1.3)	(6.4)	(0.5)	n.s.
<b>Profit/(Loss) before taxation</b>	<b>(222.2)</b>	<b>(21.2)</b>	<b>(122.6)</b>	<b>(9.8)</b>	<b>81.2%</b>
Income taxes	(29.4)	(2.8)	(19.5)	(1.6)	50.9%
<b>Net profit/(loss)</b>	<b>(251.6)</b>	<b>(24.0)</b>	<b>(142.1)</b>	<b>(11.3)</b>	<b>77.0%</b>
Net profit/(loss) attributable to minority interests	-	-	-	-	
<b>Net profit/(loss) attributable to the Group</b>	<b>(251.6)</b>	<b>(24.0)</b>	<b>(142.1)</b>	<b>(11.3)</b>	<b>77.0%</b>
<b>EBITDA</b>	<b>25.9</b>	<b>2.5</b>	<b>80.9</b>	<b>6.5</b>	<b>-68.0%</b>

<b>Economic indicators pre non-recurring items</b>	<b>2017</b>	<b>%</b>	<b>2016</b>	<b>%</b>	<b>Change %</b>
<b>EBIT pre non-recurring items</b>	<b>(0.8)</b>	<b>(0.1)</b>	<b>43.5</b>	<b>3.5</b>	<b>n.s.</b>
<b>EBITDA pre non-recurring items</b>	<b>41.1</b>	<b>3.9</b>	<b>88.8</b>	<b>7.1</b>	<b>-53.7%</b>
<b>Net profit/(loss) attributable to the Group pre non-recurring items</b>	<b>(47.1)</b>	<b>(4.5)</b>	<b>15.4</b>	<b>1.2</b>	<b>n.s.</b>

(\*) At constant exchange rates, 2017 net sales decreased by 15.5% compared to 2016, amounting to Euro 1,058.7 million.

(\*\*) The item includes operating non-recurring expenses for a total amount of Euro 15.3 million (Euro 9.8 million in 2016).

Percentage impacts and changes have been calculated on figures in thousands.

Safilo's full year 2017 total net sales of Euro 1,047.0 million decreased 16.4% at current exchange rates and 15.5% at constant exchange rates compared to Euro 1,252.9 million in the full year 2016.

In the year, wholesales revenues equaled Euro 981.7 million, down 16.7% at current exchange rates and 15.8% at constant exchange rates compared to Euro 1,177.8 million in 2016. The net sales of the Going Forward Brand Portfolio decreased by 3.9% at constant exchange rates.

The reduction of sales was mainly driven by the change of the Gucci license into a supply agreement, representing a net decline of Euro 155 million (-12%), and by the implementation of the new Order-to-Cash IT system in the Padua distribution center early in the year. That event negatively affected deliveries and, while operationally recovered from mid-year, impacted order taking and thus reduced sales and profit up to and including the fourth quarter.

Dior collections experienced a decline after several years of extraordinarily strong growth, while Own Core Brands and the total of all other licenses grew single digits.

2017 economic performance mainly reflected the contraction recorded by the Group at the gross profit level, following the dilutive effect of the change of the Gucci license into a supply agreement and the sales decline of the Going Forward Brand Portfolio, affecting both capacity absorption of the Group's Italian plants and the operational leverage of the year.

In 2017, in line with its overheads productivity program, the Group achieved cost savings of Euro 13 million, partially counterbalanced by approximately Euro 4 million of exceptional costs incurred in relation to the abovementioned Padua distribution center issues.

2017 **Gross profit** equaled Euro 519.6 million, down 27.4% compared to Euro 715.6 million in 2016, with the gross margin moving to 49.6% of sales from 57.1%.

2017 **EBITDA pre non-recurring items** was Euro 41.1 million, down 53.7% compared to the adjusted EBITDA of Euro 88.8 million recorded in 2016. The adjusted EBITDA margin equaled 3.9% of net sales in 2017, compared to 7.1% in 2016.

2017 **EBIT pre non-recurring items** equaled a loss of Euro 0.8 million compared to the adjusted EBIT of Euro 43.5 million for 2016.

2017 total net financial charges increased to Euro 14.0 million from Euro 6.4 million in 2016 mainly due to the negative impact of net exchange rates differences, while net interest charges remained substantially stable.

2017 **Group net result pre non-recurring items** equaled a loss of Euro 47.1 million compared to the adjusted net profit of Euro 15.4 million recorded in 2016.

<b>Consolidated income statement</b> (Euro million)	<b>Fourth quarter 2017</b>	<b>%</b>	<b>Fourth quarter 2016</b>	<b>%</b>	<b>Change %</b>
Net sales (*)	249.2	100.0	313.9	100.0	-20.6%
<b>Gross profit</b>	<b>112.0</b>	<b>44.9</b>	<b>151.7</b>	<b>48.3</b>	<b>-26.2%</b>
<b>EBITDA</b>	<b>(12.9)</b>	<b>(5.2)</b>	<b>9.9</b>	<b>3.2</b>	<b>n.s.</b>

<b>Economic indicators pre non-recurring items</b>	<b>Fourth quarter 2017</b>	<b>%</b>	<b>Fourth quarter 2016</b>	<b>%</b>	<b>Change %</b>
<b>EBITDA pre non-recurring items</b>	<b>(2.1)</b>	<b>(0.8)</b>	<b>11.4</b>	<b>3.6</b>	<b>n.s.</b>

(\*) At constant exchange rates, 2017 fourth quarter net sales decreased by 16.9% compared to the fourth quarter 2016, amounting to Euro 260.8 million.

Percentage impacts and changes have been calculated on figures in thousands.

Fourth quarter 2017 Safilo's total net sales equaled Euro 249.2 million, down 20.6% at current exchange rates and 16.9% at constant exchange rates compared to 2016.

In the period, wholesales revenues equaled Euro 233.8 million, down 21.1% at current exchange rates and 17.7% at constant exchange rates compared to Euro 296.4 million in Q4 2016. The change of the Gucci license into a supply agreement accounted for Euro 44 million of the total Euro 53 million decrease of sales at constant exchange rates, while the sales of the Going Forward Brand Portfolio declined by 3.7% at constant currency (-5.2% excluding retail).

Fourth quarter 2017 economic performance was mainly affected by the decline in sales of the Going Forward Brands, the consequent lower absorption of fixed costs and a negative sales mix.

Fourth quarter 2017 **Gross profit** totaled Euro 112.0 million, down 26.2% compared to Euro 151.7 million in the same quarter of 2016. In the fourth quarter, gross margin decreased to 44.9% of net sales from 48.3% in Q4 2016.

Fourth quarter 2017 **EBITDA pre non-recurring items** equaled a loss of Euro 2.1 million compared to the positive adjusted EBITDA of Euro 11.4 million recorded in the same period of 2016.

## Net sales by geographical area

<b>Net sales by geographical area</b>	<b>Full year 2017</b>	<b>%</b>	<b>Full year 2016</b>	<b>%</b>	<b>Change %</b>	<b>Change % (*)</b>	<b>Change % (**)</b>
(Euro million)							
Europe	469.3	44.8	537.6	42.9	-12.7%	-12.2%	-8.9%
North America	422.3	40.3	509.5	40.7	-17.1%	-15.5%	-2.3%
Asia Pacific	64.3	6.1	114.7	9.2	-43.9%	-42.3%	-3.2%
Rest of the world	91.0	8.7	91.2	7.3	-0.2%	-1.3%	14.0%
<b>Total</b>	<b>1,047.0</b>	<b>100</b>	<b>1,252.9</b>	<b>100</b>	<b>-16.4%</b>	<b>-15.5%</b>	<b>-3.9%</b>

<b>Net sales by geographical area</b>	<b>Fourth quarter 2017</b>	<b>%</b>	<b>Fourth quarter 2016</b>	<b>%</b>	<b>Change %</b>	<b>Change % (*)</b>	<b>Change % (**)</b>
(Euro million)							
Europe	101.6	40.8	138.4	44.1	-26.6%	-26.3%	-17.8%
North America	97.0	38.9	123.2	39.3	-21.3%	-14.0%	-0.5%
Asia Pacific	18.7	7.5	24.5	7.8	-23.9%	-18.9%	12.6%
Rest of the world	31.9	12.8	27.7	8.8	15.3%	18.6%	29.6%
<b>Total</b>	<b>249.2</b>	<b>100</b>	<b>313.9</b>	<b>100</b>	<b>-20.6%</b>	<b>-16.9%</b>	<b>-3.7%</b>

(\*) Sales performance at constant exchange rates.

(\*\*) Sales performance at constant exchange rates of the Going Forward Brands Portfolio, excluding Gucci business.

### EUROPE

Full year 2017 net sales in Europe equaled Euro 469.3 million, down 12.7% at current exchange rates and 12.2% at constant exchange rates compared to Euro 537.6 million in 2016. The sales of the Going Forward Brand Portfolio in Europe declined in the year by 8.9% at constant exchange rates, mainly due to the difficult implementation of the new Order-to-Cash IT system in the Padua distribution center, reducing sales up to and including the fourth quarter, and the decline experienced by the Dior collections after several years of strong growth.

In fourth quarter 2017, net sales in Europe equaled Euro 101.6 million, down 26.6% at current exchange rates and 26.3% at constant exchange rates compared to Euro 138.4 million in the fourth quarter of 2016. In the quarter, the sales of the Going Forward Brand Portfolio, down 17.8% at constant exchange rates, suffered in the South of Europe the tail-end of the abovementioned Padua distribution center issues with Fall/Winter collection sell-in restrained by the late deliveries of the Spring/Summer collection. On the other hand, the North of Europe and the Central Eastern countries had a very positive quarter, up double digits.

#### NORTH AMERICA

Full year 2017 total net sales in North America totaled Euro 422.3 million, down 17.1% at current exchange rates and 15.5% at constant exchange rates compared to Euro 509.5 million in 2016. In the year, the wholesale revenues of the Going Forward Brand Portfolio decreased by 2.0% at constant exchange rates.

In fourth quarter 2017, total net sales in North America were Euro 97.0 million, down 21.3% at current exchange rates and 14.0% at constant exchange rates compared to Euro 123.2 million in the fourth quarter of 2016. In the quarter, the weak business environment in department stores and the transition of Marc Jacobs collections from two brands to one brand were the main causes behind the sales decline of the Going Forward Brand Portfolio in the wholesale business (-3.8% at constant exchange rates).

Sales of the 102 Solstice stores in the United States (116 stores at the end of December 2016) equaled Euro 15.4 million in Q4 and Euro 65.3 million in full year 2017, declining respectively 3.6% and 11.3% at constant exchange rates compared to the same periods of 2016. In Q4, the same store sales performance of Solstice showed a significant improvement, up 2.7% at constant exchange rates.

#### ASIA PACIFIC

Full year 2017 total net sales in Asia Pacific were Euro 64.3 million, down 43.9% at current exchange rates and 42.3% at constant exchange rates, strongly impacted by the exit of the Gucci business, to which the region was over proportionately exposed. The sales of the Going Forward Brand Portfolio, down 3.2% at constant exchange rates in the year, showed an improvement in the second half of 2017, up 11.1% at constant exchange rates.

In fourth quarter 2017, total net sales in Asia Pacific equaled Euro 18.7 million, down 23.9% at current exchange rates and 18.9% at constant exchange rates. In the period, the net sales of the Going Forward Brand Portfolio further accelerated, growing 12.6% at constant exchange rates.

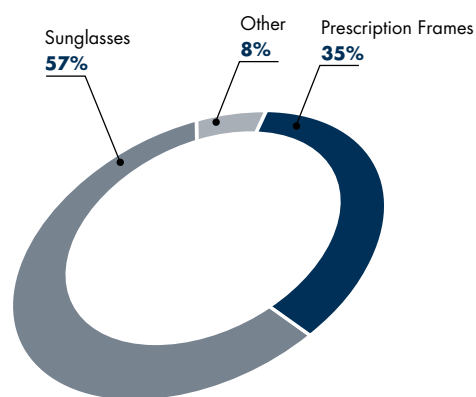
#### REST OF THE WORLD

Full year 2017 total net sales in the Rest of the World reached Euro 91.0 million, substantially flat compared to 2016 (-0.2% at current exchange rates and -1.3% at constant exchange rates), and growing the region's share of Group total sales from 7.3% to 8.7%. In these markets, which include both IMEA and Latin America, the sales of the Going Forward Brand Portfolio grew 14% at constant exchange rates.

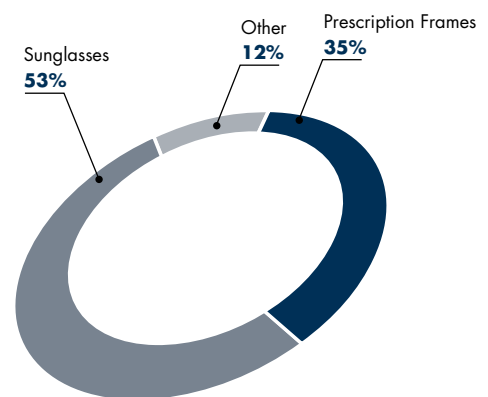
In fourth quarter 2017, total net sales in the Rest of the World were Euro 31.9 million, up 15.3% at current exchange rates and 18.6% at constant exchange rates. In the quarter, sales of the Going Forward Brand Portfolio soared, up 29.6% at constant exchange rates.

The charts below summarize the breakdown of net sales by product category for the full year and for the fourth quarter 2017:

#### FULL YEAR 2017



#### FOURTH QUARTER 2017



# ANALYSIS BY DISTRIBUTION CHANNEL - WHOLESALE/RETAIL

The table below shows key data by operating segment:

(Euro million)	WHOLESALE				RETAIL			
	2017	2016	Change	Change %	2017	2016	Change	Change %
Net sales to 3 <sup>rd</sup> parties	981.7	1.177.8	(196.1)	-16.7%	65.3	75.2	(9.9)	-13.1%
EBITDA (*)	49.2	90.9	(41.7)	-45.8%	(8.1)	(2.1)	(6.0)	n.s.
%	5.0%	7.7%			-12.5%	-2.8%		

(Euro million)	WHOLESALE				RETAIL			
	Fourth quarter 2017	Fourth quarter 2016	Change	Change %	Fourth quarter 2017	Fourth quarter 2016	Change	Change %
Net sales to 3 <sup>rd</sup> parties	233.8	296.4	(62.6)	-21.1%	15.4	17.5	(2.1)	-11.9%
EBITDA (*)	(0.1)	12.3	(12.4)	-100.7%	(2.0)	(0.9)	(1.1)	n.s.
%	0.0%	4.2%			-12.8%	-5.2%		

(\*) Pre non-recurring items in 2017 referring to wholesale channel for 15.2 million Euro in the year and 10.9 million Euro in the fourth quarter. In 2016 pre non-recurring items referring to wholesale channel for 7.9 million Euro in the year and 1.5 million Euro in the fourth quarter.

Turnover for the Wholesale segment in 2017 amounts to Euro 981.7 million decreasing from Euro 1,177.8 million of the previous year, a decrease of 16.7% at current exchange rate (down 15.8% at constant exchange rates). Net sales in the fourth quarter of 2017 equalled Euro 233.8 million declining compared to Euro 296.4 million of the same period of the previous year, a decrease of 21.1% at current exchange rates (down 17.7% at constant exchange rates).

The Solstice retail chain, which currently numbers 102 stores in the USA (116 stores at the end of December 2016), recorded sales of Euro 65.3 million in 2017 a decrease from Euro 75.2 million of the previous year, down 11.3% at constant exchange rates. Performance in the fourth quarter recorded sales of Euro 15.4 million compared to Euro 17.5 million in the same period of the previous year, a decrease of 3.6% at constant exchange rates. In fourth quarter, the same store sales performance of Solstice showed a significant improvement, up 2.7% at constant exchange rates.



# CONDENSED BALANCE SHEET

The table below shows the highlights from the balance sheet as at 31<sup>st</sup> December 2017 compared with those of 31<sup>st</sup> December 2016:

<b>Balance sheet</b> (Euro million)	<b>December 31, 2017</b>	<b>December 31, 2016</b>	<b>Change</b>
Trade receivables	178.7	237.4	(58.7)
Inventory, net	257.7	272.8	(15.1)
Trade payables	(204.9)	(248.5)	43.6
<b>Net working capital</b>	<b>231.6</b>	<b>261.7</b>	<b>(30.2)</b>
Tangible assets	188.3	197.6	(9.3)
Intangible assets and goodwill	285.0	512.4	(227.4)
Financial assets	-	-	-
Non-current assets held for sale	1.3	1.5	(0.2)
<b>Net fixed assets</b>	<b>474.5</b>	<b>711.5</b>	<b>(236.9)</b>
Employee benefit liability	(28.4)	(31.4)	3.0
Other assets / (liabilities), net	(12.9)	(20.7)	7.8
<b>NET INVESTED CAPITAL</b>	<b>664.9</b>	<b>921.2</b>	<b>(256.3)</b>
Cash in hand and at bank	76.3	109.0	(32.8)
Short term borrowings	(65.4)	(20.0)	(45.4)
Long term borrowings	(142.5)	(137.4)	(5.1)
<b>NET FINANCIAL POSITION</b>	<b>(131.6)</b>	<b>(48.4)</b>	<b>(83.3)</b>
Group Shareholders' equity	(533.2)	(872.8)	339.6
Non-controlling interests	-	-	-
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>(533.2)</b>	<b>(872.8)</b>	<b>339.6</b>

## Net working capital

Net working capital at 31<sup>st</sup> December 2017 amounts to Euro 231.6 million compared with Euro 261.7 million of the previous year. The decrease was driven by a reduction in trade receivables partly offset by payables, while inventories remained substantially stable at constant currency.

<b>Net working capital</b> (Euro million)	<b>December 31, 2017</b>	<b>December 31, 2016</b>	<b>Change</b>
Trade receivables, net	178.7	237.4	(58.7)
Inventories	257.7	272.8	(15.1)
Trade payables	(204.9)	(248.5)	43.6
<b>Net working capital</b>	<b>231.6</b>	<b>261.7</b>	<b>(30.2)</b>
<i>% on net sales</i>	22.1%	20.9%	

## Fixed assets and investments in tangible and intangible fixed assets

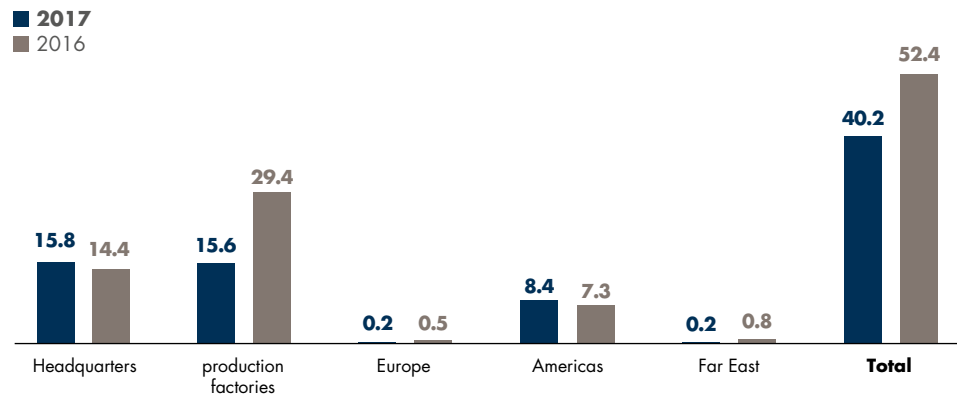
Non-current assets total Euro 474.5 million at the end of 2017 compared to Euro 711.5 million in 2016.

The decrease of non-current assets is mainly due to the goodwill decrease to Euro 220.4 million from Euro 448.3 million at December 2016. Impairment test of this asset has highlighted the need to impair the related carrying amount recording a loss of Euro 192 million.

The Group's operating investments of the year total Euro 40.2 million (Euro 52.4 million in 2016). The investments were focused on the continued modernization of its product supply and logistics network for Euro 18.6 million, the roll out of its IT systems overhaul EyeWay, for Euro 11.3 million and on other investments of Euro 10.3 million.

The allocation of the Group operating investments breaks down as follows:

### INVESTMENTS BREAKDOWN



# FINANCIAL SITUATION

The main items of the net financial position at 31<sup>st</sup> December 2017 as well as free cash flow figures are reported below in comparison with the previous year.

## Net financial position

<b>Net financial position</b> (Euro million)	<b>December 31, 2017</b>	<b>December 31, 2016</b>	<b>Change</b>
Current portion of long-term borrowings	-	-	-
Bank overdrafts and short term bank borrowings	(55.4)	(10.0)	(45.4)
Other short-term borrowings	(10.0)	(10.0)	-
Cash and cash equivalent	76.3	109.0	(32.8)
<b>Short-term net financial position</b>	<b>10.8</b>	<b>89.0</b>	<b>(78.2)</b>
Bonds	(142.5)	(137.4)	(5.1)
Long-term borrowings	-	-	-
<b>Long-term net financial position</b>	<b>(142.5)</b>	<b>(137.4)</b>	<b>(5.1)</b>
<b>NET FINANCIAL POSITION</b>	<b>(131.6)</b>	<b>(48.4)</b>	<b>(83.3)</b>

### Group net debt

Net financial debt at 31<sup>st</sup> December 2017 is equal to Euro 131.6 million compared with an amount of Euro 48.4 million at 31<sup>st</sup> December 2016. This item, which is subject to ordinary operational dynamics, does not include the fair value of the other derivatives financial instruments, equal to a net liability of approximately Euro 1.9 million.

The financial leverage, whose calculation was based on the reported 2017 EBITDA adjusted for the non-recurring costs incurred in the year and for the extraordinary items ascribed to the implementation of the new Order-to-Cash IT system in the Padua distribution center, stood at 2.0 times (0.5 times at 31<sup>st</sup> December 2016).

## Free cash flow

<b>Free cash flow</b> (Euro million)	<b>2017</b>	<b>2016</b>	<b>Change</b>
Cash flow operating activities	(31.1)	89.1	(120.1)
Cash flow investing activities	(39.0)	(44.3)	5.3
<b>Free cash flow</b>	<b>(70.1)</b>	<b>44.7</b>	<b>(114.8)</b>

In 2017, Free Cash Flow was negative for Euro 70.1 million compared to a positive Free Cash Flow of Euro 44.7 million in 2016, which included the second of three early termination compensation payments of Euro 30 million received in December 2016 from Kering.

The Cash Flow from operating activities, negative for Euro 31.1 million, reflected the negative economic performance of the year and a cash absorption from Working capital of Euro 36 million, which reflects in particular the decrease of other payables due to the accounting of the Kering compensation in the year. On the other hand, net working capital generated Euro 5.5 million.

Overall, the working capital incidence on net sales moved from 20.9% in 2016 to 22.1% in 2017.

In the year, Safilo invested Euro 39.0 million to continue modernizing its product supply and logistics network and to roll out EyeWay, its IT systems overhaul.

# MAIN CRITICAL RISK FACTORS FOR THE GROUP

The Group implements the measures deemed to be appropriate to contrast any foreseen risks and uncertainties arising from its business. The risks are both internal and external and are explained below. The Group has an enterprise risk management approach in place to monitor the key risks and develop action plans to mitigate them.

## Internal risks

### Strategic risks

The Group could be unable:

- to take advantage of business opportunities in the market segments and geographic areas in which it operates;
- to allocate the resources to the most profitable and potential markets, or to more economically beneficial initiatives;
- to build, develop and protect its brands and patents;
- to maintain and develop the licence contracts required for its business and fulfil the relative obligations and commitments;
- to contrast the competition maintaining and strengthening its own distribution and sales networks;
- to launch innovative products on the market that meet consumer tastes and are in tune with fashion trends.

### Operating risks

The Group business is subject to:

- the risk of being unable to organise and coordinate integrated supply/production/logistics and commercial processes in order to provide a rapid response to the needs of increasingly attentive and discerning customers;
- the risk of being unable to identify and purchase raw materials, semi-finished and finished products compliant with the Group's quality standards;
- the operational risks of industrial facilities, distribution centres and supplier relationships;
- the risk of non-compliance with internal control procedures as well as the Italian and foreign legislation that are applicable to the Group (for example local tax laws).

## External risks

### Business risks

In terms of business risks, the Group is exposed to:

- actions implemented by competitors and the possible entry of new market players;
- the loss of licenses;
- the effects of the macro-economic and political and social environment, in terms of consumers' buying power, loyalty and buying trends;
- changes in national and international regulations that could hamper the Group's competitive position;
- climatic conditions, such as very bad weather in the spring or summer which could drastically reduce sales of sunglasses or warm winter conditions with respect to the sale of snow products;
- the diffusion of alternative products and solutions to correct eyesight, other than glasses, for example, laser surgery.

### Financial risks

The Group pays constant attention to financial risk management

The Group constantly monitors the financial risk it is exposed to in order to assess in advance any possible negative impact and to undertake any corrective measures aimed at mitigating or correcting the risks.

The Group is exposed to a variety of risks of a financial nature: credit risk, market risks and liquidity risk, which are centrally and locally managed on the basis of strict financial planning processes, credit and hedging policies which may also entail the use of derivatives in order to minimise the effects deriving from fluctuations in exchange rates (especially of the American dollar) and interest rates.

The Group minimizes risk through instruments to control customer insolvency

## Credit risks

The Group strives to reduce risk deriving from the insolvency of its customers as much as possible, by adopting credit policies intended to focus sales on reliable and solvent customers. Specifically, credit management procedures, which include the evaluation of information available on customers' solvency and the analysis of historical data series, combined with assigned exposure limits per customer and the strict control of compliance with payment terms, enable the mitigation of credit risk. Credit exposure is, moreover, divided among a large number of counterparties and clients.

Significant exposures for which the Group identifies situations of objective, total or partial, non-recoverability, taking also into consideration any guarantees obtained and the costs and expenses of recovery, are typically written off individually.

It is deemed that the maximum theoretical exposure to credit risk is represented by the book value of the financial assets in the financial statement.

## Market risks

Market risks can be divided into the following categories:

Exchange rate risk

*Exchange rate risk.* The Group operates on an international level and is therefore exposed to exchange rate risk.

The Group holds shares in subsidiaries in countries not belonging to the Euro area; as a result, the variations of shareholders' equity deriving from fluctuations in exchange rates between the local currency and the Euro are booked into a reserve of the consolidated shareholders' equity denominated "translation difference reserve".

Some companies operate in currencies other than the local currency, in this case mainly in relation to the U.S. dollar.

The Group constantly tries to reduce the effects deriving from currency fluctuations trying to couple as much as possible sales and purchases in the same foreign currency, thus implementing a sort of "natural hedging".



Net currency exposures can be typically hedged using forward contracts (“plain vanilla”) whose duration is generally less than twelve months. Information on the fair value and on the method of accounting of derivatives is given in the notes to the financial statements.

Changes in fair value risk

*Changes in fair value risk.* The Group holds some assets and liabilities subject to changes in value over time depending on the fluctuations of the market where they are traded.

With reference to the Convertible Bond issued in 2014, given the presence of a “cash settlement option”, the conversion option component represents an embedded derivative financial instrument, booked in the corresponding balance sheet item under liabilities. The fair value changes of this instrument are mainly subject to the market performance of Safilo stock and are immediately charged to income statement in the financial income (expenses).

Interest rate risk

*Interest rate risk.* Borrowing from banks exposes the Group to the risk of variations in the interest rates. Specifically, loans at variable rates determine the risk of a change in cash flows.

The Group regularly assesses its overall exposure to the risk of interest rate fluctuations and can typically manage such risk through the use of derivatives, such as interest rate swaps (I.R.S.) concluded with primary financial institutions.

### Liquidity risk

The Group constantly monitors its cash flows

This risk could generate the inability to find, at economic conditions, the financial resources needed to sustain operations within the necessary timeframe. Cash flows, borrowings and company liquidity are constantly monitored at central level by the Group treasury in order to ensure effective and efficient management of the financial resources.

In addition to the existing liquidity and the internal cash generation, the main financial source available to the Group is the Revolving Credit Facility of Euro 150 million granted in July 2014 to certain Group companies by a banking pool, expiring in July 2018.

# HUMAN RESOURCES AND THE ENVIRONMENT

## Human Resources

The Group's  
workforce

At the end of 2017, the Group had 7,109 employees compared with 7,128 at the end of 2016.

Following the implementation of a new headcount IT system in 2017, the Group has started to include in its workforce count also the sales representatives managed contractually as employees, while related costs have always been included in the profit and loss account. This has caused an increase in the Group workforce figures as at December 2017 equal to 312 employees (as at December 31, 2016 the equivalent amount not included in the workforce count was equal to 274 people). On a like for like basis, excluding these sales agents, the Group's employees therefore decreased by 331.

Learning &  
Development –  
a key focus area  
for Safilo

Safilo believes that people play a key role in long-term success. Learning & development initiatives designed to foster the personal and professional growth of individuals are important elements of Safilo's focus in this area, rooted in product and customer centricity, teamwork, entrepreneurialism and accountability for results. During 2017 continued to invest in training to enhance the skills of change management in order to support key projects including Safilo EyeWay and the Product Supply reinvention. The development of language, technical and managerial skills continued with specific programmes run for different departments. The use of internal coaching and action learning methods has been intensified with the aim of more effectively applying what has been learned in day-to-day working practices and making the most of expertise within the Group.

Talent Acquisition

To ensure the right capabilities are on board to deliver the strategic plan, Safilo's talent acquisition programs focus on attracting leaders and individuals with the right skills and values, in line with the Group's Purposes, Values, Principles and Competencies (PVPC). The activities reach across different geographies, markets and functional areas.

## Safety at work

Safilo Group has an  
ongoing commitment  
to the achievement of  
occupational health  
and safety objectives

On January 19, 2012 Safilo obtained the certification of its occupational health and safety management system from the certification body DNV GL Business Assurance, in compliance with the international OHSAS 18001:2007 standard. In 2014 the company has taken and passed the certification surveillance audit for the years 2015-2018.

Certification is a proof of the Company's commitment to correctly implement the provisions of the Organizational, Management and Control Model adopted in accordance with Legislative Decree 231/2001, with specific regard to the Special Part "C" – Occupational health and safety offences.

In line with the requirements of the international standard, Occupational Health and Safety Assessment Series 18001:2007, Safilo has an ongoing commitment to conducting initiatives aimed at safeguarding the health and safety of its employees, reducing workplace risks and ensuring a prompt and effective response in the event of an emergency.

In 2017 all the major accident indicators stood at the lowest levels ever achieved.

## Social and environmental responsibility

Safilo Group is aware of its social and environmental responsibility

On January 17, 2012 Safilo obtained certification of its management system from the certification body DNV GL Business Assurance, in compliance with the international SA8000:2008 standard. In 2014 the company has taken and passed the certification surveillance audit for the years 2015-2018.

During the year, audits of Safilo's plants were carried out by a third party certification body to assess the state of compliance with ISO 14001:2015 standard.

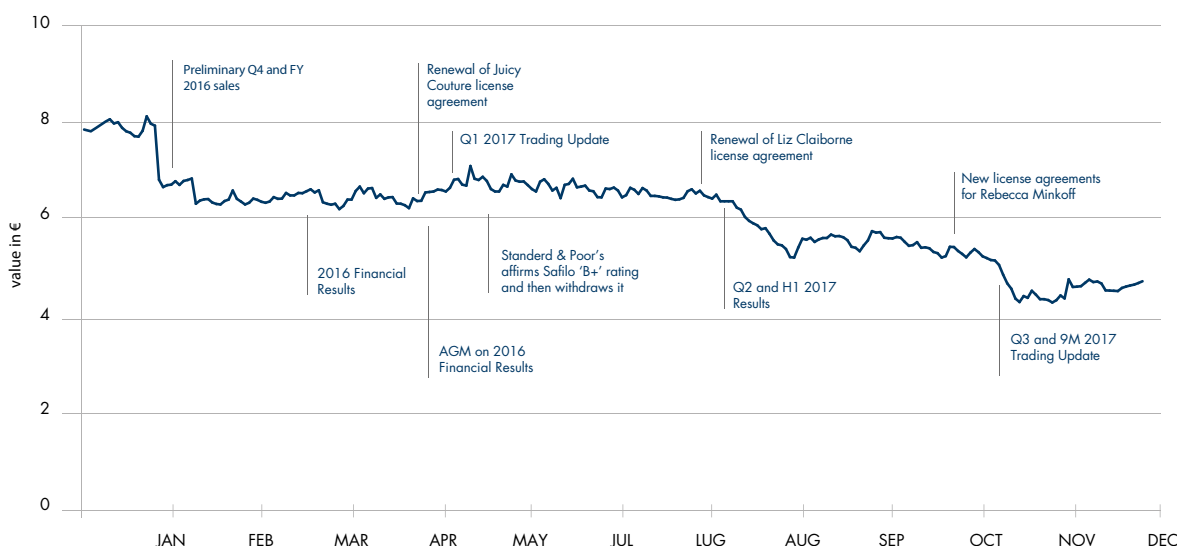
Safilo has also continued its efforts to promote the themes of social responsibility and attention to environmental topics along its supply chain. To ensure adherence to the ethical and environmental principles of the supply chain, the company implemented an activity of on-site monitoring, and through direct audits of its suppliers conducted by third party certifying body in order to assess the compliance to SA8000: 2008 and ISO 14001:2015 standards.

## ICT – Information Systems

During 2015 the first major steps of the 5-year systemic roll-out plan of the Group information system transformation program, Eyeway, were taken by going live with SAP in human resource management, procurement, and finance & controlling in our operating company Safilo S.p.A.. In 2016, we added Product life cycle management, sales planning and demand planning. In 2017, we had our most complex transition for Order to Cash, of all global Sales, Logistics, and Warehouse management out of our global Padua distribution center.

# SAFILO IN THE STOCK EXCHANGE AND INVESTOR RELATIONS

## Safilo in the stock exchange



A complex year for Safilo also on the stock market

Safilo's shares closed 2017 at Euro 4.76 and with a market capitalization of around Euro 300 million. Average trading volumes were around 220 thousand shares, with the highest activity concentrated in the days following the release of the Group's results and important business news. Share price reached its high at the very beginning of the year, at Euro 8.13, while recording its low in the last days of November, at Euro 4.33.

Shares lost 40% in the year, mainly behind the negative development of the business performance and news on the eyewear industry of a more challenging competitive environment.

2017 economic and financial results were heavily impacted by the change of the Gucci license into a product supply agreement and by the difficult implementation of a new IT system in the Padua distribution center. In the context of the release of its FY 2016 results in March, Safilo informed the market that Q1 2017 sales and profits were affected by the DC issues and that a complete recovery of deliveries and normal operations were to occur within Q2.

While half year results and Q3 trading update showed signs of recovery in the performance of the Group's going forward brands, business performance remained generally subdued and below market expectations.

News flow on the competitive environment saw the occurrence of two main events, both in January 2017. On one side, Essilor and Luxottica announced their combination to create a global integrated player in the eyewear industry, on the other, rumours circulated on January 18<sup>th</sup> of a new joint venture between LVMH and Marcolin. This was then confirmed at the end of the same month. Safilo shares lost 13.9% after speculation and 7.5% after confirmation.

On the brand portfolio front, the most meaningful events which characterized the year for Safilo were the five-year renewals of the Juicy Couture and Liz Claiborne license agreements and the new eyewear partnership, until 2024, with Rebecca Minkoff.

A number of distribution partnerships were also announced during the year, in Iran, Saudi Arabia, Chile, Thailand and Cambodia, while the markets of Belarus and Kazakhstan were opened directly, through the Group CEE region.

At the end of 2017, there were 10 active brokers covering Safilo, seven with an Hold/Neutral recommendation on the stock, one with an Underperform rating and two with a Buy recommendation. At the end of the year, the average target price of the sell-side coverage equalled Euro 5.7.

At the end of August, in relation to the periodic revision of the FTSE indices, Safilo shares were confirmed to exit the FTSE Mid Cap index, to join the FTSE Italia Small Cap index.

In 2017, the Milan FTSE MIB index gained almost 14%, while the FTSE Italia Small Cap index, which includes Safilo, closed the year up almost 22%.

## Investor relations

In 2017, the Group maintained an open dialogue with the financial market, mainly through the organization of conference calls, one-on-one and group meetings at the Group's Headquarters.

In the year, management attended the Unicredit/ Kepler Italian Investment Conference and in the field trip around the luxury goods sector organized by Mediobanca in Milan.

At the beginning of December 2017, Hammer Partners initiated the coverage of the Safilo stock.

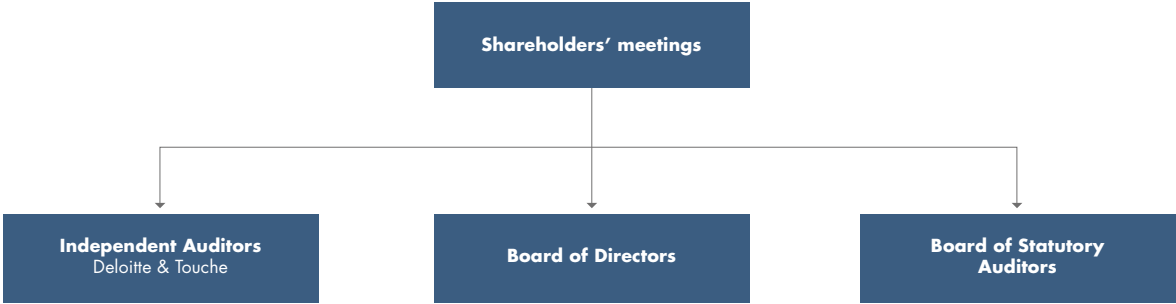
## Financial calendar

Board of Directors' meetings planned for 2018:

30 <sup>st</sup> January	Preliminary sales for the 4 <sup>th</sup> quarter and full year 2017
13 <sup>th</sup> March	Draft Financial Statements for 2017
24 <sup>th</sup> April	Shareholders' Meeting for the approval of the Financial Statements 2017
9 <sup>th</sup> May	Trading update on the 1 <sup>st</sup> quarter 2018 financial KPIs
2 <sup>nd</sup> August	Interim Report on Operations for the 2 <sup>nd</sup> quarter and 1 <sup>st</sup> half 2018
13 <sup>th</sup> November	Trading update on the 3 <sup>rd</sup> quarter and first nine months 2018 financial KPIs

# CORPORATE GOVERNANCE

## Corporate bodies and officers

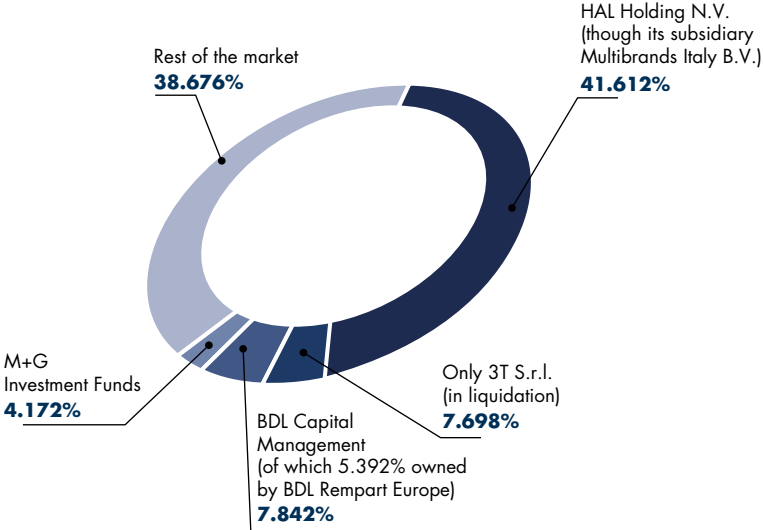


## Information on shareholders (pursuant to Article 123-bis, paragraph 1, of Italian Consolidated Finance Act)

Shareholding structure of Safilo Group S.p.A.

At 31<sup>st</sup> December 2017 the share capital of Safilo Group S.p.A. comprised 62,659,965 ordinary shares with a face value of Euro 5.00 each, of which 41.612% were held by the company Multibrands Italy BV, with registered office in the Netherlands.

The following chart shows owners of Safilo Group S.p.A. ordinary shares as at 31<sup>st</sup> December 2017 with shareholdings exceeding 3% of share capital.





Management and coordination activities

In accordance with IFRS no. 10 HAL Holding N.V. is deemed to have control over Safilo Group S.p.A. and, accordingly is required to consolidate the Company in its consolidated financial statements as from January 1, 2014 (even though the ownership interest of HAL Holding N.V. in Safilo Group S.p.A. is below 50%). However, as at 31 December 2017, Safilo Group S.p.A. is still deemed not to be subject to the direction and coordination activity (as such activity is defined under Articles 2497 et seq. of the Civil Code) by other entities, including HAL Holding N.V., since there are not the presumptions that typically have been considered relevant by the doctrine and practice.

As a matter of fact, the presumption set forth by Article 2497-sexies of the Civil Code – unless it is proved otherwise, whereby a company is deemed to be under the direction and coordination of the entity which is bound to consolidate same company in its financial statements – can be rebutted in the case at issue for the following main reasons:

- (i) Safilo Group S.p.A. can autonomously define its general strategic and operative guidelines and has independent authority to negotiate with customers and suppliers; its decision making process is therefore carried out independently from the decision making process of HAL Holding N.V.;
- (ii) the Company is managed by a Board of Directors the majority of whose members are not members of corporate bodies of HAL Holding N.V. or its subsidiaries. Moreover, the Board of Directors also has a sufficient number of independent directors to ensure that their opinions have a significant impact on its own judgment and decisions;
- (iii) the Company is not subject to any centralized management approach by HAL Holding N.V. which, indeed, according to the report of its Executive Board has not developed a central risk management system, thus allowing each investee company, including the Company, to have its own financial structure and be responsible for evaluating and managing its own risks. Moreover, since HAL Holding N.V. has not included the Company in its management reporting system which monitors the performance of the investee companies and, therefore, has no instruction rights with respect to the governance of the Company, HAL Holding N.V. will continue to include the financial results of the Group in the segment “quoted minority interests” of its accounts;

(iv) although a member of the Executive Board of HAL Holding N.V. is also a member of the Board of Directors of the Company, the information he periodically obtains in this capacity is never – and will never - used for the preparation of the consolidated financial statements of HAL Holding N.V. so as to preserve confidentiality and to allow the Company to operate independently from any of its shareholders. Accordingly, the risk management and internal control systems of the Company with respect to financial reporting risks are neither monitored nor managed by HAL Holding N.V..

