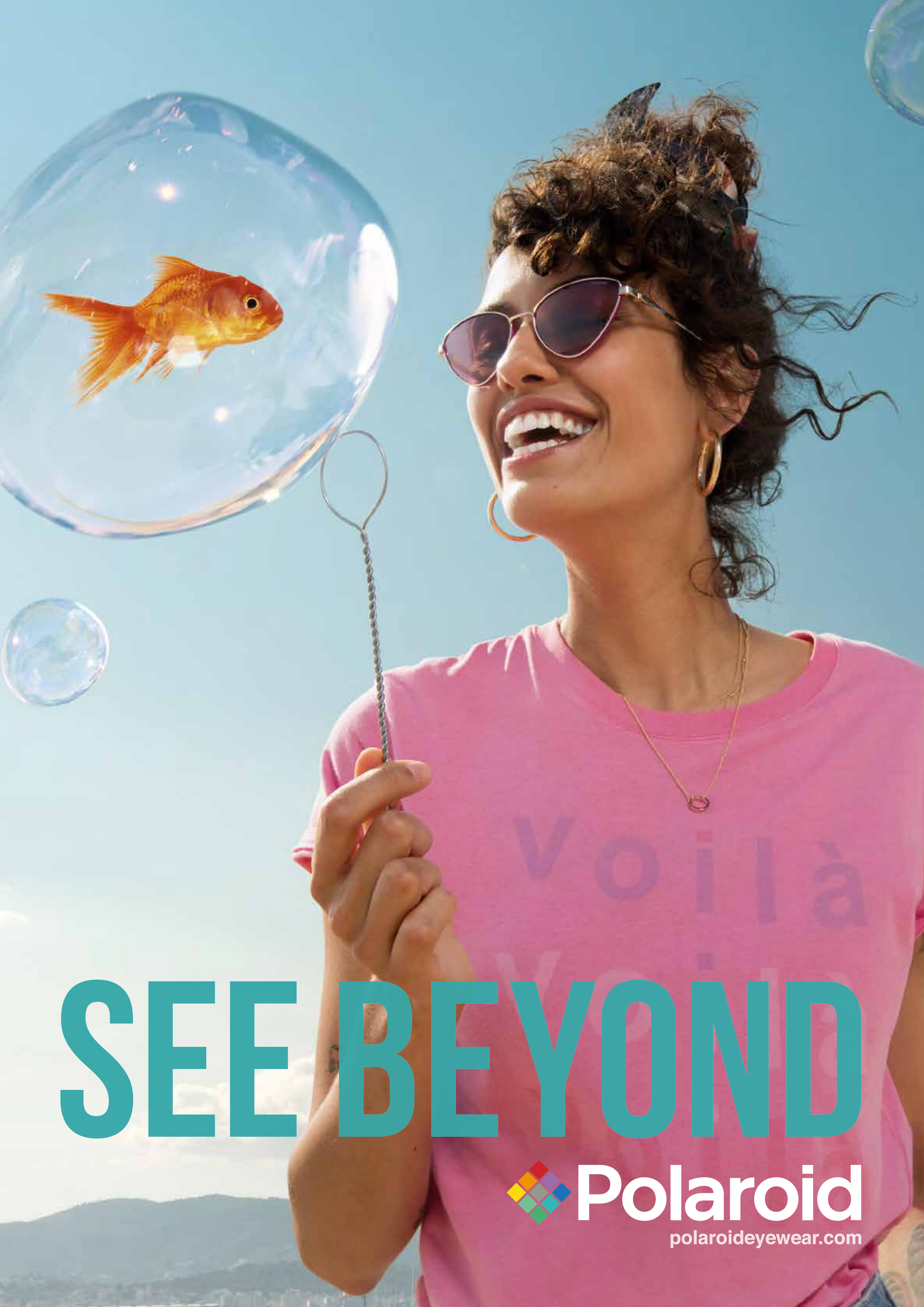
ANNUAL REPORT 2018

Safilo®
GROUP

ANNUAL REPORT 2018

Safilo GROUP


Voilà
SEE BEYOND
Polaroid
polaroideyewear.com

CONTENTS

THE SAFILO GROUP

Group profile 5
History of the Group 22
Group structure 24
Critical factors for the Group’s success 25
Primary Group processes and activities 27

SAFILO GROUP S.P.A. - CONSOLIDATED FINANCIAL STATEMENTS AT 31st DECEMBER 2018

Chief Executive Officer’s letter 46
Board of Directors, Committees and Auditors 48
Summary of key consolidated performance indicators 49

1. DIRECTORS OPERATIONS REPORT
Information on the operations 54
Group economic results 55
Analysis by distribution channel - wholesale/retail 61
Condensed balance sheet 62
Financial situation 65
Main critical risk factors for the Group 67
Human resources and the environment 71
Safilo in the stock exchange and investor relations 74
Corporate Governance 77
Other information 99
Reconciliation of the parent company’s net profit and shareholders’ equity with the consolidated balances 101
Significant events after year-end and outlook 102

2. CONSOLIDATED FINANCIAL STATEMENTS
Consolidated balance sheet 106
Consolidated income statement 108
Consolidated statement of comprehensive income 109
Consolidated statement of cash flows 110
Consolidated statement of changes in equity 111

3. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
General information 114
Summary of accounting principles adopted 115
Risk management 144
Notes to the consolidated balance sheet 156
Notes to the consolidated income statement 190
Transactions with related parties 202
Contingent liabilities 204
Commitments 204
Subsequent events 205
Significant non-recurring events and transactions 207
Transactions resulting from unusual and/or abnormal operations 207

Appendix
Information requested by art. 149-duodecis of the Regulation on Issuers issued by Consob 208
Attestation of the consolidated financial statements pursuant to art. 154-bis of legislative decree 58/98 209
Report of independent Auditors 211

4. SAFILO GROUP S.P.A. - STATUTORY FINANCIAL STATEMENTS AT 31ST DECEMBER 2018 219

PORTFOLIO OF BRANDS

CARRERA
EYEWEAR SINCE 1956

SMITH

Polaroid

SAFILO
MADE IN ITALY DAL 1934

DIOR

DIOR HOMME

MaxMara

ELIE SAAB

MOSCHINO

rag & bone
NEW YORK

LOVE
MOSCHINO

REBECCA MINKOFF

HUGO
HUGO BOSS

pierre cardin
PARIS

BANANA REPUBLIC

LIZ claiborne

swatch
the eyes

MISSONI *

FENDI

GIVENCHY
PARIS

BOSS
HUGO BOSS

MARC JACOBS

kate spade
NEW YORK

TOMMY HILFIGER

JIMMY CHOO

Saks Fifth Avenue

havaianas

MAX&Co.

FOSSIL

Juicy Couture

M *
MISSONI

Levi's *

(*) From 2020.

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

The science of **innovation** and **creative twist**

GLOBAL PRODUCT SUPPLY & DISTRIBUTION

7 owned **plants**

GLOBAL BRAND BUILDING & MARKETING

CARRERA
EYEWEAR SINCE 1956
Polaroid
SMITH

Brand building science

GO TO MARKET

A network of owned subsidiaries in **40 countries** and **4 regions**

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**

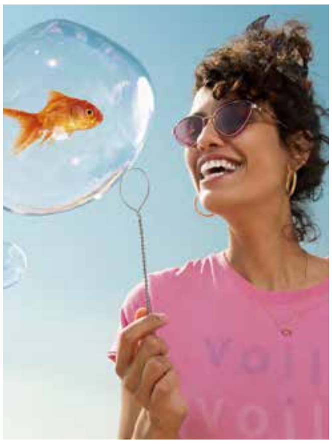
5 continents
Nearly **100,000 points of sales** in 5 continents

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

BRANDS

CARRERA
EYEWEAR SINCE 1956

Polaroid

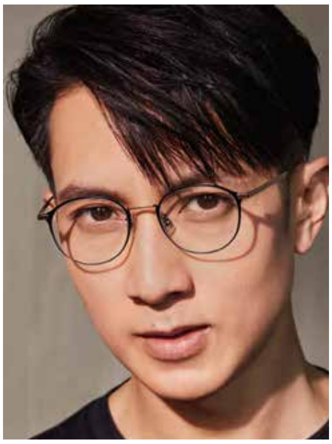


SAFILO

SMITH

BANANA REPUBLIC

BOSS
HUGO BOSS



HUGO
HUGO BOSS

Dior

DIOR HOMME

ELIE SAAB

FENDI

FOSSIL

GIVENCHY
PARIS

havaianas®

LET'S SUMMER
LET'S FEEL
GORGEOUS
havaianas

JIMMY CHOO

Juicy Couture
BLACK LABEL
los angeles

kate spade
NEW YORK

LIZ claiborne

MARC JACOBS

MaxMara

MAX&Co.

MOSCHINO

LOVE
MOSCHINO

pierre cardin
PARIS

rag & bone
NEW YORK

REBECCA MINKOFF

Saks Fifth Avenue

TOMMY HILFIGER

swatch® the eyes

I ALWAYS WANT more looks
swatch the eyes

SAFILO IN THE WORLD

The Safilo Group has a **commercial network in around 40 countries** and **independent distributor partners.**

COMMERCIAL NETWORK

THE AMERICAS

Brasil
Canada
Mexico
Usa

EUROPE

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

ASIA PACIFIC

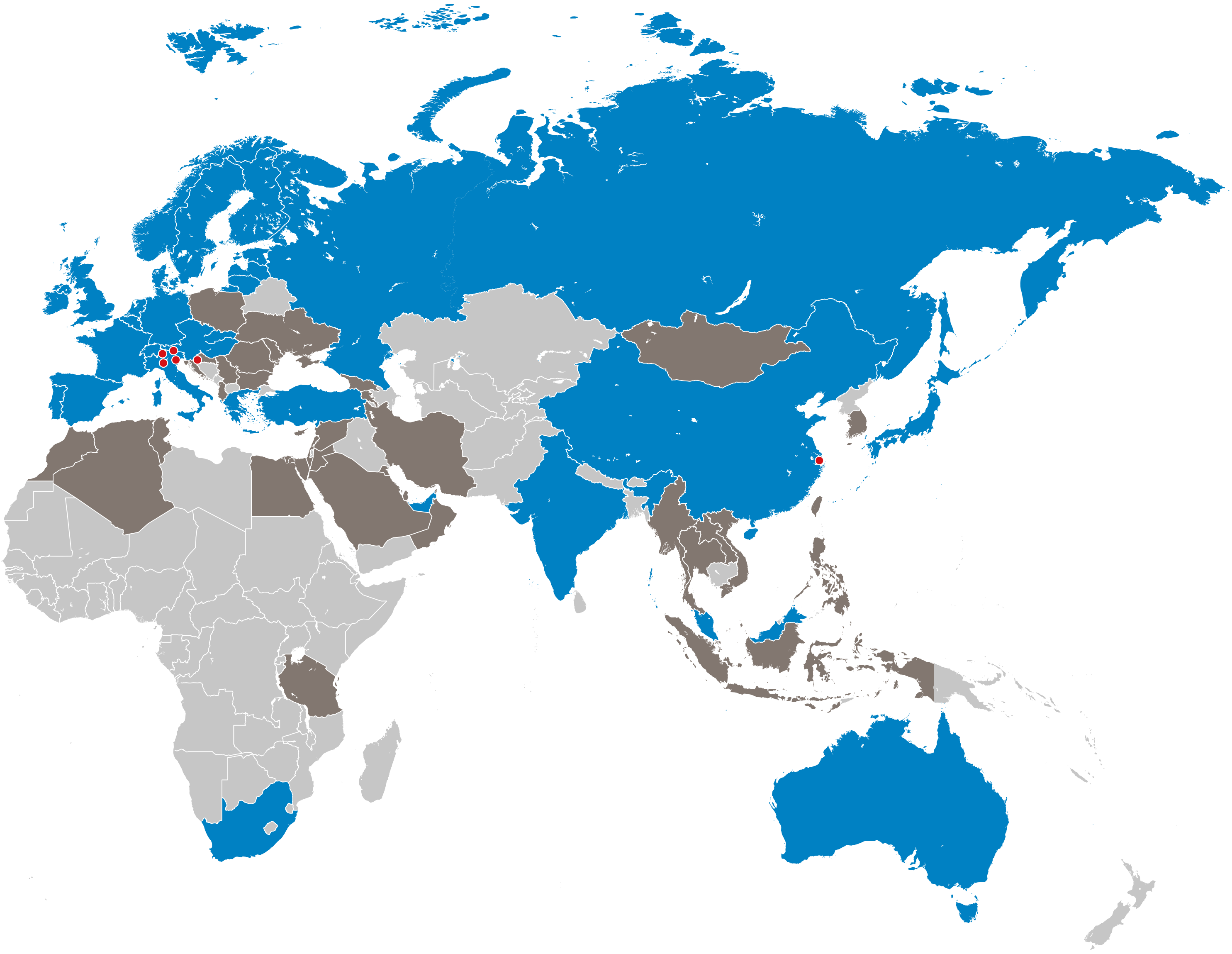
Australia
China
Japan
Hong Kong
India
Malaysia
Singapore

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
Dominican Republic
Ecuador
Guatemala
Paraguay
Peru
Uruguay
Venezuela

EUROPE

Albania
Armenia
Bulgaria
Croatia
Georgia
Kosovo
Moldova
Poland
Romania
Serbia
Ukraina

ASIA PACIFIC

Indonesia
Mongolia
Myanmar
Philippines
South Korea
Taiwan
Thailand
Vietnam

REST OF THE WORLD

Algeria
Saudi Arabia
Cyprus
Gulf Cooperation Council
Egypt
Jordan
Iran
Israel
Lebanon
Morocco
Syria
Tanzania
Tunisia

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 14th 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 9th 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.

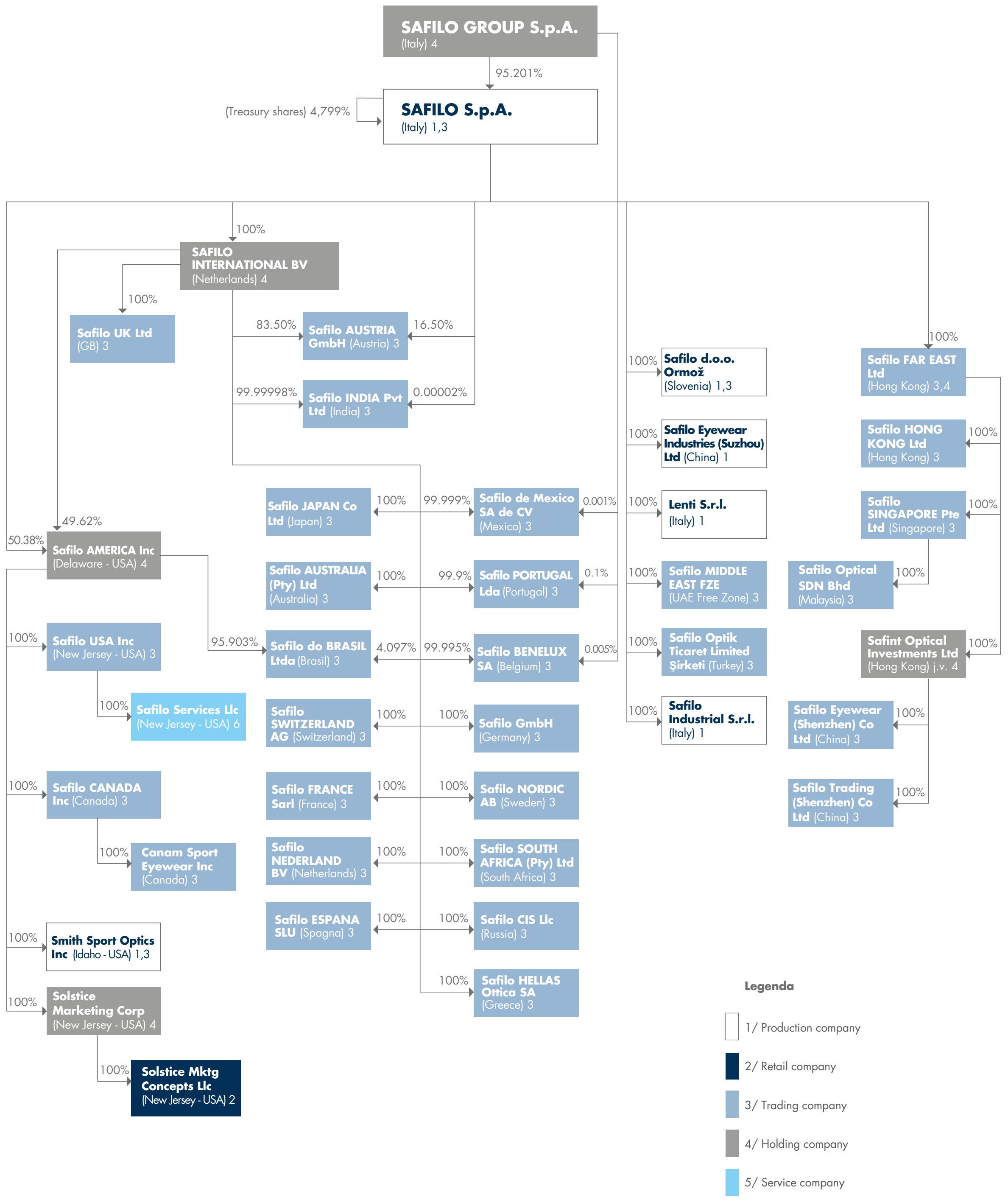
In March 2010, a capital increase of the parent company was concluded, and led to the entry of HAL Holding N.V., an international investment company, as the new reference shareholder.

HAL is a strong partner for the Group, and has had a presence in the eyewear retail sales sector since 1996, through the GrandVision retail network.

The acquisition of the Polaroid Eyewear business

On 3rd 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



SAFILO GROUP S.p.A. (Italy) 4

95.201%

SAFILO S.p.A. (Italy) 1,3

(Treasury shares) 4,799%

100% SAFILO INTERNATIONAL BV (Netherlands) 4

100% Safilo UK Ltd (GB) 3

83.50% Safilo AUSTRIA GmbH (Austria) 3 16.50%

99.99998% Safilo INDIA Pvt Ltd (India) 3 0.00002%

Safilo JAPAN Co Ltd (Japan) 3 100%

Safilo AUSTRALIA (Pty) Ltd (Australia) 3 100%

Safilo do BRASIL Ltda (Brasil) 3 95.903% 4.097%

Safilo SWITZERLAND AG (Switzerland) 3 100%

Safilo FRANCE Sarl (France) 3 100%

Safilo NEDERLAND BV (Netherlands) 3 100%

Safilo ESPANA SLU (Spagna) 3 100%

99.999% Safilo de Mexico SA de CV (Mexico) 3 0.001%

99.9% Safilo PORTUGAL Lda (Portugal) 3 0.1%

99.995% Safilo BENELUX SA (Belgium) 3 0.005%

100% Safilo GmbH (Germany) 3

100% Safilo NORDIC AB (Sweden) 3

100% Safilo SOUTH AFRICA (Pty) Ltd (South Africa) 3

100% Safilo CIS Llc (Russia) 3

100% Safilo HELLAS Ottica SA (Greece) 3

50.38% 49.62% Safilo AMERICA Inc (Delaware - USA) 4

100% Safilo USA Inc (New Jersey - USA) 3

100% Safilo Services Llc (New Jersey - USA) 6

100% Safilo CANADA Inc (Canada) 3

100% Canam Sport Eyewear Inc (Canada) 3

100% Smith Sport Optics Inc (Idaho - USA) 1,3

100% Solstice Marketing Corp (New Jersey - USA) 4

100% Solstice Mktg Concepts Llc (New Jersey - USA) 2

100% Safilo d.o.o. Ormož (Slovenia) 1,3

100% Safilo Eyewear Industries (Suzhou) Ltd (China) 1

100% Lenti S.r.l. (Italy) 1

100% Safilo MIDDLE EAST FZE (UAE Free Zone) 3

100% Safilo Optik Ticaret Limited Şirketi (Turkey) 3

100% Safilo Industrial S.r.l. (Italy) 1

100% Safilo FAR EAST Ltd (Hong Kong) 3,4

100% Safilo HONG KONG Ltd (Hong Kong) 3

100% Safilo SINGAPORE Pte Ltd (Singapore) 3

100% Safilo Optical SDN Bhd (Malaysia) 3

100% Safint Optical Investments Ltd (Hong Kong) j.v. 4

100% Safilo Eyewear (Shenzhen) Co Ltd (China) 3

100% Safilo Trading (Shenzhen) Co Ltd (China) 3

Legenda

□ 1/ Production company

■ 2/ Retail company

■ 3/ Trading company

■ 4/ Holding company

■ 5/ Service company

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;

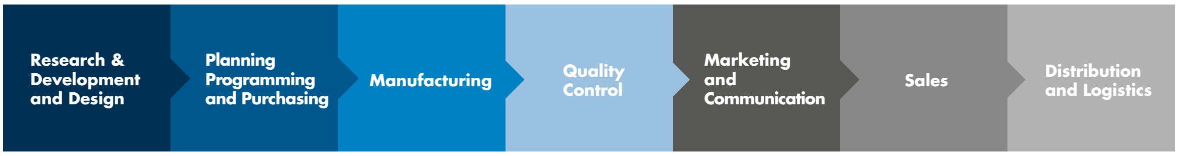
- excellence in customer service: the Group features: (i) a large, expert sales force able to cover the entire market; (ii) a team of key account managers dedicated to assisting the main distribution chains; and (iii) modern, multi-language call centres to manage orders and customer service, using specialised 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
Planning Programming and Purchasing
Manufacturing
Quality Control
Marketing and Communication
Sales
Distribution and Logistics

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.

Planning, programming and purchases

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

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 9001:2015 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.

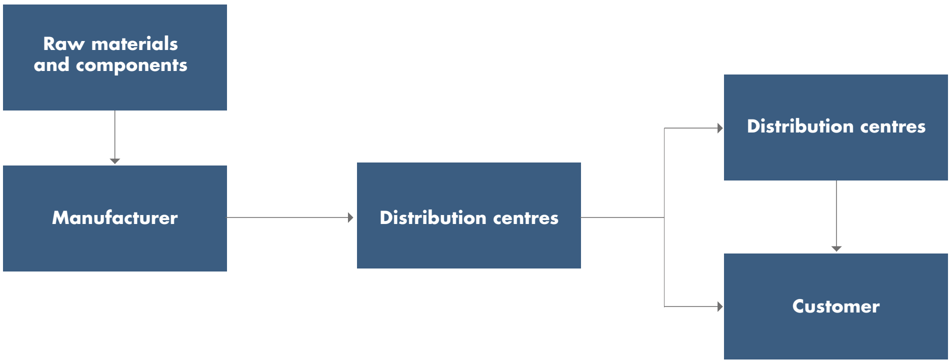
Safilo's corporate communication is rooted in the Group's values and is mainly executed through the Group's website safilogroup.com, social media platforms, as well as media relation plans for an effective press coverage both on-line and offline.

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 around 40 countries through its own extensive subsidiary networ

Safilo Group sells its products with an extensive subsidiary network in around 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, Singapore, Malaysia, and Australia) and in partnership with local distributors in all the other markets (Thailandia, Indonesia, Philippines, Taiwan, South Korea, Vietnam, Mongolia 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, Middle East & Africa with affiliates in 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 a 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 80 stores in the USA at the end of 2018.

The Group's own and licensed brands

The Group's portfolio contains both Safilo and licensed brands

The Group's brand portfolio encompasses 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), 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 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.

2018 renewal and new licensing agreements for the Group

2018 was a year in which the Group on the one side signed new strategic agreements, and on the other side confirmed key partnerships with brands already in its portfolio. In August 2018, Safilo renewed Fossil until the end of 2023 and

Kate Spade until the end of 2020. In September 2018, the Banana Republic licensing agreement was renewed until January 2025. In December 2018, Tommy Hilfiger was renewed for further 7 years until the end of 2025, and the agreement for havaianas eyewear collections until the end of 2024.

In December 2018, Safilo also announced a new licensing agreement for the design, manufacturing and distribution of the Missoni and M Missoni eyewear collections of sunglasses and optical frames, which will be launched in January 2020. The agreement will run for five years through December 31, 2024, renewable for an additional five years. In January 2019, Safilo also announced a new licensing agreement for the design, manufacturing and distribution of the Levi's eyewear collections, which will be launched in January 2020. The agreement will run for five years through November 2024, renewable for an additional five years, up to 2029.

Today, the Group's brand portfolio counts 28 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.

Polaroid

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 UV 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 evolve with increasing success thanks to its new collections and the international expansion.

SAFILO
OCCHIALI DAL 1934

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 a wide and complete collection of high-quality optical frames that target those who are looking for a technical, refined and distinctive product. Design, stylistic details and quality of manufacturing and materials are particularly relevant aspects for those who choose SAFILO frames.

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 SIOP (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 has 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.

Licensed brands

A very prestigious brand portfolio

Each of the licensed brands is designed and positioned with a specific market segment and target consumer in mind. 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.

DIOR

DIOR HOMME

GIVENCHY PARIS

FENDI

REBECCA MINKOFF

MaxMara

JIMMY CHOO

ELIE SAAB

kate spade NEW YORK

FOSSIL

TOMMY HILFIGER

MISSONI*

Levi's®*

swatch® the eyes**

BOSS HUGO BOSS

MARC JACOBS

MOSCHINO

LOVE MOSCHINO

M MISSONI*

MAX&Co.

pierre cardin PARIS

havaianas®

BANANA REPUBLIC

rag & bone NEW YORK

Juicy Couture®

LIZ claiborne

[illegible]

HUGO HUGO BOSS

(*) From 2020.

(**) 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.

BOSS – HUGO. This brand embodies class and elegance, attention to detail and to high-quality materials. The BOSS collection offers business, casual and athleisure looks for an impeccable modern wardrobe. While with the HUGO brand, trendsetters and style individualists can make confident statements with cool and progressive looks, choosing sharp tailoring and casual pieces infused with fashion-forward attitude.

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. 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.

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 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 Italian 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.

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.

Love Moschino. Love Moschino is aimed 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 eyewear 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 eyewear collections 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 cover both optical and sunglass ranges and is distributed in all rag & bone directly operated stores, rag-bone.com, boutiques, department stores and the best optical stores worldwide.

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 address 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. 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.

SMITH

SAFILO GROUP S.p.A. CONSOLIDATED FINANCIAL STATEMENTS AT 31ST DECEMBER 2018

CHIEF EXECUTIVE OFFICER'S LETTER

Dear Shareholders,

I joined Safilo as CEO in April 2018, a key moment for the Company, which after some difficult years needed a new plan to turnaround its performance, centered around the reignition of the topline and an acceleration of cost savings.

On top of that, we had the crucial task to secure the Group's financial structure, an objective we accomplished through a share capital increase and a new debt financing. This important initiative was successfully concluded thanks to the renewed partnership with Safilo's key lending banks, the reconfirmed support of the Group's reference shareholder, HAL, and of a significant number of institutional and retail investors who joined the capital increase. On behalf of Safilo, I want to thank everyone for the clear demonstration of trust in the Company's key objective to improve its performance, focusing on few, very clear, priorities.

Our economic results in 2018 were substantially in line with the revised targets we set and shared in the context of the presentation of the Group's new business plan in August 2018.

We closed the year with a mid-single digit decline in net sales at constant exchange rates, driven by the exit of the Céline license and the weak performance of sunglasses in the fashion luxury segment. 2018 showed also some positive results: the overall good performance of the Group's own core brands, Polaroid and Safilo in particular, as well as the broad progress of the licensed brands in the contemporary and premium segment.

In the second half of the year, we paid close attention to all operations and drove a sharper investment focus, in line with our business plan which envisages the opportunity to restore an adequate and sustainable level of profitability through a significant alignment of the cost structure to the scale of the Group.

The year showed the first signs of improvement at the operating and net result level, with the adjusted EBITDA margin improving to 4.9% of net sales, from 4.0% in 2017, while the adjusted net loss of the year decreased to Euro 26.7 million, from Euro 47.1 million in the previous year.

The successful completion, of the share capital increase approved by an Extraordinary Shareholders' Meeting on October 29, allowed us to close 2018 with a drastic reduction of our Group Net Debt, from Euro 131.6 million at the end of 2017 to Euro 32.9 million as of December 2018, taking the adjusted financial leverage to 0.7x.

We thus restored a healthy balance sheet to implement our plans and to work on making the required adjustments and changes to reignite the engines of top line growth and execute our cost savings initiatives.

As we outlined in the new business plan, first and foremost, we need to return to grow our sales, exploiting more and better the core strengths of the Group: our brand portfolio covering all the key segments of this large and attractive industry, our product creation and development, our 140 years of eyewear manufacturing and sourcing experience, and our worldwide distribution network.

In the second part of 2018, we intently focused on shaping a new commercial organization in all our key markets, bringing back capabilities and leadership from the industry, with the aim of improving our go to market and brand execution, putting customer service at the heart of what we do.

In 2018, we remained strongly focused on renewing some important licensed agreements. We extended Kate Spade until 2020, we renewed Fossil until 2023, Banana Republic and Tommy Hilfiger until 2025, havaianas until 2024 and we signed new agreements, first with Missoni and with Levi's® at the very beginning of 2019.

At Safilo, we are in the midst of transforming the Company to pursue our present and future opportunities as well as to be ready to face and overcome our challenges. As part of this undertaking, we are putting our core competences and know how at the centre of what we do and invest into.

2019 will be a crucial year for Safilo in which we aim to make our organization leaner and our culture more customer-centric and performance-based. We will work hard to meet the expectations of those who have placed their trust with us last year and continue to do so day in and day out.

I am honoured to have the chance to take the Company forward, working with an experienced leadership team, many superb employees, commercial and industrial partners.

Angelo Trocchia
Chief Executive Officer

BOARD OF DIRECTORS, COMMITTEES AND AUDITORS

BOARD OF DIRECTORS [1]	*Chairman*	Eugenio Razelli
	Chief Executive Officer	Angelo Trocchia
	Independent Director	Jeffrey A. Cole
	Director	Melchert Frans Groot
	Director	Robert Polet
	Independent Director	Ines Mazzilli
	Independent Director	Guido Guzzetti
	Independent Director	Catherine Gèrardin-Vautrin
	Independent Director	Cinzia Morelli-Verhoog
BOARD OF STATUTORY AUDITORS [2]	*Chairman*	Carmen Pezzuto
	Standing Auditor	Franco Corgnati
	Standing Auditor	Bettina Solimando
	Alternate Auditor	Marzia Barbara Reginato
	Alternate Auditor	Gianfranco Gaudioso
SUPERVISORY COMMITTE [3]	*Chairman*	Franco Corgnati
		Ines Mazzilli
		Carlotta Boccadoro
CONTROL RISK AND SUSTAINABILITY COMMITTEE [3]	*Chairman*	Ines Mazzilli
		Melchert Frans Groot
		Guido Guzzetti
REMUNERATION AND NOMINATION COMMITTE [3]	*Chairman*	Jeffrey A. Cole
		Robert Polet
		Cinzia Morelli-Verhoog
TRANSACTIONS WITH RELATED PARTIES COMMITTEE [3]	*Chairman*	Ines Mazzilli
		Guido Guzzetti
		Catherine Gèrardin-Vautrin
INDEPENDENT AUDITORS	Deloitte & Touche S.p.A.	

[1] Appointed by the Shareholders' Meeting held on April 24, 2018.
[2] Appointed by the Shareholders' Meeting held on April 26, 2017.
[3] Appointed by the Board of Directors' Meeting held on April 24, 2018.

SUMMARY OF KEY CONSOLIDATED PERFORMANCE INDICATORS

Economic data (Euro million)	**2018**	**%**	**2017**	**%**
Net sales	962.9	100.0	1,035.3	100.0
Cost of sales	(481.3)	(50.0)	(515.8)	(49.8)
Gross profit	481.5	50.0	519.6	50.2
Ebitda	41.7	4.3	25.9	2.5
Ebitda pre non-recurring items	47.5	4.9	41.1	4.0
Operating profit/(loss)	(5.9)	(0.6)	(208.2)	(20.1)
Operating profit/(loss) pre non-recurring items	-	-	(0.8)	(0.1)
Group profit/(loss) before taxes	(23.2)	(2.4)	(222.2)	(21.5)
Profit/(Loss) attributable to the Group	(32.4)	(3.4)	(251.6)	(24.3)
Profit/(Loss) attributable to the Group pre non-recurring items	(26.7)	(2.8)	(47.1)	(4.5)

Economic data (Euro million)	**Fourth quarter 2018**	**%**	**Fourth quarter 2017**	**%**
Net sales	249.1	100.0	244.8	100.0
Gross profit	115.0	46.2	112.0	45.7
Ebitda	9.0	3.6	(12.9)	(5.3)
Ebitda pre non-recurring items	10.3	4.1	(2.1)	(0.8)

Balance sheet data (Euro million)	**December 31, 2018**	**%**	**December 31, 2017**	**%**
Total assets	1,189.7	100.0	1,168.5	100.0
Total non-current assets	536.4	45.1	554.6	47.5
Capital expenditure	30.7	2.6	40.2	3.4
Net invested capital	679.2	57.1	664.9	56.9
Net working capital	251.3	21.1	231.6	19.8
Net financial position	(32.9)	(2.8)	(131.6)	(11.3)
Group Shareholders' equity	646.3	54.3	533.2	45.6

Financial data (Euro million)	**2018**		**2017**	
Cash flow operating activity	2.7		(31.1)	
Cash flow investing activity	(28.3)		(39.0)	
Cash flow financing activity	178.6		0.0	
Closing net financial indebtedness (short-term)	175.0		20.8	
Free cash flow	(25.6)		(70.1)	

Group personnel	**2018**		**2017**	
Punctual at period end	6,594		7,109	
Average	6,685		7,120	

Earnings/(Losses) per share (in Euro)	**2018**		**2017**	
Earnings/(Losses) per share - basic	(0.300)		(4.015)	
Earnings/(Losses) per share - diluted	(0.300)		(4.014)	
Group Shareholders' equity per share	2.58		8.51	

Share and market data (in Euro)	**2018**		**2017**	
Share price at the end of the financial year (*)	0.70		4.78	
Maximun share price of the financial year (*)	3.27		8.15	
Minimum share price of the financial year (*)	0.70		4.34	
No. shares in share capital at December 31st	250,510,509		62,659,965	
Stock Market value at the end of the financial year	175,357,356		299,477,037	

(*) 2017 share market data restated for comparative purpose to consider the impact of the share capital increase issued in December 2018 should be equal to: share price at the end on 2017 2.95 Euro, maximum and minimum 2017 share prices equal to 5.03 and 2.68 Euro.

Adjusted performance indicators

Adjusted performace indicators exclude the effect of items not related to the ordinary operations which may have an impact on the quality of earnings such as restructuring costs, non recurring costs and legal litigations, impairments when impairment is the result of a non-recurring event.

