ANNUAL REPORT 2016

Safilo GROUP

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Safilo GROUP


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MaxMara	BOSS HUGO BOSS
JIMMY CHOO	MARC JACOBS
ELIE SAAB*	kate spade NEW YORK
MOSCHINO*	TOMMY HILFIGER
rag & bone* NEW YORK	LOVE MOSCHINO*
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pierre cardin PARIS	MAX&Co.
BANANA REPUBLIC	FOSSIL
LIZ claiborne	Juicy Couture BLACK LABEL los angeles
JACK SPADE	Saks Fifth Avenue

(*) From 2017 Elie Saab, from 2018 Moschino, Love Moschino and rag & bone.

GROUP PROFILE

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

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

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

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

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

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

SAFILO BUSINESS MODEL

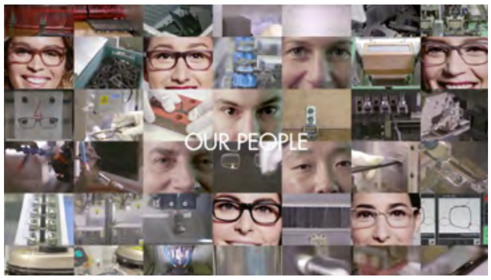
DESIGN, INNOVATION & PRODUCT CREATION

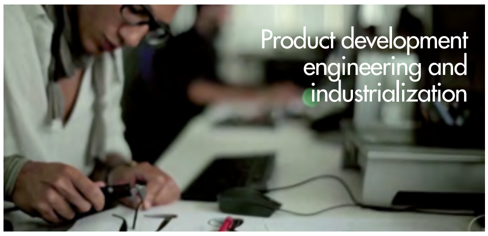
GLOBAL PRODUCT SUPPLY & DISTRIBUTION

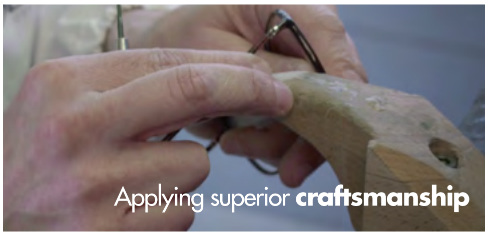
GLOBAL BRAND BUILDING & MARKETING

GO TO MARKET

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

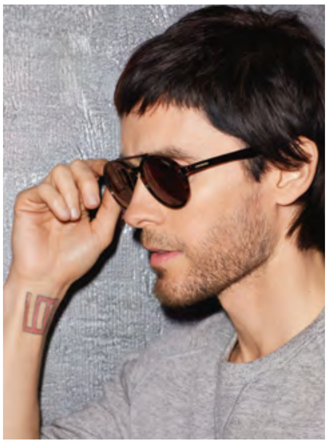






BRANDS

CARRERA
EYEWEAR SINCE 1956

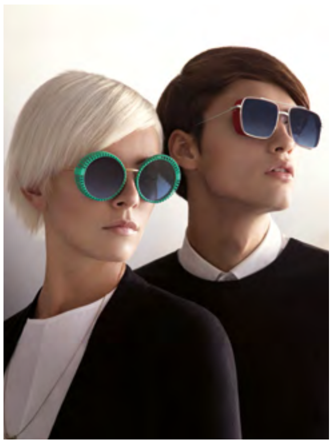


Polaroid

SAFILO

SMITH

OXYDO



BOBBI BROWN

BOSS
HUGO BOSS

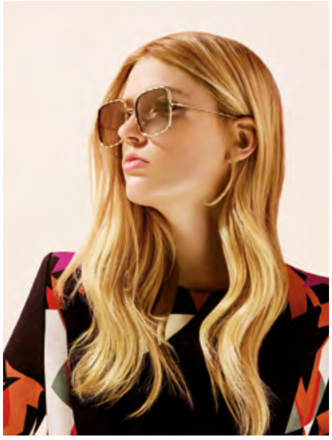
BOSS
HUGO BOSS

CÉLINE

Dior

DIOR HOMME

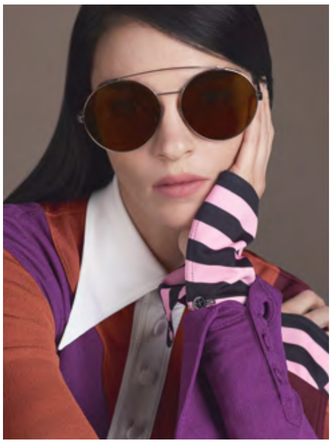
ELIE SAAB



FENDI

FOSSIL

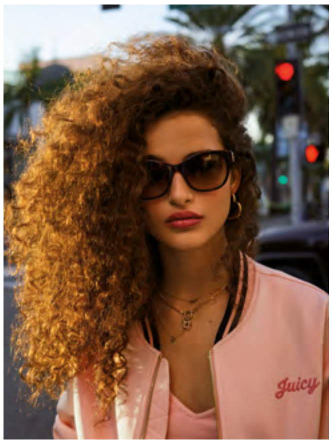
GIVENCHY
PARIS



havaianas

JIMMY CHOO

Juicy Couture
BLACK LABEL
los angeles

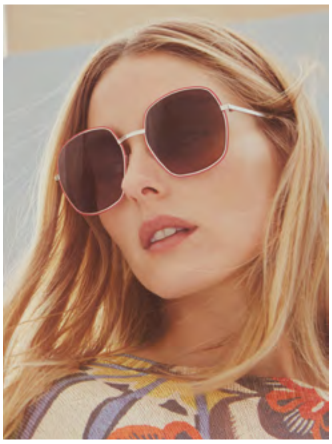


kate spade
NEW YORK

MARC JACOBS

MaxMara

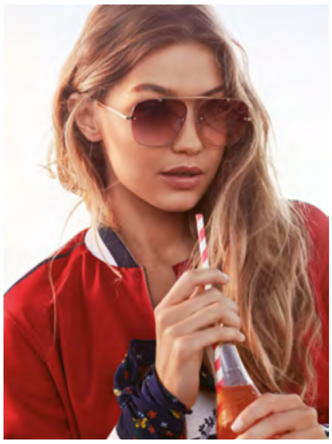
MAX&Co.



pierre cardin
PARIS

swatch the eyes

TOMMY HILFIGER



BANANA REPUBLIC

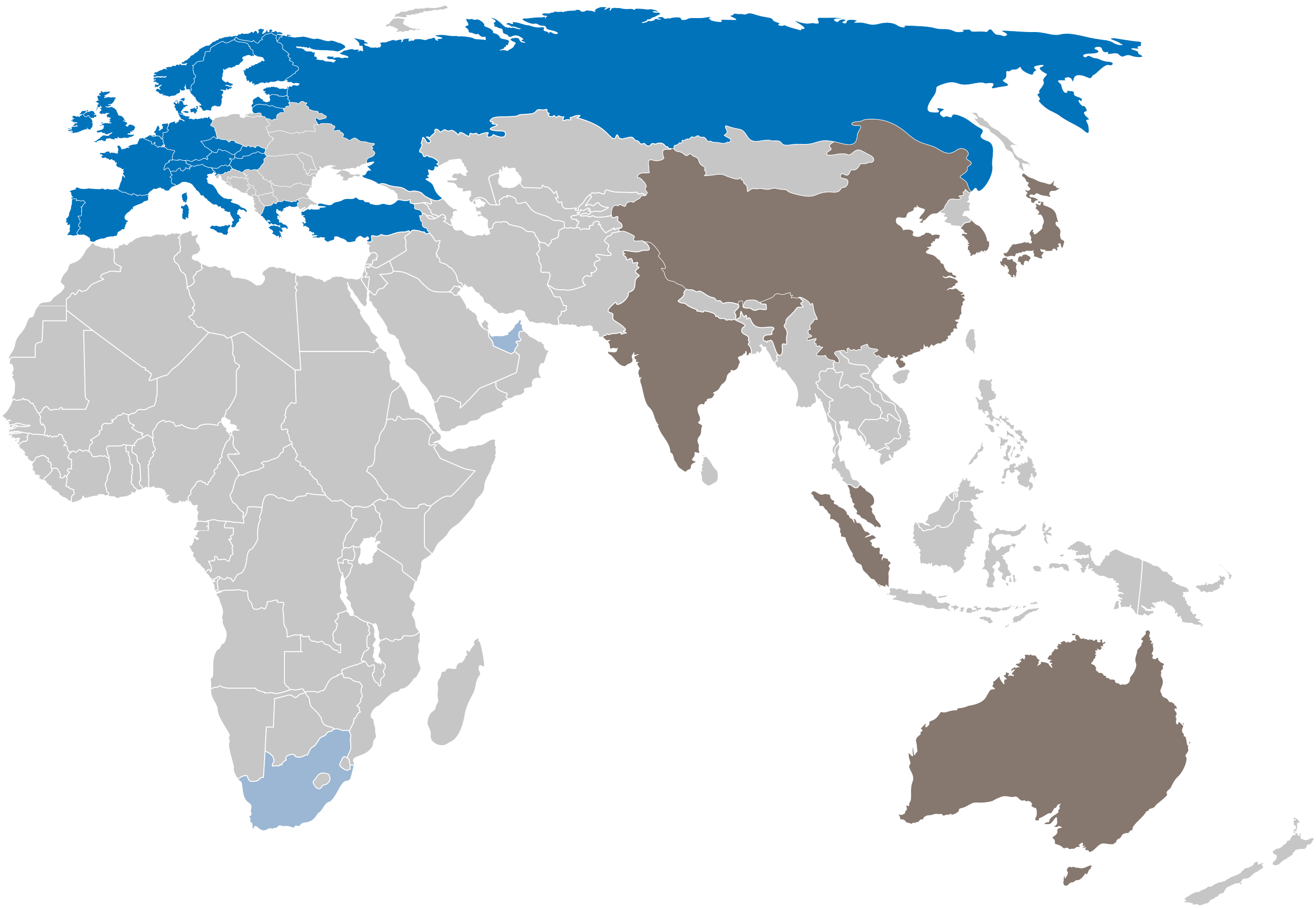
JACK SPADE

LIZ claiborne

Saks Fifth Avenue

SAFILO IN THE WORLD

The Safilo Group has a
network of commercial subsidiaries in 39 countries
and **independent distributors**
able to reach nearly
100,000 selected sales stores
all over the world.



SUBSIDIARIES THE AMERICAS

Brasil
Canada
Mexico
Usa

SUBSIDIARIES 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

SUBSIDIARIES ASIA PACIFIC

Australia
China
South Korea
Hong Kong
India
Japan
Malaysia
Singapore

SUBSIDIARIES REST OF THE WORLD

South Africa
United Arab Emirates

SAFILO SPORT

Italy
Usa

PRODUCTION FACILITIES

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

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 central, 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.

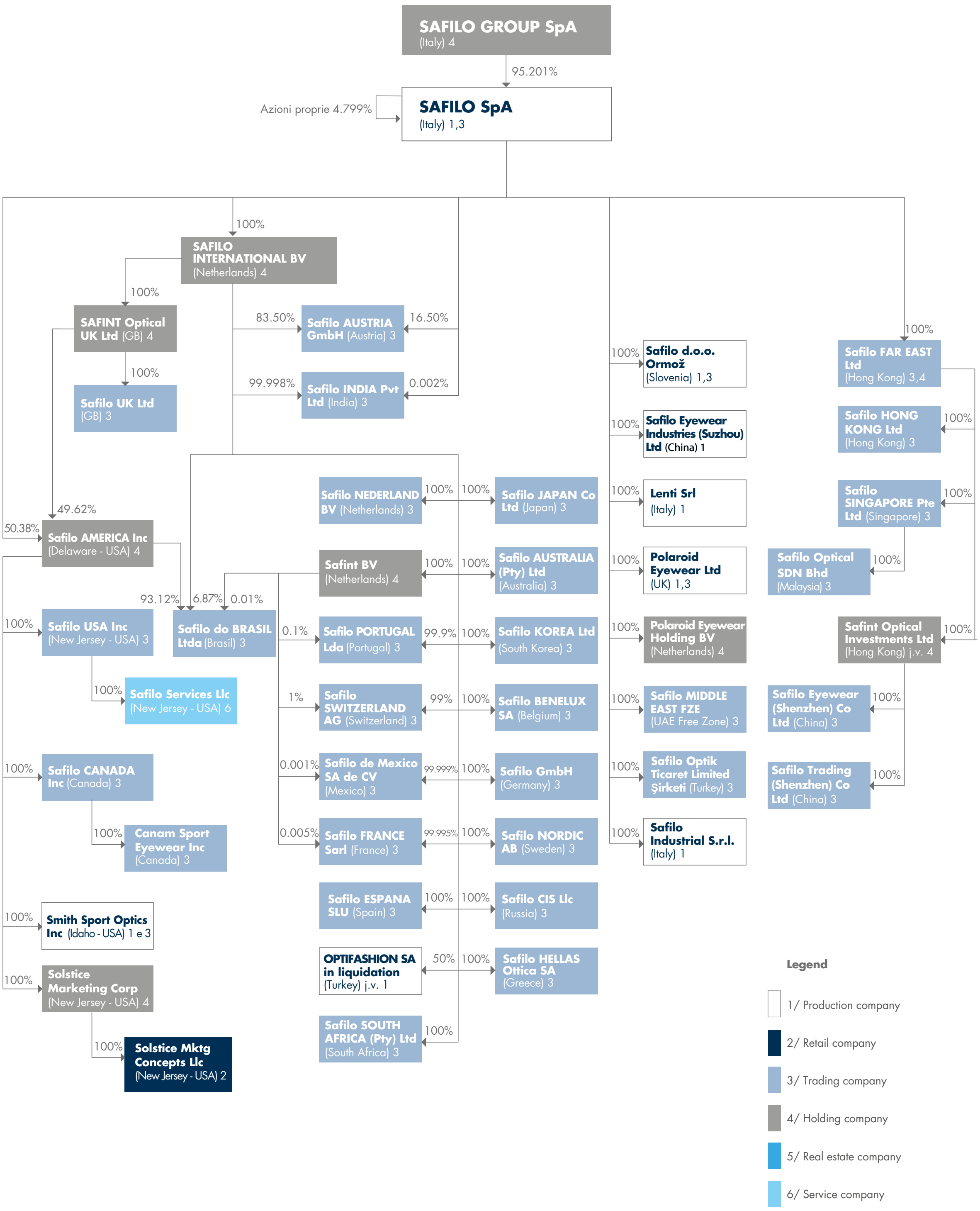
In March 2010, a capital increase of the parent company was concluded, and led to the entry of HAL Holding N.V., an international investment company, as the new reference shareholder.