For the sake of completeness and in the interest of transparency, the consolidation of the Group in the consolidated financial statements of HAL Holding N.V., as requested by the IFRS no. 10, may have a material impact on both companies in terms of accounting reconciliation and consolidation requirements. The Company has therefore agreed with HAL Holding N.V. on certain procedures for the exchange of information which allow the latter to comply with its (statutory) obligations in preparing its consolidated financial statements on a timely basis while avoiding any interference with the Company's accounting standards and relevant interpretations, its administrative and accounting system, as well as its internal control system.

In order to make the aforesaid exchange of information more efficient and expeditious, HAL Holding N.V. and the Company, among other things, have (a) set up a procedure aimed at ensuring, to the maximum possible extent permitted by accounting laws and regulations applicable to each of them, that their financial statements are based on materially the same accounting policies or, whenever it is not possible to fully converge the accounting principles of the Company and HAL Holding N.V., at making the necessary (accounting) adjustments to the consolidated financial statements of the Company to be reflected in the consolidated group reporting of HAL Holding N.V., (b) agreed to review the effect of any newly issued accounting standards (if any) with the objective to converge, where practically and legally possible, the implementation of these new standards in the financial statements of both the Company and HAL Holding N.V., and (c) jointly hired an independent financial expert who, through access to the appropriate management and control bodies of both concerned companies (including, as far as the Company is concerned, the Control Risk and Sustainability Committee, the director in charge of the internal control and risk management system, the person in charge of the internal audit function, the Chief Financial Officer, the Statutory Auditors and the external auditing firm), is required to reach his own assessments and form an opinion on any accounting/financial matters relating to the Company which should be taken into account in the consolidation process. This activity of the financial expert (which is not to be deemed as an audit or review of the accounts of the Company) will allow HAL Holding N.V. to comply with IFRS in consolidating its

ownership interest in the Company while preserving, at the same time, the current risk management and internal control systems of the Company from any external influence (thus rebutting also any presumption of direction and coordination of HAL Holding N.V. over the Company).

Transfer restrictions	As at 31 <sup>st</sup> December 2017 there were no restrictions either of share transfer or of shareholders' voting rights.
Restrictions on the right to vote and special rights	<p>Regarding the existence of shareholders' agreements relevant for the purposes of Article 122 of the CFA, it is pointed out that, as at October 18, 2016 the shareholder's agreement initially underwritten on September 15, 2013 and expired on September 15, 2016, between Multibrands Italy BV company incorporated under the laws of the Netherlands, with registered office in Rotterdam, the Netherlands, registered with the Companies' Register of Rotterdam under no. 24406290, holder of no. 26,073,783 ordinary shares and Mrs. Luisa Deplazes De Andrade Delgado, Swiss citizen, Chief Executive Officer of the Company (resigned from 28 February 2018), holder of no. 38,008 ordinary shares concerning, inter alia, the submission of a list for the appointment of the Board of Directors of the Company and the exercise of the voting rights relating to the ordinary Shareholders' Meeting of Safilo Group by Multibrands, has been renewed.</p> <p>Furthermore, it is also pointed out that on May 9, 2017, Multibrands Italy B.V., owning no. 26,073,783 ordinary shares, and Eugenio Razelli, Italian citizen, member and current Chairman of the Board of Directors of the Company, entered into a shareholders' agreement concerning, inter alia, the inclusion of Eugenio Razelli as candidate of the list for the appointment of the Board of Directors of Safilo Group S.p.A. to be submitted on the occasion of the renewal of the administrative body, the exercise of the voting rights relating to the ordinary Shareholders' Meeting of Safilo Group S.p.A., as well as the appointment of Eugenio Razelli as Chairman.</p> <p>The Articles of Association do not provide restrictions to the right to vote and the Company has not issued shares with special controlling rights.</p>
Own shares	During the year, Safilo Group S.p.A. did not buy or sell any of its own shares, nor shares in subsidiaries, directly or through subsidiaries, trust companies or third parties.
Capital increase	The Extraordinary Shareholders' Meeting of April 26, 2017 resolved to increase the share capital by a maximum nominal value of Euro 12,500,000.00 by issuing new ordinary shares for an amount up to a maximum of no. 2,500,000, par value of Euro 5.00 each, to be offered for subscription to directors and/or employees of the Company and its subsidiaries pursuant to the 2017-2020 Stock Option Plan.

## The Board of Directors

The Board of Directors which currently holds office has been appointed by the Shareholders' Meeting held on April 27<sup>th</sup> 2015 and will remain in office until the date of the Shareholders' Meeting called for the approval of the financial statements at 31 December 2017.

### **Eugenio Razelli** (Chairman)

Born in Genova, on June 18<sup>th</sup>, 1950. He graduated in Electrical Engineering from Genova University. Up to June 2015 President and CEO of Magneti Marelli, today Industrial Partner of F.S.I. (Fondo Strategico Italiano) and Capvis and Board member of OMR (Officine Meccaniche Rezzatesi). He began his career in Fiat Auto and Zanussi, and became CEO of Gilardini Industriale. In 1993 he moved to Pirelli Cavi, first serving as Senior Executive Vice-President of the Telecom Division and then of the Energy Division. He held the position of President and CEO of Fiamm and he was Senior Vice-President for Business Development of Fiat S.p.A. in charge of Mergers & Acquisition, Innovation and ICT strategies. Amongst his various Association positions, he was Chairman

of ANFIA (from 2005 to 2011) and member of the Board of Confindustria (from 2006 to 2011).

### **Luisa Deplazes de Andrade Delgado\*** (Chief Executive Officer)

Born in Rabiis, Canton Graubunden – Switzerland on August 9, 1966. She joined Procter & Gamble in early 1991 where she held positions with increasing responsibility before assuming, between 1999 and 2007, responsibility for the Group's Human Resources Department for the Western Europe region. From mid-2007 to mid-2012, she was General Manager and Vice President for Procter & Gamble Nordic (Sweden, Denmark, Finland, Norway), based in Stockholm (Sweden). From September 2012 to July 2013 she worked for SAP A.G. as a Member of the Executive Board in charge of "global human resources" and "labor relations director" based in Germany. Since 2012, she has also been a member of the supervisory board of the INGKA Holding B.V. (also called the IKEA Group), Leiden, Netherlands.

\* Retired from 28 February, 2018.

**Jeffrey A. Cole**  
(Director)

Born in Cleveland, Ohio - USA, on May 20, 1941. He graduated from Harvard College and Harvard Business School. From 1983 to 2003, he was Chairman and CEO of Cole National Corporation, a leading optical retailer in the US. He has been a member of the Supervisory Board of GrandVision B.V. since 1996. Since 2014 he has been a board member of Hilco, a US based manufacturer and distributor of eyewear accessories. He is a trustee of the Cole Eye Institute of the Cleveland Clinic one of the top ranked eye research and treatment centers in the USA. He has been the founder and principal shareholder of numerous companies in the USA and has served on the Board of Directors at various times of 10 publicly traded companies in the USA.

**Melchert  
Frans Groot**  
(Director)

Born in The Hague, Netherlands, on October 22, 1959. In 1984 he graduated in Civil Engineering from the Technical University of Delft, and subsequently gained a Master's in Business Administration from Columbia University in New York. After his first work experience in Philips, in 1989 he joined HAL Holding N.V. where he has been the Chairman of the Executive Board since 2014. Presently he is also Vice-Chairman of the Supervisory Board of GrandVision N.V. (non-executive), Vice-Chairman of the Supervisory Board of Royal Vopak N.V. (non-executive), member of the Supervisory Board of Anthony Veder N.V. (non-executive). In the past, he held important roles in different companies of the HAL Group among these, he was CEO of Pearle Europe B.V. (2001-2003)

and GrandVision S.A. (2005-2006), Supervisory Board member of Pearle Europe B.V. (1996 – 2010), Chairman of Supervisory Board of GrandVision S.A. (2004 – 2010) and Chairman of the Supervisory Board of Audionova B.V. (2011-2014).

### **Guido Guzzetti**

(Director)

Born in Milano on September 21, 1955, he gained fourteen years of experience as CEO of Italian Asset Management Companies and three years as CEO of an Italian Bank Insurance. Overall, he worked for twenty-four years for companies operating in the financial sector since 2014. Mr. Guzzetti has been serving as Independent Director on the Board of Saipem S.p.A. and as member of its Control and Risk Committee; since 2016 he has been serving also as member of its Corporate Governance Committee. Since 2017, Mr. Guzzetti has been serving as Independent Director on the Board of ANIMA S.p.A. and as member of its Related Party Committee. He served as Independent Director on the Board of Astaldi S.p.A. and was a member of its Control and Risk Committee. Since 2010, he has been involved in research and consultancy activities related to the financial markets.

### **Marco Jesi**

(Director)

Born in Milan, on October 12, 1949. He graduated in Law from the Università Statale in Milan. He started his professional career at Unilever Group and in other large international Groups of the consumer goods industry such as Kraft and Johnson Wax, where he had managerial roles in Europe and in Italy. Subsequently he became Sales and Operations director at GS, a national chain of supermarkets. He has held European top management positions in Pepsi Cola, Seagram and Frito-Lay Western Europe. In 2002, he became President of PepsiCo Europe, managing all Pepsico Businesses, from Portugal to Russia. In 2006 he was appointed Chairman and Chief Executive Officer of Galbani S.p.A., until its sale to Lactalis Group. From 2011 to 2014 he was also an independent member of the Board of Directors of Autogrill S.p.A. and of Parmalat S.p.A.. He is currently a member of the board of directors of

Safilo Group S.p.A. and of the Advisory Board of GB Foods Group based in Barcelona.

**Ines Mazzilli**  
(Director)

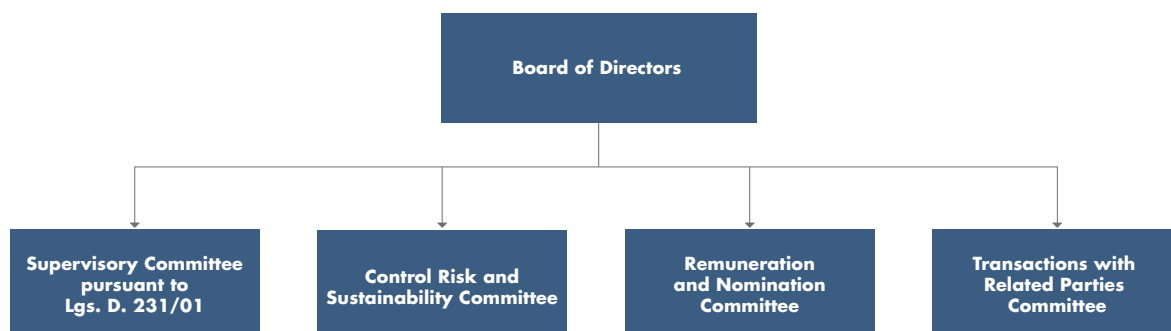
Born in Milan on May 5, 1962, she graduated in 1987 in Business Administration from Bocconi University in Milan. Ms. Mazzilli has 30+ years of experience in a variety of senior finance positions. Since June 2016, Ms. Mazzilli is member of the Advisory Council and Senior Advisor (external) for GENPACT. She previously spent 23 years in HEINEKEN. In 1993 Ms. Mazzilli joined the Italian Operating Company as Planning & Control Manager and, from 2001 to 2005, she was Finance Director. From 2006 to 2010, Ms. Mazzilli was Senior Director of the Western Europe Region. From 2011 to 2015, Ms. Mazzilli was Senior Finance Director of Global Business Services. In this position she was responsible for Business Partnering to Global Business Services and for leading HEINEKEN Global Shared Services in Kraków, Finance Business Process Management and Global Process and Control Improvement. From 2015 to 2016 Ms. Mazzilli was

Senior Director Global Finance Processes & Internal Control, responsible for HEINEKEN Global Shared Services, Global Finance Business Process Management and Global Process and Control Improvement. Ms. Mazzilli started her career in banking and then worked, from 1987 to 1993, in Elizabeth Arden. Since June 2014, she is member of the Advisory Board of Corso di Laurea Magistrale in Economia e Legislazione d'impresa University of Pavia, Italy.

**Robert Polet**  
(Director)

Born in Kuala Lumpur, Malaysia, on July 25, 1955 has been, from 2004 to 2011, Chairman and Chief Executive Officer of the Management Board of the Gucci Group contributing to the successful consolidation and growth of the Group and its brands. He previously spent 26 years in the Unilever Group where he was President of Unilever's Worldwide Ice Cream and Frozen Foods division. Prior to that position, Mr. Polet worked in a variety of executive roles within Unilever, including Chairman of Unilever Malaysia, Chairman of Van den Bergh's and Executive Vice President of Unilever's European Home and Personal Care division. Mr. Polet is also a non-executive Director of Philip Morris International Inc., William Grant & Sons, Arica Holding B.V. and non-executive Chairman of Rituals B.V..

Below is the structure of the Corporate Bodies and Committees of Safilo Group S.p.A.:



#### Supervisory Committee <sup>(1)</sup>

<i>Chairman</i>	Franco Corgnati
	Ines Mazzilli
	Carlotta Boccadoro

#### Control Risk and Sustainability Committee <sup>(2)</sup>

<i>Chairman</i>	Ines Mazzilli
	Guido Guzzetti
	Melchert Frans Groot

#### Remuneration and Nomination Committee <sup>(3)</sup>

<i>Chairman</i>	Jeffrey A. Cole
	Robert Polet
	Marco Jesi

#### Transactions with Related Parties Committee <sup>(4)</sup>

<i>Chairman</i>	Ines Mazzilli
	Marco Jesi
	Guido Guzzetti

(1) Appointed by the Board of Directors' Meeting held on April 27<sup>th</sup>, 2015; its composition was firstly changed with Board of Directors' resolution dated April 26<sup>th</sup>, 2017 and afterwards with Board of Directors' resolution dated May 9<sup>th</sup>, 2017.

(2) Appointed by the Board of Directors' Meeting held on April 27<sup>th</sup>, 2015, and renamed "Control Risk and Sustainability. Committee" with Board of Directors' resolution dated December 13<sup>th</sup>, 2016; its composition was changed with Board of Directors' resolution dated April 26<sup>th</sup>, 2017.

(3) Appointed by the Board of Directors' Meeting held on April 27<sup>th</sup>, 2015.

(4) Appointed by the Board of Directors' Meeting held on April 27<sup>th</sup>, 2015; its composition was changed with Board of Directors' resolution dated April 26<sup>th</sup>, 2017.



## The Board of Statutory Auditors

The Board of Statutory Auditors currently in office has been appointed by the Shareholders' Meeting held on April 26<sup>th</sup>, 2017 and will remain in office for three years until the date of the Shareholders' Meeting called for the approval of the financial statements at 31 December 2019.

### **Carmen Pezzuto** (Chairman)

Born in Sacile (PN) in 1967, she is a graduate in Economics and Commerce of Cà Foscari University in Venice. She has been registered with the Padova Chartered Accountants' and Auditors' Register since 1993. She is a standing statutory auditor for industrial, commercial and service companies.

### **Franco Corgnati** (Standing Statutory Auditor)

Born in Milan in 1942, he is a graduate in Economics & Commerce of Padua University. He was registered with the Vicenza Chartered Accountants' Register in 1970 and since then has worked exclusively as a chartered accountant. He was officially appointed Statutory Auditor in 1976 and he has been registered with the Legal Auditors Register since 1995. He was and still is a statutory auditor for industrial, commercial, financial and para-banking companies in addition to collective trust companies and municipal companies.

### **Bettina Solimando** (Standing Statutory Auditor)

Born in San Severo (FG) in 1974, she is a graduate in Economics & Commerce of Verona University. She has been registered with the Verona Chartered Accountants' and Auditors' Register since 2002. She is a statutory auditor for industrial and commercial companies.

## Corporate Governance Report

The complete version of the report on corporate governance can be found in the Investor Relations/Corporate Governance section of the site [www.safilogroup.com](http://www.safilogroup.com)

The complete version of the report on corporate governance, which is highlighted in just the main points below, is available in the Company website ([www.safilogroup.com](http://www.safilogroup.com)), in a printed version in the Company headquarters. The report for the year 2017 will be published on the website within April 3, 2018.

The Company adopts a traditional governance method in that:

- the Company's management body is the Board of Directors;
- the Corporate Governance Committee, which ensures compliance with the law, the Articles of Association and correct administration principles is the Board of Statutory Auditors;
- the independent audit company performs the legal auditing tasks.

Corporate governance, in accordance with the Articles of Association and in line with current legislation and regulations, and as provided by the Self-Governance code for listed companies (hereinafter "the Code") is entrusted to the following bodies.

Governance is based on the criteria and principles of the Self-Governance Code for listed companies

The Board of Directors has aligned the Company's corporate governance system to the principles and application criteria introduced by the Code.

In compliance with regulatory obligations, in particular with the requirements of article 123-bis of the Italian Consolidated Finance Act, and following adherence to the Code, every year the Company publishes a report on adherence to codes of conduct, in the ways and terms established by article 89-bis of the Issuers' Regulation. The report can be consulted on the Group website in the section Investor Relations/Corporate Governance, and should be referred to for more detailed and precise information about the Company and Group corporate governance system, in compliance with article 123-bis of the Consolidated Financial Act.

### The Board of Directors

Appointing Board of Directors

The Board of Statutory Auditors is appointed and replaced in compliance with article 27 of the Articles of Association, published in the website in the section Investor Relations/Corporate Governance, and should be referred to for details.

In particular, the auditors are appointed by the Shareholders' Assembly on the basis of lists presented by the shareholders, to allow:

- (i) that minority shareholders are represented by one member on the Board of Directors; and
- (ii) the balanced representation of genders (masculine or feminine) in compliance with applicable law.

The Board of Directors is invested with the widest possible powers for the ordinary and extraordinary administration of the Company, excluding only those powers that by law are the prerogative of the Shareholders' Meeting.

### The Board of Statutory Auditors

#### Appointing auditors

The Board of Statutory Auditors is appointed and replaced in compliance with article 27 of the Articles of Association, published on the website in the section Investor Relations/Corporate Governance, and should be referred to for details.

In particular, the auditors are appointed by the Shareholders' Meeting on the basis of lists presented by the shareholders, to allow minority shareholders to appoint a statutory auditor and a substitute auditor.

In compliance with the Italian Civil Code and Principle 8.P.1. of the Code, Auditors act autonomously and independently (also with respect to the shareholders who appointed them) and therefore are not representatives of the majority or minority that proposed or elected them.

The Board of Statutory Auditors ensures compliance with the law and the Articles of Association as well as with the principles of correct administration. It also monitors the adequacy of the Company's organisation structure, for those matters of its responsibility as well as the internal control system and risks management and the administration and accounts system in order to verify the reliability of the same to correctly represent company facts, on the effective implementation of the corporate governance rules contained in the Code and the adequacy of the dispositions given by the Company to its subsidiaries, in compliance with article 114, paragraph 2 of the Consolidated Financial Act.

In compliance with Application Criteria 8.C.5. of the Code, the Board of Auditors, and (ii) can ask the internal audit office to carry out controls on certain operations areas or on Company operations.

As established by the Consolidate Financial Act and Legislative Decree 39/2010, the Board of auditors is able to make a motivated proposal relative to granting the audit appointment by the Shareholders' Assembly.

The Board of Statutory Auditors, as part of its legal responsibilities, checks the correct application of the criteria and procedures to control independence that are adopted by the Board of directors to appraise the independence of its members; the outcome of the control is notified to the market every year, as part of the Company governance report or in the Auditors' report to the Shareholders' Assembly.

## The Audit Company

Deloitte & Touche  
appointed until 2022

The Shareholders Assembly of 15<sup>th</sup> April 2014 entrusted Deloitte & Touche S.p.A. with the mandate of auditing the separate and consolidated financial statements from 2014 to 2022 as well as the half-year reports from 2014 to 2022.

## Financial reporting manager

Appointment  
of the financial  
reporting manager

Further to L. 262/2005 the Financial Reporting Manager must prepare the adequate administration and accounts procedures for drafting the annual financial statements, the consolidated financial statements and any other financial communications and documents, and he must certify that the procedures:

- have been defined in line with the administration-accounts system and the structure of the Company;
- have been assessed for their adequacy;
- have been effectively applied during the period relative to the annual financial statement, the consolidated financial statement and any other financial communication or document.

Given that article 154-bis of the Consolidated Financial Act does not recall a specific model for assessing the adequacy of the administration and accounts procedures, to satisfy the needs for applying the regulations, the Company has opted for applying a theoretic reference model that is universally recognised and is the most accredited: the CoSO Report – Internal Control Integrated Framework.

The activities required to assess the adequacy and effectiveness of the procedures and processes that generate financial statement are as follows:

- identifying the control systems necessary to reduce the identified risks;
- carrying out the control tests;
- implementing corrective actions that may be required to adapt the control system.

On April 27<sup>th</sup> 2015, the Board of Directors appointed as the manager responsible for drawing up corporate financial reporting documents (hereinafter "Financial Reporting Manager"), the Chief Financial Officer Gerd Graehsler after receiving the favourable opinion of the Board of Auditors - who possesses the professional requisites, including specific skills as well as many years of experience in accounting and financial matters, required for the performance of the tasks assigned. Moreover, it has been established that the manager thus appointed will hold office until his resignation or revocation by the Board of Directors.

## Article 15 CONSOB Regulation 20249/2017

Article 15 CONSOB  
Regulations  
20249/2017

Safilo Group S.p.A. declares the compliance with the article 15 of CONSOB Regulation 20249/2017, letters a), b) and c). Namely:

- the subsidiaries' financial statements are deposited at the registered office;
- the acquisition of the subsidiaries' statute with the composition and power of attorney of their committees;
- the monitoring activities carried out both in order to ensure the correct information flow from the subsidiaries to the audit company to conduct the audit on the annual accounts and interim reports of the parent company, and in order to verify the existence of an appropriate administrative and accounting system in each subsidiary.

## Stock Option plans

### “2010-2013 Plan”

The Extraordinary Shareholders' meeting of 5<sup>th</sup> November 2010 voted to increase the share capital by a maximum par value of Euro 8,500,000.00 through the issue of a maximum number of new ordinary shares of 1,700,000 with a face value of Euro 5.00 each, to be offered to directors and/or employees of the Company and its subsidiaries (“Plan”).

This Plan – intended to increase incentives for and the loyalty of directors or equivalents of the Company and/or other Company subsidiaries – is to be carried out through the free allocation, in several tranches, of a maximum number of 1,700,000 options, which will give each beneficiary the right to subscribe to newly-issued ordinary shares in the Company – with a face value of Euro 5.00 each, resulting from the aforementioned rights issue in tranches, with no subscription rights pursuant to article 2441, paragraph 4, sentence 2 of the Civil Code - in the ratio of one share for every option.

The Plan has a total duration of nine years (from 2010 to 2019). The options assigned to the beneficiaries may be exercised after three years from the allocation date (with the exception of the first tranche, which will benefit from a shorter vesting period).

Specifically, four different allocation dates have been assigned to the options. The first tranche (“First Tranche”), was allocated at the Board of Directors' meeting held following the shareholders' meeting called to vote on the adoption of the Plan, the second tranche (“Second Tranche”) has been assigned at the Board of Directors' meeting that has approved the Company results for the year ending 31<sup>st</sup> December 2010; the third tranche (“Third Tranche”) was allocated at the Board of Directors' meeting that approved the Company results for the year ending 31<sup>st</sup> December 2011, and the final tranche (“Fourth Tranche”) has been allocated at the Board of Directors' meeting that have approved the Company results for the year ending 31<sup>st</sup> December 2012.

It should be noted that on November 13, 2013 the Board of Directors amended the Plan in order to reallocate some options that shall be reassigned by the Company as a consequence of the resignations of some Beneficiaries. These re-assignable options shall be exercised subject to the same performance conditions and exercise period applicable to the fourth tranche options.

The options thus assigned will mature when both of the following conditions are met:

- a. except for specific exceptions provided for in the event that the employment and/or director relationship is terminated, for all options allocated, the relationship between the Company and the beneficiary must still be in place at the maturity date for the options, and furthermore
- b. with reference to the options allocated within the First Tranche, under the circumstances that the EBIT contained in the Company's consolidated financial statements for any one of the financial years ending 31.12.2010, 31.12.2011 or 31.12.2012 is at least Euro 60,000,000 ("First Target"); with reference to the options allocated within the Second Tranche, under the circumstances that the EBIT contained in the Company's consolidated financial statements for any one of the financial years ending 31.12.2011, 31.12.2012 or 31.12.2013 is at least Euro 66,000,000 ("Second Target"); with reference to the options allocated within the Third Tranche, under the circumstances that the EBIT contained in the Company's consolidated financial statements for any one of the financial years ending 31.12.2012, 31.12.2013 or 31.12.2014 is at least Euro 72,500,000 ("Third Target"); with reference to the options allocated within the Fourth Tranche and to those assigned within 31.12.2014, under the circumstances that the EBIT contained in the Company's consolidated financial statements for any one of the financial years ending 31.12.2013, 31.12.2014 or 31.12.2015 is at least Euro 80,000,000 ("Fourth Target").

For the purposes of determining that these targets have been achieved, EBIT means net operating profit of a particular year, adjusted to take into account any investments or divestments made, emerging from the certified financial statements that will be approved by the Company's Shareholders' meeting or as determined by the Company's Board of Directors.

The subscription price has been determined as the weighted average of the prices registered by Safilo Group S.p.A. ordinary shares on Italy's electronic stock market (MTA) organised and managed by Borsa Italiana S.p.A. in the month preceding the Board of Directors' meeting that has allocated the option rights issued within the Plan ("preceding month" shall mean the period ending the day before the Board of Directors' meeting that will allocate the options and beginning with the same day of the previous calendar month, it being understood that in this period,

for the purpose of calculating the weighted average, only stock market trading days have been considered), with the exception of the First Tranche, for which the price has been set at EUR 8.0470, determined on the basis of the weighted average of process registered by Safilo Group S.p.A. ordinary shares on the stock market organised and managed by Borsa Italiana S.p.A. in July 2010, which corresponds to the date on which the Remuneration Committee (now Remuneration and Nomination Committee) first submitted for approval to the Board of Directors the guidelines for the share-based incentive plan to be adopted.

“2014-2016 Plan”

The Extraordinary Shareholders’ Meeting held on April 15<sup>th</sup>, 2014 resolved to increase the share capital by a maximum nominal amount of EUR 7,500,000.00 through the issue of a maximum of no. 1,500,000 new ordinary shares of the nominal value of EUR 5.00 each, to be offered for subscription to directors and/or employees of the Company and its subsidiaries (“Plan”).

This Plan – intended to increase incentives for and the loyalty of directors or equivalents of the Company and/or other Company subsidiaries – is to be carried out through the free allocation, in several tranches, of a maximum number of 1,500,000 options, which will give each beneficiary the right to subscribe to newly-issued ordinary shares in the Company – with a face value of Euro 5.00 each, arising from the paid and separable capital increase, with exclusion of the option rights according to article 2441, paragraph 4, sentence 2 of the Civil Code - in the ratio of one share for every option.

The Plan has a total duration of ten years (from 2014 to 2024). The options assigned to the beneficiaries may be exercised after two years from the allocation date.

Specifically, three different allocation dates have been assigned to the options. The first tranche (“First Tranche”), was allocated at the Board of Directors’ meeting held following the shareholders’ meeting called to vote on the adoption of the Plan on 29<sup>th</sup> April 2014; the second tranche (“Second Tranche”) was granted by the Board of Directors which approves the financial statements of the Company for the year ended 31.12.2014; the third tranche (“Third Tranche”) will be granted by the Board of Directors which approves the financial statements of the Company for the year ended 31.12.2015 until 31<sup>st</sup> December 2016.



The options granted shall vest upon the occurrence of the following performance conditions:

- a. with reference to the Options granted under the First Tranche, the EBIT resulting from the approved consolidated financial statements of the Company related to one of the years ending on 31.12.2014, 31.12.2015 or 31.12.2016 has been at least equal to Euro 80,000,000; with reference to the Options granted under the Second Tranche, the EBIT resulting from the approved consolidated financial statements of the Company related to one of the years ending on 31.12.2015, 31.12.2016 or 31.12.2017 has been at least equal to Euro 85,000,000; with reference to the Options granted under the Third Tranche, the EBIT resulting from the approved consolidated financial statements of the Company related to one of the years ending on 31.12.2016, 31.12.2017 or 31.12.2018 has been at least equal to Euro 90,000,000; and
- b. save as otherwise expressly provided by the regulations of the Plan 2014-2016, the employment/directorship of the relevant Beneficiary shall be in force on the vesting date of the relevant Options.

For the purposes hereof, EBIT means the net operating income of a certain financial year, adjusted to take account of any investment and divestment, emerging from the audited financial statements, which will be approved by the Company's Shareholders Meeting and as determined by the same Company's Board of Directors.

The subscription price will correspond to the weighted average of the official prices of Safilo Group S.p.A. ordinary shares registered on the Mercato Telematico Azionario organized and managed by Borsa Italiana S.p.A. in the month preceding the meeting of the Board of Directors which allocated the rights of option issued within the Plan 2014-2016.

"2017-2020 Plan"

The Extraordinary Shareholders' Meeting of April 26<sup>th</sup>, 2017 resolved to increase the share capital by a maximum nominal value of Euro 12,500,000.00 by issuing new ordinary shares for an amount up to a maximum of no. 2,500,000, par value of Euro 5.00 each, to be offered for subscription to directors and/or employees of the Company and its subsidiaries pursuant to the 2017-2020 Stock Option Plan.

Such 2017-2020 Plan – aimed at the incentive and improvement of the loyalty of the directors and/or the employees/managers of the Company and/or of the subsidiary companies – is performed through the assignment, free of charge and in several tranches, of a maximum of no. 2,500,000 options, which entitle the beneficiaries to the right to subscribe newly issued ordinary shares of the Company, par value of Euro 5.00 each, arising from the above mentioned capital increase, with exclusion of the option rights according to Article 2441, paragraph 4, second sentence, of the ICC, at the rate of no. 1 share for each option.

The Plan has a total duration of eleven years (from 2017 to 2028). The options assigned to the beneficiaries may be exercised after two years from the allocation date.

Specifically, four different allocation dates have been assigned to the options.

The first tranche ("First Tranche") was granted by the Board of Directors held on April 26<sup>th</sup>, 2017, the second tranche ("Second Tranche") will be granted from the day on which the Board of Directors approves the 2017 financial results, to December 31, 2018; the third tranche ("Third Tranche") will be granted from the day on which the Board of Directors approves the 2018 financial results, to December 31, 2019 and the fourth tranche ("Fourth Tranche") will be granted from the date on which the Board of Directors approves the 2019 financial results, to December 31, 2020.

The options granted shall vest upon the occurrence of the following performance conditions:

- a. with reference to the Options Granted under the First Tranche, the EBIT resulting from the approved consolidated financial statements of the Company related to one of the years ending on 31.12.2017, 31.12.2018 or 31.12.2019 has been at least equal to Euro 63.000.000 ("First Target"); with reference to the Options Granted under the Second Tranche, the EBIT resulting from the approved consolidated financial statements of the Company related to one of the years ending on 31.12.2018, 31.12.2019 or 31.12.2020 has been at least equal to Euro 68.000.000 ("Second Target"); with reference to the Options Granted under the Third Tranche, the EBIT resulting from the approved consolidated financial statements of the Company related to one of the years

ending on 31.12.2019, 31.12.2020 or 31.12.2021 has been at least equal to Euro 73.000.000 ("Third Target"), and with reference to the Options Granted under the Fourth Tranche, the EBIT resulting from the approved consolidated financial statements of the Company related to one of the years ending on 31.12.2020, 31.12.2021 or 31.12.2022 has been at least equal to Euro 78.000.000 ("Fourth Target");

- b. except as otherwise provided in the Regulations of the Plan, in respect of all the Options Granted, the Relationship is in force at Confirmation Date.

For the purposes hereof, EBIT means the net operating profit related to a specific financial year, before non-recurring items, as indicated in each relevant consolidated annual report of the Company (i.e. Adjusted EBIT) approved by the Board of Directors of the Company.

The subscription price of the options (and also the price for the subscription of the newly issued shares at the service of the 2017-2020 Plan) will correspond to the weighted average of the official prices of Safilo Group S.p.A. ordinary shares registered on the Mercato Telematico Azionario organized and managed by Borsa Italiana S.p.A. in the month preceding the meeting of the Board of Directors which allocates the rights of option issued within the 2017-2020 Plan.

For more detailed information about the Plans, reference should be made to the disclosure prepared pursuant to article 84-bis of the Regulation of the Issuers, as subsequently supplemented, as well as to all the documents related to the above Plans, prepared in accordance with the applicable laws, which are available on the Company's web site ([www.safilogroup.com](http://www.safilogroup.com)) in Investor Relations – Corporate Governance section.

# OTHER INFORMATION

Accounting treatment of the Euro 90 million compensation from Kering

The accounting treatment of the Euro 90 million compensation for the early termination of the Gucci license has been decided in coherence with the underlying obligations set forth in the Strategic Product Partnership Agreement (“SPPA”) signed on January 12, 2015 with Kering Group. According to this, it was deemed appropriate by management to account for the majority of the compensation between 2017 and 2018, respectively in the measure of Euro 43 million in 2017 and Euro 39 million in 2018, following the contractual split of the volumes in the two years to which the agreed anticipated termination of the Gucci license (previously expiring at the end of December 2018) and key obligations under the SPPA agreement refer to. It was considered appropriate to recognize the remaining part of the compensation, equal to Euro 8 million, in the profit and loss of 2016, given the start of the SPPA agreement in the second half of the year, with the shipment of the first significant bulk of volumes under the SPPA agreement in the fourth quarter of 2016. The above compensation amounts are included in other operating income. As a reminder, the total Euro 90 million compensation was agreed with the contract executed on January 12, 2015 with Kering Group that confirmed the early termination of the Gucci license agreement at the end of December 2016 and a Strategic Product Partnership Agreement (SPPA) for the development and manufacture of Gucci’s Made in Italy eyewear products by Safilo. The first tranche of the compensation equal to Euro 30 million was received in January 2015, the second tranche equal to further Euro 30 million was received in December 2016, while the third tranche will be received in September 2018.

Atypical and/or unusual transactions

No atypical and/or unusual transactions, as defined by Consob Communication 6064293 dated July 28<sup>th</sup>, 2006, were undertaken during 2017.

Related party transactions

In compliance with applicable legislative and regulatory requirements, the Board of Directors of November 5<sup>th</sup>, 2010 approved the “Regulations for the transactions with related parties”, to govern transactions of major strategic, economic, capital or financial significance for the Company, including those undertaken with related parties, to assure their transparency and material and procedural correctness. Our related party transactions are neither atypical nor unusual and occur in the ordinary course of our business. Management believes that these transactions are fair to the Group. Transactions with related parties, are on an arm’s length basis, according to the nature of the transaction, sale of products or provision of services.

Research and  
development

For further details regarding the related party transactions, please refer to note 6 to the Consolidated Financial Statements as of December 31<sup>st</sup>, 2017.

The Group's research and development focuses on materials, production processes and the improvement of technical characteristics of the products, and on innovations of the production process which increases its effectiveness, efficiency, quality and speed to market. Expenditure on research is expensed as incurred.

# RECONCILIATION OF THE PARENT COMPANY'S NET PROFIT AND SHAREHOLDERS' EQUITY WITH THE CONSOLIDATED BALANCES

(milioni di Euro)	Equity as of December 31, 2017	Net profit/ (loss) of the year 2017	Equity as of December 31, 2016	Net profit/ (loss) of the year 2016
Balances as per Safilo Group S.p.A.'s statutory financial statements	535.9	(247.5)	783.3	(5.8)
Contribution of consolidated companies	1,232.7	(273.0)	1,511.3	8.7
Write-off of the book value of consolidated subsidiaries	(1,364.2)	484.7	(1,782.5)	(1.0)
Goodwill	177.3	(192.0)	402.5	(150.0)
Elimination of dividends paid within the Group	-	(13.6)	-	-
Elimination of intercompany gains within the Group	(2.5)	(0.5)	(1.9)	0.4
Elimination of intercompany profits included in inventory	(45.5)	(9.4)	(39.6)	5.7
Other consolidated entries	(0.5)	(0.3)	(0.3)	(0.1)
<b>Total</b>	<b>533.2</b>	<b>(251.6)</b>	<b>872.8</b>	<b>(142.1)</b>
Equity attributable to minority interests	-	-	-	-
<b>Total attributable to the Group</b>	<b>533.2</b>	<b>(251.6)</b>	<b>872.8</b>	<b>(142.1)</b>

# SIGNIFICANT EVENTS AFTER THE YEAR-END AND OUTLOOK

## Events after the year end

On February 16, 2018 the Board of Directors of Safilo Group S.p.A. informed that Ms. Luisa Delgado, its CEO, has decided, for personal reasons, to retire starting from February 28, 2018, from the office of Director and Chief Executive Officer of Safilo Group S.p.A. as well from the offices of Sole Director of Safilo Industrial S.r.l. and Sole Director of Safilo S.p.A.. The Board of Directors of Safilo Group S.p.A. accepted the resignations accordingly. The Board of Directors of Safilo Group, and Ms. Delgado have mutually agreed to terminate the contractual relationship existing between them.

Safilo Group S.p.A. has then entered into an agreement with Angelo Trocchia governing the entry of the same into Safilo Group, with effect starting from April 1, 2018. According to the agreement – executed among Angelo Trocchia, Safilo Group S.p.A. and Multibrands Italy B.V., the reference shareholder of the Company - Mr Trocchia will enter Safilo Group as officer of Safilo Group S.p.A. with effect from April 1, 2018 and, at the annual shareholders' meeting to be held on April 24 (i.e. upon expiry of the Board of Directors currently in office), Angelo Trocchia will be on the list to be filed by Multibrands Italy B.V., in order to become a Director and CEO of Safilo Group S.p.A.. Angelo Trocchia will also hold the office of Sole Director of Safilo S.p.A. and Safilo Industrial S.r.l., subsidiaries of Safilo Group.

Until the appointment of a new Chief Executive Officer, the Board of Directors has granted interim powers to the Chairman, Mr. Eugenio Razelli.

In the period following 31 December 2017, there were no further events in addition to those reported above that might affect to a significant extent the data contained in this document.

## Outlook

In 2018, the Group expects normal operating conditions to be progressively restored in Safilo's developed markets, while emerging markets should continue to grow ahead of Company average, supporting the overall brand portfolio development during the year. First quarter to date sales trends are confirming this expectation.

At constant exchange rates, the Group expects the sales of its Going Forward Brands Portfolio to return to growth in 2018 and to offset the exit of the Celine license.

In 2018, the Group plans to increase its adjusted EBITDA margin through the improvement of its gross margin, driven by better price/mix dynamics and further sourcing and logistics efficiencies, and the completion of the announced overhead productivity plan by the end of 2018.

In 2018, Safilo expects a solid level of capital expenditure, focusing investments into its core product supply chain and IT projects, while leveraging the assets created by the investments in the past 3 years and thus further decelerate the level of expenditure compared to those years.