Adjusted indicators exclude the following non-recurring items:

- *in 2018, the non-recurring items refer to non-recurring costs for Euro 5.8 million, mainly related to the CEO succession plan and reorganization costs in North America and Europe. In Q4 2018, the adjusted EBITDA excludes non-recurring costs for Euro 1.3 million;*

- *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.*

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

	2018			2017		
(Euro million)	Ebitda	Operating profit/ (Loss)	Profit/(Loss) attributable to the Group	Ebitda	Operating profit/ (Loss)	Profit/(Loss) attributable to the Group
Economic indicators	**41.7**	**(5.9)**	**(32.4)**	**25.9**	**(208.2)**	**(251.6)**
Restructuring costs and other non recurring costs	5.8	5.9	5.9	15.2	15.3	15.3
Impairment of goodwill					192.0	192.0
Tax effect on non recurring items			(0.2)			(2.8)
Economic indicators pre non recurring items	**47.5**	**-**	**(26.7)**	**41.1**	**(0.8)**	**(47.1)**

Alternative performance indicators definition

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:

- *"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".*

It should be noted that:

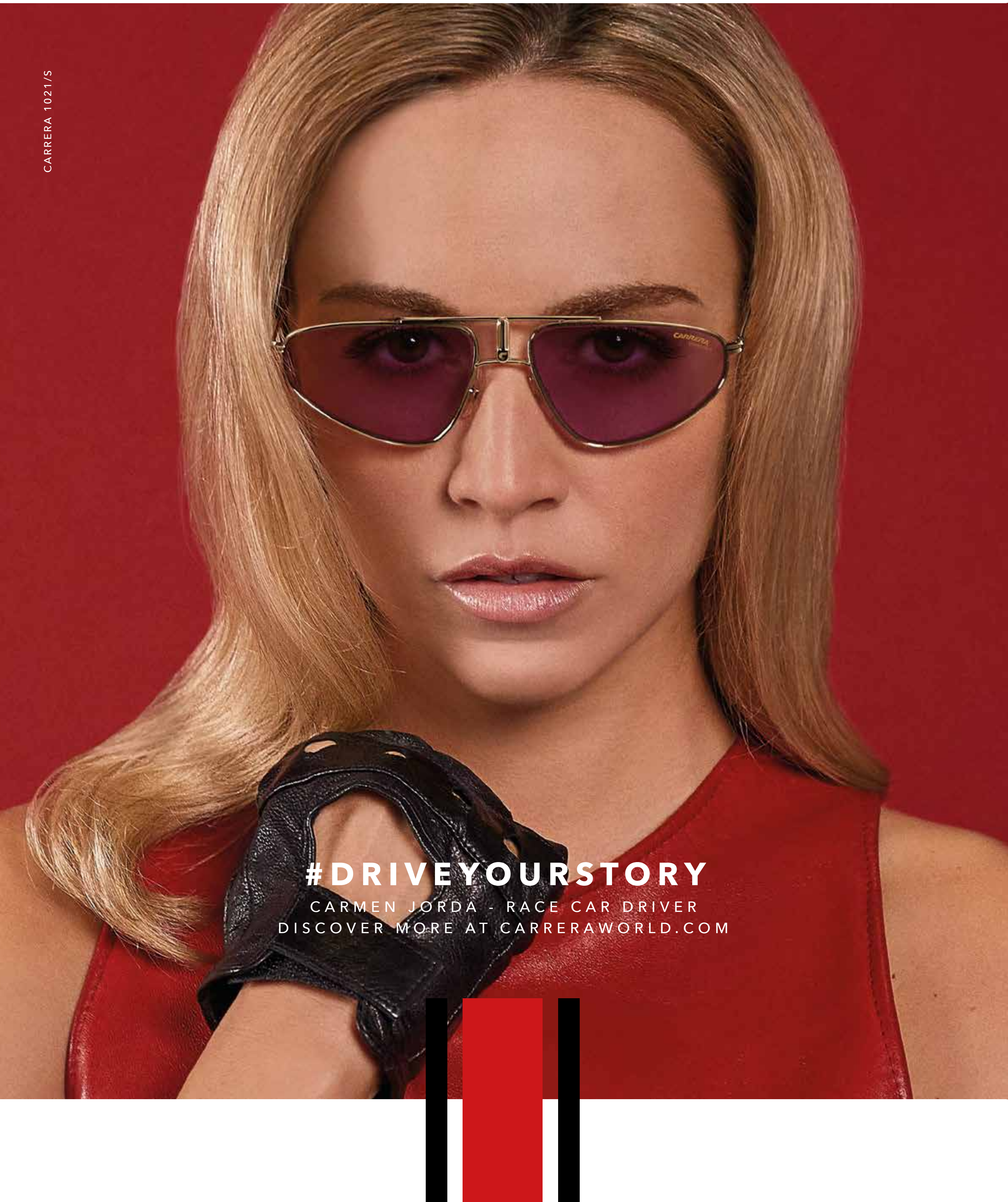
- *certain figures in this report have been subject to rounding adjustments. Accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be algebraic sums of the figures which precede them;*
- *the percentage variations 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.

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.

CARRERA
EYEWEAR SINCE 1956


CARRERA 1021/S
#DRIVEYOURSTORY
CARMEN JORDA - RACE CAR DRIVER
DISCOVER MORE AT CARRERAWORLD.COM

1 DIRECTORS OPERATIONS REPORT

REPORT ON OPERATIONS
INFORMATION ON THE OPERATIONS

Safilo's total net sales for 2018 equaled Euro 962.9 million, down 4.0% at constant exchange rates and 7.0% at current exchange rates compared to Euro 1,035.3 million in 2017.

In 2018, the wholesale business[1] declined by 4.9% at constant exchange rates, with the key drivers being:

- the exit of the Céline license, just partially counterbalanced by the launch of the new Moschino, Love Moschino and rag & bone licenses;
- the overall positive results of the Group's own core brands, driven in particular by a strong season of Polaroid in Spain and the good progress of the brand Safilo in the optical business;
- the broadly positive performance of the licensed brands in the contemporary and premium segment;
- the weak performance of sunglasses in the fashion luxury segment.

In the fourth quarter of 2018, Safilo's net sales equaled Euro 249.1 million, up 1.3% at constant exchange rates and 1.8% at current exchange rates compared to the same period of 2017. The performance of the wholesale business was negative by 3.3% at constant exchange rates.

In 2018, Safilo's economic results improved thanks to the Group's progress on its cost saving initiatives.

2018 EBITDA pre non-recurring items stood at Euro 47.5 million, up 15.5% compared to Euro 41.1 million in 2017, with the margin increasing by 90 basis points from 4.0% to 4.9% of net sales.

In the fourth quarter of 2018, the EBITDA pre non-recurring items equaled a profit of Euro 10.3 million compared to the loss of Euro 2.1 million recorded in the same quarter of 2017.

Safilo closed the year with a Group net loss pre non-recurring items of Euro 26.7 million compared to a net loss pre non-recurring of Euro 47.1 million in 2017.

[1] The performance of the wholesale business excludes the business of the production agreement with Kering and sales of the Solstice retail chain in the USA.

GROUP ECONOMIC RESULTS

Consolidated income statement (Euro million)	**2018**	**%**	**2017**	**%**	**Change %**
Net sales (*)	962.9	100.0	1.035.3	100.0	-7.0%
Cost of sales	(481.3)	(50.0)	(515.8)	(49.8)	-6.7%
Gross profit	**481.5**	**50.0**	**519.6**	**50.2**	**-7.3%**
Selling and marketing expenses	(386.3)	(40.1)	(415.5)	(40.1)	-7.0%
General and administrative expenses	(135.5)	(14.1)	(153.4)	(14.8)	-11.6%
Other operating income/(expenses) (**)	34.4	3.6	33.2	3.2	3.7%
Impairment loss on goodwill	-	-	(192.0)	(18.5)	-100.0%
Operating profit/(loss)	**(5.9)**	**(0.6)**	**(208.2)**	**(20.1)**	**-97.2%**
Financial charges, net	(17.3)	(1.8)	(14.0)	(1.4)	23.9%
Profit/(Loss) before taxation	**(23.2)**	**(2.4)**	**(222.2)**	**(21.5)**	**-89.5%**
Income taxes	(9.2)	(1.0)	(29.4)	(2.8)	-68.7%
Net profit/(loss)	**(32.4)**	**(3.4)**	**(251.6)**	**(24.3)**	**-87.1%**
Net profit/(loss) attributable to minority interests	-	-	-	-	
Net profit/(loss) attributable to the Group	**(32.4)**	**(3.4)**	**(251.6)**	**(24.3)**	**-87.1%**
EBITDA	**41.7**	**4.3**	**25.9**	**2.5**	**61.2%**

Economic indicators **pre non-recurring items**	**2018**	**%**	**2017**	**%**	**Change %**
EBIT pre non-recurring items	**-**	**-**	**(0.8)**	**(0.1)**	**n.s.**
EBITDA pre non-recurring items	**47.5**	**4.9**	**41.1**	**4.0**	**15.5%**
Net profit/(loss) attributable to the Group pre non-recurring items	**(26.7)**	**(2.8)**	**(47.1)**	**(4.5)**	**-43.2%**

(*) At constant exchange rates, 2018 net sales decreased by 4.0% compared to 2017, amounting to Euro 994,4 million.
(**) The item includes operating non-recurring expenses for a total amount of Euro 5.9 million (Euro 15.3 million in 2017).

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

In 2018, Safilo's net sales equaled Euro 962.9 million, down 4.0% at constant exchange rates and 7.0% at current exchange rates. The wholesale business declined by 4.9% at constant exchange rates, driven by the exit of the Céline license and the weakness experienced by sunglasses in the fashion luxury segment.

2018 was a year of growth for Polaroid and the brand Safilo, which together with the key licensed brands in the contemporary and premium segment, namely Tommy Hilfiger, Hugo Boss and Kate Spade, drove the Group's positive performance in the prescription frames business.

Safilo's operating results improved in 2018, reflecting i) a substantial stability at the gross margin level, driven by higher plant efficiencies offset by a negative impact from foreign exchange and some obsolescence costs, ii) a total of approximately Euro 26 million of overhead cost savings and iii) higher depreciation and amortization expenses.

2018 **Gross profit** equaled Euro 481.5 million, down 7.3% compared to Euro 519.6 million in 2017, with the gross margin at 50.0% of sales from 50.2%. At constant exchange rates, the margin was up 20 basis points.

2018 **EBITDA pre non-recurring items** was Euro 47.5 million, up 15.5% compared to the EBITDA pre non-recurring items of Euro 41.1 million recorded in 2017. The EBITDA pre non-recurring items margin equaled 4.9% of sales from 4.0%. At constant exchange rates, the EBITDA pre non-recurring margin improved by 130 basis points compared to 2017.

2018 **EBIT pre non-recurring items** was at breakeven compared to a loss of Euro 0.8 million in 2017.

At constant exchange rates, the EBIT pre non-recurring items margin was 0.5% of sales from -0.1% in 2017.

Below the operating line, in 2018 total net financial charges equaled Euro 17.3 million compared to Euro 14.0 million in 2017, reflecting an increase of net interest expenses, due to the utilization of the Revolving Credit Facility during the year. On the other hand, income taxes declined from Euro 29.4 million to Euro 9.2 million.

2018 **Group net result pre non-recurring items** equaled a loss of Euro 26.7 million compared to the net loss pre non-recurring items of Euro 47.1 million recorded in 2017.

Consolidated income statement (Euro million)	**Fourth quarter 2018**	**%**	**Fourth quarter 2017**	**%**	**Change %**
Net sales (*)	249.1	100.0	244.8	100.0	1.8%
Gross profit	**115.0**	**46.2**	**112.0**	**45.7**	**2.7%**
EBITDA	**9.0**	**3.6**	**(12.9)**	**(5.3)**	**n.s.**

Economic indicators pre non-recurring items	**Fourth quarter 2018**	**%**	**Fourth quarter 2017**	**%**	**Change %**
EBITDA pre non-recurring items	**10.3**	**4.1**	**(2.1)**	**(0.8)**	**n.s.**

(*) At constant exchange rates, 2018 fourth quarter net sales decreased by 1.3% compared to the fourth quarter 2017, amounting to Euro 248.1 million.

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

In the fourth quarter of 2018, Safilo's net sales equaled Euro 249.1 million, up 1.3% at constant exchange rates and 1.8% at current exchange rates. The wholesale business, which declined by 3.3% at constant exchange rates, experienced a positive sales recovery in Europe, that was in the period counterbalanced by the weak performance of Asia and the Rest of the World as well as ongoing softness in North America.

In the fourth quarter 2018, the Group's operating performance improved behind a slight upturn of gross margin and a more significant improvement of the operating leverage thanks to efficiencies in Selling and General & Administrative costs.

Fourth quarter 2018 **Gross profit** equaled Euro 115.0 million, up 2.7% compared to Euro 112.0 million in the fourth quarter 2017. Gross margin equaled 46.2% of sales compared to 45.7% in the fourth quarter 2017.

Fourth quarter 2018 **EBITDA pre non-recurring items** equaled Euro 10.3 million compared to the loss of Euro 2.1 million recorded in the same quarter of 2017. The EBITDA pre non-recurring items margin moved to 4.1% of sales from -0.8% in the fourth quarter 2017.

Net sales by geographical area

Net sales by geographical area (Euro million)	**Full year 2018**	**%**	**Full year 2017**	**%**	**Change %**	**Change % (*)**
Europe	452.0	46.9	457.7	44.2	-1.2%	-0.1%
North America	371.3	38.6	422.3	40.8	-12.1%	-8.1%
Asia Pacific	63.3	6.6	64.3	6.2	-1.5%	2.1%
Rest of the world	76.3	7.9	91.0	8.8	-16.2%	-8.6%
Total	**962.9**	**100**	**1,035.3**	**100**	**-7.0%**	**-4.0%**

Net sales by geographical area (Euro million)	**Fourth quarter 2018**	**%**	**Fourth quarter 2017**	**%**	**Change %**	**Change % (*)**
Europe	120.4	48.3	97.2	39.7	23.8%	25.1%
North America	90.9	36.5	97.0	39.6	-6.3%	-9.5%
Asia Pacific	15.4	6.2	18.7	7.6	-17.4%	-19.2%
Rest of the world	22.4	9.0	31.9	13.0	-29.7%	-26.1%
Total	**249.1**	**100**	**244.8**	**100**	**1.8%**	**1.3%**

(*) *Sales performance at constant exchange rates.*

EUROPE

Full year net sales ended in line with 2017, after growing 25.1% in the fourth quarter at constant exchange rates. The performance of the wholesale business in Europe was negative by 4.0% in the year, while recording a significant improvement in the fourth quarter, up 12.1% at constant exchange rates. Healthy business trends resulted in positive performance in particular in the Iberian markets, Germany and Central and Eastern European countries.

NORTH AMERICA

Full year net sales declined by 8.1% at constant exchange rates and by 9.5% in the fourth quarter, with the wholesale business down 6.6% and 6.7% in the respective periods. Sales at the 80 Solstice stores in the United States (102 stores at the end of December 2017) declined by 16.5% in the year and by 23.9% in the fourth quarter, at constant exchange rates, caused by a combination of declining traffic and store closures.

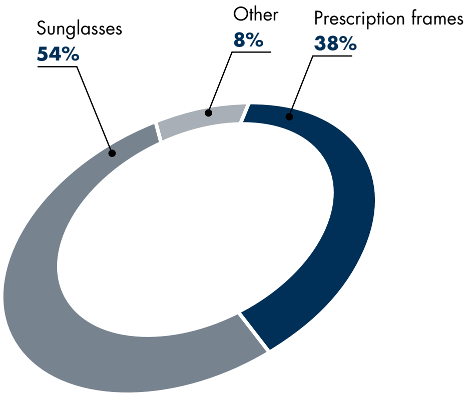
ASIA PACIFIC AND REST OF THE WORLD

The Group had a challenging second half of the year in Asia Pacific and in the Rest of the World, two key geographies where the Group has changed the go-to-market organization and its key leadership.

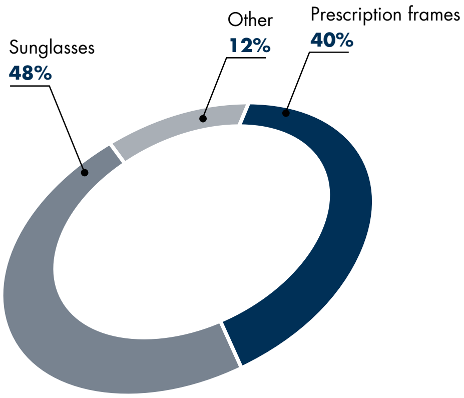
Sales in Asia-Pacific closed up 2.1% at constant exchange rates in the year, while declining by 19.2% at constant exchange rates in the fourth quarter. Rest of the World turned negative by 8.6% at constant exchange in the year, down 26.1% in the fourth quarter.

The charts below summarize the breakdown of net sales by product category for the full year and for the fourth quarter 2018:

FULL YEAR 2018



FOURTH QUARTER 2018



ANALYSIS BY DISTRIBUTION CHANNEL – WHOLESALE/RETAIL

The table below shows key data by operating segment:

	WHOLESALE			RETAIL		
(Euro million)	**2018**	**2017**	**Change %**	**2018**	**2017**	**Change %**
Net sales to 3rd parties	910.7	970.1	-6.1%	52.1	65.3	-20.2%
EBITDA (*)	57.3	49.2	16.3%	(9.8)	(8.1)	20.0%
%	*6.3%*	*5.1%*		*-18.7%*	*-12.5%*	

	WHOLESALE			RETAIL		
(Euro million)	**Fourth quarter 2018**	**Fourth quarter 2017**	**Change %**	**Fourth quarter 2018**	**Fourth quarter 2017**	**Change %**
Net sales to 3rd parties	236.9	229.4	3.3%	12.2	15.4	-20.6%
EBITDA (*)	13.3	(0.1)	n.s.	(3.0)	(2.0)	53.7%
%	*5.6%*	*0.0%*		*-24.7%*	*-12.8%*	

(*) Pre non-recurring items in 2018 referring to wholesale channel for 5.8 million Euro in the year and 1.3 million Euro in the fourth quarter. In 2017 pre non-recurring items referring to wholesale channel for 15.2 million Euro in the year and 10.9 million Euro in the fourth quarter.

Turnover for the Wholesale segment in 2018 amounts to Euro 910.7 million decreasing from Euro 970.1 million of the previous year, a decrease of 6.1% at current exchange rate (down 3.1% at constant exchange rates). Net sales in the fourth quarter of 2018 equalled Euro 236.9 million increasing compared to Euro 229.4 million of the same period of the previous year, an increase of 3.3% at current exchange rates (increase of 3.0% at constant exchange rates).

The Solstice retail chain, which currently numbers 80 stores in the USA (102 stores at the end of December 2017), recorded sales of Euro 52.1 million in 2018 a decrease from Euro 65.3 million of the previous year, down 16.5% at constant exchange rates. Performance in the fourth quarter recorded sales of Euro 12.2 million compared to Euro 15.4 million in the same period of the previous year, a decrease of 23.9% at constant exchange rates.

CONDENSED BALANCE SHEET

The table below shows the highlights from the balance sheet as at 31st December 2018 compared with those of 31st December 2017:

Balance sheet (Euro million)	**December 31, 2018**	**December 31, 2017**	**Change**
Trade receivables	184.4	186.8	(2.4)
Inventory, net	237.7	257.7	(20.0)
Trade payables	(170.8)	(212.9)	42.2
Net working capital	**251.3**	**231.6**	**19.7**
Tangible assets	176.9	188.3	(11.4)
Intangible assets and goodwill	284.8	285.0	(0.2)
Financial assets	-	-	-
Non-current assets held for sale	-	1.3	(1.3)
Net fixed assets	**461.6**	**474.5**	**(12.9)**
Employee benefit liability	(26.2)	(28.4)	2.2
Other assets / (liabilities), net	(7.5)	(12.9)	5.4
NET INVESTED CAPITAL	**679.2**	**664.9**	**14.4**
Cash in hand and at bank	178.2	76.3	102.0
Short term borrowings	(211.1)	(65.4)	(145.7)
Long term borrowings	-	(142.5)	142.5
NET FINANCIAL POSITION	**(32.9)**	**(131.6)**	**98.8**
Group Shareholders' equity	(646.3)	(533.2)	(113.1)
Non-controlling interests	-	-	-
TOTAL SHAREHOLDERS’ EQUITY	**(646.3)**	**(533.2)**	**(113.1)**

Net working capital

Net working capital at 31 December 2018 amounts to Euro 251.3 million compared with Euro 231.6 million of the previous year. The increase was driven by a reduction in trade payables more proportionally than trade receivables and inventory.

Net working capital (Euro million)	**December 31, 2018**	**December 31, 2017**	**Change**
Trade receivables, net	184.4	186.8	(2.4)
Inventories	237.7	257.7	(20.0)
Trade payables	(170.8)	(212.9)	42.2
Net working capital	**251.3**	**231.6**	**19.7**
% on net sales	*26.1%*	*22.4%*	

Fixed assets and investments in tangible and intangible fixed assets

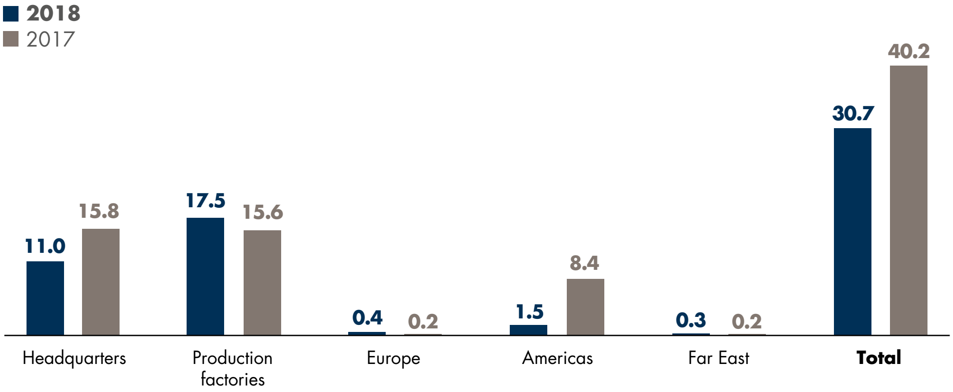
Non-current assets total Euro 461.6 million at the end of 2018 compared to Euro 474.5 million in 2017.

The decrease of non-current assets is mainly due to ordinary depreciation of the tangible and intangible assets. Impairment test of goodwill has not highlighted any need to impair the related carrying amount (an impairment loss of Euro 192 million in 2017).

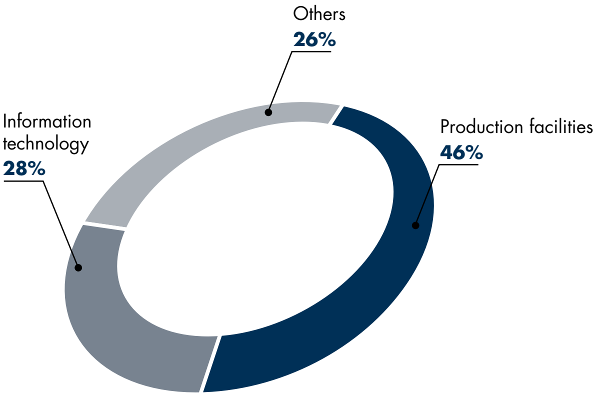
The Group's operating investments of the year total Euro 30.7 million (Euro 40.2 million in 2017). The investments were focused on the continued modernization of its product supply and logistics network for Euro 17.5 million, the roll out of its IT systems overhaul EyeWay, for Euro 7.3 million and on other investments of Euro 5.9 million.

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

INVESTMENTS BREAKDOWN



INVESTMENTS BY NATURE



FINANCIAL SITUATION

The main items of the net financial position at 31st December 2018 as well as free cash flow figures are reported below in comparison with the previous year.

Net financial position

Net financial position (Euro million)	**December 31, 2018**	**December 31, 2017**	**Change**
Current portion of long-term borrowings	(207.8)	-	(207.8)
Bank overdrafts and short term bank borrowings	(3.3)	(55.4)	52.1
Other short-term borrowings	-	(10.0)	10.0
Cash and cash equivalent	178.2	76.3	102.0
Short-term net financial position	**(32.9)**	**10.8**	**(43.7)**
Bonds	-	(142.5)	142.5
Long-term borrowings	-	-	-
Long-term net financial position	**-**	**(142.5)**	**142.5**
NET FINANCIAL POSITION	**(32.9)**	**(131.6)**	**98.8**

Group net debt

Net financial debt at 31 December 2018 is equal to Euro 32.9 million compared with an amount of Euro 131.6 million at 31 December 2017. The significant decrease in Net Debt reflected the proceeds from the share capital increase approved by the Extraordinary Shareholders' meeting on 29 October 2018 and launched on 3 December 2018.

Safilo's share capital increase for a total consideration of Euro 149,982,892 was partially subscribed for a total consideration of Euro 132,246,783 at 31 December 2018. On 2 January 2019, following the subscription and payment by the reference shareholder HAL Holding N.V. of all the ordinary shares which remained unsubscribed at the end of the rights auction ended on 28 December 2018, share capital increased for the residual amount of Euro 17,736,109.

The financial leverage, whose calculation was based on the 2018 EBITDA adjusted for the non-recurring costs incurred in the year stood at 0.7 times.

Free cash flow

Free cash flow (Euro million)	**2018**	**2017**	**Change**
Cash flow operating activities	2.7	(31.1)	33.8
Cash flow investing activities	(28.3)	(39.0)	10.7
Free cash flow	**(25.6)**	**(70.1)**	**44.5**

In 2018, Safilo's Free Cash Flow was negative for Euro 25.6 million compared to a negative flow of Euro 70.1 million in 2017. The year included the third and last compensation payment of Euro 30 million received in September 2018 from Kering.

In 2018, Cash flow from operating activities equaled a generation of Euro 2.7 million compared to an absorption of Euro 31.1 million in 2017. Key drivers of this result were the improvement in EBITDA and a cash flow from the recovery of tax credits.

In the year, Safilo's net investments equaled Euro 28.3 million mainly dedicated to its product supply and logistics network as well as to the roll out of new IT systems.

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.

Credit risks

The Group minimizes risk through instruments to control customer insolvency

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

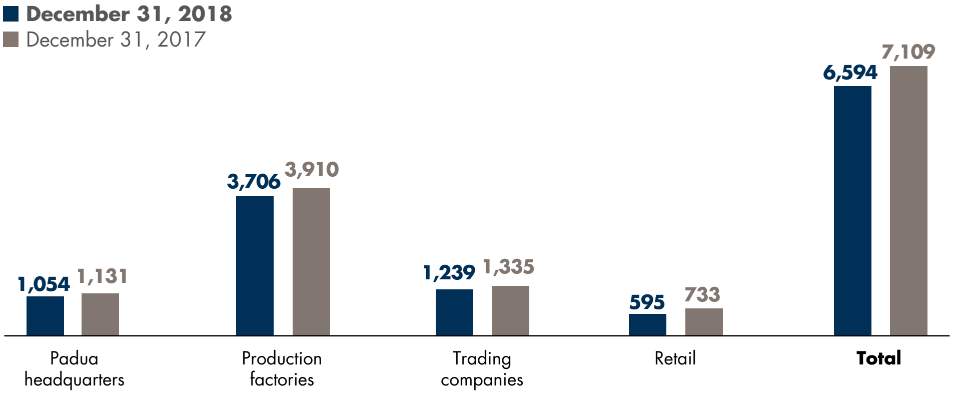
This risk could generate the inability to find, at economic conditions, the financial resources needed to sustain operations within the necessary timeframe. Cash flows, borrowings and company liquidity are constantly monitored at central level by the Group treasury in order to ensure effective and efficient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

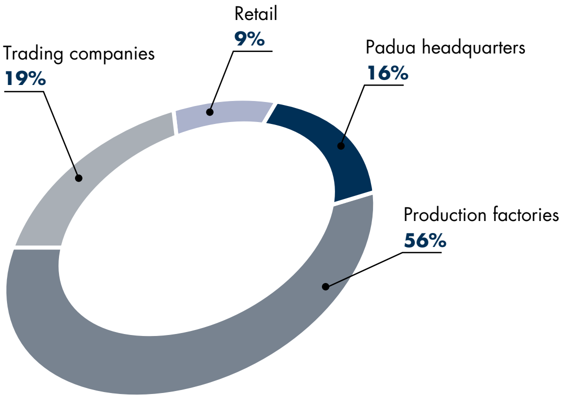
HUMAN RESOURCES AND THE ENVIRONMENT

Human Resources

The Group's workforce

At the end of 2018, the Group had 6,594 employees compared with 7,109 at the end of 2017.





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 2018, the Group invested in particular on the development of skills enabling Industry 4.0 and change management skills to support important projects including the organizational evolution of Product Supply.

The development of linguistic, technical and managerial skills continued with specific training programs for the various functions also through the Product School aimed at developing young apprentices in all areas of the product, in particular through the use of on the job coaching and the methodology of action learning in order to make the application of new learning more effective during daily work and to enhance the Group's internal expertise.

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 2017 the company has taken and passed the certification surveillance audit for the years 2018-2021.

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 2018 the main accident indicators recorded, both in absolute terms and as an index of frequency (FI) and severity (GI), stood at levels among the lowest in the reference sector.

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.

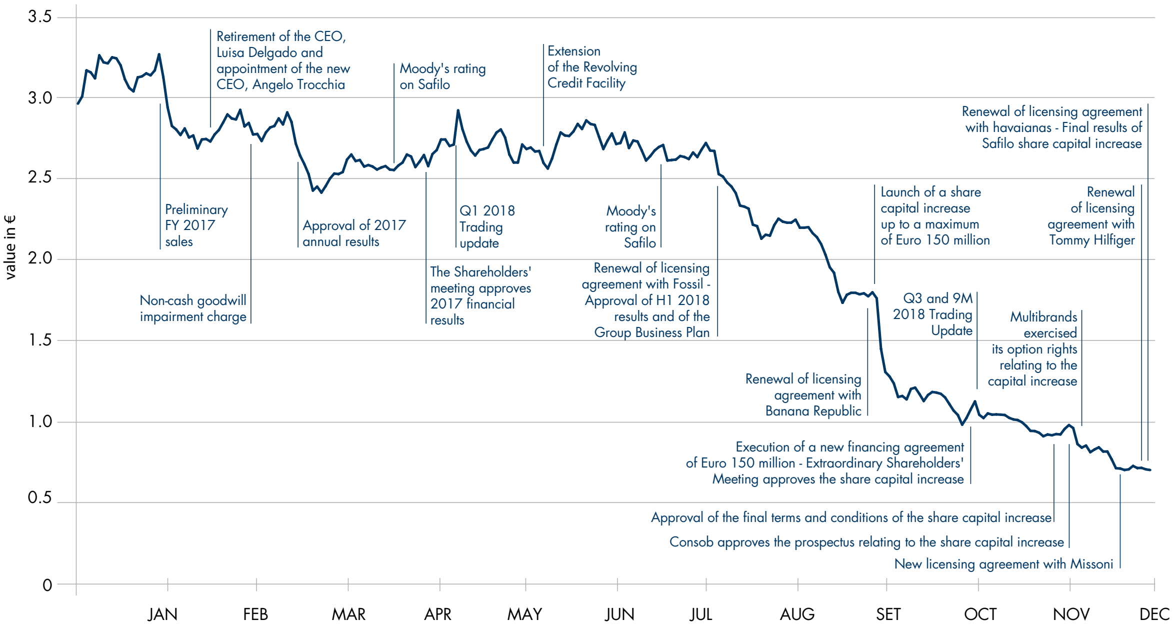
Safilo has also continued its efforts to promote the themes of social responsibility and attention to environmental topics along its supply chain. To ensure adherence to the ethical and environmental principles of the supply chain, the company implemented an activity of on-site monitoring, and through 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. In 2018 Eyeway program continue by moving Smith US company on SAP covering Procure to Pay process and transition of order to cash for Safilo US by moving pilot customers of Outlook business on SAP. Eyeway program was then extended also by starting Ecommerce B2C for Polaroid and Carrera in some European countries.

SAFILO IN THE STOCK EXCHANGE AND INVESTOR RELATIONS

Safilo in the stock exchange



A new Business Plan and a Share Capital Increase

2018 was an intense year for Safilo, characterized by some key events, such as the CEO change at the beginning of the year, the presentation of the update of the Group Business Plan in August and a comprehensive refinancing plan, finally consisting of a new financing agreement of Euro 150 million and a share capital increase of additional Euro 150 million. Safilo confirmed the execution of a New Credit Agreement on October 29, 2018, while the share capital increase was successfully completed on January 2, 2019.

Safilo's shares closed 2018 at a price of Euro 0.7 and a pro-forma market capitalization of around Euro 193 million, calculated considering the total new number of Safilo shares, equal to 275,703,846, as notified by the Company on January 8, 2019.

Average daily volumes were around 418 thousand shares, with the highest activity concentrated in the days following important business news, the release of the Group's results and the communication of the new business plan.

The stock price gradually declined during the year, as the market awaited visibility on the Group's plan to secure its financial structure. After a weak share trading in August, Safilo stock price dropped by 41% in the month of September, following the confirmation by the Company of the launch of a new capital increase. This event was eventually the main trigger behind Safilo's analysts' recommendations and target prices on the stock and its market underperformance in the year (-76%).

It is important to note that Safilo's refinancing plan was conducted in one of the most difficult years in recent memory for broad asset returns, based on international brokerage firms' data.

2018 witnessed big falls for global equity markets as investors used any one of a number of reasons including trade concerns, recessions fears, Brexit and valuations to sell riskier assets. The STOXX 600 and S&P 500 finished the year with -10.3% and -4.4% respective losses, while the Shanghai Comp (-22.7%) suffered losses of greater than 20%. In 2018, the Milan FTSE MIB index lost around 16%, while the FTSE Italia Small Cap index, which includes Safilo, closed the year down 25%.

Investor relations

In 2018, 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 first half of the year, management attended the Unicredit/ Kepler Italian Investment Conference and the Mediobanca 4th Italian CEO Conference, while the second semester of 2018 was mainly dedicated to the preparation and execution of the share capital increase.

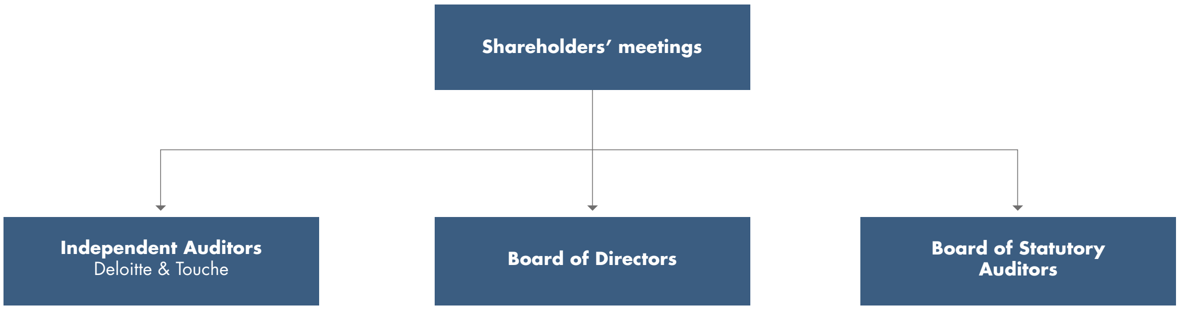
Financial calendar

Board of Directors' meetings planned for 2019:

30st January	Preliminary sales for the 4th quarter and full year 2018
13th March	Draft Financial Statements for 2018
30th April	Shareholders' Meeting for the approval of the Financial Statements 2018
09th May	Trading update on the 1st quarter 2019 financial KPIs
2nd August	Interim Report on Operations for the 2nd quarter and 1st half 2019
12th November	Trading update on the 3rd quarter and first nine months 2019 financial KPIs

CORPORATE GOVERNANCE

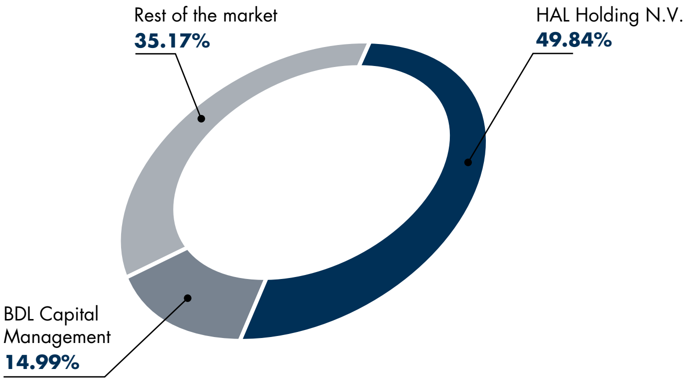
Corporate bodies and officers


Shareholders' meetings
Independent Auditors
Deloitte & Touche
Board of Directors
Board of Statutory Auditors

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

Shareholding structure of Safilo Group S.p.A.