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

The acquisition of the Polaroid Eyewear business

On 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



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 highly prestigious brand portfolio and a high-profile presence in the luxury segment and in fashion: 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 is a recognised leader in providing excellent levels of customer service, which 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 developed software, which enables monitoring the market, storing data and creating precise customer profiles to personalise the services even further;

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

PRIMARY GROUP PROCESSES AND ACTIVITIES

Manufacturing and distribution chain

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

Research, development and design

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

Research and development mainly focuses on two types of activities:

- Product Creation and Design;
- research and development into 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

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

Manufacturing is planned on the basis of information that is gathered internally and externally

Internal production is carried out in seven factories divided between Italy and abroad

Demand Planning aims at forecasting future turnover in units by product, leveraging historical sales information, brand inputs (e.g. collection strategy, in-store initiative plans) as well as commercial inputs (e.g. sales plans). 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 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 (steel, acetates, metals, lenses, and customised products), components and equipment to feed internal production needs. The Sourcing organization purchases also finished goods (frames and sunglasses) mainly from Italy and Asia.

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., and sources finished product from suppliers in Asia, Italy and the USA.

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 of Total Quality Management, integrating the quality discipline into the culture and activities of the whole organization. The fundamental step change goes from defect detection to defect prevention.

The respect of any International regulation is considered a "given".

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

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

Marketing and communications

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

The Marketing and communications campaigns to support Safilo's brand portfolio, are one of the key factors for the Group's success.

The main aims of the Group marketing strategies include:

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

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

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

In 2016, the Group's total investment in marketing and communication came to Euro 129.4 million (vs. Euro 145.1 million in 2015), equal to roughly 10.3% of consolidated revenues for the Group (vs. 11.3% in 2015).

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 do so due to its efficient targeting capabilities and the changing media consumption habits of our consumers.

In 2015, the Group further developed the Global Trade Marketing division, which is responsible for supporting the brands' growth through the creation of successful trade marketing plans and excellence of execution, in coordination with the regional business units.

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.

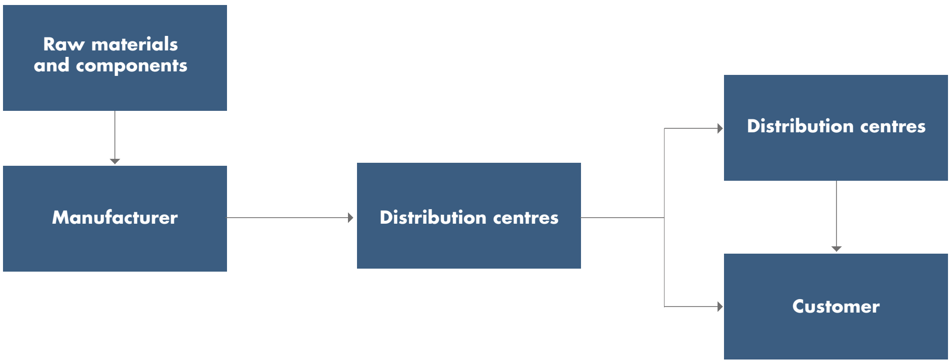
Safilo's corporate communication is rooted in the Group's values and is mainly executed through the Group's website safilogroup.com, social media platforms, as well as media relation plans for an effective press coverage both on-line and offline.

Sales and distribution

Distribution

The products are distributed through specialised distribution centres

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



The Group has developed a common information platform for the main EMEA and Asian companies. From a logistical standpoint, this platform enables direct linking of the highly automated Padua distribution centre in Italy with individual opticians and third party distributors. This logistical organisation provides both excellent service to the customer and allows stocks of finished products to be constantly monitored.

Distribution through the wholesale channel

The Group operates in 130 countries through its own branches and independent distributors

Safilo Group sells its products in around 130 countries, through an extensive wholly owned globaly distribution network in 39 countries across the world and a network of independent distributors in the other countries. Each Group branch coordinates a solid field sales network, reaching nearly 100,000 points of sale 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 highly 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 6 regions and 4 global channels

Safilo's distribution network is geographically organised in 6 regions, which respectively cover North America, Latin America, Asia-Pacific, Western Europe, Central Eastern Europe and IMEA. In addition, four key global sales channels were introduced across all the Group's geographical divisions: Global Travel Retail, operating principally in Asia and Europe and rapidly evolving in the USA from its base in Miami; Global Accounts such as GrandVision; Global Sport & LifeStyle, resulting from the combination of Smith USA and the Sports channel in Europe under one commercial leadership; Department Stores.

Below is a brief description of the 6 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, considered to offer high growth potential and where consumers pay great attention to high-end products and to "Made in Italy" design. Starting from 2015 the Group has a wholly owned subsidiary in Turkey making it the hub of its new Central Eastern European Division.

ASIA - PACIFIC

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

IMEA (India, Greece, Middle East & Africa)

IMEA. The Group has subsidiaries in Greece, India and South Africa, while the balance of the high potential Middle Eastern and African markets are served through distributors. Since 2014 the Group has a wholly owned subsidiary to operate directly in Dubai and in the countries of the Arabian Peninsula, and serving as a regional headquarter.

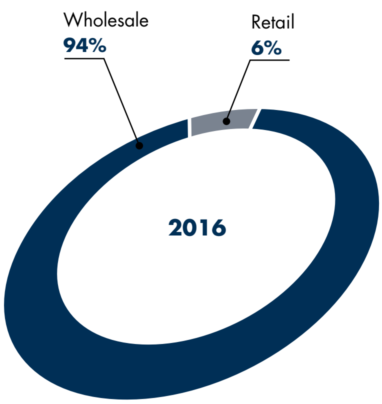
NORTH AMERICA

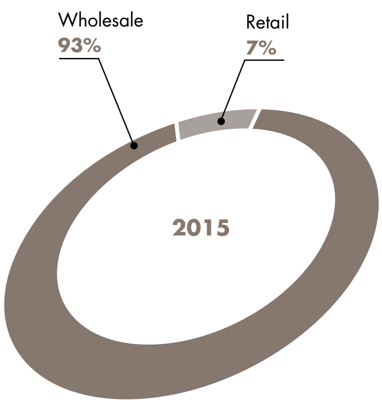
North America covering the USA and Canada, headquartered in New Jersey, USA. Marketing and distribution in the USA is implemented through three main distribution channels: *(i)* opticians, ophthalmologists and optometrists; *(ii)* department stores and chains; *(iii)* sports stores.

LATIN AMERICA

Latin America, heaquartered in Miami, USA. The commercial structure comprises affiliates in Brazil and Mexico and a distributor presence in the remaining markets on the continent. Additionally, there are three showrooms in the region (Miami, Sao Paulo and Mexico City) where new collections are presented and buying days for customers in the area are organized.

NET SALES BY DISTRIBUTION CHANNEL





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 US chain Solstice.

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

US chain Solstice

Purchased from the LVMH group in 2002, Solstice is a retail store chain specialised in the sale of sunglasses positioned in the high-end and luxury segments of the market, operating a total of 116 stores at the end of 2016.

The Group's own and licensed brands

The Group's portfolio contains both Safilo and licensed brands

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

Safilo's brand portfolio management is consistent with the Group's strategy to diversify across all the different and strategic segments of the eyewear industry, with a product/brand offer which spans from the highest price points and brand positioning, in the Atelier segment (Elie Saab Couture and OXYDO), to the licensed brands active in the Fashion Luxury (e.g. Dior and Jimmy Choo) and Premium Fashion (e.g. Max Mara and Hugo Boss) business, to the Contemporary Fashion and Lifestyle (e.g. Carrera, Tommy Hilfiger, Kate Spade), to the Sport and Outdoor inspired Smith.
In the last couple of years, Safilo has also been increasing its presence and relevance in the fast growing, lower price point branded Mass Cool segment, with its own core brand Polaroid, but also through new strategic licensing agreements. In line with this strategy, in 2016 Safilo started off the business of three of the most recently signed partnerships, introducing in the Fashion Luxury segment, the new eyewear collections of Givenchy, and launching in the Mass Cool market the eyewear category for the brands havaianas and Swatch.

2016 was another year in which the Group continued to sign new strategic agreements as well as confirming in advance key partnerships. In May, Safilo renewed until the end of 2023 its agreement for the design, manufacturing and distribution of the Jimmy Choo Eyewear collections, including the launch of a Jimmy Choo men's collection, starting from January 2018. Similarly, in September 2016, the long-term partnership for the Max Mara brand was renewed until December 2023.

In 2016 new licensing agreements for the Group

On the new business front, the Group announced in September a new licensing agreement for the design, manufacturing and worldwide distribution of the Moschino and Love Moschino collections of optical frames and sunglasses. The agreement will run for eight years starting from January 2018 until December 31, 2025, with an optional extension for a further eight years. These brands will represent two interesting entries into Safilo's portfolio to differentiate its product offer in the Fashion Luxury and in the Contemporary segments respectively. The Group will add a new directional brand to its designer contemporary portfolio also through the agreement reached in November with the US brand, rag & bone. The partnership will run for five years starting from January 2018 until December 31, 2022, and is aimed at business growth opportunities especially in the US and the UK.

Two important announcement have been released in December, on one side the renewal of the licensing agreement for the design, manufacturing and worldwide distribution of the Dior and Dior Homme collections of sunglasses and optical frames, until December 31, 2020, on the other, the closure, at the end of December 2017, of licensing agreement for the design, manufacturing and worldwide distribution of the Céline collections of sunglasses and optical frames, will run to closure on December 31, 2017. Céline Eyewear joined the Safilo brand portfolio in 2012, and represents today just above 3% of Safilo's worldwide sales concentrated mainly in Europe and North America.

In January 2017, Safilo opened its Atelier Division with Elie Saab Couture and OXYDO, the first brands to offer differing Atelier Eyewear expressions.

Safilo Atelier draws its inspiration from a long tradition of eyewear craftsmanship dating back to 1878. Today, Safilo's recently opened Padova based Product Design and Creation Studio embodies this nearly 140 year old craftsmanship tradition, blending savoir-faire, passion and dedication with cutting-edge technical solutions and state-of-the art 3D printing production technology for the creation of unique pieces of eyewear.

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

Own Core Brands

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

CARRERA
EYEWEAR SINCE 1956

Since having been founded by Wilhelm Anger in 1956, Carrera has stood for unique collections and introduced 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 is adept at expressing the *zeitgeist* whilst remaining authentic, original and innovative.

Two different collections: the sport collection, with ski goggles and helmets, a crucial and original part of Carrera's history and its link with the concepts of performance and technology; and the lifestyle collection, with models designed for an urban environment and with great attention to the iconic details of an original and authentic brand in both sun and optical styles for men, women and kids.

OXYDO

Oxydo Pioneering a synthesis of design, art and innovation, Oxydo brings to life an avant-garde vision of Wearable Sculptures, deeply engrained in modern art. Its continuous drive for research and experimentation encompasses special collaborations with the most unique talents of the contemporary art scene, and mixes inventively Crafted in Italy, advanced technologies such as 3D print, and Architectural constructions. Oxydo creations transcend the boundaries of the established eyewear propositions, representing the fusion of materials and techniques into an eclectic and iconic range. They are conceived for sophisticated and cosmopolitan individuals, absolutely engaged by the unique and distinctive styles. Each piece is available in a limited edition, exclusively made for the customer, and is marked by an identifying code highlighting the numeric progression in the year of the model release.

Polaroid

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

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

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

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

SAFILO
OCCHIALI DAL 1934

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

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

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 eyewear specifically designed with the needs of children in mind. Developed and tested with the Società Italiana di Oftalmologia Pediatrica and in compliance with the 'consensus statement' of the World Society of Paediatric Ophthalmology and Strabismus (WSPOS), this collection ensures we provide the highest quality of comfort and safety for children.

SMITH

Smith was born 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. 50 years on, Smith Optics is one of the leading manufacturers of ski goggles, sunglasses and ski and bike helmets. Since the acquisition by Safilo in 1996, Smith continued to grow both in Europe and the rest of the world, especially in the sunglasses sector. Designed for active sports enthusiasts, such as 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.

The own 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 for a specific market segment and target consumer. Safilo Group's portfolio of licensed brands is one of the most important and diversified in the eyewear market. Numerous fashion houses rely on the Group, many of them world-famous brands and others which are more associated with certain specific countries. The Group's licences are governed 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	BOSS HUGO BOSS	BOSS HUGO BOSS	havaianas
DIOR HOMME	MARC JACOBS	GIVENCHY PARIS	BANANA REPUBLIC
CÉLINE	ELIE SAAB*	MOSCHINO*	rag & bone* NEW YORK
	kate spade NEW YORK	LOVE MOSCHINO*	Juicy Couture BLACK LABEL los angeles
FENDI	FOSSIL	BOBBI BROWN	LIZ claiborne
MaxMara	TOMMY HILFIGER	MAX&Co.	Saks Fifth Avenue
JIMMY CHOO	swatch the eyes	pierre cardin PARIS	JACK SPADE

(*) From 2017 Elie Saab, from 2018 Moschino, Love Moschino and rag & bone.

Below is a summary and a brief description of the licensed brands:

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

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

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

BOSS Orange. A modern and casual brand for a young and up-to-date target, cool and contemporary design for individual style seekers. The collection was presented to the market in August 2010: easy-to-wear styles with a modern appeal and contemporary design that adapt to an inner-city metropolitan lifestyle.

Céline. Timeless and minimalist luxury with an unconventional twist. Each Céline collection embodies the spirit of Creative Director Phoebe Philo's vision: distinctiveness, modern elegance, femininity with a unisex feeling. The eyewear collection combines the highest quality and research standards with the notoriety of one of the most influential brands in the market. It is intended for sophisticated modern consumers, characterized by a strong personality and looking for both quality and distinctive style.

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 female consumer aged 25 years or above, 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. Since 2005, Riccardo Tisci has been the creative director of women's Haute Couture, ready-to-wear and accessories' collections (extended to menswear in 2008). Twisting the codes of the House, which are cool chic, sobriety, femininity and aristocratic elegance, the designer adds dark romanticism and sensuality. He creates a silhouette combining pure lines with a graphic structure. True to the House's creative heritage and spirit, Riccardo Tisci brings the name of Givenchy into today's world while projecting it into the future. Givenchy's distinct and modern creativity inspires unique eyewear creations of high quality and distinctiveness.