For the Board of Directors  
Chairman  
*Eugenio Razelli*







# 2

## CONSOLIDATED FINANCIAL STATEMENTS

# CONSOLIDATED BALANCE SHEET

(thousands of Euro)	Notes	December 31, 2017	of which related parties	December 31, 2016	of which related parties
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and cash equivalents	4.1	76,251		109,038	
Trade receivables	4.2	178,745	10,393	237,407	20,965
Inventory	4.3	257,717		272,815	
Derivative financial instruments	4.4	142		1,997	
Other current assets	4.5	91,759		60,828	
<b>Total current assets</b>		<b>604,614</b>		<b>682,085</b>	
<b>Non-current assets</b>					
Tangible assets	4.6	188,302		197,606	
Intangible assets	4.7	64,569		64,108	
Goodwill	4.8	220,416		448,302	
Deferred tax assets	4.9	69,104		96,785	
Derivative financial instruments	4.4	-		-	
Other non-current assets	4.10	12,222		36,700	
<b>Total non-current assets</b>		<b>554,612</b>		<b>843,501</b>	
<b>Non-current assets held for sale</b>	4.6	<b>1,260</b>		<b>1,475</b>	
<b>TOTAL ASSETS</b>		<b>1,160,487</b>		<b>1,527,061</b>	

(thousands of Euro)	Notes	December 31, 2017	of which related parties	December 31, 2016	of which related parties
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
<b>Current liabilities</b>					
Short-term borrowings	4.11	65,409		20,013	
Trade payables	4.12	204,897	4,998	248,492	8,386
Tax payables	4.13	17,218		18,627	
Derivative financial instruments	4.4	2,056		1,624	
Other current liabilities	4.14	95,493		91,967	
Provisions for risks and charges	4.15	35,415		27,640	
<b>Total current liabilities</b>		<b>420,488</b>		<b>408,363</b>	
<b>Non-current liabilities</b>					
Long-term borrowings	4.11	142,491		137,393	
Employees benefits liability	4.16	28,399		31,395	
Provisions for risks and charges	4.15	16,779		14,798	
Deferred tax liabilities	4.9	13,283		16,241	
Derivative financial instruments	4.4	-		484	
Other non-current liabilities	4.17	5,842		45,583	
<b>Total non-current liabilities</b>		<b>206,794</b>		<b>245,894</b>	
<b>TOTAL LIABILITIES</b>		<b>627,282</b>		<b>654,257</b>	
<b>Shareholders' equity</b>					
Share capital	4.18	313,300		313,300	
Share premium reserve	4.19	484,862		484,862	
Retained earnings and other reserves	4.20	(13,355)		216,743	
Cash flow hedge reserve	4.21	(35)		-	
Income/(Loss) attributable to the Group		(251,567)		(142,101)	
<b>Total shareholders' equity attributable to the Group</b>		<b>533,205</b>		<b>872,804</b>	
<b>Non-controlling interests</b>		<b>-</b>		<b>-</b>	
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>533,205</b>		<b>872,804</b>	
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>1,160,487</b>		<b>1,527,061</b>	

# CONSOLIDATED INCOME STATEMENT

(thousands of Euro)	Notes	2017	of which related parties	2016	of which related parties
Net sales	5.1	1,046,955	57,004	1,252,931	79,916
Cost of sales	5.2	(527,406)		(537,303)	
<b>Gross profit</b>		<b>519,550</b>		<b>715,627</b>	
Selling and marketing expenses	5.3	(415,491)	(6,352)	(512,817)	(10,216)
General and administrative expenses	5.4	(153,386)		(167,759)	
Other operating income/(expenses)	5.5	33,152		(1,318)	
Impairment loss on goodwill	4.8 - 5.6	(192,000)		(150,000)	
<b>Operating profit</b>		<b>(208,176)</b>		<b>(116,267)</b>	
Financial charges, net	5.7	(13,996)		(6,354)	
<b>Profit/(Loss) before taxation</b>		<b>(222,171)</b>		<b>(122,621)</b>	
Income taxes	5.8	(29,396)		(19,479)	
<b>Profit/(Loss) of the period</b>		<b>(251,567)</b>		<b>(142,101)</b>	
<b>Profit/(Loss) attributable to:</b>					
Owners of the parent		(251,567)		(142,101)	
Non-controlling interests		-		-	
<b>Earnings/(Losses) per share - basic (Euro)</b>	5.9	<b>(4.015)</b>		<b>(2.269)</b>	
<b>Earnings/(Losses) per share - diluted (Euro)</b>	5.9	<b>(4.014)</b>		<b>(2.267)</b>	

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(thousands of Euro)	Notes	2017	2016
<b>Net profit (loss) for the period (A)</b>		<b>(251,567)</b>	<b>(142,101)</b>
Gains/(Losses) that will not be reclassified subsequently to profit or loss:			
- Remeasurements of post employment benefit obligations		651	(1,269)
- Other gains/(losses)		-	-
<b>Total gains/(losses) that will not be reclassified subsequently to profit or loss:</b>		<b>651</b>	<b>(1,269)</b>
Gains/(Losses) that will be reclassified subsequently to profit or loss:			
- Gains/(Losses) on cash flow hedges	4.21	(35)	(572)
- Gains/(Losses) on exchange differences on translating foreign operations	4.20	(88,693)	20,446
<b>Total gains/(losses) that will be reclassified subsequently to profit or loss:</b>		<b>(88,728)</b>	<b>19,874</b>
<b>Other comprehensive income/(loss), net of tax (B)</b>		<b>(88,077)</b>	<b>18,605</b>
<b>TOTAL COMPREHENSIVE INCOME/(LOSS) (A)+(B)</b>		<b>(339,644)</b>	<b>(123,496)</b>
<b>Attributable to:</b>			
Owners of the parent		(339,644)	(123,496)
Non-controlling interests		-	-
<b>TOTAL COMPREHENSIVE INCOME/(LOSS)</b>		<b>(339,644)</b>	<b>(123,496)</b>

# CONSOLIDATED STATEMENT OF CASH FLOWS

(thousands of Euro)	Notes	2017	2016
<b>A - Opening net cash and cash equivalents (net financial indebtedness - short term)</b>	4.1	<b>99,025</b>	<b>47,618</b>
<b>B - Cash flow from (for) operating activities</b>			
Net profit/(loss) for the period (including minority interests)		(251,567)	(142,101)
Depreciation and amortization	4.6 - 4.7	42,075	47,209
Impairment loss on goodwill	4.8 - 5.6	192,000	150,000
Other non-monetary P&L items		(2,259)	(4,427)
Interest expenses, net	5.7	7,491	7,005
Income tax expenses	5.8	29,396	19,479
<b>Flow from operating activities prior to movements in working capital</b>		<b>17,136</b>	<b>77,165</b>
(Increase) Decrease in trade receivables		43,678	11,393
(Increase) Decrease in inventory, net		(1,318)	(18,554)
Increase (Decrease) in trade payables		(36,911)	27,458
(Increase) Decrease in other receivables		(9,251)	(38,605)
Increase (Decrease) in other payables		(32,156)	60,346
Interest expenses paid		(2,106)	(2,104)
Income taxes paid		(10,147)	(28,034)
<b>Total (B)</b>		<b>(31,075)</b>	<b>89,065</b>
<b>C - Cash flow from (for) investing activities</b>			
Investments in property, plant and equipment		(26,778)	(40,868)
Net disposals of property, plant and equipment		1,182	10,476
Acquisition of minorities (in subsidiaries)		-	(2,500)
(Acquisition) Disposal of investments and bonds		-	-
Purchase of intangible assets, net of disposals		(13,417)	(11,442)
<b>Total (C)</b>		<b>(39,013)</b>	<b>(44,334)</b>
<b>D - Cash flow from (for) financing activities</b>			
Proceeds from borrowings		-	5,000
Repayment of borrowings		-	-
Share capital increase		-	166
Dividends paid		-	-
<b>Total (D)</b>		<b>-</b>	<b>5,166</b>
<b>E - Cash flow for the period (B+C+D)</b>		<b>(70,088)</b>	<b>49,897</b>
Translation exchange differences		(8,095)	1,510
<b>Total (F)</b>		<b>(8,095)</b>	<b>1,510</b>
<b>G - Closing net cash and cash equivalents (net financial indebtedness - short term) (A+E+F)</b>	4.1	<b>20,842</b>	<b>99,025</b>



# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(thousands of Euro)	Share capital	Share premium reserve	Transl. diff. reserve	Cash flow hedge reserve	Retained earnings and other reserves	Total	Non-controlling interests	Total equity
<b>Consolidated net equity at January 1, 2017</b>	<b>313,300</b>	<b>484,862</b>	<b>149,803</b>	-	<b>(75,161)</b>	<b>872,804</b>	-	<b>872,804</b>
Profit/(Loss) for the period	-	-	-	-	(251,567)	(251,567)	-	<b>(251,567)</b>
Other comprehensive income (loss) for the period	-	-	(88,693)	(35)	651	(88,077)	-	<b>(88,077)</b>
<b>Total comprehensive income (loss) for the period</b>	-	-	<b>(88,693)</b>	<b>(35)</b>	<b>(250,916)</b>	<b>(339,644)</b>	-	<b>(339,644)</b>
Increase in share capital due to the exercising of stock option	-	-	-	-	-	-	-	-
Dividends distribution	-	-	-	-	-	-	-	-
Purchase of shares in subsidiaries from non-controlling interests	-	-	-	-	-	-	-	-
Net increase in the Reserve for share-based payments	-	-	-	-	46	46	-	<b>46</b>
Changes in other reserves	-	-	-	-	-	-	-	-
<b>Consolidated net equity at December 31, 2017</b>	<b>313,300</b>	<b>484,862</b>	<b>61,110</b>	<b>(35)</b>	<b>(326,031)</b>	<b>533,205</b>	-	<b>533,205</b>

(thousands of Euro)	Share capital	Share premium reserve	Transl. diff. reserve	Cash flow hedge reserve	Retained earnings and other reserves	Total	Non-controlling interests	Total equity
<b>Consolidated net equity at January 1, 2016</b>	<b>313,150</b>	<b>484,845</b>	<b>129,357</b>	<b>572</b>	<b>69,581</b>	<b>997,505</b>	<b>1,099</b>	<b>998,604</b>
Profit/(Loss) for the period	-	-	-	-	(142,101)	(142,101)	-	<b>(142,101)</b>
Other comprehensive income (loss) for the period	-	-	20,446	(572)	(1,269)	18,605	-	<b>18,605</b>
<b>Total comprehensive income (loss) for the period</b>	-	-	<b>20,446</b>	<b>(572)</b>	<b>(143,370)</b>	<b>(123,496)</b>	-	<b>(123,496)</b>
Increase in share capital due to the exercising of stock option	150	17	-	-	-	167	-	<b>167</b>
Dividends distribution	-	-	-	-	-	-	-	-
Purchase of shares in subsidiaries from non-controlling interests	-	-	-	-	(1,401)	(1,401)	(1,099)	<b>(2,500)</b>
Net increase in the Reserve for share-based payments	-	-	-	-	29	29	-	<b>29</b>
Changes in other reserves	-	-	-	-	-	-	-	-
<b>Consolidated net equity at December 31, 2016</b>	<b>313,300</b>	<b>484,862</b>	<b>149,803</b>	-	<b>(75,161)</b>	<b>872,804</b>	-	<b>872,804</b>



# 3

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

# 1. GENERAL INFORMATION

## 1.1 General information

The holding company, Safilo Group S.p.A., is a joint stock company established in Italy on 14<sup>th</sup> October 2002 registered with the Business and Trade registry of Vicenza. On 11<sup>st</sup> May 2017 the company moved its head office from Pieve di Cadore (Belluno) to Padua.

The parent company is listed on Mercato Telematico Azionario (MTA) of the Italian Stock Exchange.

Following the Group's financial restructuring, which was completed in the first quarter of 2010 with the share-capital increase, Multibrands Italy B.V. (a subsidiary of HAL Holding N.V.) became the parent company's leading shareholder with a 37.232% equity interest. On 4<sup>th</sup> April 2012, in order to provide the Group with the financial resources needed to complete the acquisition of Polaroid Eyewear, Multibrands Italy BV subscribed and fully paid a capital increase. As at December 31, 2017 its stake in the parent company was 41.612%.

According to IFRS 10 HAL Holding N.V., is deemed to have control over Safilo Group S.p.A. and accordingly is required to consolidate Safilo Group S.p.A. in its financial statements as from 1<sup>st</sup> January 2014 (even though its ownership interest of HAL Holding N.V. in the company Safilo Group S.p.A. is below 50%). HAL Holding is fully owned by HAL Trust, listed on NYSE Euronext of Amsterdam Stock Exchange.

These consolidated financial statements are reported in thousands of Euro. The consolidated financial information relates to the period from 1<sup>st</sup> January 2017 to 31<sup>st</sup> December 2017 and also presents comparative data related to the financial period from 1<sup>st</sup> January 2016 to 31<sup>st</sup> December 2016.

These financial statements were approved by the Board of Directors on 13<sup>rd</sup> March 2018.

The companies included in the consolidation area are listed in paragraph 2.3 "Scope of consolidation and methodology".

## 2. SUMMARY OF ACCOUNTING PRINCIPLES ADOPTED

### 2.1 Accounting policies

The accounting policies described here below have been applied during the preparation of these consolidated financial statements in a consistent manner for both financial years presented and on the going concern assumption.

The consolidated financial statements for the year ended 31<sup>st</sup> December 2017 and 31<sup>st</sup> December 2016 were prepared in accordance with IFRSs issued by the International Accounting Standard Board ("IASB") and endorsed by the European Commission, as well as with the measures enacted to implement article 9 of Legislative Decree no. 38/2005. IFRSs include also all the interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), previously called Standing Interpretations Committee ("SIC").

The consolidated financial statements were prepared in accordance with "cost" criteria with the exception of financial assets available-for-sale and some financial assets and liabilities, including derivative instruments, for which the "fair value" criterion was adopted.

Preparation of the annual report in accordance with IFRSs requires management to make estimates and assumptions that may affect the amounts reported in the financial statements and explanatory notes. Actual results may differ from these estimates. The areas of the financial statements that are most affected by such estimates and assumptions are listed in section 2.21 "Use of estimates".

#### Accounting standards, amendments and interpretations effective as of 1<sup>st</sup> January 2017

The following new standards and amendments, effective from 1 January 2017, are applicable to the Group.

On 19 January 2016 the IASB published the document "Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)" that contains the amendments to IAS 12. The document aims to provide some clarification on the recognition of deferred taxes on unrealized losses upon the occurrence of certain circumstances and the estimated taxable income for future years.

On 29 January 2016 the IASB published the document "Disclosure Initiative (Amendments to IAS 7)" that contains the amendments to IAS 7. The document aims to provide some clarification to improve disclosures on financial liabilities. In particular, the amendments require to disclose information that enables users of financial statements to understand the changes in liabilities arising from financing operations. It is not required to present comparative information relating to prior years.

The adoption of these amendments did not have any effect on the Group consolidated financial statements.

### Accounting standards, amendments and interpretations not yet applicable and not adopted early by the Group

On 28 May 2014, the IASB issued the new standard IFRS 15 "Revenue from contracts with customers". This standard replaces IAS 18 Revenues, IAS 11 Construction Contracts, IFRIC 13 Customers Loyalty Programs, IFRIC 15 Agreements for Constructions of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue-Barter Transactions Involving Advertising Services. The standard establishes a new model for revenue recognition, which will apply to all contracts with customers except those that fall within the scope of other IAS / IFRS as leases, insurance contracts and financial instruments. The basic steps for the recognition of revenue under the new model are:

- identify the contracts with a customer;
- identify the performance obligations in the contract;
- determine the transaction price;
- allocate the transaction price to the performance obligations in the contract;
- recognize revenue when the entity satisfies a performance obligation.

The new standard is applicable to periods beginning on or after January 1, 2018.

The Group has decided to not apply the early adoption for IFRS 15 and will comply with this new standard based on its relevant effective date, applying the retrospective transition method. The Group has already evaluated its potential impact, and according to the analysis performed on the commercial agreement and practice in place with its customers, has concluded that its application will not cause any material effect on the Group revenue recognition model and on the related disclosure relevant for the consolidated financial statements.

On 24 July 2014 the IASB issued the final version of IFRS 9 "Financial Instruments". The standard brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39. The standard introduces new requirements for the classification and measurement of financial assets and liabilities. In particular, for financial assets the new standard

uses a single approach based on management of financial instruments and the contractual cash flow characteristics of the financial assets in order to determine the method of valuation, replacing the many different rules in IAS 39. For financial liabilities, instead, the main change concerns the accounting treatment of changes in fair value of a financial liability designated as financial liability at fair value through profit or loss, if these variations are due to changes in the creditworthiness of the issuer of the liability. Under the new standard, these changes must be recognized in "Other comprehensive income" and not in the income statement.

With reference to the impairment model, the new standard requires that the estimate of loan losses is made based on the model of expected losses (and not on the model of incurred losses) using information supportable, available at no cost or unreasonable efforts that include historical, current and future data. The standard requires that the impairment model applies to all financial instruments, namely financial assets carried at amortized cost, to those measured at fair value through other comprehensive income, receivables arising from leases and trade receivables.

Finally, the standard introduces a new model of hedge accounting in order to adjust the requirements of the current IAS 39 that were sometimes considered too stringent and unsuitable to reflect the risk management policies of the company. The main changes are:

- increase the types of transactions eligible for hedge accounting, including the risks of non-financial assets and liabilities to be eligible to hedge accounting;
- change in method of accounting for forward contracts and options when eligible for hedge accounting in order to reduce the volatility in the income statement;
- changes to effectiveness tests by replacing the current mode based on the parameter of 80-125% with the principle of "economic relationship" between the hedged item and the hedging instrument; furthermore, it will no longer request a retrospective evaluation of the effectiveness of the hedging relationship.

The new standard is applicable to periods beginning on or after January 1, 2018 or after.

The Group will comply with this new standard based on its relevant effective date, applying the retrospective transition method, and has already evaluated its potential impacts. The main requirement relevant for the Group's consolidated financial statements is the one related to the receivables impairment model, the new standard requires in fact that the estimate of receivables losses is made based on the model of expected losses (and not on the model of incurred losses). According to the analysis performed, in consideration of the Group's business characteristics and the evaluation of the policies currently in use, its application will not cause any material effect in terms of expected credit losses and on the related disclosure relevant for the consolidated financial statements.

On 13 January 2016, the IASB issued the new standard IFRS 16 "Leases" to replace IAS 17 Leases, IFRIC 4 Determining whether an arrangement contains a Lease, SIC 15 Operating Leases-Incentives, SIC 27 Evaluating the substance of transactions involving the legal form of a lease. The new standard provides a new definition of leases and introduces a criteria based on control (right of use) of an asset to separate lease contracts from service contracts, considering: identification and of the asset, right to replace it, right to obtain all economic benefits and the right to manage the use of the asset. The standard establishes just a model to recognize and measure lease contracts for the lessee through the posting of the asset (also in operating leases) offset by a financial debt, providing also the opportunity to not recognize as lease contracts related to "low-value assets" and leases with expiry date equal to or less than 12 months. The standard does not include significant changes to the lessors. The new standard is applicable to periods beginning on or after January 1, 2019; the early adoption is allowed only for companies that apply the early adoption also for IFRS 15 Revenue from contracts with customers.

The Group has decided do not apply the early adoption for IFRS 16 and will comply with this new standard based on its relevant effective date. The Group is currently still evaluating the impacts, according to a preliminary analysis performed, its application should have significant effect on the main Group's main financial indicators and on the related disclosure relevant for the consolidated financial statements. The amounts of the rent and operating lease commitments that will be affected by the new standard are disclosed in paragraph 8 of the Notes. Currently it is not possible to disclose an estimate of these potential impacts as they still depends on certain in terms of transition options which the Group is still evaluating.

### Accounting standards, amendments and interpretations not yet completed and endorsed by the European Union

In addition, the European Union had not yet completed its endorsement process for the following standards and amendments at the date of this annual report.

On 20 June 2016 the IASB published the document "Classification and measurement of share-based payment transactions (Amendments to IFRS 2)" that contains some clarifications in relation to the recognition of the effects of vesting conditions in the presence of cash-settled share-based payments, the classification of share-based payments with net settlement characteristics and the accounting of changes to the terms and conditions of a share-based payment which alter their classification as cash-settled to equity-settled. The changes will apply from 1 January 2018 but early application is allowed.



On 8 December 2016 the IASB published the document “Annual Improvements to IFRSs: 2014-2016 Cycle” (including IFRS 1 First-Time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters, IAS 28 Investments in Associates and Joint Ventures – Measuring investees at fair value through profit or loss: an investment-by-investment choice or a consistent policy choice, IFRS 12 Disclosure of Interests in Other Entities – Clarification of the scope of the Standard) that partially integrate the pre-existing standards.

On 8 December 2016 the IASB published the interpretation IFRIC 22 “Foreign Currency Transactions and Advance Consideration”. The interpretation has the scope to provide guidelines for transactions incurred in foreign currency where non-monetary prepayments or advance payments will be recognized in the financial statement, before the recognition of the related asset, expense or revenue. This document provides the directions on how an entity has to define the date of a transaction, and consequently, the spot exchange rate to use when it will incur a transaction in a foreign currency in which the payment is made or received in advance. IFRIC 22 will apply from 1 January 2018, but early application is allowed.

On 8 December 2016 the IASB published the amendment to IAS 40 “Transfers of Investment Property”. These changes clarify the reclassification of an asset to, or from, property investment. In particular, an entity has to reclassify an asset between, or from, property investments only when there is the evidence that there has been a change of use. This change must be brought back to a specific event that happened and should not therefore be limited to a change of intention by the management of an entity. Such changes will apply from 1 January 2018, but early application is allowed.

On 12 October 2017, the IASB published the amendment to IFRS 9 “Prepayment Features with Negative Compensation”. This document specifies the instruments that provide for early repayment may comply with the “SPPI” test even if the “reasonable additional compensation” to be paid in the event of early repayment is a “negative compensation” for the lender. The amendment applies from January 1, 2019, but early application is permitted.

On 12 October 2017, the IASB published the amendment to IAS 28 “Long-term Interests in Associates and Joint Ventures”. This document clarifies the need to apply IFRS 9, including the requirements related to impairment, to other long-term interests in associates and joint ventures for which the equity method is not applied. The amendment applies from January 1, 2019, but early application is permitted.

On 12 December 2017, the IASB published the document “Annual Improvements to IFRSs 2015-2017 Cycle”, (including IFRS 3 Business Combinations and IFRS 11 Joint Arrangements - Remeasurement of previously held interest in a joint operation, IAS 12 Income Taxes - Income tax consequences of payments on financial instruments classified as equity, IAS 23 Borrowing costs, which incorporates the amendments to certain principles as part of the annual improvement process. The amendments apply from January 1, 2019, but early application is permitted.

The Group will comply with these new standards and amendments based on their relevant effective dates when endorsed by the European Union and it will evaluate their potential impacts on the Consolidated financial statements.

## 2.2 Format of financial statements

Safilo Group presents the income statement by function (so-called “cost of sales”). This is considered to be more representative with respect to presentation by type of expenses, as it conforms more closely to the internal reporting and business management methods and is in line with international practice in the eyewear sector.

For the balance sheet, a distinction is made in the assets and liabilities between current and non-current as described in paragraphs 51 and following of IAS 1. The indirect method for the cash flow statement was used. Therefore the net profit of the period is adjusted by the effects of non-monetary transactions, changes in working capital and cash flows from investing and financing activities.

## 2.3 Scope of consolidation and methodology

The Group's consolidated financial statements as of 31<sup>st</sup> December 2017 include the parent company, Safilo Group S.p.A, and 43 subsidiaries accounted for on a line-by-line basis, with the parent company holding, directly or indirectly, the majority of voting rights.

In 2017, the Group's consolidation area changed as follows:

- starting from 1 January 2017 Safilo Industrial S.r.l., established on 12 October 2016, has been effective as Italian manufacturing company comprising Safilo's Italian plants and workforce;
- on 1 February 2017 the liquidation process of Safilo Korea Ltd. has formally started and has been duly completed;
- on 3 April 2017 the liquidation of Polaroid UK Ltd. has formally started, the final step of the integration plan of the Polaroid lens production process into Safilo's China based corporate supply network;
- on 27 November 2017, according to the process for the legal simplification of the Group structure, the voluntary liquidation process of the sub-holding company Safint Optical UK was formally started, furthermore, with legal effect from 22 December 2017 the merger of Safint BV and Polaroid Eyewear Holding BV into Safilo International BV was duly completed.

At 31<sup>st</sup> December 2017 the direct and indirect holdings included in the scope of consolidation under the line-by-line method, in addition to the parent company Safilo Group S.p.A., were the following:

	Currency	Share capital	% interest held
<b>ITALIAN COMPANIES</b>			
Safilo S.p.A. – Padua	EUR	66,176,000	100.0
Lenti S.r.l. – Bergamo	EUR	500,000	100.0
Safilo Industrial S.r.l. - Padua	EUR	70,000,000	100.0
<b>FOREIGN COMPANIES</b>			
Safilo International B.V. - Rotterdam (NL)	EUR	24,165,700	100.0
Safilo Benelux S.A. - Zaventem (B)	EUR	560,000	100.0
Safilo Espana S.L. - Madrid (E)	EUR	3,896,370	100.0
Safilo France S.a.r.l. - Paris (F)	EUR	960,000	100.0
Safilo Gmbh - Cologne (D)	EUR	511,300	100.0
Safilo Nordic AB - Taby (S)	SEK	500,000	100.0
Safilo CIS - LLC - Moscow (Russia)	RUB	10,000,000	100.0
Safilo Far East Ltd. - Hong Kong (RC)	HKD	49,700,000	100.0
Safint Optical Investment Ltd - Hong Kong (RC)	HKD	10,000	100.0
Safilo Hong-Kong Ltd – Hong Kong (RC)	HKD	100,000	100.0
Safilo Singapore Pte Ltd - Singapore (SGP)	SGD	400,000	100.0
Safilo Optical Sdn Bhd – Kuala Lumpur (MAL)	MYR	100,000	100.0
Safilo Trading Shenzhen Limited- Shenzhen (RC)	CNY	2,481,000	100.0
Safilo Eyewear (Shenzen) Company Limited - (RC)	CNY	46,546,505	100.0
Safilo Eyewear (Suzhou) Industries Limited - (RC)	CNY	129,704,740	100.0
Safilo Hellas Ottica S.a. – Athens (GR)	EUR	489,990	100.0
Safilo Nederland B.V. - Bilthoven (NL)	EUR	18,200	100.0
Safilo South Africa (Pty) Ltd. – Bryanston (ZA)	ZAR	3,583	100.0
Safilo Austria Gmbh -Traun (A)	EUR	217,582	100.0
Safilo d.o.o. Ormož - Ormož (SLO)	EUR	563,767	100.0
Safilo Japan Co Ltd - Tokyo (J)	JPY	100,000,000	100.0
Safilo Do Brasil Ltda – Sao Paulo (BR)	BRL	197,135,000	100.0
Safilo Portugal Lda – Lisbon (P)	EUR	500,000	100.0
Safilo Switzerland AG – Zurich (CH)	CHF	1,000,000	100.0
Safilo India Pvt. Ltd - Bombay (IND)	INR	42,000,000	100.0
Safilo Australia Pty Ltd.- Sydney (AUS)	AUD	3,000,000	100.0
Safint Optical UK Ltd. - London (GB) - (in liquidation)	GBP	21,139,001	100.0
Safilo UK Ltd. - London (GB)	GBP	250	100.0
Safilo America Inc. - Delaware (USA)	USD	8,430	100.0
Safilo USA Inc. - New Jersey (USA)	USD	23,289	100.0
Safilo Services LLC - New Jersey (USA)	USD	-	100.0
Smith Sport Optics Inc. - Idaho (USA)	USD	12,087	100.0
Solstice Marketing Corp. – Delaware (USA)	USD	1,000	100.0
Solstice Marketing Concepts LLC – Delaware (USA)	USD	-	100.0
Safilo de Mexico S.A. de C.V. - Distrito Federal (MEX)	MXP	10,035,575	100.0
Safilo Canada Inc. - Montreal (CAN)	CAD	100,000	100.0
Canam Sport Eyewear Inc. - Montreal (CAN)	CAD	199,975	100.0
Polaroid Eyewear Ltd - Dumbarton (UK) - (in liquidation)	GBP	2	100.0
Safilo Optik Ticaret Limited Şirketi - Istanbul (TR)	TRL	1,516,000	100.0
Safilo Middle East FZE - Dubai (UAE)	AED	3,570,000	100.0

The total number of subsidiaries of Safilo Group S.p.A. moved from 46 in December 2016 to 43 in December 2017.

## Investments in subsidiaries

The companies in which the Group exercises control (“subsidiary companies”), as defined in IFRS 10, either due to direct shareholdings or by indirectly holding the majority of the voting rights, having the power to determine even indirectly the financial and managerial choices of the companies and thus obtaining the relative benefits regardless of the relationships deriving from the share ownership, are consolidated using the line-by-line method. Potential exercisable voting rights existing at the balance sheet date are considered in order to determine control. The subsidiary companies are consolidated from the date on which control is assumed and are deconsolidated from the date when control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is measured as the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest’s proportionate share of the acquiree’s net assets. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the Group’s share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the consolidated statement of income.

With regards to the accounting for transactions and events that result in a change in the Group’s interest in its subsidiaries and the attribution of a subsidiary’s losses to non-controlling interests, IAS 27 (revised 2008) specifies that once control has been obtained, further transactions whereby the parent entity acquires additional equity interests from non-controlling interests, or disposes of equity interests without losing control are transactions with owners and therefore shall be accounted for as equity transactions. It follows that the carrying amounts of the controlling and non-controlling interests must be adjusted to reflect the changes in their relative interests in the subsidiary and any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the parent. There is no consequential adjustment to the carrying amount of goodwill and no gain or loss is recognized in profit or loss.

Upon consolidation, the amounts resulting from intra-group operations between consolidated companies are eliminated, in particular in relation to receivables and payables at the balance sheet date, costs and revenues as well as financial income and charges. In addition, gains and losses between the subsidiary companies that are fully consolidated are also eliminated.

The accounting principles adopted by the subsidiary companies have been modified where necessary, to comply with those adopted by the parent company.

Non-controlling interests and the amount of net profit attributable to them are shown separately under "Non-controlling interests" and "Profit for the period attributable to non-controlling interests" in the consolidated balance sheet and income statement, respectively.

All consolidated subsidiaries close their fiscal year on December 31, with the exception of Safilo India Pvt Ltd. which closes its financial year on 31 March, and economic and financial statements are then prepared by the subsidiary in order to allow the Parent Company to prepare the consolidated financial statements as of December 31.

### Investments in associated companies

The holdings in companies/entities in which a significant influence is exercised ("associated companies"), that is presumed to exist when the percentage held is between 20% and 50%, are valued under the "equity" method. Due to the application of the equity method, the value of the investment is aligned to the shareholders' equity that is adjusted, where necessary, to reflect the application of the IFRS approved by the European Commission, and includes the recording of any goodwill identified at the moment of acquisition. The share of gains/losses realized by the associated companies after the acquisition is recorded on the income statement, while the share of movements of reserves after the acquisition is recorded in the equity reserves. When the share of losses of the Group in an associated company is equal to or exceeds its holding in the associated company, taking into account all receivables not guaranteed, the value of the investment is fully written down and the Group does not record further losses above its share, except where the Group has the obligation to cover these losses. Gains and losses not realized that are generated on operations with associated companies are eliminated for the part pertaining to the Group.

## Investments in other companies

Investments in other companies representing “available-for-sale financial assets” are valued at their fair value and gains and losses arising from changes in the fair value are assigned directly to shareholders’ equity until sale. Total gains and losses are charged to the statement of operations of the year in which the sale took place, unless an AFS financial asset has accumulated a significant or prolonged decrease of its *fair value*. In this case, the accumulated losses in the fair value reserve of shareholders’ equity is recognized in the statement of operations.

## 2.4 Segment information

Information according to business sector (retail/wholesale) and geographic area is given, pursuant to IFRS 8 – Operating Segments.

Management prepares information according to the Group’s operating segments, i.e. “*Wholesale and Retail*”. The criteria applied for the identification of the segments depend on how management organizes the Group and attributes managerial responsibilities.

The grouping by geographic area depends on the location of the registered head office of each Group company; therefore the sales identified in accordance with this segmentation are determined by origin of invoicing and not by target market.

## 2.5 Conversion of financial statements and transactions into currencies other than Euro

Foreign currency transactions are converted into the functional currency using the exchange rates prevailing on the date of the transaction. Exchange rate gains and losses resulting from such transactions and from the translation of assets and liabilities in foreign currencies at the exchange rates at end of the year are accounted for in the income statement.

The rules for the conversion of financial statements of companies expressed in currencies different from the Euro are the following:

- assets and liabilities are converted using the exchange rates prevailing on the balance sheet date;
- costs, revenues, income and charges are converted at the average exchange rate of the period;
- the “conversion reserve” includes foreign exchange differences generated from the conversion of the opening shareholders’ equity and the movements during the year at a rate different from that at the end of the year;

- the goodwill and fair value adjustments related to the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the exchange rate at the end of the period.

The exchange rates applied in the conversion of financial statements prepared in currencies other than Euro at 31<sup>st</sup> December 2017 and 31<sup>st</sup> December 2016 are given in the following table; appreciation (figures with a minus sign in the table below) indicates an increase in the value of the currency against the Euro.

Currency	Code	As of			Average for		
		December 31, 2017	December 31, 2016	(Appreciation)/ Depreciation %	December 31, 2017	December 31, 2016	(Appreciation)/ Depreciation %
US Dollar	USD	1.1993	1.0541	13.8%	1.1297	1.1068	2.1%
Hong-Kong Dollar	HKD	9.3720	8.1751	14.6%	8.8045	8.5912	2.5%
Swiss Franc	CHF	1.1702	1.0739	9.0%	1.1117	1.0901	2.0%
Canadian Dollar	CAD	1.5039	1.4188	6.0%	1.4647	1.4659	-0.1%
Japanese Yen	YEN	135.0100	123.4000	9.4%	126.7112	120.1815	5.4%
British Pound	GBP	0.8872	0.8562	3.6%	0.8767	0.8196	7.0%
Swedish Krown	SEK	9.8438	9.5525	3.0%	9.6351	9.4696	1.7%
Australian Dollar	AUD	1.5346	1.4596	5.1%	1.4732	1.4881	-1.0%
South-African Rand	ZAR	14.8054	14.4570	2.4%	15.0490	16.2605	-7.5%
Russian Ruble	RUB	69.3920	64.3000	7.9%	65.9383	74.1411	-11.1%
Brasilian Real	BRL	3.9729	3.4305	15.8%	3.6054	3.8558	-6.5%
Indian Rupee	INR	76.6055	71.5935	7.0%	73.5324	74.3654	-1.1%
Singapore Dollar	SGD	1.6024	1.5234	5.2%	1.5588	1.5274	2.1%
Malaysian Ringgit	MYR	4.8536	4.7287	2.6%	4.8527	4.5835	5.9%
Chinese Renminbi	CNY	7.8044	7.3202	6.6%	7.6290	7.3520	3.8%
Korean Won	KRW	1,279.6100	1,269.3600	0.8%	1,276.7381	1,283.9913	-0.6%
Mexican Peso	MXN	23.6612	21.7719	8.7%	21.3286	20.6678	3.2%
Turkish Lira	TRY	4.5464	3.7072	22.6%	4.1206	3.3431	23.3%
Dirham United Emirates	AED	4.4044	3.8696	13.8%	4.1475	4.0630	2.1%

## 2.6 Tangible assets

Tangible fixed assets are assessed at purchase or production cost, net of accumulated depreciation and of any possible loss in value. The cost includes all charges directly incurred in bringing assets to their current location and condition. Costs incurred after purchase of assets are recorded only if they increase the future economic benefits of the asset they refer to.



Charges incurred for the maintenance and repairs of ordinary and/or cyclical nature are directly charged to the income statement of the period in which the costs are incurred. The capitalization of costs relating to the expansion, modernization or improvement of proprietary structural assets or of those used by third parties, is made only when they satisfy the requirements to be separately classified as an asset or part of an asset. The book value is adjusted for depreciation on a systematic basis, over the useful life.

Capitalized costs for leasehold improvements are attributed to the category of the assets they refer to and are depreciated over the shorter of either the remaining duration of the rental contract or the remaining useful lifetime of the assets improved.

When circumstances indicate that there may be a permanent impairment in value, an estimate is made of the recoverable amount of the asset, and any loss is recorded in the income statement. When the reasons for the previously recognized impairment no longer exist, the book value of the asset is restated through profit or loss, up to the value at which the asset would have been recognized in the absence of impairment and net of amortization.

Assets held through finance lease contracts, where the majority of the risks and benefits related to the ownership of an asset have been transferred to the Group, are recognized as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments. The corresponding liability due to the lessor is recorded on the financial statements under financial debts. The assets are depreciated by applying the criteria and rates indicated below.

The leased assets where the lessor bears the majority of the risks and benefits related to an asset are recorded as operating leases. The costs relating to operating leases are recorded on a straight-line basis in the income statement over the duration of the lease contract.

Depreciation is calculated on a straight-line basis over the estimated useful lifetime of the asset, in accordance with the following depreciation rates:

<b>Category</b>	<b>Useful lifetime in years</b>
Buildings	15-40
Plant, machinery and equipment	3-15
Furniture, office equipment and vehicles	3-8

Land is not depreciated.

When the asset to be depreciated is composed of separately identifiable elements whose useful lifetime differs significantly from that of the other parts of the asset, the depreciation is made separately for each part of the asset, with the application of the "component approach" principle.

The remaining value of the assets and their useful lifetime are reviewed at the end of each financial year. The capital gains or losses from the sale of the fixed assets are posted to the income statement and valued as the difference between the sale proceeds and the net book value.

## 2.7 Intangible assets

Intangible assets consist of clearly identifiable non-monetary assets, without any physical substance and capable of generating future economic benefits. These assets are recognized at purchase and/or production cost, including the costs of bringing the asset to its current use, net of accumulated amortization and any impairment. Amortization begins when the asset is available for use and is allocated in equal instalments over the course of its useful life.

When circumstances indicate that there may be an impairment loss, an estimate is made of the recoverable amount of the asset, and any impairment is recognized through the income statement. When the reasons for the previously recognized impairment no longer exist, the book value of the asset is restated through the income statement, up to the value at which the asset would have been recognized in the absence of impairment and net of amortization.

### Goodwill

Goodwill is measured as the excess of the aggregate of the consideration transferred in the business combination, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain. Non-controlling interest is initially measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. The selection of the measurement method is made on a transaction-by-transaction basis. Goodwill is not amortised but is tested for impairment at least once a year or whenever there are any impairment signs. After initial recognition, goodwill is valued at cost, net of any accumulated impairment.

When a company or a business unit previously purchased is sold and that acquisition led to goodwill, in measuring the gain or loss on the sale, consideration is given to the corresponding residual value of goodwill.

Goodwill and fair value adjustments generated from the acquisition of a foreign company are recorded in the relative foreign currencies and are converted at the exchange rate at the end of the period.

## Brands

Trademarks are recorded at cost. They have a definite useful lifetime and are recorded at cost net of any accumulated amortization. Amortization is calculated on a straight-line basis allocating the cost of trademarks over the relative useful lifetime.

## Software

All software licenses purchased are capitalized on the basis of the costs incurred for their acquisition and in bringing them to their current condition. Amortization is calculated on a straight-line basis over their estimated useful lifetime (from 3 to 5 years).

The costs associated with the development and maintenance of software programs are posted to the income statement of the period in which they were incurred. The costs directly associated with the production of unique and identifiable software products controlled by the Group are recorded as intangible fixed assets on the balance sheet only if the following conditions are respected: the costs can be reliably calculated, the Group has the technical and financial resources to complete the products and intends to conclude such activities, the technical feasibility of the products is guaranteed and the use of the products will generate probable future economic benefits for more than one year. Direct costs include costs relating to employees developing the software as well as any appropriate share of general costs.

## 2.8 Impairment of non-financial assets

Assets with an indefinite useful life are not subject to amortization but undergo an impairment test at least on an annual basis to control whether their book value has been reduced.

Assets subject to amortization undergo impairment tests when events or circumstances arise that indicate that the book value cannot be recovered. In both cases any loss in value is posted for the share of book value exceeding the recoverable value. This value is the higher of either the fair value of the asset net of the costs for sale or its value for use. If the value for use of an asset cannot be established individually, the recoverable value of the unit that generates cash flows (so-called "cash generating units" or CGU) to which the asset belongs must be established. Assets are grouped at the level of the cash generating units (CGU) making them coincide with the Business Units, on the basis of geographical aggregations that are the base for interpreting the Group performance. The Group then discounts to present value the future estimated cash flows generated by these CGUs by applying a discount rate that reflects the current time value of money and the specific risks associated with the business.

When a loss on an asset, other than goodwill, no longer exists or is reduced, the book value of the asset or cash-generating unit is increased to the new estimated recoverable value, which cannot exceed the value that would have been established if there had been no loss due to reduction in value.

A reversal of loss in value is calculated according to the revaluation model and recorded in the income statement in accordance with the provisions of IAS 16.

## 2.9 Financial instruments

The classification of financial instruments depends on the purpose for which the financial instrument was acquired. The management determines the classification of its financial instruments on the initial recognition in the financial statements. The purchase and sale of financial instruments are recognized at the transaction date or at the date when the Group undertakes the commitment to purchase or sell the asset. All financial instruments are initially recognized at fair value.

### Financial assets

Financial assets are classified according to the following categories:

- Financial assets at fair value through profit or loss: this category includes financial assets acquired primarily for sale in the short-term or those designated as such by the management, in addition to derivative instruments that are not designated as hedges (in relation to the treatment of derivatives, reference should be made to the following paragraph). Fair value variations of the instruments belonging to this category are recognized in the income statement. Financial instruments of this category are classified in the short-term if they are "held for trading" or if it is expected that they will be sold within twelve months from the balance sheet date. The only financial assets of this category held by the Group and recorded on the financial statements are derivative financial instruments.

- **Loans and receivables:** these are non-derivative financial instruments, with fixed or determinable payments, not quoted on an active market. They are recorded as current assets with the exception of those amounts due beyond twelve months from the balance sheet date. The latter are classified as non-current assets. These assets are measured at amortized cost on the basis of the “effective interest rate” method. Any loss in value determined through an impairment test is recognized in the income statement. In particular, trade receivables are initially recognized in the financial statements at their current value and subsequently recorded under the amortized cost method less any write-downs for loss in value. An allowance for doubtful accounts is set-up when there is evidence that the Group will not be capable of receiving the original amount due. The provisions allocated for doubtful accounts are recorded in the income statement.
- **Investments held to maturity:** these are non-derivative financial instruments with fixed or determinable payments, with a fixed maturity date, that the Group has the intention and the means to maintain until maturity. Receivables and investments held until maturity are assessed according to the “amortized cost” method using the effective interest rate, net of any write-downs for loss in value. The Group did not hold any investments of this kind during the financial period covered by these financial statements.
- **Available-for-sale financial assets:** these are non-derivative financial instruments that are expressly designated to this category or are not classified in any of the previous categories. They are measured at fair value, determined with reference to market prices at the balance sheet date or through financial measurement techniques or models, recording changes in value in an equity reserve. This reserve is recognized in the income statement only when the financial asset is sold, or in the case of negative cumulative variations, when it is considered that the reduction in value already recorded under equity cannot be recovered. Classification as a current or non-current asset depends on the intentions of the management and on the real liquidity of the security; they are recorded under current assets when they are expected to be realized within twelve months.

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

Financial assets are removed from the balance sheet when the right to receive cash flows from the instrument ceases and the Group has transferred all risks and benefits relating to the instrument.

## Borrowings

Borrowings are initially recognized at fair value less any transaction costs. After initial recognition, they are recognized at amortized cost; all differences between the amount financed (net of initial transaction costs) and the face value are recognized in profit or loss over the duration of the loan using the effective interest method. If there is a significant variation in the expected cash flow that can be reliably estimated by management, the value of the loans is recalculated to reflect the expected change in the cash flow. The value of the loans is recalculated on the basis of the discounted value of the new expected cash flow and the internal rate of return.

Convertible bonds are accounted for as a compound financial instrument made of two components, which are treated separately only if relevant: a liability and a conversion option. The liability is the present value of the future cash flows, based on the market interest rate at the time of issue for an equivalent non-convertible bond. The amount of the option is defined as the difference between the net proceeds and the amount of the liability component and included in equity. The value of the conversion option is not changed in subsequent periods. The conversion features of the equity-linked bond issued during 2014 do not meet equity classification. Upon exercise of a conversion right the company is entitled to deliver shares, or pay an amount of money or deliver a combination of shares and cash. Therefore, the option is accounted for as an embedded derivative liability, measured at fair value through profit or loss, while the debt host loan is carried at amortized cost as stated above.

Borrowings are classified under current liabilities unless the company has an unconditional right to defer the payment for at least twelve months after the balance sheet date, and are removed from the balance sheet when they expire and the Group has transferred all risks and obligations relating to the instrument.

## Derivative instruments

In accordance with the provisions of IAS 39 as approved by the European Commission, the derivative financial instruments used by the Group with the intention of hedging in order to reduce the foreign currency and interest rate risks, can be recorded according to the "hedge accounting" methodology only when:

- a formal designation and documentation relating to the hedge exists at the beginning of the hedge;
- it is presumed that the hedge is highly effective;
- the effectiveness can be reliably measured and the hedge is highly effective over the different financial periods for which it was designated.