The following chart shows owners of Safilo Group S.p.A. ordinary shares with shareholdings exceeding 3% of share capital as at 14 January 2019. It is hereby represented the shareholding structure as at 14 January 2019 in consideration of the fact that as at 31 December 2018 the share capital increase resolved upon by the Shareholders' Meeting on 29 October 2018 was still in the process of being completed. The communication related to the execution of said share capital increase was filed with the Companies Register of Padova on 7 January 2019 and disclosed to the market on 8 January 2019.



The following table shows the evolution of the shareholding of Hal Holding N.V. (i) as at 3 December 2018 before the capital increase, (ii) as at 28 December 2018 at the completion of the Subscription Period and Rights Auction, based on the information available to the Company, (iii) as at 7 January 2019 at the completion of the capital increase, and (iv) as at 14 January 2019 at the notification from HAL Holding N.V., pursuant to Article 120 Legislative Decree No. 58/98, of the reduction of its shareholding to 49.84%.

	As at 3 December 2018	As at 28 December 2018	As at 7 January 2019	As at 14 January 2019
HAL Holding N.V.	41.61%	45.80%	50.75%	49.84%

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, 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. (a) has not included Safilo Group in its management reporting system which monitors the performance of the investee companies and, therefore, (b) 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 be - 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 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).

Share transfer restrictions

As at 31st December 2018 there were no restrictions of share transfer.

Restrictions on the right to vote and special rights

The Articles of Association do not provide restrictions to the right to vote and the Company has not issued shares with special controlling rights.

Shareholders' Agreements relevant for the purposes of Article 122 of the CFA

On 9th May, 2017, Multibrands Italy B.V., owning, at the time of the execution of the shareholders' agreement, no. 26,073,783[2] 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.

[2] It is hereby pointed out that the current number of shares held by Multibrands Italy B.V., notified pursuant to Article No 120 of Legislative Decree No. 58/98 on 14th January 2019 is 137,417,972.

Furthermore, it is hereby pointed out that on 16th February 2018 Multibrands Italy B.V. owning, at the time of the execution of the shareholders agreement, No. 26,073,783 ordinary shares, and Angelo Trocchia, Italian Citizen, current Chief Executive Officer of Safilo Group S.p.A., executed an agreement concerning, *inter alia*, the inclusion of Angelo Trocchia as candidate for the office of director in the list for the appointment of the members of the Board of Directors of Safilo Group S.p.A. submitted for the renewal of the managing body on 24th April 2018, the exercise of the vote in the relevant shareholders' meeting of Safilo Group, as well as the appointment of Angelo Trocchia as Chief Executive Officer.

Lastly, it is pointed out that, on 28 February 2018 the shareholder's agreement initially underwritten on September 15, 2013 and renewed on 18 October 2016 between Multibrands Italy B.V. owning, at the time of the termination of the shareholders' agreement no. 26,073,783 ordinary shares and Mrs. Luisa Deplazes De Andrade Delgado, Swiss citizen, former Chief Executive Officer of the Company, 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 Italy B.V. was terminated following its consensual termination.

Delegation of power to increase share capital and authorisations to purchase the Company's own shares

The ordinary Shareholders' Meeting of the Company held on 24th April, 2018, subject to revocation of the authorisation granted by the ordinary Shareholders' meeting of 26th April 2017, has authorized the purchase and disposal of treasury shares pursuant to Article 2357 and following Articles of the Italian Civil Code as well as to Article 132 of Legislative Decree 58/1998 and related implementing provisions, for a period of 18 months from the date of Shareholders' meeting resolution, up to a maximum of no. 2,500,000 shares, taking into account the ordinary shares of Safilo Group at any time held in portfolio by the Company and by its subsidiaries.

As at 31 December 2018 the Company does not possess own shares.

The Board of Directors

The Board of Directors which currently holds office has been appointed by the Shareholders' Meeting held on 24th April 2018 and will remain in office until the date of the Shareholders' Meeting called for the approval of the financial statements at 31 December 2020.

Eugenio Razelli
(Chairman)

Born in Genova, on June 18th, 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 Board member of Adler Group, Varroc Lighting and FASTER. 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).

Angelo Trocchia
(Chief Executive Officer)

Born in Formia (Latina) on April 27, 1963, Angelo Trocchia was formerly Chairman and Chief Executive Officer of Unilever Italia. After an MBA at the STOA'/ MIT in Naples and a PHD in aeronautical engineering at the University La Sapienza in Rome, he began in 1991 an international career in Unilever, where he held various roles of increasing responsibility in supply chain and sales. Until February 2013 he was the Chief Executive Officer of the Unilever Business in Israel, where he delivered two important acquisitions in the Ice Cream and Salty Snack Fields, as well as a significant growth in the Personal Care business. He also played a key role in leading the local company towards a brand new organizational set-up. Previous roles in Unilever include the General Management of the Frozen Foods business, which he led until its acquisition by the Findus group, managing the whole transition process. Before that, he served as General Manager of the Unilever Ice Cream business in the Czech Republic and he also led the Italian Ice Cream business, which accounts for more than 40% of the total Italian business turnover.

Jeffrey A. Cole
(Independent Director)

Born in Cleveland, Ohio - USA, on May 20th, 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 22nd, 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
(Independent Director)

Born in Milano on September 21st, 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 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. During the years 2014-2018, Mr. Guzzetti served as Independent Director on the Board of Saipem S.p.A. and as member of its Control and Risk Committee and, since 2016, as member of its Corporate Governance Committee. Previously 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.

Cinzia Morelli-Verhoog
(Independent Director)

Born in Promesello (Italy) on January 28, 1960 in in Premosello (Italy). She is the founder of The Marketing Capability Academy, a Dutch company advising companies on how to increase the effectiveness of their marketing strategies and return on investments. She graduated in modern languages from the State University of Milan. From 2004 to 2016 she held various positions in Heineken NV including: International Portfolio Manager, Regional Marketing Manager Europe, Global Commercial Strategy Director, Senior Director Global Marketing Capabilities and finally Senior Director Global Marketing Development. In the past, she worked for Reckitt & Colman and ReckittBenckiser (London), IDV Diageo (Turin), Capgemini (Frankfurt, Milan London), Benckiser Italiana S.p.A. (Milan) and Richardson Vicks/ Procter & Gamble (Milan and Rome).

Ines Mazzilli
(Independent Director)

Born in Milan on May 5th, 1962, she graduated in 1987 in Business Administration from Bocconi University in Milan. Since 2018 she has been serving as non executive independent Director of the Board of Directors of Saipem S.p.A. and has been the President of its Audit and Risk Committee. Since 2016 she is member of the Advisory Council and Senior Advisor (external) for GENPACT. She has more than 30 years of experience in a variety of senior finance management positions. She previously worked for 23 years in HEINEKEN. In 1993 she joined the Italian Operating Company as Planning & Control Manager and, from 2001 to 2005, she was Finance Director. From 2006 to 2010, she was Senior Director of the Western Europe Region. From 2011 to 2015, she 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 she 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. She 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.

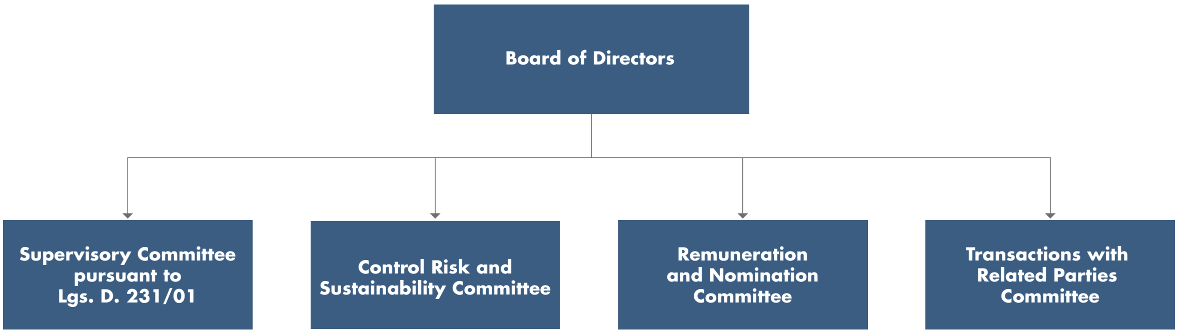
Catherine Gérardin-Vautrin
(Independent Director)

Born in Versailles, France, on November 18, 1959. She is a recognized manager in the fashion world and is currently a non-executive member of the Board of Directors of Autogrill, Campari and Safilo. She holds a master's degree in English and French Law (Sorbonne/Paris – King's College/London) and is a graduate of HEC business school in France. From February 2017 to September 2018 she has been CEO of Paule Ka, a Parisian fashion house of women's ready to wear, leading a rejuvenation of the brand's heritage as well as strengthening and developing its international business base. She was previously Chief Executive Officer of Cerruti where from 2011 to 2014 she implemented a significant repositioning of the brand, in particular in overhauling its image and design. Prior to this she was Chief Executive Officer of Emilio Pucci, a long-established brand that had become a niche, where she was responsible for its relaunch and international expansion.
She started her career at Louis Vuitton Malletier, where she was successively head of global store image and then Director of men's and women's ready-to-wear.

Robert Polet
(Director)

Born in Kuala Lumpur, Malaysia, on July 25th, 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 SFMS B.V.and non-executive Chairman of Rituals B.V.. He is also a member of the Advisory Board of Suitsupply.

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



Board of Directors

Supervisory Committee pursuant to Lgs. D. 231/01

Control Risk and Sustainability Committee

Remuneration and Nomination Committee

Transactions with Related Parties Committee

Supervisory Committee [1]

Chairman	Franco Corgnati
	Ines Mazzilli
	Carlotta Boccadoro

Control Risk and Sustainability Committee [1]

Chairman	Ines Mazzilli
	Guido Guzzetti
	Melchert Frans Groot

Remuneration and Nomination Committee [1]

Chairman	Jeffrey A. Cole
	Robert Polet
	Cinzia Morelli-Verhoog

Transactions with Related Parties Committee [1]

Chairman	Ines Mazzilli
	Catherine Gérardin-Vautrin
	Guido Guzzetti

[1] Appointed by the Board of Directors' Meeting held on April 24, 2018.

The Board of Statutory Auditors

The Board of Statutory Auditors currently in office has been appointed by the Shareholders' Meeting held on April 26th, 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 Charted 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

Governance is based on the criteria of the Corporate Governance Code for Listed Companies

The Board of Directors has aligned the corporate governance system of the Company and of the Group to the principles and application criteria introduced by the Corporate Governance Code for listed companies of Borsa Italiana S.p.A. (hereinafter "Code").

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

The complete version of the report on corporate governance related to the financial year 2018, which is highlighted in just the main points below, is available on the Company website (www.safilogroup.com), as well as in a printed version at the Company headquarters.

The Company adopts a traditional governance method in that:

- the Company's management body is the Board of Directors,
- the supervisory body 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 Code is entrusted to the following bodies.

The Board of Directors

Appointing Board of Directors

The Board of Directors is appointed and replaced in compliance with article 14 and 15 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 members of the Board of Directors are appointed by the Shareholders' 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.6. 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 Statutory auditors is responsible to make a reasoned proposal to the Shareholders' Meeting for the appointment of the independent audit company by the.

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 corporate governance report or in the Auditors' report to the Shareholders' Meeting.

The Audit Company

Deloitte & Touche appointed until 2022

The Shareholders Assembly of 15th April 2014 entrusted Deloitte & Touche S.p.A. with the mandate of auditing the separate and consolidated financial statements from 2014 to 2022.

Financial reporting manager

Appointment of the financial reporting manager

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/or documents, and he must certify that the procedures:

- are adequate taking into account the characteristics of the company;
- 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 27th 2015, the Board of Directors appointed as 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 5th November 2010 voted to increase the paid and separable share capital, with the exclusion of the option right pursuant to Article 2441, paragraph four, second sentence of the Civil Code 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 par value of Euro 5.00 each)[3], to be offered to directors and/or employees of the Company and its subsidiaries serving the Stock Option Plan 2010-2013 ("2010-2013 Plan").

This 2010-2013 Plan – intended to increase incentives for and the loyalty of directors and/or employees/managers 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 give each beneficiary the right to subscribe to newly-issued ordinary shares in the Company resulting from the aforementioned capital increase in the ratio of one share for every option.

The 2010-2013 Plan has a total duration of 9 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 benefited from a shorter vesting period).

Specifically, four different allocation tranches have been assigned to the options.
The first tranche ("First Tranche"), was allocated at the Board of Directors' meeting held on 5th November 2010, the second tranche ("Second Tranche") has been assigned at the Board of Directors' meeting that has approved the Company results for the year ending 31.12.2010; the third tranche ("Third Tranche") was allocated at the Board of Directors' meeting that approved the Company results for the year ending 31.11.2011, 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 31.12 2012.

(3) The Extraordinary Shareholders' Meeting held on 29th October 2018 resolved to eliminate the indication of the par value of the shares, consequently amending article 5 of the Articles of Association and any reference to the share par value therein.

It should be noted that on 13th November 2013 the Board of Directors amended the 2010-2013 Plan in order to reallocate some options to be reassigned by the Company as a consequence of the resignations of some Beneficiaries. These re-assignable options are exercised subject to the same performance conditions and exercise period applicable to the Fourth Tranche options.

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

a. 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; 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; 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; with reference to the options allocated within the Fourth Tranche (and also to those assigned within 31st December 2013), 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;

b. save as otherwise expressly provided by the regulations of the 2010-2013 Plan, the employment/directorship of the relevant Beneficiary shall be in force on the vesting date of the relevant options.

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 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 stock exchange 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 2010-2013 Plan, 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 15th April 2014 resolved to increase the paid and separable share capital with the exclusion of the option right pursuant to Article 2441, paragraph four, second sentence of the Civil Code, by a maximum nominal amount of EUR 7,500,000.00 through the issue of a maximum number of new ordinary shares of 1,500,000 (with a par value of EUR 5.00 each[4]), to be offered for subscription to directors and/or employees of the Company and its subsidiaries serving the 2014-2016 Stock Option Plan ("2014-2016 Plan").

This 2014-2016 Plan – intended to increase incentives for and the loyalty of directors and/or employees/managers 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 give each beneficiary the right to subscribe to newly-issued ordinary shares in the Company arising from the above-mentioned capital increase - in the ratio of one share for every option.

The 2014-2016 Plan has a total duration of 10 years (from 2014 to 2024). The options assigned to the beneficiaries may be exercised after approximately three years from the allocation date.

Specifically, three different tranches have been assigned to the options.

(4) The Extraordinary Shareholders' Meeting held on 29th October 2018 resolved to eliminate the indication of the par value of the shares, consequently amending article 5 of the Articles of Association and any reference to the share par value therein.

The first tranche ("First Tranche"), was allocated at the Board of Directors' meeting held on 29th April 2014; the second tranche ("Second Tranche") was granted by the Board of Directors which approved the financial statements of the Company for the year ended 31.12.2014; the third tranche ("Third Tranche") was granted by the Board of Directors which approved the financial statements of the Company for the year ended 31.12.2015.

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

a. with reference to the options granted under the First Tranche, under the circumstances that 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, under the circumstances that 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, under the circumstances that 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 2014-2016 Plan, the employment/directorship of the relevant Beneficiary shall be in force on the vesting date of the relevant options.

For the purposes of determining the achievement of the targets, 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 approved by the Company's Shareholders Meeting and as determined by the same Company's Board of Directors.

The subscription price corresponds 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 26th April 2017 resolved to increase the paid and separable share capital with the exclusion of the option right pursuant to Article 2441, paragraph four, second sentence of the Civil Code, 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[5]), to be offered for subscription to directors and/or employees of the Company and its subsidiaries pursuant to the 2017-2020 Stock Option Plan ("2017-2020 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 arising from the above mentioned capital increase, at the rate of no. 1 share for each option.

The 2017-2020 Plan has a total duration of eleven years (from 2017 to 2028). The options assigned to the beneficiaries may be exercised after approximately three years from the allocation date.

Specifically, four different tranches have been assigned to the options.

The first tranche ("First Tranche") was granted by the Board of Directors held on 26th April 2017, the second tranche ("Second Tranche") was granted by the Board of Directors held on 10th December 2018; the third tranche ("Third Tranche") will be granted from the day on which the Board of Directors approves the 2018 financial results, to 31st December 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 31st December 2020.

[5] The Extraordinary Shareholders' Meeting held on 29th October 2018 resolved to eliminate the indication of the par value of the shares, consequently amending article 5 of the Articles of Association and any reference to the share par value therein.

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

a. with reference to the options granted under the First Tranche, under the circumstances that 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; with reference to the options granted under the Second Tranche, under the circumstances that 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[6]; with reference to the options granted under the Third Tranche, under the circumstances that 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, and with reference to the options granted under the Fourth Tranche, under the circumstances that 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;

b. save as otherwise expressly provided by the regulations of the 2017-2020 Plan, the employment/directorship with the Company shall be in force on the vesting date of the relevant options.

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 approved by the Board of Directors of the Company. The subscription price of the options 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.

(6) Later reduced to Euro 20.000.000 by means of the resolution of the Extraordinary Shareholders' Meeting held on 24th April 2018.

It should be noted that the shareholders' meeting of Safilo Group S.p.A. held on 28th April 2018, passed, inter alia, the following resolutions:

(i) to amend certain conditions of the 2017-2020 Plan (and, in particular, (a) with exclusive reference to the options to be granted under the Second Tranche, to change 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, that is the performance target conditioning the vesting of the mentioned Options, to Euro 20,000,000; and (b) with reference to the exercise price, to provide that such price – without prejudice to the fact that the same shall be equal to the volume weighted average of the official price of the shares of SAFILO GROUP S.p.A. registered on the Italian Stock Exchange organized and managed by Borsa Italiana S.p.A. for the preceding month leading up to the day on which the Board of Directors resolves the granting of options under the 2017-2020 Plan – shall not in any case be less than Euro 5 per share);
(ii) to integrate the resolution of the paid capital increase with exclusion of the option right pursuant to Article 2441, paragraph 4 of the Italian Civil Code, at the service of the 2017-2020 Plan approved by the extraordinary Shareholders' Meeting on 26th April 2017, with the inclusion of a minimum issuance price (equal to Euro 5.00 per share).

Lastly, it should be noted that the Board of Directors subsequently resolved the following adjustments to take into account the effects of the share capital increase up to a maximum of Euro 150 million resolved by the Shareholders' Meeting held on 29th October 2018:

(i) the number of options, fixed at a maximum number of 2,500,000, was adjusted to 2,891,425 options; and
(ii) the minimum issuance price, previously set at Euro 5 per share, was adjusted to Euro 3.09 per share.

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) 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 has been received in September 2018.

Atypical and/or unusual transactions

No atypical and/or unusual transactions, as defined by Consob Communication 6064293 dated July 28th, 2006, were undertaken during 2018.

Related party transactions

In compliance with applicable legislative and regulatory requirements, the Board of Directors of November 5th, 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.

For further details regarding the related party transactions, please refer to note 6 to the Consolidated Financial Statements as of December 31st, 2018.

Research and development

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

(Euro million)	Equity as of December 31, 2018	Net profit/ (loss) of the year 2018	Equity as of December 31, 2017	Net profit/ (loss) of the year 2017
Balances as per Safilo Group S.p.A.'s statutory financial statements	653.7	(10.5)	535.9	(247.5)
Contribution of consolidated companies	1,218.4	(1.0)	1,232.7	(273.0)
Write-off of the book value of consolidated subsidiaries	(1,355.3)	0.3	(1,364.2)	484.7
Goodwill	182.2	-	177.3	(192.0)
Elimination of dividends paid within the Group	-	(18.3)	-	(13.6)
Elimination of intercompany gains within the Group	(2.5)	-	(2.5)	(0.5)
Elimination of intercompany profits included in inventory	(49.5)	(3.2)	(45.5)	(9.4)
Other consolidated entries	(0.7)	0.3	(0.5)	(0.3)
Total	**646.3**	**(32.4)**	**533.2**	**(251.6)**
Equity attributable to minority interests	-	-	-	-
Total attributable to the Group	**646.3**	**(32.4)**	**533.2**	**(251.6)**

SIGNIFICANT EVENTS AFTER THE YEAR-END AND OUTLOOK

Events after the year end

During first months of 2019 Safilo has been contacted by potential investors expressing interest in acquiring the Group's Solstice retail business in the United States (as reported in the financial statements per IFRS 8 under the "Retail" segment). The Group has therefore conducted an evaluation of a possible divestiture of the Solstice retail business as a potential alternative to the current turnaround strategy. Following this evaluation, the Board of Directors has decided to proceed further with this divestiture plan entering a non-binding agreement to sell the relevant assets of Solstice to a third party in exchange for a cash consideration and a multi-year supply agreement for Safilo's product in the future.

While any possible transaction is subject to the outcome of a due diligence process currently under way, and to other certain conditions, the Group at this point considers a sale as probable to be closed within 2019.

In 2018, the Solstice retail business continued on its negative trajectory, declining net sales by 16.5% (at constant exchange rate) and 7% at comparable stores and posting an operating loss of Euro 13.5 million.

Considering the economic performance trend recorded over the previous years, the 2018 results and the value of a potential sale, it is considered probable that management may accept to recognize a loss in order to remove a drag on the Group's economic performance going forward.

As envisaged by IFRS 5, the Group will reflect any financial consequence of a possible transaction in the respective 2019 financial statements.

On 2 January 2019, the reference shareholder Multibrands Italy B.V., a subsidiary of HAL Holding N.V., in compliance with the commitment undertaken on 26 September 2018, subscribed for and paid-in all the 25,193,337 ordinary shares remained unsubscribed at the end of the rights auction, which ended on 28 December 2018, for a total consideration of Euro 17,736,109.25. Following the subscription and paying-in of 171,972,663 newly issued Safilo ordinary shares during the subscription period, 15,877,881 newly issued Safilo ordinary shares at the end of the Rights Auction period and, lastly, 25,193,337 new remaining shares subscribed for by Multibrands pursuant to the abovementioned Subscription Agreement, the share capital increase resolved by the Extraordinary Shareholders' meeting held on 29 October 2018 was fully subscribed for a total number of 213,043,881 newly issued shares and for a total consideration of Euro 149,982,892.22.

In the period following 31 December 2018, 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 2019, Safilo plans to gradually revive top line growth, leveraging the implementation of new commercial organizations in the Group's key markets and the upgrading of customer service levels.

For the current year, Safilo will continue its cost savings plan aimed at recovering a sustainable economic profile.

For the Board of Directors
Chief Executive Officer
Angelo Trocchia

JIMMY CHOO

2 CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

(thousands of Euro)	Notes	December 31, 2018	of which related parties	December 31, 2017 Restated (*)	of which related parties
ASSETS					
Current assets					
Cash and cash equivalents	4.1	178,247		76,251	
Trade receivables	4.2	184,356	5,795	186,791	10,393
Inventory	4.3	237,710		257,717	
Derivative financial instruments	4.4	389		142	
Other current assets	4.5	52,582		91,759	
Total current assets		**653,284**		**612,660**	
Non-current assets					
Tangible assets	4.6	176,891		188,302	
Intangible assets	4.7	58,486		64,569	
Goodwill	4.8	226,267		220,416	
Deferred tax assets	4.9	63,248		69,104	
Derivative financial instruments	4.4	-		-	
Other non-current assets	4.10	11,552		12,222	
Total non-current assets		**536,444**		**554,612**	
Non-current assets held for sale	4.6	**-**		**1,260**	
TOTAL ASSETS		**1,189,728**		**1,168,533**	

(*) The new accounting standard IFRS 15 "Revenue from contracts with customers" entered into effect starting from 1 January 2018. Following the fully retrospective approach chosen by the Group, the first application of the principle had an adjustment effect on the classification of the "Allowance for sales returns" equal Euro 8.046 thousand at 31 December 2017 that has been reclassified from deduction of "Trade Receivables" to increase of "Trade payables" (see paragraph 2.1 for further details).

(thousands of Euro)	Notes	December 31, 2018	of which related parties	December 31, 2017 Restated (*)	of which related parties
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities					
Short-term borrowings	4.11	211,129		65,409	
Trade payables	4.12	170,772	2,426	212,943	4,998
Tax payables	4.13	23,173		17,218	
Derivative financial instruments	4.4	408		2,056	
Other current liabilities	4.14	52,020		95,493	
Provisions for risks	4.15	26,736		35,415	
Total current liabilities		**484,238**		**428,534**	
Non-current liabilities					
Long-term borrowings	4.11	-		142,491	
Employees benefits liability	4.16	26,226		28,399	
Provisions for risks	4.15	13,748		16,779	
Deferred tax liabilities	4.9	13,455		13,283	
Derivative financial instruments	4.4	-		-	
Other non-current liabilities	4.17	5,737		5,842	
Total non-current liabilities		**59,166**		**206,794**	
TOTAL LIABILITIES		**543,404**		**635,328**	
Shareholders' equity					
Share capital	4.18	345,610		313,300	
Share premium reserve	4.19	581,121		484,862	
Retained earnings and other reserves	4.20	(247,961)		(13,355)	
Cash flow hedge reserve	4.21	-		(35)	
Income/(Loss) attributable to the Group		(32,446)		(251,567)	
Total shareholders' equity attributable to the Group		**646,324**		**533,205**	
Non-controlling interests		**-**		**-**	
TOTAL SHAREHOLDERS' EQUITY		**646,324**		**533,205**	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**1,189,728**		**1,168,533**	

CONSOLIDATED INCOME STATEMENT

(thousands of Euro)	Notes	2018	of which related parties	2017 Restated (*)	of which related parties
Net sales	5.1	962,861	52,356	1,035,343	57,004
Cost of sales	5.2	(481,341)		(515,794)	
Gross profit		**481,520**		**519,550**	
Selling and marketing expenses	5.3	(386,257)	(2,652)	(415,491)	(6,352)
General and administrative expenses	5.4	(135,525)		(153,386)	
Other operating income/(expenses)	5.5	34,371		33,152	
Impairment loss on goodwill	4.8 - 5.6	-		(192,000)	
Operating profit		**(5,891)**		**(208,176)**	
Financial charges, net	5.7	(17,342)		(13,996)	
Profit/(Loss) before taxation		**(23,233)**		**(222,171)**	
Income taxes	5.8	(9,213)		(29,396)	
Profit/(Loss) of the period		**(32,446)**		**(251,567)**	
Profit/(Loss) attributable to:					
Owners of the parent		(32,446)		(251,567)	
Non-controlling interests		-		-	
Earnings/(Losses) per share - basic (Euro)	5.9	**(0.300)**		**(4.015)**	
Earnings/(Losses) per share - diluted (Euro)	5.9	**(0.300)**		**(4.014)**	

(*) The new accounting standard IFRS 15 "Revenue from contracts with customers" entered into effect starting from 1 January 2018. Following the fully retrospective approach chosen by the Group, the first application of the principle had an adjustment effect on the sales and cost of goods sold equal to Euro 11,612 thousand in 2017, with a neutral effect on the gross profit. Consequently, 2017 total net sales were adjusted to Euro 1,035,343 thousand (compared to Euro 1,046,955 thousand reported last year), while gross profit remained equal to Euro 519,550 thousand (see paragraph 2.1 for further details).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(thousands of Euro)	Notes	2018	2017
Net profit (loss) for the period (A)		**(32,446)**	**(251,567)**
Gains/(Losses) that will not be reclassified subsequently to profit or loss:			
- Remeasurements of post employment benefit obligations		708	651
- Other gains/(losses)		-	-
Total gains/(losses) that will not be reclassified subsequently to profit or loss:		**708**	**651**
Gains/(Losses) that will be reclassified subsequently to profit or loss:			
- Gains/(Losses) on cash flow hedges	4.21	35	(35)
- Gains/(Losses) on exchange differences on translating foreign operations	4.20	17,095	(88,693)
Total gains/(losses) that will be reclassified subsequently to profit or loss:		**17,130**	**(88,728)**
Other comprehensive income/(loss), net of tax (B)		**17,838**	**(88,077)**
TOTAL COMPREHENSIVE INCOME/(LOSS) (A)+(B)		**(14,608)**	**(339,644)**
Attributable to:			
Owners of the parent		(14,608)	(339,644)
Non-controlling interests		-	-
TOTAL COMPREHENSIVE INCOME/(LOSS)		**(14,608)**	**(339,644)**

CONSOLIDATED STATEMENT OF CASH FLOWS

(thousands of Euro)	Notes	2018	2017 Restated (*)
A - Opening net cash and cash equivalents (net financial indebtedness - short term)	4.1	**20,842**	**99,025**
B - Cash flow from (for) operating activities			
Net profit/(loss) for the period (including minority interests)		(32,447)	(251,567)
Depreciation and amortization	4.6 - 4.7	47,630	42,075
Impairment loss on goodwill	4.8 - 5.6	-	192,000
Other non-monetary items		(6,568)	(2,259)
Interest expenses, net	5.7	11,312	7,491
Income tax expenses	5.8	9,213	29,396
Flow from operating activities prior to movements in working capital		**29,141**	**17,136**
(Increase) Decrease in trade receivables		2,157	44,780
(Increase) Decrease in inventory, net		24,051	(1,318)
Increase (Decrease) in trade payables		(43,180)	(38,013)
(Increase) Decrease in other receivables		38,882	(9,251)
Increase (Decrease) in other payables		(46,990)	(32,156)
Interest expenses paid		(6,053)	(2,106)
Income taxes paid		4,705	(10,147)
Total (B)		**2,712**	**(31,075)**
C - Cash flow from (for) investing activities			
Investments in property, plant and equipment		(22,797)	(26,778)
Net disposals of property, plant and equipment and assets held for sale		2,324	1,182
Acquisition of minorities (in subsidiaries)		-	-
(Acquisition) Disposal of investments and bonds		-	-
Purchase of intangible assets, net of disposals		(7,876)	(13,417)
Total (C)		**(28,348)**	**(39,013)**
D - Cash flow from (for) financing activities			
Proceeds from borrowings		60,000	-
Repayment of borrowings		(10,000)	-
Increase in share capital, net of transaction costs		128,570	-
Dividends paid		-	-
Total (D)		**178,570**	**-**
E - Cash flow for the period (B+C+D)		**152,933**	**(70,088)**
Translation exchange differences		1,192	(8,095)
Total (F)		**1,192**	**(8,095)**
G - Closing net cash and cash equivalents (net financial indebtedness - short term) (A+E+F)	4.1	**174,967**	**20,842**

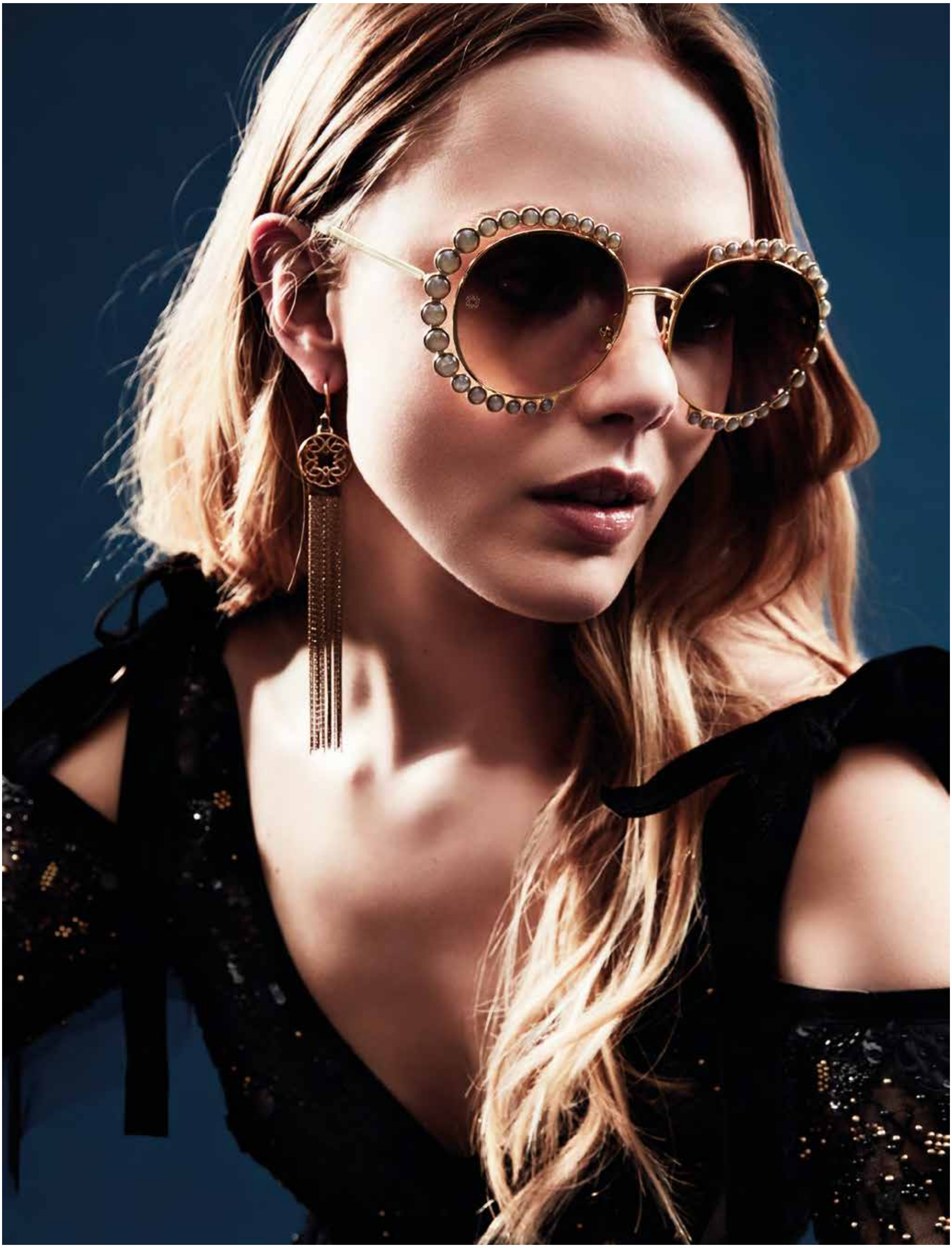
(*) The new accounting standard IFRS 15 "Revenue from contracts with customers" entered into effect starting from 1 January 2018. Following the fully retrospective approach chosen by the Group, the first application of the principle had an adjustment effect on the classification of the "Allowance for sales returns" equal to Euro 8.046 thousand at 31 December 2017 that has been reclassified from deduction of "Trade Receivables" to increase of "Trade payables" (see paragraph 2.1 for further details).