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

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

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

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

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

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

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

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

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

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

Love Moschino. Love Moschino is addressed at a young (< 30) fashion conscious clientele looking for timeless and easy to wear shapes, enhanced by daring colour association and smart details recalling the brand world. The casual taste is merged with a contemporary urban style for a fashion offer able to underline a creative and individual attitude. The collection, mainly focused on optical, will be 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; eyewear collections are sold at very affordable prices. The collection goes beyond tradition, exploring new routes in style: some models take inspiration from a futuristic design, made in keeping with the elegance of the brand.

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

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

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

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



SAFILO GROUP S.p.A. CONSOLIDATED FINANCIAL STATEMENTS AT 31ST DECEMBER 2016

BOARD OF DIRECTORS, COMMITTEES AND AUDITORS

BOARD OF DIRECTORS (*)	*Chairman*	Robert Polet
	Chief Executive Officer	Luisa Deplazes de Andrade Delgado
	Independent Director	Jeffrey A. Cole
	Director	Melchert Frans Groot
	Independent Director	Guido Guzzetti
	Independent Director	Marco Jesi
	Independent Director	Ines Mazzilli
	Independent Director	Eugenio Razelli
BOARD OF STATUTORY AUDITORS	*Chairman*	Paolo Nicolai
	Regular Auditor	Franco Corgnati
	Regular Auditor	Bettina Solimando
	Alternate Auditor	Marzia Reginato
	Alternate Auditor	Gianfranco Gaudioso
SUPERVISORY COMMITTE (**)	*Chairman (***)*	Franco Corgnati
		Eugenio Razelli
		Massimiliano Pascale
CONTROL RISK AND SUSTAINABILITY COMMITTEE (****)	*Chairman (***)*	Eugenio Razelli
		Ines Mazzilli
		Melchert Frans Groot
REMUNERATION AND NOMINATION COMMITTE (**)	*Chairman*	Jeffrey A. Cole
		Robert Polet
		Marco Jesi
RELATED PARTIES TRANSACTIONS COMMITTEE (**)	*Chairman (***)*	Eugenio Razelli
		Ines Mazzilli
		Guido Guzzetti
INDEPENDENT AUDITORS	Deloitte & Touche S.p.A.	

(*) Appointed by the Shareholders' Meeting held on April 27th, 2015.
(**) Appointed by the Board of Directors' Meeting held on April 27th, 2015.
(***) Appointed by the Committee' Meeting held on August 3rd, 2015.
(****) Appointed by the Board of Directors' Meeting held on April 27th, 2015, and rename "Control Risk and Sustainability Committee" with Board of Directors' resolution dated December 13th, 2016.

CHAIRMAN'S LETTER

Dear Shareholders,

2016 was an important transition year for the company as Safilo Group completed the second year of its 5-year transformation, following the 4 key strategies laid out in the 2020 Strategic Plan.

It was characterized by two opposing business dynamics.

On the one hand, it was the final year of the Gucci license with revenues and profits declining significantly. On the other hand, stood the growth dynamics of the going forward portfolio which continued on its growth trajectory also in 2016.

In 2016, our strong license brand portfolio, as well as the core markets in Europe and North America continued to perform well along with key emerging markets in Latin America, Central & Eastern Europe and IMEA. The business in Asia, following a reorganization in the 2 preceding years, recorded a trend improvement giving us confidence for the future of our business in that region.

Although falling short on its targets on our own core brands, the teams have worked diligently to enhance the quality of the brand mixes based on deep consumer understanding. This is now reflected in the 2017 collections which will be deployed in spring/summer.

The company enhanced its brand portfolio welcoming Moschino/Love Moschino and rag&bone as new licenses.

On the operational side, the Group progressed along its 2020 product supply strategy increasing in-house production, reducing the number of distribution centers and modernizing its manufacturing capabilities, all leading to significant cost savings.

Furthermore, in March 2016, the Group announced a Euro 30 million Overheads saving program and final 2016 results were already ahead of plan.

Safilo is continuing to implement its 4-year IT transformation plan, adding several successful golive waves during 2016, and in the first half of 2017 will implement the go live of its order-to-cash processes.

Our experienced and valued board of Directors, together with our long-term oriented leading shareholder are of great support to the company and its long term growth strategy.

Important and fundamental progress was made in 2016 in pursuit of our 2020 Vision as a leading eyewear player, brand driven and design inspired.

On behalf of the Board of Directors, I wish to take the opportunity to thank everyone working for Safilo for the dedication they show every day, and their commitment to building a strong Safilo for the future.

Robert Polet
Chairman

CHIEF EXECUTIVE OFFICER’S LETTER

Dear Shareholders,

I would like to start by expressing my gratitude to you, as well as to our employees, customers and all partners across the world for having placed your trust in SAFILO’s long-term potential and in our roadmap to achieve it.

In our 2020 Strategic Plan, we affirmed our Product centric vision - Brand driven and Design inspired - rooted in deep insights on both SAFILO’s historical strengths and its challenges over time, and the key need to modernize the Group to make it capable of playing an independent role as historical and future leader of the Eyewear industry.

We also declared the four long-term strategic choices of balancing our brand and market portfolio, Focusing our Capability Building on product, brand building and sales, Simplifying our underlying operations and supply network, and Differentiating product and commercial solutions by consumer segment, category, and channel. And throughout our interventions, we made it our urgent priority to make SAFILO operationally capable to compete effectively.

2016 was an important year of transition for SAFILO. It involved managing the Gucci decline in its final license period, accelerating the sales and profitability growth of the Going Forward Brands Portfolio, and implementing further cost savings and business transformation initiatives. In total, the Group delivered almost stable net sales at constant exchange rates, subdued operating results due to the negative Gucci impacts, a positive cash flow after accelerated capex investments, and a record low adjusted financial leverage. On the other hand, the Group’s reported financial results are impacted by a non-cash goodwill impairment charge for Euro 150 million, driven by the Far East business.

Let me also this year provide my perspective on each of the four long term strategic choices, regarding the 2016 progress and focus for 2017 to sustain and accelerate it.

1. Balance to underpin Sustainable Growth

Brands

SAFILO’s great strength is its portfolio of world-class brands - both those that we own and those that are entrusted to us by our licensors - that we continuously replenish to reflect latest and expected future consumer trends and growth potential across the five consumer segments we decided to address as part of our 2020 strategic plan.

We have said that balancing our portfolio is key to our transformation, both in terms of weight of Own Core Brands and within our Licenses the need to diversify beyond brands pertaining to the big global Luxury conglomerates, partnering with high quality independent brands across the world, and following fashion trends of emerging new smaller brands particularly attractive to Millennials.

Our single biggest opportunity to create sustainability in our portfolio are our Own Core Brands. Smith, our biggest Own Core Brand, completed its integration into the SAFILO Group while delivering a positive year with NA market leadership in snow, expansion of its on-line business totaling now nearly 20% of NA sales, and progress in its EMEA Sports expansion. Polaroid had a positive sun season in Europe and an encouraging launch of its new prescription collections in the USA, while last quarter showed soft sales reflecting the very promotional business environment which characterised some of its core European markets. The year was mixed for Carrera, as we continued to search for the authentic design language and sustainable collection structures to capture the DNA of the legendary brand and the breadth of its consumers and markets. Our single central priority for the years to come is to grow our own core brands to their full potential.

In the course of 2016, we re-oriented our Brand Management, organizing it by consumer segment, and not anymore by the brands' licensed or proprietary nature, thus driving also for Own Core Brands consistent consumer-based differentiation in the brand, product, and commercial strategies as well the resulting worldwide go-to-market implementations by channel. The first positive effects are clear in the new Own Core Brand collections and plans as they start unfolding in 2017.

We see a vast opportunity to develop a more balanced licensed brand portfolio starting with our current portfolio brands, and those that we have been adding over the past two years, i.e. beyond launching fashion luxury Givenchy, we brought during 2016 new to the world mass cool havaianas eyewear to Brazil in the second half of the year pending global launch in 2017, started to ship on our mass cool Swatch collaboration, and pre-launched Elie Saab Atelier eyewear. During 2016, we early renewed to December 2023 our licenses with two among our fastest growing Fashion Luxury and Premium brands respectively, Jimmy Choo and Max Mara that has been a longstanding partner since 1997. We also signed new licenses in the Fashion Luxury Segment with Moschino and Love Moschino, and in Upper contemporary with the American brand rag&bone. Dior confirmed another year of exceptional growth leading the industry in trendsetting design, product craftsmanship and quality, on the back of which we early-renewed the license in December 2016 until December 2020. At the same time, the Celine license was renewed just until the end of December 2017, exiting our portfolio after that.

Markets

SAFILO's other great strength is its global distribution footprint, with direct affiliate presence in 39 countries across the globe, and more than 50 exclusively certified and appointed partners representing SAFILO in further more than 70 specific markets. Also in terms of markets, SAFILO has been historically dependent on 2 countries, Italy and the USA. We vowed to diversify also our market portfolio and create global channels wherever that would accelerate the growth of specific market segments. During 2016 we organized the Group into three new business areas: North America and global Sports channel, Western Europe and global Key Accounts, and Emerging Markets and Duty Free.

We saw solid growth in Europe, positive developments in NA even in the difficult and volatile US Market, and strong growth in the Emerging Markets of IMEA, Central & Eastern Europe, and Brazil and Mexico. Our reconstruction of the Asia business, both in China and in parts of APAC, progressed in 2016, following the closure in 2015 of a significant part of our channels in order to stepchange the quality of our sales and brand building in the region which led to an important decline of top- and bottom-line in the region. In the second half of 2016, we saw early signs of more positive results and will build 2017 accordingly.

2. Focus to build breakthrough Capability

The focus as regards our Own Core Brands has been on reapplying the proven Licensed business models plus adding our own brand building capability, with marketing programmes, communications and digital capability. For Smith, for example, we have focused on validating a pilot test in direct to consumer sales via smith.com in NA, which upon success is now being expanded to Western Europe. On Carrera, we launched a worldwide partnership with award-winning actor, director and musician Jared Leto, that fueled visibility and desirability of the brand with strong PR/Communications and digital experimentation programmes, making an important impact on the brand's awareness, supplemented by innovative social media programmes namely. We continue to see good brand health progress on both Carrera and Polaroid, and are getting ready for further expansion and locally unique special plans across key markets.

We also opened the new Padova Design Studio, a modern work environment combining Product Design, Creation and Development with Materials and Colour Research, Innovation and our unique Atelier where our Artisans craft handmade eyewear.

It is in this context that we were able to pre-launch end 2016 Safilo X, the Group's strategy to wearable technology. It combines three elements: Attractive highest quality eyewear product that integrates seamlessly technology. To eyewear unique brainwave sensing technology with multiple applications. A consumer relevant application that addresses a meaningful business opportunity. Nested in our iconic Lowdown model, Smith X offers the first sun glasses that are for normal attractive wear, and at the same time integrate brainwave sensing technology with an application to coach for focus and mindfulness, to enhance performance. After pre-launching at CES in Vegas in January 2017, followed up by Mido in March, we plan to launch the product in fall 2017.

In 2016, we acquired the full stake of Lenti, industry unique inventory and producer of graphic design sun glass lenses. We are proud to add Lenti to our Italian supply network, and have been investing over 2016 significantly in its capacity and innovation process and quality assurance.

Commercial capability development continued at full speed across the world, now building on increasing differentiated distribution per segment and brand penetration. In this context, we also further expanded our coverage of Smile, our proprietary category management and automatic replenishment system from 3,400 to more than 5,000 doors worldwide, and continued to improve DSO significantly.

3. Simplify to Save Cost and enhance Control

This strategy continues at the heart of our modernization. SAFILO's modernization continues to be about building the modern simplified capabilities of a multinational, which operates with a global mindset and acts locally in an entrepreneurial and nimble manner relevant to local customers and consumers, enabled by IT systems that standardize work in the background.

Our chosen key corporate enabler for simplification has been standardization of key work processes across the globe, enabled by IT systems infrastructure. With a fragmented legacy IT landscape, we designed our best of breed EYEWAY program, and took in 2015 the first major steps of the 3-year systemic roll-out plan by going live with SAP in human resource management, procurement, and finance & controlling in our operating company SAFILO SpA. In 2016, we added Product life cycle management, sales planning and demand planning, all also flawless and the result of a large organizational effort across many functions, for which I would like to express my sincere gratitude to all of Safilo's employees involved and to our consulting partners supporting us. In January 2017, we have our most complex transition for Order to Cash, of all global Sales, Logistics, and Warehouse management out of our global Padova Distribution Centre.

Product Supply operations, as commented last year one of the Group's challenges in the past decades yet historical strengths, progressed further in its simplification plans integral to the 2020 product supply strategy to reduce complexity and cost while increasing speed, service and cash by strengthening in-house production and simplifying drastically manufacturing and distribution network flows. Specifically on the latter we progressed beyond the NA distribution network consolidation that combined our historic 2 distribution centers in the USA into 1 in Denver in 2015, and further consolidated 5 DC's across Asia and Canada, and closed the year with 13 DC's out of the original 20. The work on the logistics chain and in the manufacturing network led to continued strong product quality results and a delivery of cost savings in excess of 10 million Euro.

In 2016, we have also created a new function called Sales Delivery that has the role to bridge between Commercial and Product Supply, steering planning, the order book, production and resulting order fulfilment, freeing over time commercial and production capacity to deliver on their respective missions. In March 2016, we announced an overheads cost reduction programme of 30 Mio Euro over 4 years, on the back of work simplification and thus sustainable position reductions across several specific programmes. 2016 results were already ahead of plan, with key programmes firmly kicked off in preparation of future implementations.

4. Differentiate to lead with relevant Impact

Recognizing our choice to play in 5 consumer segments, and different markets/channels/customers, we have progressed on the deliberate differentiation strategy to be relevant with each while leveraging underlying synergies. This includes bespoke quality standards per segment, differentiated shopper based assortment by channel, and uniquely differentiated co-marketing programmes by customer.

The new angle of differentiation that we launched at the end of 2016 was between sun and optical categories, by their unique respective requirements. The Optical strategy brings us back to our company's strong origins, and is led by the establishment of a cross brand transversal global category leadership role focused on product design, collection structure, sales training and specific targets, key business drivers that went lost over the past decades. The spearhead for our optical aspiration is our house brand SAFILO, that we are ready to relaunch in fall 2017 after deep research over the past two years.