All derivative financial instruments are measured at fair value, in accordance with IAS 39. When the financial instruments possess the characteristics required to be recorded according to the hedge accounting, the following accounting procedures are applied:

- *Fair value hedge* – if a derivative financial instrument is designated as a hedge for the exposure of changes in the current value of an asset or liability on the financial statements attributable to a specific risk that can determine effects on the income statement, the profit or loss after the initial valuation of the fair value of the hedge instruments is recognized in the income statement. The profit or loss on the hedged item, related to the hedged risk, changes the book value of that item and is recognized on the income statement.
- *Cash flow hedge* – if a derivative financial instrument is designated as a hedge for the exposure of changes in the cash flows of an asset or liability recorded on the financial statements or of an operation considered highly probable and which may have effects on the income statement, the effective portion of the profits or losses of the financial instrument is recognized in an equity reserve. The cumulative profits or losses are reversed from equity and recorded in the income statement in the same period as the operation that is hedged. The profits or losses associated with a hedge or with that part of the hedge that has become ineffective, are immediately recorded in the income statement. If a hedge instrument or a relation of a hedge is closed, but the hedged operation has not yet been realized, the cumulative profits and losses, up to that moment recorded in equity, are recognized in the income statement when the relative operation is realized. If the operation hedged is no longer considered probable, the profits or losses not yet realized in equity are recognized immediately in the income statement.

If hedge accounting cannot be applied, the profits or losses deriving from the fair value of the derivative financial instruments are immediately recognized in the income statement.

## 2.10 Inventory

Inventories are measured at the lower of either the purchase or production cost or the net realisable value. The cost of raw materials and purchased finished products is calculated using the “weighted average cost” method or the standard cost where it approximates actual cost. The cost of semi-finished products and internally produced finished products includes raw material, direct labour costs and the indirect costs allocated based on normal production capacity.

The net realizable value is determined on the basis of the estimated selling price under normal market conditions, net of direct sales costs.

Against the value of stock as determined above, provisions are made in order to take account of obsolete or slow moving stock.

## 2.11 Trade receivables

Trade receivables are initially classified on the financial statements at their current value and subsequently recalculated with the "amortised cost" method, net of any write-downs for loss in value. A provision for doubtful accounts is allocated when there is evidence that the Group will not succeed in collecting the original amount due. The provisions allocated for doubtful accounts are recorded in the income statement.

The Group also transfers trade receivables to factoring companies. In case such receivables represent legally sold credit, that do not comply with all the conditions of paragraphs 17 and following of IAS 39, they are not removed from the balance sheet, but are maintained on the financial statement with a contra entry as a financial debt towards the factoring company.

## 2.12 Cash in hand and at bank

Cash and cash equivalents include cash, bank deposits on demand and other highly liquid short-term investments available within three months from purchase. The items included in the net cash and cash equivalents are measured at fair value and the relative changes are recognized in the income statement. Bank overdrafts are posted under current liabilities.

## 2.13 Employee benefits

### Pension plans

The Group recognises different forms of defined benefit plans and defined contribution plans, in line with the local conditions and practices in the countries in which it carries out its activities. The premiums paid for defined contribution plans are recorded in the income statement for the part matured in the year. The defined benefit plans are based on the working life of the employees and on the remuneration received by the employee during a predetermined period of employment.



The obligation of the company to finance the defined benefit plans and the annual cost recognized in the income statement are determined by independent consultants using the “projected unit credit” method. The related costs are recorded in the income statement on the basis of the estimated employment period of employees. The Group recognises all the actuarial gains and losses in equity, via the consolidated statement of comprehensive income, in the year in which these arise.

The employee severance fund of Italian companies (“TFR”) has always been considered to be a defined benefit plan however, following the changes to the discipline that governs the employment severance fund introduced by Italian law no. 296 of 27<sup>th</sup> December 2006 (“Financial Law 2007”) and subsequent Decrees and Regulations issued in the first months of 2007, Safilo Group, on the basis of the generally agreed interpretations, has decided that:

- the portion of the employee benefit liability accruing from 1<sup>st</sup> January 2007, whether transferred to selected pension funds or transferred to the treasury account established with INPS, must be classified as a “defined contribution plan”;
- the portion of the employee benefit liability accruing as of 31<sup>st</sup> December 2006, must be classified as a “defined benefit plan” requiring actuarial valuations that exclude future increases in salaries.

For an analysis of the accounting effects deriving from this decision, see paragraph 4.18 “Employees benefits”.

### Remuneration plans under the form of share capital participation

The Group recognises additional benefits to some employees through “equity settled” type stock options. In accordance with IFRS 2 - Share-based payments, the current value of the stock options determined at the vesting date through the application of the “Black & Scholes” method is recognized in the income statement under personnel costs in constant quotas over the period between the vesting date of the stock options and the maturity date, counterbalanced by an equity reserve.

The effects of the vesting conditions not related to the market are not taken into consideration in the fair value of the vested options, but are material to measurement of the number of options which are expected to be exercised.

At the balance sheet date the Group revises its estimates on the number of options which are expected to be exercised. The impact of the revision of the original estimates is recognized in profit or loss over the maturity period, with a balance entry in equity reserves.

When the stock option is exercised, the amounts received by the employee, net of the costs directly attributable to the transaction, are credited to share capital for an amount equal to the par value of the issued shares and to the share premium reserve for the remaining part.

## 2.14 Provisions for risks and charges

The Group records provisions for risks and charges when:

- it has a legal or constructive obligation to third parties;
- it is probable that it will be necessary to use resources of the Group to settle the obligation;
- a reliable estimate of the amount can be made;
- changes in estimates are recorded in the income statement of the period in which the changes occur.

## 2.15 Revenue recognition

Revenues include the fair value of the sale of goods and services, less VAT, returns and discounts. In particular, the Group recognises the revenues from the sale of goods sold at the shipment date, when all the risks and rewards relating to the ownership of the goods have been transferred to the client, or on delivery to the client, in accordance with the sales terms agreed. If the sale includes the right for the client to return unsold goods, the revenue is recognized on the date of shipment to the client, net of a provision which represents the best estimate of the products to be returned by the client and which the Group will no longer be able to place on the market. This provision is based on specific historical data and on the specific knowledge of the clients; historically there have not been significant differences between the estimates made and the products actually returned.

This item does not include transportation costs charged to customers who have been classified as a reduction of the respective cost item.

## 2.16 Public contributions

The Group recognises public contributions when there is reasonable certainty that they will be received and that the conditions required for the contribution have been or will be respected.

The contributions received are recorded in the income statement for the time required to relate them to the relative costs and they are considered as deferred income.

## 2.17 Royalties

The Group recognises royalty income and expenses in accordance with the accrual principle and in compliance with the substance of the contracts agreed.

## 2.18 Dividends

Dividends are recorded when the right of the Shareholders to receive the payment arises, which normally occurs when the Shareholders' meeting resolves the distribution of dividends. The distribution of dividends is therefore recorded as a liability on the financial statements in the period in which the distribution is approved by the Shareholders' meeting.

## 2.19 Income taxes

Income taxes include all taxes calculated on the taxable profits of the companies of the Group. Income taxes are recognized on the income statement, with the exception of those relating to accounts that are directly credited or debited to equity, in which case the tax effect is recognized directly in equity. Taxes not related to income (e.g. property taxes) are stated with operating costs.

Income tax expense also includes any provisions to cover risks arising from disputes over taxes inclusive of amounts related to taxes due and any penalties.

Deferred taxes are calculated on fiscal losses that can be carried forward and all the temporary differences between the carrying amount of an asset or liability in the statement of financial position and its tax bases. Deferred tax assets are recognized only for those amounts where it is probable there will be future taxable income allowing for recovery of the amounts.

Current and deferred tax assets and liabilities are offset when the income tax is applied by the same tax authority and when there is a legal right to offsetting. The deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates/laws that have been enacted or substantively enacted by the end of the reporting period in the countries in which the Group operates.

## 2.20 Earnings per share

### Basic

Basic earnings per share are calculated by dividing the profit or loss of the Group by the weighted average number of ordinary shares outstanding during the year.

### Diluted

In order to calculate the diluted earnings per share, the weighted average number of shares outstanding is adjusted for the dilution potential on ordinary shares (e.g. for stock options and convertible bonds), while the profit or loss of the Group is adjusted to take into account the effects, net of income taxes, of the conversion.

## 2.21 Use of estimates

The preparation of the consolidated financial statements requires the Directors to apply accounting standards and methods that, in some circumstances, are based on difficult and subjective valuations and estimates based on past experience and assumptions which are from time to time considered reasonable and realistic according to the relative circumstances. The application of these estimates and assumptions affects the amounts posted in the financial statements, such as the balance sheet, the income statement, the cash flow statement and the notes thereto. Actual results of the balances on the financial statements, resulting from the above-mentioned estimates and assumptions, may differ from those reported on the financial statements due to the uncertainty which characterizes the assumptions and the conditions on which the estimates are based. The accounting standards that are more subject to the directors' estimates and for which a change in the underlying conditions or the assumptions may have a significant impact on the consolidated financial statements of the Group are described briefly below.

- *Goodwill*: in accordance with the accounting standards adopted for the preparation of the financial statements, the company tests goodwill at least once a year in order to ascertain the existence of any loss in value to be recorded in the income statement. In particular, the test results in the determination of the fair value allocated to the cash-generating units. This value is determined according to their current value in use. The assessment process of the impairment test is complex and is based on assumptions concerning, among other things, the forecast of expected cash flows of the CGUs, the determination of appropriate discounting rates (WACC) and long-term growth (g -rate). These estimates depend on factors that may change over time with consequent effects, which may be significant, compared to the Directors' assessments.

- *Write-down of fixed assets*: in accordance with the accounting standards applied by the Group, the fixed assets are verified to ascertain if there has been a loss in value which is recorded by means of a write-down, when it is considered there will be difficulty in recovering the relative net book value through use. The verification of the existence of such difficulty requires the Directors to make valuations based on the information available within the Group and from the market, as well as historical experience. In addition, when it is deemed that there may be a potential loss in value, the Group determines this using the most appropriate technical valuation methods available. Proper identification of the indicators of contingent impairment as well as the estimates used to determine them depend on factors which may vary over time, influencing the Directors' measurements and estimates.
- *Allowance for bad or doubtful debts*: the allowance for bad or doubtful debts reflects the management's best estimate regarding losses concerning the credit portfolio towards the final client. This estimate is based on the losses expected by the Group, determined on the basis of past experience for similar credits, current and historic overdue, careful monitoring of credit quality and projections regarding the economic and market conditions.
- *Allowance for inventory obsolescence*: the Group produces and sells goods subject to changes in market trends and consumer demand, consequently a significant level of judgment is required in determining the appropriate write-down of inventories based on sales forecasts. The inventory of finished products which are obsolescent or slow moving are regularly subjected to specific assessment tests, which take into consideration past experience, historic results and the probability of sale under normal market conditions. If the need to reduce the value of the stock should arise following these analyses, management proceeds with the appropriate write-downs.
- *Product warranty provision*: when a product is sold, the Group estimates the relative costs of performing work under guarantee and allocates a provision on the basis of historic information and a series of statistical data regarding the nature, frequency and the average cost of such work. The Group operates constantly to minimize the costs of work performed under guarantee and to improve the quality of its products.
- *(Contingent) liabilities*: the Group is subject to legal and tax actions regarding different types of problems; due to uncertainties relating to proceedings and the complexity of such proceedings, the management consults its lawyers, and other legal and fiscal experts, and when expenditure is considered probable and the amount can be reasonably estimated, adequate funds are allocated.

- *Pension plans*: the companies of the Group participate in pension plans, the costs of which are calculated by the management, with the assistance of the Group's actuarial consultants, on the basis of statistical assumptions and assessment factors regarding in particular the discount rate to be used, relative mortality and resignation rates.
- *Deferred taxes*: deferred tax assets are accounted for on the basis of the expectations of future taxable income. The assessment of the recoverability of deferred tax assets derives from specific assumptions about the probability that taxable income will be realized in future years and that these are sufficient to allow the recovery of deferred tax assets. These valuations are based on assumptions that may not even be realized, or are realized to an insufficient extent compared to what is necessary to fully recover the deferred tax assets recorded in the financial statements, and therefore their variation could have significant effects on the valuation of deferred tax assets.

## 2.22 Fair value estimates

The fair value of the financial instruments traded on an active market is based on the listed price at the balance sheet date.

The fair value of the financial instruments not traded on an active market is calculated in accordance with valuation techniques, by applying models and techniques that are widely used in financial sectors and in particular:

- the fair value of the interest rate swaps is calculated on the basis of the current value of future cash flows;
- the fair value of the forward currency hedging contracts is determined on the basis of the current value of the differences between the contracted forward exchange rate and the spot market rate at the balance sheet date;
- the fair value of stock options is calculated using the Black & Scholes model.

## 3. RISK MANAGEMENT

The operations of the Safilo Group are subject to various financial risks, in particular:

- credit risks, relative to normal business relations with clients and to financial assets in the financial statements;
- market risks (mainly interest and exchange rate risks), since the Group operates internationally and uses financial instruments that generate interests;
- cash flow risks, with particular regard to the ability to promptly find resources on financial markets under normal market conditions when needed.

The Group constantly monitors the financial risks to which it is exposed, in order to assess potentially negative effects in advance and to take appropriate corrective measures with the aim of eliminating or, at the least, limiting the negative effects deriving from the risks in question.

The risks to which the Group is exposed are managed centrally on the basis of hedging policies that may also include the use of derivative instruments with the aim of minimizing the effects deriving from exchange rate (especially in relation to the US dollar) and interest rate fluctuations.

### Credit risks

The Group strives to reduce risk deriving from the insolvency of its customers through rules ensuring that sales are made to reliable and solvent customers. The relative assessment is based on information regarding the solvency of customers and statistical historical data. However, the credit risk is mitigated by the fact that credit exposure is spread over a very large number of clients.

Positions of a significant amount for which the Group recognizes that total or partial recovery will be effectively impossible, also taking into account any guarantees obtained, as well as the charges and expenses that will have to be sustained for the attempted credit recovery, are subject to individual write-down.

The Group's theoretical maximum exposure to the credit risk at the date of the balance sheet is represented by the book value of the financial assets.

As required by IFRS 7, paragraph 36, the table below analyses the age of receivables as of 31<sup>st</sup> December 2017 and 31<sup>st</sup> December 2016:

(thousands of Euro)	December 31, 2017		December 31, 2016	
Ageing of trade receivables	Nominal value trade receivables	Allowance for bad and doubtful debts	Nominal value trade receivables	Allowance for bad and doubtful debts
<b>Overdue and impaired</b>				
up to 3 months	2,141	(1,040)	1,559	(1,559)
3 to 6 months	1,294	(1,275)	1,343	(1,016)
6 to 9 months	358	(314)	1,743	(1,710)
from 9 to 12 months	945	(933)	1,881	(1,337)
from 12 to 24 months	2,220	(2,220)	3,642	(3,566)
over 24 months	9,149	(9,149)	10,401	(10,401)
<b>Total</b>	<b>16,106</b>	<b>(14,931)</b>	<b>20,569</b>	<b>(19,589)</b>
<b>Overdue and not impaired</b>				
up to 3 months	30,537		28,925	
3 to 6 months	5,497		5,457	
6 to 9 months	1,402		2,105	
from 9 to 12 months	1,654		1,115	
from 12 to 24 months	93		2,404	
over 24 months	513		445	
<b>Total</b>	<b>39,696</b>		<b>40,450</b>	
Neither overdue nor impaired	145,919		205,810	
<b>Grand total</b>	<b>201,722</b>	<b>(14,931)</b>	<b>266,829</b>	<b>(19,589)</b>

The above table is based on the ageing and refers to trade receivables gross of any credit notes and documents still not issued to customers as they have not been yet specifically allocated to the ageing. These amounts substantially reduce the credit risk not covered by the allowance for bad and doubtful debts.

At 31<sup>st</sup> December 2017 past due receivables for which no allowance for bad debts was made, as the Group considered them fully collectible, amounted to 39,696 thousand Euro (compared to 40,450 thousand Euro at 31<sup>st</sup> December 2016). Of these, receivables that were more than 12 months past due amounted to 606 thousand Euro (compared to 2,849 thousand Euro at 31<sup>st</sup> December 2016) but accounted for 0.3% of the Group's total trade receivable compared to 1.1% in the previous year.



## Market risks

Market risks can be divided into the following categories:

### Exchange rate risk

The Group operates internationally and is therefore exposed to risks deriving from variations in exchange rates that may influence the value of its shareholders' equity and financial results.

In particular, the Group is exposed to risks regarding the exchange rate between the Euro and the US Dollar, since some of the companies of the Group usually sell goods on the North American market and on other markets where the US dollar is the main currency used for business.

The Group tries to reduce the effects deriving from fluctuations in the US currency by getting its supplies from local suppliers in areas where purchases are made in American dollars and thus implementing a sort of "natural hedging". The remaining exposure can be hedged with currency forward contracts ("plain vanilla") always expiring in less than 12 months.

As far as sensitivity analysis is concerned, an increase or decrease of 10% of Euro against the US Dollar and the Hong Kong Dollar would result respectively in a decrease or an increase of the 2017 net sales of around 39,900 thousand Euro (around 48,600 thousand Euro in 2016) and in a decrease or an increase of the net profit of the Group of around 1,100 thousand Euro (around 2,100 thousand Euro in 2016).

Furthermore, the Group owns shareholdings in subsidiaries located in areas outside the European Monetary Union, the variations in the net assets, deriving from fluctuations in the exchange rates of the local currency against the Euro, are recorded in a reserve of the consolidated shareholders' equity named "translation reserve".

The table below summarizes the net financial assets of the Group per foreign currency at 31<sup>st</sup> December 2017 and 31<sup>st</sup> December 2016:

(thousands of Euro)	December 31, 2017	December 31, 2016
USD	336,449	498,576
HKD	77,790	127,387
CNY	61,755	69,179
GBP	12,609	23,129
CAD	16,986	33,426
CHF	10,579	25,063
BRL	15,090	15,025
Other currencies	9,784	27,055
<b>Total</b>	<b>541,042</b>	<b>818,840</b>

In terms of translation risk related to the conversion of the equity of the companies in foreign currencies other than the Euro, the sensitivity analysis shows that a possible revaluation or devaluation of 10% of Euro against those currencies, would respectively cause a decrease or increase in Group net equity of about 44,800 thousand Euro (about 70,700 thousand Euro in 2016).

The table below summarizes the financial assets and liabilities of the Group per currency at 31<sup>st</sup> December 2017 and 31<sup>st</sup> December 2016:

(thousands of Euro)	December 31, 2017			
	Euro	US Dollar	Other currencies	Total
Cash in hand and at bank	4,818	46,796	24,637	76,251
Trade receivables, net	62,265	19,551	96,929	178,745
Derivative financial instruments	-	(424)	566	142
Other current assets	61,993	16,288	13,478	91,759
<b>Total current financial assets</b>	<b>129,076</b>	<b>82,211</b>	<b>135,610</b>	<b>346,897</b>
Derivative financial instruments	-	-	-	-
Other non-current assets	3,483	1,342	7,397	12,222
<b>Total non-current financial assets</b>	<b>3,483</b>	<b>1,342</b>	<b>7,397</b>	<b>12,222</b>
Trade payables	136,170	35,959	32,768	204,897
Short-term borrowings	65,408	-	1	65,409
Derivative financial instruments	760	1,852	(556)	2,056
Tax payables and other current liabilities	84,555	12,166	15,990	112,711
<b>Total current financial liabilities</b>	<b>286,893</b>	<b>49,977</b>	<b>48,203</b>	<b>385,073</b>
Long-term borrowings	142,491	-	-	142,491
Derivative financial instruments	-	-	-	-
Other non-current liabilities	908	4,565	369	5,842
<b>Total non-current financial liabilities</b>	<b>143,399</b>	<b>4,565</b>	<b>369</b>	<b>148,333</b>

(thousands of Euro)	December 31, 2016			
	Euro	US Dollar	Other currencies	Total
Cash in hand and at bank	14,421	67,288	27,329	109,038
Trade receivables, net	104,061	65,609	67,737	237,407
Derivative financial instruments	-	50	1,947	1,997
Other current assets	28,272	18,292	14,264	60,828
<b>Total current financial assets</b>	<b>146,754</b>	<b>151,239</b>	<b>111,277</b>	<b>409,270</b>
Derivative financial instruments	-	-	-	-
Other non-current assets	33,493	1,506	1,701	36,700
<b>Total non-current financial assets</b>	<b>33,493</b>	<b>1,506</b>	<b>1,701</b>	<b>36,700</b>
Trade payables	147,655	75,245	25,592	248,492
Short-term borrowings	20,013	-	-	20,013
Derivative financial instruments	-	1,600	24	1,624
Tax payables and other current liabilities	83,976	7,799	18,819	110,594
<b>Total current financial liabilities</b>	<b>251,644</b>	<b>84,644</b>	<b>44,435</b>	<b>380,723</b>
Long-term borrowings	137,393	-	-	137,393
Derivative financial instruments	484	-	-	484
Other non-current liabilities	40,102	5,090	391	45,583
<b>Total non-current financial liabilities</b>	<b>177,979</b>	<b>5,090</b>	<b>391</b>	<b>183,460</b>

### Changes in fair value risk

The Group holds some assets that are subject to variations in value over time according to the variations of the market on which they are traded.

With regard to trade payables and receivables and other current and non-current assets, it is assumed that their book value is approximately equal to their fair value.

With reference to the Equity-Linked Bond issued in 2014, given the presence of a "cash settlement option", the conversion option component represents an embedded derivative financial instrument booked in the corresponding balance sheet item under liabilities. The fair value changes of this instrument are subject to the market performance of Safilo stock, and immediately charged to income statement in the financial income (expenses).

### Interest rate risk

Borrowing from banks exposes the Group to the risk of variations in the interest rates. In particular, floating-rate borrowings are subject to a cash flow risk.

At 31<sup>st</sup> December 2017 the floating-rate portion of the Group's total borrowings not subject to hedging amounted to 65,409 thousand Euro (accounting for 31.46% of total debt) compared to 20,013 thousand Euro in the previous year (accounting for 12.71% of total debt).

The Group monitors constantly its exposure to changes in interest rates, and may choose to manage this risk through interest rate swaps (IRSs). The interest rate swap contracts are stipulated with primary financial institutions and, at the beginning of the hedge, the formal designation is made and the documentation relating to the hedge is prepared.

The table below summarizes the interest repricing calendar for the interest-bearing loans, floating and fixed loans, at 31<sup>st</sup> December 2017 and 31<sup>st</sup> December 2016:

#### December 31, 2017

(thousands of Euro)

	Floating	Fixed	Total
within 1 year	65,409	-	65,409
between 1 and 2 years	-	142,491	142,491
between 3 and 5 years	-	-	-
<b>Total</b>	<b>65,409</b>	<b>142,491</b>	<b>207,900</b>

#### December 31, 2016

(thousands of Euro)

	Floating	Fixed	Total
within 1 year	20,013	-	20,013
between 1 and 2 years	-	-	-
between 3 and 5 years	-	137,393	137,393
<b>Total</b>	<b>20,013</b>	<b>137,393</b>	<b>157,406</b>

The floating interest-bearing loans on December 31, 2017 are not covered by interest rate swap contracts.

The following table summarizes the main characteristics of the most significant variable and fixed rate medium and long term borrowings outstanding at 31<sup>st</sup> December 2017 and 31<sup>st</sup> December 2016:

#### December 31, 2017

(thousands of Euro)

	Currency	Nominal interest rate	Internal interest rate	Book value	Expiry
Convertible Bonds Equity Linked	EURO	1.25%	5.101%	142,491	22/05/2019
Revolving facility	EURO	Euribor	-	-	July 2018

**December 31, 2016**

(thousands of Euro)

	<b>Currency</b>	<b>Nominal interest rate</b>	<b>Internal interest rate</b>	<b>Book value</b>	<b>Expiry</b>
Convertible Bonds Equity Linked	<i>EURO</i>	1.25%	5.101%	137,393	22/05/2019
Revolving facility	<i>EURO</i>	Euribor	-	-	July 2018

As far as sensitivity analysis is concerned, a positive (negative) variation of 50 bps in the level of the short-term interest rates applied to the variable rate financial liabilities not subject to hedging would have represented a greater (lower) annual financial charge, on a pre-tax basis, of around 376 thousand Euro (271 thousand Euro at 31<sup>st</sup> December 2016).

**Liquidity risk**

This risk could generate the inability to find the necessary financial resources to support the operating activities at favorable market terms within the necessary timeframe. The Group companies' cash flows, borrowing requirements and liquidity are monitored constantly at central level by the Group's treasury to ensure an effective and efficient use of the cash available.

The following table details the lines of credits granted to the Group, the uses and the lines of credit available, net of factoring and leasing transactions:

**December 31, 2017**

(thousands of Euro)

	<b>Credit lines granted</b>	<b>Uses</b>	<b>Credit lines available</b>
Credit lines on bank accounts and short-term bank loans	137,610	55,407	82,203
Credit lines on long-term loans	150,000	-	150,000
<b>Total</b>	<b>287,610</b>	<b>55,407</b>	<b>232,203</b>

**December 31, 2016**

(thousands of Euro)

	<b>Credit lines granted</b>	<b>Uses</b>	<b>Credit lines available</b>
Credit lines on bank accounts and short-term bank loans	145,718	10,000	135,718
Credit lines on long-term loans	150,000	-	150,000
<b>Total</b>	<b>295,718</b>	<b>10,000</b>	<b>285,718</b>

The credit lines available on long-term loans are related to a committed revolving financing called “Revolving Credit Facility”, underwritten by Intesa San Paolo, Unicredit and BNP Paribas, totalling a maximum of 150,000 thousand Euro, expiring on July 2018, not used at December 31, 2017.

The table below summarizes the financial assets and liabilities of the Group by maturity, undiscounted and inclusive of the interest payments, at 31<sup>st</sup> December 2017 and 31<sup>st</sup> December 2016:

(thousands of Euro)	December 31, 2017				Total
	within 1 year	between 1 and 2 years	between 3 and 5 years	beyond 5 years	
Cash in hand and at bank	76,251	-	-	-	76,251
Trade receivables, net	178,745	-	-	-	178,745
Derivative financial instruments	142	-	-	-	142
<i>of which Interest Rate Swaps</i>	-	-	-	-	-
Other current assets	91,759	-	-	-	91,759
Other non-current assets	-	4,943	564	6,715	12,222
<b>Total financial assets</b>	<b>346,897</b>	<b>4,943</b>	<b>564</b>	<b>6,715</b>	<b>359,119</b>
Trade payables	204,897	-	-	-	204,897
Tax payables	17,218	-	-	-	17,218
Borrowings	65,409	142,491	-	-	207,900
Interest payments	1,875	938	-	-	2,813
Derivative financial instruments	2,056	-	-	-	2,056
<i>of which Interest Rate Swaps</i>	-	-	-	-	-
Other current liabilities	95,493	-	-	-	95,493
Other non-current liabilities	-	1,928	1,688	2,226	5,842
<b>Total financial liabilities</b>	<b>386,948</b>	<b>145,357</b>	<b>1,688</b>	<b>2,226</b>	<b>536,219</b>

(thousands of Euro)	December 31, 2016				Total
	within 1 year	between 1 and 2 years	between 3 and 5 years	beyond 5 years	
Cash in hand and at bank	109,038	-	-	-	109,038
Trade receivables, net	237,407	-	-	-	237,407
Derivative financial instruments	1,997	-	-	-	1,997
<i>of which Interest Rate Swaps</i>	-	-	-	-	-
Other current assets	60,828	-	-	-	60,828
Other non-current assets	-	35,602	180	918	36,700
<b>Total financial assets</b>	<b>409,270</b>	<b>35,602</b>	<b>180</b>	<b>918</b>	<b>445,970</b>
Trade payables	248,492	-	-	-	248,492
Tax payables	18,627	-	-	-	18,627
Borrowings	20,013	-	137,393	-	157,406
Interest payments	1,875	1,875	938	-	4,688
Derivative financial instruments	1,624	-	484	-	2,108
<i>of which Interest Rate Swaps</i>	-	-	-	-	-
Other current liabilities	91,967	-	-	-	91,967
Other non-current liabilities	-	41,915	1,763	1,905	45,583
<b>Total financial liabilities</b>	<b>382,598</b>	<b>43,790</b>	<b>140,578</b>	<b>1,905</b>	<b>568,871</b>

The table below summarizes the gross derivative financial instruments outflow and inflow by maturity, relating to forward agreements to purchase foreign currencies at 31<sup>st</sup> December 2017 and 31<sup>st</sup> December 2016:

#### December 31, 2017

(thousands of Euro)	within 1 year	between 1 and 2 years	between 3 and 5 years	beyond 5 years
Gross derivative financial instruments outflow	(155,643)	-	-	-
Gross derivative financial instruments inflow	153,809	-	-	-
<b>Total undiscounted gross settled derivatives</b>	<b>(1,834)</b>	<b>-</b>	<b>-</b>	<b>-</b>

#### December 31, 2016

(thousands of Euro)	within 1 year	between 1 and 2 years	between 3 and 5 years	beyond 5 years
Gross derivative financial instruments outflow	(161,298)	-	-	-
Gross derivative financial instruments inflow	161,406	-	-	-
<b>Total undiscounted gross settled derivatives</b>	<b>108</b>	<b>-</b>	<b>-</b>	<b>-</b>

## Classification of financial instruments

The table below shows the financial instruments reported on the balance sheet, according to the analyses requested by IFRS 7, with indication of the valuation criteria applied and, in the case of “financial instruments measured at fair value”, the impact on the income statement or the shareholders’ equity. If applicable, the last column of the table shows the fair value of the financial instrument.

Financial instruments (thousands of Euro)	Financial instruments at fair value through		Financial instruments at amortised cost	Investments and non-listed financial assets at cost	Current value at December 31, 2017	Fair value at December 31, 2017
	Income Statement	Equity				
<b>ASSETS</b>						
Cash in hand and at bank	-	-	76,251	-	76,251	76,251
Trade receivables, net	-	-	178,745	-	178,745	178,745
Derivative financial instruments	142	-	-	-	142	142
Financial assets available for sale	-	-	-	-	-	-
Other current assets	-	-	91,759	-	91,759	91,759
Other non-current assets	-	-	12,222	-	12,222	12,222
<b>Total assets</b>	<b>142</b>	<b>-</b>	<b>358,977</b>	<b>-</b>	<b>359,119</b>	<b>359,119</b>
<b>LIABILITIES</b>						
Short-term and long-term borrowings	-	-	207,900	-	207,900	203,246
Derivative financial instruments	2,002	54	-	-	2,056	2,056
Other current liabilities	-	-	95,493	-	95,493	95,493
Other non-current liabilities	-	-	5,842	-	5,842	5,842
<b>Total liabilities</b>	<b>2,002</b>	<b>54</b>	<b>309,235</b>	<b>-</b>	<b>311,291</b>	<b>306,636</b>

Financial instruments (thousands of Euro)	Financial instruments at fair value through		Financial instruments at amortised cost	Investments and non-listed financial assets at cost	Current value at December 31, 2016	Fair value at December 31, 2016
	Income Statement	Equity				
<b>ASSETS</b>						
Cash in hand and at bank	-	-	109,038	-	109,038	109,038
Trade receivables, net	-	-	237,407	-	237,407	237,407
Derivative financial instruments	1,997	-	-	-	1,997	1,997
Financial assets available for sale	-	-	-	-	-	-
Other current assets	-	-	60,828	-	60,828	60,828
Other non-current assets	-	-	36,700	-	36,700	36,700
<b>Total assets</b>	<b>1,997</b>	<b>-</b>	<b>443,973</b>	<b>-</b>	<b>445,970</b>	<b>445,970</b>
<b>LIABILITIES</b>						
Short-term and long-term borrowings	-	-	157,406	-	157,406	149,809
Derivative financial instruments	2,108	-	-	-	2,108	2,108
Other current liabilities	-	-	91,967	-	91,967	91,967
Other non-current liabilities	-	-	45,583	-	45,583	45,583
<b>Total liabilities</b>	<b>2,108</b>	<b>-</b>	<b>294,956</b>	<b>-</b>	<b>297,064</b>	<b>289,467</b>



The technique used to measure the fair value of the “short term and long term borrowings” provides that the contractual cash flows are discounted at a risk-adjusted discount rate that takes into account the market conditions observed at the measurement date. This technique is within level 2 of the fair value hierarchy.

### Hierarchical levels of the fair value measurement

Financial instruments reported in the balance sheet valued at the fair value, according to IFRS 13, are classified in the three-level hierarchy that reflects the significance of the input used in determining the fair value. The three levels of fair value of the hierarchy are:

Level 1 – if the instrument is quoted in an active market;

Level 2 - if the fair value is measured based on valuation techniques for which all significant inputs are based on observable market data, other than quotations of the financial instrument;

Level 3 – if the fair value is calculated based on valuation techniques for which any significant input is not based on observable market data.

The following table shows the liabilities and assets valued at their fair value at 31<sup>st</sup> December 2017, split by hierarchical level of the fair value.

(thousands of Euro)	Level 1	Level 2	Level 3	Total
Derivative financial instruments	-	142	-	142
<b>Total assets</b>	-	<b>142</b>	-	<b>142</b>
Derivative financial instruments	-	(2,056)	-	(2,056)
<b>Total liabilities</b>	-	<b>(2,056)</b>	-	<b>(2,056)</b>

In 2017 there have been no transfers from level 1 to level 2 and from level 2 to level 3 and vice versa.

## 4. NOTES TO THE CONSOLIDATED BALANCE SHEET

### 4.1 Cash and cash equivalents

This account totals Euro 76,251 thousand, compared to Euro 109,038 thousand at 31<sup>st</sup> December 2016 and represents the momentary availability of cash invested at market rates. The book value of the available liquidity is aligned with its fair value at the reporting date and the related credit risk is very limited as the counterparts are primary banks.

The following table shows the reconciliation of the item "Cash and cash equivalents" with the cash balance presented in the cash flow statement:

(thousands of Euro)	December 31, 2017	December 31, 2016
Cash and cash equivalents	76,251	109,038
Bank overdrafts	(1,408)	(13)
Current bank borrowings	(54,001)	(10,000)
<b>Net cash and cash equivalents</b>	<b>20,842</b>	<b>99,025</b>

### 4.2 Trade receivables, net

This item breaks down as follows:

(thousands of Euro)	December 31, 2017	December 31, 2016
Gross value receivables	201,722	266,829
Allowance for doubtful accounts and sales returns	(22,977)	(29,422)
<b>Net value</b>	<b>178,745</b>	<b>237,407</b>

The Group has no particular concentration of credit risk, as its credit exposure is spread over a large number of clients. Furthermore the book value of trade receivables is considered to be approximately equal to their *fair value*.

The allowance for doubtful accounts and returns includes:

- provisions for doubtful accounts charged to the income statement under “General and administrative expenses” (note 5.4);
- provisions against the risk of returns of products sold and delivered to customers that, based on the relevant sales contracts, might be returned. This sum is charged to the income statement and is deducted directly from revenues.

The following table shows changes in the above mentioned allowance:

(thousands of Euro)	<b>Balance at January 1, 2017</b>	<b>Posted to income statement</b>	<b>Use (-)</b>	<b>Transl. Diff.</b>	<b>Balance at December 31, 2017</b>
Allowance for bad debts	19,589	4,990	(8,896)	(753)	14,931
Allowance for sales returns	9,833	1,671	(2,773)	(685)	8,046
<b>Total</b>	<b>29,422</b>	<b>6,661</b>	<b>(11,669)</b>	<b>(1,438)</b>	<b>22,977</b>

(thousands of Euro)	<b>Balance at January 1, 2016</b>	<b>Posted to income statement</b>	<b>Use (-)</b>	<b>Transl. Diff.</b>	<b>Balance at December 31, 2016</b>
Allowance for bad debts	23,695	2,181	(6,653)	367	19,589
Allowance for sales returns	12,270	1,041	(3,556)	78	9,833
<b>Total</b>	<b>35,965</b>	<b>3,222</b>	<b>(10,209)</b>	<b>444</b>	<b>29,422</b>

## 4.3 Inventories

This item breaks down as follows:

(thousands of Euro)	December 31, 2017	December 31, 2016
Raw materials	95,695	111,562
Work in progress	5,300	8,212
Finished products	253,550	280,084
<b>Gross</b>	<b>354,546</b>	<b>399,858</b>
Obsolescence provision (-)	(96,828)	(127,043)
<b>Total net</b>	<b>257,717</b>	<b>272,815</b>

Given obsolete and slow-moving items, provisions are made on the basis of factors that reflect the possibility that finished products are sold and that raw materials and semi-finished products are used in production in future. This item is charged to income under "cost of sales".

The movements in the aforementioned provision are shown below:

(thousands of Euro)	Balance at January 1, 2017	Posted to income statement	Transl. Diff.	Balance at December 31, 2017
Inventory gross value	399,858	(24,610)	(20,703)	354,546
Obsolescence provision	(127,043)	25,927	4,287	(96,828)
<b>Total net</b>	<b>272,815</b>	<b>1,318</b>	<b>(16,415)</b>	<b>257,717</b>

(thousands of Euro)	Balance at January 1, 2016	Posted to income statement	Transl. Diff.	Balance at December 31, 2016
Inventory gross value	370,943	28,396	518	399,858
Obsolescence provision	(116,864)	(9,842)	(337)	(127,043)
<b>Total net</b>	<b>254,079</b>	<b>18,554</b>	<b>182</b>	<b>272,815</b>

## 4.4 Derivative financial instruments

The following table summarizes the amount of financial instruments:

(thousands of Euro)	December 31, 2017	December 31, 2016
<b>Current assets:</b>		
- Foreign currency contracts - Fair value through P&L	142	1,997
- Foreign currency contracts - cash flow hedge	-	-
<b>Total</b>	<b>142</b>	<b>1,997</b>

(thousands of Euro)	December 31, 2017	December 31, 2016
<b>Current liabilities:</b>		
- Foreign currency contracts - Fair value through P&L	2,002	1,624
- Foreign currency contracts - cash flow hedge	54	-
<b>Total</b>	<b>2,056</b>	<b>1,624</b>
<b>Non-current liabilities:</b>		
- Fair value cash settlement option convertible Bond	-	484
<b>Total</b>	<b>-</b>	<b>484</b>

The decrease for the portion relating to non-current liabilities is mainly due to the recognition of the component relating to the conversion option embedded in the "equity-linked" Bond issued on 22<sup>nd</sup> May 2014 which, given the presence of a "cash settlement option", represents a derivative financial instrument booked at fair value under non-current liabilities. The fair value changes of this instrument are immediately charged to the income statement, and have contributed positively to the result of the period for Euro 484 thousand, as indicated in Note 5.7. At the balance sheet date, the fair value of the option amounts to nil.

The market value of the forward contracts is calculated using the present value of the differences between the contractual forward exchange rate and the market forward exchange rate. At the reporting date, the Group had contracts for hedging against exchange rate fluctuations for a negative net market value of Euro 1,914 thousand.

The following table summarizes the characteristics and fair value of forward contracts (in place mainly on Canadian Dollar, US Dollar, Japanese Yen, Swiss Franc, Mexican Peso):

<b>December 31, 2017</b> (thousands of Euro)	<b>Maturity</b>	<b>Notional amount</b>	<b>Fair value</b>	
			<b>Assets</b>	<b>Liabilities</b>
Fair value hedge	within 1 year	186,303	142	2,002
Cash flow hedge	within 1 year	10,503	-	54
<b>Total forward contracts</b>		<b>196,805</b>	<b>142</b>	<b>2,056</b>

<b>December 31, 2016</b> (migliaia di Euro)	<b>Maturity</b>	<b>Notional amount</b>	<b>Fair value</b>	
			<b>Assets</b>	<b>Liabilities</b>
Fair value hedge	within 1 year	194,761	1,997	1,624
Cash flow hedge	within 1 year	-	-	-
<b>Total forward contracts</b>		<b>194,761</b>	<b>1,997</b>	<b>1,624</b>

## 4.5 Other current assets

This item breaks down as follows:

(thousands of Euro)	<b>December 31, 2017</b>	<b>December 31, 2016</b>
VAT receivable	26,635	21,410
Tax credits and payments on account	19,168	18,005
Prepayments and accrued income	9,070	14,644
Receivables from agents	655	684
Other current receivables	36,233	6,085
<b>Total</b>	<b>91,759</b>	<b>60,828</b>

The tax credits and payments on account principally relate to tax credits and prepayments made during the financial year which will be offset against the related tax payable.

Prepayments and accrued income amounted to 9,070 thousand Euro (14,644 thousand Euro at December 31<sup>st</sup>, 2016) and mainly consisted of:

- prepaid royalty costs of 4,358 thousand Euro;
- prepaid advertising costs of 702 thousand Euro;
- prepaid rent and operating lease costs of 975 thousand Euro;
- prepaid insurance for 596 thousand Euro.

The receivables from agents mainly refer to receivables deriving from the sale of samples.

Other current receivables amounted to 36,233 thousand Euro, compared to 6,085 thousand Euro in 2016, the increase is mainly related to the reclassification from the item "other non current assets" of the third and final tranche of the compensation, agreed as part of the contracts executed on January 12, 2015 with Kering Group for the conclusion of the Gucci license. This third instalment of the compensation equal to 30.000 thousand Euro will be paid in September 2018 and has hence been reclassified to the item "other current assets".

The remaining balance is mainly related to:

- receivables reported in the balance sheet of the subsidiary Safilo S.p.A. for 1,396 thousand Euro, referring mainly to receivables due from bankrupt customers for the amount of credit relating to VAT which, pursuant to Italian tax legislation, can only be recovered when the distribution plan of the bankruptcy procedure is executed;
- deposit payments due within 12 months for 311 thousand Euro;
- other receivables for 4,526 thousand Euro.

It is considered that the book value of the other current assets is approximately equal to their fair value.