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
Consolidated net equity at January 1, 2018	**313,300**	**484,862**	**61,110**	**(35)**	**(326,031)**	**533,205**	**-**	**533,205**
Change in accounting policy (*)	-	-	-	-	(600)	(600)		**(600)**
Consolidated net equity at January 1, 2018 restated	**313,300**	**484,862**	**61,110**	**(35)**	**(326,631)**	**532,605**	**-**	**532,605**
Profit/(Loss) for the period	-	-	-	-	(32,446)	(32,446)	-	**(32,446)**
Other comprehensive income (loss) for the period	-	-	17,095	35	708	17,838	-	**17,838**
Total comprehensive income (loss) for the period	**-**	**-**	**17,095**	**35**	**(31,738)**	**(14,608)**	**-**	**(14,608)**
Increase in share capital, net of transaction costs	32,310	96,259	-	-	-	128,570	-	**128,570**
Dividends distribution	-	-	-	-	-	-	-	**-**
Net increase in the Reserve for share-based payments	-	-	-	-	(243)	(243)	-	**(243)**
Changes in other reserves	-	-	-	-	-	-	-	**-**
Consolidated net equity at December 31, 2018	**345,610**	**581,121**	**78,205**	**-**	**(358,612)**	**646,324**	**-**	**646,324**

(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
Consolidated net equity at January 1, 2017	**313,300**	**484,862**	**149,803**	**-**	**(75,161)**	**872,804**	**-**	**872,804**
Profit/(Loss) for the period	-	-	-	-	(251,567)	(251,567)	-	**(251,567)**
Other comprehensive income (loss) for the period	-	-	(88,693)	(35)	651	(88,077)	-	**(88,077)**
Total comprehensive income (loss) for the period	**-**	**-**	**(88,693)**	**(35)**	**(250,916)**	**(339,644)**	**-**	**(339,644)**
Increase in share capital due to the exercising of stock option	-	-	-	-	-	-	-	**-**
Dividends distribution	-	-	-	-	-	-	-	**-**
Net increase in the Reserve for share-based payments	-	-	-	-	46	46	-	**46**
Changes in other reserves	-	-	-	-	-	-	-	**-**
Consolidated net equity at December 31, 2017	**313,300**	**484,862**	**61,110**	**(35)**	**(326,031)**	**533,205**	**-**	**533,205**

(*) Restatement for the change in accounting policy related to the new IFRS 9 trade receivables impairment model (see paragraph 2.1 for further details).



ELIE SAAB

EYEWEAR

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 14th October 2002 registered with the Business and Trade registry of Vicenza and with the head office in 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.

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 1st 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 1st January 2018 to 31st December 2018 and also presents comparative data related to the financial period from 1st January 2017 to 31st December 2017.

These financial statements were approved by the Board of Directors on 13th March 2019.

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 31st December 2018 and 31st December 2017 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 Commitee ("IFRIC"), previously called Standing Interpretations Commitee ("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 1st January 2018

Except for what is described below about those accounting policies which changed due to new accounting standards, in preparing these consolidated financial statements the same accounting principles and criteria of the consolidated balance sheet as at 31 December 2017 have been applied.

Furthermore, the Group has adopted the following new standards and amendments, effective from 1 January 2018.

On May 28th 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 (or as) the entity satisfies a performance obligation.

The Group has applied IFRS 15 by adopting the full retrospective transitional approach, without resorting to the practical expedients for completed contracts of IFRS 15.C5 (a) and (b) or for amended contracts for IFRS 15.C5 (c).

Impact of the adoption of IFRS 15

The impact on each item affected by the application of IFRS 15 is shown below for both the current and the previous year. Following the fully retrospective approach chosen by the Group, the first application of the principle had the following effects:

- an adjustment effect on the sales and cost of goods sold of the year 2017 equal to Euro 11,612 thousand, with a neutral effect on the gross profit. Consequently, total 2017 net sales were adjusted to Euro 1,035,343 thousand (compared to Euro 1,046,955 thousand reported last year), cost of sales was adjusted for the same amount and consequently, gross profit remained equal to Euro 519,550 thousand. The effects of the adoption of IFRS 15 are entirely related to contractual penalties on late deliveries which, under the new standard, are considered variable consideration while they were formerly classified as cost of sales;
- an adjustment effect on the classification of the "Allowance for sales returns" equal Euro 8.047 thousand at 31 December 2017 that has been reclassified from deduction of "Trade Receivables" to increase of "Trade Payables". Previously, the Group recognised expected returns from sales of products by reducing revenue and recognised the cost relating to these returns by reducing cost of sales; separately, a liability was recognised for sales adjustments related to the expected returns in a specific allowance against trade receivables. In accordance with IFRS 15, the Group continues to recognize expected returns from sales of products by reducing revenue and recognises the cost relating to these returns by reducing cost of sales; however it recognises the amount corresponding to the sales value of expected returns in the item "Trade Payables" instead of reducing "Trade Receivables" and continues to report the amount corresponding to the cost of the products in the item Inventory.

The analysis of the other existing contracts with customers showed no material adjustments related to the adoption of IFRS 15. The application of IFRS 15 did not entail the recognition of assets deriving from contracts with customers and incremental costs for obtaining contracts with customers, and therefore these items have not been shown in the financial statements. The application of IFRS 15 had only a classification impact, only the comparative column of the consolidated financial statements have been labeled as "restated".

On July 24th 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 a company. The main changes 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 model 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 main requirement relevant for the Group's consolidated financial statements is the one related to the trade 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).

Impact of the adoption of IFRS 9 "Impairment of Trade receivables"

As at 1 January 2018, the Group has reviewed and assessed the existing trade receivables for impairment based on the model of expected losses (and not on the model of incurred losses) using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of IFRS 9 to determine the credit risk of the respective items at the date they were initially recognized.

According to the analysis performed, in consideration of the Group's business characteristics and the evaluation of the trading policies currently in use, an additional credit loss allowance of Euro 0.6 million as at 1 January 2018 has been recognised against retained earnings, adopting a modified retrospective approach. The amount of this additional loss allowances has remained stable during the year to December, 31 2018.

Finally, except for some forward contracts on foreign exchanges, not considered material for the consolidated financial statements, the Group does not apply hedge accounting.

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

On January 13th 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 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 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 "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 1st 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 not to apply an early adoption of IFRS 16 and will comply with this new standard from its relevant effective date on January 1st 2019. The Group has implemented a process to evaluate the potential impacts of IFRS 16: this process consists in identifying the contracts which may be eligible for the new accounting policy, evaluating whether those are lease contracts under the definition of the standard, identifying the lease term and the discount rate, evaluating the transition options, simulating the new accounting. The Group has also worked to enhance its IT systems in order to manage IFRS 16 accounting.

The Group elected to implement IFRS 16 applying the modified retrospective approach, whereby the cumulative effect of adopting the standard will be recognized as an adjustment to the opening balance of retained earnings at January 1st, 2019, without restatement of comparative information. The Group elected to apply the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. Based on the exemptions allowed by IFRS 16, lease contracts for which the lease term ends within 12 months and lease contracts for which the underlying asset is of low value were not and will not be recognized on the consolidated statement of financial position. The carrying value of the lease contracts was determined at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments that were recognized in the consolidated balance sheet immediately before the date of initial application. Key judgements and estimates to apply IFRS 16 mainly include determining the lease term, taking into account renewal and termination options applied only in limited cases when it has been considered reasonably certain their future exercise, and the determination of the discount rates, used in the calculation of lease liabilities, fixed taking into consideration the nature of the asset (real estate or not), its duration, its location country and contract currency and the Group credit rating.

The table below shows the estimate of the expected impact, detailed by segment, of the new standard on the 2019 consolidated statement of income and the consolidated statement of financial position at the transition date as at January 1, 2019, based on the contracts in place and on the information available at this date.

(thousands of Euro)	Wholesale	Retail	2019 Total
Income statement impact			
Reduction of operating expenses	13,527	10,437	23,965
Increase in depreciation expenses	(12,600)	(9,723)	(22,323)
Increase in operating profit	**928**	**714**	**1,642**
Increase in interest expenses	(1,577)	(1,225)	(2,802)
Reduction of profit before tax	**(649)**	**(511)**	**(1,161)**

(thousands of Euro)	Wholesale	Retail	1 January 2019 Total
Balance sheet impact			
Right to Use	38,596	39,833	78,429
Lease liability	(41,020)	(41,844)	(82,864)
Equity impact	-	-	-
Reclass with or gross up of other BS account	2,424	2,012	4,436

As reflected in the table above, IFRS 16 has a significant impact on the Group's main financial performance indicators and on the related disclosures relevant for the consolidated financial statements. On the consolidated balance sheet side there will be a significant increase of both assets and liabilities due to the items rights of use and lease liabilities that are recognized for contracts in which the Group is a lessee. In the consolidated statement of income the majority of the current operating rental costs will be presented as depreciation of right to use assets and interest expenses on the lease liabilities, with a significant impact in term of EBITDA (in 2019 an estimated EBITDA improvement for a reduction of operating rent expenses equal to 23,965 thousand Euro) and a minor effect on the net income.

The table below provides a reconciliation between the operating lease commitments disclosed in note 8 and the opening position for the lease liabilities that will be presented in the 2019 consolidated statement of financial position.

(thousands of Euro)

Lease commitments reconciliation	
Undiscounted operating lease commitments at December 31, 2018	94,085
Exempted short-term and low-value lease contracts	(2,852)
Effect of discounting	(8,369)
Lease liability recognized as at January 1, 2019	82,864

On June 7th 2017 the IASB published the interpretative document IFRIC 23 "Uncertainty over Income Tax Treatments". The document addresses uncertainties about the fiscal treatment to be adopted in the area of income tax. The document provides that uncertainties in the determination of liabilities or tax assets are reflected in the financial statements only when it is probable that the entity will pay or recover the amount in question.
In addition, the document does not contain any new disclosure requirements, but highlights that the entity will have to determine whether it will be necessary to provide with information on management's considerations about the inherent uncertainty in the accounting for taxes, in compliance with IAS 1. The new interpretation will apply from January 1st 2019, the Group doesn't expect any significant impact from its application.

There are no other new standards, amendments to existing standards or new IFRIC interpretations that are not yet effective that are expected to have a material impact on the Group.

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 December 12th 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 1st 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 31st December 2018 include the parent company, Safilo Group S.p.A, and 41 subsidiaries accounted for on a line-by-line basis, with the parent company holding, directly or indirectly, the majority of voting rights.

In 2018, the Group's consolidation area changed as follows:

- on 30 October 2018, in line with the objective of simplification of the Group's legal entity structure, the voluntary liquidation process of the sub-holding company Safint Optical UK has been finalised with the final deregistration of the Company.

- on 20 December 2018 the final meeting of Polaroid UK Ltd has been held to comply with the final requirements for the closure of the voluntary liquidation process of the company started on 3 April 2017, as the final step of the integration plan of the Polaroid lens production process into Safilo's Chinese based corporate supply network. It is expected that the formal deregistration and cancellation of the company by the Company Register will occur during the first months of 2019.

At 31st December 2018 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
ITALIAN COMPANIES			
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
FOREIGN COMPANIES			
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 Shenzen Limited- Shenzen (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 – San Paolo (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
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
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. decreased from 43 in December 2017 to 41 in December 2018.

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 attributale 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 "translation difference 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 31st December 2018 and 31st December 2017 are depicted 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**		**(Appreciation)/ Depreciation**	**Average for**		**(Appreciation)/ Depreciation**
		December 31, 2018	**December 31, 2017**	**%**	**2018**	**2017**	**%**
US Dollar	USD	1.1450	1.1993	-4.5%	1.1810	1.1297	4.5%
Hong-Kong Dollar	HKD	8.9675	9.3720	-4.3%	9.2559	8.8045	5.1%
Swiss Franc	CHF	1.1269	1.1702	-3.7%	1.1550	1.1117	3.9%
Canadian Dollar	CAD	1.5605	1.5039	3.8%	1.5294	1.4647	4.4%
Japanese Yen	YEN	125.8500	135.0100	-6.8%	130.3959	126.7112	2.9%
British Pound	GBP	0.8945	0.8872	0.8%	0.8847	0.8767	0.9%
Swedish Krown	SEK	10.2548	9.8438	4.2%	10.2583	9.6351	6.5%
Australian Dollar	AUD	1.6220	1.5346	5.7%	1.5797	1.4732	7.2%
South-African Rand	ZAR	16.4594	14.8054	11.2%	15.6186	15.0490	3.8%
Russian Ruble	RUB	79.7153	69.3920	14.9%	74.0416	65.9383	12.3%
Brasilian Real	BRL	4.4440	3.9729	11.9%	4.3085	3.6054	19.5%
Indian Rupee	INR	79.7298	76.6055	4.1%	80.7332	73.5324	9.8%
Singapore Dollar	SGD	1.5591	1.6024	-2.7%	1.5926	1.5588	2.2%
Malaysian Ringgit	MYR	4.7317	4.8536	-2.5%	4.7634	4.8527	-1.8%
Chinese Renminbi	CNY	7.8751	7.8044	0.9%	7.8081	7.6290	2.3%
Korean Won	KRW	1,277.9300	1,279.6100	-0.1%	1,299.0713	1,276.7381	1.7%
Mexican Peso	MXN	22.4921	23.6612	-4.9%	22.7054	21.3286	6.5%
Turkish Lira	TRY	6.0588	4.5464	33.3%	5.7077	4.1206	38.5%
Dirham United Emirates	AED	4.2050	4.4044	-4.5%	4.3371	4.1475	4.6%

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:

Category	**Useful lifetime in years**
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 monitor 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

All the financial assets recognized that fall within the scope of application of IFRS 9 must subsequently be recognized at amortized cost or at fair value on the basis of the entity's business model for the management of financial assets and characteristics relating to contractual cash flows of the financial activity.

Specifically:

- debt instruments held in the context of a business model whose objective is the possession of financial assets aimed at collecting contractual cash flows, and which have cash flows represented solely by capital payments and interest on the principal amount to be returned, are subsequently valued at amortized cost;
- debt instruments held in the context of a business model whose objective is achieved both through the collection of contractual cash flows and through the sale of financial assets, and which have cash flows represented solely by capital payments and interest on amount of the capital to be repaid, are subsequently measured at fair value with changes recorded in the other components of the comprehensive income statement (FVTOCI);

- all other debt instruments and investments in equity instruments are subsequently measured at fair value, with changes recognized in profit (loss) for the year (FVTPL).

Notwithstanding the foregoing, the Group may make the following irrevocable selection/designation upon initial recognition of a financial asset:

- the Group may make an irrevocable choice to present subsequent changes in the fair value of an investment in equity instruments that are neither held for trading nor a potential consideration recognized by a purchaser in a business combination transaction in the other components of the comprehensive income statement;
- the Group may irrevocably designate an investment in debt instruments that meets the amortized cost or FVTOCI criteria as measured at fair value, with changes recognized in profit (loss) for the year (FVTPL) if this eliminates or reduces significantly an accounting asymmetry.

During the current year, the Group has not designated any investments in debt instruments that meet the amortized cost or FVTOCI criteria as measured at fair value recorded in profit (loss) for the year.

When an investment in a debt instrument measured as FVTOCI is eliminated, the cumulative gain (loss) previously recognized under the other components of the comprehensive income statement is reclassified from equity to profit (loss) for the year through a correction from reclassification. On the other hand, when an investment in a representative instrument of capital designated as valued FVTOCI is eliminated, the cumulative gain (loss) previously recognized among the other components of the comprehensive income statement is subsequently transferred to retained earnings without passing through the income statement. Debt instruments subsequently valued at amortized cost or FVTOCI are subject to impairment.

IFRS 9 introduced a significant change in the classification and measurement of financial liabilities with reference to the recognition of fair value changes attributable to changes in the credit risk of the issuer, for financial liabilities designated by the Group as FVTPL. In particular, IFRS 9 requires that changes in the fair value of financial liabilities that are attributable to changes in the credit risk of these liabilities are presented in the other components of the comprehensive income statement, unless the recognition in the other components of the comprehensive income statement the effects of changes in credit risk of the financial liability do not originate or increase an accounting asymmetry in profit (loss) for the year. Changes in fair value attributable to the credit risk of a financial liability are not subsequently reclassified to profit (loss) for the year, but are instead transferred to retained earnings when the liability is derecognised. Previously, in accordance with IAS 39, the entire amount of changes in the fair value of financial liabilities designated as FVTPL was presented in profit (loss) for the year.

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

All derivative financial instruments are measured at fair value, in accordance with IFRS 9. 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 in 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.

The new IFRS 9 requirements in terms of accounting for hedging transactions ("hedge accounting") confirmed the existence of the three types of hedging. However, greater flexibility was introduced in the type of transactions that qualify for hedge accounting, specifically by extending the types of instruments that qualify as hedging instruments and the types of risk components related to non-financial elements that they are eligible for hedge accounting. In addition, the effectiveness test has been replaced with a principle of "economic relationship". Furthermore, the retrospective determination of hedge effectiveness is no longer required. More information on risk management activities introduced by the Group was introduced.

In accordance with the transitional provisions of IFRS 9 for the accounting of hedging transactions, the Group has applied the requirements of IFRS 9 in relation to hedge accounting prospectively from the date of first application to 1 January 2018. The Group's hedging relationships outstanding at January 1, 218, which meet the eligibility criteria, also qualify for hedge accounting based on IFRS 9 and have therefore been considered as continuous hedging relationships. No rebalancing of any hedging relationship was necessary on 1 January 2018. As the basic elements of the hedging instruments correspond to those of the corresponding hedged items, all hedging relationships continue to be effective on the basis of the valuation criteria of the hedging instruments effectiveness of IFRS 9. The Group has also not designated any hedging relationship based on IFRS 9 that would not have met the qualification criteria for hedge accounting pursuant to IAS 39.

IFRS 9 requires that the expenses and income deriving from hedges are recognized as an adjustment to the initial carrying amount of the non-financial elements hedged (basis adjustment). In addition, transfers from the hedging reserve to the initial carrying amount of the hedged item are not reclassified adjustments based on IAS 1 Presentation of Financial Statements. The hedging income and losses subject to the basis adjustment are categorized as amounts that will not subsequently be reclassified to profit or loss or to the other elements of the comprehensive income statement. This is consistent with the practice of the Group prior to the adoption of IFRS 9.

In line with previous years, when a forward contract is used in a cash flow hedge or fair value hedge relationship, the Group has designated the change in fair value of the entire forward contract, including the forward points, as a hedging instrument.

When option contracts are used to hedge highly probable scheduled transactions, the group only designates the intrinsic value of the options as a hedging instrument. Based on IAS 39, changes in the fair value of the time value of the option (the non-designated party) were immediately recognized in profit (loss) for the year. Based on IFRS 9, changes in the time value of options relating to the hedged item are recognized in the other elements of the comprehensive income statement and are accumulated in the equity reserve. The amounts accumulated in equity are either reclassified to profit or loss for the period when the hedged item influences the profit (loss) for the period or removed directly from equity and included in the carrying amount of the non-financial item. IFRS 9 requires that the accounting treatment related to the unspecified time value of an option be applied retrospectively.

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 IFRS 9, 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 and cash equivalents

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 27th 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 1st 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 31st 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

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

The Group primary revenue segment is the selling of eyewear products in the wholesale channel through its subsidiary network and a network of independent distribution partners. Moreover, through the network of Solstice retail stores the Group sells its eyewear products to North America retail customers.

Revenues include the fair value of the sale of goods and services, less VAT, returns and discounts. In particular, the Group recognizes the revenues when the control over goods sold is transferred to the customer, assumed at the shipment date, in accordance with the sales terms agreed.

According to the standard contractual conditions applied by the Group, customers may have a right of return. If the sale includes the right for the client to return unsold goods, at the time of sale, a liability is recognized and a corresponding adjustment of revenues for the goods whose return is estimated. The Group recognised expected returns from sales of products by reducing revenue and recognised the cost relating to these returns by reducing cost of sales. In accordance with IFRS 15, the Group recognises the amount corresponding to the sales value of expected returns in the item Trade Payables and the amount corresponding to the cost of the products in the item Inventory.

Based on historical experience and specific knowledge of customers, the Group estimates the amount of returns expected to be received on the entire portfolio using the expected value method. This treatment does not differ from what was done under the previous accounting standard.

Warranty terms coincide with regulatory requirements and warranties cannot be sold or extended separately, as such, they are not capable of generating separate revenues. There no services associated to the sale of goods to customers.

The contracts with customers may recognize to the customer the right to incentives for the marketing and advertising activity performed by them on behalf of Safilo. The analysis performed by the Group concluded that these are consideration paid to customer for distinct services and, as a consequence, recognizes them as expenses.

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 obsolete 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 warranty 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 works 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 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, 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 31st December 2018 and 31st December 2017:

(thousands of Euro)	December 31, 2018			December 31, 2017		
Ageing of trade receivables	**Nominal value trade receivables**	**Allowance for bad and doubtful debts**	**Net value value trade receivables**	**Nominal value trade receivables**	**Allowance for bad and doubtful debts**	**Net value value trade receivables**
Overdue and impaired						
up to 3 months	1,847	(1,531)	316	2,141	(1,040)	1,100
3 to 6 months	1,039	(996)	43	1,294	(1,275)	19
6 to 9 months	617	(615)	1	358	(314)	44
from 9 to 12 months	1,112	(1,095)	17	945	(933)	11
from 12 to 24 months	2,796	(2,796)	-	2,220	(2,220)	-
over 24 months	6,376	(6,376)	-	9,149	(9,149)	-
Grand total	**13,786**	**(13,409)**	**377**	**16,106**	**(14,931)**	**1,176**
Overdue and not impaired						
up to 1 month	11,205		11,205	14,488		14,488
2 to 3 months	7,524		7,524	16,049		16,049
3 to 6 months	4,074		4,074	5,497		5,497
6 to 9 months	446		446	1,402		1,402
from 9 to 12 months	391		391	1,654		1,654
from 12 to 24 months	333		333	93		93
over 24 months	160		160	513		513
Grand total	**24,133**	**(288)**	**23,845**	**39,696**		**39,696**
Neither overdue nor impaired	160,446	(312)	160,134	145,919		145,919
Grand total	**198,365**	**(14,009)**	**184,356**	**201,722**	**(14,931)**	**186,791**

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 31st December 2018 past due receivables for which no allowance for bad debts was made, as the Group considered them fully collectible, amounted to 24,133 thousand Euro (compared to 39,696 thousand Euro at 31st December 2017). Of these, receivables that were more than 12 months past due amounted to 493 thousand Euro (compared to 606 thousand at 31st December 2017) but accounted for 0.25% of the Group's total trade receivable compared to 0.3% in the previous year.

As at 1 January 2018, the Group has reviewed and assessed the existing trade receivables for impairment based on the model of expected losses (and not on the model of incurred losses) using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of IFRS 9 to determine the credit risk of the respective items at the date they were initially recognized. According to the analysis performed, in consideration of the Group's business characteristics and the evaluation of the trading policies currently in use, an additional credit loss allowance of 600 thousand Euro that cover the potential additional credit risk expected on the amount overdue and not impaired and on the amount not overdue.

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 2018 net sales of around 35,650 thousand Euro (around 39,900 thousand Euro in 2017) and in a decrease or an increase of the net result of the Group of around 340 thousand Euro (around 1,100 thousand Euro in 2017).

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 currency at 31st December 2018 and 31st December 2017:

(thousands of Euro)	December 31, 2018	December 31, 2017
USD	370,817	340,379
HKD	75,381	77,790
CNY	61,838	61,755
GBP	1,440	12,609
CAD	17,315	16,986
CHF	11,145	10,579
BRL	10,310	15,090
EUR	87,513	(11,766)
Other currencies	10,566	9,784
Total	**646,324**	**533,205**

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 46,300 thousand Euro (about 44,800 thousand Euro in 2017).

The table below summarizes the financial assets and liabilities of the Group per currency at 31st December 2018 and 31st December 2017:

(thousands of Euro)	December 31, 2018			
	Euro	**US Dollar**	**Other currencies**	**Total**
Cash in hand and at bank	102,310	50,250	25,687	178,247
Trade receivables, net	71,373	57,718	55,265	184,356
Derivative financial instruments	-	-	389	389
Other current assets	21,515	16,866	14,201	52,582
Total current financial assets	**195,198**	**124,834**	**95,542**	**415,574**
Derivative financial instruments	-	-	-	-
Other non-current assets	3,467	1,028	7,058	11,552
Total non-current financial assets	**3,467**	**1,028**	**7,058**	**11,552**
Trade payables	132,170	19,373	19,229	170,772
Short-term borrowings	211,128	-	1	211,129
Derivative financial instruments	407	-	-	408
Tax payables and other current liabilities	42,773	18,255	14,165	75,193
Total current financial liabilities	**386,478**	**37,628**	**33,395**	**457,502**
Long-term borrowings	-	-	-	-
Derivative financial instruments	-	-	-	-
Other non-current liabilities	786	4,596	355	5,737
Total non-current financial liabilities	**786**	**4,596**	**355**	**5,737**

(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	70,311	19,551	96,929	186,791
Derivative financial instruments	-	(424)	566	142
Other current assets	61,993	16,288	13,478	91,759
Total current financial assets	**137,122**	**82,211**	**135,610**	**354,943**
Derivative financial instruments	-	-	-	-
Other non-current assets	3,483	1,342	7,397	12,222
Total non-current financial assets	**3,483**	**1,342**	**7,397**	**12,222**
Trade payables	144,216	35,959	32,768	212,943
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
Total current financial liabilities	**294,939**	**49,977**	**48,203**	**393,119**
Long-term borrowings	142,491	-	-	142,491
Derivative financial instruments	-	-	-	-
Other non-current liabilities	908	4,565	369	5,842
Total non-current financial liabilities	**143,399**	**4,565**	**369**	**148,333**

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 31st December 2018 the floating-rate portion of the Group's total borrowings not subject to hedging instruments amounted to 63,279 thousand Euro (accounting for 29.97% of total debt) compared to 65,409 thousand Euro in the previous year (accounting for 31.46% of total debt).

The Group constantly monitors 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 breakdown by maturity date for the floating and fixed interest-bearing loans, as at 31st December 2018 and 31st December 2017:

December 31, 2018

(thousands of Euro)	**Floating**	**Fixed**	**Total**
within 1 year	63,279	147,849	211,129
between 1 and 2 years	-	-	-
Total	**63,279**	**147,849**	**211,129**

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
Total	**65,409**	**142,491**	**207,900**

The floating interest-bearing loans as at 31 December 2018 are not hedged 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 December 2018 and 31 December 2017:

December 31, 2018

(thousands of Euro)	**Currency**	**Nominal interest rate**	**Internal interest rate**	**Book value**	**Expiry**
Convertible Bonds Equity Linked	*EURO*	1.25	5.101%	147,849	22/05/2019
Revolving facility	*EURO*	Euribor	-	60,000	January 2019

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

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 instrument would have represented a greater (lower) annual financial charge, on a pre-tax basis, of around 689 thousand Euro (376 thousand Euro at 31 December 2017).

Liquidity risk

This risk could affect 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 constantly monitored at central level by the Group's Treasury in order to ensure an effective and efficient use of the available cash.

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

December 31, 2018 (thousands of Euro)	**Credit lines granted**	**Uses**	**Credit lines available**
Credit lines on bank accounts and short-term bank loans	17,499	3,279	14,220
Credit lines on long-term loans	60,000	60,000	-
Total	**77,499**	**63,279**	**14,220**

December 31, 2017 (thousands of Euro)	**Credit lines granted**	**Uses**	**Credit lines available**
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
Total	**287,610**	**55,407**	**232,203**

The credit lines on long-term loans are related to a committed revolving financing the "2014 RCF".

In 2018 the Group entered into a comprehensive re-financing process, represented by a capital increase of Euro 150 million, and by new committed credit facilities for further Euro 150 million, the 2018 "T&RCF", available upon redemption date of the equity-linked Bonds on May 2019. The process, successfully accomplished, grants the Group the respect of the upcoming reimbursement deadlines. In the context of the capital increase executed during December 2018 through 2 January

2019 (for more detail see paragraph 4.18 of the Notes), the Group has requested and obtained from its lenders the extension of the maturity date of "2014 RCF" from 30 November 2018 to 31 January 2019, as well as the waiver of the covenant tests as of 30 June 2018 and 31 December 2018.

The table below summarizes the financial assets and liabilities of the Group by maturity, undiscounted and inclusive of the interest payments, at 31st December 2018 and 31st December 2017:

	December 31, 2018				
(thousands of Euro)	within 1 year	between 1 and 2 years	between 3 and 5 years	beyond 5 years	Total
Cash in hand and at bank	178,247	-	-	-	178,247
Trade receivables, net	184,356	-	-	-	184,356
Derivative financial instruments	389	-	-	-	389
of which Interest Rate Swaps	-	-	-	-	-
Other current assets	52,582	-	-	-	52,582
Other non-current assets	-	4,938	5,944	670	11,552
Total financial assets	**415,574**	**4,938**	**5,944**	**670**	**427,126**
Trade payables	170,772	-	-	-	170,772
Tax payables	23,173	-	-	-	23,173
Borrowings	211,129	-	-	-	211,129
Interest payments	938	-	-	-	938
Derivative financial instruments	408	-	-	-	408
of which Interest Rate Swaps	-	-	-	-	-
Other current liabilities	52,020	-	-	-	52,020
Other non-current liabilities	-	3,661	579	1,497	5,737
Total financial liabilities	**458,440**	**3,661**	**579**	**1,497**	**464,177**

(thousands of Euro)	December 31, 2017				
	within 1 year	between 1 and 2 years	between 3 and 5 years	beyond 5 years	Total
Cash in hand and at bank	76,251	-	-	-	76,251
Trade receivables, net	186,791	-	-	-	186,791
Derivative financial instruments	142	-	-	-	142
of which Interest Rate Swaps	-	-	-	-	-
Other current assets	91,759	-	-	-	91,759
Other non-current assets	-	4,943	564	6,715	12,222
Total financial assets	**354,943**	**4,943**	**564**	**6,715**	**367,165**
Trade payables	212,943	-	-	-	212,943
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
of which Interest Rate Swaps	-	-	-	-	-
Other current liabilities	95,493	-	-	-	95,493
Other non-current liabilities	-	1,928	1,688	2,226	5,842
Total financial liabilities	**394,994**	**145,357**	**1,688**	**2,226**	**544,265**

The table below summarizes the gross derivative financial instruments outflow and inflow by maturity, relating to forward agreements to purchase foreign currencies at 31st December 2018 and 31st December 2017:

December 31, 2018 (thousands of Euro)	within 1 year	between 1 and 2 years	between 3 and 5 years	beyond 5 years
Gross derivative financial instruments outflow	(149,255)	-	-	-
Gross derivative financial instruments inflow	149,271	-	-	-
Total undiscounted gross settled derivatives	**15**	**-**	**-**	**-**

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	-	-	-
Total undiscounted gross settled derivatives	**(1,834)**	**-**	**-**	**-**

Classification of financial assets and liabilities

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	**Financial instruments at fair value through**					
(thousands of Euro)	**Income Statement**	**Other comprehensive income (OCI)**	**Financial instruments at amortised cost**	**Investments and non-listed financial assets at cost**	**Balance at Dec. 31, 2018**	**Fair value at December 31, 2018**
ASSETS						
Cash in hand and at bank	-	-	178,247	-	178,247	178,247
Trade receivables, net	-	-	184,356	-	184,356	184,356
Derivative financial instruments	389	-	-	-	389	389
Financial assets available for sale	-	-	-	-	-	-
Other current assets	-	-	52,582	-	52,582	52,582
Other non-current assets	-	-	11,552	-	11,552	11,552
Total assets	**389**	**-**	**426,737**	**-**	**427,126**	**427,126**
LIABILITIES						
Short-term and long-term borrowings	-	-	211,129	-	211,129	206,475
Derivative financial instruments	408	-	-	-	408	408
Other current liabilities	-	-	52,020	-	52,020	52,020
Other non-current liabilities	-	-	5,737	-	5,737	5,737
Total liabilities	**408**	**-**	**268,886**	**-**	**269,294**	**264,639**

Financial instruments	**Financial instruments at fair value through**					
(thousands of Euro)	**Income Statement**	**Other comprehensive income (OCI)**	**Financial instruments at amortised cost**	**Investments and non-listed financial assets at cost**	**Balance at Dec. 31, 2017**	**Fair value at December 31, 2017**
ASSETS						
Cash in hand and at bank	-	-	76,251	-	76,251	76,251
Trade receivables, net	-	-	186,791	-	186,791	186,791
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
Total assets	**142**	**-**	**367,023**	**-**	**367,165**	**367,165**
LIABILITIES						
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
Total liabilities	**2,002**	**54**	**309,235**	**-**	**311,291**	**306,636**

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 31st December 2018, split by hierarchical level of the fair value.

(thousands of Euro)	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivative financial instruments	-	389	-	389
Total assets	**-**	**389**	**-**	**389**
Derivative financial instruments	-	(408)	-	(408)
Total liabilities	**-**	**(408)**	**-**	**(408)**

In 2018 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 178,247 thousand, compared to Euro 76,251 thousand at 31st December 2017 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 statement of cash flows:

(thousands of Euro)	December 31, 2018	December 31, 2017
Cash and cash equivalents	178,247	76,251
Bank overdrafts	(278)	(1,408)
Current bank borrowings	(3,001)	(54,001)
Net cash and cash equivalents	**174,967**	**20,842**

The increase compared to 31st December 2017 is mainly related to the proceeds of the capital increase obtained at the end of the year.

4.2 Trade receivables

This item breaks down as follows:

(thousands of Euro)	December 31, 2018	December 31, 2017
Gross value trade receivables	198,365	201,722
Allowance for doubtful accounts	(14,009)	(14,931)
Net value	**184,356**	**186,791**

The Group has no particular concentration of credit risk, as its credit exposure is spread over a large number of clients. Due to the short term nature of the current receivables, their carrying amount is considered to be approximately equal to their *fair value*.

The allowance for doubtful accounts refers to the provisions for doubtful accounts charged to the income statement under "General and administrative expenses" (note 5.4).

The new accounting standard IFRS 15 "Revenue from contracts with customers" entered into effect starting from 1 January 2018. Following the fully retrospective approach chosen by the Group, the first application of the principle had an adjustment effect on the classification of the "Allowance for sales returns" equal to Euro 8,046 thousand in 2017 and Euro 9,451 thousand in 2018 that has been reclassified from deduction of "Trade Receivables" to increase of "Trade payables" (see paragraph 2.1 for further details).

The following table shows changes in the above mentioned allowance:

(thousands of Euro)	Balance at January 1, 2018	Addition	Use	Changes in accounting principles	Transl. Diff.	Balance at December 31, 2018
Allowance for doubtful accounts	14,931	2,955	(4,176)	600	(300)	14,009

(thousands of Euro)	Balance at January 1, 2017	Addition	Use	Transl. Diff.	Balance at December 31, 2017
Allowance for doubtful accounts	19,589	4,990	(8,896)	(753)	14,931

The amount equal to Euro 600 thousand reported in the item "changes in accounting principles" refers to the additional credit loss allowance that has been recognised against retained earnings as at 1 January 2018 according to the expected credit loss impairment model as stated by the new IFRS 9.

Information about the impairment of trade receivables and the Group's exposure to credit risk can be found in note 3 paragraph "Credit risks".

4.3 Inventories

This item breaks down as follows:

(thousands of Euro)	December 31, 2018	December 31, 2017
Raw materials	75,892	95,695
Work in progress	7,235	5,300
Finished goods	246,398	253,550
Gross	**329,525**	**354,546**
Provision for obsolete inventory (-)	(91,815)	(96,828)
Total	**237,710**	**257,717**

In order to deal with obsolete or slow-moving stock, a specific provision has been allocated, calculated on the basis of the possibility for future sale of finished goods and use of raw materials and semi-finished products. This item is charged in the income statement in "cost of sales" (note 5.2).