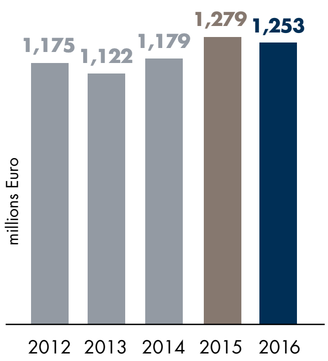
In summary, we intend to strengthen our strategic choices and accelerate their implementation, while we are conducting a regular strategy renewal to identify adjustments that may be needed over time. Our main first focus remains on our operational foundation capabilities, that must be solved with urgency addressing our costs and inefficiencies through significant simplifications with continued high expectations in leadership and project management to address our complexities with sustainable improvements, and tangible top and bottomline and cash results.

Our 2020 Vision is to become a leading independent Global Eyewear Creator with a balanced Portfolio of superior brands and we renew our commitment to, step by step, execute our Strategy in a way that positions SAFILO to generate sustainable, profitable growth going forward.

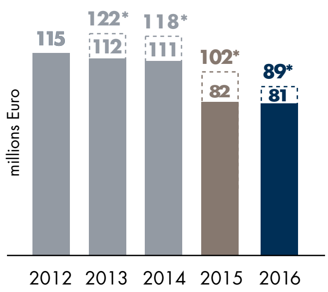
Luisa Deplazes de Andrade Delgado
Chief Executive Officer

SUMMARY OF KEY CONSOLIDATED PERFORMANCE INDICATORS

NET SALES

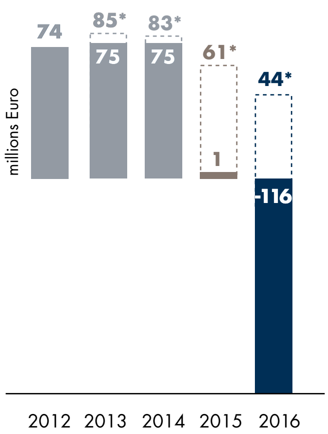


EBITDA



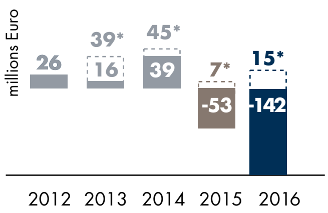
* before non-recurring charges

EBIT



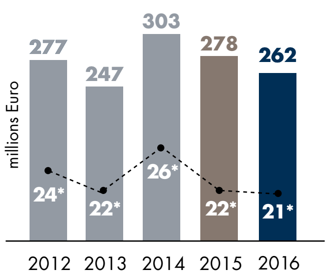
* before non-recurring charges

NET RESULT



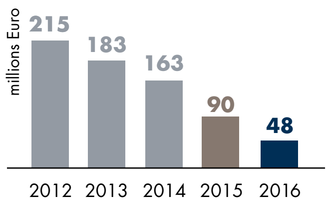
* before non-recurring charges

NET WORKING CAPITAL



* % incidence on net sales

NET DEBT



Economic data (Euro million)	**2016**	**%**	**2015**	**%**
Net sales	1,252.9	100.0	1,279.0	100.0
Cost of sales	(537.3)	(42.9)	(522.0)	(40.8)
Gross profit	715.6	57.1	757.0	59.2
Ebitda	80.9	6.5	82.4	6.4
Ebitda pre non-recurring items	88.8	7.1	102.4	8.0
Operating profit/(loss)	(116.3)	(9.3)	0.8	0.1
Operating profit/(loss) pre non-recurring items	43.5	3.5	61.4	4.8
Group profit/(loss) before taxes	(122.6)	(9.8)	(25.6)	(2.0)
Profit/(Loss) attributable to the Group	(142.1)	(11.3)	(52.7)	(4.1)
Profit/(Loss) attributable to the Group pre non-recurring items	15.4	1.2	6.9	0.5

Balance sheet data (Euro million)	**December 31, 2016**	**%**	**December 31, 2015**	**%**
Total assets	1,527.1	100.0	1,590.8	100.0
Total non-current assets	843.5	55.2	940.5	59.1
Capital expenditure	52.4	3.4	47.9	3.0
Net invested capital	921.2	60.3	1,088.5	68.4
Net working capital	261.7	17.1	277.7	17.5
Net financial position	(48.4)	(3.2)	(89.9)	(5.7)
Group Shareholders' equity	872.8	57.2	997.5	62.7

Financial data (Euro million)	**2016**		**2015**	
Cash flow operating activity	89.1		114.8	
Cash flow investing activity	(44.3)		(40.0)	
Cash flow financing activity	5.2		(70.6)	
Closing net financial indebtedness (short-term)	99.0		47.6	
Free cash flow	44.7		74.8	

Financial and economic indicators	**2016**		**2015**	
ROS	(9.3)%		0.1%	
ROIC	(5.2)%		0.0%	
ROE	(16.3)%		(5.3)%	

Group personnel	**2016**		**2015**	
Punctual as at December 31st	7,128		7,325	
Average in the financial year	7,068		7,211	

Earnings/(Losses) per share (in Euro)	**2016**		**2015**	
Earnings/(Losses) per share - basic	(2.269)		(0.843)	
Earnings/(Losses) per share - diluted	(2.267)		(0.840)	
Group Shareholders' equity per share	13.93		15.93	

Share and market data (in Euro)	**2016**		**2015**	
Share price at the end of the financial year	7.90		10.82	
Maximun share price of the financial year	10.48		15.09	
Minimum share price of the financial year	6.38		9.92	
No. shares in share capital at December 31st	62,659,965		62,629,965	
Stock Market value at the end of the financial year	495,314,491		677,512,172	

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

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

- *in 2015, the non-recurring items referred to an impairment loss on the goodwill allocated to the Far East cash generating unit for Euro 40.5 million, a provision for other risks and charges in relation to the investigation of the French Competition Authority for Euro 17.0 million and non-recurring restructuring costs for Euro 3.0 million.*
  In the fourth quarter 2015, the non-recurring items on EBITDA referred to a provision for other risks and charges in relation to the investigation of the French Competition Authority for Euro 17.0 million and non-recurring restructuring costs for Euro 0.7 million.

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

(Euro million)	2016 Ebitda	2016 Operating profit/(Loss)	2016 Profit/(Loss) attributable to the Group	2015 Ebitda	2015 Operating profit/(Loss)	2015 Profit/(Loss) attributable to the Group
Economic indicators	**80.9**	**(116.3)**	**(142.1)**	**82.4**	**0.8**	**(52.7)**
Commercial restructuring costs EMEA	1.2	1.2	1.2	1.2	1.2	1.2
Restructuring - Polaroid Vale	3.5	5.4	5.4	-	-	-
Restructuring - China	0.6	0.6	0.6	-	-	-
Restructuring - customer services EMEA	0.7	0.7	0.7	-	-	-
Restructuring - other	1.8	1.8	1.8	1.8	1.8	1.8
Provision for litigation	-	-	-	17.0	17.0	17.0
Impairment loss on goodwill	-	150.0	150.0	-	40.5	40.5
Tax effect on non recurring items	-	-	(2.3)	-	-	(0.9)
Economic indicators pre non recurring items	**88.8**	**43.5**	**15.4**	**102.4**	**61.4**	**6.9**

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 release on a voluntary basis a trading update for first and third quarter showing only financial KPIs.

With reference to the disclosure by geographical area it should be noted that starting from this fiscal year, the Group has redefined the disclosure relative to sales by geographical area in line with the reporting used internally by the management, the comparative figures have been restated accordingly. This redefinition has not had a significant impact.

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

- *Sales performance of the Going Forwards Brand Portfolio is calculated by excluding Gucci and all brands which exited Safilo's brand portfolio in 2015;*
- *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 algebraic sum of shareholders' equity of the Group and minority*
- *interests and the "Net financial position" (see below);*
- *"Free Cash Flow" means the algebraic sum of cash flow from/(for) operating activities and the cash flow from/(for) investing activities;*
- *"Net working capital" means the algebraic 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;*
- *"ROS" is the ratio between operating profit and sales;*
- *"ROIC" is the ratio between operating profit net of adjusted taxes and net invested capital;*
- *"ROE" is the ratio between Group net profit (loss) and Group shareholders' equity.*

Disclaimer

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



1

DIRECTORS OPERATIONS REPORT

INFORMATION ON THE OPERATIONS

Safilo's full year total net sales reached Euro 1,252.9 million, slightly contracting compared to the Euro 1,279.0 million recorded in 2015 (-2.0% at current exchange rates and -1.2% at constant exchange rates) mainly as a result of the double-digit decline of Gucci in its last year as Safilo's licensed brand.

Sales of the Group's Going Forward Brands increased 3.6% at constant exchange rates, or 5.2% excluding the declining US retail business, achieving solid results in the core European and North American wholesale markets while Asia remained subdued.

At the operating level, 2016 EBITDA pre non-recurring items reached Euro 88.8 million, declining 13.3% compared to Euro 102.4 million in 2015. 2016 EBITDA margin pre non-recurring items stood at 7.1% of sales compared to 8.0% the year before, reflecting the dilutive effects of the Gucci business.

Safilo closed 2016 with a Group net result pre non-recurring items of Euro 15.4 million compared to the net result pre non-recurring items of Euro 6.9 million recorded in 2015.

2016 adjusted net result does not include a non-cash impairment loss of Euro 150.0 million on goodwill allocated to the Far East cash generating unit and non-recurring restructuring costs of Euro 7.5 million (Euro 7.9 million on EBITDA).

In 2016, the Group generated Free Cash Flow of Euro 44.7 million, further reducing the Group Net Debt to Euro 48.4 million from Euro 89.9 million in 2015 and the adjusted financial leverage to 0.5x.
This result includes the second of the three compensation payments of Euro 30 million from Kering received in December 2016, and a cash consideration of Euro 10.7 million for the sale of the Group's former North American distribution center in New Jersey.

GROUP ECONOMIC RESULTS

Consolidated statement of operations (Euro million)	**2016**	**%**	**2015**	**%**	**Change %**
Net sales (*)	1,252.9	100.0	1,279.0	100.0	-2.0%
Cost of sales	(537.3)	(42.9)	(522.0)	(40.8)	2.9%
Gross profit	**715.6**	**57.1**	**757.0**	**59.2**	**-5.5%**
Selling and marketing expenses	(512.8)	(40.9)	(526.5)	(41.2)	-2.6%
General and administrative expenses	(167.8)	(13.4)	(171.5)	(13.4)	-2.2%
Other operating income/(expenses) (**)	(1.3)	(0.1)	(17.7)	(1.4)	-92.5%
Impairment loss on goodwill	(150.0)	(12.0)	(40.5)	(3.2)	n.s.
Operating profit/(loss)	**(116.3)**	**(9.3)**	**0.8**	**0.1**	**n.s.**
Financial charges, net	(6.4)	(0.5)	(26.4)	(2.1)	-75.9%
Profit/(Loss) before taxation	**(122.6)**	**(9.8)**	**(25.6)**	**(2.0)**	**n.s.**
Income taxes	(19.5)	(1.6)	(26.9)	(2.1)	-27.5%
Net profit/(loss)	**(142.1)**	**(11.3)**	**(52.4)**	**(4.1)**	**n.s.**
Net profit/(loss) attributable to minority interests	-	-	0.3	-	-100.0%
Net profit/(loss) attributable to the Group	**(142.1)**	**(11.3)**	**(52.7)**	**(4.1)**	**n.s.**
EBITDA	**80.9**	**6.5**	**82.4**	**6.4**	**-1.7%**

Economic indicators pre non-recurring items	**2016**	**%**	**2015**	**%**	**Change %**
EBIT pre non-recurring items	**43.5**	**3.5**	**61.4**	**4.8**	**-29.1%**
EBITDA pre non-recurring items	**88.8**	**7.1**	**102.4**	**8.0**	**-13.3%**
Net profit/(loss) attributable to the Group pre non-recurring items	**15.4**	**1.2**	**6.9**	**0.5**	**n.s.**

(*) At constant exchange rates, 2016 net sales slightly contracted compared to 2015, amounting to Euro 1,264.1 million.
(**) The item includes operating non-recurring expenses for a total amount of Euro 9.8 million (Euro 20.0 million in 2015).
Percentage impacts and changes have been calculated on figures in thousands.

Safilo's full year 2016 net sales totaled Euro 1,252.9 million, down 2.0% compared to Euro 1,279.0 million in the full year 2015. At constant exchange rates, the Group's net sales decreased by 1.2%. The key drivers of the year's performance were the growth of the Going Forward Brand Portfolio, up 3.6% at constant exchange rates (+5.2% excluding Retail) and the double-digit decline of Gucci, as the license drew to a close and the market was waiting for the new collection.

The margin movement at the gross and operating level reflected the Gucci impacts, the decline of Solstice and a negative foreign exchange impact, which more than offset the positive margin impact from the Going Forward wholesale business.

2016 **gross profit** was equal to Euro 715.6 million, down 5.5% compared to Euro 757.0 million in 2015, with the gross margin moving to 57.1% of sales from 59.2%.

2016 **EBITDA pre non-recurring items** was Euro 88.8 million, down 13.3% compared to the EBITDA pre non-recurring items of Euro 102.4 million recorded in 2015. EBITDA margin pre non-recurring items equaled 7.1% of net sales in 2016, compared to 8.0% in 2015.

2016 **EBIT pre non-recurring items** was Euro 43.5 million, down 29.1% compared to the EBIT pre non-recurring items of Euro 61.4 million for 2015. EBIT margin pre non-recurring items was 3.5% of net sales in 2016, compared to 4.8% in 2015.

2016 total net financial charges decreased to Euro 6.4 million from Euro 27.4 million in 2015 mainly due to the positive impact of exchange rates differences and the higher positive fair value measurement of the option component embedded in the equity-linked bonds. In 2016, net interest charges decreased.

Safilo closed 2016 with a **Group net result pre non-recurring items** of Euro 15.4 million compared to the net result pre non-recurring items of Euro 6.9 million recorded in 2015.

Consolidated income statement (Euro million)	**Fourth quarter 2016**	**%**	**Fourth quarter 2015**	**%**	**Change %**
Net sales (*)	313.9	100.0	319.2	100.0	-1.7%
Gross profit	**151.7**	**48.3**	**179.5**	**56.2**	**-15.5%**
EBITDA	**9.9**	**3.2**	**7.3**	**2.3**	**35.9%**

Economic indicators pre non-recurring items	**Fourth quarter 2016**	**%**	**Fourth quarter 2015**	**%**	**Change %**
EBITDA pre non-recurring items	**11.4**	**3.6**	**25.0**	**7.8**	**-54.4%**

(*) At constant exchange rates, 2016 fourth quarter net sales decreased by 1.7% compared to the fourth quarter 2015, amounting to Euro 313.8 million.
Percentage impacts and changes have been calculated on figures in thousands.