## 4.6 Tangible assets

The table below summarises the changes in the tangible assets:

(thousands of Euro)	Balance at January 1, 2017	Increase	Decrease	Reclass.	Reclass. non- current assets held for sale	Transl. diff.	Balance at December 31, 2017
<b>Gross value</b>							
Land and buildings	137,658	1,487	(601)	5,390	-	(2,195)	141,738
Plant and machinery	211,663	706	(7,932)	7,713	-	(1,866)	210,284
Equipment and other assets	215,853	6,396	(9,083)	6,099	-	(13,940)	205,324
Assets under constructions	6,643	18,189	(74)	(19,202)	-	(222)	5,335
<b>Total</b>	<b>571,818</b>	<b>26,778</b>	<b>(17,690)</b>	<b>-</b>	<b>-</b>	<b>(18,225)</b>	<b>562,681</b>
<b>Accumulated depreciation</b>							
Land and buildings	50,870	3,504	(132)	2,442	-	(811)	55,874
Plant and machinery	153,755	8,568	(7,767)	37	-	(1,183)	153,410
Equipment and other assets	169,587	17,540	(8,609)	(2,479)	-	(10,944)	165,095
<b>Total</b>	<b>374,212</b>	<b>29,612</b>	<b>(16,507)</b>	<b>-</b>	<b>-</b>	<b>(12,938)</b>	<b>374,379</b>
<b>Net value</b>	<b>197,606</b>	<b>(2,834)</b>	<b>(1,182)</b>	<b>-</b>	<b>-</b>	<b>(5,287)</b>	<b>188,302</b>

(thousands of Euro)	Balance at January 1, 2016	Increase	Decrease	Reclass.	Reclass. non- current assets held for sale	Transl. diff.	Balance at December 31, 2016
<b>Gross value</b>							
Land and buildings	139,301	550	(920)	1,965	(2,147)	(1,090)	137,658
Plant and machinery	204,636	1,835	(8,689)	15,383	-	(1,502)	211,663
Equipment and other assets	261,260	7,306	(68,391)	13,093	-	2,584	215,853
Assets under constructions	6,279	31,178	(386)	(30,441)	-	14	6,643
<b>Total</b>	<b>611,476</b>	<b>40,868</b>	<b>(78,386)</b>	<b>-</b>	<b>(2,147)</b>	<b>7</b>	<b>571,818</b>
<b>Accumulated depreciation</b>							
Land and buildings	49,125	3,586	(871)	235	(1,030)	(174)	50,870
Plant and machinery	151,458	11,462	(8,299)	-	-	(867)	153,755
Equipment and other assets	213,395	22,410	(68,137)	(235)	-	2,154	169,587
<b>Total</b>	<b>413,978</b>	<b>37,458</b>	<b>(77,307)</b>	<b>-</b>	<b>(1,030)</b>	<b>1,113</b>	<b>374,212</b>
<b>Net value</b>	<b>197,498</b>	<b>3,410</b>	<b>(1,079)</b>	<b>-</b>	<b>(1,117)</b>	<b>(1,106)</b>	<b>197,606</b>



A total of 26,778 thousand Euro was invested in tangible fixed assets in the financial period (40,868 thousand Euro during 2016), mainly as follows:

- 15,532 thousand Euro for the factories, mainly for the upgrading of plants and for the purchase and production of equipment for new models;
- 7,779 thousand Euro for the U.S. companies, mainly related to the retail channel and the relocation of the US headquarter from Parsippany (NJ) to a site closer to New York City in Secaucus (NJ);
- the remaining part in other companies of the Group.

The reclassification to “Non-current assets held for sale” reported in 2016 referred to the production plant of Polaroid UK which is subject to a plan of disposal that is still in course of negotiation.

On December 31, 2017 the Group does not have any tangible fixed assets under finance lease contracts.

## 4.7 Intangible assets

The following table shows changes in intangible fixed assets:

(thousands of Euro)	Balance at January 1, 2017	Increase	Decrease	Reclass.	Transl. diff.	Balance at December 31, 2017
<b>Gross value</b>						
Software	63,547	250	(542)	13,016	(1,842)	74,430
Trademarks and licenses	55,052	-	(33)	618	(78)	55,558
Other intangible assets	9,123	57	(3)	(1,984)	(376)	6,817
Intangible assets in progress	8,049	13,140	-	(15,182)	(97)	5,910
<b>Total</b>	<b>135,771</b>	<b>13,447</b>	<b>(579)</b>	<b>(3,533)</b>	<b>(2,393)</b>	<b>142,714</b>
<b>Accumulated amortization</b>						
Software	39,183	9,804	(512)	-	(1,514)	46,961
Trademarks and licenses	24,801	2,238	(34)	-	(78)	26,928
Other intangible assets	7,679	422	(3)	(3,533)	(309)	4,257
<b>Total</b>	<b>71,663</b>	<b>12,464</b>	<b>(549)</b>	<b>(3,533)</b>	<b>(1,900)</b>	<b>78,146</b>
<b>Net value</b>	<b>64,108</b>	<b>983</b>	<b>(30)</b>	<b>-</b>	<b>(493)</b>	<b>64,569</b>

(thousands of Euro)	Balance at January 1, 2016	Increase	Decrease	Reclass.	Transl. diff.	Balance at December 31, 2016
<b>Gross value</b>						
Software	55,716	697	(780)	7,609	306	63,547
Trademarks and licenses	55,065	-	-	(46)	32	55,052
Other intangible assets	8,580	26	-	477	40	9,123
Intangible assets in progress	5,259	10,790	-	(8,041)	41	8,049
<b>Total</b>	<b>124,620</b>	<b>11,512</b>	<b>(780)</b>	<b>-</b>	<b>420</b>	<b>135,771</b>
<b>Accumulated amortization</b>						
Software	32,251	7,421	(711)	-	222	39,183
Trademarks and licenses	22,616	2,213	-	(62)	34	24,801
Other intangible assets	7,420	117	-	62	81	7,679
<b>Total</b>	<b>62,287</b>	<b>9,751</b>	<b>(711)</b>	<b>-</b>	<b>336</b>	<b>71,663</b>
<b>Net value</b>	<b>62,333</b>	<b>1,761</b>	<b>(70)</b>	<b>-</b>	<b>84</b>	<b>64,108</b>

Investments in intangible fixed assets made during the year amount to 13,447 thousand Euro (11,512 thousand Euro in the previous year). The increase in investments reported under the construction in progress is mainly due to the implementation of the new integrated information system (ERP) of the Group.

The reclassification from intangible assets in progress to software is mainly referred to the portion of investments related to the modules of the new integrated information system (ERP) that have been completed and used during the year.

## Depreciation & Amortization

Amortization and depreciation for tangible and intangible assets are allocated over the following income statement items:

(thousands of Euro)	Notes	2017	2016
Cost of sales	5.2	20,597	23,910
Selling and marketing expenses	5.3	4,417	6,129
General and administrative expenses	5.4	17,061	15,257
Other operating income/(expenses)	5.5	-	1,913
<b>Total</b>		<b>42,075</b>	<b>47,209</b>

The Group does not recognize as intangible assets the research and development costs related to both technological and production processes developments and product development in terms of design.

During the year the Group incurred and charged to income, costs for research and development amounting to 19,041 thousand Euro (19,592 thousand Euro in the previous year).

## 4.8 Goodwill

The item mainly refers to goodwill which arose in July 2001 following the public takeover bid (OPA) through a special purpose vehicle subsequently merged into the parent company. This goodwill upon the listing of 2005 and the transition to International Accounting Standards was then allocated to the various Group companies identified as Cash Generating Units (CGU) and then aggregated at the level of the Business Units of the Group, and therefore CGUs took the current configuration. This asset is therefore expressed in the functional currency of each individual company to which it was allocated.

The following table shows changes in goodwill:

(thousands of Euro)	<b>Balance at January 1, 2017</b>	<b>Increase</b>	<b>Decrease</b>	<b>Transl. diff.</b>	<b>Balance at December 31, 2017</b>
Goodwill	448,302	-	(192,000)	(35,886)	220,416

(thousands of Euro)	<b>Balance at January 1, 2016</b>	<b>Increase</b>	<b>Decrease</b>	<b>Transl. diff.</b>	<b>Balance at December 31, 2016</b>
Goodwill	583,908	-	(150,000)	14,394	448,302

During the current period, the item recorded a decrease for an impairment loss equal to 192,000 thousand Euro and a decrease of 35,886 thousand Euro due to the translation difference for the goodwill denominated in currencies other than the Euro.

The table below provides a breakdown of goodwill, allocated to the CGUs, by geographical area.

(thousands of Euro)	<b>EMEA</b>	<b>Americas</b>	<b>Asia</b>	<b>Total</b>
December 31, 2017	97,039	123,377	-	220,416
December 31, 2016	160,612	241,610	46,080	448,302

## Impairment test

The approach followed and the assumptions made to perform the impairment test are described below.

For each identified CGU of the Group, the recoverable amount is based on its value in use determined based on estimated future cash flow projections. To determine these cash flow projections, the directors have considered that the economic results of the last three years were lower than planned and that the industry context the Group operates in has significantly changed in recent years which also impacts future economic projections. For this reason, and also for the purpose of the financial statements of

2017, the board of directors has approved a preliminary business plan for the period 2018 - 2022 which includes certain key assumptions regarding sales and cost reduction initiatives. Certain aspects of this plan could be revised following the announced entry of the new Group CEO, who will define in more detail the execution plan of the Group and the final plan will be published once it has been definitely approved. While the board of directors feels that the plan will pursue sales growth, efficiency and rationalization objectives which are considered necessary in light of the market and company developments, some limited aspects of variability concerning the plan's execution guidelines remain until finalized by the incoming CEO.

The adoption of a five year projection was considered to be the most appropriate in order to illustrate the effects in terms of expected cash flows arising from the implementation of the strategies contained in the preliminary 2018-2022 business plan of the Group. The plan used for impairment test considers best management estimates based on available information with reference to business operations, market contest and evolution of Group activities.

Overall, the impairment test methodology used for the 2017 financial statements is consistent with the criteria used for the 2016 financial statements and is in line with the following factors:

- the management used the most recent information available to calculate the WACC (weighted average cost of capital), in particular: risk free rate, market risk premium, beta, specific risk premium for Safilo, cost of debt, debt / equity structure;
- the growth rates for the years following the plan's horizon ("g" rate) have been analytically reviewed for each single country in which the Group operates in, and have been adapted to the rate of inflation expected by analysts for 2022.

To calculate the present value, the future cash flows thus obtained were discounted to their present value at a discount rate (WACC) as at the test's date of reference that took into account the specificities of each area where the Group operates.

Management, in addition to having adopted in the preparation of the 2018 - 2022 preliminary business plan the assumptions deemed reasonable, based on the information at its disposal, has performed the impairment test with a conservative approach considering the potential dynamic evolution of the sector in which the Group operates and has carried out some sensitivity analyses to consider the consequent risk of partial failure of the actions outlined. On the basis of these analyses, it was decided to reflect this prudent approach by including an additional risk factor in the discount rate and, following the execution of the test, it was determined to write down goodwill for 192,000 thousand Euro.

Impairment test results were also consistent with specific alternative scenarios applied to assumptions reflected in the *Preliminary Business Plan*, in term of achievement of net sales volume and margins for each CGU.

The cash flows generated after the horizon considered were determined on the basis of perpetual growth rates considered adequate with reference to the economic conditions of the country of reference.

The following table summarizes the WACC (after tax) and "g" rates used by the Group for the analyses performed when preparing financial statements:

<b>Key assumptions</b> <b>Business units</b>	<b>"WACC" discount rate</b>		<b>Growth rate "g"</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
EMEA	9.3%	7.3%	1.4%	1.5%
Asia	10.2%	8.2%	2.3%	2.3%
Americas	9.7%	7.5%	2.2%	2.1%

The impairment test performed by the Group has highlighted a need for an impairment loss for a total amount of 192,000 thousand Euro, allocated to the EMEA CGU for 62,000 thousand Euro, to Americas CGU for 89,800 thousand Euro and to the Far East CGU for 40,200 thousand Euro.

In monitoring the goodwill value, management has taken into consideration also exogenous factors, such as the stock market capitalization. The stock market valuation may be subject to various fluctuations and hence in practice different valuation methods exist, such as those based on expected cash flows. In the case of Safilo, the value determined by current stock market prices is significantly different than the one obtainable with other methods.

The Directors however believe that the assumptions incorporated in the preliminary business plan underlying the impairment test are reasonable, and that the Group has the necessary skills and resources to meet planned goals considering that an additional execution risk of the plan has been embedded in WACC used for the test. Therefore, the Group's economic value has been consistently considered in the impairment test.

## 4.9 Deferred tax assets and deferred tax liabilities

The following table shows the amounts of deferred tax assets and liabilities, net of the write-down applied:

(thousands of Euro)	December 31, 2017	December 31, 2016
Deferred tax assets	147,364	155,236
Valuation Allowance (-)	(78,260)	(58,451)
<b>Net deferred tax assets</b>	<b>69,104</b>	<b>96,785</b>
Deferred tax liabilities	(13,283)	(16,241)
<b>Total</b>	<b>55,821</b>	<b>80,544</b>

Deferred tax assets, net of deferred tax liabilities, relating to some Group companies have been written down via provisioning of an allowance for tax asset impairment. This provision, considered prudent, amounts to 78,260 thousand Euro and has increased of 22,178 thousand Euro in order to take into account any potential assets that might not be recovered by the taxable profit forecasted as per the preliminary business plan for the period 2018-2022, for which reference is made to the previous note 4.8. This write-down can be reversed in future years to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and tax losses can be utilized.

The table below provides details of the items affected by temporary differences on which deferred tax assets and liabilities were calculated.

## Deferred tax assets

(thousands of Euro)	Balance at January 1, 2017	Posted to		Reclass./ Other changes	Transl. diff.	Balance at December 31, 2017
		Income statement	Equity			
Tax losses carried forward	55,309	10,114	-	-	(1,818)	63,606
Inventories	46,453	(4,471)	-	(1)	(2,632)	39,349
Taxed allowances for doubtful accounts	11,242	(4,309)	-	5	(679)	6,259
Taxed provisions	3,903	2,393	-	(27)	(76)	6,193
Employees benefit liabilities	1,961	(340)	(139)	(2)	(17)	1,463
Intangible assets	2,236	(330)	-	-	(11)	1,895
Tangible assets	14,431	(2,947)	-	(522)	(636)	10,326
Fair value of derivative instruments	-	-	13	-	-	13
Other payables	508	14	-	-	(22)	500
Taxed financial interests	8,524	1,260	-	1,618	-	11,402
Other temporary differences	10,669	(2,858)	-	(777)	(676)	6,358
<b>Total deferred tax assets</b>	<b>155,236</b>	<b>(1,474)</b>	<b>(126)</b>	<b>294</b>	<b>(6,567)</b>	<b>147,364</b>
Devaluation of deferred tax assets on tax losses	(48,133)	(13,126)	-	-	1,711	(59,548)
Devaluation of deferred tax assets on other temporary differences	(10,318)	(9,052)	-	-	658	(18,712)
<b>Total allowance on deferred tax assets</b>	<b>(58,451)</b>	<b>(22,178)</b>	<b>-</b>	<b>-</b>	<b>2,369</b>	<b>(78,260)</b>
<b>TOTAL NET</b>	<b>96,785</b>	<b>(23,652)</b>	<b>(126)</b>	<b>294</b>	<b>(4,199)</b>	<b>69,104</b>



## Deferred tax liabilities

(thousands of Euro)	Balance at January 1, 2017	Posted to			Transl. diff.	Balance at December 31, 2017
		Income statement	Equity	Reclass./ Other changes		
Depreciation differences	6,744	(1,150)	-	(369)	(660)	4,565
Goodwill	8,954	(737)	-	-	(262)	7,955
Inventories	168	42	-	-	(16)	194
Receivables and payables	14	8	-	202	(14)	211
Other temporary differences	359	(423)	-	460	(38)	358
<b>Total</b>	<b>16,241</b>	<b>(2,260)</b>	<b>-</b>	<b>294</b>	<b>(991)</b>	<b>13,283</b>

The table below shows the Group's total carryforward for unused tax losses by expiration date, the related deferred tax assets and the amount of valuation allowance. As a matter of fact, as stated in the previous paragraph deferred tax assets calculated on the unused tax losses of some Group companies have been written down by a total of 59,548 thousand Euro because, at present, recovery via future taxable income is not considered probable. The tax losses carry forwards for which deferred tax assets have not been recognised equal to a total amount of 232.521 thousand Euro.

Expiration date (thousands of Euro)	Tax losses	Tax benefit
2020	1,403	351
2021	8,269	2,067
2022	13,654	3,414
2024	164	41
Unlimited	225,015	57,696
Other tax losses relating local taxes:		
Various		37
<b>Total</b>	<b>248,505</b>	<b>63,606</b>
Provision (-)		(59,548)
<b>TOTAL DEFERRED TAX ASSETS ON LOSSES CARRIED FORWARD</b>		<b>4,058</b>

The following table shows deferred tax assets and liabilities split between the portion due within one year and the portion due after more than one year.

(thousands of Euro)	December 31, 2017	December 31, 2016
Deferred tax assets		
- recoverable within one year	46,425	50,882
- recoverable beyond one year	22,679	45,903
<b>Total</b>	<b>69,104</b>	<b>96,785</b>
Deferred tax liabilities		
- recoverable within one year	307	169
- recoverable beyond one year	12,976	16,072
<b>Total</b>	<b>13,283</b>	<b>16,241</b>
<b>TOTAL NET</b>	<b>55,821</b>	<b>80,544</b>

## 4.10 Other non-current assets

The table below shows details of non-current assets:

(thousands of Euro)	December 31, 2017	December 31, 2016
Long-term guarantee deposit	2,812	3,475
Other long-term receivables	184	30,213
Long-term tax receivables	9,226	3,012
<b>Total</b>	<b>12,222</b>	<b>36,700</b>

Long-term guarantee deposit mainly refer to security deposits for leasing contracts related to buildings used by some of the Group's companies.

The decrease of the "other long-term receivables" is mainly related to the reclassification to the item "other current assets" of the third and final tranche of the compensation, agreed as part of the contracts executed on January 12, 2015 with Kering Group for the conclusion of the Gucci license agreement at the end of December 2016.

This third instalment of the compensation equal to further 30.000 thousand Euro will be paid in September 2018 and is hence been reclassified to the item "other current assets".

It is considered that the book value of the other non-current assets is approximately equals their fair value.

## 4.11 Borrowings

This item breaks down as follows:

(thousands of Euro)	December 31, 2017	December 31, 2016
Bank overdrafts	1,408	13
Short-term bank loans	54,001	10,000
Debt to the factoring company	10,000	10,000
<b>Short-term borrowings</b>	<b>65,409</b>	<b>20,013</b>
Convertible Bonds	142,491	137,393
<b>Long-term borrowings</b>	<b>142,491</b>	<b>137,393</b>
<b>TOTAL</b>	<b>207,900</b>	<b>157,406</b>

The item "Bank loans and borrowings" include as the long-term borrowings:

- an unsecured and unsubordinated equity-linked Bond issued on 22 May 2014, from Safilo Group S.p.A., guaranteed by Safilo S.p.A., maturing on 22 May 2019 with an aggregate principal amount of 150,000 thousand Euro;
- a committed, unsubordinated and unsecured "Revolving Credit Facility" amounting to 150,000 thousand Euro expiring in July 2018, unused at December 31, 2017.

The Bonds have been issued at par in the nominal amount of EUR 100,000 per Bond and pay a coupon of 1.25% per annum, payable semi-annually in arrears on 22 November and 22 May of each year.

The Bonds became convertible into ordinary shares of Safilo Group S.p.A. following the approval on 10 July 2014 of the extraordinary general meeting of the Company of a capital increase to be solely reserved for the purposes of the conversion of such Bonds. The initial conversion price has been set at EUR 21.8623, representing a premium of 40.0% above the volume weighted average price of the ordinary shares of the Company on Mercato Telematico Azionario (MTA) of the Italian Stock Exchange between launch and pricing. The Company will have the right to elect to settle any exercise of conversion rights in shares, cash or combinations of shares and cash.

The Issuer will have the option to redeem any outstanding Bonds at their principal amount (plus accrued but unpaid interest to, but excluding, the redemption date) on or after 6 June 2017 if the volume weighted average price of a share for a specified period is at least 130% of the conversion price in effect on each relevant dealing day. The Issuer may also redeem the Bonds at any time at their principal amount (plus accrued but unpaid interest to, but excluding, the redemption date) if less than 15% of the Bonds originally issued remain outstanding.

At final maturity, on 22 May 2019, the Bonds will be redeemed at their principal amount unless previously redeemed, converted, or purchased and cancelled.

The offer is made solely to qualified investors, the Bonds, starting from July 23, 2014, has been admitted to be traded on the "Third Market" (MTF), non-regulated market of the Vienna Stock Exchange.

This bond is carried at amortised cost, at an effective interest rate equal to 5.101%. Given the presence of a "cash settlement option", the conversion option component represents an embedded derivative financial instrument booked in the corresponding balance sheet item under liabilities. The fair value changes of this instrument are immediately charged to the income statement. At the balance sheet date, the fair value of the option amounts to nil (see note 4.4).

The committed, unsubordinated and unsecured "Revolving Credit Facility" amounting to 150.000 thousand Euro expiring in July 2018, has been underwritten by Safilo S.p.A. and Safilo U.S.A. Inc. in July 2014. On 31<sup>st</sup> December 2017 this facility was not drawn by the Group.

This loan is subject to the respect of operating and financial commitments, standard for similar transactions. On 31<sup>st</sup> December 2017 the Group complies with all the outstanding covenants.

The short-term payables towards factoring companies are for contracts stipulated with leading factoring companies by the subsidiary Safilo S.p.A. for 10,000 thousand Euro.

The expiry dates of medium and long-term loans are the following:

(thousands of Euro)	December 31, 2017	December 31, 2016
From 1 to 2 years	142,491	-
From 2 to 3 years	-	137,393
From 3 to 4 years	-	-
From 4 to 5 years	-	-
Beyond 5 years	-	-
<b>Total</b>	<b>142,491</b>	<b>137,393</b>

The following table shows the breakdown of net financial debt. This has been calculated consistently with Paragraph 127 of the CESR/05-054b recommendation implementing the European regulation CE 809/2004 and in line with the CONSOB (Italian securities & exchange commission) requirements of 26<sup>th</sup> July 2007.

Net financial position (thousands of Euro)	December 31, 2017	December 31, 2016	Change
A Cash and cash equivalents	76,251	109,038	(32,787)
B Cash and cash equivalents included as Assets held for sale	-	-	-
C Current securities (securities held for trading)	-	-	-
<b>D Liquidity (A+B+C)</b>	<b>76,251</b>	<b>109,038</b>	<b>(32,787)</b>
<b>E Receivables from financing activities</b>	<b>-</b>	<b>-</b>	<b>-</b>
F Bank overdrafts and short-term bank borrowings	(55,409)	(10,013)	(45,396)
G Current portion of long-term borrowings	-	-	-
H Other short-term borrowings	(10,000)	(10,000)	-
<b>I Debts and other current financial liabilities (F+G+H)</b>	<b>(65,409)</b>	<b>(20,013)</b>	<b>(45,396)</b>
<b>J Current financial position, net (D)+(E)+(I)</b>	<b>10,842</b>	<b>89,025</b>	<b>(78,183)</b>
K Long-term bank borrowings	-	-	-
L Bonds	(142,491)	(137,393)	(5,098)
M Other long-term borrowings	-	-	-
<b>N Debts and other non current financial liabilities (K+L+M)</b>	<b>(142,491)</b>	<b>(137,393)</b>	<b>(5,098)</b>
<b>I Net financial position (J)+(N)</b>	<b>(131,649)</b>	<b>(48,368)</b>	<b>(83,281)</b>

The above table does not include the valuation of derivative financial instruments described in note 4.4 of this report.

The Group has no financial borrowings in currencies other than Euro.

## 4.12 Trade payables

This item breaks down as follows:

(thousands of Euro)	December 31, 2017	December 31, 2016
<b>Trade payables for:</b>		
Purchase of raw materials	59,335	55,824
Purchase of finished goods	48,034	72,247
Suppliers from subcontractors	4,416	7,078
Tangible and intangible assets	4,994	7,456
Commissions	860	1,775
Royalties	13,193	20,409
Advertising and marketing costs	13,930	26,758
Services	60,135	56,945
<b>Total</b>	<b>204,897</b>	<b>248,492</b>

The book value of the trade payables is maintained as being approximately the same as their fair value.

## 4.13 Tax payables

At 31<sup>st</sup> December 2017 tax payables amounted to 17,218 thousand Euro (compared to 18,627 thousand Euro in 2016). Of this sum 4,563 thousand Euro referred to income tax for the period, 2,837 thousand Euro to VAT payable and 9,819 thousand Euro to taxes withheld, current and local taxes. The provision for the year's current income tax is shown in note 5.8 concerning income tax.

## 4.14 Other current liabilities

This item breaks down as follows:

(thousands of Euro)	December 31, 2017	December 31, 2016
Payables to personnel and social security institutions	37,590	38,047
Agent fee payables	836	1,280
Payables to pension funds	1,430	1,294
Accrued advertising and sponsorship costs	1,720	581
Accrued interests on long-term loans	241	204
Other accruals and deferred income	51,576	48,625
Other current liabilities	2,100	1,936
<b>Total</b>	<b>95,493</b>	<b>91,967</b>

Payables to personnel and social security institutions mainly refer to salaries and wages for December and for unused holidays.

The item "other accruals and deferred income" is mainly related to the accounting of the compensation for the conclusion of the Gucci license agreement that, according to the analysis of the underlying performance obligations has been deferred for the most part in term of profit and loss impact, the current deferred income includes the part of the compensation, equal to 39.000 thousand Euro, that will be recognized in the profit and loss in 2018.

It is considered that the book value of the "other current liabilities" approximates their fair value.

## 4.15 Provision for risks and charges

This item breaks down as follows:

(thousands of Euro)	Balance at January 1, 2017	Increase	Decrease	Reclass	Transl. diff.	Balance at December 31, 2017
Product warranty provision	5,434	360	(630)	-	(8)	5,156
Agents' severance indemnity	2,995	486	(800)	-	(6)	2,676
Provision for corporate restructuring	375	-	(349)	-	(26)	-
Other provisions for risks and charges	5,994	4,762	(1,801)	-	(8)	8,948
<b>Provisions for risks - long term</b>	<b>14,798</b>	<b>5,607</b>	<b>(3,580)</b>	<b>-</b>	<b>(47)</b>	<b>16,779</b>
Product warranty provision	2,352	490	(544)	-	(109)	2,189
Provision for corporate restructuring	2,583	3,075	(2,688)	-	(108)	2,863
Other provisions for risks and charges	22,705	10,330	(2,318)	-	(354)	30,363
<b>Provisions for risks - short term</b>	<b>27,640</b>	<b>13,896</b>	<b>(5,550)</b>	<b>-</b>	<b>(571)</b>	<b>35,415</b>
<b>TOTAL</b>	<b>42,438</b>	<b>19,503</b>	<b>(9,130)</b>	<b>-</b>	<b>(617)</b>	<b>52,194</b>

(thousands of Euro)	Balance at January 1, 2016	Increase	Decrease	Reclass	Transl. diff.	Balance at December 31, 2016
Product warranty provision	5,308	299	(173)	-	-	5,434
Agents' severance indemnity	3,230	60	(300)	-	5	2,995
Provision for corporate restructuring	363	-	-	-	12	375
Other provisions for risks and charges	7,312	1,941	(2,471)	(787)	-	5,994
<b>Provisions for risks - long term</b>	<b>16,213</b>	<b>2,300</b>	<b>(2,944)</b>	<b>(787)</b>	<b>17</b>	<b>14,798</b>
Product warranty provision	2,303	403	(425)	-	72	2,352
Provision for corporate restructuring	1,143	2,199	(689)	-	(70)	2,583
Other provisions for risks and charges	20,678	1,571	(386)	787	55	22,705
<b>Provisions for risks - short term</b>	<b>24,124</b>	<b>4,173</b>	<b>(1,500)</b>	<b>787</b>	<b>56</b>	<b>27,640</b>
<b>TOTAL</b>	<b>40,337</b>	<b>6,473</b>	<b>(4,444)</b>	<b>-</b>	<b>73</b>	<b>42,438</b>

The product warranty provision was recorded against the costs to be incurred for the replacement of products sold before the balance sheet date.



The agents' severance indemnity was created against the risk deriving from the payment of indemnities in the case of termination of the agency agreement. This provision has been calculated based on existing laws at the balance sheet date considering all the future expected financial cash outflows.

Provision for corporate restructuring includes the estimated liability arising from the reorganization projects under way.

Provisions for other risks and charges refer to the best estimate made by the management of the liabilities to be recognized in relation to proceedings arisen against suppliers, tax authorities and other counterparts.

The short term portion of the provision for other risks and charges includes the provision of 17,000 thousand Euro related to the proceedings before the French Competition Authority ("FCA") accrued in 2015. Safilo's French subsidiary (Safilo France S.A.R.L.) together with other major competitors and a number of leading retailers in the French eyewear industry, has been the subject of an investigation conducted by the FCA relating to pricing and sales practices in the industry. In May 2015, Safilo France S.A.R.L. and Safilo S.p.A. in its capacity of parent-company received a Statement of Objections from the FCA. On 2 February 2016, Safilo reached an agreement with the FCA's Investigation Services limiting the Group's liability at 17,000 thousand Euro. Consequently, a provision was booked by the Group as the best estimate for the expected liability. On 15 December 2016, a hearing was held before the FCA during which all parties were given the opportunity to defend their case. On 24 February 2017, the FCA's Body decided to refer the entire case back for further investigation to the FCA's Investigation Services, without imposing any sanction on all the companies currently under investigation. While the next steps in the case from the side of the Authority are not yet known at today's date, the Group has at this point decided to maintain its provision unchanged at 17,000 thousand Euro.

The estimate of the above mentioned allowances takes into account, where applicable, the opinion of legal consultants and other experts, past company's experience and others' in similar situations, as well as the intention of the company to take further actions in each case. The provision in the consolidated financial statements is the sum of the individual accruals made by each company of the Group.

With reference to the above, on 10 July 2017, the Italian Company Safilo S.p.A. was notified a final Tax Audit Report (so called "processo verbale di constatazione") closing a tax investigation started on 15 December 2016 and referred to fiscal years 2012-2016. With reference to the tax investigation report and specifically to fiscal year 2012 Safilo S.p.A. reached a settlement for a total amount of Euro 368,527.

In the light of the challenges raised for fiscal years 2013-2016 and for the 2012 tax settlement, a provisions was accrued amounting to 3,000 thousand Euro for risks and charges to cover both

liabilities and the charges that could currently be estimated also in view of the deflationary tools applicable to tax disputes.

The above mentioned allowances are considered sufficient to cover the existing risks.

## 4.16 Employees benefits

This item breaks down as follows:

(thousands of Euro)	December 31, 2017	December 31, 2016
Defined contribution plan	3	192
Defined benefit plan	28,396	31,203
<b>Total</b>	<b>28,399</b>	<b>31,395</b>

During the financial years under analysis, the item related to defined benefit plans showed the following movements:

(thousands of Euro)	Balance at January 1, 2017	Posted to income statement	Actuarial (gains)/ losses	Uses	Transl. diff.	Balance at December 31, 2017
Defined benefit plan	31,203	858	(712)	(2,885)	(68)	28,396

(thousands of Euro)	Balance at January 1, 2016	Posted to income statement	Actuarial (gains)/ losses	Uses	Transl. diff.	Balance at December 31, 2016
Defined benefit plan	30,721	1,539	1,390	(2,545)	98	31,203

This item refers to different forms of defined benefit and defined contribution pension plans, in line with the local conditions and practices in the countries in which the Group carries out its business.

The employee severance fund of Italian companies ("TFR"), which constitutes the main part of these benefits, has always been considered to be a defined benefit plan. However, following the changes in legislation governing the employment severance fund introduced by Italian law no. 296 of 27<sup>th</sup> December 2006 ("Financial Law 2007") and subsequent Decrees and Regulations issued in the first months of 2007, Safilo Group, on the basis of the generally agreed interpretations, has decided that:

- the portion of the employee benefit liability accrued from 1<sup>st</sup> January 2007, whether transferred to selected pension funds or transferred to the treasury account established with INPS, must be classified as a "defined contribution plan";

- the portion of the employee benefit liability accrued as of 31<sup>st</sup> December 2006 must be classified as a “defined benefit plan” requiring actuarial valuations that exclude future increases in salaries.

The employee severance fund of Italian companies (“TFR”) has no plan assets at its service.

Actuarial estimates used for calculating the employee severance liability accrued up to 31<sup>st</sup> December 2006 are based on a system of assumptions based on demographic parameters, economic parameters and financial parameters.

The demographic parameters are normally summarised in tables based on samples from different institutes (ISTAT, INAIL, INPS, Italian General Accounts Office, etc.).

The economic parameters principally refer to long-term inflation rates and the financial yield rate, crucial for the valuation of amounts accrued in the reserve for termination benefits.

The main financial parameter is given by the discount rate. The annual discount rate used to calculate the present value of the obligation was derived by the Iboxx Corporate AA index with a duration comparable to the duration of the collective of workers covered by the assessment.

The principal assumptions used for the purpose of the actuarial valuations as at December 31, 2017 and December 31, 2016 are summarized here follow:

	2017	2016
Discount rate	1,30%	1,31%
Inflation rate	1,50%	1,50%
Rate of benefit increase	2,63%	2,63%

Below depicts the sensitivity of the Group’s defined benefit obligations to changes in the principal assumptions.

**Assumption**

(thousands of Euro)

	Change	Increase	Decrease
Inflation	1.00%	1,614	(1,565)
Salary increase	0.25%	342	(327)
Discount rate	1.00%	(2,486)	2,879
Life expectancy	1 anno	67	(79)

The amounts related to defined benefit plans recorded in the statement of comprehensive income can be divided as follows:

(thousands of Euro)	2017	2016
Service cost	(506)	(987)
Interest cost	(352)	(552)
Actuarial gain/(loss)	712	(1,390)
<b>Total</b>	<b>(146)</b>	<b>(2,929)</b>

## 4.17 Other non-current liabilities

Movements in other non-current liabilities were as follows:

(thousands of Euro)	Balance at January 1, 2017	Increase	Decrease	Transl. diff.	Balance at December 31, 2017
Other non current liabilities	45,583	554	(39,622)	(672)	5,842

At 31<sup>st</sup> December 2017 other non-current liabilities totalled 5,842 thousand Euro, compared to 45,583 thousand Euro at 31<sup>st</sup> December 2016.

The decrease of the “other non-current liabilities” is mainly related to the reclassification to the item “other current liabilities” of the compensation for the conclusion of the Gucci license agreement which, according to the analysis of the underlying performance obligations has been deferred for the most part in terms of profit and loss impact. The deferred income relating the part of the compensation, equal to 39.000 thousand Euro, that will be recognized in the profit and loss in 2018, has been reclassified in the item “other current liabilities”.

The balance other non-current liabilities is mainly related to long-term debt under leases of stores of the U.S. subsidiary Solstice and the remaining portion for non-current liabilities recorded by some Group’s companies.

## SHAREHOLDERS' EQUITY

Shareholders' equity is the value contributed by the shareholders of Safilo Group S.p.A. (the share capital and the share premium reserve), plus the value generated by the Group in terms of profit gained from its operations (profit carried forward and other reserves). On 31<sup>st</sup> December 2017, shareholders' equity totaled 533,205 thousand Euro versus Euro 872,804 thousand Euro on 31<sup>st</sup> December 2016.

In managing its capital, the Group's aim is to create value for its shareholders, developing its business and thus securing the company's continuity.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. As at 31<sup>st</sup> December 2017, the ratio stood at 20% (5% at 31<sup>st</sup> December 2016).

### 4.18 Share capital

During the year there were no capital increases, at 31<sup>st</sup> December 2017 the share capital of the Parent Company, Safilo Group S.p.A., amounts to Euro 313,299,825, consisting of no. 62,659,965 ordinary shares with a par value of Euro 5.00 each.

### 4.19 Share premium reserve

The share premium reserve represents:

- the higher value attributed on the transfer of shares of the subsidiary Safilo S.p.A. compared to the par value of the corresponding increase in share capital;
- the higher price paid compared to the par value of the shares, at the time the shares were placed on the Electronic Stock Market (MTA), net of listing costs;
- the premium resulting from conversion of convertible bonds;
- the premium received from the exercise of stock options by their holders and following the capital increase.

At 31<sup>st</sup> December 2017 the share premium reserve of the Parent Company, Safilo Group S.p.A., amounts to Euro 484,861,564.

## 4.20 Retained earnings and other reserves

Retained earnings and other reserves include both the reserves of the subsidiaries generated after their inclusion in the scope of consolidation and the translation differences deriving from the translation into Euro of the financial statements of consolidated companies denominated in other currencies.

During the year, the movements of the item "retained earnings and other reserve" mainly refer to:

- 88,693 thousand Euro due to the negative translation differences coming from the translation of the subsidiaries' financial statements into Euro;
- 46 thousand Euro related to the increase for the cost of the period of the outstanding *stock option* plan;
- 651 thousand Euro due to the increase coming from the actuarial valuation, net of tax effect, of the employee termination indemnities of defined contribution plans.

## 4.21 Cash flow hedge reserve

This item breaks down as follows:

(thousands of Euro)	Consolidated statement of comprehensive income				Balance at December 31, 2017
	Balance at January 1, 2017	Profit (loss) of the period	Gain (loss) reclass to profit and loss	Total Profit (loss) of the period	
Cash flow hedge reserve	-	(35)	-	(35)	(35)

The cash flow hedge reserve mainly refers to the current value of derivative instruments *currency forward contracts* that cover the currency exchange rate risk on future highly probable transactions.

## 4.22 Stock option plans

The Extraordinary Shareholders' Meeting of April 26<sup>th</sup>, 2017 resolved to increase the share capital by a maximum nominal value of Euro 12,500,000.00 by issuing new ordinary shares for an amount up to a maximum of no. 2,500,000, par value of Euro 5.00 each, to be offered for subscription to directors and/or employees of Safilo Group S.p.A. and its subsidiaries pursuant to the 2017-2020 Stock Option Plan.

This 2017-2020 Plan, aimed to incentivize and strengthen the loyalty of the directors and/or the employees/managers of the Company and/or of the subsidiary companies, is executed through the assignment, free of charge and in several tranches, of a maximum of no. 2,500,000 options, which entitle the beneficiaries to the right to subscribe newly issued ordinary shares of the Company, with a par value of Euro 5.00 each, arising from the above mentioned capital increase, with exclusion of the option rights according to Article 2441, paragraph 4, second sentence, of the Italian Civil Code, at the rate of no. 1 share for each option.

The Plan has a total duration of eleven years (from 2017 to 2028). The options assigned to the beneficiaries may be exercised after two years from the allocation date.

Specifically, four different allocation dates have been assigned to the options:

- the first tranche ("First Tranche") was granted by the Board of Directors held on April 26<sup>th</sup>, 2017;
- the second tranche ("Second Tranche") will be granted from the day on which the Board of Directors approves the 2017 financial results, to December 31, 2018;
- the third tranche ("Third Tranche") will be granted from the day on which the Board of Directors approves the 2018 financial results, to December 31, 2019 and the fourth tranche ("Fourth Tranche") will be granted from the date on which the Board of Directors approves the 2019 financial results, to December 31, 2020.

This Plan is in addition to the two ones (2010-2013 and 2014-2016 Plans) already in place deliberated by the Extraordinary Meetings respectively held on 5<sup>th</sup> November 2010 and 15 April 2014, in which the Shareholders approved the issue of respectively up to 1,700,000 and 1,500,000 new ordinary shares with a nominal value of 5.00 Euro each, for a total of respectively Euro 8,500,000 and 7,500,000 Euro to be offered to directors and/or employees of the Company and its subsidiaries.

These Plans, designed to incentivise and retain directors and/or employees/managers, is carried out through the grant, in different tranches, of options entitling the beneficiary to subscribe to 1 of the foregoing ordinary Company share with a nominal value of 5.00 Euro each, issued for cash and without any all-or-none clause, excluding all pre-emptive rights pursuant to article 2441, paragraph four, second sentence of the Italian Civil Code.

The options attributed by those plans will mature when both the following vesting conditions are met: the continuation of the individual's employment relationship on the options' vesting date, and the achievement of differentiated performance objectives for the period of each tranche commensurate with consolidated EBIT.

Information relating to the tranches of the Stock Options Plans granted on 31<sup>st</sup> December 2017 is shown below.

	<b>Grant date</b>	<b>No. of options</b>	<b>Fair value in Euro</b>	<b>Maturity</b>
<b>Stock Option Plan 2010-2013</b>				
First tranche	05/11/10	-	4.08	31/05/16
Second tranche	16/03/11	-	1.48	31/05/17
Third tranche	08/03/12	165,000	1.06	31/05/18
Fourth tranche	06/03/13	187,500	1.12	31/05/19
Fourth tranche-bis	13/11/13	65,000	1.76	31/05/19
<b>Stock Option Plan 2014-2016</b>				
First tranche	29/04/14	240,000	2.67	31/05/22
Second tranche	05/03/15	-	2.20	31/05/23
Third tranche	14/03/16	525,000	1.56	31/05/24
<b>Stock Option Plan 2017-2020</b>				
First tranche	26/04/17	890,000	1.09	31/05/25



The fair value of the stock options was estimated on the vesting date based on the Black-Scholes model.

The main market inputs of the model used are shown below:

	<b>Share price at grant date</b>	<b>Exercise price in Euro</b>	<b>Expected volatility</b>	<b>Risk free rate</b>
<b>Stock Option Plan 2010-2013</b>				
First tranche	12.00	8.047	29.61%	1.476%
Second tranche	11.70	12.550	32.08%	1.871%
Third tranche	5.33	5.540	46.45%	1.067%
Fourth tranche	8.70	8.470	26.16%	0.382%
Fourth tranche-bis	14.04	14.540	30.62%	0.373%
<b>Stock Option Plan 2014-2016</b>				
First tranche	15.67	15.050	30.00%	1.044%
Second tranche	13.71	13.290	30.00%	0.352%
Third tranche	8.68	8.3509	33.50%	0.364%
<b>Stock Option Plan 2017-2020</b>				
First tranche	6.54	6.540	32.50%	0.291%

The table below shows the changes in the stock option plans occurred during the year:

	No. of options	Average exercise price in Euro
<b>Stock Option Plan 2010-2013</b>		
<b>Outstanding at the beginning of the period</b>	<b>452,500</b>	<b>8.590</b>
Granted	-	-
Forfeited	-	-
Exercised	-	-
Expired	(35,000)	12.550
<b>Outstanding at period-end</b>	<b>417,500</b>	<b>8.258</b>
<b>Stock Option Plan 2014-2016</b>		
<b>Outstanding at the beginning of the period</b>	<b>1,305,000</b>	<b>11.609</b>
Granted	-	-
Forfeited	(540,000)	13.247
Exercised	-	-
Expired	-	-
<b>Outstanding at period-end</b>	<b>765,000</b>	<b>10.452</b>
<b>Stock Option Plan 2017-2020</b>		
<b>Outstanding at the beginning of the period</b>	<b>-</b>	<b>-</b>
Granted	1,020,000	6.540
Forfeited	(130,000)	6.540
Exercised	-	-
Expired	-	-
<b>Outstanding at period-end</b>	<b>890,000</b>	<b>6.540</b>

During the year, 1,020,000 options have been granted related to the first tranche of the new Plan 2017-2020 of which 130,000 have been forfeited for a net amount of 890,000 options, in the same period 540,000 options of the Plan 2014-2016 have been forfeited and 35,000 options of the Plan 2010-2013 have been expired.