The movements in the aforementioned provision are shown below:

(thousands of Euro)	Balance at January 1, 2018	Posted to income statement	Transl. Diff.	Balance at December 31, 2018
Inventory gross value	354,546	(29,226)	4,205	329,525
Provision for obsolete inventory	(96,828)	5,218	(204)	(91,815)
Total net	**257,717**	**(24,008)**	**4,001**	**237,710**

(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
Provision for obsolete inventory	(127,043)	25,927	4,287	(96,828)
Total net	**272,815**	**1,318**	**(16,415)**	**257,717**

4.4 Derivative financial instruments

The following table summarizes the amount of financial instruments:

(thousands of Euro)	December 31, 2018	December 31, 2017
Current assets:		
Foreign currency contracts - Fair value through P&L	389	142
Total	**389**	**142**
Current liabilities:		
Foreign currency contracts - Fair value through P&L	408	2.002
Foreign currency contracts - cash flow hedge	-	54
Total	**408**	**2.056**

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 19 thousand (negative for 1,914 thousand Euro at 31 December 2017).

The impact of the mark-to-market changes of the forward contracts at fair value through profit or loss, amount to a gain of 1,841 thousand Euro (a loss of 2,233 thousand Euro in 2017), this amount is charged in the income statement in “financial charges” in the item “Exchange rate differences”.

The following table summarizes the characteristics and fair value of forward contracts:

December 31, 2018			**Fair value**	
(thousands of Euro)	**Maturity**	**Notional amount**	**Assets**	**Liabilities**
Fair value hedge	within 1 year	179,675	389	408
Cash flow hedge	within 1 year	-	-	-
Total forward contracts		**179,675**	**389**	**408**

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

4.5 Other current assets

This item breaks down as follows:

(thousands of Euro)	**December 31, 2018**	**December 31, 2017**
VAT receivables	13,314	26,635
Income tax receivables	19,455	19,168
Prepayments and accrued income	11,286	9,070
Other receivables	8,526	36,887
Total	**52,582**	**91,759**

VAT receivables amounted to 13,314 thousand Euro (26,635 thousand Euro at December 31, 2017), the reduction mainly driven by the Group's efforts to recover VAT credit positions. Income tax receivables are mainly related to tax credits and advance payments made during the financial year which will be offset against the related tax payable.

Prepayments and accrued income amounted to 11,286 thousand Euro (9,070 thousand Euro at December 31, 2017) and mainly consisted of prepaid royalties of 3,524 thousand Euro, prepaid advertising expenses of 833 thousand Euro, prepaid rent and operating lease costs of 1,110 thousand Euro, prepaid insurance of 519 thousand Euro.

Other current receivables amounted to 8,526 thousand Euro, compared to 36,887 thousand Euro in 2017, the decrease is mainly related to the collection in September 2018 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.

The current balance is mainly related to the receivables reported by the subsidiary Safilo S.p.A. for 1,576 thousand Euro, referring mainly to receivables due from insolvent customers for the amount of credit relating to VAT which, pursuant to Italian tax legislation, can only be recovered when the recovery procedure is unsuccessfully closed, receivables from agents for 520 thousand Euro mainly deriving from the sale of samples, deposit payments due within 12 months for 414 thousand Euro and other receivables for 6,016 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, 2018	Increase	Decrease	Reclass.	Transl. diff.	Balance at December 31, 2018
Gross value						
Land and buildings	141,738	285	(161)	3,433	603	145,898
Plant and machinery	210,284	(48)	(7,787)	6,610	7	209,067
Equipment and other assets	205,324	1,844	(57,706)	10,303	2,413	162,177
Assets under constructions	5,335	20,715	(163)	(20,346)	65	5,606
Total	**562,681**	**22,797**	**(65,817)**	**-**	**3,087**	**522,748**
Accumulated depreciation						
Land and buildings	55,874	4,284	70	1,634	397	62,259
Plant and machinery	153,410	9,846	(7,230)	-	57	156,083
Equipment and other assets	165,095	19,556	(57,399)	(1,634)	1,898	127,515
Total	**374,379**	**33,686**	**(64,559)**	**-**	**2,352**	**345,857**
Net value	**188,302**	**(10,890)**	**(1,258)**	**-**	**736**	**176,891**

(thousands of Euro)	Balance at January 1, 2017	Increase	Decrease	Reclass.	Transl. diff.	Balance at December 31, 2017
Gross value						
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
Total	**571,818**	**26,778**	**(17,690)**	**-**	**(18,225)**	**562,681**
Accumulated depreciation						
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
Total	**374,212**	**29,612**	**(16,507)**	**-**	**(12,938)**	**374,379**
Net value	**197,606**	**(2,834)**	**(1,182)**	**-**	**(5,287)**	**188,302**

Investments in tangible fixed assets in the financial period amount to 22,797 thousand Euro (26,778 thousand Euro during 2017), and refer to:

- Euro 3,704 thousand for the Italian Headquarter and the distribution center; mainly for the upgrading of IT and logistic equipment;
- Euro 15,938 thousand in production facilities, mainly for the upgrade of plants and for the purchase and production of equipment for new models;
- Euro 2,529 thousand for the U.S. companies;
- the remaining part in other companies of the Group.

The decrease of the item "Equipment and other assets" equal to 57,706 thousand Euro in the gross value and to 57,399 thousand Euro in the accumulated depreciation is related to ordinary disposal of fixed assets for 11,341 thousand Euro and for 46,365 thousand Euro to the accounting offset of the gross value and the related accumulated depreciation, booked for the most part in the retail company Solstice, for the leasehold improvements already fully depreciated and impaired related to stores closed in the last few years.

The balance previously reported at December 31, 2017, as "Non-current assets held for sale" has recorded a decrease to zero after the disposal of the former Spanish office's location, settled in February 2018, and of the production plant of Polaroid UK Ltd., settled in April 2018.

On December 31, 2018 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, 2018	Increase	Decrease	Reclass.	Transl. diff.	Balance at December 31, 2018
Gross value						
Software	74,430	280	(144)	6,861	457	81,884
Trademarks and licenses	55,558	-	(6)	552	13	56,117
Other intangible assets	6,817	19	-	496	80	7,413
Intangible assets in progress	5,910	7,584	(7)	(7,909)	(73)	5,504
Total	**142,714**	**7,883**	**(158)**	**-**	**477**	**150,917**
Accumulated amortization						
Software	46,961	11,100	(144)	2	390	58,309
Trademarks and licenses	26,928	2,320	(6)	(2)	13	29,253
Other intangible assets	4,257	525	-	-	88	4,869
Total	**78,146**	**13,944**	**(150)**	**-**	**491**	**92,431**
Net value	**64,569**	**(6,061)**	**(8)**	**-**	**(14)**	**58,486**

(thousands of Euro)	Balance at January 1, 2017	Increase	Decrease	Reclass.	Transl. diff.	Balance at December 31, 2017
Gross value						
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
Total	**135,771**	**13,447**	**(579)**	**(3,533)**	**(2,393)**	**142,714**
Accumulated amortization						
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
Total	**71,663**	**12,464**	**(549)**	**(3,533)**	**(1,900)**	**78,146**
Net value	**64,108**	**983**	**(30)**	**-**	**(493)**	**64,569**

Investments in intangible fixed assets made during the year amount to 7,883 thousand Euro (13,447 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	2018	2017
Cost of sales	5.2	22,492	20,597
Selling and marketing expenses	5.3	6,099	4,417
General and administrative expenses	5.4	19,039	17,061
Total		**47,630**	**42,075**

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 16,489 thousand Euro (19,041 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)	Balance at January 1, 2018	Increase	Decrease	Transl. diff.	Balance at December 31, 2018
Goodwill	220,416	-	-	5,851	226,267

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

During the current period, the item recorded an increase of 5,851 thousand Euro due to the translation difference for the goodwill denominated in US Dollar currency.

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

(thousands of Euro)	EMEA	Americas	Total
December 31, 2018	97,039	129,228	226,267
December 31, 2017	97,039	123,377	220,416

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 over 5 years. To determine these cash flow projections, the board of directors has approved a five year business plan for the period 2019 – 2023, substantially based on the previous Group Business Plan 2018-2022 while updating 2019 with the Budget for the year and adding an additional year for 2023. This plan includes certain key assumptions regarding sales and cost reduction initiatives.

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 2019-2023 business plan of the Group. The plan used for impairment test considers management's best 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 2018 financial statements is consistent with the criteria used for the 2017 financial statements and is in line with the following factors:

- 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 2023.

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.

The cash flows generated after the horizon considered were determined on the basis of perpetual growth rates considered adeguate 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:

Key assumptions	**"WACC" discount rate**		**Growth rate "g"**	
Business units	**2018**	**2017**	**2018**	**2017**
EMEA	9.3%	9.3%	1.8%	1.4%
Americas	10.1%	9.7%	2.3%	2.2%

The key initiatives of the Group's business plan are centered around a re-ignition of sales growth and a reduction of the cost structure. Topline growth is expected to come from exploiting the Group's multi-segment brand portfolio, emphasizing in particular the growth of own core brands and core licenses, with an acceleration in the Premium and Contemporary segments of the market. From a geographic point of view, Safilo aims to recover moderate growth in its developed markets while growing faster in emerging markets. Cost reductions are centered around overheads productivity, efficiency initiatives in cost of sales, and a reduction of obsolescence costs. At the end of 2018, the Group's economic results were substantially in line with the targets outlined in the business plan.

With regards to the Group's portfolio of licenses, the company is in discussions with some of its key licensors regarding the future of the underlying contracts, and is actively scouting new licenses.

Furthermore, the impairment test presents the fact that the Group is in a turnaround moment and that the assumptions underlying the test take in consideration that there are some uncertainties in reaching the targets. Management has used the most reliable information available at this moment, and to address those uncertainties has developed sensitivities on the basis of various hypothetical future scenarios, modifying the discount and growth rate, and the amount of revenue and marginality. The impairment test was performed in accordance with projections developed within these sensitivity scenarios and the result analyzed. The result was that none of the CGUs would reasonably be affected by a goodwill impairment.

In monitoring the goodwill value, management has taken into consideration also exogenous factors, such as the stock market capitalization. The stock market valuation in general and considering Safilo's situation may be subject to different expectations and 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 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 appropriate 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, 2018	December 31, 2017
Deferred tax assets	156,817	147,364
Valuation Allowance (-)	(93,569)	(78,260)
Net deferred tax assets	**63,248**	**69,104**
Deferred tax liabilities	(13,455)	(13,283)
Total	**49,793**	**55,821**

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 valuation allowance, considered prudent, amounts to 93,569 thousand Euro and has increased of 15,309 thousand Euro in order to take into account any potential assets that might not be recovered by the forecasted future taxable profit. 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

		Posted to				
(thousands of Euro)	**Balance at January 1, 2018**	**Income statement**	**Equity**	**Reclass./ Other changes**	**Transl. diff.**	**Balance at December 31, 2018**
Tax losses carried forward	63,606	12,817	-	971	(737)	76,656
Inventories	39,349	(1,144)	-	5	438	38,648
Taxed allowances for doubtful accounts	6,259	(1,843)	-	263	5	4,684
Taxed provisions	6,193	(1,709)	-	10	8	4,502
Employees benefit liabilities	1,463	(284)	(68)	-	1	1,112
Intangible assets	1,895	(251)	-	(4)	-	1,640
Tangible assets	10,326	(547)	-	173	173	10,125
Fair value of derivative instruments	13	-	(13)	-	-	-
Other payables	500	(600)	-	334	(12)	222
Taxed financial interests	11,402	1,652	-	-	-	13,054
Other temporary differences	6,358	161	-	(326)	(19)	6,174
Total deferred tax assets	**147,364**	**8,252**	**(81)**	**1,426**	**(143)**	**156,817**
Devaluation of deferred tax assets on tax losses	(59,548)	(12,366)	-	(686)	736	(71,864)
Devaluation of deferred tax assets on other temporary differences	(18,712)	(2,870)	-	(415)	292	(21,705)
Total allowance on deferred tax assets	**(78,260)**	**(15,236)**	**-**	**(1,101)**	**1,028**	**(93,569)**
TOTAL NET	**69,104**	**(6,984)**	**(81)**	**325**	**884**	**63,248**

Deferred tax liabilities

(thousands of Euro)	Balance at January 1, 2018	Posted to Income statement	 Equity	Reclass./ Other changes	Transl. diff.	Balance at December 31, 2018
Depreciation differences	4,565	182	-	(160)	191	4,778
Goodwill	7,955	(112)	-	1	77	7,922
Inventories	194	33	-	-	9	236
Receivables and payables	211	28	-	-	11	250
Other temporary differences	358	(258)	5	158	6	269
Total	**13,283**	**(126)**	**5**	**-**	**294**	**13,455**

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 71,864 thousand Euro because, at present, recovery via future taxable profit is not considered probable. The tax losses carry forwards for which deferred tax assets have not been recognised equal to a total amount of 282,764 thousand Euro.

Expiration date (thousands of Euro)	Tax losses	Tax benefit
2020	1,498	374
2021	8,377	1,994
2022	14,626	3,657
2023	13,313	3,328
2024	33	8
2027	1,533	314
Unlimited	262,746	66,943
Other tax losses relating local taxes:		
Various		37
Total	**302,126**	**76,656**
Valuation Allowance (-)		(71,864)
TOTAL DEFERRED TAX ASSETS ON LOSSES CARRIED FORWARD		**4,793**

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, 2018	December 31, 2017
Deferred tax assets		
- recoverable within one year	44,013	46,425
- recoverable beyond one year	19,234	22,679
Total	**63,248**	**69,104**
Deferred tax liabilities		
- recoverable within one year	377	307
- recoverable beyond one year	13,077	12,976
Total	**13,455**	**13,283**
TOTAL NET	**49,793**	**55,821**

4.10 Other non-current assets

The table below shows details of non-current assets:

(thousands of Euro)	December 31, 2018	December 31, 2017
Long-term guarantee deposits	2,432	2,812
Other long-term receivables	553	184
Long-term tax receivables	8,568	9,226
Total	**11,552**	**12,222**

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

Long-term tax receivables mainly refer to VAT and other income tax receivables of some Group companies.

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, 2018	December 31, 2017
Bank overdrafts	278	1,408
Short-term bank loans	3,001	54,001
Short-term portion of long-term bank loans	60,000	-
Convertible Bonds	147,849	-
Debt to the factoring company	-	10,000
Short-term borrowings	**211,129**	**65,409**
Convertible Bonds	-	142,491
Long-term borrowings	**-**	**142,491**
Total	**211,129**	**207,900**

On 31 December 2018 the Group exhibits only short-term borrowings for a total amount of Euro 211,129 thousands, which includes the debt of Euro 60,000 thousands under the Euro 150,000 thousand Revolving Credit Facility (the "2014 RCF") and the debt under the equity linked Bond of Euro 147,849 thousand (Euro 150,000 thousand par value) with maturity in May 2019.

The unsecured and unsubordinated equity-linked Bond issued on 22 May 2014 by the parent company Safilo Group S.p.A., guaranteed by Safilo S.p.A., maturing on 22 May 2019 with an aggregate principal amount of Euro 150,000 thousand, has been reclassified to the item "short term borrowings". At final maturity, on 22 May 2019, the Bonds will be redeemed at their principal amount.

The short-term factoring facility has not been utilized as at 31 December 2018 by the subsidiary Safilo S.p.A. (10,000 thousand Euro utilization as at 31 December 2017).

In the context of the capital increase executed during December 2018 through 2 January 2019, the Group has requested and obtained from its lenders the extension of the maturity date of the "2014 RCF" from 30 November 2018 to 31 January 2019, as well as the waiver of the covenant tests as of 30 June 2018 and 31 December 2018. During 2018 the Group has gradually utilized the full Euro 150,000 thousand "2014 RCF" and finally repaid and cancelled a total amount of Euro 90,000 thousand, hence reducing its utilization and relevant commitment to Euro 60,000 thousand.

The unsecured and unsubordinated equity-linked Bonds were issued in 2014 at par, in the nominal amount of Euro 100,000 per Bond with 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 was set at Euro 21.8623 (Euro 13.5249 after the adjustment due to the December 2018 share capital increase).

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.

With regards to the comprehensive refinancing plan announced on 26 September 2018, the Group has executed a new committed, unsubordinated and unsecured Term and Revolving Facility Agreement for a total amount equal to Euro 150,000,000 (the "2018 T&RCF), including a Term loan facility of Euro 75,000,000 and a Revolving Credit Facility of equal amount, both maturing on 30 June 2023, between the subsidiary Safilo S.p.A. and a pool of banks formed by Banca IMI S.p.A., BNP Paribas Italian Branch and Unicredit S.p.A. as arrangers, BNP Paribas Italian Branch, Intesa Sanpaolo S.p.A. and Unicredit S.p.A. as lenders, and Unicredit S.p.A. as agent bank. The new credit agreement can be partially syndicated and increased up to a maximum amount of Euro 200,000,000 having new lenders possibly accessing the agreement.

The "2018 T&RCF" will be effectively available upon redemption at maturity of the Euro 150,000,000 Equity Linked Bonds 2019.

The Group, as at 31 December 2018, has no financial borrowings in currencies other than Euro, details on the Group's exposure to interest rate and liquidity risks arising from borrowings are set out in the paragraphs relating the risk management (see note 3).

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 26th July 2007.

	Net financial position (thousands of Euro)	**December 31, 2018**	**December 31, 2017**	**Change**
A	Cash and cash equivalents	178,247	76,251	101,996
B	Cash and cash equivalents included as Assets held for sale	-	-	-
C	Current securities (securities held for trading)	-	-	-
D	**Liquidity (A+B+C)**	**178,247**	**76,251**	**101,996**
E	**Receivables from financing activities**	**-**	**-**	**-**
F	Bank overdrafts and short-term bank borrowings	(3,279)	(55,409)	52,130
G	Current portion of long-term borrowings	(207,849)	-	(207,849)
H	Other short-term borrowings	-	(10,000)	10,000
I	**Debts and other current financial liabilities (F+G+H)**	**(211,129)**	**(65,409)**	**(145,720)**
J	**Current financial position, net (D)+(E)+(I)**	**(32,882)**	**10,842**	**(43,724)**
K	Long-term bank borrowings	-	-	-
L	Bonds	-	(142,491)	142,491
M	Other long-term borrowings	-	-	-
N	**Debts and other non current financial liabilities (K+L+M)**	**-**	**(142,491)**	**142,491**
I	**Net financial position (J)+(N)**	**(32,882)**	**(131,649)**	**98,767**

The Group net financial debt as at 31 December 2018 has benefitted from the proceeds deriving from the share capital increase resolved by the Extraordinary Shareholders' meeting held on 29 October 2018 and collected within 28 December 2018 for a total amount of 132,247 thousand Euro. The capital increase has been completed on 2 January 2019, with the collection of the remaining 17,736 thousand Euro (see note 4.18).

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

4.12 Trade payables

This item breaks down as follows:

(thousands of Euro)	December 31, 2018	December 31, 2017
Trade payables for:		
Purchase of raw materials	35,920	59,335
Purchase of finished goods	40,081	48,034
Suppliers from subcontractors	4,870	4,416
Tangible and intangible assets	4,537	4,994
Commissions	3,719	860
Royalties	14,146	13,193
Advertising and marketing costs	11,415	13,930
Services	46,633	60,135
Sales returns liabilities (Refund liability)	9,451	8,046
Total	**170,772**	**212,943**

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

The new accounting standard IFRS 15 "Revenue from contracts with customers" entered into effect starting from 1 January 2018. Following the fully retrospective approach chosen by the Group, the first application of the principle had an adjustment effect on the classification of the "Allowance for sales returns" equal to Euro 8.046 thousand in 2017 and Euro 9.451 thousand in 2018 that has been reclassified from deduction of "Trade Receivables" to increase of "Trade payables" (see paragraph 2.1 for further details).

Sales returns liabilities refer to the amount accrued against the risk of returns of products sold and delivered to customers that, based on the relevant sales terms, might be returned. This sum is charged to the income statement and is deducted directly from revenues. The refund liability refers to well identified items and customers and Management has elements to estimate the liability with a high reliability level.

4.13 Tax payables

At 31st December 2018 tax payables amounted to 23,173 thousand Euro (compared to 17,218 thousand Euro in 2017). Of this sum 13,407 thousand Euro referred to income tax for the period, 1,650 thousand Euro to VAT payable and 8,116 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, 2018	December 31, 2017
Payables to personnel and social security institutions	33,045	37,590
Agent fee payables	114	836
Payables to pension funds	1,539	1,430
Accrued advertising and sponsorship costs	1,375	1,720
Accrued interests on long-term loans	422	241
Other accruals and deferred income	14,143	51,576
Other current liabilities	1,382	2,100
Total	**52,020**	**95,493**

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

The decrease of 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. In 2018 the final residual part of the deferred compensation, equal to 39.000 thousand Euro, has been reversed and recognized in the profit and loss statement in the item "other income".

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

4.15 Provisions

This item breaks down as follows:

(thousands of Euro)	Balance at January 1, 2018	Increase	Decrease	Transl. diff.	Balance at December 31, 2018
Product warranty provision	5,156	1,130	(490)	2	5,799
Agents' severance indemnity	2,676	103	(251)	-	2,528
Other provisions for risks and charges	8,948	1,273	(4,799)	-	5,422
Provisions for risks - long term	**16,780**	**2,507**	**(5,540)**	**2**	**13,748**
Product warranty provision	2,189	(41)	(965)	(5)	1,178
Provision for corporate restructuring	2,863	207	(3,033)	7	44
Other provisions for risks and charges	30,363	797	(5,726)	80	25,514
Provisions for risks - short term	**35,415**	**963**	**(9,724)**	**83**	**26,736**
TOTAL	**52,194**	**3,469**	**(15,264)**	**84**	**40,484**

(thousands of Euro)	Balance at January 1, 2017	Increase	Decrease	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
Provisions for risks - long term	**14,798**	**5,607**	**(3,580)**	**(47)**	**16,779**
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
Provisions for risks - short term	**27,640**	**13,896**	**(5,550)**	**(571)**	**35,415**
TOTAL	**42,438**	**19,503**	**(9,130)**	**(617)**	**52,194**

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 short term portion of the "Other provisions for risks and charges" includes also the residual amount of the provisions amounting to Euro 2,256 thousand related the Tax Audit Report (so called "processo verbale di constatazione") notified on 10 July 2017 to the Italian Company Safilo S.p.A., referred to the fiscal years 2015-2016.

The estimate of the above mentioned allowances takes into account, where applicable, the opinion of legal consultants and other experts, the company's past 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.

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

4.16 Employee benefit obligations

This item breaks down as follows:

(thousands of Euro)	December 31, 2018	December 31, 2017
Defined contribution plan	21	3
Defined benefit plan	26,205	28,396
Total	**26,226**	**28,399**

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

(thousands of Euro)	Balance at January 1, 2018	Addition	Actuarial (gains)/ losses	Uses	Transl. diff.	Balance at December 31, 2018
Defined benefit plan	28,396	618	(766)	(2,062)	19	26,205

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

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 historically 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 27th December 2006 ("Financial Law 2007") and subsequent Decrees and Regulations issued in the first months of 2007, Safilo Group, on the basis of generally agreed interpretations, has decided that:

- the portion of the employee benefit liability accrued from 1st 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 31st 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 31st 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, 2018 and December 31, 2017 are summarized here follow:

	2018	2017
Discount rate	1.57%	1.30%
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%	291	(282)
Salary increase	0.25%	68	(60)
Discount rate	1.00%	(675)	741
Life expectancy	1 anno	(74)	87

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

(thousands of Euro)	2018	2017
Service cost	(270)	(506)
Interest cost	(348)	(352)
Actuarial gain/(loss)	766	712
Total	**148**	**(146)**

4.17 Other non-current liabilities

Movements in other non-current liabilities were as follows:

(thousands of Euro)	Balance at January 1, 2018	Increase	Decrease	Transl. diff.	Balance at December 31, 2018
Other non current liabilities	5,842	369	(700)	226	5,737

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 31st December 2018, shareholders' equity totaled 646,324 thousand Euro versus Euro 533,205 thousand Euro on 31st December 2017.

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 31st December 2018, the ratio stood at 5% (20% at 31st December 2017).

4.18 Share capital

During the year Safilo Group S.p.A. has launched the rights issue for the subscription of up to 213,043,881 newly issued ordinary shares of the Company deriving from the share capital increase resolved by the Extraordinary Shareholders' meeting held on 29 October 2018.

In particular, during the subscription period, started on 3 December 2018 and ended on 17 December 2018, 50,580,195 option rights were exercised, representing 171,972,663 new shares or approximately the 80.7% of the total new shares, for an aggregate amount of Euro 121,068,754.76.

In accordance with art. 2441, paragraph 3, of the Italian Civil Code, Safilo offered on the Italian Stock Exchange the 12,079,770 option rights, representing 41,071,218 new shares, that were not exercised during the Subscription Period. All 12,079,770 unexercised rights were sold at the end of the second trading session of the Rights Auction, on 20 December 2018, and 15,877,881 new shares (corresponding to 4,669,965 Unexercised Rights) were subscribed by 28 December 2018, deadline for the exercise of the rights, for a total amount of Euro 11,178,028.21.

Following the subscription and paying-in of these 171,972,663 newly issued ordinary shares during the subscription period and 15,877,881 newly issued Safilo ordinary shares at the end of the Rights Auction period the share capital increase resolved by the Extraordinary Shareholders' meeting held on 29 October 2018 was partially subscribed for a total number of 187,850,544 newly issued shares and for a total consideration of Euro 132,246,783 at 31 December 2018.

The 25,193,337 new shares remained unsubscribed at the end of the Rights Auction, for a total amount of Euro 17,736,109.25, have been subscribed and paid in full on 2 January 2019 by the reference shareholder Multibrands Italy B.V., a subsidiary of HAL Holding N.V., pursuant to the commitment undertaken in accordance with the subscription agreement entered into on 26 September 2018.

The total consideration collected for the subscription of the 187,850,544 newly issued shares equal to Euro 132,246,783 at 31 December 2018 has been allocated to share capital for 32,310,294 Euro and to share premium reserve for 99,936,489 Euro, this amount has been deducted of capital increase transaction costs equal to 3,677,026 Euro.

At 31 December 2018 the share capital of the Parent Company, Safilo Group S.p.A., amounts to Euro 345,610,119 (313,299,825 as at 31 December 2017) consisting of no. 250,510,509 ordinary shares with no par value.

4.19 Share premium reserve

At 31 December 2018 the share premium reserve of the Parent Company, Safilo Group S.p.A., amounts to Euro 581.121.027 (484,861,564 as at 31 December 2017).

The increase of the period is due to the share capital increase allocated to the share premium reserve equal to 99,936,489 Euro net of capital increase transaction costs of 3,677,026 Euro.

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:

- an increase of 17,095 thousand Euro due to the positive translation differences coming from the translation of the subsidiaries' financial statements into Euro;
- a decrease of 243 thousand Euro related to the reversal for the cost of the period of the forfeited *stock option* plan;
- 708 thousand Euro due to the increase coming from the actuarial valuation, net of tax effect, of the employee termination indemnities of defined benefit plans;

4.21 Cash flow hedge reserve

This item breaks down as follows:

	Consolidated statement of comprehensive income				
(thousands of Euro)	Balance at January 1, 2018	Profit (loss) of the period	Gain (loss) reclass to profit and loss	Total Profit (loss) of the period	Balance at December 31, 2018
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 26th, 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, 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, 2017;
- the second tranche ("Second Tranche") was granted by the Board of Directors held on December 10, 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 prior ones (2010-2013 and 2014-2016 Plans) deliberated by the Extraordinary Meetings respectively held on 5 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, 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.

It should be noted that the Board of Directors resolved the following adjustments of the Stock Option Plans in place to take into account the effects of the share capital increase up to a maximum of Euro 150 million resolved by the Shareholders' Meeting held on 29th October 2018. In particular both the number of options rights assigned and the related exercise price were adjusted applying a conversion factor equal to 0.62.

Information relating to the tranches of the Stock Options Plans granted on 31st December 2018 is shown below.

	Grant date	No. of options	Fair value in Euro	Maturity
Stock Option Plan 2010-2013				
Fourth tranche	06/03/13	303,084	0.69	31/05/19
Fourth tranche-bis	13/11/13	48,493	1.09	31/05/19
Stock Option Plan 2014-2016				
First tranche	29/04/14	234,384	1.65	31/05/22
Stock Option Plan 2017-2020				
Second tranche	10/12/18	1,938,096	0.01	31/05/26

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:

	Share price at grant date (*)	Exercise price in Euro	Expected volatility	Risk free rate
Stock Option Plan 2010-2013				
Fourth tranche	5,42	5,24	26,16%	0,382%
Fourth tranche-bis	8,69	9,00	30,62%	0,373%
Stock Option Plan 2014-2016				
First tranche	9,71	9,31	30,00%	1,044%
Stock Option Plan 2017-2020				
Second tranche	0,81	3,09	36,80%	0,253%

(*) Restated for comparative purpose to consider the impact of the share capital increase issued in December 2018.

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

	No. of options	Average exercise price in Euro
Stock Option Plan 2010-2013		
Outstanding at the beginning of the period	**417,500**	**8.26**
Granted	-	-
Forfeited	-	-
Exercised	-	-
Expired	(200,000)	7.12
Adjustment post capital increase	134,077	
Outstanding at period-end	**351,577**	**5.76**
Stock Option Plan 2014-2016		
Outstanding at the beginning of the period	**765,000**	**10.45**
Granted	-	-
Forfeited	(525,000)	8.35
Exercised	-	-
Expired	(95,000)	15.05
Adjustment post capital increase	89,384	-
Outstanding at period-end	**234,384**	**9.31**
Stock Option Plan 2017-2020		
Outstanding at the beginning of the period	**890,000**	**6.54**
Granted	1,938,096	3.09
Forfeited	(890,000)	6.54
Exercised	-	-
Expired	-	-
Outstanding at period-end	**1,938,096**	**3.09**

During the year, 1,938,096 options have been granted related to the second tranche of the new Plan 2017-2020, in the same period 890,000 options of the same Plan issued with the first tranche has been forfeited.

Among the options outstanding at the end of the period, the fourth tranche of the Plan 2010-2013 is exercisable until the end of the exercise period set for 31st May 2019. As far as the Plan 2014-2016 is concerned the first tranche, equal to a total of 234,384, is exercisable from the date of the approval of 2016 financial statements until the expiry of the exercise period set for 31st May 2022.

At the date of the approval of these financial statements the total options exercisable still outstanding are equal to 585,961.

The average exercise price for options of the Plan 2010-2013 outstanding at the year-end is equal to 5.76 Euro with an average remaining contract life of 0.4 year, for the Plan 2014-2016 is equal to 9.31 Euro with an average remaining contract life of 3.4 years, while for the Plan 2017-2020 is equal to 3.09 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 an income of 243 thousand Euro due to the reversal of the cost related to the forfeited options (an expense of 46 thousand Euro at 31st December 2017).

5. NOTES TO THE CONSOLIDATED INCOME STATEMENT

5.1 Net sales

The Group primary revenue segment is the selling of eyewear products in the wholesale channel through its subsidiary network and a network of independent distribution partners. Moreover, through the network of Solstice retail stores the Group sells its eyewear products to North America retail customers.

Revenues include the fair value of the sale of goods and services, less VAT, returns and discounts. In particular, the Group recognizes the revenues when the control over goods sold is transferred to the customer, assumed at the shipment date, in accordance with the sales terms agreed. According to the standard contractual conditions applied by the Group, customers may have a right of return. If the sale includes the right for the client to return unsold goods, at the time of sale, a liability is recognized and a corresponding adjustment of revenues for the goods whose return is estimated.

Group sales in 2018 amounted to 962,861 thousand Euro, showing a 7.0% decrease compared to the previous year (1,035,343 thousand Euro).

For a discussion on sales trends and the disaggregated sales by geographical regions, 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)	2018	2017
Purchase of raw materials and finished goods	302,387	340,842
Capitalisation of costs for increase in tangible assets (-)	(8,675)	(7,769)
Change in inventories	24,008	(1,286)
Wages and social security contributions	111,633	127,457
Subcontracting costs	14,101	17,173
Amortization and depreciation	22,492	20,597
Rental and operating leases	1,614	1,603
Utilities, security and cleaning	7,519	7,392
Other industrial costs	6,262	9,785
Total	**481,341**	**515,794**

Cost of sales decreased by Euro 34,453 thousand (or 6.7%), from Euro 515,794 thousand in 2017, to Euro 481,341 thousand in 2018. This was mainly due to a decrease in Purchase of raw materials and finished goods for Euro 38,455 thousand (or 11.3%), partially offset by a negative impact of Change in inventories for Euro 25,294 thousand, and a decrease in Payroll and social security contribution by Euro 15,824 thousand (or 12.4%), from Euro 127,457 thousand in 2017 to Euro 111,633 thousand in 2018, mainly due to the return to normal operating conditions after the higher level of personnel employed in terms of temporary workers in 2017.

Subcontracting costs decreased by Euro 3,072 thousand (or 17.9%), from Euro 17,173 thousand in 2017 to Euro 14,101 thousand Euro in 2018, as a result of the insourcing of certain manufacturing activities.

Changes in inventories can be broken down as follows:

(thousands of Euro)	2018	2017
Finished products	24,804	(18,002)
Work-in-progress	(1,957)	2,720
Raw materials	1,161	13,997
Total	**24,008**	**(1,286)**

5.3 Selling and marketing expenses

This item breaks down as follows:

(thousands of Euro)	2018	2017
Payroll and social security contributions	108,566	121,766
Sales commissions	47,309	50,308
Royalty expenses	66,630	67,969
Advertising and promotional costs	96,732	107,768
Amortization and depreciation	6,099	4,417
Logistic costs	22,268	22,622
Consultants fees	1,947	1,647
Rental and operating leases	16,776	17,006
Utilities, security and cleaning	1,614	1,144
Provision for risks	989	597
Other sales and marketing expenses	17,327	20,247
Total	**386,257**	**415,491**

Selling and marketing expenses decreased by Euro 29,234 thousand (or 7.0%), from Euro 415,491 thousand in 2017 to Euro 386,257 thousand in 2018. This was mainly due to a decrease in Payroll and social security contribution by Euro 13,200 thousand (or 10.8%), from Euro 121.766 thousand in 2017 to Euro 108,566 thousand in 2018, mainly due to the return to normal operating conditions after the higher level of personnel employed in terms of temporary workers to manage in 2017 the Padua distribution center issues, and to a decrease in the Sales commissions by Euro 2,999 thousand (or 6.0%), from Euro 50,308 thousand in 2017 to Euro 47,309 thousand in 2018.

5.4 General and administrative expenses

This item breaks down as follows:

(thousands of Euro)	2018	2017
Payroll and social security contributions	57,794	68,522
Allowance and write off of doubtful accounts	3,199	4,111
Amortization and depreciation	19,039	17,061
Professional services	15,711	17,098
Rental and operating leases	7,583	10,783
EDP costs	12,585	12,905
Insurance costs	2,408	2,686
Utilities, security and cleaning	5,176	6,201
Taxes (other than on income)	4,871	4,999
Other general and administrative expenses	7,159	9,020
Total	**135,525**	**153,386**

General and administrative expenses decreased by Euro 17,861 thousand (or 11.6%), from Euro 153,386 thousand in 2017 to Euro 135,525 thousand in 2018. This was mainly due to a decrease in Payroll and social security contributions by Euro 10,728 thousand (or 15.7%), from Euro 68,522 thousand in 2017 to Euro 57,794 thousand in 2018, benefitting also of the Group's overhead productivity program as part of the fixed cost reduction initiative.