In the fourth quarter 2016, Safilo's total net sales equaled Euro 313.9 million, slightly declining compared to the same period of last year (-1.7% at current exchange rates and also at constant exchange rates), while the sales of the Group's Going Forward Brand Portfolio recorded a positive performance (+0.5% at constant currency and +2.3% excluding Retail). This reflected overall positive sales growth recorded in Europe and the North American wholesale business, as well as progress in the Rest of the World, namely IMEA and Latin America, while the business performance remained subdued in Asia and in the US retail business.

In the fourth quarter 2016, the economic performance was mainly driven by the phasing out of the Gucci license and the complete sale of its related finished products stock. At the same time, in the last quarter of 2016, Safilo shipped the first significant volumes under the strategic product partnership agreement signed with Kering. Unfortunately, all these Gucci related effects, along with higher obsolescence charges more than offset the positive underlying progress by the going-forward portfolio behind price/ mix and cost savings.

The fourth quarter 2016 **gross profit** totaled Euro 151.7 million, down 15.5% compared to Euro 179.5 million in the same quarter of 2015. In the fourth quarter of the year, gross margin decreased to 48.3% of net sales from 56.2% in the fourth quarter 2015.

The fourth quarter 2016 **EBITDA pre non-recurring items** equaled Euro 11.4 million, down 54.4% compared to the EBITDA pre non-recurring items of Euro 25.0 million recorded in the same period of 2015. The EBITDA margin pre non-recurring items declined to 3.6% of net sales in the fourth quarter 2016, from 7.8% in the fourth quarter 2015.

Net sales by geographical area

Net sales by geographical area (Euro million)	**2016**	**%**	**2015**	**%**	**Change %**	**Change % (*)**	**Change % (**)**
Europe	537.6	42.9	508.5	39.8	5.7%	7.1%	9.2%
North America	509.5	40.7	531.3	41.5	-4.1%	-4.1%	-0.2%
Asia Pacific	114.7	9.2	147.9	11.6	-22.5%	-22.3%	-10.2%
Rest of the world	91.2	7.3	91.2	7.1	0.0%	4.4%	9.7%
Total	**1,252.9**	**100**	**1,279.0**	**100**	**-2.0%**	**-1.2%**	**3.6%**

Net sales by geographical area (Euro million)	**Fourth quarter 2016**	**%**	**Fourth quarter 2015**	**%**	**Change %**	**Change % (*)**	**Change % (**)**
Europe	138.4	44.1	130.2	40.8	6.3%	8.4%	2.8%
North America	123.2	39.3	127.7	40.0	-3.5%	-5.1%	-2.6%
Asia Pacific	24.5	7.8	35.0	10.9	-29.8%	-30.8%	-8.0%
Rest of the world	27.7	8.8	26.3	8.2	5.1%	3.5%	11.6%
Total	**313.9**	**100**	**319.2**	**100**	**-1.7%**	**-1.7%**	**0.5%**

(*) Sales performance at constant exchange rates.
(**) Sales performance at constant exchange rates of the Going Forward Brands Portfolio, excluding Gucci and all brands which exited Safilo brands portfolio in 2015.

EUROPE

In 2016, Europe was Safilo's main driver of growth, becoming the Group's biggest region, equal to 42.9% of the total business. In the fourth quarter 2016, European net sales grew 6.3% at current exchange rates and 8.4% at constant exchange rates, to Euro 138.4 million. In 2016, full year net sales in Europe increased 5.7% at current exchange rates and 7.1% at constant exchange rates, reaching Euro 537.6 million. In the full year, sales of the Going Forward Brand Portfolio increased 9.2% at constant exchange rates (+2.8% in the fourth quarter 2016), reflecting positive trends in France, Italy, UK and the Nordic countries. In the last quarter of the year, the market environment became more challenging and promotional in Southern Europe, in particular in Spain.

NORTH AMERICA

In North America, the Wholesale business and in particular the Going Forward Brand Portfolio, proved resilient, while the overall business performance in the region was influenced by the continuing weakness of the retail channel in the US, a soft winter sports market, in particular during the last quarter of the year, and by the significant decline in Gucci sales. In the fourth quarter 2016, Safilo's total net sales in North America dropped 3.5% at current exchange rates and 5.1% at constant exchange rates, to Euro 123.2 million, taking the total decline for the year to 4.1% at current and constant exchange rates, to Euro 509.5 million. In the fourth quarter 2016, wholesale revenues in North America totaled Euro 105.7 million, down 2.2% at current exchange rates and 3.8% at constant exchange rates. In 2016, full year wholesale revenues reached Euro 434.4 million, down 1.9% at both current and constant exchange rates. In the fourth quarter, wholesale revenues of the Going Forward Brand Portfolio grew 1.7% at constant exchange rates, improving their performance compared to the third quarter (-0.6%), while they grew 2.9% in the full year 2016.

In the fourth quarter 2016, Retail sales in the United States equaled Euro 17.5 million, down 10.8% at current exchange rates and 12.2% at constant exchange rates. Like for like performance of the 116 Solstice stores at the end of December (125 stores at the end of December 2015) was negative by 8.6% at constant exchange rates. In 2016, full year retail sales equaled Euro 75.2 million, down 15.2% at current exchange rates and 15.4% at constant exchange rates, while the like for like performance was negative by 11.3% at constant exchange rates.

ASIA

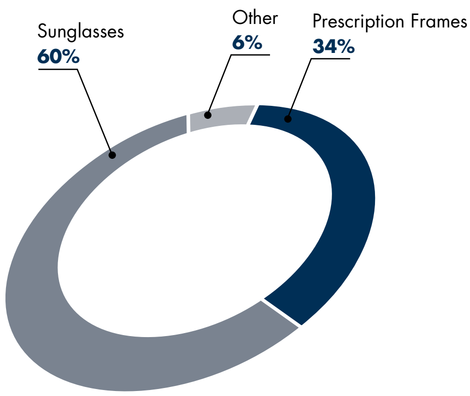
In 2016, Safilo's business in Asia was strongly impacted by the high double digit decline of the Gucci business, while the performance of the Going Forward Brand Portfolio showed some signs of improvement during the second half of the year, recording a mid-single digit decline compared to the double digit decline in the first half of 2016. In the fourth quarter 2016, Safilo's net sales in Asia equaled Euro 24.5 million, down 29.8% at current exchange rates and 30.8% at constant exchange rates. In 2016, full year net sales in Asia reached Euro 114.7 million, declining 22.5% at current exchange rates and 22.3% at constant exchange rates. Sales of the Going Forward Brand Portfolio declined 8.0% at constant exchange rates in the fourth quarter and 10.2% in the full year 2016. This performance has contributed to the decision to impair the goodwill of Asia by Euro 150 million.

REST OF THE WORLD

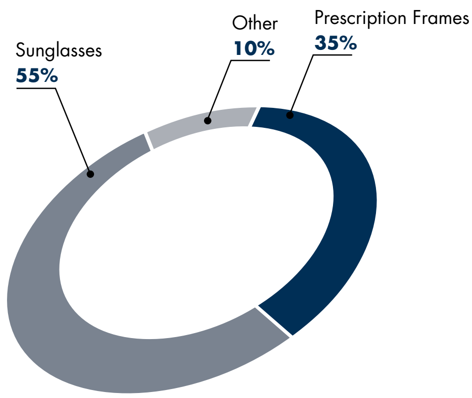
Rest of the World grew in 2016, with both IMEA and Latin America contributing to the positive performance and gaining momentum in the development of the Going Forward Brand Portfolio. In the fourth quarter 2016, Safilo's net sales in the Rest of the World equaled Euro 27.7 million, up 5.1% at current exchange rates and 3.5% at constant exchange rates. In 2016, full year net sales reached Euro 91.2 million, flat at current exchange rates and up 4.4% at constant exchange rates. Sales of the Going Forward Brand Portfolio increased 11.6% at constant exchange rates in the fourth quarter and 9.7% in the full year 2016.

The charts below summarize the breakdown of net sales by product category for the full year and for the fourth quarter 2016:

FULL YEAR 2016



FOURTH QUARTER 2016



ANALYSIS BY DISTRIBUTION CHANNEL - WHOLESALE/RETAIL

The table below shows key data by operating segment:

(Euro million)	WHOLESALE 2016	2015	Change	Change %	RETAIL 2016	2015	Change	Change %
Net sales to 3rd parties	1,177.8	1,190.4	(12.7)	-1.1%	75.2	88.6	(13.5)	-15.2%
EBITDA (*)	90.9	97.3	(6.5)	-6.6%	(2.1)	5.1	(7.2)	n.s.
%	*7.7%*	*8.2%*			*-2.8%*	*5.7%*		

(Euro million)	WHOLESALE Fourth quarter 2016	Fourth quarter 2015	Change	Change %	RETAIL Fourth quarter 2016	Fourth quarter 2015	Change	Change %
Net sales to 3rd parties	296.4	299.6	(3.2)	-1.1%	17.5	19.6	(2.1)	-10.8%
EBITDA (*)	12.3	25.1	(12.8)	-51.0%	(0.9)	(0.1)	(0.8)	n.s.
%	*4.2%*	*8.4%*			*-5.2%*	*-0.7%*		

(*) Pre non-recurring items in 2016 referring to wholesale channel for 7.9 million Euro in the year and 1.5 million Euro in the fourth quarter. In 2015 pre non-recurring items referring to wholesale channel for 20.0 million Euro in the year and 17.7 million Euro in the fourth quarter.

Turnover for the Wholesale segment in 2016 amounts to Euro 1,177.8 million decreasing from Euro 1,190.4 million of the previous year, a decrease of 1.1% at current exchange rate (down 0.1% at constant exchange rates). Net sales in the fourth quarter of 2016 equalled Euro 296.4 million slightly declining compared to Euro 299.6 million of the same period of the previous year, a decrease of 1.1% at current exchange rates (down 1.0% at constant exchange rates).

The Solstice retail chain, which currently numbers 116 stores, recorded sales of Euro 75.2 million in 2016 a decrease from Euro 88.6 million of the previous year, down 15.2% at current exchange rates (down 15.4% at constant exchange rates). Performance in the fourth quarter recorded sales of Euro 17.5 million compared to Euro 19.6 million in the same period of the previous year, a decrease of 10.8% at current exchange rates (down 12.2% at constant exchange rates).

CONDENSED BALANCE SHEET

The table below shows the highlights from the balance sheet as at 31st December 2016 compared with those of 31st December 2015:

Balance sheet (Euro million)	**December 31, 2016**	**December 31, 2015**	**Change**
Trade receivables	237.4	243.8	(6.4)
Inventory, net	272.8	254.1	18.7
Trade payables	(248.5)	(220.2)	(28.3)
Net working capital	**261.7**	**277.7**	**(15.9)**
Tangible assets	197.6	197.5	0.1
Intangible assets and goodwill	512.4	646.2	(133.8)
Financial assets	-	-	-
Non-current assets held for sale	1.5	9.9	(8.4)
Net fixed assets	**711.5**	**853.7**	**(142.2)**
Employee benefit liability	(31.4)	(31.2)	(0.2)
Other assets / (liabilities), net	(20.7)	(11.6)	(9.0)
NET INVESTED CAPITAL	**921.2**	**1.088.5**	**(167.3)**
Cash in hand and at bank	109.0	86.6	22.4
Short term borrowings	(20.0)	(44.0)	24.0
Long term borrowings	(137.4)	(132.5)	(4.9)
NET FINANCIAL POSITION	**(48.4)**	**(89.9)**	**41.5**
Group Shareholders' equity	(872.8)	(997.5)	124.7
Non-controlling interests	-	(1.1)	1.1
TOTAL SHAREHOLDERS' EQUITY	**(872.8)**	**(998.6)**	**125.8**

Net working capital

Net working capital at 31st December 2016 amount to Euro 261.7 million compared with Euro 277.7 million of the previous year, the reduction has benefitted in particular from the continued improvement in the collection of trade receivables and favorable trade payables, while inventories increased.

Net working capital (Euro million)	**December 31, 2016**	**December 31, 2015**	**Change**
Trade receivables, net	237.4	243.8	(6.4)
Inventories	272.8	254.1	18.7
Trade payables	(248.5)	(220.2)	(28.3)
Net working capital	**261.7**	**277.7**	**(15.9)**
% on net sales	*20.9%*	*21.7%*	

Fixed assets and investments in tangible and intangible fixed assets

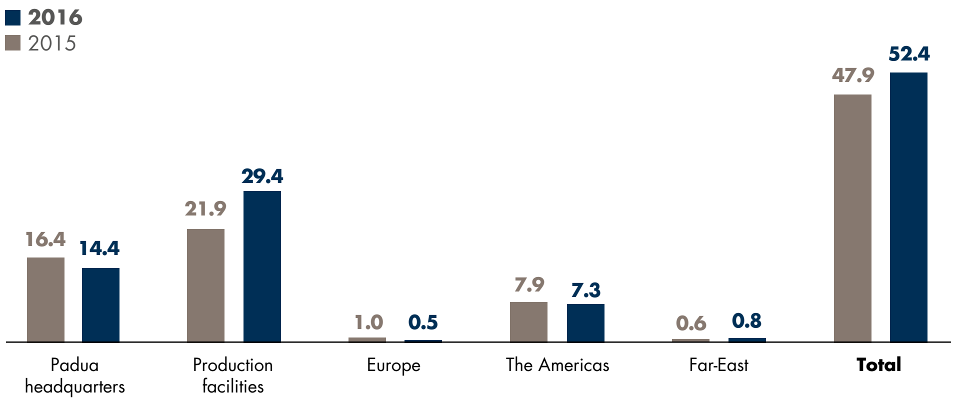
Non-current assets total Euro 711.5 million at the end of 2016 compared to Euro 853.7 million in 2015.

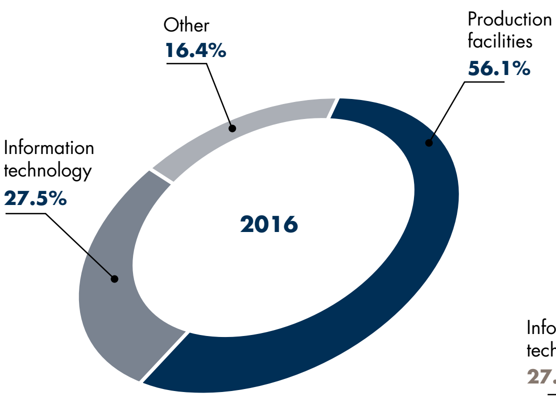
Non-current assets include goodwill of Euro 448.3 million. Impairment test of this asset has highlighted the need to impair the related carrying amount recording a loss of Euro 150.0 million.