Among the options outstanding at the end of the period, the third and the fourth tranche of the Plan 2010-2013 are exercisable until respectively the end of the exercise period set for 31<sup>st</sup> May 2018 and 31<sup>st</sup> May 2019. As far as the Plan 2014-2016 is concerned the first tranche, equal to a total of 240,000, is exercisable from the date of the approval of 2016 financial statements until the expiry of the exercise period set for 31<sup>st</sup> May 2022.

At the date of the approval of these financial statements the total options exercisable still outstanding are equal to 657,500.

The average exercise price for options of the Plan 2010-2013 outstanding at the year-end is equal to 8.258 Euro with an average remaining contract life of 1 years, for the Plan 2014-2016 is equal to 10.452 Euro with an average remaining contract life of 5.8 years, while for the Plan 2017-2020 is equal to 6.540 Euro with an average remaining contract life of 7.4 years.

The adoption of these plans has affected the income statement for the period for 46 thousand Euro (29 thousand Euro at 31<sup>st</sup> December 2016).

# 5. NOTES TO THE CONSOLIDATED INCOME STATEMENT

## 5.1 Net sales

Group sales in 2017 amounted to 1,046,955 thousand Euro, showing a 16.4% decrease compared to the previous year (1,252,931 thousand Euro). For a discussion on sales trends, reference should be made to the report on operations, section on the Group's economic results.

## 5.2 Cost of sales

This item breaks down as follows:

(thousands of Euro)	2017	2016
Purchase of raw materials and finished goods	349,191	380,201
Capitalisation of costs for increase in tangible assets (-)	(7,769)	(8,215)
Change in inventories	(1,286)	(18,554)
Wages and social security contributions	127,457	118,070
Subcontracting costs	17,173	23,716
Amortization and depreciation	20,597	23,910
Rental and operating leases	1,603	955
Utilities, security and cleaning	7,392	7,860
Other industrial costs	13,048	9,360
<b>Total</b>	<b>527,406</b>	<b>537,303</b>

Changes in inventories can be broken down as follows:

(thousands of Euro)	2017	2016
Finished products	(18,002)	(21,453)
Work-in-progress	2,720	652
Raw materials	13,997	2,247
<b>Total</b>	<b>(1,286)</b>	<b>(18,554)</b>

The average number of employees by rank is shown below:

	2017	2016
Executives	125	140
Clerks and middle management	3,271	2,958
Factory workers	3,724	3,971
<b>Total</b>	<b>7,120</b>	<b>7,068</b>

Following the implementation of a new headcount IT system in 2017, the Group has started to include in its workforce count also the sales representatives managed contractually as employees, while related costs have always been included in the profit and loss account. This has caused an increase in the Group workforce figures as at December 2017 equal to 312 employees (as at December 31, 2016 the equivalent amount not included in the workforce count was equal to 274 people). On a like for like basis, excluding these sales agents, the Group's employees therefore decreased by 331.

### 5.3 Selling and marketing expenses

This item breaks down as follows:

(thousands of Euro)	2017	2016
Payroll and social security contributions	121,766	126,554
Sales commissions	50,308	70,601
Royalty expenses	67,969	107,686
Advertising and promotional costs	107,768	129,438
Amortization and depreciation	4,417	6,129
Logistic costs	22,622	21,193
Consultants fees	1,647	1,082
Rental and operating leases	17,006	16,829
Utilities, security and cleaning	1,144	1,085
Provision for risks	597	1,413
Other sales and marketing expenses	20,247	30,807
<b>Total</b>	<b>415,491</b>	<b>512,817</b>

## 5.4 General and administrative expenses

This item breaks down as follows:

(thousands of Euro)	2017	2016
Payroll and social security contributions	68,522	80,632
Allowance and write off of doubtful accounts	4,111	2,324
Amortization and depreciation	17,061	15,257
Professional services	17,098	18,355
Rental and operating leases	10,783	11,415
EDP costs	12,905	10,506
Insurance costs	2,686	2,140
Utilities, security and cleaning	6,201	6,759
Taxes (other than on income)	4,999	5,094
Other general and administrative expenses	9,020	15,277
<b>Total</b>	<b>153,386</b>	<b>167,759</b>

## 5.5 Other operating income (expenses)

This item breaks down as follows:

(thousands of Euro)	2017	2016
Losses on disposal of assets	(506)	(395)
Other operating expenses	(15,712)	(12,971)
Write downs of tangible assets	-	(1,913)
Gains on disposal of assets	21	1,999
Other operating incomes	49,349	11,962
<b>Total</b>	<b>33,152</b>	<b>(1,318)</b>

Other operating income and expenses include cost and revenue components either not related to the Group's ordinary operations or that are of a non-recurring nature. This item does not include transportation costs charged to customers who have been classified as a reduction of the respective cost item.

During the year under "other operating expenses" non-recurring costs of 15,339 thousand Euro were accounted for related to the reorganization of the Ormoz plant in Slovenia, cost saving initiatives and restructuring costs, and to some litigations.

In 2016, non-recurring costs amounting to 7,868 thousand Euro were accounted for and 1,913 thousand Euro for write down of tangible assets, related to overhead cost saving initiatives, such as the integration of the Vale Polaroid lens production into Safilo's China based corporate supply network, and other commercial restructuring costs in the EMEA region.

Other operating incomes include 43,000 thousand Euro (8,000 thousand Euro in 2016) related to part of the total 90,000 thousand Euro accounting compensation for the early termination of the Gucci license. The accounting treatment of the 90,000 thousand Euro compensation has been decided in coherence with the underlying obligations set forth in the Strategic Product Partnership Agreement ("SPPA") signed on January 12, 2015 with Kering Group. According to this, it was deemed appropriate by management to account for the majority of the compensation between 2017 and 2018, respectively 43,000 thousand Euro in 2017 and 39,000 thousand Euro in 2018.

## 5.6 Impairment loss on goodwill

As reported in note 4.8 "Goodwill", the Group has performed the impairment test of goodwill. The impairment test showed a loss of 192,000 thousand Euro (150,000 thousand Euro in 2016) of the goodwill allocated to the Group Cash Generating Units.

## 5.7 Financial charges, net

This item breaks down as follows:

(thousands of Euro)	2017	2016
Interest expenses on loans	725	826
Interest expenses and charges on Bond	6,973	6,744
Bank commissions	6,589	7,204
Negative exchange rate differences	26,549	33,254
Other financial charges	1,059	720
<b>Total financial charges</b>	<b>41,895</b>	<b>48,748</b>
Interest income	208	564
Positive exchange rate differences	22,895	37,069
Fair value gains on the Equity-linked Bond incorporated derivative	484	3,129
Other financial income	4,312	1,632
<b>Total financial income</b>	<b>27,899</b>	<b>42,394</b>
<b>TOTAL FINANCIAL CHARGES, NET</b>	<b>13,996</b>	<b>6,354</b>

The item "Fair value gains" is related to the valuation at mark-to-market of the derivative embedded in the "equity-linked" Bonds.

The item exchange rate differences includes gains and losses on valuation of financial instruments related to forward contracts at fair value through profit or loss amounted to a loss of 2,233 thousand Euro (a gain of 73 thousand Euro in 2016).

## 5.8 Income taxes

This item breaks down as follows:

(thousands of Euro)	2017	2016
Current tax	(8,004)	(15,679)
Deferred tax	(21,392)	(3,800)
<b>Total</b>	<b>(29,396)</b>	<b>(19,479)</b>



The taxes for the year can be reconciled with the theoretical tax burden as follows:

(thousands of Euro)	%	2017	%	2016
<b>Profit/(Loss) before taxation</b>	<b>100%</b>	<b>(222,171)</b>	<b>100%</b>	<b>(122,621)</b>
Income tax benefit (expense) at statutory rate	-24.0%	53,321	-27.5%	33,721
IRAP and other local taxes	0.8%	(1,720)	2.3%	(2,833)
Taxes relating to prior years	-0.4%	862	-4.4%	5,387
Foreign tax rate differential	1.6%	(3,477)	2.5%	(3,073)
Non taxable income	-0.2%	511	-0.7%	825
Non deductible costs	0.2%	(537)	4.5%	(5,463)
Impairment of goodwill not deductible	20.7%	(46,080)	33.6%	(41,251)
Non-recognition of new DTAs and write-off of existing DTAs	12.4%	(27,537)	10.0%	(12,297)
Benefit arising from unrecognized DTA of prior years	-0.3%	673	-0.9%	1,062
Deferred tax expense for changes in tax rate	1.1%	(2,504)	0.6%	(716)
Tax Credit and tax relief	-0.1%	285	-4.5%	5,542
Other differences	1.4%	(3,193)	0.3%	(384)
<b>Total</b>	<b>13.2%</b>	<b>(29,396)</b>	<b>15.9%</b>	<b>(19,479)</b>

Theoretical income taxes are calculated at 24.0 % on the consolidated result before tax: this percentage represents the statutory corporate income tax rate (IRES) applicable at the Italian holding company level. The Group effective tax rate is primarily affected by the significant non-recurring items not tax deductible that have affected the result before tax of the period and by the non recognition and write-down of deferred tax assets related to some legal entities for which the realization of sufficient future taxable profits were not considered probable enough to support the recognition of the related deferred tax assets.

Of the above, the deferred tax expense for change in tax rate represents mainly the impact of the reduced US federal tax rate introduced by the US tax reform on the deferred tax assets and liabilities balances. The other differences are mainly affected by the 3,000 thousand Euro provision for tax risks and charges.

## 5.9 Earnings per share

The calculation of basic and diluted earnings per share is shown in the tables below:

<b>Basic</b>	<b>2017</b>	<b>2016</b>
Profit/(Loss) for ordinary shares (in thousands of Euro)	(251,567)	(142,101)
Average number of ordinary shares (in thousands)	62,660	62,640
<b>Earnings/(Losses) per share - basic (in Euro)</b>	<b>(4.015)</b>	<b>(2.269)</b>

<b>Diluted</b>	<b>2017</b>	<b>2016</b>
Profit/(Loss) for ordinary shares (in thousands of Euro)	(251,567)	(142,101)
Profit for preferred shares	-	-
<b>Profit in income statement</b>	<b>(251,567)</b>	<b>(142,101)</b>
Average number of ordinary shares (in thousands)	62,660	62,640
<i>Dilution effects:</i>		
- Convertible Bond (in thousands)	-	-
- stock option (in thousands)	16	52
<b>Total</b>	<b>62,676</b>	<b>62,692</b>
<b>Earnings/(Losses) per share - diluted (in Euro)</b>	<b>(4.014)</b>	<b>(2.267)</b>

As for the bond "Safilo Group S.p.A. equal to 150.000 thousand Euro, 1.25 per cent Guaranteed Equity-Linked Bond due 2019", based on current market and conversion conditions, no dilutive effect was considered.

## 5.10 Dividends

The parent company Safilo Group S.p.A. did not distribute dividends to shareholders during 2017.

## 5.11 Segment information

The operating segments (Wholesale and Retail) were identified by management in line with the management and control model used for the Group. In particular, the criteria applied for the identification of these segments was based on the ways in which management leads the Group and attributes operational responsibilities.

Below we provide disclosure by segment for the financial years ended on 31<sup>st</sup> December 2017 and 2016.

(thousands of Euro)	December 31, 2017			
	WHOLESALE	RETAIL	Eliminat.	Total
<b>Net sales</b>				
- to other segment	11,125	-	(11,125)	-
- to third parties	981,667	65,288	-	1,046,955
<b>Total net sales</b>	<b>992,792</b>	<b>65,288</b>	<b>(11,125)</b>	<b>1,046,955</b>
<b>Gross profit</b>	<b>482,940</b>	<b>36,610</b>	<b>-</b>	<b>519,550</b>
<b>Operating profit</b>	<b>(198,204)</b>	<b>(9,971)</b>	<b>-</b>	<b>(208,175)</b>
Share of income of associates	-	-	-	-
Financial charges, net				(13,996)
Income taxes				(29,396)
<b>Net profit</b>				<b>(251,567)</b>
Segment assets	874,560	44,275		918,835
Investment in associates	-	-		-
Unallocated corporate assets				241,651
<b>Consolidated total assets</b>				<b>1,160,487</b>
Segment liabilities	373,176	3,724		376,900
Unallocated corporate liabilities				250,382
<b>Consolidated total liabilities</b>				<b>627,282</b>
<b>Other information</b>				
Capital expenditure	39,274	951		40,226
Depreciation & amortization	40,235	1,840		42,075
Impairment loss on goodwill	192,000	-		192,000
Non cash items other than depreciation and amortization	8,439	-		8,439

(thousands of Euro)	December 31, 2016			
	WHOLESALE	RETAIL	Eliminat.	Total
<b>Net sales</b>				
- to other segment	11,950	-	(11,950)	-
- to third parties	1,177,767	75,164	-	1,252,931
<b>Total net sales</b>	<b>1,189,717</b>	<b>75,164</b>	<b>(11,950)</b>	<b>1,252,931</b>
<b>Gross profit</b>	<b>670,703</b>	<b>44,924</b>	<b>-</b>	<b>715,627</b>
<b>Operating profit</b>	<b>(110,936)</b>	<b>(5,331)</b>	<b>-</b>	<b>(116,267)</b>
Share of income of associates	-	-	-	-
Financial charges, net				(6,354)
Income taxes				(19,479)
<b>Net profit</b>				<b>(142,100)</b>
Segment assets	991,366	46,143		1,037,509
Investment in associates	-	-		-
Unallocated corporate assets				489,552
<b>Consolidated total assets</b>				<b>1,527,061</b>
Segment liabilities	409,993	4,386		414,379
Unallocated corporate liabilities				239,878
<b>Consolidated total liabilities</b>				<b>654,257</b>
<b>Other information</b>				
Capital expenditure	49,340	3,040		52,380
Depreciation & amortization	43,948	3,261		47,209
Impairment loss on goodwill	150,000	-		150,000
Non cash items other than depreciation and amortization	(14,646)	(140)		(14,786)

## Breakdown of revenues and non-current assets by geographic area

(thousands of Euro)	Revenue from external customers		Non-current assets	
	2017	2016	December 31, 2017	December 31, 2016
Italy <sup>(1)</sup>	271,254	280,416	178,884	210,588
Europe <sup>(2)</sup>	240,389	301,134	114,673	177,934
America <sup>(3)</sup>	471,700	560,186	155,499	270,544
Asia <sup>(4)</sup>	63,613	111,195	36,452	87,650
<b>Total</b>	<b>1,046,955</b>	<b>1,252,931</b>	<b>485,508</b>	<b>746,716</b>

(1) Operating companies with registered head office in Italy.

(2) Operating companies with registered head office in European countries (other than Italy), United Arab Emirates and in South Africa.

(3) Operating companies with registered head office in USA, Canada, Mexico and Brazil.

(4) Operating companies with registered head office in the Far East, Australia and India.

It must be noted that the grouping by geographic area depends on the location of the registered head office of each Group company; therefore the sales identified in accordance with this segmentation are determined by origin of invoicing and not by target market.

Non-current assets don't include derivative financial instruments and deferred tax assets.

## 6. TRANSACTIONS WITH RELATED PARTIES

In compliance with applicable legislative and regulatory requirements, on 23<sup>rd</sup> March 2007 the parent company's Board of Directors passed a resolution indicating and adopting a number of guidelines to govern transactions of major strategic, economic, capital or financial significance for the Company – including those undertaken with related parties. The aim of the guidelines is to establish competences and responsibilities concerning significant transactions and to assure their transparency and material and procedural correctness. Our notion of related party is based on the definition given in IAS 24.

Following the resolution CONSOB 17721 of March 12<sup>th</sup> 2010, as amended by Resolution No. 17389 of 23<sup>rd</sup> June 2010, the Board of Directors of November 5<sup>th</sup>, 2010 approved the "Regulations for the transactions with related parties", which replaces those guidelines, by adopting procedures that ensure transparency and fairness and procedural related party transactions.

The tables below shows the operating and financial figures determined by related party transactions as of 31<sup>st</sup> December 2017 and 31<sup>st</sup> December 2016.

<b>Related parties transactions Balance sheet</b>				
(thousands of Euro)		<b>Relationship</b>	<b>December 31, 2017</b>	<b>December 31, 2016</b>
<b>Receivables</b>				
Companies controlled by HAL Holding N.V.	(a)		10,393	20,965
<b>Total</b>			<b>10,393</b>	<b>20,965</b>
<b>Payables</b>				
Companies controlled by HAL Holding N.V.	(a)		4,998	8,386
<b>Total</b>			<b>4,998</b>	<b>8,386</b>

<b>Related parties transactions Income statement</b>				
(thousands of Euro)		<b>Relationship</b>	<b>2017</b>	<b>2016</b>
<b>Revenues</b>				
Companies controlled by HAL Holding N.V.	(a)		57,004	79,916
<b>Total</b>			<b>57,004</b>	<b>79,916</b>
<b>Operating expenses</b>				
Companies controlled by HAL Holding N.V.	(a)		6,352	10,216
<b>Total</b>			<b>6,352</b>	<b>10,216</b>

(a) Companies controlled by Group's reference Shareholder.

Transactions with related parties, including intercompany transactions, involve the purchase and sale of products and provision of services on an arm's length basis, similarly to what is done in transactions with third parties.

In regard to the table illustrated above, note that the companies of HAL Holding N.V., primary shareholder of Safilo Group, mainly refer to the retail companies belonging to the GrandVision Group, with which Safilo carries out commercial transactions in line with market conditions.

The remuneration of the Group's Directors, Statutory Auditors and Strategic Management is reported below:

(thousands of Euro)	2017	2016
<b>Directors</b>		
Salaries ad short term compensations	1,513	1,693
Non monetary benefits	89	41
Other compensations	70	1,529
Fair value of equity compensations	51	90
<b>Statutory auditors</b>		
Fixed compensations and compensations for participation in committees	341	286
<b>Managers with strategic responsibilities</b>		
Salaries ad short term compensations	462	806
Non monetary benefits	13	16
Other compensations	3	43
Fair value of equity compensations	11	53
Indemnity for end of position or cessation of employment relationship	-	-
<b>Total</b>	<b>2,552</b>	<b>4,557</b>

## 7. CONTINGENT LIABILITIES

The Group does not have any significant contingent liabilities not covered by adequate provisions. Nevertheless, as of the balance sheet date, various legal actions involving the parent company and certain Group companies were pending and mainly against sales representatives. These actions are considered to be groundless and/or their eventual negative outcome cannot be determined at this stage.

## 8. COMMITMENTS

### Licensing agreements:

At the balance sheet date, the Group had contracts in force with licensors for the production and sale of sunglasses and frames bearing their trademark. The contracts not only establish minimum guarantees, but also a commitment for advertising investments.

Commitments related to these minimum guarantees, estimated on the basis of information available at the reporting date, are summarized detailed by maturity as follow:

<b>Licensing commitments</b> (thousands of Euro)	<b>December 31, 2017</b>	<b>December 31, 2016</b>
within 1 year	113,225	120,472
between 1 and 3 years	215,427	232,822
between 3 and 5 years	97,021	168,390
beyond 5 years	36,348	77,140
<b>Total</b>	<b>462,020</b>	<b>598,824</b>

### Rent and operating leases:

The Group, at the balance sheet date, had various contracts for rent or operating leases, mainly related to offices and showrooms of its trading subsidiaries and to the stores of the American retail chain, as well as the lease of the data processing equipment and the car fleet.

Commitments related to these contracts, estimated on the basis of information available at the reporting date are summarized detailed by maturity as follow:

<b>Rent and operating lease commitments</b> (thousands of Euro)	<b>December 31, 2017</b>	<b>December 31, 2016</b>
within 1 year	18,711	23,228
between 1 and 3 years	28,604	35,380
between 3 and 5 years	18,574	24,656
beyond 5 years	18,753	32,918
<b>Rent due</b>	<b>84,642</b>	<b>116,182</b>
within 1 year	5,669	7,154
between 1 and 3 years	6,197	7,821
between 3 and 5 years	598	942
beyond 5 years	-	4
<b>Operating lease</b>	<b>12,465</b>	<b>15,920</b>
<b>Total</b>	<b>97,106</b>	<b>132,102</b>



## 9. SUBSEQUENT EVENTS

In the period following 31<sup>st</sup> December 2017, there were no events in addition to those reported in the paragraph “Significant events after the year-end and outlook” included in the Report on operations, that might affect to a significant extent the data contained in this document.

## 10. SIGNIFICANT NON-RECURRING EVENTS AND TRANSACTIONS

At the balance sheet date the Group did not undertake any significant non-recurring transactions pursuant to the Consob Communication dated 28<sup>th</sup> July 2006.

## 11. TRANSACTIONS RESULTING FROM UNUSUAL AND/OR ABNORMAL OPERATIONS

Pursuant to Consob Communication of 28<sup>th</sup> July 2006, in 2017 the Group did not put in place any unusual and/or atypical operations, as defined in the said Communication.

# APPENDIX

## INFORMATION REQUESTED BY ART. 149-DUODECIES OF THE REGULATION ON ISSUERS ISSUED BY CONSOB

The following table, prepared in accordance with Art. 149-duodecies of the Regulation on Issuers issued by Consob, reports the amount of fees charged in 2017 relating to the audit and other audit related services rendered by the same Audit company.

(thousands of Euro)	<b>Audit Company</b>		<b>Safilo Group's company which received services</b>	<b>Fees 2017</b>
Audit (*)	Deloitte & Touche S.p.A.	Holding Company - Safilo Group S.p.A.		60
	Deloitte & Touche S.p.A.		Subsidiaries	167
	Network Deloitte & Touche S.p.A.		Subsidiaries	789
Attestation	Deloitte & Touche S.p.A.	Holding Company - Safilo Group S.p.A.		123
	Deloitte & Touche S.p.A.		Subsidiaries	34
	Network Deloitte & Touche S.p.A.		Subsidiaries	98
Other services	Deloitte & Touche S.p.A.	Holding Company - Safilo Group S.p.A.		38
	Deloitte & Touche S.p.A.		Subsidiaries	-
	Network Deloitte & Touche S.p.A.		Subsidiaries	15
<b>Total</b>				<b>1,324</b>

(\*) This item includes fees for the audit of the consolidated financial statements of the Group amounted to Euro 34.8 thousand.

## ATTESTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ART. 154-bis of Legislative Decree 58/98

**1.** The undersigned Eugenio Razelli, as Chairman of the Board of Directors, and Gerd Graehsler, as the manager responsible for preparing Safilo Group S.p.A.'s financial statements, hereby attest, having also taken into consideration the provisions of Article 154-bis, paragraphs 3 and 4, of Italian Legislative Decree 58 of 24<sup>th</sup> February 1998:

- the adequacy with respect to the company structure and
- the effective application,

of the administrative and accounting procedures for the preparation of the consolidated financial statements for the 2017 fiscal year.

**2.** The assessment of the adequacy of the administrative and accounting procedures used for the preparation of the statutory financial statements at 31<sup>st</sup> December 2017 was based on a process defined in accordance with the theoretical reference model CoSO Report – Internal Control Integrated Framework, an internationally generally accepted reference framework.

**3.** The undersigned also attest that:

**3.1** the consolidated financial statements for the year ended on 31<sup>st</sup> December 2017:

- a. have been prepared in accordance with International Financial Reporting Standards, as endorsed by the European Union through Regulation (EC) 1606/2002 of the European Parliament and Council, dated 19<sup>th</sup> July 2002;
- b. correspond to the amounts shown in the Company's accounts, books and records;
- c. provide a fair and correct representation of the financial conditions, results of operations and cash flows of the Company and its consolidated subsidiaries.

**3.2** The report on operations includes a reliable operating and financial review of the Company and of the Group as well as a description of the main risks and uncertainties to which they are exposed.

13<sup>th</sup> March 2018

The Chairman

*Eugenio Razelli*

The manager responsible for preparing  
the company's financial statements

*Gerd Graehsler*

# REPORT OF INDEPENDENT AUDITORS



Deloitte & Touche S.p.A.  
Via N. Tommaseo, 78/C int. 3  
35131 Padova  
Italia

Tel: +39 049 7927911  
Fax: +39 049 7927979  
www.deloitte.it

## INDEPENDENT AUDITOR'S REPORT PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010 AND ARTICLE 10 OF THE EU REGULATION 537/2014

To the Shareholders of  
Safilo Group S.p.A.

### REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

#### Opinion

We have audited the consolidated financial statements of Safilo Group S.p.A. and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05.

#### Basis for Opinion

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

#### Key Audit Matters

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

#### Inventory provisioning

##### *Description of the key audit matter*

As disclosed in Note 4.3, as of December 31, 2017 the Group has inventories for Euro 258 million, net of an obsolescence reserve of Euro 97 million. The Group manufactures and sells goods which are subject to changes in market trends and in customers' demand, and as a consequence a significant level of Management's judgement is required to determine the appropriate inventory provisioning, on the basis of sales forecasts.

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We considered the relevance of the obsolescence reserve and of the inventory amount which, as of December 31, 2017, represents about 22% of consolidated assets and about 49% of the cost of goods sold; we also considered the significant impact of the annual obsolescence provision on the economic results of the Group and we assessed that the determination of the obsolescence reserve represents a key audit matter for the audit of Safilo Group's consolidated financial statements.

#### *Audit procedures*

We preliminarily analyzed the principles and criteria applied by the Group to determine the obsolescence provision, which mainly include considerations about commercial policies, sales forecasts and the historical usage of stock.

We performed, among others, the following audit procedures, supported by the information technology experts belonging to our network:

- Understanding of the relevant controls designed and implemented by Safilo Group in the process of determining the inventory provisioning;
- Analysis of the reasonableness of the main assumptions adopted to identify continuous and discontinued products and related sales forecasts, and analysis of the algorithms and criteria applied in the calculation;
- Test of the correct execution of the calculation of the provision based on the algorithms adopted by Group Management;
- Analysis of specific events which impacted the determination of the provision (e.g. interruption of licences);
- Group level analysis of coherence of the provision's variation and, for the main components, analysis of the coherence of the provision with the policies established by Group Management.

#### **Impairment of goodwill**

##### *Description of the key audit matter*

As disclosed in Note 4.8, as of December 31, 2017 Safilo Group displays a goodwill of Euro 220 million, net of the impairment loss of Euro 192 million recognized in 2017, allocated to three different Cash Generating Units (CGU), named Emea, Far East and Americas referred to the geographical areas. As required by IAS 36 "Impairment of assets", goodwill is not subject to amortization but is subject to an impairment test at least on an annual basis which compares the recoverable value of the CGU – based on the value in use methodology – and the carrying value which includes goodwill and other tangible and intangible assets allocated to the CGU. As above mentioned, according to the outcome of the impairment test, an impairment loss on goodwill was recognized for total Euro 192 million, of which Euro 62 million attributable to the Emea CGU, Euro 40 million attributable to the Far East CGU and Euro 90 million attributable to the Americas CGU.

The impairment test as of December 31, 2017 is based on the preliminary business plan for the period 2018 – 2022 (the "Plan"), approved by the Board of Directors, which includes certain key assumptions regarding sales and cost reduction initiatives. With reference to these assumptions, the Directors disclosed that some limited aspects of variability exist concerning the appointment of the new CEO, who is required to endorse the plan's guidelines, detail the related execution plan and finalize it. In addition, the process of performing the impairment test is complex and is based on assumptions related, among others, to the expectations in term of cash flows for each CGU, the determination of appropriate discount rates (Wacc) and long-term growth (g-rate). Those estimates depend on factors which may change in time, with possible effects which may be significant on Management's assessment.

Note 4.8 also includes the Directors' considerations about the difference between the market capitalization of the Group as at the financial statements date and the equity value resulting from the consolidated financial statements.

We considered the relevance of the goodwill amount which, as of December 31, 2017, represents about 19% of consolidated assets and the significance of the impairment loss of Euro 192 million recognized in the period; we considered the subjectivity of the estimates underlying the determination of the cash flows for each CGU and the key variables of the impairment test; we also took into account the negative results obtained by the Group in the last two years and the evolution of the business environment and corporate governance. As a result we assessed that the impairment of goodwill represents a key audit matter for the audit of Safilo Group's consolidated financial statements.

#### *Audit procedures*

We preliminarily analyzed the approach used by Management to determine the value in use for each CGU, analyzing the methodology and assumptions used by Management to perform the impairment test.

We performed, among others, the following audit procedures, supported by the experts belonging to our network:

- Detection and understanding of the relevant controls designed and implemented by Safilo Group in the process of performing the impairment test;
- Analysis of the reasonableness of the main assumptions adopted to prepare the expectations in terms of cash flows, also using industry data with reference to the trend of sales and marginality, and obtaining information from Management;
- Analysis of the actual results obtained by the Group compared to the expectations, in order to investigate the nature of the variations and evaluate the reliability of the planning process;
- Analysis of the reasonableness of the discount rates (Wacc) and long-term growth (g-rate);
- Test of the clerical accuracy of the model used to calculate the value in use for each CGU;
- Test of the accuracy of the determination of the carrying value of each CGU and comparison with the recoverable value resulting from the impairment test;
- Analysis of the alternative scenarios prepared by Management and of the related sensitivity analysis;
- Analysis of the reasonableness of the Management's considerations about the difference between the market capitalization of the Group and the equity value resulting from the consolidated financial statements.

We developed autonomous sensitivity analysis aimed at estimating the impact on the results of the impairments test of a situation in which the Group would not meet the business plan expectations, in terms of achieving the planned sales volumes and marginality.

Finally we verified the compliance of the disclosure on the impairment test provided by the Group to the requirements of IAS 36.

#### **Recoverability of deferred tax assets**

##### *Description of the key audit matter*

As disclosed in Note 4.9, as of December 31, 2017 the Group presents deferred tax assets for Euro 69 million, mainly related to timing differences resulting from allowances and, prudently, to a part of the losses carried forward. The amount of deferred tax assets is presented net of a provision of Euro 78 million for potential tax benefits considered not recoverable based on the expected profitability, of which Euro 22 million recognized in 2017.

As disclosed in the Notes to the financial statements, the valuation about the recoverability of deferred tax assets derives from specific assumption regarding the probability to obtain future taxable income and that they will be sufficient to allow the recoverability of the deferred tax assets. Those assumptions are based on hypotheses related to sales and cost reductions which may not be realized, or realized in an insufficient amount compared to what is needed to entirely recover the deferred tax assets.

We considered the relevance of the amount of the deferred tax assets. We also considered the subjectivity of estimates together with the negative economic trend of the Group. As a result we assessed that the recoverability of deferred tax assets represents a key audit matter for the audit of Safilo Group's consolidated financial statements.

#### *Audit procedures*

We performed, among others, the following audit procedures, supported by the tax experts belonging to our network:

- Detection and understanding of the relevant controls designed and implemented by Safilo Group in the process of evaluating the recoverability of deferred tax assets;
- Test and recalculation of the timing differences and losses carried forward which caused the recognition of deferred tax assets;
- Analysis of the criteria applied to determine the tax rate that will be effective in the countries and at the time in which the main timing differences will reverse, based on laws and regulation enforced at the closing date;
- Analysis of the reasonableness of the main assumptions used to prepare the expectations of future taxable income and evaluation of the probability that this taxable income will be sufficient to absorb the reversal of the deferred tax assets;
- Analysis of the reliability of the planning process.

Finally we verified the compliance of the disclosure on the recoverability of deferred tax assets provided by the Group to the requirements of IAS 12.

#### **Responsibilities of the Directors and the Board of Statutory Auditors 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 International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05, and, within the terms established by law, for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of the Company or the termination of the business or have no realistic alternatives to such choices.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in 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 International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional skepticism 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 management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the 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 auditor's 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 an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence applicable in Italy, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report.

**Other information communicated pursuant to art. 10 of the EU Regulation 537/2014**

The Shareholders' Meeting of Safilo Group S.p.A. has appointed us on 15 April 2014 as auditors of the Company for the years from 31 December 2014 to 31 December 2022.

We declare that we have not provided prohibited non-audit services referred to in art. 5 (1) of EU Regulation 537/2014 and that we have remained independent of the Company in conducting the audit.

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to the Board of Statutory Auditors, in its role of Audit Committee, referred to in art. 11 of the said Regulation.

**REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS****Opinion pursuant to art. 14 paragraph 2 (e) of Legislative Decree 39/10 and art. 123-bis, paragraph 4, of Legislative Decree 58/98**

The Directors of Safilo Group S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and the ownership structure of Safilo Group as at 31 December 2017, including their consistency with the related consolidated financial statements and their compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and some specific information contained in the report on corporate governance and the ownership structure set forth in art. 123-bis, n. 4 of Legislative Decree 58/98, with the consolidated financial statements of Safilo Group as at 31 December 2017 and on their compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the above-mentioned report on operations and some specific information contained in the report on corporate governance and the ownership structure are consistent with the consolidated financial statements of Safilo Group as at 31 December 2017 and is prepared in accordance with the law.

With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/10, made on the basis of the knowledge and understanding of the Group and of the related context acquired during the audit, we have nothing to report.

**Statement pursuant to art. 4 of the Consob Regulation for the implementation of Legislative Decree 30 December 2016, no. 254**

The Directors of Safilo Group S.p.A. are responsible for the preparation of the non-financial statement pursuant to Legislative Decree 30 December 2016, no. 254.

The Deloitte logo, consisting of the word "Deloitte" in a bold, black, sans-serif font, followed by a small green dot.

7

We verified the approval by the Directors of the non-financial statement.

Pursuant to art. 3, paragraph 10 of Legislative Decree 30 December 2016, no. 254, this statement is subject of a separate attestation issued by us.

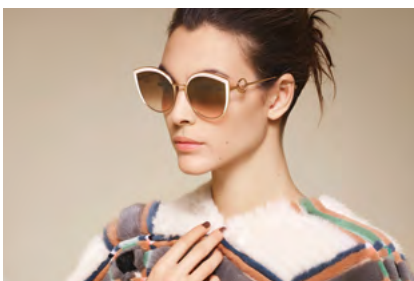
DELOITTE & TOUCHE S.p.A.

Signed by  
**Giorgio Moretto**  
Partner

Padova, Italy  
March 23, 2018

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





# 4

SAFILO GROUP S.p.A.  
STATUTORY FINANCIAL  
STATEMENTS AT  
DECEMBER 31<sup>ST</sup> 2017



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# DIRECTORS OPERATIONS REPORT

## Introduction

Safilo Group S.p.A. was incorporated on 14<sup>th</sup> October 2002. It is the holding company of Safilo Group and performs planning and coordination activities, as defined in article 2497 et seq. of the Italian Civil Code, for the following member companies:

- Safilo S.p.A., directly controlled;
- Lenti S.r.l., 100% of the share capital indirectly controlled through Safilo S.p.A.;
- Safilo Industrial S.r.l., 100% of the share capital indirectly controlled through Safilo S.p.A.

As required by article 40.2/bis of Legislative Decree 127 of 9<sup>th</sup> April 1991, the annual Financial Statements and Directors' Report are submitted together with the consolidated Financial Statements and the Directors' Report on the consolidated Financial Statements; the information required by article 2428 of the Civil Code is therefore contained in the Directors' Report on the consolidated Financial Statements.

## Subsidiaries

Safilo Group S.p.A. owns 95.201% of the share capital of subsidiary Safilo S.p.A.. The remainder is owned by Safilo S.p.A. in own shares.

The subsidiary Safilo S.p.A. is a wholesaler of prescription frames, sunglasses and sports articles sold under its own brands and licensed brands of international prestige. Production is carried on in three factories, all in Italy, while distribution takes place through agents, distributors or subsidiaries located in Europe, America, Asia, Australia and Africa.

## Dealings with subsidiaries

The Company joined the tax consolidation programme in the capacity of parent company, while Safilo S.p.A., Lenti S.r.l. and Safilo Industrial S.r.l. joined in the capacity of subsidiaries. Moreover Safilo Group S.p.A., acting in the capacity of parent company, Safilo S.p.A. and Safilo Industrial S.r.l., acting in the capacity of subsidiaries, subscribed to the VAT offsetting procedure laid down by the Ministerial Decree of 13<sup>th</sup> December 1979 (known as "Group VAT mechanism").



Dealings with the other companies in the Group are carried out at arm's length principle, and no atypical and/or unusual operations with them took place during the year.

## Financial year 2017

(thousand of Euro)	<b>Receivables</b>	<b>Payables</b>	<b>Income</b>	<b>Financial Income</b>	<b>Costs</b>
Safilo S.p.A.	8,485	(35,639)	693	-	(304)
Lenti S.r.l. (held by Safilo S.p.A.)	2,338	-	-	-	-
Safilo Industrial S.r.l. (held by Safilo S.p.A.)	18,226	-	182	-	-
Safilo D.O.O. Ormoz (held by Safilo S.p.A.)	11	-	11	-	-
Safilo Far East Ltd. (held by Safilo S.p.A.)	-	(66)	-	-	-
Safilo USA Inc. (held by Safilo S.p.A.)	298	(36)	298	-	-

The receivables from the subsidiary Safilo S.p.A. were as follows:

- Euro 7,789 thousand for dividends resolved on by Safilo S.p.A. but not yet collected at the prior year Financial Statements date. Over 2017 fiscal year a total of Euro 5,800 thousand were received in dividends;
- Euro 695 thousand for sums charged to the subsidiary for legal and tax services performed on its behalf.

The payables to subsidiary Safilo S.p.A. were as follows:

- Euro 576 thousand relating to the transfer from Safilo S.p.A. of benefits deriving from the assignment of tax losses and withholding tax resulting from its income tax return after joining the national tax consolidation scheme;
- Euro 2,355 thousand payable to Safilo S.p.A. for advances received;
- Euro 695 thousand for the debt payable to the subsidiary for services rendered;
- Euro 32,012 thousand for the VAT credit transferred by Safilo S.p.A. to the parent company as a result of the Group VAT mechanism.

The income from Safilo S.p.A. related to charges made for administrative, legal, accounting and tax services performed on its behalf.

The costs payable to subsidiary Safilo S.p.A. related to the charge made by Safilo S.p.A. for services performed on behalf of the parent company.

The receivables from subsidiary Lenti S.r.l. relate to the transfer of tax and to the receivables for withholding tax assigned to the consolidation programme.

The receivables, and the related income, from subsidiary Safilo Far East Ltd. and Safilo USA inc. relate to the recharge of the costs for the seconded staff.

## Financial year 2016

(thousand of Euro)	Receivables	Payables	Income	Financial Income	Costs
Safilo S.p.A.	14,002	(8,459)	412	-	(25)
Lenti S.r.l. (held by Safilo S.p.A.)	2,101	-	-	-	-
Safilo Far East Ltd. (held by Safilo S.p.A.)	346	-	161	-	-
Safilo USA Inc. (held by Safilo S.p.A.)	120	-	154	-	-

The receivables from subsidiary Safilo S.p.A. were as follows:

- Euro 13,590 thousand for dividends resolved on by Safilo S.p.A. but not yet collected at the prior year Financial Statements date. Over 2016 fiscal year a total of Euro 5,900 thousand were received in dividends;
- Euro 412 thousand for sums charged to the subsidiary for administrative, accounting, legal and tax services performed on its behalf.

The payables to subsidiary Safilo S.p.A. were as follows:

- Euro 531 thousand relating to the transfer from Safilo S.p.A. of benefits deriving from the assignment of tax losses and withholding tax resulting from its income tax return after joining the national tax consolidation scheme;
- Euro 1,702 thousand payable to Safilo S.p.A. for advances received;
- Euro 376 thousand for the debt payable to the subsidiary for services rendered;
- Euro 5,848 thousand for the VAT credit transferred by Safilo S.p.A. to the parent company as a result of the Group VAT mechanism.

The income from Safilo S.p.A. related to charges made for administrative, legal, accounting and tax services performed on its behalf.

The costs payable to subsidiary Safilo S.p.A. related to the charge made by Safilo S.p.A. for services performed on behalf of the parent company.

The receivables from subsidiary Lenti S.r.l. relate to the transfer of tax and to the receivables for withholding tax assigned to the consolidation programme.

The receivables, and the related income, from subsidiary Safilo Far East Ltd. and Safilo USA inc. relate to the recharge of the costs for the seconded staff.

## Data protection obligations

As done in the past, also in 2017 activities for the analysis and monitoring of procedures and documentation regarding the mapping of security checks and measures regarding security obligations provided by the current legislation on personal data protection were carried out, leading to a detailed data protection assessment supplied by dedicated third parties.

The new General Data Protection Regulation (GDPR), which entered into force on 24 May 2016, will apply to every state of the European Union as of May 2018, and will involve the abrogation of the Privacy Code as per legislative decree n. 196/2003. The action plan of all the activities to be put in place in compliance with and in the provided terms by the above-mentioned regulation has already been drafted based on the data protection assessment and is currently in progress.

It is known that the law decree n.1/2012, the so-called "Simplification Decree", had already eliminated any legal requirements to provide programmatic security documents – which according to the previous regime were to be prepared every year within March 31 – in favor of a simple check-list system. This will also be replaced, as of 25 May, by a self-assessment on the adequacy of the measures, consistent with the risk profile of the various treatments.

## Significant events after year-end

On February 16, 2018 the Board of Directors of Safilo Group S.p.A. informed that Ms. Luisa Delgado, its CEO, has decided, for personal reasons, to retire starting from February 28, 2018, from the office of Director and Chief Executive Officer of Safilo Group S.p.A. as well from the offices of Sole Director of Safilo Industrial S.r.l. and Sole Director of Safilo S.p.A.. The Board of Directors of Safilo Group S.p.A. accepted the resignations accordingly. The Board of Directors of Safilo Group, and Ms. Delgado have mutually agreed to terminate the contractual relationship existing between them.