Average number of employees

The average number of employees by rank is shown below:

	2018	2017
Executives	123	125
Clerks and middle management	3,159	3,271
Factory workers	3,403	3,724
Total	**6,685**	**7,120**

The reduction of the average number of factory workers is mainly due to the effect of the reorganization of the Ormoz plant in Slovenia, completed in the course of the first half of 2017, with a reduction of the workforce that has been reflected in the 2018 average number of employees.

5.5 Other operating income (expenses)

This item breaks down as follows:

(thousands of Euro)	2018	2017
Losses on disposal of assets	(604)	(506)
Other operating expenses	(7,883)	(15,712)
Gains on disposal of assets	169	21
Other operating incomes	42,689	49,349
Total	**34,371**	**33,152**

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.

During the year under "other operating expenses" non-recurring costs of Euro 5,895 thousand were accounted for mainly related to the completion of the CEO succession plan and to reorganization costs in North America and Europe.

In 2017, non-recurring costs amounting to Euro 15,339 thousand were accounted for related to the reorganization of the Ormoz plant in Slovenia, cost saving initiatives and restructuring costs, and to some litigations.

"Other operating incomes" include 39,000 thousand Euro (43,000 thousand Euro in 2017) related to the remaining 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 goodwil

As reported in note 4.8 "Goodwill", the Group has performed the impairment test of goodwill. As a result of the impairment test no impairment loss of the goodwill was recognized (Euro 192,000 thousand in 2017).

5.7 Financial charges, net

This item breaks down as follows:

(thousands of Euro)	2018	2017
Nominal interest expenses on loans	4,431	329
Figurative interest expenses on loans	226	396
Nominal interest expenses on Bond	1,875	1,875
Figurative interest expenses on Bond	5,358	5,098
Bank commissions	6,005	6,589
Negative exchange rate differences	38,133	26,549
Other financial charges	1,121	1,059
Total financial charges	**57,149**	**41,895**
Interest income	577	208
Positive exchange rate differences	34,639	22,895
Fair value gains on the Equity-linked Bond incorporated derivative	-	484
Other financial income	4,591	4,312
Total financial income	**39,807**	**27,899**
TOTAL FINANCIAL CHARGES, NET	**17,342**	**13,996**

Total net financial charges increased by Euro 3,347 thousand (or 23.9%) from Euro 13,996 thousand in 2017 to Euro 17,342 thousand in 2018. Such increase is mainly due to interest expenses on loans increase by Euro 3,932 thousand, from Euro 725 thousand in 2017 to Euro 4,657 thousand in 2018, as a consequence of higher average financial debts in the period.

The items "figurative interest expenses on loans and Bond" is related to the additional figurative interest component calculated according to the amortised cost method on the basis of the effective interest rate including any transaction costs and, for the Bond, the effect of the annual accretion of the bond floor value.

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

The item exchange rate differences includes the effect in term of gain and losses on the financial instruments related to the forward contracts at fair value through profit or loss.

5.8 Income taxes

This item breaks down as follows:

(thousands of Euro)	2018	2017
Current tax	(2,355)	(8,004)
Deferred tax	(6,858)	(21,392)
Total	**(9,213)**	**(29,396)**

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

(thousands of Euro)	%	2018	%	2017
Profit/(Loss) before taxation	**100%**	**(23,233)**	**100%**	**(222,171)**
Income tax benefit (expense) at statutory rate	-24.0%	5,576	-24.0%	53,321
IRAP and other local taxes	1.2%	(283)	0.8%	(1,720)
Taxes relating to prior years	0.7%	(161)	-0.4%	862
Foreign tax rate differential	-0.7%	167	1.6%	(3,477)
Non taxable income	-8.1%	1,874	-0.2%	511
Non deductible costs	10.9%	(2,539)	0.2%	(537)
Impairment of goodwill not deductible	0.0%	-	20.7%	(46,080)
Non-recognition of new DTAs and write-off of existing DTAs	82.0%	(19,040)	12.4%	(27,537)
Benefit arising from unrecognized DTA of prior years	-20.9%	4,845	-0.3%	673
Deferred tax expense for changes in tax rate	-3.6%	837	1.1%	(2,504)
Tax Credit and tax relief	-3.7%	857	-0.1%	285
Other differences	5.8%	(1,346)	1.4%	(3,193)
Total	**39.7%**	**(9,213)**	**13.2%**	**(29,396)**

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 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.

5.9 Earnings per share

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

Basic	**2018**	**2017**
Profit/(Loss) for ordinary shares (in thousands of Euro)	(32,446)	(251,567)
Average number of ordinary shares (in thousands)	107,998	62,660
Earnings/(Losses) per share - basic (in Euro)	**(0.300)**	**(4.015)**

Diluted	**2018**	**2017**
Profit/(Loss) for ordinary shares (in thousands of Euro)	(32,446)	(251,567)
Profit for preferred shares	-	-
Profit in income statement	**(32,446)**	**(251,567)**
Average number of ordinary shares (in thousands)	107,998	62,660
Dilution effects:		
- Convertible Bond (in thousands)	-	-
- stock option (in thousands)	-	16
Total	**107,998**	**62,676**
Earnings/(Losses) per share - diluted (in Euro)	**(0.300)**	**(4.014)**

2017 comparative data related the basic and diluted earnings per share restated to reflect the impact of the share capital increase issued in December 2018, should have been respectively equal to a loss of 2.484 and 2.483 Euro.

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 2018.

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 31st December 2018 and 2017.

	December 31, 2018			
(thousands of Euro)	WHOLESALE	RETAIL	Eliminat.	Total
Net sales				
- to other segment	5,867	-	(5,867)	-
- to third parties	910,742	52,119	-	962,861
Total net sales	**916,609**	**52,119**	**(5,867)**	**962,861**
Gross profit	**453,215**	**28,305**	**-**	**481,520**
Operating profit/(Loss)	**7,593**	**(13,484)**	**-**	**(5,891)**
Share of income of associates	-	-		-
Financial charges, net				(17,342)
Income taxes				(9,213)
Net profit/(Loss)				**(32,446)**
Segment assets	874,560	44,275		918,835
Investment in associates	-	-		-
Unallocated corporate assets				219,089
Consolidated total assets				**1,189,728**
Segment liabilities	288,774	6,551		295,325
Unallocated corporate liabilities				248,079
Consolidated total liabilities				**543,404**
Other information				
Capital expenditure	30,117	562		30,680
Depreciation & amortization	43,906	3,724		47,630
Non cash items other than depreciation and amortization	2,816	274		3,091

(thousands of Euro)	December 31, 2017			
	WHOLESALE	RETAIL	Eliminat.	Total
Net sales				
- to other segment	11,125	-	(11,125)	-
- to third parties	970,055	65,288	-	1,035,343
Total net sales	**981,180**	**65,288**	**(11,125)**	**1,035,343**
Gross profit	**482,940**	**36,610**	**-**	**519,550**
Operating profit/(Loss)	**(198,205)**	**(9,971)**	**-**	**(208,176)**
Share of income of associates	-	-		-
Financial charges, net				(13,996)
Income taxes				(29,396)
Net profit/(Loss)				**(251,567)**
Segment assets	874,560	44,275		918,835
Investment in associates	-	-		-
Unallocated corporate assets				241,651
Consolidated total assets				**1,160,487**
Segment liabilities	373,176	3,724		376,900
Unallocated corporate liabilities				250,382
Consolidated total liabilities				**627,282**
Other information				
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

It must be noted that the items unallocated corporate assets and liabilities include deferred tax assets and liabilities, derivative financial instruments, tax receivables and payables.

Breakdown of revenues and non-current assets by geographic area

(thousands of Euro)	Revenue from external customers		Non-current assets	
	2018	2017	December 31, 2018	December 31, 2017
Italy [1]	260,964	259,642	170,569	178,884
Europe [2]	223,122	240,389	111,484	114,673
America [3]	416,278	471,700	156,509	155,499
Asia [4]	62,497	63,613	34,625	36,452
Total	**962,861**	**1,035,343**	**473,187**	**485,508**

(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 as disclosed in the "Report on Operations". 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 23rd 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 12th 2010, as amended by Resolution No. 17389 of 23rd June 2010, the Board of Directors of November 5th, 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 31st December 2018 and 31st December 2017:

Related parties transactions **Balance sheet** (thousands of Euro)	**Relationship**	**December 31, 2018**	**December 31, 2017**
Receivables			
Companies controlled by HAL Holding N.V.	(a)	5,795	10,393
Total		**5,795**	**10,393**
Payables			
Companies controlled by HAL Holding N.V.	(a)	961	4,998
HAL Investments B.V.	(a)	1,465	-
Total		**2,426**	**4,998**

Related parties transactions **Income statement** (thousands of Euro)	**Relationship**	**2018**	**2017**
Revenues			
Companies controlled by HAL Holding N.V.	(a)	52,356	57,004
Total		**52,356**	**57,004**
Operating expenses			
Companies controlled by HAL Holding N.V.	(a)	2,652	6,352
Total		**2,652**	**6,352**

(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 balance reported with HAL Investments B.V. refers to the payable for the underwriting fee on the share capital increase issue in December 2018 due to Multibrands Italy B.V., according to the subscription agreement signed in September 2018, and then assigned in favour of HAL Investment B.V..

The remuneration of the Group's Directors, Statutory Auditors and Strategic Management is reported below:

(thousands of Euro)	2018	2017
Directors		
Salaries ad short term compensations	1,938	1,513
Non monetary benefits	66	89
Other compensations	1,093	70
Indemnity for end of position or cessation of employment relationship	1,091	-
Fair value of equity compensations	1	51
Statutory auditors		
Fixed compensations and compensations for participation in committees	303	341
Managers with strategic responsabilities		
Salaries ad short term compensations	448	462
Non monetary benefits	12	13
Other compensations	3	3
Fair value of equity compensations	-	11
Indemnity for end of position or cessation of employment relationship	-	-
Total	**4,956**	**2,552**

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:

Licensing commitments (thousands of Euro)	**December 31, 2018**	**December 31, 2017**
within 1 year	114,823	113,225
between 1 and 3 years	168,362	215,427
between 3 and 5 years	66,857	97,021
beyond 5 years	12,078	36,348
Total	**362,119**	**462,020**

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:

Rent and operating lease commitments (thousands of Euro)	**December 31, 2018**	**December 31, 2017**
within 1 year	19,729	18,711
between 1 and 3 years	31,029	28,604
between 3 and 5 years	18,354	18,574
beyond 5 years	15,288	18,753
Rent due	**84,400**	**84,642**
within 1 year	5,020	5,669
between 1 and 3 years	4,301	6,197
between 3 and 5 years	365	598
beyond 5 years	-	-
Operating lease	**9,685**	**12,465**
Total	**94,085**	**97,106**

9. SUBSEQUENT EVENTS

In the period following 31st December 2018, as disclosed in the paragraph "Significant events after the year-end and outlook" included in the Report on operations, the following events has incurred that might have an impact on the data contained in this document.

During first months of 2019 Safilo has been contacted by potential investors expressing interest in acquiring the Group's Solstice retail business in the United States (as reported in the financial statements per IFRS 8 under the "Retail" segment). The Group has therefore conducted an evaluation of a possible divestiture of the Solstice retail business as a potential alternative to the current turnaround strategy.

Following this evaluation, the Board of Directors has decided to proceed further with this divestiture plan entering a non-binding agreement to sell the relevant assets of Solstice to a third party in exchange for a cash consideration and a multi-year supply agreement for Safilo's product in the future.

While any possible transaction is subject to the outcome of a due diligence process currently under way, and to other certain conditions, the Group at this point considers a sale as probable to be closed within 2019.

In 2018, the Solstice retail business continued on its negative trajectory, declining net sales by 16.5% (at constant exchange rate) and 7% at comparable stores and posting an operating loss of Euro 13.5 million.

Considering the economic performance trend recorded over the previous years, the 2018 results and the value of a potential sale, it is considered probable that management may accept to recognize a loss in order to remove a drag on the Group's economic performance going forward.

As envisaged by IFRS 5, the Group will reflect any financial consequence of a possible transaction in the respective 2019 financial statements.

On 2 January 2019, the reference shareholder Multibrands Italy B.V., a subsidiary of HAL Holding N.V., in compliance with the commitment undertaken on 26 September 2018, subscribed for and paid-in all the 25,193,337 ordinary shares remained unsubscribed at the end of the rights auction, which ended on 28 December 2018, for a total consideration of Euro 17,736,109.25. Following the subscription and paying-in of 171,972,663 newly issued Safilo ordinary shares during the subscription period, 15,877,881 newly issued Safilo ordinary shares at the end of the Rights Auction period and, lastly, 25,193,337 new remaining shares subscribed for by Multibrands pursuant to the abovementioned Subscription Agreement, the share capital increase resolved by the Extraordinary Shareholders' meeting held on 29 October 2018 was fully subscribed for a total number of 213,043,881 newly issued shares and for a total consideration of Euro 149,982,892.22.

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 28th July 2006.

11. TRANSACTIONS RESULTING FROM UNUSUAL AND/OR ABNORMAL OPERATIONS

Pursuant to Consob Communication of 28th July 2006, in 2018 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 2018 relating to the audit and other audit related services rendered by the same Audit company.

(thousands of Euro)	**Audit Company**	**Safilo Group's company which received services**	**Fees 2018**
Audit (*)	Deloitte & Touche S.p.A.	Holding Company - Safilo Group S.p.A.	60
	Deloitte & Touche S.p.A.	Subsidaries	137
	Network Deloitte & Touche S.p.A.	Subsidaries	783
Attestation	Deloitte & Touche S.p.A.	Holding Company - Safilo Group S.p.A.	368
	Deloitte & Touche S.p.A.	Subsidaries	109
	Network Deloitte & Touche S.p.A.	Subsidaries	67
Other services	Deloitte & Touche S.p.A.	Holding Company - Safilo Group S.p.A.	-
	Deloitte & Touche S.p.A.	Subsidaries	-
	Network Deloitte & Touche S.p.A.	Subsidaries	11
Total			**1,534**

(*) This item includes fees for the audit of the consolidated financial statements of the Group amounted to Euro 34.8 thousand.

ATTESTATIONOFTHECONSOLIDATEDFINANCIALSTATEMENTS PURSUANT TO ART. 154-BIS OF LEGISLATIVE DECREE 58/98

1. The undersigned Angelo Trocchia, as Chief Executive Officer, 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 24th 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 2018 fiscal year.

2. The assessment of the adequacy of the administrative and accounting procedures used for the preparation of the statutory financial statements at 31st December 2018 was based on a process defined in accordance with the theorical 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 31st December 2018:

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 19th 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.

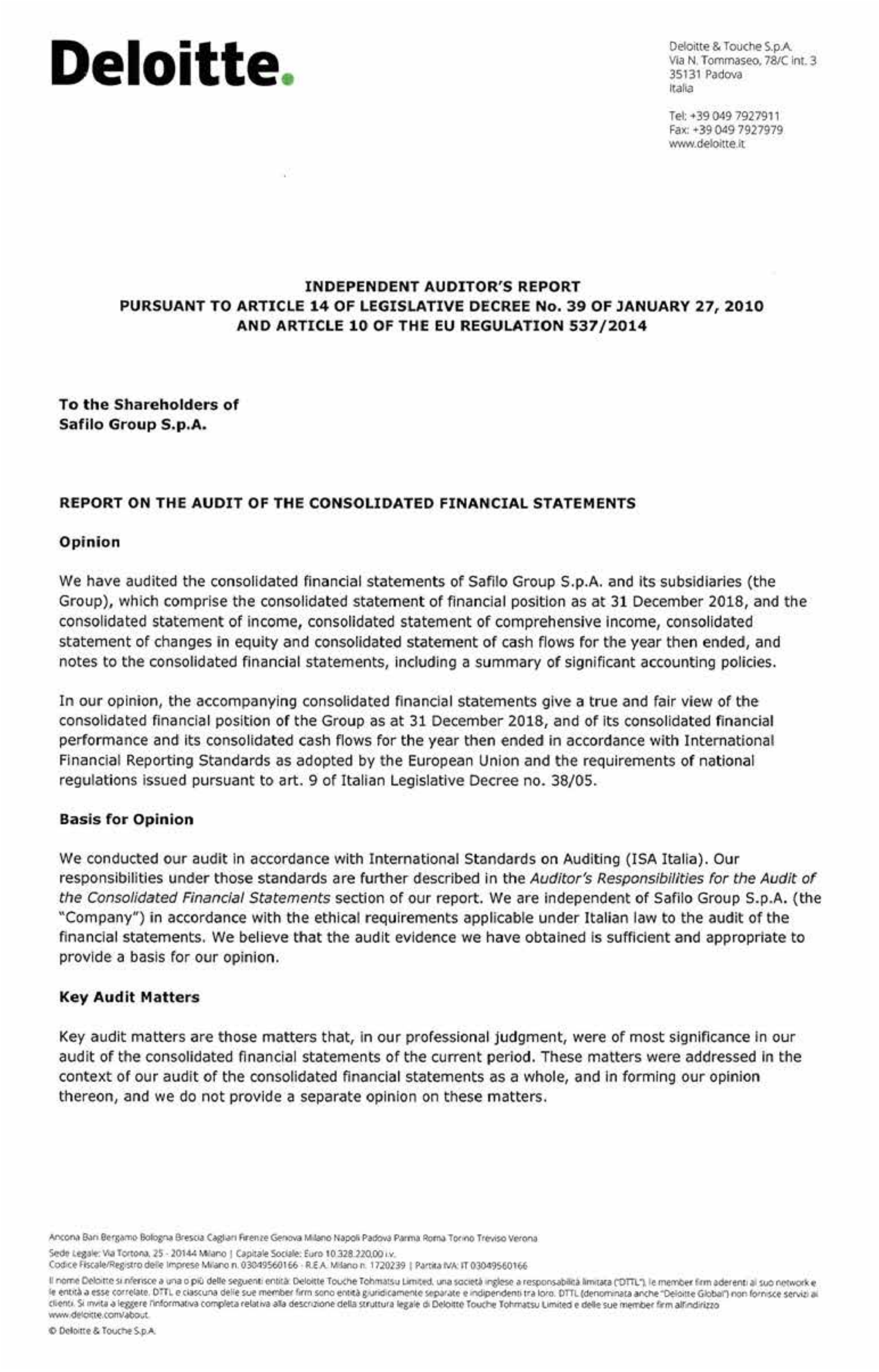
13th March 2019

The Chief Executive Officer	The manager responsible for preparing the company's financial statements
Angelo Trocchia	*Gerd Graehsler*

kate spade

NEW YORK

REPORT OF INDEPENDENT AUDITORS



Deloitte.

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 2018, 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 2018, 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

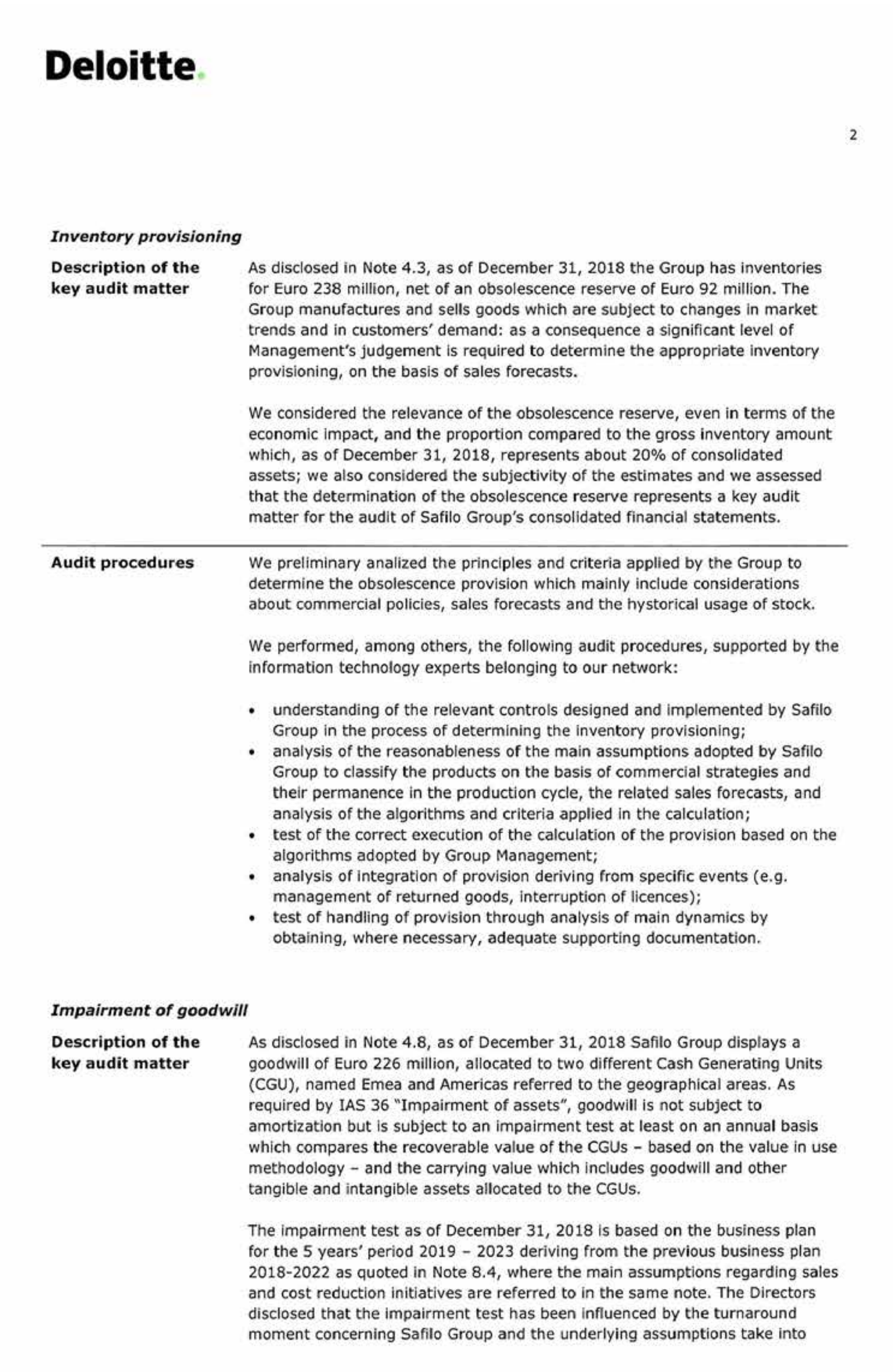
We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of Safilo Group 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.

Il nome Deloitte si riferisce a una o più delle seguenti entità: Deloitte Touche Tohmatsu Limited, una società inglese a responsabilità limitata ("DTTL"), le member firm aderenti al suo network e le entità a esse correlate. DTTL e ciascuna delle sue member firm sono entità giuridicamente separate e indipendenti tra loro. DTTL (denominata anche "Deloitte Global") non fornisce servizi ai clienti. Si invita a leggere l'informativa completa relativa alla descrizione della struttura legale di Deloitte Touche Tohmatsu Limited e delle sue member firm all'indirizzo www.deloitte.com/about.

© Deloitte & Touche S.p.A.



Inventory provisioning

Description of the key audit matter

As disclosed in Note 4.3, as of December 31, 2018 the Group has inventories for Euro 238 million, net of an obsolescence reserve of Euro 92 million. The Group manufactures and sells goods which are subject to changes in market trends and in customers' demand: as a consequence a significant level of Management's judgement is required to determine the appropriate inventory provisioning, on the basis of sales forecasts.

We considered the relevance of the obsolescence reserve, even in terms of the economic impact, and the proportion compared to the gross inventory amount which, as of December 31, 2018, represents about 20% of consolidated assets; we also considered the subjectivity of the estimates 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 preliminary analized the principles and criteria applied by the Group to determine the obsolescence provision which mainly include considerations about commercial policies, sales forecasts and the hystorical usage of stock.

We performed, among others, the following audit procedures, supported by the information technology experts belonging to our network:

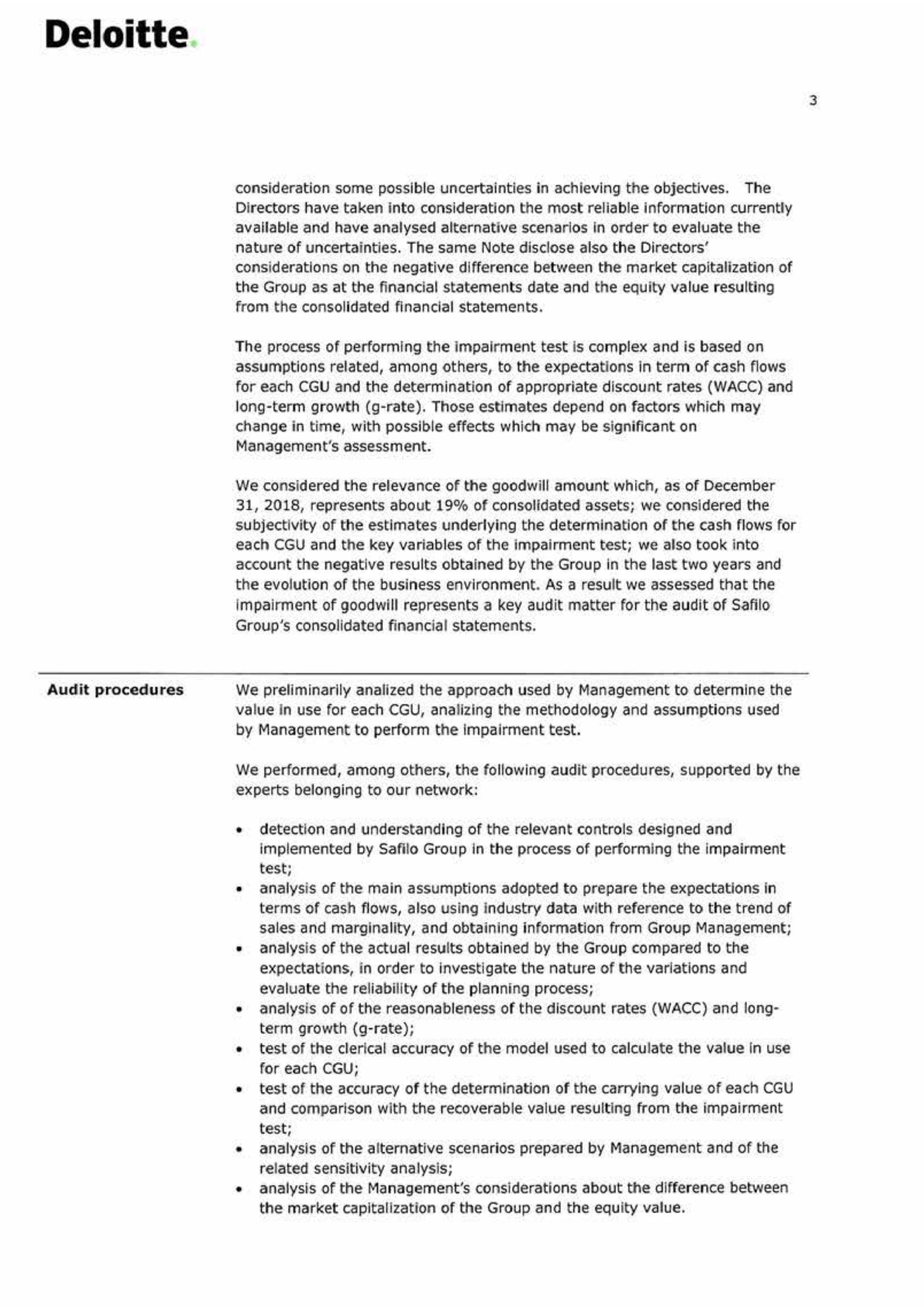
- understanding of the relevant controls designed and implemented by Safilo Group in the process of determining the inventory provisioning;
- analysis of the reasonableness of the main assumptions adopted by Safilo Group to classify the products on the basis of commercial strategies and their permanence in the production cycle, the 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 integration of provision deriving from specific events (e.g. management of returned goods, interruption of licences);
- test of handling of provision through analysis of main dynamics by obtaining, where necessary, adequate supporting documentation.

Impairment of goodwill

Description of the key audit matter

As disclosed in Note 4.8, as of December 31, 2018 Safilo Group displays a goodwill of Euro 226 million, allocated to two different Cash Generating Units (CGU), named Emea 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 CGUs – based on the value in use methodology – and the carrying value which includes goodwill and other tangible and intangible assets allocated to the CGUs.

The impairment test as of December 31, 2018 is based on the business plan for the 5 years' period 2019 – 2023 deriving from the previous business plan 2018-2022 as quoted in Note 8.4, where the main assumptions regarding sales and cost reduction initiatives are referred to in the same note. The Directors disclosed that the impairment test has been influenced by the turnaround moment concerning Safilo Group and the underlying assumptions take into



consideration some possible uncertainties in achieving the objectives. The Directors have taken into consideration the most reliable information currently available and have analysed alternative scenarios in order to evaluate the nature of uncertainties. The same Note disclose also the Directors' considerations on the negative difference between the market capitalization of the Group as at the financial statements date and the equity value resulting from the consolidated financial statements.

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 and 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.

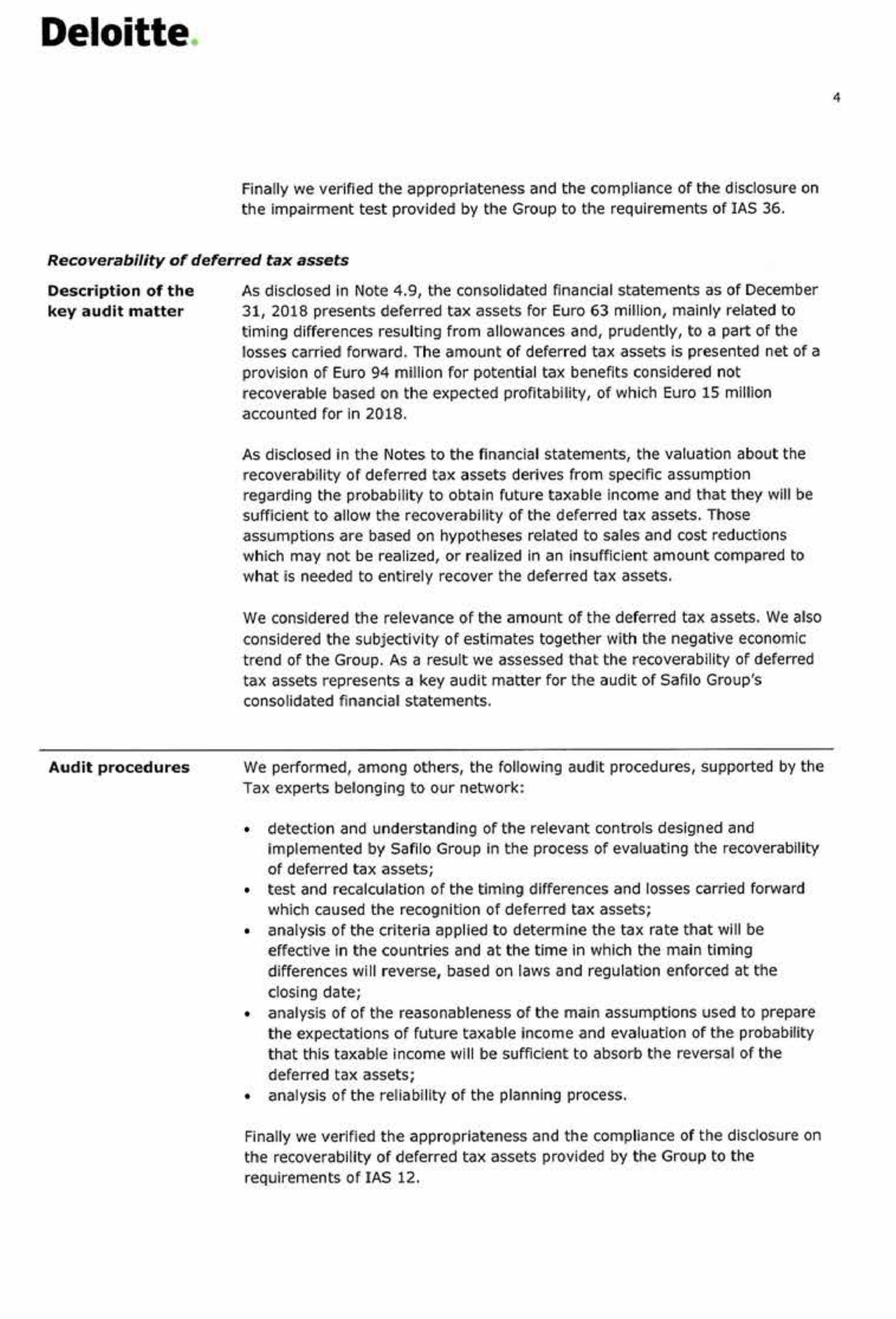
We considered the relevance of the goodwill amount which, as of December 31, 2018, represents about 19% of consolidated assets; we considered the subjectivity of the estimates underlying the determination of the cash flows for each CGU and the key variables of the impairment test; we also took into account the negative results obtained by the Group in the last two years and the evolution of the business environment. 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 analized the approach used by Management to determine the value in use for each CGU, analizing 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 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 Group 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 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 Management's considerations about the difference between the market capitalization of the Group and the equity value.



Finally we verified the appropriateness and 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, the consolidated financial statements as of December 31, 2018 presents deferred tax assets for Euro 63 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 94 million for potential tax benefits considered not recoverable based on the expected profitability, of which Euro 15 million accounted for in 2018.

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.