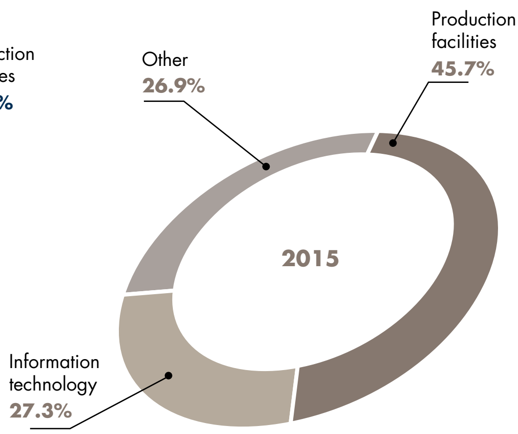
The Group's operating investments of the year total Euro 52.4 million (Euro 47.9 million in 2015) and were funded from operating cash flow. The investments were focused on the continue modernization of its product supply and logistics network for Euro 29,4 million, on the roll out EyeWay, its IT systems overhaul, for Euro 10 million and on other investments of Euro 13 million.

The allocation of the Group operating investments by geographic region and by nature may be broken down as follows:

INVESTMENTS IN TANGIBLE AND INTANGIBLE FIXED ASSETS







FINANCIAL SITUATION

The main items of the net financial position at 31st December 2016 as well as free cash flow figures are reported below in comparison with the previous year.

Net financial position

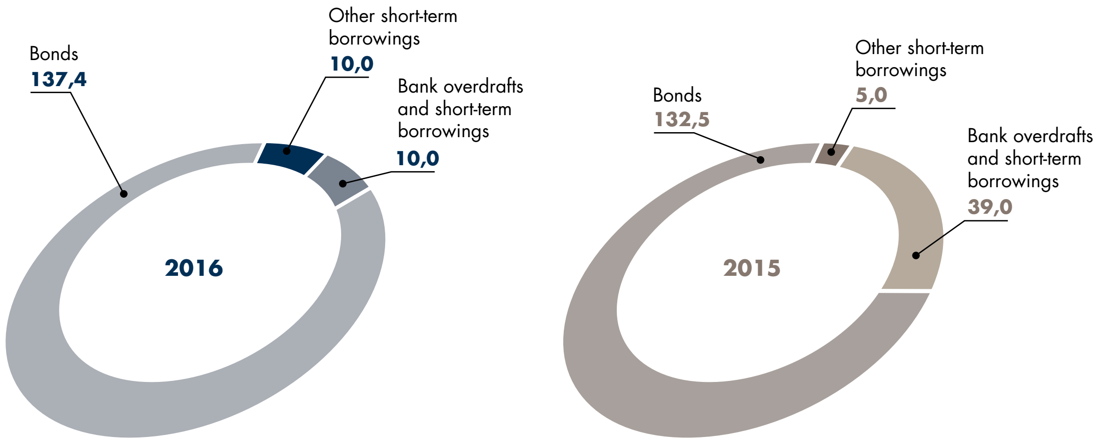
Net financial position (Euro million)	**December 31, 2016**	**December 31, 2015**	**Change**
Current portion of long-term borrowings	-	-	-
Bank overdrafts and short term bank borrowings	(10.0)	(39.0)	29.0
Other short-term borrowings	(10.0)	(5.0)	(5.0)
Cash and cash equivalent	109.0	86.6	22.4
Short-term net financial position	**89.0**	**42.6**	**46.4**
Bonds	(137.4)	(132.5)	(4.9)
Long-term borrowings	-	-	-
Long-term net financial position	**(137.4)**	**(132.5)**	**(4.9)**
NET FINANCIAL POSITION	**(48.4)**	**(89.9)**	**41.5**

Group net debt down further

Net financial position at 31st December 2016 is negative for Euro 48.4 million compared with a negative amount of Euro 89.9 million at 31st December 2015. This item, which is subject to ordinary operational dynamics, does not include the option component embedded in the "equity-linked" Bonds estimated to approximately Euro 0.5 million, recognized under the item "derivative financial instruments" and the fair value of the other derivatives financial instruments, equal to a net asset of approximately Euro 0.4 million.

The ratio of net debt to EBITDA adjusted is 0.5 times (0.9 times at 31st December 2015).

GROSS DEBT
(Euro million)



Free cash flow

Free cash flow (Euro million)	**2016**	**2015**	**Change**
Cash flow operating activities	89.1	114.8	(25.7)
Cash flow investing activities	(44.3)	(40.0)	(4.3)
Free cash flow	**44.7**	**74.8**	**(30.0)**

In 2016, Safilo generated total Free Cash Flow of Euro 44.7 million, including the second of three early termination compensation payments of Euro 30 million received in December 2016 from Kering.

The Cash Flow from operating activities benefitted from Euro 20.3 million cash flow from net working capital, thanks to the continued improvement in the collection of trade receivables and favorable trade payables, while inventories increased.

Overall, the working capital incidence on net sales declined from 21.7% in 2015 to 20.9% in 2016.

In the year, Safilo invested Euro 52.4 million to continue modernizing its product supply and logistics network and to roll out EyeWay, its IT systems overhaul, while Euro 2.5 million was invested to acquire the remaining 24.4% interest in Lenti S.r.l., a manufacturer of sun lenses based in Bergamo, in order to further reinforce its stronghold in lens manufacturing. In 2016, as part of its DC rationalization plan, Safilo sold its former North American distribution center in New Jersey (now fully in Denver) for a cash consideration of Euro 10.7 million.

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.

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 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;
- the risk of being unable 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 high 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 in question.

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 process, credit and hedging policies which may also include 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 minimises 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 credit concentration and related risk to be reduced. 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, the need for borrowing and company liquidity are constantly monitored at central level by the Group treasury in order to ensure effective and efficient management of the financial resources.

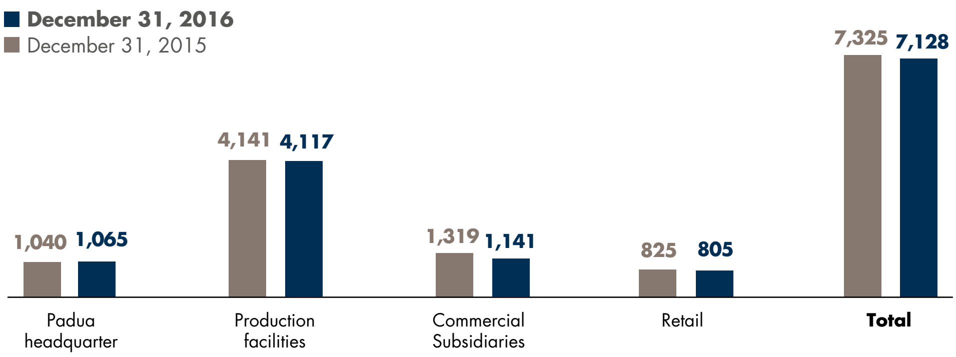
In addition to the existing liquidity and the internal capacity to generate cash, the main financial source available to the Group is the Revolving Credit Facility of Euro 150 million granted in July 2014 to certain Group companies by a banking pool, expiring in July 2018.

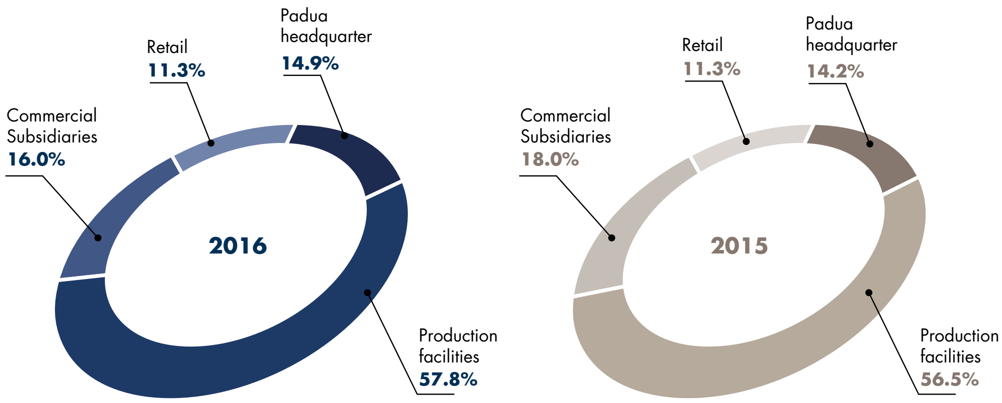
HUMAN RESOURCES AND THE ENVIRONMENT

Human Resources

The Group's workforce

At the end of 2016, the Group had 7,128 employees compared with 7,325 at the end of 2015.





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 2016 continued to invest in training to enhance the skills of change management in order to support key projects including Safilo EyeWay and the Product Supply reinvention. The development of language, technical and managerial skills continued with specific programmes run for different departments. The use of internal coaching and action learning methods has been intensified with the aim of more effectively applying what has been learned in day-to-day working practices and making the most of expertise within the Group. Training continued to be provided under the annual plans covering Health and Safety (in line with the Agreement between central government and regional authorities), the Administrative Liability of Companies pursuant to Legislative Decree 231/2001, and Corporate Social Responsibility – SA8000 (e-learning methodology), Antitrust Policy, Privacy Policy and the processing of personal data.

Talent Acquisition

To ensure the right capabilities are on board to deliver the 2020 strategic plan, Safilo's talent acquisition programs focus on attracting leaders and individuals with the right skills and values, in line with the Group's Purposes, Values, Principles and Competencies (PVPC). The activities reach across different geographies, markets and functional areas.

Safety at work

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

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

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

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

In 2016 all the major accident indicators stood at the lowest levels ever achieved.

Social and environmental responsibility

Safilo Group is aware of its social and environmental responsibility

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

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

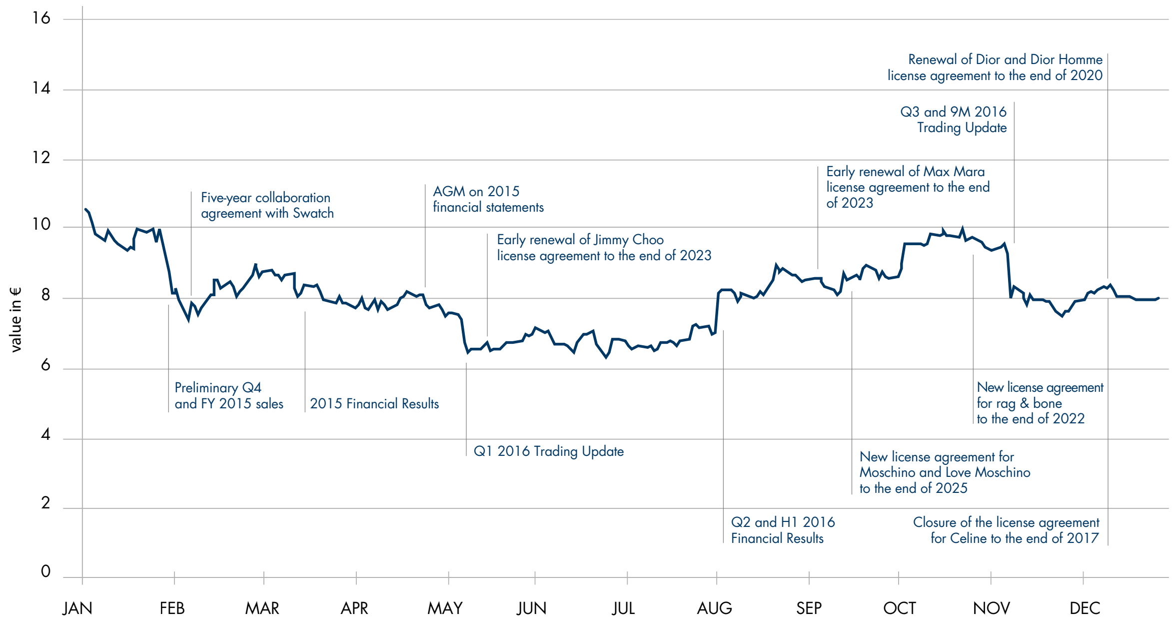
Safilo has also continued its efforts to promote the themes of social responsibility and attention to environmental topics along its supply chain. To ensure adherence to the ethical and environmental principles of the supply chain, the company implemented an activity of on-site monitoring, and through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

ICT – Information Systems

During 2015 the first major steps of the 3-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 SpA. In 2016, we added Product life cycle management, sales planning and demand planning. In January 2017, we have our most complex transition for Order to Cash, of all global Sales, Logistics, and Warehouse management out of our global Padova Distribution Centre.

SAFILO IN THE STOCK EXCHANGE AND INVESTOR RELATIONS

Safilo in the stock exchange



Safilo's shares recorded a two-speed performance also in 2016

Safilo's shares closed the year at Euro 7.96 and with a market capitalization of around Euro 500 million. Average trading volumes were around 120 thousand shares in the year with the highest activity concentrated in the days following the release of the Group's results and important business news. In 2016, Safilo share price performance was negative by 25.7%, reaching its high at the beginning of the year, at Euro 10.48, while recording its low in the last days of June, at Euro 6.38.

On the business front, the most meaningful events which characterized positively the year - confirming the Group's strategy to diversify across segments to capture new business opportunities and growth spaces - were the signing of a five-year collaboration agreement for Swatch branded Eyewear, the early renewal of the eyewear license agreements with Jimmy Choo first and Max Mara after, to the end of 2023, the signing of new licensing contracts for Moschino and Love Moschino eyewear and in the contemporary segment for the rag & bone collections of sunglasses and optical frames.

In December, the Group communicated on one hand the renewal of its licensing agreement for Dior and Dior Homme Eyewear to the end of 2020, on the other the closure of the licensing agreement for Céline eyewear to the end of 2017.

The newsflow on Safilo's economic and financial performance opened up in January 2016 with the release of the Group preliminary FY 2015 sales results. The announcement triggered a negative market reaction, reflecting disappointment on the fourth quarter sales performance and the cut by analysts of their operating margin estimates.

Safilo then presented its full year results during an Investor day organized in Milan at Borsa Italiana, an opportunity also to discuss the business drivers expected to affect the Group 2016 activities and to present its overhead cost savings initiative.