Safilo Group S.p.A. has then entered into an agreement with Angelo Trocchia governing the entry of the same into Safilo Group, with effect starting from April 1, 2018. According to the agreement – executed among Angelo Trocchia, Safilo Group S.p.A. and Multibrands Italy B.V., the reference shareholder of the Company - Mr Trocchia will enter Safilo Group as officer of Safilo Group S.p.A. with effect from April 1, 2018 and, at the annual shareholders' meeting to be held on April 24 (i.e. upon expiry of the Board of Directors currently in office), Angelo Trocchia will be on the list to be filed by Multibrands Italy B.V., in order to become a Director and CEO of Safilo Group S.p.A.. Angelo Trocchia will also hold the office of Sole Director of Safilo S.p.A. and Safilo Industrial S.r.l., subsidiaries of Safilo Group.

Until the appointment of a new Chief Executive Officer, the Board of Directors has granted interim powers to the Chairman, Mr. Eugenio Razelli.

In the period following 31 December 2017, there were no further events in addition to those reported above that might affect to a significant extent the data contained in this document.

for the Board of Directors  
Chairman  
*Eugenio Razelli*

# RESOLUTIONS REGARDING THE RESULT FOR THE YEAR

We submit for your approval the financial statements for the financial year ending on 31<sup>st</sup> December 2017, drafted according to the IFRS International Accounting Standards, and recommend that the loss for the year, amounting to Euro 247,480,014 be carried forward.

for the Board of Directors  
Chairman  
*Eugenio Razelli*

# STATUTORY FINANCIAL STATEMENTS

## Balance Sheet

(Euro)	Notes	December 31, 2017	December 31, 2016
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	4.1	175,305	334,104
Trade receivables	4.2	1,183,774	992,511
Other current assets	4.3	43,593,648	23,786,601
<b>Total current assets</b>		<b>44,952,727</b>	<b>25,113,216</b>
<b>Non-current assets</b>			
Investments in subsidiaries	4.4	669,317,389	903,256,718
Deferred tax assets	4.5	-	1,904,084
Other non-current assets	4.6	2,355,702	2,100,523
<b>Total non-current assets</b>		<b>671,673,091</b>	<b>907,261,325</b>
<b>TOTAL ASSETS</b>		<b>716,625,818</b>	<b>932,374,541</b>

(Euro)	Notes	December 31, 2017	December 31, 2016
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Trade payables	4.7	1,884,551	1,036,740
Tax payables	4.8	369,358	181,234
Other current liabilities	4.9	35,229,553	8,251,675
Provision for risk and charges	4.12	-	1,144,018
<b>Total current liabilities</b>		<b>37,483,462</b>	<b>10,613,667</b>
<b>Non-current liabilities</b>			
Long-term borrowings	4.10	142,491,167	137,393,195
Employee benefit liability	4.11	112,794	49,763
Provision for risk and charges	4.12	-	-
Derivative financial instruments	4.13	152	484,473
Deferred tax liability	4.5	96,548	-
Other non-current liabilities	4.14	576,368	531,485
<b>Total non-current liabilities</b>		<b>143,277,029</b>	<b>138,458,916</b>
<b>Total liabilities</b>		<b>180,760,491</b>	<b>149,072,583</b>
<b>Shareholders' equity</b>			
Share capital	4.15	313,299,825	313,299,825
Share premium reserve	4.16	484,861,564	484,861,564
Retained earnings (losses) and other reserves	4.17	(14,816,048)	(9,054,312)
Net profit (loss) of the year		(247,480,014)	(5,805,119)
<b>Total shareholders' equity</b>		<b>535,865,327</b>	<b>783,301,958</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>716,625,818</b>	<b>932,374,541</b>

## Income Statement

(Euro)	Notes	2017	2016
Net sales	5.1	886,202	412,000
<b>Gross profit</b>		<b>886,202</b>	<b>412,000</b>
General and administrative expenses	5.2	(5,121,862)	(3,543,093)
Other income/(expenses)		5,449	(59,981)
<b>Operating profit/(loss)</b>		<b>(4,230,211)</b>	<b>(3,191,074)</b>
Write-down of investmetes in subsidiaries	5.3	(235,000,000)	-
Financial charges, net	5.4	(6,485,674)	(3,612,156)
<b>Profit/(loss) before taxation</b>		<b>(245,715,885)</b>	<b>(6,803,230)</b>
Income taxes	5.5	(1,764,129)	998,111
<b>Net profit/(loss) for the year</b>		<b>(247,480,014)</b>	<b>(5,805,119)</b>

## Statement of comprehensive Income

(Euro)	2017	2016
<b>Net profit (loss) for the period</b>	(247,480,014)	(5,805,119)
Actuarial gain/(loss)	(4,132)	(1,799)
<b>Total comprehensive income</b>	<b>(247,484,146)</b>	<b>(5,806,918)</b>



## Statement of Cash Flows

(Euro)	2017	2016
<b>A - Opening net cash and cash equivalents (net financial indebtedness - short term)</b>	<b>334,104</b>	<b>113,499</b>
<b>B - Cash flow from (for) operating activities</b>		
Net profit/(loss) for the period	(247,480,014)	(5,805,119)
Depreciation and Amortization	-	-
<i>Stock Options figurative cost</i>	40,843	38,572
Net changes in employees benefits liability	67,162	(14,594)
Net changes in provision for risks	(1,144,018)	(675,013)
Other non monetary P&L items	234,515,679	(3,129,169)
Interest expenses, net	6,978,415	6,743,748
Income tax expenses	1,764,129	(998,111)
<b>Income (loss) from (for) operating activities prior to movements in working capital</b>	<b>(5,257,804)</b>	<b>(3,839,686)</b>
(Increase) Decrease in trade receivables	(243,763)	(231,723)
(Increase) Decrease in other receivables	(23,905,642)	(4,792,470)
Increase (Decrease) in trade payables	847,811	248,450
Increase (Decrease) in other payables	25,542,940	4,644,834
Interests expenses paid	(1,875,000)	(1,875,000)
Income taxes paid	-	-
<b>Total (B)</b>	<b>(4,891,458)</b>	<b>(5,845,595)</b>
<b>C - Cash flow from (for) investing activities</b>		
(Investments) disinvestments in subsidiaries	(1,067,341)	-
<b>Total (C)</b>	<b>(1,067,341)</b>	<b>-</b>
<b>D - Cash flow from (for) financing activities</b>		
Proceed from borrowings	-	-
Share capital increase	-	166,200
Dividends received	5,800,000	5,900,000
<b>Total (D)</b>	<b>5,800,000</b>	<b>6,066,200</b>
<b>E - Cash flow for the period (B+C+D)</b>	<b>(158,799)</b>	<b>220,605</b>
<b>F - Closing net cash and cash equivalents (net financial indebtedness - short term) (A+E)</b>	<b>175,305</b>	<b>334,104</b>

## Statement of Changes in Equity

(Euro)	Share capital	Share premium reserve	Legal reserve	Other reserves and retained earnings	Net profit (loss)	Total equity
<b>Equity at January 1, 2016</b>	<b>313,149,825</b>	<b>484,845,364</b>	<b>3,007,774</b>	<b>(5,790,851)</b>	<b>(6,296,790)</b>	<b>788,915,322</b>
Previous year's profit allocation	-	-	-	(6,296,790)	6,296,790	-
Increase in share capital due to the exercising of stock option	150,000	16,200	-	-	-	166,200
Net increase in the Reserve for share-based payments	-	-	-	27,354	-	27,354
Total comprehensive income (loss) for the period	-	-	-	(1,799)	(5,805,119)	(5,806,918)
<b>Equity at December 31, 2016</b>	<b>313,299,825</b>	<b>484,861,564</b>	<b>3,007,774</b>	<b>(12,062,086)</b>	<b>(5,805,119)</b>	<b>783,301,958</b>
Previous year's profit allocation	-	-	-	(5,805,119)	5,805,119	-
Increase in share capital due to the exercising of stock option	-	-	-	-	-	-
Net increase in the Reserve for share-based payments	-	-	-	47,515	-	47,515
Total comprehensive income (loss) for the period	-	-	-	(4,132)	(247,480,014)	(247,484,146)
<b>Equity at December 31, 2017</b>	<b>313,299,825</b>	<b>484,861,564</b>	<b>3,007,774</b>	<b>(17,823,822)</b>	<b>(247,480,014)</b>	<b>535,865,327</b>

# NOTES TO THE STATUTORY FINANCIAL STATEMENTS

## 1. General information

### 1.1 General information

The company, Safilo Group S.p.A., is a joint stock company established in Italy on 14<sup>th</sup> October 2002 registered with the Business and Trade registry of Vicenza. On 11<sup>st</sup> May 2017 the company moved its head office from Pieve di Cadore (Belluno) to Padua.

The company is listed on Mercato Telematico Azionario (MTA) of the Italian Stock Exchange.

Following the Group's financial restructuring, which was completed in the first quarter of 2010 with the share-capital increase, Multibrands Italy B.V. (a subsidiary of HAL Holding N.V.) became the parent company's leading shareholder with a 37.232% equity interest. On 4<sup>th</sup> April 2012, in order to provide the Group with the financial resources needed to complete the acquisition of Polaroid Eyewear, Multibrands Italy BV subscribed and fully paid a capital increase. As at December 31, 2017 its stake in the parent company was 41.612%.

According to IFRS 10 HAL Holding N.V., is deemed to have control over Safilo Group S.p.A. and accordingly is required to consolidate Safilo Group S.p.A. in its financial statements as from 1<sup>st</sup> January 2014 (even though its ownership interest of HAL Holding N.V. in the company Safilo Group S.p.A. is below 50%). HAL Holding is fully owned by HAL Trust, listed on NYSE Euronext of Amsterdam Stock Exchange.

The financial information relates to the period from 1<sup>st</sup> January 2017 to 31<sup>st</sup> December 2017 and also presents comparative data related to the financial period from 1<sup>st</sup> January 2016 to 31<sup>st</sup> December 2016.

These financial statements were approved by the Board of Directors on 13<sup>th</sup> March 2018.

### 1.2 Activity of Safilo Group

Safilo Group S.p.A. is the holding company of the Safilo Group. Over the course of the year, it continued to manage its equity holdings and co-ordinate its subsidiaries.

## 2. Summary of accounting principles adopted

### 2.1 General information

The accounting policies described here below have been applied during the preparation of these financial statements in a consistent manner for both financial years presented and on the going concern assumption.

The financial statements for the year ended 31<sup>st</sup> December 2017 and 31<sup>st</sup> December 2016 were prepared in accordance with IFRSs issued by the International Accounting Standard Board (“IASB”) and endorsed by the European Commission, as well as with the measures enacted to implement article 9 of Legislative Decree no. 38/2005. IFRSs include also all the interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”), previously called Standing Interpretations Committee (“SIC”).

The financial statements were prepared in accordance with “cost” criteria with the exception of financial assets available-for-sale and some financial assets and liabilities, including derivative instruments, for which the “fair value” criterion was adopted.

Preparation of the annual report in accordance with IFRSs requires management to make estimates and assumptions that may affect the amounts reported in the financial statements and explanatory notes. Actual results may differ from these estimates. The areas of the financial statements that are most affected by such estimates and assumptions are listed in section 2.21 “Use of estimates”.

#### Accounting standards, amendments and interpretations effective as of 1<sup>st</sup> January 2017

The following new standards and amendments, effective from 1 January 2017, are applicable to the Company.

On 19 January 2016 the IASB published the document “Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)” that contains the amendments to IAS 12. The document aims to provide some clarification on the recognition of deferred taxes on unrealized losses upon the occurrence of certain circumstances and the estimated taxable income for future years.

On 29 January 2016 the IASB published the document “Disclosure Initiative (Amendments to IAS 7)” that contains the amendments to IAS 7. The document aims to provide some clarification to improve disclosures on financial liabilities. In particular, the amendments require to disclose information that enables users of financial statements to understand the changes in liabilities arising from financing operations. It is not required to present comparative information relating to prior years.

The adoption of these amendments did not have any effect on the financial statements.

### Accounting standards, amendments and interpretations not yet applicable and not adopted early by the Company

On 28 May 2014, the IASB issued the new standard IFRS 15 "Revenue from contracts with customers". This standard replaces IAS 18 Revenues, IAS 11 Construction Contracts, IFRIC 13 Customers Loyalty Programs, IFRIC 15 Agreements for Constructions of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue-Barter Transactions Involving Advertising Services. The standard establishes a new model for revenue recognition, which will apply to all contracts with customers except those that fall within the scope of other IAS / IFRS as leases, insurance contracts and financial instruments. The basic steps for the recognition of revenue under the new model are:

- identify the contracts with a customer;
- identify the performance obligations in the contract;
- determine the transaction price;
- allocate the transaction price to the performance obligations in the contract;
- recognize revenue when the entity satisfies a performance obligation.

The new standard is applicable to periods beginning on or after January 1, 2018.

The Company has decided to not apply the early adoption for IFRS 15 and will comply with this new standard based on its relevant effective date, applying the retrospective transition method. The Company has already evaluated its potential impact, and according to the analysis performed has concluded that its application will not cause any material effect on the revenue recognition model and on the related disclosure relevant for the financial statements.

On 24 July 2014 the IASB issued the final version of IFRS 9 "Financial Instruments". The standard brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39. The standard introduces new requirements for the classification and measurement of financial assets and liabilities. In particular, for financial assets the new standard uses a single approach based on management of financial instruments and the contractual cash flow characteristics of the financial assets in order to determine the method of valuation, replacing the many different rules in IAS 39. For financial liabilities, instead, the main change concerns the accounting treatment of changes in fair value of a financial liability designated as financial liability at fair value through profit or loss, if these variations are due to changes in the creditworthiness of the issuer of the liability. Under the new standard, these changes must be recognized in "Other comprehensive income" and not in the income statement.

With reference to the impairment model, the new standard requires that the estimate of loan losses is made based on the model of expected losses (and not on the model of incurred losses) using information supportable, available at no cost or unreasonable efforts that include historical, current and future data. The standard requires that the impairment model applies to all financial instruments, namely financial assets carried at amortized cost, to those measured at fair value through other comprehensive income, receivables arising from leases and trade receivables.

Finally, the standard introduces a new model of hedge accounting in order to adjust the requirements of the current IAS 39 that were sometimes considered too stringent and unsuitable to reflect the risk management policies of the company. The main news of the document are:

- increase the types of transactions eligible for hedge accounting, including the risks of non-financial assets and liabilities to be eligible to hedge accounting;
- change in method of accounting for forward contracts and options when eligible to hedge accounting in order to reduce the volatility in the income statement;
- changes to effectiveness tests by replacing the current mode based on the parameter of 80-125% with the principle of “economic relationship” between the hedged item and the hedging instrument; furthermore, it will no longer request a retrospective evaluation of the effectiveness of the hedging relationship.

The new standard is applicable to periods beginning on or after January 1, 2018 or after.

The Company will comply with this new standard based on its relevant effective date, and has already evaluated its potential impacts. The main requirement introduced by the new Standard relevant for the financial statements is the one related to the receivables impairment model, the new standard requires in fact that the estimate of receivables losses is made based on the model of expected losses (and not on the model of incurred losses). According to the analysis performed, its application will not cause a significant effect in term of expected credit losses and on the related disclosure relevant for the financial statements.

On 13 January 2016, the IASB issued the new standard IFRS 16 “Leases” to replace IAS 17 Leases, IFRIC 4 Determining whether an arrangement contains a Lease, SIC 15 Operating Leases-Incentives, SIC 27 Evaluating the substance of transactions involving the legal form of a lease. The new standard provides a new definition of lease and introduces a criteria based on control (right of use) of an asset to separate lease contracts from service contracts, considering: identification and of the asset, right to replace it, right to obtain all economic benefits and the right to manage the use of the asset. The standard establishes just a model to recognize and measure lease contracts for the lessee through the posting of the asset (also in operating leases) offset by a financial debt, providing also the opportunity

to not recognize as lease contracts related to “low-value assets” and lease with expiring date equal to or less than 12 months. The standard does not include significant changes to the lessors. The new standard is applicable to periods beginning on or after January 1, 2019; the early adoption is allowed only for companies that apply the early adoption also for IFRS 15 Revenue from contracts with customers.

The Company has decided to not apply the early adoption for IFRS 16 and will comply with this new standard based on its relevant effective date. The Company is currently still evaluating the impacts, according to the preliminary analysis performed, its application will not cause a significant effect on the main financial indicators and on the related disclosures relevant for the financial statements.

### Accounting standards, amendments and interpretations not yet completed and endorsed by the European Union

In addition, the European Union had not yet completed its endorsement process for the following standards and amendments at the date of this annual report.

On 20 June 2016 the IASB published the document “Classification and measurement of share-based payment transactions (Amendments to IFRS 2)” that contains some clarifications in relation to the recognition of the effects of vesting conditions in the presence of cash-settled share-based payments, the classification of share-based payments with net settlement characteristics and the accounting of changes to the terms and conditions of a share-based payment which alter their classification as cash-settled to equity-settled. The changes will apply from 1 January 2018 but early application is allowed.

On 8 December 2016 the IASB published the document “Annual Improvements to IFRSs: 2014-2016 Cycle” (including IFRS 1 First-Time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters, IAS 28 Investments in Associates and Joint Ventures – Measuring investees at fair value through profit or loss: an investment-by-investment choice or a consistent policy choice, IFRS 12 Disclosure of Interests in Other Entities – Clarification of the scope of the Standard) that partially integrate the pre-existing standards.

On 8 December 2016 the IASB published the interpretation IFRIC 22 “Foreign Currency Transactions and Advance Consideration”. The interpretation has the scope to provide guidelines for transactions incurred in foreign currency where non-monetary prepayments or advance payments will be recognized in the financial statement, before the recognition of related asset, expense or revenue. This document provides the directions on how an entity has to define the date of a transaction, and consequently, the spot exchange rate to use when will incur transaction in foreign currency in which the payment is made or received in advance. IFRIC 22 will apply from 1 January 2018, but early application is allowed.

On 8 December 2016 the IASB published the amendment to IAS 40 "Transfers of Investment Property". These changes clarify the reclassification of an asset to, or from, property investment. In particular, an entity has to reclassify an asset between, or from, property investments only when there is the evidence that there has been a change of use. This change must be brought back to a specific event that happened and should not therefore be limited to a change of intention by the management of an entity. Such changes will apply from 1 January 2018, but early application is allowed.

On 12 October 2017, the IASB published the amendment to IFRS 9 "Prepayment Features with Negative Compensation. This document specifies the instruments that provide for early repayment may comply with the "SPPI" test even if the "reasonable additional compensation" to be paid in the event of early repayment is a "negative compensation" for the lender. The amendment applies from January 1, 2019, but early application is permitted.

On 12 October 2017, the IASB published the amendment to IAS 28 "Long-term Interests in Associates and Joint Ventures". This document clarifies the need to apply IFRS 9, including the requirements related to impairment, to other long-term interests in associates and joint ventures for which the equity method is not applied. The amendment applies from January 1, 2019, but early application is permitted.

On 12 December 2017, the IASB published the document "Annual Improvements to IFRSs 2015-2017 Cycle", (including IFRS 3 Business Combinations and IFRS 11 Joint Arrangements - Remeasurement of previously held interest in a joint operation, IAS 12 Income Taxes - Income tax consequences of payments on financial instruments classified as equity, IAS 23 Borrowing costs, which incorporates the amendments to certain principles as part of the annual improvement process. The amendments apply from January 1, 2019, but early application is permitted.

The Company will comply with these new standards and amendments based on their relevant effective dates when endorsed by the European Union and it will evaluate their potential impacts on the Consolidated financial statements.



## 2.2 Format of financial statements

Safilo Group S.p.A. presents the income statement by function (so-called “cost of sales”). This is considered to be more representative with respect to presentation by type of expenses, as it conforms more closely to the internal reporting and business management methods and is in line with international practice in the eyewear sector.

In regard to the statement of financial position, the distinction of assets and liabilities as current and non-current has been adopted in accordance with paragraphs 51 ff. of IAS 1. The indirect method has been used for the statement of cash flow and the presentation of cash flows.

## 2.3 Cash in hand and at bank

Cash and cash equivalents include cash, bank demand deposits and other highly liquid short-term investments that can be unwound within three months after purchase. The items included in the net cash and cash equivalents are measured at fair value and the relative changes are recognised in income. Bank overdrafts are posted under current liabilities.

## 2.4 Trade receivables and other receivables

Trade receivables are initially recognised on the statement of financial position at their current value and subsequently recalculated according to the amortised cost method, net of any impairments.

A provision for doubtful accounts is accrued when there is evidence that the Company will not succeed in collecting the original amount due. The provisions accrued for doubtful accounts are recognised in profit or loss.

## 2.5 Intangible assets

Intangible assets consist of clearly identifiable non-monetary assets, without any physical substance and capable of generating future economic benefits. These assets are recognised at purchase and/or production cost, including the costs of bringing the asset to its current use, net of accumulated amortisation and any impairment. Amortisation begins when the asset is available for use and is allocated in equal instalments over the course of its useful life.

When circumstances indicate that there may be an impairment loss, an estimate is made of the recoverable amount of the asset, and any impairment is recognised in profit or loss. When the reasons for the previously recognised impairment no longer exist, the book value of the asset is restated through profit or loss, up to the value at which the asset would have been recognised in the absence of impairment and net of amortisation.

## 2.6 Investments in associates (financial assets)

The equity investment in the subsidiary Safilo S.p.A. has been recognised at the grant value resulting from the specific appraisal prepared by an external consultant. The positive difference resulting from the grant value and the portion of shareholders' equity at current values of the subsidiary is included in the carrying value of the equity investment. The equity investment in the subsidiary Safilo S.p.A. is tested for impairment every year.

## 2.7 Financial instruments

The classification of financial instruments depends on the purpose for which the financial instrument was acquired. The management determines the classification of its financial instruments on the initial recognition in the financial statements. The purchase and sale of financial instruments are recognised at the transaction date or at the date when the Group undertakes the commitment to purchase or sell the asset. All financial instruments are initially recognised at fair value.

### Financial assets

Financial assets are classified according to the following categories:

- Financial assets at fair value through profit or loss: this category includes financial assets acquired primarily for sale in the short-term or those designated as such by the management, in addition to derivative instruments that are not designated as hedges (in relation to the treatment of derivatives, reference should be made to the following paragraph). Fair value variations of the instruments belonging to this category are recognised in the income statement. Financial instruments of this category are classified in the short-term if they are "held for trading" or if it is expected that they will be sold within twelve months from the balance sheet date. The only financial assets of this category held by the Group and recorded on the financial statements are derivative financial instruments.

- **Loans and receivables:** these are non-derivative financial instruments, with fixed or determinable payments, not quoted on an active market. They are recorded as current assets with the exception of those amounts due beyond twelve months from the balance sheet date. The latter are classified as non-current assets. These assets are measured at amortised cost on the basis of the “effective interest rate” method. Any loss in value determined through an impairment test is recognised in the income statement. In particular, trade receivables are initially recognised in the financial statements at their current value and subsequently recorded under the amortised cost method less any write-downs for loss in value. An allowance for doubtful accounts is set-up when there is evidence that the Group will not be capable of receiving the original amount due. The provisions allocated for doubtful accounts are recorded in the income statement.
- **Investments held to maturity:** these are non-derivative financial instruments with fixed or determinable payments, with a fixed maturity date, that the Group has the intention and the means to maintain until maturity. Receivables and investments held until maturity are assessed according to the “amortised cost” method using the effective interest rate, net of any write-downs for loss in value. The Group did not hold any investments of this kind during the financial period covered by these financial statements.
- **Available-for-sale financial assets:** these are non-derivative financial instruments that are expressly designated to this category or are not classified in any of the previous categories. They are measured at fair value, determined with reference to market prices at the balance sheet date or through financial measurement techniques or models, recording changes in value in an equity reserve. This reserve is recognised in the income statement only when the financial asset is sold, or in the case of negative cumulative variations, when it is considered that the reduction in value already recorded under equity cannot be recovered. Classification as a current or non-current asset depends on the intentions of the management and on the real liquidity of the security; they are recorded under current assets when they are expected to be realized within twelve months.

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

Financial assets are removed from the balance sheet when the right to receive cash flows from the instrument ceases and the Group has transferred all risks and benefits relating to the instrument.

## Borrowings

Borrowings are initially recognised at fair value less any transaction costs. After initial recognition, they are recognised at amortised cost; all differences between the amount financed (net of initial transaction costs) and the face value are recognised in profit or loss over the duration of the loan using the effective interest method. If there is a significant variation in the expected cash flow that can be reliably estimated by management, the value of the loans is recalculated to reflect the expected change in the cash flow. The value of the loans is recalculated on the basis of the discounted value of the new expected cash flow and the internal rate of return.

Convertible bonds are accounted for as a compound financial instrument made of two components, which are treated separately only if relevant: a liability and a conversion option. The liability is the present value of the future cash flows, based on the market interest rate at the time of issue for an equivalent non-convertible bond. The amount of the option is defined as the difference between the net proceeds and the amount of the liability component and included in equity. The value of the conversion option is not changed in subsequent periods. The conversion features of the equity-linked bond issued during 2014 fail equity classification. Upon exercise of a conversion right the company is entitled to deliver shares, or pay an amount of money or deliver a combination of shares and cash. Therefore, the option is accounted for as an embedded derivative liability, measured at fair value through profit or loss, while the debt host loan is carried at amortized cost as above stated.

Borrowings are classified under current liabilities unless the company has an unconditional right to defer the payment for at least twelve months after the balance sheet date, and are removed from the balance sheet when they expire and the Group has transferred all risks and obligations relating to the instrument.

## Derivative instruments

In accordance with the provisions of IAS 39 as approved by the European Commission, the derivative financial instruments used by the Group with the intention of hedging in order to reduce the foreign currency and interest rate risks, can be recorded according to the "hedge accounting" methodology only when:

- a formal designation and documentation relating to the hedge exists at the beginning of the hedge;
- it is presumed that the hedge is highly effective;
- the effectiveness can be reliably measured and the hedge is highly effective over the different financial periods for which it was designated.

All derivative financial instruments are measured at fair value, in accordance with IAS 39. When the financial instruments possess the characteristics required to be recorded according to the hedge accounting, the following accounting procedures are applied:

- *Fair value hedge* – if a derivative financial instrument is designated as a hedge for the exposure of changes in the current value of an asset or liability on the financial statements attributable to a specific risk that can determine effects on the income statement, the profit or loss after the initial valuation of the fair value of the hedge instruments is recognised in the income statement. The profit or loss on the hedged item, related to the hedged risk, changes the book value of that item and is recognised on the income statement.
- *Cash flow hedge* – if a derivative financial instrument is designated as a hedge for the exposure of changes in the cash flows of an asset or liability recorded on the financial statements or of an operation considered highly probable and which may have effects on the income statement, the effective portion of the profits or losses of the financial instrument is recognised in an equity reserve. The cumulative profits or losses are reversed from equity and recorded in the income statement in the same period as the operation that is hedged. The profits or losses associated with a hedge or with that part of the hedge that has become ineffective, are immediately recorded in the income statement. If a hedge instrument or a relation of a hedge is closed, but the hedged operation has not yet been realized, the cumulative profits and losses, up to that moment recorded in equity, are recognised in the income statement when the relative operation is realized. If the operation hedged is no longer considered probable, the profits or losses not yet realised in equity are recognised immediately in the income statement.

If hedge accounting cannot be applied, the profits or losses deriving from the fair value of the derivative financial instruments are immediately recognised in the income statement.

## 2.8 Employees benefits

### Pension plans

The company recognises different forms of defined benefit plans and defined contribution plans, in line with the local conditions and practices in the countries in which it carries out its activities. The premiums paid for defined contribution plans are recorded in the income statement for the part matured in the year. The defined benefit plans are based on the working life of the employees and on the remuneration received by the employee during a predetermined period of employment.

The obligation of the company to finance the defined benefit plans and the annual cost recognised in the income statement are determined by independent consultants using the “projected unit credit” method. The related costs are recorded in the income statement on the basis of the estimated employment period of employees. The company recognises all the actuarial gains and losses in equity, via the consolidated statement of comprehensive income, in the year in which these arise.

The employee severance fund of Italian companies (“TFR”) has always been considered to be a defined benefit plan however, following the changes to the discipline that governs the employment severance fund introduced by Italian law no. 296 of 27<sup>th</sup> December 2006 (“Financial Law 2007”) and subsequent Decrees and Regulations issued in the first months of 2007, Safilo Group, on the basis of the generally agreed interpretations, has decided that:

- the portion of the employee benefit liability accruing from 1<sup>st</sup> January 2007, whether transferred to selected pension funds or transferred to the treasury account established with INPS, must be classified as a “defined contribution plan”;
- the portion of the employee benefit liability accruing as of 31<sup>st</sup> December 2006, must be classified as a “defined benefit plan” requiring actuarial valuations that exclude future increases in salaries.

For an analysis of the accounting effects deriving from this decision, see paragraph 4.11 “Employees benefits”.

### Remuneration plans under the form of share capital participation

The company recognises additional benefits to some employees and consultants through “equity settled” type stock options. In accordance with IFRS 2 - Share-based payments, the current value of the stock options determined at the vesting date through the application of the “Black & Scholes” method is recognised in the income statement under personnel costs in constant quotas over the period between the vesting date of the stock options and the maturity date, counterbalanced by an equity reserve.

The effects of the vesting conditions not related to the market are not taken into consideration in the fair value of the vested options, but are material to measurement of the number of options which are expected to be exercised.

At the balance sheet date the company revises its estimates on the number of options which are expected to be exercised. The impact of the revision of the original estimates is recognised in profit or loss over the maturity period, with a balance entry in equity reserves.

When the stock option is exercised, the amounts received by the employee, net of the costs directly attributable to the transaction, are credited to share capital for an amount equal to the par value of the issued shares and to the share premium reserve for the remaining part.

## 2.9 Revenue recognition

Revenues include the fair value of the sale of services, net of VAT and any discounts. The company recognises revenues for billed services in the financial year in which the service is provided.

## 2.10 Dividends

Dividends are recognised when the right of the Shareholders to receive the payment arises, which normally occurs when the Shareholders' Meeting resolves to distribute dividends. The distribution of dividends is therefore recorded as a liability on the financial statements in the period in which the distribution is approved by the Shareholders' Meeting.

## 2.11 Income taxes

Income taxes are recognised on the income statement, with the exception of those relating to accounts that are directly credited or debited to equity, in which case the tax effect is recognised directly in equity.

Deferred taxes are calculated on tax losses and all the temporary differences between the tax basis of an asset or liability and their book value. Deferred tax assets are recognised only for those amounts where it is likely there will be future taxable income allowing for recovery of the amounts.

Current and deferred tax assets and liabilities are offset when the income tax is applied by the same tax authority and when there is a legal right to offsetting.

## 2.12 Earnings per share

### Basic

Basic earnings per share are calculated by dividing the profit or loss of the company by the weighted average number of ordinary shares outstanding during the financial year, excluding any treasury shares.

### Diluted

Diluted earnings per share are calculated by dividing the profit or loss of the Company by the weighted average number of ordinary shares outstanding during the year. In order to calculate the diluted earnings per share, the weighted average number of shares outstanding is adjusted in respect of the dilutive potential ordinary share (stock options and convertible bonds), while the profit or loss of the Company is adjusted to take into account the effects, net of income taxes, of the conversion.

## 2.13 Translation of balances in foreign currency

Foreign currency transactions are translated into Euro using the exchange rates in effect at the date of the transaction. Foreign exchange gains and losses resulting from the close of such transactions and from translation of the monetary assets and liabilities in foreign currencies at the exchange rates at end of the year are recognised in profit or loss.



### 3. Use of estimates

Preparation of the annual report requires that the Directors apply accounting standards and methods that, in some circumstances, are based on difficult and subjective measurements and estimates based on past experience and assumptions which are from time to time considered reasonable and realistic according to the circumstances. The application of these estimates and assumptions affects the amounts posted in the financial statements, such as the statement of financial position, the income statement, the cash flow statement and the notes thereto. Actual results of the balances on the financial statements, resulting from the above-mentioned estimates and assumptions, may differ from those reported on the financial statements due to the uncertainty which characterises the assumptions and the conditions on which the estimates are based. The financial statement items that are more exposed to subjective estimates and measurements by the directors and for which a change in the underlying conditions or the assumptions may have a material impact on the company's annual accounts are described briefly below.

*Deferred taxes:* deferred tax assets are accounted for on the basis of the expectations of future taxable income. The measurement of expected income for recognition of deferred taxes depends on factors that may change over time and may have a material impact influence on the estimate of the deferred tax assets.

*Impairment of non-current assets:* in accordance with the accounting standards applied by the company, non-current assets are tested to determine whether they are impaired. Their impairment is recognised when there are indications that there will be difficulty in recovering their net book value through use. Verification of these indicators requires that the Directors make subjective judgements based on information available within the company and the market, as well as historical experience. In addition, if it is determined that a potential loss of value may have occurred, the company proceeds to determine the same using valuation techniques deemed appropriate: in particular, an impairment test is performed. The correct identification of the indicators indicating the existence of a potential loss in value and the estimates for the determination of the same depend on factors that may change over time, influencing the assessments and estimates made by the Directors. Furthermore, the impairment test is a complex procedure based on assumptions concerning, inter alia, the forecast of expected cash flows, the determination of appropriate discounting rates (WACC) and long-term growth (g-rate). These estimates depend on factors that may change over time, with consequent effects also significant compared to the assessments made by the Directors.

*Fair value*: the fair value of financial instruments that are not traded on an active market is determined by means of valuation methods. Various valuation methods are used, and the associated assumptions are based on market conditions at the reporting date. In particular:

- the fair value of trade receivables and payables and for other current assets and other current liabilities is deemed to coincide with their par value minus any impairment in receivables;
- the fair value of floating rate loans not listed on an active market is deemed to approximate their face value.

With reference to the Equity-Linked Bond issued in 2014, given the presence of a “cash settlement option”, the conversion option component represents an embedded derivative financial instrument booked in the corresponding balance sheet item under liabilities. The fair value changes of this instrument are subject to the market performance of Safilo stock, and immediately charged to income statement in the financial income (expenses).

### Hierarchical levels of the fair value measurement

Financial instruments reported in the balance sheet valued at the fair value, according to IFRS 13, are classified in the three-level hierarchy that reflects the significance of the input used in determining the fair value. The three levels of fair value of the hierarchy are:

- Level 1 – if the instrument is quoted in an active market;
- Level 2 – if the fair value is measured based on valuation techniques for which all significant inputs are based on observable market data, other than quotations of the financial instrument;
- Level 3 – if the fair value is calculated based on valuation techniques for which any significant input is not based on observable market data.

The following table shows the liabilities and assets valued at their fair value at 31<sup>st</sup> December 2017, split by hierarchical level of the fair value.

(Euro)	Level 1	Level 2	Level 3	Total
Derivative financial instruments	-	(152)	-	(152)
<b>Total liabilities</b>	-	<b>(152)</b>	-	<b>(152)</b>

In 2017 there have been no transfers from level 1 to level 2 and from level 2 to level 3.

## 4. Notes to the balance sheet

### 4.1 Cash in hand and at bank

This account totals Euro 175,305 (compared with Euro 334,104 in the previous year) and represents the momentary availability of cash invested at market rates. The book value of the available liquidity is aligned with its fair value at the reporting date and the related credit risk is very limited as the counterparts are primary banks.

### 4.2 Trade receivables, net

The trade receivables total Euro 1,183,774 against Euro 992,511 in 2016 and they come from the amounts charged by the Company to its subsidiaries Safilo S.p.A. and Safilo Industrial S.r.l. for legal and administrative services. In 2017 the company also charged to the subsidiary Safilo Far East Ltd. and Safilo USA inc. costs of staff in secondment.

The book value of the trade receivables is maintained as being approximately the same as the fair value.

(Euro)	December 31, 2017	December 31, 2016
Trade receivables from subsidiaries		
- Safilo S.p.A.	693,044	412,000
- Safilo Industrial S.r.l.	182,158	-
- Safilo D.O.O. Ormoz	11,000	-
- Safilo Far East Ltd.	-	426,157
- Safilo USA Inc.	297,572	154,354
<b>Total</b>	<b>1,183,774</b>	<b>992,511</b>

### 4.3 Other current assets

This item breaks down as follows:

(Euro)	December 31, 2017	December 31, 2016
VAT receivables	16,906,880	9,380,105
Tax credits and payments on account	789,650	772,247
Prepayments and accrued income	2,579	12,422
Other receivables from subsidiaries - Safilo S.p.A.	7,789,697	13,589,697
Other receivables from subsidiaries - Safilo Industrial S.r.l.	18,043,567	-
Other receivables	8,775	5,880
Other receivables from related parties	52,500	26,250
<b>Total</b>	<b>43,593,648</b>	<b>23,786,601</b>

Vat receivables refer to the VAT credit of the Group VAT mechanism, of which Euro 6,000,000 has been requested for reimbursement. In February 2018 a reimbursement from the competent authority of Euro 2,000,000 was received.

Tax credits and payments equal to Euro 789,650 refer to withholding tax on interest income resulting from the national tax consolidation scheme.

The receivables from the subsidiary Safilo S.p.A. equal to Euro 7,789,697 refers to dividends resolved by the shareholders' meeting of the subsidiary and not yet collected at the reporting date. During the financial year 2017 dividends of Euro 5,800,000 were collected.

The receivable from Safilo Industrial S.r.l for 18.043.567 refers mainly to the VAT debit transferred for the Group VAT mechanism.

The item "other receivables from related parties" includes an amount equal to Euro 52,500 from HAL Investments BV related to a recharge for administrative expenses.

It is considered that the book value of the item "Other current assets" is approximately equal to their fair value. There were no transactions executed in currencies other than Euro.

## 4.4 Investments in subsidiaries

This item totalled Euro 669,317,389 versus Euro 903,256,718 in the previous year.

The increase compared to the previous financial year of Euro 1.052.980 is related to the higher value booked for the spin off from Safilo S.p.A..

In response to changed market conditions and the losses reported during the year by the subsidiary Safilo S.p.A., the directors tested the investment in the aforementioned subsidiary for impairment when preparing the annual report. In particular, the test was derived from the one performed for the purposes of assessing the goodwill recorded in the consolidated financial statements, and therefore was carried out on the basis of the preliminary business plan 2018 - 2022 ("Plan"), approved by the Board of Directors, which includes some important assumptions regarding sales and cost containment. With reference to the assumptions underlying the Plan, the Directors report some limited aspects of variability related to the announced entry of a new Chief Executive Officer, who will adopt the Plan's guidelines, define in greater detail the methods of execution and therefore finalize it.

This test resulted in an impairment for a total amount of Euro 235,000,000.

The following tables illustrate the changes that took place during the financial year 2017 and the previous one:

(Euro)	% of share capital	Value at January 1, 2017	Increase / (Decrease)	Impairment	Value at December 31, 2017
Safilo S.p.A.	95.201	899,922,209	1,052,980	(235,000,000)	665,975,189
Contribution for Stock Options to subsidiaries	-	3,334,509	6,670	-	3,341,179
Safilo de Mexico	0.001	-	521	-	521
Safilo Portugal	0.1	-	500	-	500
<b>Total</b>		<b>903,256,718</b>	<b>1,060,671</b>	<b>(235,000,000)</b>	<b>669,317,389</b>

(Euro)	% of share capital	Value at January 1, 2016	Increase / (Decrease)	Value at December 31, 2016
Safilo S.p.A.	95.201	899,922,209	-	899,922,209
Contribution for Stock Options to subsidiaries	-	3,345,727	(11,218)	3,334,509
<b>Total</b>		<b>903,267,936</b>	<b>(11,218)</b>	<b>903,256,718</b>

The key information for the subsidiary Safilo S.p.A. is summarised as follows:

Name	Safilo S.p.A. – Società Azionaria Fabbrica Italiana Lavorazione Occhiali
Registered office	Z.I. Settima Strada, 15 (Padova)
Share capital at 31 <sup>st</sup> December 2017	Euro 66,176,000 i.v
Shareholders' equity at 31 <sup>st</sup> December 2017	Euro 455,411,411
Net loss for the financial year 2017	Euro (252,314,050)

## 4.5 Deferred tax assets

Deferred tax assets refer to the taxes calculated on tax losses that may be recovered in future financial years and temporary differences between the carrying value of assets and liabilities and their tax value. Deferred tax assets on tax losses are booked only if there is a reasonable likelihood that they may be recovered through future taxable income.

Starting from 1<sup>st</sup> January 2006 the Company joined the tax consolidation programme in the capacity of parent company. The subsidiaries participating in the programme are Safilo S.p.A. Safilo Industrial S.r.l. and Lenti S.r.l. (100% owned by Safilo S.p.A). The effect of this option allows calculation of a single Group taxable income, corresponding to the algebraic sum of the taxable income of the participating entities.

Deferred tax assets have been written down via provisioning of an allowance for tax credit impairment equal to Euro 41,191,882. Pursuant to IAS 12, the adjustment reserve mentioned hereinabove might be recovered in future financial years if there is taxable income that can absorb the losses and temporary difference on which the deferred tax assets and liabilities were calculated.

The following table illustrates the breakdown of accounts on which the tax prepayments and adjustment reserve with reversal of the associated deferred tax assets at 31<sup>st</sup> December 2017:

(Euro)	Balance at January 1, 2017	Impact to			Receivables/ Payables/ due to tax consolidation	Balance at December 31, 2017
		Spin off	Income statement	Equity		
Tax losses Safilo Group S.p.A.	5,900,207	-	-	-	889,777	6,789,984
Tax losses from Safilo S.p.A.	25,365,688	-	-	-	943,401	26,309,089
Tax losses from Lenti S.r.l.	23,990	-	-	-	-	23,990
Tax losses from Safilo Industrial S.r.l.	-	-	-	-	4,816,441	4,816,441
Tax losses before fiscal consolidation	192,629	-	-	-	-	192,629
Interest expenses not deducted carryforward	1,618,361	-	1,395,828	-	-	3,014,189
Other temporary differences	371,537	1,515	(326,652)	(840)	-	45,560
Dividend for competency	(166,148)	-	69,600	-	-	(96,548)
<b>Total deferred tax assets</b>	<b>33,306,263</b>	<b>1,515</b>	<b>1,138,776</b>	<b>(840)</b>	<b>6,649,619</b>	<b>41,095,334</b>
Write downs of deferred tax assets	(31,402,179)	-	(3,140,084)	-	(6,649,619)	(41,191,882)
<b>Total deferred tax assets, net</b>	<b>1,904,084</b>	<b>1,515</b>	<b>(2,001,308)</b>	<b>(840)</b>	<b>-</b>	<b>(96,548)</b>

The following table shows the tax losses carried forward deriving from the Group national tax consolidation:

<b>Financial year</b> (Euro)	<b>Tax losses</b>	<b>Tax benefit</b>
ante 2014	89,028,120	21,366,749
2015	27,985,238	6,716,457
2016	8,642,688	2,074,245
2017	32,425,222	7,782,053
<b>Total</b>	<b>158,081,268</b>	<b>37,939,504</b>

Following the changes introduced in 2011 to the art. 84 of TUIR regarding the recoverability of tax losses, starting from 2012 all tax losses can be carried forward without time limitation, in order to offset future taxable income to an extent not greater than 80% of the taxable income for each single fiscal year.