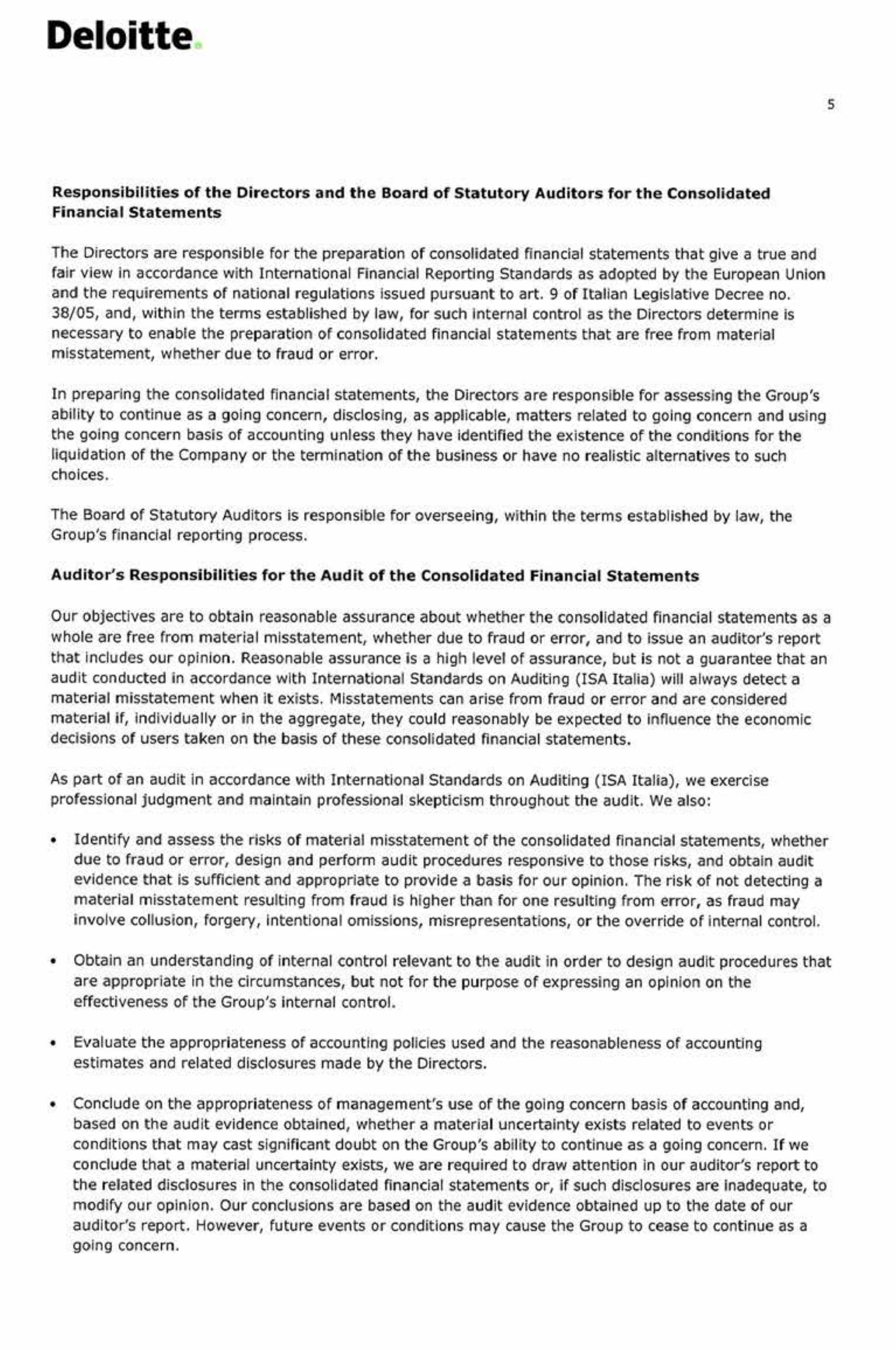
We considered the relevance of the amount of the deferred tax assets. We also considered the subjectivity of estimates together with the negative economic trend of the Group. As a result we assessed that the recoverability of deferred tax assets represents a key audit matter for the audit of Safilo Group's 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 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 appropriateness and 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.

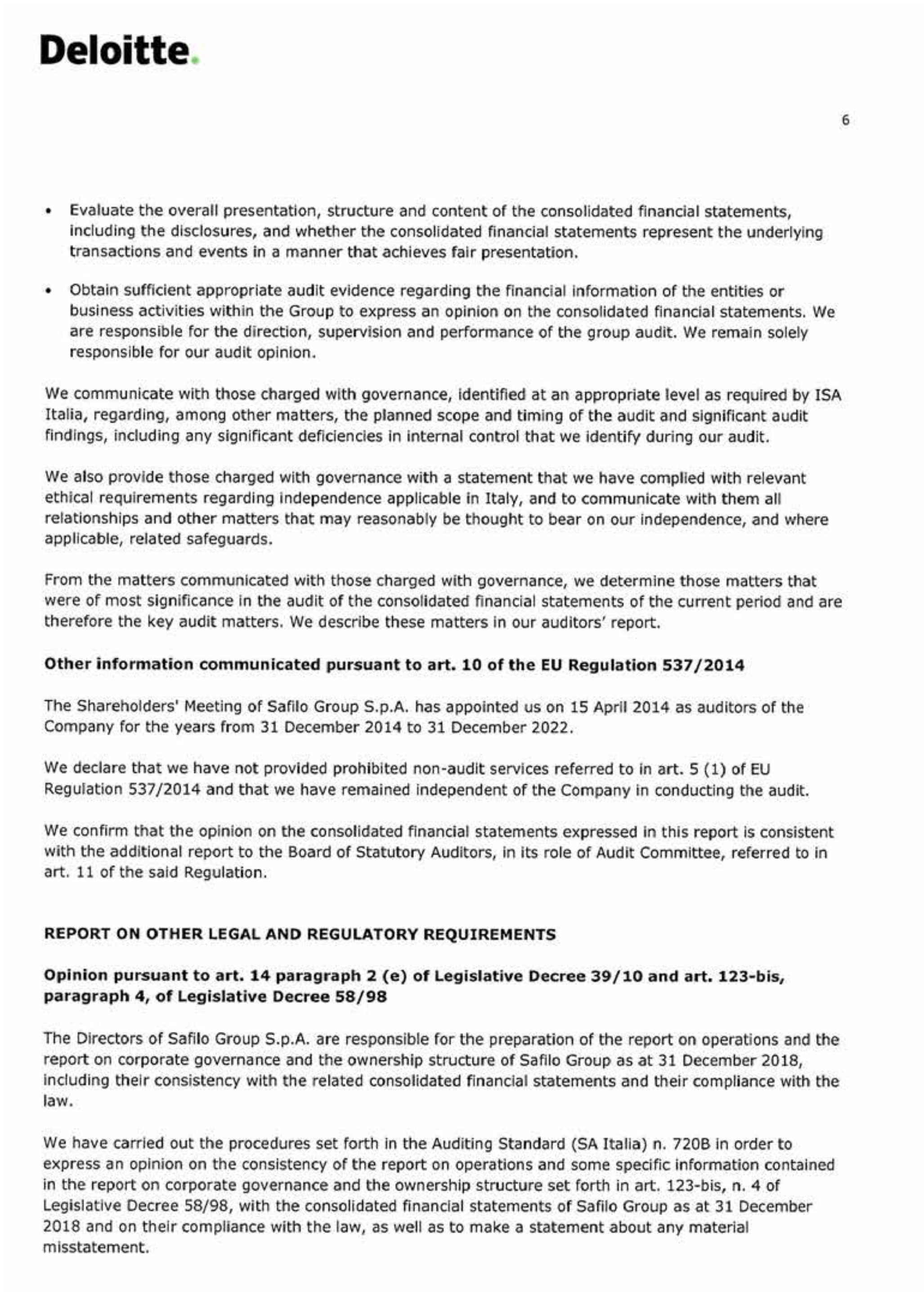
As part of an audit in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- 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.

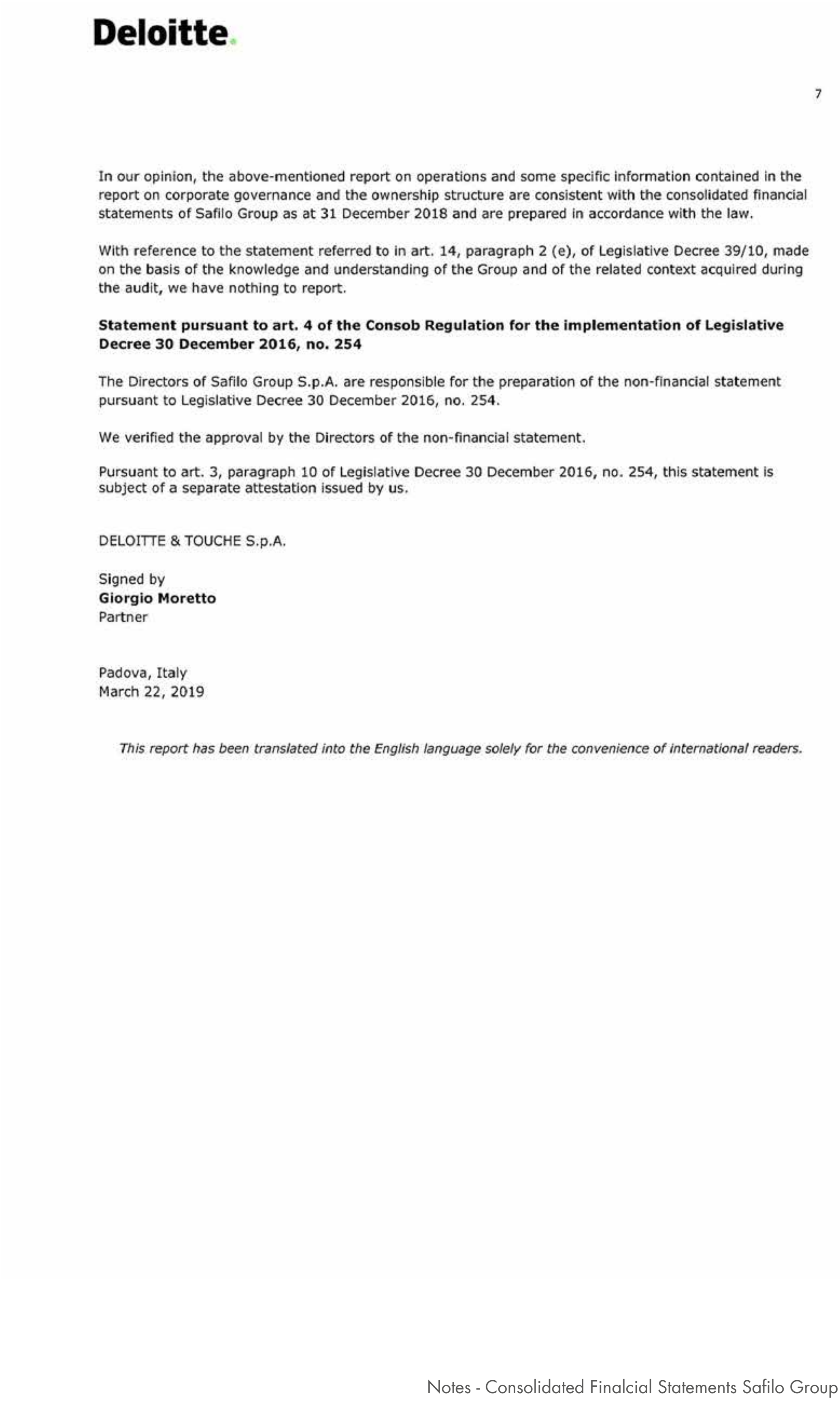
We confirm that the opinion on the consolidated financial statements expressed in this report is consistent with the additional report to the Board of Statutory Auditors, in its role of Audit Committee, referred to in art. 11 of the said Regulation.

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 2018, 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 2018 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 2018 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 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.

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 22, 2019

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

SAFILO

MADE IN ITALY DAL 1934

4

SAFILO GROUP S.p.A. STATUTORY FINANCIAL STATEMENTS AT DECEMBER 31ST 2018

HILFIGER JEANS
HILFIGER JEANS

TOMMY HILFIGER

CONTENTS

SAFILO GROUP S.P.A. - STATUTORY FINANCIAL STATEMENTS AT 31ST DECEMBER 2018

DIRECTOR OPERATIONS REPORT

Introduction 222
Subsidiaries 222
Dealings with subsidiaries 222
Data protection obligations 226
Significant events after year-end 227

STATUTORY FINANCIAL STATEMENTS

Balance sheet 228
Income statement 230
Statement of comprehensive income 230
Statement of cash flows 231
Statement of changes in equity 232

NOTES TO THE STATUTORY FINANCIAL STATEMENTS

General information 233
Summary of accounting principles adopted 234
Use of estimates 246
Notes to the balance sheet 248
Notes to the income statement 264
Commitments 268
Subsequent events 268
Significant non-recurring events and transactions 268
Transactions resulting from unusual and/or abnormal operations 268
Transactions with related parties 269
Resolution regarding the result of the year 269

APPENDIX

Information pursuant to art. 149-duodecies of the CONSOB Issuers’ Regulation 270
Certification of the Annual Report pursuant to article 81-ter of
CONSOB Regulation 11971 of 14th May 1999 as amended 271

REPORT OF THE BOARD OF STATUTORY AUDITORS 272

REPORT OF INDEPENDENT AUDITORS 279

DIRECTORS OPERATIONS REPORT

Introduction

Safilo Group S.p.A. was incorporated on 14th 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 9th 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 13th 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.

Here follow the recap of the economic relationship with controlled companies during the financial year:

Financial year 2018

(thousand of Euro)	Receivables	Payables	Loans	Income	Costs
Safilo S.p.A.	4,993	(50,346)	62,000	587	(312)
Lenti S.r.l. (held by Safilo S.p.A.)	3,247	-	-	-	-
Safilo Industrial S.r.l. (held by Safilo S.p.A.)	32,320	-	-	170	-
Safilo D.O.O. Ormoz (held by Safilo S.p.A.)	11	-		11	-
Safilo Far East Ltd. (held by Safilo S.p.A.)	-	(69)	-	-	-
Safilo USA Inc. (held by Safilo S.p.A.)	235	(122)	-	(235)	(122)
Safilo International BV (held by Safilo S.p.A.)	-	(1)	-	-	-
Safilo Hellas Ottica S.a. (held by Safilo S.p.A.)	4	-	-	4	-
Safilo Nordic AB (held by Safilo S.p.A.)	-	(178)	-	-	(178)
Safilo Australia Pty Ltd. (held by Safilo S.p.A.)	6	-	-	6	-

The receivables from the subsidiary Safilo S.p.A. were as follows:

- Euro 4,289 thousand for dividends resolved on by Safilo S.p.A. but not yet collected at the prior year Financial Statements date. Over 2018 fiscal year a total of Euro 3,500 thousand were received in dividends;
- Euro 1,260 thousand for sums charged to the subsidiary for legal and tax services performed on its behalf and offset for Euro 556 thousand 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.

The payables to subsidiary Safilo S.p.A. were as follows:

- Euro 2,379 thousand payable to Safilo S.p.A. for advances received;
- Euro 1.073 thousand for the debt payable to the subsidiary for services rendered;
- Euro 46,894 thousand for the VAT credit transferred by Safilo S.p.A. to the parent company as a result of the Group VAT mechanism. The item of Euro 62.000.000 relates to a loan granted on December 14, 2018 to the subsidiary Safilo S.p.A. Full refund is expected by May 2019.

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 from subsidiary Safilo Industrial S.r.l. relate to the transfer of debit VAT, as a result of the Group VAT mechanism.

The receivables/payables and the related income/costs from other subsidiary Safilo relate to the recharge of the costs for the seconded staff and consultancy.

Financial year 2017

(thousand of Euro)	**Receivables**	**Payables**	**Income**	**Costs**
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 696 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 2,354 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 from subsidiary Safilo Industrial S.r.l. relate to the transfer of debit VAT, as a result of the Group VAT mechanism.

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 2018 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 treatment.

Significant events after year-end

During first months of 2019 Safilo has been contacted by potential investors expressing interest in acquiring the Group's Solstice retail business in the United States (as reported in the financial statements per IFRS 8 under the "Retail" segment). The Group has therefore conducted an evaluation of a possible divestiture of the Solstice retail business as a potential alternative to the current turnaround strategy. Following this evaluation, the Board of Directors has decided to proceed further with this divestiture plan entering a non-binding agreement to sell the relevant assets of Solstice to a third party in exchange for a cash consideration and a multi-year supply agreement for Safilo's product in the future.

While any possible transaction is subject to the outcome of a due diligence process currently under way, and to other certain conditions, the Group at this point considers a sale as probable to be closed within 2019.

In 2018, the Solstice retail business continued on its negative trajectory, declining net sales by 16.5% (at constant exchange rate) and 7% at comparable stores and posting an operating loss of Euro 13.5 million.

Considering the economic performance trend recorded over the previous years, the 2018 results and the value of a potential sale, it is considered probable that management may accept to recognize a loss in order to remove a drag on the Group's economic performance going forward.
As envisaged by IFRS 5, the Group will reflect any financial consequence of a possible tran
saction in the respective 2019 financial statements.

On 2 January 2019, the reference shareholder Multibrands Italy B.V., a subsidiary of HAL Holding N.V., in compliance with the commitment undertaken on 26 September 2018, subscribed for and paid-in all the 25,193,337 ordinary shares remained unsubscribed at the end of the rights auction, which ended on 28 December 2018, for a total consideration of Euro 17,736,109.25. Following the subscription and paying-in of 171,972,663 newly issued Safilo ordinary shares during the subscription period, 15,877,881 newly issued Safilo ordinary shares at the end of the Rights Auction period and, lastly, 25,193,337 new remaining shares subscribed for by Multibrands pursuant to the abovementioned Subscription Agreement, the share capital increase resolved by the Extraordinary Shareholders' meeting held on 29 October 2018 was fully subscribed for a total number of 213,043,881 newly issued shares and for a total consideration of Euro 149,982,892.22.

In the period following 31 December 2018, 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
Chief Executive Officer
Angelo Trocchia

STATUTORY FINANCIAL STATEMENTS

Balance Sheet

(Euro)	Notes	December 31, 2018	December 31, 2017
ASSETS			
Current assets			
Cash and cash equivalents	4.1	75,969,317	175,305
Trade receivables	4.2	1,235,723	1,183,774
Short term loans	4.3	62,000,000	-
Other current assets	4.4	42,682,578	43,593,648
Total current assets		**181,887,618**	**44,952,727**
Non-current assets			
Investments in subsidiaries	4.5	669,121,830	669,317,389
Deferred tax assets	4.6	5,168,064	-
Other non-current assets	4.7	3,264,779	2,355,702
Total non-current assets		**677,554,673**	**671,673,091**
TOTAL ASSETS		**859,442,291**	**716,625,818**

(Euro)	Notes	December 31, 2018	December 31, 2017
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Trade payables	4.8	5,567,533	1,884,551
Tax payables	4.9	393,370	369,358
Other current liabilities	4.10	50,833,443	35,229,553
Short-term borrowings	4.11	147,849,193	-
Total current liabilities		**204,643,539**	**37,483,462**
Non-current liabilities			
Long-term borrowings	4.11	-	142,491,167
Employee benefit liability	4.12	152,402	112,794
Provisions	4.13	916,015	-
Derivative financial instruments		-	152
Deferred tax liability	4.6	-	96,548
Other non-current liabilities		-	576,368
Total non-current liabilities		**1,068,417**	**143,277,029**
Total liabilities		**205,711,956**	**180,760,491**
Shareholders' equity			
Share capital	4.14	345,610,119	313,299,825
Share premium reserve	4.15	581,121,027	484,861,564
Retained earnings (losses) and other reserves	4.16	(262,549,632)	(14,816,048)
Net profit (loss) of the year		(10,451,179)	(247,480,014)
Total shareholders' equity		**653,730,335**	**535,865,327**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**859,442,291**	**716,625,818**

Income Statement

(Euro)	Notes	2018	2017
Net sales	5.1	785,659	886,202
Gross profit		**785,659**	**886,202**
General and administrative expenses	5.2	(6,891,494)	(5,121,862)
Other income/(expenses)	*5.3*	(3,288,086)	5,449
Operating profit/(loss)		**(9,393,921)**	**(4,230,211)**
Write-down of investments in subsidiaries		-	(235,000,000)
Financial charges, net	5.4	(7,231,279)	(6,485,674)
Profit/(loss) before taxation		**(16,625,200)**	**(245,715,885)**
Income taxes	5.5	6,174,021	(1,764,129)
Net profit/(loss) for the year		**(10,451,179)**	**(247,480,014)**

Statement of comprehensive Income

(Euro)	2018	2017
Net profit (loss) for the period	(10,451,179)	(247,480,014)
Actuarial gain/(loss)	(9,960)	(4,132)
Total comprehensive income	**(10,461,139)**	**(247,484,146)**

Statement of Cash Flows

(Euro)	2018	2017
A - Opening net cash and cash equivalents (net financial indebtedness - short term)	**175,305**	**334,104**
B - Cash flow from (for) operating activities		
Net profit/(loss) for the period	(10,451,179)	(247,480,014)
Depreciation and Amortization	-	-
Stock Options figurative cost	(243,610)	40,843
Net changes in employees benefits liability	29,648	67,162
Net changes in provisions	916,015	(1,144,018)
Other non-monetary P&L items	-	234,515,679
Interest expenses, net	7,233,026	6,978,415
Income tax expenses	(6,174,021)	1,764,129
Income (loss) from (for) operating activities prior to movements in working capital	**(8,690,121)**	**(5,257,804)**
(Increase) Decrease in trade receivables	337	(243,763)
(Increase) Decrease in other receivables	(8,774,585)	(23,905,642)
Increase (Decrease) in trade payables	3,682,982	847,811
Increase (Decrease) in other payables	21,185,083	25,542,940
Interests expenses paid	(1,875,000)	(1,875,000)
Income taxes paid	-	-
Total (B)	**5,528,696**	**(4,891,458)**
C - Cash flow from (for) investing activities		
(Investments) disinvestments in subsidiaries	195,559	(1,067,341)
Total (C)	**195,559**	**(1,067,341)**
D - Cash flow from (for) financing activities		
Proceed from borrowings	(62,000,000)	-
Increase in share capital, net of transaction costs	128,569,757	-
Dividends received	3,500,000	5,800,000
Total (D)	**70,069,757**	**5,800,000**
E - Cash flow for the period (B+C+D)	**75,794,012**	**(158,799)**
F - Closing net cash and cash equivalents (net financial indebtedness - short term) (A+E)	**75,969,317**	**175,305**

Statement of Changes in Equity

(Euro)	Share capital	Share premium reserve	Legal reserve	Other reserves and retained earnings	Net profit (loss)	Total equity
Equity at January 1, 2017	**313,299,825**	**484,861,564**	**3,007,774**	**(12,062,086)**	**(5,805,119)**	**783,301,958**
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)
Equity at December 31, 2017	**313,299,825**	**484,861,564**	**3,007,774**	**(17,823,822)**	**(247,480,014)**	**535,865,327**
Previous year's profit allocation	-	-	-	(247,480,014)	247,480,014	-
Increase in share capital, net of transaction costs	32,310,294	96,259,463	-	-	-	128,569,757
Net increase in the Reserve for share-based payments	-	-	-	(243,610)	-	(243,610)
Total comprehensive income (loss) for the period	-	-	-	(9,960)	(10,451,179)	(10,461,139)
Equity at December 31, 2018	**345,610,119**	**581,121,027**	**3,007,774**	**(265,557,406)**	**(10,451,179)**	**653,730,335**

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 14th October 2002 registered with the Business and Trade registry of Vicenza and with the head office in 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.

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 1st 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 1st January 2018 to 31st December 2018 and also presents comparative data related to the financial period from 1st January 2017 to 31st December 2017.

These financial statements were approved by the Board of Directors on 13rd March 2019.

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 31st December 2018 and 31st December 2017 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 Commitee ("IFRIC"), previously called Standing Interpretations Commitee ("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 "Use of estimates".

Accounting standards, amendments and interpretations effective as of 1st January 2018

Except for what described below about those accounting policies which changed due to new accounting standards, in preparing these financial statements the same accounting principles and criteria of the balance sheet as at 31 December 2017 have been applied.

Furthermore, the Company has adopted the following new standards and amendments, effective from 1 January 2018.

On May 28th 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 (or as) the entity satisfies a performance obligation.

The Company has applied IFRS 15 by adopting the full retrospective transitional approach, without resorting to the practical expedients for completed contracts of IFRS 15.C5 (a). and (b) or for amended contracts for IFRS 15.C5 (c).

The impacts of the new Standard are not relevant for the Company financial statements.

On July 24th 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 9. 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 IFRS 39 that were sometimes considered too stringent and unsuitable to reflect the risk management policies of a company. The main changes 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 model 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 impacts of the new Standard are not relevant for the Company financial statements.

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

On January 13th 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 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 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 "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 1st 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 not to apply an early adoption of IFRS 16 and will comply with this new standard from its relevant effective date on January 1st2019. The Company has implemented a process to evaluate the potential impacts of IFRS 16: this process consists in identifying the contracts which may be eligible for the new accounting policy, evaluating whether those are lease contracts under the definition of the standard, identifying the lease term and the discount rate, evaluating the transition options, simulating the new accounting. The Company has also worked to enhance its IT system in order to manage IFRS 16 accounting.

The Company elected to implement IFRS 16 applying the modified retrospective approach, whereby the cumulative effect of adopting the standard will be recognized as an adjustment to the opening balance of retained earnings at January1, 2019, without restatement of comparative information. The Company elected to apply the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. Based on the exemptions allowed by IFRS 16, lease contracts for which the lease term ends within 12 months and lease contracts for which the underlying asset is of low value were not and will not be recognized on the consolidated statement of financial position. The carrying value of the lease contracts was determined at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments that were recognized in the consolidated balance sheet immediately before the date of initial application. Key judgements and estimates to apply IFRS 16 mainly include determining the lease term, taking into account renewal and termination options reasonably certain to be exercised, and the determination of the discount rates used in the calculation of lease liabilities.

On June 7th 2017 the IASB published the interpretative document IFRIC 23 "Uncertainty over Income Tax Treatments". The document addresses uncertainties about the fiscal treatment to be adopted in the area of income tax. The document provides that uncertainties in the determination of liabilities or tax assets are reflected in the financial statements only when it is probable that the entity will pay or recover the amount in question. In addition, the document does not contain any new disclosure requirements, but highlights that the entity will have to determine whether it will be necessary to provide with information on management's considerations about the inherent uncertainty in the accounting for taxes, in compliance with IAS 1. The new interpretation will apply from January 1st 2019, but early application is allowed.

The new standards will have no significant impact on the Company 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 December 12th 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 1st 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 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 of IAS 1. The indirect method has been used for the statement of cash flow and the presentation of cash flows.

2.3 Cash and cash equivalents

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 IFRS 9 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 IFRS 9. 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 27th 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 1st 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 31st 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).

4. Notes to the balance sheet

4.1 Cash and cash equivalents

This account totals Euro 75,969,317 (compared with Euro 175,305 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

The trade receivables total Euro 1,235,723 against Euro 1,183,774 in 2017 and they come from the amounts charged by the Company to its subsidiary Safilo S.p.A. and Safilo Industrial S.r.l. for legal and tax services, also charged to its subsidiary for 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, 2018	December 31, 2017
Trade receivables from subsidiaries		
- Safilo S.p.A.	586,702	693,044
- Safilo Industrial S.r.l.	392,220	182,158
- Safilo D.O.O. Ormoz	11,440	11,000
- Safilo Hellas Ottica S.a.	4,000	-
- Safilo Australia Pty Ltd.	6,250	-
- Safilo USA Inc.	235,111	297,572
Total	**1,235,723**	**1,183,774**

4.3 Short term loans

The item of Euro 62.000.000 relates to a loan granted on December 14, 2018 to the subsidiary Safilo S.p.A.. Full refund is expected by May 2019.

4.4 Other current assets

This item breaks down as follows:

(Euro)	December 31, 2018	December 31, 2017
VAT receivables	6,027,651	16,906,880
Tax credits and payments on account	179	789,650
Prepayments and accrued income	13,934	2,579
Other receivables from subsidiaries - Safilo S.p.A.	4,406,082	7,789,697
Other receivables from subsidiaries - Safilo Industrial S.r.l.	31,927,950	18,043,567
Other receivables	306,568	8,875
Other receivables from related parties	214	52,500
Total	**42,682,578**	**43,593,648**

Vat receivables refer to the VAT credit of the Group VAT mechanism; in the course of 2018 Euro 10,000,000 has been requested for reimbursement, plus Euro 2,000,000 in 2017, for a total repaid in 2018 of 12,000,000 Euro.

The receivables from the subsidiary Safilo S.p.A. equal to Euro 4,406,082 refers to dividends resolved by the shareholders' meeting of the subsidiary and not yet collected at the reporting date. During the financial year 2018 dividends of Euro 3,500,000 were collected.

The receivable from Safilo Industrial S.r.l for Euro 31,927,950 refers mainly to the VAT debit transferred for the Group VAT settlement mechanism.

4.5 Investments in subsidiaries

This item totalled Euro 669,121,830 versus Euro 669,317,389 in the previous year.

At 31 December 2018 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 five year business plan for the period 2019 – 2023, substantially based on the previous Group business Plan 2018-2022 while updating 2019 with the Budget for the year and adding an additional year for 2023 approved by the Board of Directors, which includes some important assumptions regarding sales and cost reduction initiatives.

Furthermore, the impairment test presents the fact that the Group is in a turnaround moment and that the assumptions underlying the test take in consideration that there are some uncertainties in reaching the targets. Management has used the most reliable information available at this moment, and to address those uncertainties has developed sensitivities on the basis of various hypothetical future scenarios. The impairment test was performed in accordance with projections developed within these sensitivity scenarios and the result analyzed.

In every cases a loss in value of the investments in subsidiaries is not reasonably verifiable.

The following tables illustrate the changes that took place during the financial year 2018 and the previous one:

(Euro)	% of share capital	Balance at January 1, 2018	Increase / (Decrease)	Balance at December 31, 2018
Safilo S.p.A.	95.201	665,975,189	-	665,975,189
Contribution for Stock Options to subsidiaries		3,341,179	(195,705)	3,145,474
Safilo de Mexico S.A. de C.V.	0.001	521	-	521
Safilo Portugal Lda	0.1	500	-	500
Safilo Benelux S.A.	0.005	-	146	146
Total		**669,317,389**	**(195,559)**	**669,121,830**

(Euro)	% of share capital	Balance at January 1, 2017	Increase / (Decrease)	Impairment	Balance 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 S.A. de C.V.	0.001	-	521	-	521
Safilo Portugal Lda	0.1	-	500	-	500
Total		**903,256,718**	**1,060,671**	**(235,000,000)**	**669,317,389**

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 31st December 2018	Euro 66,176,000 i.v
Shareholders' equity at 31st December 2018	Euro 440,934,158
Net loss for the financial year 2018	Euro (14,503,230)

4.6 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 1st January 2006 the Company joined the tax consolidation programme in the capacity of parent company. The subsidiaries participating in the program are Safilo S.p.A. Safilo Industrial S.r.l. and Lenti S.r.l. (both 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.

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 31st December 2018:

		Impact to			
(Euro)	Balance at January 1, 2018	Income statement	Equity	Receivables/ Payables due to tax consolidation	Balance at December 31, 2018
Tax losses Safilo Group S.p.A.	6,789,984	-	-	3,663,391	10,453,375
Tax losses from Safilo S.p.A.	26,309,089	-	-	3,444,975	29,754,064
Tax losses from Lenti S.r.l.	23,990	-	-	-	23,990
Tax losses from Safilo Industrial S.r.l.	4,816,441	-	-	1,393,425	6,209,866
Tax losses before fiscal consolidation	192,629	-	-	-	192,629
Interest expenses not deducted carryforward	3,014,189	202,121	-	-	3,216,310
Other temporary differences	45,560	107,256	-	-	152,816
Provision for risks	-	219,844	-	-	219,844
Dividend for competency	(96,548)	40,320	-	-	(56,228)
Total deferred tax assets	**41,095,334**	**569,541**	**-**	**8,501,791**	**50,166,665**
Write downs of deferred tax assets	(41,191,882)	4,695,072	-	(8,501,791)	(44,998,601)
Total deferred tax assets, net	**(96,548)**	**5,264,613**	**-**	**-**	**5,168,064**

As described on the above table, the company reduced the total amount of the write downs related to deferred tax assets, existing at the end of the period, considering the recoverability of some of them on the basis of future taxable income expected deriving from the Plan.

The following table shows the tax losses carried forward deriving from the Group national tax consolidation:

Financial year (Euro)	**Tax losses**	**Tax benefit**
ante 2014	92,043,617	22,090,468
2015	27,985,238	6,716,457
2016	8,642,688	2,074,245
2017	35,999,867	8,639,968
2018	28,833,983	6,920,156
Total	**193,505,393**	**46,441,294**

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.

4.7 Other non-current assets

The item totals Euro 3,264,779 (compared to Euro 2,355,702 in the previous year) and refers to withholding from Lenti S.r.l. tax transferred to the national tax consolidation.

4.8 Trade payables

The following table shows a breakdown of trade payables and payables to subsidiaries:

(Euro)	December 31, 2018	December 31, 2017
Trade Payable for service	4,125,481	1,087,790
Trade Payable to subsdiaries :		
Safilo S.p.A.	1,073,797	695,349
Safilo Far East Ltd	68,918	65,798
Safilo Nordic AB	177,593	-
Safilo USA Inc.	121,744	35,614
Total	**5,567,533**	**1,884,551**

4.9 Tax payables

This account totaled Euro 393,370 at 31st December 2018, compared to Euro 369,358 in the previous year, and refers to withholding taxes related to IRPEF (personal income tax) on wages, salaries and independent contractor compensation in the month of December that were paid in January 2019.

4.10 Other current liabilities

This item breaks down as follows:

(Euro)	December 31, 2018	December 31, 2017
Payables to personnel and social security institutions	1,349,920	647,747
Payables to pension funds	5,030	6,568
Other current liabilities	3,243	4,465
Accrued expenses	202,050	202,052
Other payables to subsidiaries	49,273,200	34,368,721
Total	**50,833,443**	**35,229,553**

The debt to the subsidiary refers mainly at Safilo S.p.A for the VAT credit transferred for the Group VAT settlement mechanism.

4.11 Borrowings

This item breaks down as follows:

(Euro)	December 31, 2018	December 31, 2017
Convertible Bonds - long term	-	142,491,167
Convertible Bonds - short term	147,849,193	-

The item refers to the 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, that in 2018 has been reclassified from long to short term.

The unsecured and unsubordinated equity-linked Bonds have been issued at par in the nominal amount of EUR 100,000 per Bond with 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, have 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.

4.12 Employees benefits liability

During the financial year under review, the item showed the following movements:

(Euro)	Balance at January 1, 2018	Posted to income statement	Actuarial gains/ (losses)	Uses/ Payments	Transfer INPS	Balance at December 31, 2018
Defined benefit plan	115,523	1,466	9,960	(5,334)	-	121,615
Defined contribution plan	(2,729)	186,849	-	(82,437)	(70,896)	30,787
Total	**112,794**	**188,315**	**9,960**	**(87,771)**	**(70,896)**	**152,402**

(Euro)	Balance at January 1, 2017	Spin off	Posted to income statement	Actuarial gains/ (losses)	Uses/ Payments	Transfer INPS	Balance at December 31, 2017
Defined benefit plan	49,763	78,707	725	4,132	(17,804)	-	115,523
Defined contribution plan	-	-	129,788	-	(10,123)	(122,394)	(2,729)
Total	**49,763**	**78,707**	**130,513**	**4,132**	**(27,927)**	**(122,394)**	**112,794**

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 27th December 2006 ("Financial Law 2007") and subsequent Decrees and Regulations.

Actuarial estimates used for calculating the employee severance liability accrued up to 31st 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, 2018	December 31, 2017
Service cost	-	-
Interest cost	(1,466)	(725)
Actuarial gains/(losses)	(9,960)	(4,132)
Total	**(11,426)**	**(4,857)**

4.13 Provisions

(Euro)	Balance at January 1, 2018	Increase	Decrease	Reclass	Balance at December 31, 2018
Other provisions for risks and charges	-	916,015	-	-	916,015
Provisions for risks - long term	**-**	**916,015**	**-**	**-**	**916,015**
Other provisions for risks and charges	-	-	-	-	-
Provisions for risks - short term	**-**	**-**	**-**	**-**	**-**
Total	**-**	**916,015**	**-**	**-**	**916,015**

The provision for risks and charges refers to the estimated liability related to a long term incentive plan issued in favour of key managers.

SHAREHOLDERS' EQUITY

The shareholders' equity is both the value contributed by the shareholders of Safilo Group S.p.A. (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 31st December 2018, shareholders' equity amounts to Euro 653,730,335 compared to Euro 535,865,327 at 31st December 2017.

4.14 Share capital

During the year Safilo Group S.p.A. has launched the rights issue for the subscription of up to 213,043,881 newly issued ordinary shares of the Company deriving from the share capital increase resolved by the Extraordinary Shareholders' meeting held on 29 October 2018.

In particular, during the subscription period, started on 3 December 2018 and ended on 17 December 2018, 50,580,195 option rights were exercised, representing 171,972,663 new shares or approximately the 80.7% of the total new shares, for an aggregate amount of Euro 121,068,754.76.