Following the entry into force on March 18, 2016 of the Italian Legislative Decree no. 25 of 15 February 2016, which eliminated, in accordance with the European Union's Transparency Directive, the obligation to publish interim management statements, Safilo decided to release on a voluntary basis a trading update for its first quarter and third quarter economic and financial KPIs.

The first quarter 2016 trading update spurred weakness in the share price, following the subdued sales and economic performance suffered by the Group at the beginning of the year due to some temporary delivery performance issues.

After the release of the second quarter and the first half-year financial results at the beginning of August, Safilo share price gained momentum, closing the month with a progression of almost 20% compared to the end of July and taking the recovery to almost 40% towards the end of October (at Euro 9.92 on October 25, 2016).

The trading update at the beginning of November and the December announcements on the renewal of Dior and the termination of Celine were the key drivers of the stock performance in the last two months of year.

In the year, out of the twelve brokers covering Safilo, eight had an Hold/In line recommendation on the stock, one an Underperform rating and three had a Buy/Add. At the end of the year, the median target price of the full coverage equaled Euro 9.3.

In 2016, the Milan FTSE MIB index lost 10.2%, while the FTSE Italia Mid Cap index, which includes Safilo, closed the year down 8.0%. On the other hand, the DB World Luxury Index ended slightly up, +1.6%.

Investor relations

In 2016, the Group confirmed its participation in the Unicredit/Kepler Italian Investment Conference in Milan and in the Deutsche Bank Annual Global Consumer Conference in Paris, two of the most important conferences organized for international investors.

During the year, the Group took also part to the field trip around the luxury goods sector organized by Mediobanca in Milan and to the One Day in Venice conference organized also by Mediobanca.

The dialogue with investors and analysts continued in the year through conference calls, one-on-one and group meetings at the Group's Headquarters as well as dedicated roadshows in some of the core financial markets, like London, Zurich and Geneve.

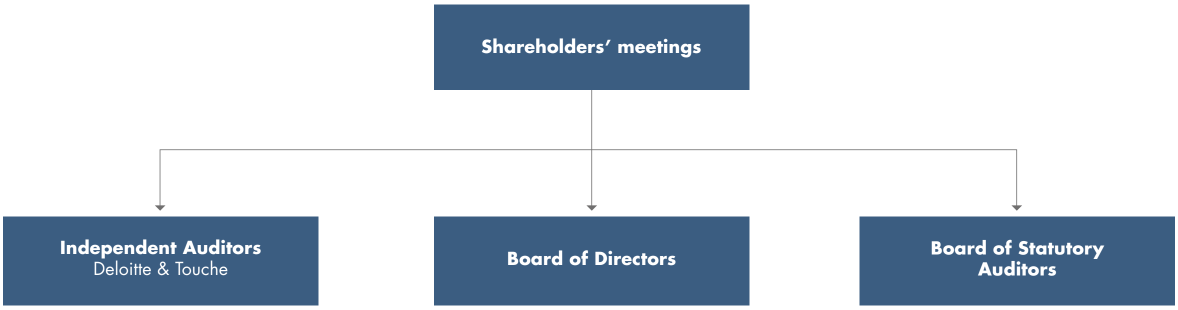
Financial calendar

Board of Directors' meetings planned for 2017:

31st January	Preliminary sales for the 4th quarter and full year 2016
15th March	Draft Financial Statements for 2016
26th April	Shareholders' Meeting for the approval of the Financial Statements 2016
09th May	Trading update on the 1st quarter 2017 financial KPIs
2nd August	Interim Report on Operations for the 2nd quarter and 1st half 2017
8th November	Trading update on the 3rd quarter and first nine months 2017 financial KPIs

CORPORATE GOVERNANCE

Corporate bodies and officers

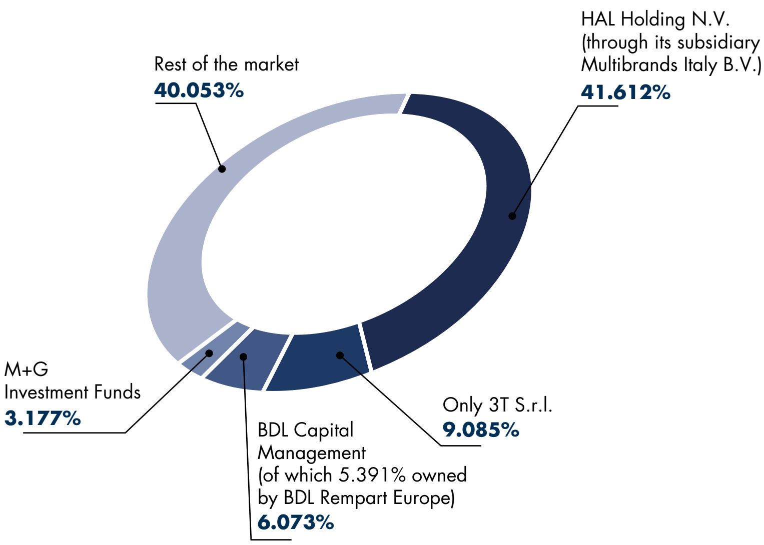


Information on shareholders (pursuant to Article 123-bis, paragraph 1, of Italian Consolidated Finance Act)

Shareholding structure of Safilo Group S.p.A.

At 31st December 2016 the share capital of Safilo Group S.p.A. comprised 62,659,965 ordinary shares with a face value of Euro 5.00 each, of which 41.612% were held by the company Multibrands Italy BV, with registered office in the Netherlands, and 9.085% were held by Only 3T. S.r.l..

The following chart shows owners of Safilo Group S.p.A. ordinary shares as at 31st December 2016 with shareholdings exceeding 3% of share capital.



Management and coordination activities

In accordance with IFRS no. 10 HAL Holding N.V. is deemed to have control over Safilo Group S.p.A. and, accordingly is required to consolidate the Company in its consolidated financial statements as from January 1, 2014 (even though the ownership interest of HAL Holding N.V. in Safilo Group S.p.A. is below 50%). However, as at 31 December 2016, 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. keeps to autonomously define its general strategic and operative guidelines and to have independent authority to negotiate with customers and suppliers; its decision making process is therefore carried out independently from the decision making process of HAL Holding N.V.;

(ii) the Company is managed by a Board of Directors the majority of whose members are not members of corporate bodies of HAL Holding N.V. or its subsidiaries. Moreover, the Board of Directors also has a sufficient number of independent directors to ensure that their opinions have a significant impact on its own judgment and decisions;

(iii) the Company is not subject to any centralized management approach by HAL Holding N.V. which, indeed, according to the report of its Executive Board has not developed a central risk management system, thus allowing each investee company, including the Company, to have its own financial structure and be responsible for evaluating and managing its own risks. Moreover, since HAL Holding N.V. has not included the Company in its management reporting system which monitors the performance of the investee companies and, therefore, has no instruction rights with respect to the governance of the Company, HAL Holding N.V. will continue to include the financial results of the Group in the segment “quoted minority interests” of its accounts;

(iv) although a member of the Executive Board of HAL Holding N.V. is also a member of the Board of Directors of the Company, the information he periodically obtains in this capacity is never – and will never - to 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, the director in charge of the internal control and risk management system, the person in charge of the internal audit function, the Chief Financial Officer, the Statutory Auditors and the external auditing firm), is required to reach his own assessments and form an opinion on any accounting/financial matters relating to the Company which should be taken into account in the consolidation process. This activity of the financial expert (which is not to be deemed as an audit or review of the accounts of the Company) will allow HAL Holding N.V. to comply with IFRS in consolidating its ownership interest in the Company while preserving, at the same time, the current risk management and internal control systems of the Company from any external influence (thus rebutting also any presumption of direction and coordination of HAL Holding N.V. over the Company).

Transfer restrictions

As at 31st December 2016 there were no restrictions either of share transfer or of shareholders' voting rights.

Restrictions on the right to vote and special rights

Regarding the existence of shareholders' agreements relevant for the purposes of Article 122 of the CFA, it is pointed out that, as at October 18, 2016 has been renewed the shareholder's agreement initially underwrote on September 15, 2013 and expired on September 15, 2016, between Multibrands Italy BV company incorporated under the laws of the Netherlands, with registered office in Rotterdam, the Netherlands, registered with the Companies' Register of Rotterdam under no. 24406290, holder of no. 26,073,783 ordinary shares and Mrs. Luisa Deplazes De Andrade Delgado, Swiss citizen, current Chief Executive Officer of the Company, holder of no. 38,008 ordinary shares concerning, inter alia, the submission of a list for the appointment of the Board of Directors of the Company and the exercise of the voting rights relating to the ordinary Shareholders' Meeting of Safilo Group by Multibrands.

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

Own shares

During the year, Safilo Group S.p.A. did not buy or sell any of its own shares, nor shares in subsidiaries, directly or through subsidiaries, trust companies or third parties.

Capital increase

It should be noted that some beneficiaries of the Plan 2010-2013, which main characteristics are described in the related paragraph, have exercised some options related to:

- the Third Tranche amounting to 30,000 of exercised rights at an average exercising price of Euro 5,54 per share (notional and share premium) with an increase in the share capital equal to Euro 150,000 and an increase in the share premium reserve equal to Euro 16,200.

Following the exercise of some beneficiaries of the Plan 2010-2013 of some options, as at September 5, 2016 the share capital of Safilo Group S.p.A. has been increased from Euro 313.149.825 to Euro 313.299.825, consisting of no. 62,659,965 ordinary shares with a par value of Euro 5.00 each.

The Board of Directors

The Board of Directors which currently holds office has been appointed by the Shareholders' Meeting held on April 27th 2015 and will remain in office until the date of the Shareholders' Meeting called for the approval of the financial statements at 31.12.2017.

Robert Polet
(Chairman)

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, director of Arica Holding B.V. and non-executive Chairman of Rituals B.V.

Luisa Deplazes de Andrade Delgado
(Chief Executive Officer)

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

Jeffrey A. Cole
(Director)

Born in Cleveland, Ohio - USA, on May 20th, 1941. He graduated from Harvard College and Harvard Business School. Member of the Supervisory Board of GrandVision B.V. since 1996. From 1983 to 2003, he was Chairman and CEO of Cole National Corporation, a leading optical retailer in the US. 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
(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 BankInsurance. Overall, he worked for twenty-four years for companies operating in the financial sector, gaining also experience on Risk Management issues related to the investment process, as well as, to other risk areas such as Investments, Admin and IT. Since 2014, Mr. Guzzetti has been serving as Independent Director on the Board of Saipem S.p.A. and he is a member of its Control and Risk Committee. He served as Independent Director on the Board of Astaldi S.p.A. and was a member of its Control and Risk Committee. Since 2010, he has been involved in research and consultancy activities related to the financial markets.

Marco Jesi
(Director)

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

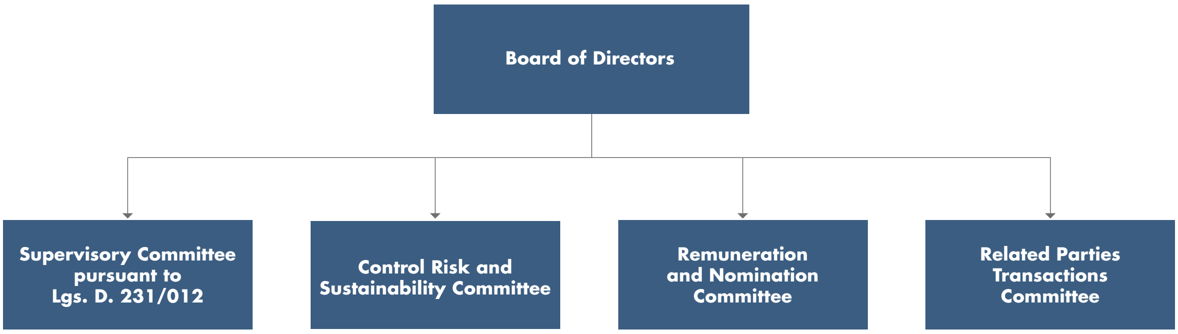
Ines Mazzilli
(Director)

Born in Milan on May 5th, 1962, Ms. Mazzilli has 30 years of experience in a variety of senior finance positions. Since June 2016, Ms. Mazzilli is member of the Advisory Council and Senior Advisor (external) for GENPACT. In 1993 Ms. Mazzilli joined HEINEKEN as Planning & Control Manager of the Italian Operating Company and, from 2001 to 2005, she was Finance Director. From 2006 to 2010, Ms. Mazzilli was Senior Director of the Western Europe Region. From 2011 to 2015, Ms. Mazzilli was Senior Finance Director of Global Business Services. In this position Ms. Mazzilli was responsible for Business Partnering to Global Business Services and for leading HEINEKEN Global Shared Services in Kraków, Finance Business Process Management and Global Process and Control Improvement. From 2015 to 2016 Ms. Mazzilli was Senior Director Global Finance Processes & Internal Control, responsible for HEINEKEN Global Shared Services, Global Finance Business Process Management and Global Process and Control Improvement. Ms. Mazzilli started her career in banking and then worked, from 1987 to 1993, in Elizabeth Arden. She is active in a variety of roundtables with multinationals and since June 2014, member of the Advisory Board of Corso di Laurea Magistrale in Economia e Legislazione d'impresa University of Pavia (Italy).

Eugenio Razelli
(Director)

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 Advisor of Fondo Strategico Italiano and Capvis and Board member of OMR (Officine Meccaniche Rezzatesi). He began his career in Fiat Auto and Zanussi, and became CEO of Gilardini Industriale. In 1993 he moved to Pirelli Cavi, first serving as Senior Executive Vice-President of the Telecom Division and then of the Energy Division. He held the position of President and CEO of Fiamm and he was Senior Vice-President for Business Development of Fiat S.p.A. in charge of Mergers & Acquisition, Innovation and ICT strategies. Amongst his various Association positions, he was Chairman of ANFIA (from 2005 to 2011) and member of the Board of Confindustria (from 2006 to 2011).

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



Supervisory Committee (*)

Chairman (**)	Franco Corgnati
	Eugenio Razelli
	Massimiliano Pascale

Control Risk and Sustainability Committee (***)

Chairman (**)	Eugenio Razelli
	Ines Mazzilli
	Melchert Frans Groot

Remuneration and Nomination Committee (*)

Chairman (**)	Jeffrey A. Cole
	Robert Polet
	Marco Jesi

Related Parties Transactions Committee (*)

Chairman (**)	Eugenio Razelli
	Ines Mazzilli
	Guido Guzzetti

(*) Appointed by the Board of Directors' Meeting held on April 27th, 2015.
(**) Appointed by the Committee' Meeting held on August 3rd, 2015.
(***) Appointed by the Board of Directors' Meeting held on April 27th, 2015, and rename "Control Risk and Sustainability Committee" with Board of Directors' resolution dated December 13th, 2016.