#### 4.6 Other non-current assets

The item totals Euro 2,355,702 (compared to Euro 2,100,523 in the previous year) and refers to withholding from Lenti S.r.l. tax transferred to the national tax consolidation.

#### 4.7 Trade payables

The following table shows a breakdown of trade payables and payables to subsidiaries:

(Euro)	<b>December 31, 2017</b>	<b>December 31, 2016</b>
Trade payables for services	1,087,790	545,538
Trade payables to subsidiaries:		
- Safilo S.p.A.	695,349	376,626
- Safilo Far East Ltd.	65,798	79,835
- Safilo USA Inc.	35,614	34,741
<b>Total</b>	<b>1,884,551</b>	<b>1,036,740</b>



## 4.8 Tax payables

This account totaled Euro 369,358 at 31<sup>st</sup> December 2017, compared to Euro 181,234 in the previous year, and refers to the IRPEF (personal income tax) on wages, salaries and independent contractor compensation in the month of December that was paid in January 2018.

## 4.9 Other current liabilities

This item breaks down as follows:

(Euro)	December 31, 2017	December 31, 2016
Payables to personnel and social security institutions	647,747	495,758
Payables to pension funds	6,568	-
Other current liabilities	4,465	3,312
Accrued expenses	202,052	202,015
Other payables to subsidiaries	34,368,721	7,550,590
<b>Total</b>	<b>35,229,553</b>	<b>8,251,675</b>

Payables to personnel and social security institutions principally refer to salaries and wages for December and for accrued but unused holiday leave.

The debt to the subsidiary refers mainly at Safilo S.p.A for the VAT credit transferred for the Group VAT mechanism.

## 4.10 Long Term borrowings

(Euro)	December 31, 2017	December 31, 2016
Convertible Bonds	142,491,167	137,393,195

The item refers to the an unsecured and unsubordinated equity-linked Bond the issued by Safilo Group S.p.A. on 22 May 2014, guaranteed by Safilo S.p.A., maturing on 22 may 2019 with an aggregate principal amount of Euro 150 million.

The Bonds have been issued at par in the nominal amount of EUR 100,000 per Bond and will pay a coupon of 1.25% per annum, payable semi-annually in arrears on 22 November and 22 May of each year.

The Bonds became convertible into ordinary shares of Safilo Group S.p.A. following the approval on 10 July 2014 of the extraordinary general meeting of the Company of a capital increase to be solely reserved for the purposes of the conversion of such Bonds. The initial conversion price has been set at EUR 21.8623, representing a premium of 40.0% above the volume weighted average price of the ordinary shares of the Company on Borsa Italiana between launch and pricing. The Company will have the right to elect to settle any exercise of conversion rights in shares, cash or combinations of shares and cash.

The Issuer will have the option to redeem any outstanding Bonds at their principal amount (plus accrued but unpaid interest to (but excluding) the redemption date) on or after 6 June 2017 if the volume weighted average price of a share for a specified period is at least 130% of the conversion price in effect on each relevant dealing day. The Issuer may also redeem the Bonds at any time at their principal amount (plus accrued but unpaid interest to (but excluding) the redemption date) if less than 15% of the Bonds originally issued remain outstanding.

At final maturity, on 22 May 2019, the Bonds will be redeemed at their principal amount unless previously redeemed, converted, or purchased and cancelled.

The offer is made solely to qualified investors, the Bonds, starting from July 23, 2014, has been admitted to be traded on the "Third Market" (MTF), non-regulated market of Vienna Stock Exchange.

Such bond is carried at amortised cost, at an effective interest rate equal to 5.101%. Given the presence of a "cash settlement option", the conversion option component represents an embedded derivative financial instrument booked in the corresponding balance sheet item under liabilities. The fair value changes of this instrument are immediately charged to income statement. At the balance sheet date, the fair value of the option amounts to Euro 152 (see note 4.13).

## 4.11 Employees benefits liability

During the financial year under review, the item showed the following movements:

(Euro)	Balance at January 1, 2017	Spin off	Changes during the year			Balance at December 31, 2017	
			Posted to income statement	Actuarial gains/ (losses)	Uses/ Payments		Transfer INPS
Defined benefit plan	49,763	78,707	725	4,132	(17,804)	-	115,523
Contribution benefit plan	-	-	129,788	-	(10,123)	(122,394)	(2,729)
<b>Total</b>	<b>49,763</b>	<b>78,707</b>	<b>130,513</b>	<b>4,132</b>	<b>(27,927)</b>	<b>(122,394)</b>	<b>112,794</b>

(Euro)	Balance at January 1, 2016	Changes during the year			Balance at December 31, 2016
		Posted to income statement	Actuarial gains/ (losses)	Uses/ Payments	
Defined benefit plan	62,558	2,951	1,785	(17,531)	49,763

Following the Spin off of January 1, 2017 which implied the transfer of some employees from Safilo S.p.A, Safilo Group is also following the changes in legislation governing the employment severance fund introduced by Italian law no. 296 of 27<sup>th</sup> December 2006 ("Financial Law 2007") and subsequent Decrees and Regulations.

Actuarial estimates used for calculating the employee severance liability accrued up to 31<sup>st</sup> December 2006 are based on a system of assumptions based on demographic parameters, economic parameters and financial parameters.

The demographic parameters are normally summarised in tables based on samples from different institutes (ISTAT, INAIL, INPS, Italian General Accounts Office, etc.).

The economic parameters principally refer to long-term inflation rates and the financial yield rate, crucial for the valuation of amounts accrued in the reserve for termination benefits.

The main financial parameter is given by the discount rate. The annual discount rate used to calculate the present value of the obligation was derived by the Iboxx Corporate AA index with a duration comparable to the duration of the collective of workers covered by the assessment.

The amounts booked to the income statement (operating and financial component) and to shareholders' equity (actuarial differences) break down as follows:

(Euro)	December 31, 2017	December 31, 2016
Service cost	-	(1,857)
Interest cost	(725)	(1,094)
Actuarial gains/(losses)	(4,132)	(1,785)
<b>Total</b>	<b>(4,857)</b>	<b>(4,736)</b>

## 4.12 Provision for risks and charges

(Euro)	Balance at January 1, 2017	Increase	Decrease	Reclass	Balance at December 31, 2017
Other provisions for risks and charges	-	-	-	-	-
<b>Provisions for risks - long term</b>	-	-	-	-	-
Other provisions for risks and charges	1,144,018	-	(1,144,018)	-	-
<b>Provisions for risks - short term</b>	<b>1,144,018</b>	-	<b>(1,144,018)</b>	-	-
<b>Total</b>	<b>1,144,018</b>	-	<b>(1,144,018)</b>	-	-

The provision for risks and charges refers to the estimated liability related to a long term incentive plan issued in favour of key managers.

The registered movement is linked to the release of this provision due to non-achieved corporate goals.

## 4.13 Derivative financial instruments

(Euro)	December 31, 2017	December 31, 2016
Fair value cash settlement option convertible Bond	152	484,473

This amounts, for the portion relating to non-current liabilities is mainly due to the recognition of the component relating to the conversion option embedded in the “equity-linked” Bond issued on 22<sup>nd</sup> May 2014 which, given the presence of a “cash settlement option”, represents a derivative financial instrument booked at fair value under non-current liabilities. The fair value changes of this instrument are immediately charged to income statement.

#### 4.14 Other non-current liabilities

(Euro)	December 31, 2017	December 31, 2016
Other payables to subsidiaries - Safilo S.p.A.	576,368	531,485

The long-term payable to subsidiary Safilo S.p.A. relates to the transfer by Safilo S.p.A. of benefits deriving from the national tax fiscal unity scheme.

### SHAREHOLDERS' EQUITY

The shareholders' equity is both the value contributed by the shareholders of Safilo Group SpA (share capital and share premium reserve) and the value generated by the subsidiaries in terms of results achieved from the operations (retained earnings and other reserves).

As at 31<sup>st</sup> December 2017, shareholders' equity amounts to Euro 535,865,327 compared to Euro 783,301,958 at 31<sup>st</sup> December 2016.

#### 4.15 Share capital

At 31<sup>st</sup> December 2017 the share capital of the Parent Company, Safilo Group S.p.A., amounts to Euro 313,299,825, consisting of no. 62,659,965 ordinary shares with a par value of Euro 5.00 each.

#### 4.16 Share premium reserve

The share premium reserve represents:

- the higher value attributed on the transfer of shares of the subsidiary Safilo S.p.A. compared to the par value of the corresponding increase in share capital;
- the higher price paid compared to the par value of the shares, at the time the shares were placed on the Electronic Stock Market (MTA), net of listing costs;
- the premium resulting from conversion of convertible bonds;
- the premium received from the exercise of stock options by their holders;

- the premium received following the capital increase and to the share premium collected following the exercise of the Stock Options Plans.

## 4.17 Retained earnings and other reserves

This account breaks down as follows:

(Euro)	December 31, 2017	December 31, 2016
Legal reserve	3,007,774	3,007,774
Stock Option reserve	1,386,777	1,391,064
Reserve for actuarial gain (losses) of defined benefit plan	(8,505)	(4,375)
Retained losses	(19,202,094)	(13,448,775)
<b>Total</b>	<b>(14,816,048)</b>	<b>(9,054,312)</b>

## Equity accounts - possible use and distribution

The table below shows the possible use and distribution of equity accounts:

(Euro)	Amount	Possible use	Available amount	Previous years' use	
				Losses coverage	Distribution of reserves
Share capital	313,299,825				
Paid in capital	484,861,564	A - B - C (*)	484,861,564		
Legal reserve	3,007,774	B			
Stock Option reserve	1,386,777				
Reserve for actuarial gain (losses) of defined benefit plan	(8,505)				
Retained losses	(19,202,094)				
Loss for the period	(247,480,014)				
<b>Total</b>	<b>535,865,327</b>				

A = For capital increase.

B = To hedge against losses.

C = For distribution to shareholders.

(\*) Fully available for capital increases and to hedge against losses. For other uses, it is necessary to adjust (also through transfer from the share premium reserve) the legal reserve to 20% of the share capital.

## 4.18 Stock Option

The Extraordinary Shareholders' Meeting of April 26<sup>th</sup>, 2017 resolved to increase the share capital by a maximum nominal value of Euro 12,500,000.00 by issuing new ordinary shares for an amount up to a maximum of no. 2,500,000, par value of Euro 5.00 each, to be offered for subscription to directors and/or employees of Safilo Group S.p.A. and its subsidiaries pursuant to the 2017-2020 Stock Option Plan.

This 2017-2020 Plan – aimed to incentivize and strengthen the loyalty of the directors and/or the employees/managers of the Company and/or of the subsidiary companies – is executed through the assignment, free of charge and in several tranches, of a maximum of no. 2,500,000 options, which entitle the beneficiaries to the right to subscribe newly issued ordinary shares of the Company, with a par value of Euro 5.00 each, arising from the above mentioned capital increase, with exclusion of the option rights according to Article 2441, paragraph 4, second sentence, of the Italian Civil Code, at the rate of no. 1 share for each option.

The Plan has a total duration of eleven years (from 2017 to 2028). The options assigned to the beneficiaries may be exercised after two years from the allocation date.

Specifically, four different allocation dates have been assigned to the options:

- the first tranche ("First Tranche") was granted by the Board of Directors held on April 26<sup>th</sup>, 2017;
- the second tranche ("Second Tranche") will be granted from the day on which the Board of Directors approves the 2017 financial results, to December 31, 2018;
- the third tranche ("Third Tranche") will be granted from the day on which the Board of Directors approves the 2018 financial results, to December 31, 2019 and the fourth tranche ("Fourth Tranche") will be granted from the date on which the Board of Directors approves the 2019 financial results, to December 31, 2020.

This Plan is in addition to the two ones (2010-2013 and 2014-2016 Plans) already in place deliberated by the Extraordinary Meetings respectively held on 5<sup>th</sup> November 2010 and 15 April 2014, in which the Shareholders approved the issue of respectively up to 1,700,000 and 1,500,000 new ordinary shares with a nominal value of 5.00 Euro each, for a total of respectively Euro 8,500,000 and 7,500,000 Euro to be offered to directors and/or employees of the Company and its subsidiaries.

These Plans, designed to incentivise and retain directors and/or employees/managers, is carried out through the grant, in different tranches, of options entitling the beneficiary to subscribe to 1 of the foregoing ordinary Company share with a nominal value of 5.00 Euro each, issued for cash and without any all-or-none clause, excluding all pre-emptive rights pursuant to article 2441, paragraph four, second sentence of the Italian Civil Code.

The options attributed by those plans will mature when both the following vesting conditions are met: the continuation of the individual's employment relationship on the options' vesting date, and the achievement of differentiated performance objectives for the period of each tranche commensurate with consolidated EBIT. Information relating to the tranches of the Stock Options Plans granted on 31<sup>st</sup> December 2017 is shown below.

	<b>Grant date</b>	<b>No. of options</b>	<b>Fair value in Euro</b>	<b>Maturity</b>
<b>Stock Option Plan 2010-2013</b>				
First tranche	05/11/10	-	4.08	31/05/16
Second tranche	16/03/11	-	1.48	31/05/17
Third tranche	08/03/12	165,000	1.06	31/05/18
Fourth tranche	06/03/13	187,500	1.12	31/05/19
Fourth tranche-bis	13/11/13	65,000	1.76	31/05/19
<b>Stock Option Plan 2014-2016</b>				
First tranche	29/04/14	240,000	2.67	31/05/22
Second tranche	05/03/15	-	2.20	31/05/23
Third tranche	14/03/16	525,000	1.56	31/05/24
<b>Stock Option Plan 2017-2020</b>				
First tranche	26/04/17	890,000	1.09	31/05/25



The fair value of the stock options was estimated on the vesting date based on the Black-Scholes model.

The main market inputs of the model used are shown below:

	<b>Share price at grant date</b>	<b>Exercise price in Euro</b>	<b>Expected volatility</b>	<b>Free risk rate</b>
<b>Stock Option Plan 2010-2013</b>				
First tranche	12.00	8.047	29.61%	1.476%
Second tranche	11.70	12.550	32.08%	1.871%
Third tranche	5.33	5.540	46.45%	1.067%
Fourth tranche	8.70	8.470	26.16%	0.382%
Fourth tranche-bis	14.04	14.540	30.62%	0.373%
<b>Stock Option Plan 2014-2016</b>				
First tranche	15.67	15.050	30.00%	1.044%
Second tranche	13.71	13.290	30.00%	0.352%
Third tranche	8.68	8.3509	33.50%	0.364%
<b>Stock Option Plan 2017-2020</b>				
First tranche	6.54	6.540	32.50%	0.291%

The table below shows the changes in the stock option plans occurred during the year:

	No. of options	Average exercise price in Euro
<b>Stock Option Plan 2010-2013</b>		
<b>Outstanding at the beginning of the period</b>	<b>452,500</b>	<b>8.590</b>
Granted	-	-
Forfeited	-	-
Exercised	-	-
Expired	(35,000)	12.550
<b>Outstanding at period-end</b>	<b>417,500</b>	<b>8.258</b>
<b>Stock Option Plan 2014-2016</b>		
<b>Outstanding at the beginning of the period</b>	<b>1,305,000</b>	<b>11.609</b>
Granted	-	-
Forfeited	(540,000)	13.247
Exercised	-	-
Expired	-	-
<b>Outstanding at period-end</b>	<b>765,000</b>	<b>10.452</b>
<b>Stock Option Plan 2017-2020</b>		
<b>Outstanding at the beginning of the period</b>	<b>-</b>	<b>-</b>
Granted	1,020,000	6.540
Forfeited	(130,000)	6.540
Exercised	-	-
Expired	-	-
<b>Outstanding at period-end</b>	<b>890,000</b>	<b>6.540</b>

During the year, 1,020,000 options have been granted related to the first tranche of the new Plan 2017-2020 of which 130,000 have been forfeited for a net amount of 890,000 options, in the same period 540,000 options of the Plan 2014-2016 have been forfeited and 35,000 options of the Plan 2010-2013 have expired.

Among the options outstanding at the end of the period, the third and the fourth tranche of the Plan 2010-2013 are exercisable until respectively the end of the exercise period set for 31<sup>st</sup> May 2018 and 31<sup>st</sup> May 2019. As far as the Plan 2014-2016 is concerned the first tranche, equal to a total of 240,000, is exercisable from the date of the approval of 2016 financial statements until the expiry of the exercise period set for 31<sup>st</sup> May 2022.

At the date of the approval of these financial statements the total options exercisable still outstanding are equal to 657,500.

The average exercise price for options of the Plan 2010-2013 outstanding at the year-end is equal to 8.258 Euro with an average remaining contract life of 1 years, for the Plan 2014-2016 is equal to 10.452 Euro with an average remaining contract life of 5.8 years, while for the Plan 2017-2020 is equal to 6.540 Euro with an average remaining contract life of 7.4 years.

The adoption of these plans has affected the income statement for the period for 41 thousand Euro (38 thousand Euro at 31<sup>st</sup> December 2016).

## 5. Notes to the income statement

### 5.1 Service revenues

In its capacity as holding company of the Group, the Company does not have revenues from the sale of merchandise, but only revenues of Euro 886,202 for the provision of services billed to its subsidiary Safilo S.p.A. for administrative, legal, accounting and tax services performed on its behalf during the year.

### 5.2 General and administrative expenses

(Euro)	2017	2016
Payroll and social security contributions	2,871,784	366,517
Corporate compliance costs	289,162	197,012
Remunerations to directors and statutory auditors	1,526,625	2,091,624
Consultancies	929,925	445,131
Cost of services rendered by Safilo S.p.A.	236,861	25,000
Other general and administrative expenses	411,523	60,853
Provision for risks	(1,144,018)	356,956
<b>Total</b>	<b>5,121,862</b>	<b>3,543,093</b>

The following table illustrates the number of employees broken down by category:

	2017	2016
Executives	7	3
Clerks and middle management	12	-
<b>Total</b>	<b>19</b>	<b>3</b>

### 5.3 Write-down of investments in subsidiaries

In response to changed market conditions and the losses reported during the year by the subsidiary Safilo S.p.A., the directors tested the investment in the aforementioned subsidiary for impairment when preparing the annual report. This test resulted in impairment for a total amount of Euro 235,000,000.

### 5.4 Financial charges, net

This item breaks down as follows:

(Euro)	2017	2016
Interest expenses and charges on Bond	6,972,973	6,743,864
Bank commissions	3,820	2,067
Negative exchange rate differences	54	12,702
Other financial charges	1,568	1,094
<b>Total financial charges</b>	<b>6,978,415</b>	<b>6,759,727</b>
Interests income	25	116
Positive exchange rate differences	8,395	18,286
Fair value gains on the Equity-linked Bond incorporated derivative	484,321	3,129,169
<b>Total financial income</b>	<b>492,741</b>	<b>3,147,571</b>
<b>TOTAL FINANCIAL (CHARGES) INCOME, NET</b>	<b>(6,485,674)</b>	<b>(3,612,156)</b>

Interest expense amounted to Euro 6,972,973 of which Euro 1,876,110 relate to nominal interest expense accrued on the bond "Equity Linked" and for the remaining part to the impact related to the figurative interests calculated on the convertible component in order to calculate the effective interest rate to be applied for the calculation according to the amortised costs.

The item "Fair value gains on the Equity-linked Bond incorporated derivative" refers to the gain on the fair value of the derivative option component embedded in the bond "equity-linked".

## 5.5 Income taxes

This item breaks down as follows:

(Euro)	2017	2016
Current tax	237,179	886,623
Deferred tax	(2,001,308)	111,488
<b>Total</b>	<b>(1,764,129)</b>	<b>998,111</b>

Current and deferred taxes, which are positive for Euro 237,139 refer to the fiscal consolidation profit retrieved from Lenti srl and to deferred taxes equal to Euro 2,001,308 referring to temporary differences changes.

The table below shows the reconciliation between theoretical taxes and the actual tax burden recognised on the income statement:

(Euro)	%	2017	%	2016
<b>Profit (loss) before taxation</b>	<b>100%</b>	<b>(245,715,885)</b>	<b>100%</b>	<b>(6,803,230)</b>
Income tax benefit (expense) at statutory rate	-24.0%	58,971,812	-27.5%	1,870,888
Non deductible costs	23.0%	(56,416,426)	0.3%	(20,243)
Income from tax fiscal unity	-0.1%	237,179	-13.0%	886,623
Non-recognition of new DTAs and write-off of existing DTAs	1.9%	(4,552,203)	26.4%	(1,796,020)
Other differences	0.0%	(4,491)	-0.8%	56,862
<b>Total</b>	<b>0.7%</b>	<b>(1,764,129)</b>	<b>-14.7%</b>	<b>998,110</b>

## 5.6 Earnings (losses) per share

The calculation of basic and diluted earnings per share is shown in the tables below:

<b>Basic</b>	<b>2017</b>	<b>2016</b>
Profit/(loss) for ordinary shares	(247,480,014)	(5,805,119)
Average number of ordinary shares	62,659,965	62,639,555
<b>Earnings (loss) per share - basic (in Euro)</b>	<b>(3.950)</b>	<b>(0.093)</b>

<b>Diluted</b>	<b>2017</b>	<b>2016</b>
Profit/(loss) for ordinary shares	(247,480,014)	(5,805,119)
Profit for preferred shares	-	-
<b>Profit/(loss) in income statement</b>	<b>(247,480,014)</b>	<b>(5,805,119)</b>
Average number of ordinary shares	62,659,965	62,639,555
Dilution effects:		
- Stock Option	15,561	51,968
<b>Total</b>	<b>62,675,526</b>	<b>62,691,523</b>
<b>Earnings (loss) per share - diluted (in Euro)</b>	<b>(3.949)</b>	<b>(0.093)</b>

## 5.7 Dividends

The Company did not distribute dividends to shareholders neither in financial year 2017.

## 5.8 Segment information

The Company operates exclusively in Italy and its only activity is the management of its shareholdings.

## 6. Commitments

The Company had no purchase commitments at the reporting date.

## 7. Subsequent events

No events occurred during the period after the reporting date that might have a material impact on the data set out in this report other than those illustrated in the section “Significant events after year-end” of the Report on operations.

## 8. Significant non-recurring events and transactions

During 2017 the company did not engage in significant non-recurring transactions pursuant to the CONSOB Communication of 28<sup>th</sup> July 2006.

## 9. Transactions resulting from unusual and/or abnormal operations

Pursuant to CONSOB Communication of 28<sup>th</sup> July 2006, in 2017 the Company did not put in place any unusual and/or atypical operations, as defined in this Communication.



## 10. Transactions with related parties

The remuneration of the Company's Directors, Statutory Auditors and Strategic Management is reported below:

(Euro)	2017	2016
<b>Directors</b>		
- Salaries ad short term compensations	1,343,000	1,322,703
- Non monetary benefits	88,639	-
- Other compensations	69,657	1,500,000
- Fair value of equity compensations	50,869	90,415
<b>Statutory auditors</b>		
- Fixed compensations and compensations for participation in committees	162,000	143,000
<b>Managers with strategic responsibilities</b>		
- Salaries ad short term compensations	461,946	30,000
- Non monetary benefits	12,611	-
- Other compensations	3,082	-
- Fair value of equity compensations	11,055	-
<b>Total</b>	<b>2,202,859</b>	<b>3,086,118</b>

# APPENDIX

## Information pursuant to Article 149-duodecies of the CONSOB Issuers' Regulation

The following table, prepared in accordance with article 149-duodecies of the Issuers' Regulation (*Regolamento Emittenti*) issued by CONSOB, reports the amount of fees charged in the financial year for audit and non-audit services provided by the independent auditors.

(Euro)	2017
Audit	60,050
Attestation	123,000
Other Deliverable	38,000
<b>Total</b>	<b>221,050</b>

## Certification of the Annual Report pursuant to article 81-ter of CONSOB Regulation 11971 of 14<sup>th</sup> May 1999 as amended

The undersigned Eugenio Razelli, as Chairman of the Board of Directors, and Gerd Graehsler, as the manager responsible for preparing Safilo Group S.p.A.'s financial statements, hereby certify, having also taken into consideration the provisions of article 154-bis, paragraphs 3 and 4, of Italian Legislative Decree 58 of 24<sup>th</sup> February 1998:

- the adequacy with respect to the company structure and
- the effective application,

of the administrative and accounting procedures for preparation of the annual report during the 2017 financial year.

It is also certified that the annual report at 31<sup>st</sup> December 2017:

- a. corresponds to the results documented in the books, accounting and other records;
- b. have been prepared in accordance with the International Financial Reporting Standards adopted by the European Union, as well as with the provisions issued in implementation of article 9 of Legislative Decree 38/2005 and, based on their knowledge, fairly and correctly present the financial position, results of operations and cash flows of the issuer.

13<sup>th</sup> March 2018

The Chairman

*Eugenio Razelli*

The manager responsible for preparing  
the company's financial statements

*Gerd Graehsler*

# REPORT OF THE BOARD OF STATUTORY AUDITORS

## To the Shareholders' Meeting of Safilo Group S.p.A. on the financial year 2017

Dear Shareholders,

during the financial year ended 31 December 2017, the Board of Statutory Auditors of Safilo Group S.p.A. carried out the supervision activity required by law, in accordance with the principles of conduct of the Board of Statutory Auditors recommended by the *Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili* (Italian national council of graduate accountants and accounting experts), considering the recommendations made by Consob in Communication no. 1025564 dated 6 April 2001, as subsequently amended, on company controls and the activities of the Board of Statutory Auditors.

In the introduction, it should be noted that the Board of Statutory Auditors of Safilo Group S.p.A. has been appointed by the Shareholders' Meeting of 26 April 2017, in charge until the approval of the financial statements as at December 31, 2019.

As regards the methods employed by the Board of Statutory Auditors to carry out its institutional activities, we confirm the following:

- we monitored compliance with the law and by laws;
- we attended the Shareholders' Meeting and all the meetings of the Board of Directors held during this year, and obtained from the Directors quarterly reports on activities carried out and significant operations executed by the company or its subsidiaries and verified that the aforesaid operations were coherent with the assumed deliberations and in respect for the principles of correct management;
- we monitored, within our area of responsibility, the organisational adequacy of the company, its respect for the principles of correct management and the organisational evolution of the Group;
- we monitored the operation of the administrative and accounting system, in order to assess its adequacy for management requirements and its reliability for the reporting of business operations. During this activity, we relied on the information supplied by the executive Director in charge of the internal control system, on information obtained as part of the regular participation to the activities of the Control Risk and Sustainability Committee, on examination of reports prepared by the Head of the Internal Audit function on the adequacy of administrative and accounting procedures pursuant to Law 262/05 and on the outcome of related tests carried out, together with the information obtained during periodic meetings with the auditing firm Deloitte & Touche S.p.A. which reported on the outcome of systematic checks and on the proper keeping of accounting records. We have no particular comments to make in this respect;

- not having been appointed to perform an analytical inspection of the content of the financial statements, we verified the general structure of the financial statements and consolidated financial statements, drawn up in compliance with IAS/IFRS international accounting principles, and of the respective management reports through direct checks and using specific information supplied by the auditing company;
- we verified that the impairment test had been carried out for the intangible asset entries made in the consolidated financial statements, and investments in subsidiaries booked in the statutory financial statements.

We report that:

- to the best of our knowledge, the Directors did not infringe the provisions of article 2423 paragraph 4 of the Civil Code in the Notes to the Financial Statements;
- we verified that, following adoption of its own "Internal Dealing Code", the Company has set up specific operational and management procedures for any communications from "relevant" parties;
- we verified that, pursuant to the provisions of Legislative Decree No. 231 of 8/6/2001, your company has equipped itself with an Organisation, Management and Control Model that complies with the *Confindustria* Guidelines and fulfils the requirements of the aforementioned legislative decree, disseminated the Code of Ethics and established a Supervisory Committee that reported to the Control and Risk Committee and the Board of Directors on its activities. The necessary actions and measures have been taken to ensure that the organisational model remains appropriate and up-to-date for the purpose of fulfilling its functions and complying with new regulatory requirements;
- we have verified that the company has complied with the provisions of law 15/11/2017 n. 179 concerning Whistleblowing, adopting its Worldwide Business Conduct Manual (WBCM) and related reporting system of alleged violations to the same.

In accordance with the aforementioned Consob communications, we hereby provide the following information:

1. with effect from February 28th, 2018 the Chief Executive Officer, Ms. Luisa Delgado resigned from all positions held within the Group, resignations accepted by the Board of Directors of Safilo Group. At the date of preparation of this report, until the appointment of a new Chief Executive Officer, the Board of Directors has granted interim powers to the Chairman, Mr. Eugenio Razelli;
2. the significant economic, financial and capital operations carried out by the company and its subsidiaries were executed in accordance with the law and company bylaws. Based on the information acquired, we were able to ascertain that they were not manifestly imprudent or risky, that they did not result in a conflict of interest and did not compromise the integrity of the company's assets;

3. we ascertained that no atypical and/or unusual operations, as defined by Consob communication DEM/6064293 of 28 July 2006, were carried out within the group or with related or third parties, having found confirmation of this in the information supplied by the Board of Directors and the Auditing Firm.  
Furthermore, we ascertained that the standard operating procedures in force within the Group guarantee that all commercial operations with related parties take place according to market conditions;
4. we believe that the information presented by the Directors in their report on operations and explanatory notes in respect of the operations mentioned in paragraphs 2 and 3 are adequate;
5. the reports prepared by the audit firm Deloitte & Touche S.p.A., issued on March 23<sup>rd</sup> 2018, regarding the individual and consolidated balance sheet of Safilo Group S.p.A. as of 31.12.2017 do not contain significant findings and/or disclosure requests. The auditing firm issued its assessment of the consistency of the Management Report with the relevant financial statements without any observations and/or objections;
6. during 2017, no reports were made to the Board of Statutory Auditors under article 2408 of the Civil Code, and no complaints were submitted by shareholders;
7. during 2017, Safilo Group S.p.A. has no appointed to Deloitte & Touche S.p.A. engagement other than to perform the legal audit of the statutory and consolidated financial statements. In the appendix to the consolidated financial statement is reported, in accordance with the principle 149-Duodecies of the Issuers' Regulations, the statement of the fees recognized for the year to Deloitte & Touche S.p.A. and its network for statutory audit and other services provided by the same Independent Auditor to the company and to the Group. In accordance with the article 17, ninth paragraph, of the Legislative Decree 39/2010, the Independent Auditor has regularly communicated to the Board of Statutory Auditors additional engagements to those of auditing the accounts, obtaining the relative authorization from the Board after assessment of possible risks for the independence of the Auditor;
8. during the 2017 financial year, the Board of Statutory Auditors expressed its opinion when required by current laws and verified that its members fulfilled the integrity and independence requirements;
9. the Board of Statutory Auditors verified the accuracy of the criteria and assessment procedures employed by the Board of Directors to assert the independence of its members;
10. to the Report on Corporate Governance and Ownership Structure for the financial year 2017, approved by the Board of Directors on March 13<sup>th</sup> 2018, is attached a list on supervision activities that outlines the tasks performed, as of the date of issue of the Report, by the members of the Board of Statutory Auditors, drawn up according to sample 4, appendix 5-bis of the Issuers' Regulations;
11. during 2017, both the Board of Directors held nine meetings and the Board of Statutory Auditors held eleven meetings. Additionally, the Control Risk and Sustainability Committee met six times with the constant participation of the Board of Statutory Auditors, while the Remuneration and Nomination Committee met four times and the Related Parties Transactions Committee met two times, always with the participation of the Board of Statutory Auditors;

12. on the basis of the information gathered from the company's departmental managers, from the Internal Audit function, and during periodic meetings with the Auditing Firm, we believe that the principles of correct management were constantly observed;
13. we gathered information about and monitored the company's organisational structure to the extent of our responsibilities;
14. based on the analyses performed and the information obtained during meetings with the Director in charge of the internal control system, with the Internal Control Manager, with the Manager in charge of preparing the accounting documentation and during meetings of the Control Risk and Sustainability Committee and the Supervisory Board, we verified the adequacy and reliability of the internal control system and risks management;
15. we verified the adequacy of the administrative and accounting system and the reliability of the same in correctly representing business operations;
16. we verified the adequacy of the manner in which the parent company hands down instructions to its main subsidiaries;
17. during systematic meetings between the Board of Statutory Auditors and the Auditing Firm under art. 150, paragraph 2, Legislative Decree 58/1998, no significant findings emerged;
18. the Remuneration Report is prepared pursuant to art. 84 quarter of the Issuers' Regulations and to Consob resolution No. 11971/1999 and subsequent amendments;
19. the 2017 Report on Corporate Governance and Ownership Structure prepared by the Board of Directors contains a description of the governance of the Company and the Group that appears to be in line with the principles of the Self-Regulation Code and the Issuers' Regulations. This Report also presents information on the ownership structure pursuant to art. 123 bis of the TUF (consolidated finance act). The Board of Statutory Auditors monitored implementation of the corporate governance rules, which appear to be in line with the model adopted by the company;
20. the Managing Director and the Manager in charge of preparing the company's accounting documents provided the statements required by article 154-bis, paragraph 5, regarding the financial statements and consolidated financial statements in accordance with the model provided in appendix 3c-ter of the Issuers' Regulations;
21. the net result of the consolidated financial statement of the year has been affected by an impairment loss on the goodwill for Euro 192 million, based on impairment test results. For the purposes of the impairment test, the Board has approved a Preliminary Business Plan for the period 2018 - 2022 which includes certain key assumptions regarding sales and cost reduction initiatives. The plan could, for some limited aspects, be revised following the announced entry of the new Group CEO, who will define in more detail the methods of the Group's execution plan, and the final plan will be published once it has been definitely approved. In the Notes to the Consolidated Financial Statements, note 4.8, has been widely described the complex evaluation process, as well as the assumptions on which the impairment test is based. The value of the Company that can be deduced from the Stock Market's prices is still significantly lower than the evaluation of the Equity Value for the impairment test, obtained with the application of the DCF (Discounted Cash Flow) method, however, as commented in the Notes to the Consolidated Financial Statements,

the Board of Directors considers that the assumptions included into the Preliminary Business Plan approved for the impairment test are reasonable, also taking into account all the other elements considered in the test's execution;

22. we also took note about the topics described in the "Key Audit Matters" paragraph included in the report of Independent Auditor;
23. Consolidated Non-Financial Information Statement: we verified the compliance with the provisions pursuant to the Legislative Decree 30 December 2016 no.254, regarding the consolidated non-financial information statement of Safilo Group S.p.A. and its subsidiaries (hereinafter NFD). The Board of Statutory Auditors finds that the Company has prepared, in its capacity as Parent Company and following the provisions of the Legislative Decree 30 December 2016 no. 254 ("Implementation of Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014, amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups" – hereinafter "Decree"), the 2017 Consolidated Non-Financial Information Statement of the Safilo Group, as required by Articles 3 and 4 of the Decree and by the "Global Reporting Initiative Sustainability Reporting Standards" (hereinafter "GRI Standards"), defined in 2016 by the GRI - Global Reporting Initiative – adopted by the directors as reporting standards. The Board of Statutory Auditors supervised about the compliance with the provisions established by the Decree in the preparation of the NFD, verifying that it allows the understanding of the business, its performance, its results and its impacts produced, and that reports about the relevant topics such as environmental, social, people, respect of human rights and anticorruption, taking into account the business and characteristics of the Company, in compliance with the provisions of the Article 3 of the Decree. The Board of Statutory Auditors also noted that, pursuant to the Article 3 paragraph 10, the company Deloitte & Touche S.p.A., in charge of auditing the Group's financial statements, issued on 23 March 2018 a specific Report on the Consolidated Non-Financial Information Statement, attesting the compliance of the information provided in this Document with Articles 3 and 4 of the Decree and the GRI Standards;
24. we confirm that no omissions, irregularities or wrongful actions emerged from our supervisory activities that would need to be reported to the Supervisory Bodies or Shareholders.



To conclude, we express our approval, to the extent of our responsibilities, of the 2017 financial statements as presented by the Board of Directors in the Management Report, and of Directors' proposal to carry forward the loss of the period.

Padua, 23 March 2018

THE BOARD OF STATUTORY AUDITORS

Signed by

<i>Carmen Pezzuto</i>	President
<i>Franco Corgnati</i>	Regular auditor
<i>Bettina Solimando</i>	Regular auditor

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

# REPORT OF INDEPENDENT AUDITORS



Deloitte & Touche S.p.A.  
Via N. Tommaseo, 78/C int. 3  
35131 Padova  
Italia

Tel: +39 049 7927911  
Fax: +39 049 7927979  
www.deloitte.it

## INDEPENDENT AUDITOR'S REPORT PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010 AND ARTICLE 10 OF THE EU REGULATION 537/2014

To the Shareholders of  
Safilo Group S.p.A.

### REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

#### Opinion

We have audited the financial statements of Safilo Group S.p.A. (the Company), which comprise the statement of financial position as at 31 December 2017, and the statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05.

#### Basis for Opinion

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

#### Key Audit Matters

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

#### Impairment of the equity investment in Safilo S.p.A.

##### *Description of the key audit matter*

As disclosed in Note 4.4, the assets as of December 31, 2017 of Safilo Group S.p.A. include for Euro 669 million the equity investment in Safilo S.p.A., net of an impairment loss of Euro 235 million recognized in 2017 as a result of an impairment test. As Safilo S.p.A. is the operating parent company of the Safilo Group, the impairment test has been derived from the one performed for the purposes of evaluating the goodwill recognized in the consolidated financial statements, and as a consequence it is based on the preliminary

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business plan for the period 2018 – 2022 (the "Plan"), approved by the Board of Directors, which includes certain key assumptions regarding sales and cost reduction initiatives. With reference to these assumptions, the Directors disclosed that some limited aspects of variability exist concerning the appointment of the new Group CEO, who is required to endorse the plan's guidelines, detail the related execution plan and finalize it. In addition, the process of performing the impairment test is complex and is based on assumptions related, among others, to the expectations in term of cash flows for each CGU, the determination of appropriate discount rates (Wacc) and long-term growth (g-rate). Those estimates depend on factors which may change in time, with possible effects which may be significant on Management's assessment.

We considered the relevance of the value of the investment, which represents about 93% of the Company's assets as of December 31, 2017, and the significance of the impairment loss of Euro 235 million recognized in the period; we considered the subjectivity of the estimates underlying the determination of the key variables of the impairment test; we also took into account the negative results obtained by the Group in the last two years and the evolution of the business environment and corporate governance. As a result we assessed that the impairment of the equity investment in Safilo S.p.A. represents a key audit matter for the audit of Safilo Group's financial statements.

#### *Audit procedures*

We preliminarily analyzed the methodology and assumptions used by Management to perform the impairment test.

We performed the following audit procedures, supported by the experts belonging to our network:

- Understanding of the relevant controls designed and implemented by Safilo Group in the process of performing the impairment test;
- Analysis of the reasonableness of the main assumptions adopted to prepare the expectations in terms of cash flows, also using industry data with reference to the trend of sales and marginality, and obtaining information from Management;
- Analysis of the actual results obtained by the Group compared to the expectations, in order to investigate the nature of the variations and evaluate the reliability of the planning process;
- Analysis of the reasonableness of the discount rates (Wacc) and long-term growth (g-rate);
- Test of the accuracy of the determination of the equity value and comparison with the recoverable value resulting from the impairment test;
- Analysis of the alternative scenarios prepared by Management and of the related sensitivity analysis;
- Analysis of the consistency between the above mentioned procedures and the impairment loss accounted for with reference to the equity investment in Safilo S.p.A.

We developed autonomous sensitivity analysis aimed at estimating the impact on the results of the impairments test of a situation in which the Group does not meet the business plan expectations, in terms of achieving the planned sales volumes and marginality.

#### **Responsibilities of the Directors and the Board of Statutory Auditors for the Financial Statements**

The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05 and, within the terms established by law, for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of the Company or for the termination of the operations or have no realistic alternative to such choices.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the Company's financial reporting process.

#### **Auditor's Responsibilities for the Audit of the Financial Statements**

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

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the 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 Company'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 management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence applicable in Italy, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report.

**Other information communicated pursuant to art. 10 of the EU Regulation 537/2014**

The Shareholders' Meeting of Safilo Group S.p.A. has appointed us on 15 April, 2014 as auditors of the Company for the years from 31 December 2014 to 31 December 2022.

We declare that we have not provided prohibited non-audit services referred to in art. 5 (1) of EU Regulation 537/2014 and that we have remained independent of the Company in conducting the audit.

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to the Board of Statutory Auditors, in its role of Audit Committee, referred to in art. 11 of the said Regulation.

**REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS****Opinion pursuant to art. 14, paragraph 2 (e), of Legislative Decree 39/10 and art. 123-bis, paragraph 4, of Legislative Decree 58/98**

The Directors of Safilo Group S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and ownership structure of Safilo Group S.p.A. as at 31 December 2017, including their consistency with the related financial statements and their compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and some specific information contained in the report on corporate governance and ownership structure set forth in art. 123-bis, n. 4 of Legislative Decree 58/98 with the financial statements of Safilo Group S.p.A. as at 31 December 2017 and on their compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the above-mentioned report on operations and information contained in the report on corporate governance and ownership structure are consistent with the financial statements of Safilo Group S.p.A. as at 31 December 2017 and are prepared in accordance with the law.

With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/10, made on the basis of the knowledge and understanding of the entity and of the related context acquired during the audit, we have nothing to report.

DELOITTE & TOUCHE S.p.A.

Signed by  
**Giorgio Moretto**  
Partner

Padova, Italy  
March 23, 2018

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



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