In accordance with art. 2441, paragraph 3, of the Italian Civil Code, Safilo offered on the Italian Stock Exchange the 12,079,770 option rights, representing No. 41,071,218 new shares, that were not exercised during the Subscription Period. All 12,079,770 unexercised rights were sold at the end of the second trading session of the Rights Auction, on 20 December 2018, and 15,877,881 new shares (corresponding to No. 4,669,965 Unexercised Rights) were subscribed by 28 December 2018, deadline for the exercise of the unexercised rights, for a total amount of Euro 11,178,028.21.

Following the subscription and paying-in of these 171,972,663 newly issued ordinary shares during the subscription period and No. 15,877,881 newly issued Safilo ordinary shares at the end of the Rights Auction period the share capital increase resolved by the Extraordinary Shareholders' meeting held on 29 October 2018 was partially subscribed for a total number of 187,850,544 newly issued shares and for a total consideration of Euro 132,246,783 at 31 December 2018.

The 25,193,337 new shares remained unsubscribed at the end of the Rights Auction, for a total amount of Euro 17,736,109.25, have been subscribed and paid in full on 2 January 2019 by the reference shareholder Multibrands Italy B.V., a subsidiary of HAL Holding N.V., pursuant to the commitment undertaken in accordance with the subscription agreement entered into on 26 September 2018.

The total consideration collected for the subscription of the 187,850,544 newly issued shares equal to Euro 132,246,783 at 31 December 2018 has been allocated to share capital for 32,310,294 Euro and to share premium reserve for 99,936,489 Euro, this amount has been deducted of capital increase transaction costs equal to 3,677,026 Euro.

At 31st December 2018 the share capital of the Parent Company, Safilo Group S.p.A., amounts to Euro 345,610,119 (313,299,825 as at 31 December 2017) consisting of no. 250,510,509 ordinary shares with no par value.

4.15 Share premium reserve

At 31 December 2018 the share premium reserve of the Parent Company, Safilo Group S.p.A., amounts to Euro 581.121.027 (484,861,564 as at 31 December 2017).

The increase of the period is due to the share capital increase allocated to the share premium reserve equal to 99,936,489 Euro net of capital increase transaction costs of 3,677,026 Euro.

4.16 Retained earnings and other reserves

This account breaks down as follows:

(Euro)	December 31, 2018	December 31, 2017
Legal reserve	3,007,774	3,007,774
Stock Option reserve	652,739	1,386,777
Reserve for actuarial gain (losses) of defined benefit plan	(18,465)	(8,505)
Retained losses	(266,191,680)	(19,202,094)
Total	**(262,549,632)**	**(14,816,048)**

Equity accounts - possible use and distribution

The table below shows the possible use and distribution of equity accounts:

				Previous years' use	
(Euro)	**Amount**	**Possible use**	**Available amount**	**Losses coverage**	**Distribution of reserves**
Share capital	345,610,119				
Paid in capital	581,121,027	A - B - C (*)	581,121,027		
Legal reserve	3,007,774	B			
Stock Option reserve	652,739				
Reserve for actuarial gain (losses) of defined benefit plan	(18,465)				
Retained losses	(266,191,680)				
Loss for the period	(10,451,179)				
Total	**653,730,335**		**581,121,027**		

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.

4.17 Stock option

The Extraordinary Shareholders' Meeting of April 26th, 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, 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, 2017;
- the second tranche ("Second Tranche") was granted by the Board of Directors held on December 10, 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 prior ones (2010-2013 and 2014-2016 Plans) deliberated by the Extraordinary Meetings respectively held on 5 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, 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.

It should be noted that the Board of Directors resolved the following adjustments of the Stock Option Plans in place to take into account the effects of the share capital increase up to a maximum of Euro 150 million resolved by the Shareholders' Meeting held on 29th October 2018. In particular both the number of options rights assigned and the related exercise price were adjusted applying a conversion factor equal to 0.62.

Information relating to the tranches of the Stock Options Plans granted on 31st December 2018 is shown below.

	Grant date	No. of options	Fair value in Euro	Maturity
Stock Option Plan 2010-2013				
Fourth tranche	06/03/13	303,084	0.69	31/05/19
Fourth tranche-bis	13/11/13	48,493	1.09	31/05/19
Stock Option Plan 2014-2016				
First tranche	29/04/14	234,384	1.65	31/05/22
Stock Option Plan 2017-2020				
Second tranche	10/12/18	1,938,096	0.01	31/05/26

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:

	Share price at grant date (*)	Exercise price in Euro	Expected volatility	Risk free rate
Stock Option Plan 2010-2013				
Fourth tranche	5.42	5.24	26.16%	0.382%
Fourth tranche-bis	8.69	9.00	30.62%	0.373%
Stock Option Plan 2014-2016				
First tranche	9.71	9.31	30.00%	1.044%
Stock Option Plan 2017-2020				
Second tranche	0.81	3.09	36.80%	0.253%

(*) Restated for comparative purpose to consider the impact of the share capital increase issued in December 2018.

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

	No. of options	Average exercise price in Euro
Stock Option Plan 2010-2013		
Outstanding at the beginning of the period	**417,500**	**8.26**
Granted	-	-
Forfeited	-	-
Exercised	-	-
Expired	(200,000)	7.12
Adjustment post capital increase	134,077	
Outstanding at period-end	**351,577**	**5.76**
Stock Option Plan 2014-2016		
Outstanding at the beginning of the period	**765,000**	**10.45**
Granted	-	-
Forfeited	(525,000)	8.35
Exercised	-	-
Expired	(95,000)	15.05
Adjustment post capital increase	89,384	-
Outstanding at period-end	**234,384**	**9.31**
Stock Option Plan 2017-2020		
Outstanding at the beginning of the period	**890,000**	**6.54**
Granted	1,938,096	3.09
Forfeited	(890,000)	6.54
Exercised	-	-
Expired	-	-
Outstanding at period-end	**1,938,096**	**3.09**

During the year, 1,938,096 options have been granted related to the second tranche of the new Plan 2017-2020, in the same period 890,000 options of the same Plan issued with the first tranche has been forfeited.

Among the options outstanding at the end of the period, the fourth tranche of the Plan 2010-2013 is exercisable until the end of the exercise period set for 31st May 2019. As far as the Plan 2014-2016 is concerned the first tranche, equal to a total of 234,384, is exercisable from the date of the approval of 2016 financial statements until the expiry of the exercise period set for 31st May 2022.

At the date of the approval of these financial statements the total options exercisable still outstanding are equal to 585,961.

The average exercise price for options of the Plan 2010-2013 outstanding at the year-end is equal to 5.76 Euro with an average remaining contract life of 0.4 year, for the Plan 2014-2016 is equal to 9.31 Euro with an average remaining contract life of 3.4 years, while for the Plan 2017-2020 is equal to 3.09 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 an income of 243 thousand Euro due to the reversal of the cost related to the forfeited options (an expense of 46 thousand Euro at 31st December 2017).

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 785,659 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)	2018	2017
Payroll and social security contributions	3,021,636	2,871,784
Corporate compliance costs	260,878	289,162
Remunerations to directors and statutory auditors	1,938,471	1,526,625
Consultancies	790,877	929,925
Cost of services rendered by Safilo S.p.A.	422,848	236,861
Other general and administrative expenses	444,684	411,523
Provision for risks	12,100	(1,144,018)
Total	**6,891,494**	**5,121,862**

The following table illustrates the number of employees broken down by category:

	2018	2017
Executives	7	7
Clerks and middle management	11	12
Total	**18**	**19**

5.3 Other income/(expenses)

The Other Operating expenses amount to Euro 3,288,086 and refer to the CEO Succession Plan.

5.4 Financial charges, net

This item breaks down as follows:

(Euro)	2018	2017
Interest expenses and charges on Bond	7,233,026	6,972,973
Bank commissions	2,053	3,820
Negative exchange rate differences	22,867	54
Other financial charges	5,203	1,568
Total financial charges	**7,263,149**	**6,978,415**
Interests income	2,310	25
Positive exchange rate differences	27,717	8,395
Fair value gains on the Equity-linked Bond incorporated derivative	1,768	484,321
Other financial income	75	-
Total financial income	**31,870**	**492,741**
TOTAL FINANCIAL (CHARGES) INCOME, NET	**(7,231,279)**	**(6,485,674)**

Interest expense amounted to Euro 7,233,026 of which Euro 1,876,110 relate to nominal interest expense accrued on the bond “Equity Linked” and the remaining part refer to the impact related to the figurative interests calculated once isolated the convertible component in order to calculate the effective interest rate to be applied for the calculation of the liability 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)	2018	2017
Current tax	909,409	237,179
Deferred tax	5,264,612	(2,001,308)
Total	**6,174,021**	**(1,764,129)**

Current taxes, which are positive for Euro 909,409, refer to the fiscal consolidation profit retrieved from Lenti S.r.l. for Euro 627,189 and, for the remaining part, refer to the removal of expenses deriving from the tax consolidation regime which have been booked during previous years. Deferred taxes equal to Euro 5,264,612 referring to the movement of deferred taxes on the temporary differences of the Company.

The table below shows the reconciliation between theoretical taxes and the actual tax burden recognised on the income statement:

(Euro)	%	2018	%	2017
Profit (loss) before taxation	**100%**	**(16,625,198)**	**100%**	**(245,715,885)**
Income tax benefit (expense) at statutory rate	-24.0%	3,990,048	-24.0%	58,971,812
Not deductible costs	0.1%	(11,295)	23.0%	(56,416,426)
Costs booked to equity reduction and fully deducted	-5.2%	868,008	0.0%	-
Income from tax fiscal unity	-3.8%	627,189	-0.1%	237,179
Non-recognition of new DTAs and write-off of existing DTAs	-2.5%	411,316	1.9%	(4,552,203)
Other differences	-1.7%	288,756	0.0%	(4,491)
Total	**-37.1%**	**6,174,021**	**0.7%**	**(1,764,129)**

5.6 Earnings (losses) per share

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

Basic	**2018**	**2017**
Profit/(loss) for ordinary shares	(10,451,179)	(247,480,014)
Average number of ordinary shares	107,998,460	62,659,965
Earnings (losses) per share - basic (in Euro)	**(0.097)**	**(3.950)**

Diluted	**2018**	**2017**
Profit/(loss) for ordinary shares	(10,451,179)	(247,480,014)
Profit for preferred shares	-	-
Profit/(loss) in income statement	**(10,451,179)**	**(247,480,014)**
Average number of ordinary shares	107,998,460	62,659,965
Dilution effects:		
- Stock Option	-	15,561
Total	**107,998,460**	**62,675,526**
Earnings (losses) per share - diluted (in Euro)	**(0.097)**	**(3.949)**

2017 comparative data related the basic and diluted earnings per share restated to reflect the impact of the share capital increase issued in December 2018, should have been respectively equal to a loss of 2,443 and 1,946 Euro.

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.

5.7 Dividends

The Company did not distribute dividends to shareholders neither in financial year 2018.

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 2018 the company did not engage in significant non-recurring transactions pursuant to the CONSOB Communication of 28th July 2006.

9. Transactions resulting from unusual and/or abnormal operations

Pursuant to CONSOB Communication of 28th July 2006, in 2018 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)	2018	2017
Directors		
- Salaries ad short term compensations	1,893,235	1,343,000
- Non monetary benefits	66,467	88,639
- Other compensations	1,092,620	69,657
- Indemnity for end of position or cessation of employment relationship	1,090,909	-
- Fair value of equity compensations	587	50,869
Statutory auditors		
- Fixed compensations and compensations for participation in committees	143,000	162,000
Managers with strategic responsibilities		
- Salaries ad short term compensations	448,000	461,946
- Non monetary benefits	12,478	12,611
- Other compensations	3,311	3,082
- Fair value of equity compensations	399	11,055
Total	**4,751,006**	**2,202,859**

At 31 December 2018 the Company reports a balance of 1,464,621 Euro with HAL Investments B.V. that refers to the payable for the underwriting fee on the share capital increase issue in December 2018 due to Multibrands Italy B.V., according to the subscription agreement signed in September 2018, and then assigned in favour of HAL investment B.V..

11. Resolutions regarding the result for the year

We submit for your approval the financial statements for the financial year ending on 31st December 2018, drafted according to the IFRS International Accounting Standards, and recommend that the loss for the year, amounting to Euro 10,451,179 be carried forward.

for the Board of Directors
Chief Executive Officer
Angelo Trocchia

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 2018 relating to the audit and other audit related services rendered by the same Audit company.

(Euro)	Fees 2018
Audit	60,050
Attestation	368,000
Other Service	-
Total	**428,050**

Certification of the Annual Report pursuant to article 81-ter of CONSOB Regulation 11971 of 14th May 1999 as amended

The undersigned Angelo Trocchia, as Chief Executive Officer, 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 24th 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 2018 financial year.

It is also certified that the annual report at 31st December 2018:

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.

13th March 2019

The Chief Executive Officer	The manager responsible for preparing the company's financial statements
Angelo Trocchia	*Gerd Graehsler*

REPORT OF THE BOARD OF STATUTORY AUDITORS

To the Shareholders' Meeting of Safilo Group S.p.A. on the financial year 2018 pursuant to article 153 T.U.F. and article 2429, co. 2, C.C.

Dear Shareholders,

during the financial year ended 31 December 2018, the Board of Statutory Auditors of Safilo Group S.p.A. carried out the supervision activity required by law, in accordance with the requirements of the Civil Code, articles 148 and following of T.U.F., the Legislative Decree no.39 of January 27, 2010 as modified from the Legislative Decree July 17, 2016 no.135 and the Legislative Decree 254/2016, considering also the recommendations included in Consob's Communications on company controls and the activities of the Board of Statutory Auditors, as well as 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).
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, it confirms the following:

- it monitored compliance with the law and by laws;
- it 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;
- it 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;
- it 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, it 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;
- it 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.

The Board reports 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;
- it 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;
- it 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, the Board hereby provides the following information:

1. events incurred during the year: the Extraordinary Shareholders' meeting held on 29 October 2018 resolved a share capital increase for consideration, for a maximum amount of Euro 150,000,000 including any share premium, through the issue of new ordinary shares to be offered to the Company's shareholders via a rights offering pursuant to Article 2441, paragraph 1 of the Italian Civil Code. The event, supporting the overall Group's refinancing process, has been completed with a full subscription of the share capital increase resolved, and is deeply disclosed in the specific section of the Notes to the Consolidated Financial Statements related to the share capital.
   In particular, the total consideration collected for the subscription of the 187,850,544 newly issued shares equal to Euro 132,246,783 as at December 31, 2018 has been allocated to share capital for Euro 32,310,294 and to share premium reserve for Euro 99,936,489 (this amount has been deducted of capital increase transaction costs equal to Euro 3,677,026).

Therefore, as at December 31, 2018 the share capital of the parent company Safilo Group S.p.A. amounts to Euro 345,610,119 (Euro 313,299,825 as at December 31, 2017) consisting of no. 250,510,509 ordinary shares.

The 25,193,337 new shares remained unsubscribed as at December 31, 2018 at the end of the Rights Auction, for a total amount of Euro 17,736,109.25 have been subscribed and paid in full on 2 January 2019 by the reference shareholder Multibrands Italy B.V., with a total amount of the share capital increase equal to Euro 149,982,892;

2. events after the year end: at the end of January 2019, the Group has been contacted by potential investors expressing interest in acquiring the Group's Solstice retail business in the United States, which led the Group to evaluate a possible divestiture as a potential alternative to the current turnaround strategy. At the date of preparation of this report, the Group is proceeding with the divestiture plan entering a non-binding agreement to sell the relevant assets of Solstice to a third party in exchange for a cash consideration and a multi-year supply agreement for Safilo's product in the future, conditioned in any case on a due diligence process currently underway. The event is disclosed in the specific section of the report on operations;
3. 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, the Board was 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;
4. it has been 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, the Board 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;
5. the Board believes that the information presented by the Directors in their report on operations and explanatory notes in respect of the operations mentioned in paragraphs 1, 2 and 3 are adequate;
6. the reports prepared by the audit firm Deloitte & Touche S.p.A., issued on March 22th 2019, regarding the individual and consolidated balance sheet of Safilo Group S.p.A. as of 31.12.2018 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;
7. during 2018, no reports were made to the Board of Statutory Auditors under article 2408 of the Civil Code, and no complaints were submitted by shareholders;
8. during 2018, 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;

9. during the 2018 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;
10. 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;
11. the Board of Statutory Auditors has verified the possession of the requirements of integrity and independence of its members; to the Report on Corporate Governance and Ownership Structure for the financial year 2018, approved by the Board of Directors on March 13th 2019, 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;
12. during 2018, the Board of Directors held fourteen meetings and the Board of Statutory Auditors held thirteen meetings. Additionally, the Control Risk and Sustainability Committee met seven times with the constant participation of the Board of Statutory Auditors, while the Remuneration and Nomination Committee met seven times and the Related Parties Transactions Committee met four times, always with the participation of the Board of Statutory Auditors;
13. 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, the Board believes that the principles of correct management were constantly observed;
14. the Board gathered information about and monitored the company's organisational structure to the extent of our responsibilities;
15. 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, the Board verified the adequacy and reliability of the internal control system and risks management;
16. the Board verified the adequacy of the administrative and accounting system and the reliability of the same in correctly representing business operations;
17. the Board verified the adequacy of the manner in which the parent company hands down instructions to its main subsidiaries;
18. 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;

19. the Remuneration Report is prepared pursuant to art. 84 quarter of the Issuers' Regulations and to Consob resolution No. 11971/1999 and subsequent amendments;
20. the 2018 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;
21. 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;
22. the evaluation of the goodwill in the consolidated financial statement, based on impairment test results, led to an increase equal to Euro 5.851 thousand due to the translation difference for the goodwill denominated in US Dollar currency. For the purposes of the impairment test, the Board of Directors considered a five year business plan for the period 2019 – 2023, substantially based on the previous Group Business Plan 2018-2022 (approved on August 2nd 2018), while updating 2019 with the Budget for the year and adding an additional year for 2023. This plan includes certain key assumptions regarding sales and cost reduction initiatives. The plan used for impairment test considers management's best estimates based on available information with reference to business operations, market contest and evolution of Group activities.

    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 Business Plan approved for the impairment test are reasonable, also taking into account all the other elements considered in the test's execution;
23. the Board also took note about the topics described in the "Key Audit Matters" paragraph included in the report of Independent Auditor;
24. Consolidated Non-Financial Information Statement: the Board 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 2018 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 22 March 2019 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.

25. the Board confirms 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, the Board expresses its approval, to the extent of its responsibilities, of the 2018 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, 22 March 2019

THE BOARD OF STATUTORY AUDITORS

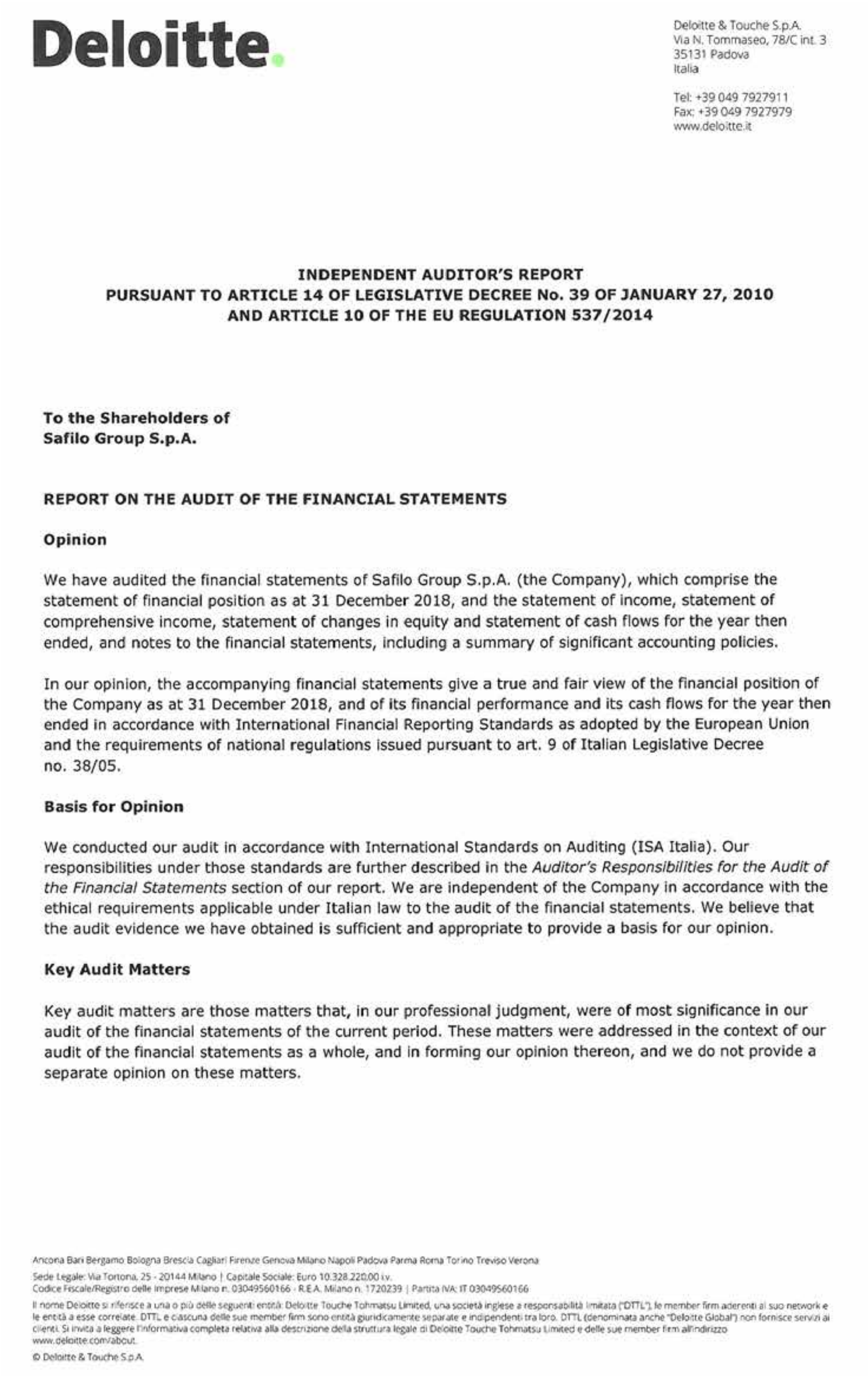
Signed by

Carmen Pezzuto	President
Franco Corgnati	Regular auditor
Bettina Solimando	Regular auditor

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

MOSCHINO

REPORT OF INDEPENDENT AUDITORS



Deloitte.

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 2018, 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 2018, 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

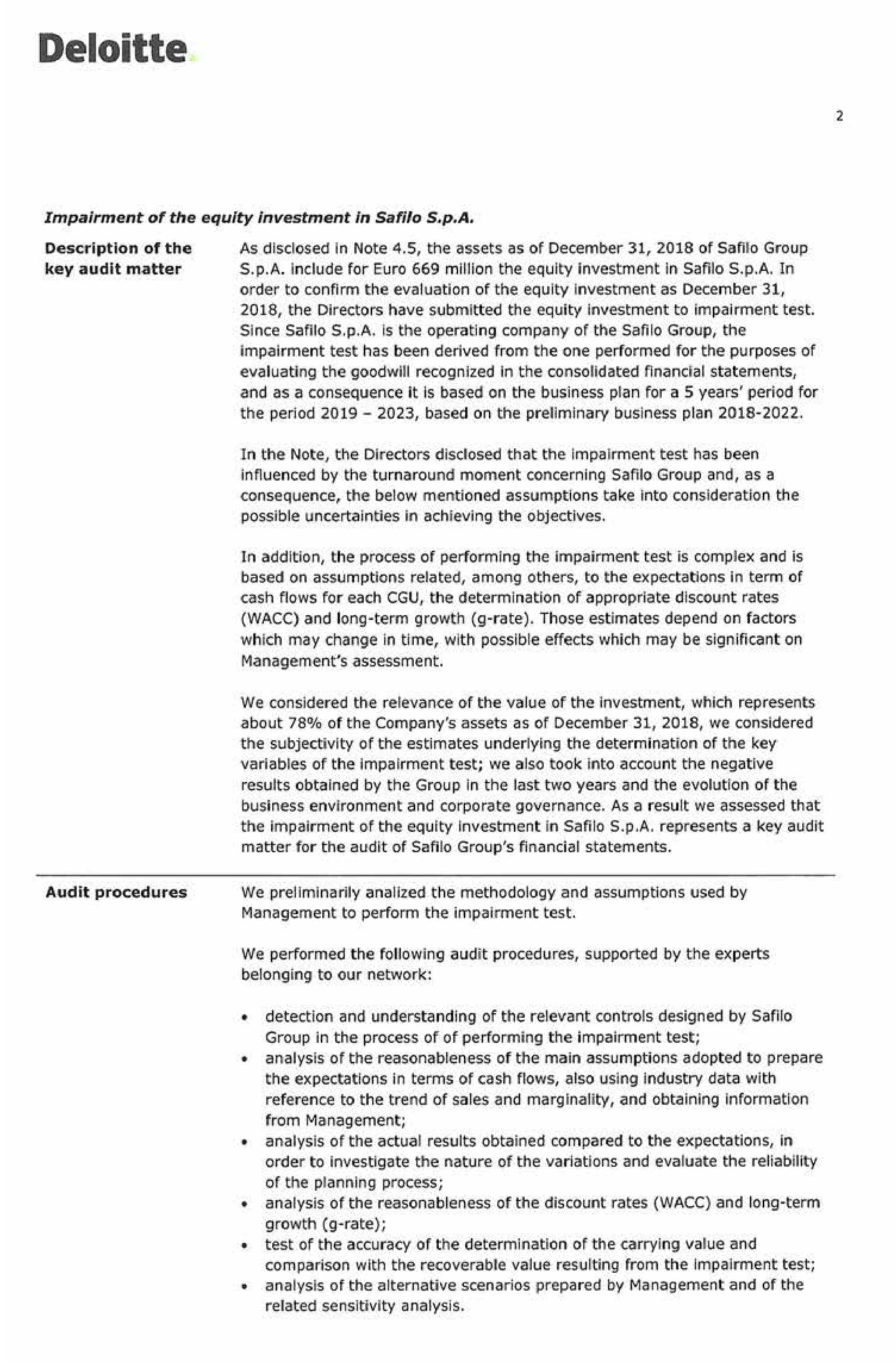
We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance 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.

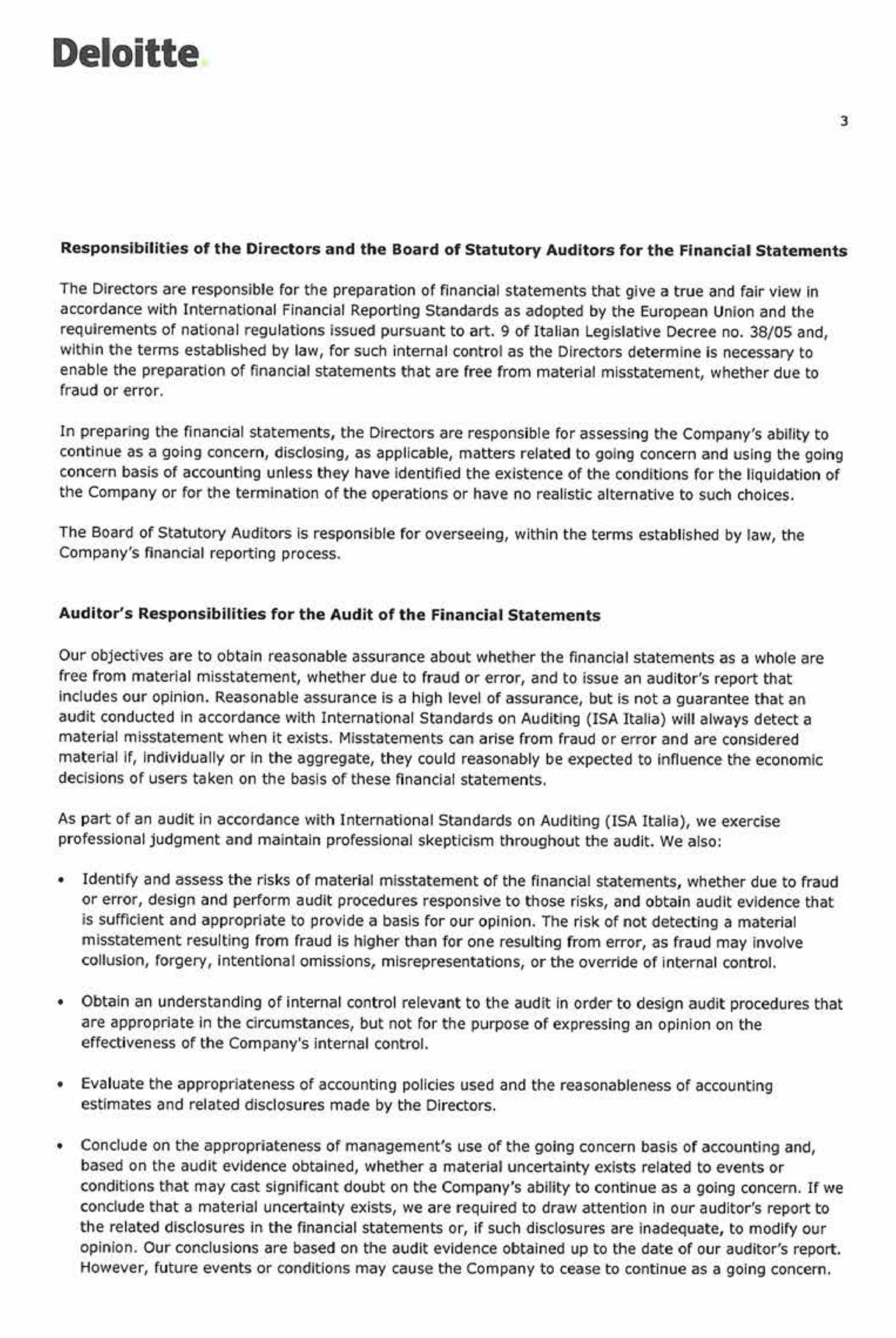
Il nome Deloitte si riferisce a una o più delle seguenti entità: Deloitte Touche Tohmatsu Limited, una società inglese a responsabilità limitata ("DTTL"), le member firm aderenti al suo network e le entità a esse correlate. DTTL e ciascuna delle sue member firm sono entità giuridicamente separate e indipendenti tra loro. DTTL (denominata anche "Deloitte Global") non fornisce servizi ai clienti. Si invita a leggere l'informativa completa relativa alla descrizione della struttura legale di Deloitte Touche Tohmatsu Limited e delle sue member firm all'indirizzo www.deloitte.com/about.

© Deloitte & Touche S.p.A.



Impairment of the equity investment in Safilo S.p.A.

Description of the key audit matter	As disclosed in Note 4.5, the assets as of December 31, 2018 of Safilo Group S.p.A. include for Euro 669 million the equity investment in Safilo S.p.A. In order to confirm the evaluation of the equity investment as December 31, 2018, the Directors have submitted the equity investment to impairment test. Since Safilo S.p.A. is the operating 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 business plan for a 5 years' period for the period 2019 – 2023, based on the preliminary business plan 2018-2022. In the Note, the Directors disclosed that the impairment test has been influenced by the turnaround moment concerning Safilo Group and, as a consequence, the below mentioned assumptions take into consideration the possible uncertainties in achieving the objectives. 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 78% of the Company's assets as of December 31, 2018, 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 analized 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: • detection and understanding of the relevant controls designed by Safilo Group in the process of 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 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 carrying 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.



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.

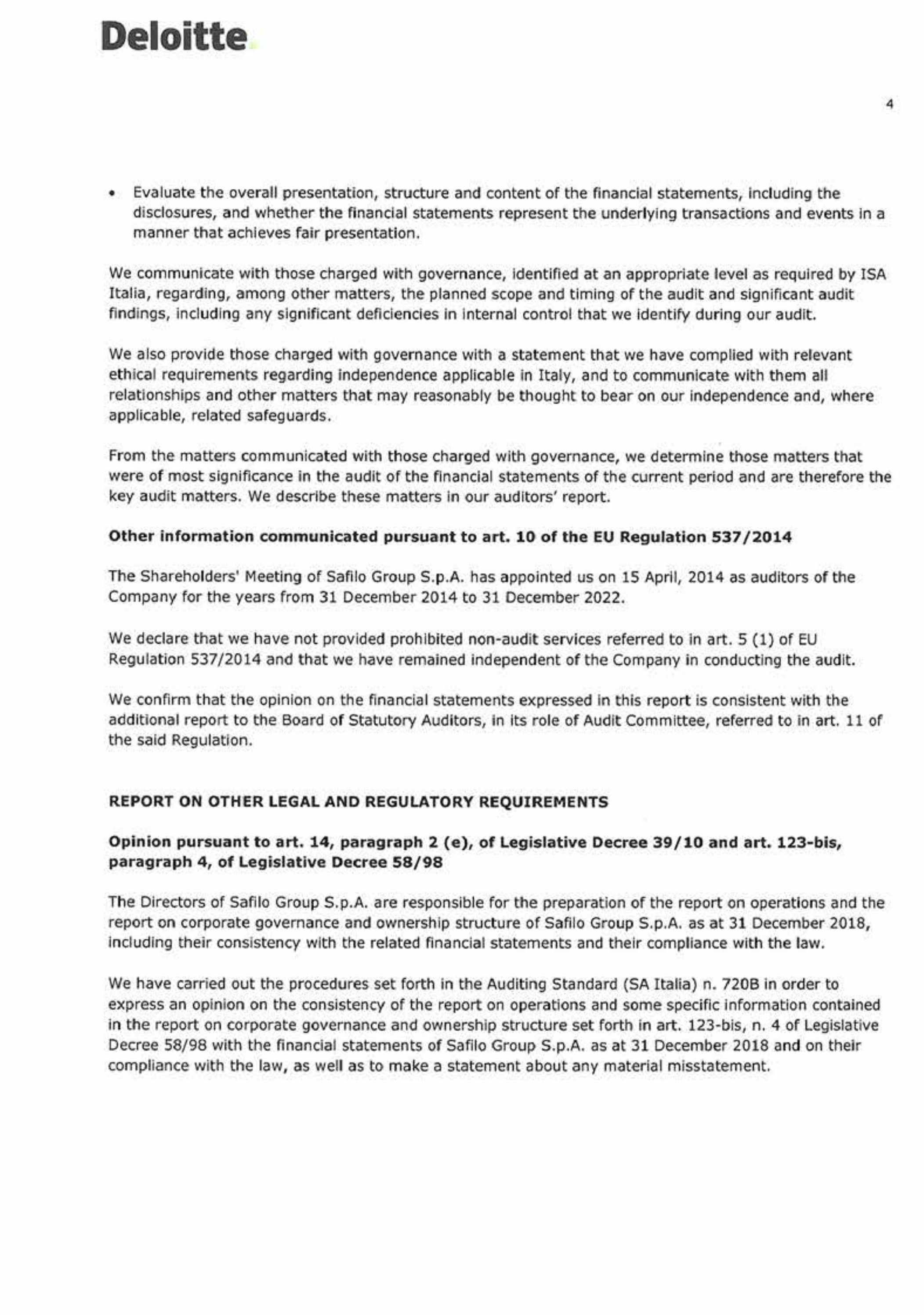
As part of an audit in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- 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 2018, 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 2018 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 2018 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 22, 2019

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

Safilo
GROUP

www.safilogroup.com