The Board of Statutory Auditors

The Board of Statutory Auditors currently in office has been appointed by the Shareholders' Meeting held on April 15th, 2014 and will remain in office for three years until the date of the Shareholders' Meeting called for the approval of the financial statements at 31.12.2016.

Paolo Nicolai
(Chairman)

Born in Legnago (VR) in 1955, he is a graduate in Economics & Commerce of Padua University. He was registered with the Padua Chartered Accountants' Register in 1981.
He has been registered with the Legal Auditors Register since 1995.
He is a statutory auditor for industrial, commercial and financial companies.

Franco Corgnati
(Standing Statutory Auditor)

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

Bettina Solimando
(Standing Statutory Auditor)

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

Corporate Governance Report

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

The complete version of the report on corporate governance, which is highlighted in just the main points below, is available in the Company website (www.safilogroup.com), in a printed version in the Company headquarters. The report for the year 2016 will be published on the website within April 5, 2017.

The Company adopts a traditional governance method in that:

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

Corporate governance, in accordance with the Articles of Association and in line with current legislation and regulations, and as provided by the Self-Governance code for listed companies published in March 2006 by Borsa Italiana S.p.A., later amended in March 2010 (with reference to article 7 regarding remuneration, now article 6), December 2011, July 2014 and lastly July 2015 (hereinafter "the Code") is entrusted to the following bodies.

The Board of Directors

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

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

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

The Board of Statutory Auditors

Appointing auditors

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

In particular, the auditors are appointed by the Shareholders' Assembly on the basis of lists presented by the shareholders, to allow 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.4. of the Code, the Board of Auditors, and (ii) can ask the internal audit office to carry out controls on certain operations areas or on Company operations.

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

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

The Audit Company

Deloitte & Touche appointed until 2022

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

Financial reporting manager

Appointment of the financial reporting manager

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

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

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

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

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

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

Article 36 CONSOB Regulation 16191/2007

Article 36 CONSOB Regulations 16191/2007

In compliance with article 2.6.2. of the Regulations for markets organised and managed by Borsa Italiana S.p.A., Safilo Group S.p.A. declares the compliance with the article 36 of CONSOB Regulation 16191/2007, 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 with the audit company to conduct the audit on the annual accounts and interim reports of the parent company, both in order to verify the existence of an appropriate administrative and accounting system in each subsidiary.

Stock option plans

Resolution for the "2010-2013 Plan"

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

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

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

Specifically, four different allocation dates have been assigned to the options. The first tranche ("First Tranche"), was allocated at the Board of Directors' meeting held following the shareholders' meeting called to vote on the adoption of the Plan, the second tranche ("Second Tranche") has been assigned at the Board of Directors' meeting that has approved the Company results for the year ending 31st December 2010; the third tranche ("Third Tranche") was allocated at the Board of Directors' meeting that approved the Company results for the year ending 31st December 2011, and the final tranche ("Fourth Tranche") has been allocated at the Board of Directors' meeting that have approved the Company results for the year ending 31st December 2012.
It should be noted that on November 13, 2013 the Board of Directors amended the Plan in order to reallocate some options that shall be reassigned by the Company as a consequence of the resignations of some Beneficiaries. These re-assignable options shall be exercised subject to the same performance conditions and exercise period applicable to the fourth tranche options.

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

a. except for specific exceptions provided for in the event that the employment and/or director relationship is terminated, for all options allocated, the relationship between the Company and the beneficiary must still be in place at the maturity date for the options, and furthermore

b. with reference to the options allocated within the First Tranche, under the circumstances that the EBIT contained in the Company's consolidated financial statements for any one of the financial years ending 31.12.2010, 31.12.2011 or 31.12.2012 is at least Euro 60,000,000 ("First Target"); with reference to the options allocated within the Second Tranche, under the circumstances that the EBIT contained in the Company's consolidated financial statements for any one of the financial years ending 31.12.2011, 31.12.2012 or 31.12.2013 is at least Euro 66,000,000 ("Second Target"); with reference to the options allocated within the Third Tranche, under the circumstances that the EBIT contained in the Company's consolidated financial statements for any one of the financial years ending 31.12.2012, 31.12.2013 or 31.12.2014 is at least Euro 72,500,000 ("Third Target"); with reference to the options allocated within the Fourth Tranche and to those assigned within 31.12.2014, under the circumstances that the EBIT contained in the Company's consolidated financial statements for any one of the financial years ending 31.12.2013, 31.12.2014 or 31.12.2015 is at least Euro 80,000,000 ("Fourth Target").

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

The subscription price has been determined as the weighted average of the prices registered by Safilo Group S.p.A. ordinary shares on Italy's electronic stock market (MTA) organised and managed by Borsa Italiana S.p.A. in the month preceding the Board of Directors' meeting that has allocated the option rights issued within the Plan ("preceding month" shall mean the period ending the day before the Board of Directors' meeting that will allocate the options and beginning with the same day of the previous calendar month, it being understood that in this period, for the purpose of calculating the weighted average, only stock market trading days have been considered), with the exception of the First Tranche, for which the price has been set at EUR 8.0470, determined on the basis of the weighted average of process registered by Safilo Group S.p.A. ordinary shares on the stock market organised and managed by Borsa Italiana S.p.A. in July 2010, which corresponds to the date on which the Remuneration Committee (now Remuneration and Nomination Committee) first submitted for approval to the Board of Directors the guidelines for the share-based incentive plan to be adopted.

Resolution for the "2014-2016 Plan"

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

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

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

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

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

a. with reference to the Options granted under the First Tranche, the EBIT resulting from the approved consolidated financial statements of the Company related to one of the years ending on 31.12.2014, 31.12.2015 or 31.12.2016 has been at least equal to Euro 80,000,000; with reference to the Options granted under the Second Tranche, the EBIT resulting from the approved consolidated financial statements of the Company related to one of the years ending on 31.12.2015, 31.12.2016 or 31.12.2017 has been at least equal to Euro 85,000,000; with reference to the Options granted under the Third Tranche, the EBIT resulting from the approved consolidated financial statements of the Company related to one of the years ending on 31.12.2016, 31.12.2017 or 31.12.2018 has been at least equal to Euro 90,000,000; and

b. save as otherwise expressly provided by the regulations of the Plan 2014-2016, the employment/directorship of the relevant Beneficiary shall be in force on the vesting date of the relevant Options.

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

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

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.

For the sake of completeness, it should be noted that the Shareholders' Meeting convened to approve the financial statements as at December 31, 2016 is called to resolve, among others, upon the approval of a new incentive plan, named 2017-2020 Stock Option Plan intended for some directors and/or employees of Safilo Group S.p.A. and/or other companies of the Group. Furthermore, the Shareholders' Meeting is called to resolve upon the proposal for a capital increase in cash and in more tranches, with the exclusion of the option right pursuant to Article 2441, paragraph 4 of the Italian Civil Code in the service of a share incentive plan ("2017-2020 Stock Option Plan") for a maximum nominal amount of Euro 12,500,000.

OTHER INFORMATION

Accounting treatment of the Euro 90 million compensation from Kering

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

Atypical and/or unusual transactions

No atypical and/or unusual transactions, as defined by Consob Communication 6064293 dated July 28th, 2006, were undertaken during 2016.

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, 2016.

Research and development activity

The Group's research and development focuses on production processes and the development of new innovative products in terms of both style and technology and materials. 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, 2016	Net profit/ (loss) of the year 2016	Equity as of December 31, 2015	Net profit/ (loss) of the year 2015
Balances as per Safilo Group S.p.A.'s statutory financial statements	783.3	(5.8)	788.9	(6.3)
Contribution of consolidated companies	1,511.3	8.7	1,484.6	(10.4)
Write-off of the book value of consolidated subsidiaries	(1,782.5)	(1.0)	(1,769.7)	5.8
Goodwill	402.5	(150.0)	538.8	(40.5)
Elimination of dividends paid within the Group	-	-	-	(8.6)
Elimination of intercompany gains within the Group	(1.9)	0.4	(2.3)	0.3
Elimination of intercompany profits included in inventory	(39.6)	5.7	(41.4)	8.5
Investments in associates - equity method	-	-	-	(1.0)
Other consolidated entries	(0.3)	(0.1)	(0.3)	(0.3)
Total	**872.8**	**(142.1)**	**998.6**	**(52.4)**
Equity attributable to minority interests	-	-	1.1	0.3
Total attributable to the Group	**872.8**	**(142.1)**	**997.5**	**(52.7)**

SIGNIFICANT EVENTS AFTER THE YEAR-END AND OUTLOOK

Events after the year end

In the 2015 financial statements, the Group accrued a provision for risks and charges of Euro 17 million related to the proceedings before the French Competition Authority ("FCA"). On 2 February 2016, Safilo reached an agreement with the FCA's Investigation Services limiting the Group's liability at Euro 17 million. 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 Euro 17 million.

Starting from 1 January 2017, it has become effective the reorganization of Safilo's corporate structure approved by the Board of Directors on 9 November, 2016. The objective is to drive consistency between the Group's Global Business Model and its Legal Entity structure, thereby guaranteeing a close alignment with the choices of the Group's 2020 Strategic Plan.

As a result of this intervention, the Group's business units will each be focused on, and be accountable for specific unique business activities, organised as follows:

- Safilo Group S.p.A., as the "Holding Company", will host the Corporate Functions that provide corporate services to the entire Group;
- Safilo S.p.A. affirms its role as the "Strategic Company" that leads the global business, with namely Global Brand Management, Product Design & Creation, Sourcing, Quality Assurance, Sales Operations & Delivery, and Logistics;
- Safilo Industrial S.r.l. - newly created and wholly controlled by Safilo S.p.A. - will be the Italian "Manufacturing Company" that comprises Safilo's Italian plants of Santa Maria di Sala, Martignacco, and Longarone, along with the related employees.

The implementation of such reorganization has been performed via two one-off transactions, effective from 1 January 2017: a transfer of going concern from Safilo S.p.A. to Safilo Group S.p.A., and a contribution in kind of going concern by Safilo S.p.A. into Safilo Industrial S.r.l..

This new corporate setup will enable a more immediate reading of the performance of the different business units.

In the period following 31 December 2016, 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 2017, the Group business will reflect the complete exit of the Gucci licensing business and the start of the strategic product partnership agreement (SPPA) with Kering for the product development, manufacturing and supply of Gucci eyewear.

At the beginning of the year, Safilo went live with SAP Sales, Logistics and Warehouse in Safilo S.p.A., a major milestone in the Group's IT enabled simplification project EyeWay, involving global Order-to-Cash and Warehouse Management. After successful go lives in Purchase-to-Pay, Finance, HR, Product Development, and Demand Planning in the HQ and across several regions over the past 18 months, the migration of the global automatized DC in Padova has been challenging because of its unique fully automatized operations and complex global volumes. This has impacted our first quarter 2017 Going Forward Portfolio warehouse deliveries and thus the first quarter 2017 sales. Going Forward Portfolio net sales in the first quarter 2017 are expected to decline by an estimated 15% to 20% compared to the first quarter 2016, with a resulting impact on the Group's first quarter financial results. The Group is aiming to quickly achieve the capacity and speed levels required to recover the warehouse deliveries during the second quarter.

In line with its Simplification strategy, the Group will continue to focus on the streamlining of its cost structure, focusing on production, sourcing and distribution efficiency actions as well as the planned overhead cost savings initiatives.

In 2017, Safilo will continue to invest in its core assets, in particular in its production plants, to further progress with its Supply Chain reinvention strategy as well as in its core Eyeway project to modernize, simplify and standardize the Company's work processes.

For the Board of Directors
Chief Executive Officer
Luisa Deplazes de Andrade Delgado



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CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

(thousands of Euro)	Notes	December 31, 2016	of which related parties	December 31, 2015	of which related parties
ASSETS					
Current assets					
Cash and cash equivalents	4.1	109,038		86,640	
Trade receivables	4.2	237,407	20,965	243,759	15,342
Inventory	4.3	272,815		254,079	
Derivative financial instruments	4.4	1,997		1,727	
Other current assets	4.5	60,828		54,183	
Total current assets		**682,085**		**640,388**	
Non-current assets					
Tangible assets	4.6	197,606		197,498	
Intangible assets	4.7	64,108		62,333	
Goodwill	4.8	448,302		583,908	
Deferred tax assets	4.9	96,785		93,597	
Derivative financial instruments	4.4	-		-	
Other non-current assets	4.10	36,700		3,167	
Total non-current assets		**843,501**		**940,503**	
Non-current assets held for sale	4.6	**1,475**		**9,914**	
TOTAL ASSETS		**1,527,061**		**1,590,805**	

(thousands of Euro)	Notes	December 31, 2016	of which related parties	December 31, 2015	of which related parties
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities					
Short-term borrowings	4.11	20,013		44,022	
Trade payables	4.12	248,492	8,386	220,170	9,027
Tax payables	4.13	18,627		25,266	
Derivative financial instruments	4.4	1,624		877	
Other current liabilities	4.14	91,967		47,484	
Provisions for risks and charges	4.15	27,640		24,124	
Total current liabilities		**408,363**		**361,943**	
Non-current liabilities					
Long-term borrowings	4.11	137,393		132,526	
Employees benefits liability	4.16	31,395		31,175	
Provisions for risks and charges	4.15	14,798		16,213	
Deferred tax liabilities	4.9	16,241		11,146	
Derivative financial instruments	4.4	484		3,614	
Other non-current liabilities	4.17	45,583		35,584	
Total non-current liabilities		**245,894**		**230,258**	
TOTAL LIABILITIES		**654,257**		**592,201**	
Shareholders' equity					
Share capital	4.18	313,300		313,150	
Share premium reserve	4.19	484,862		484,845	
Retained earnings and other reserves	4.20	216,743		251,683	
Cash flow hedge reserve	4.21	-		572	
Income/(Loss) attributable to the Group		(142,101)		(52,745)	
Total shareholders' equity attributable to the Group		**872,804**		**997,505**	
Non-controlling interests		**-**		**1,099**	
TOTAL SHAREHOLDERS' EQUITY		**872,804**		**998,604**	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**1,527,061**		**1,590,805**	

CONSOLIDATED INCOME STATEMENT

(thousands of Euro)	Notes	2016	of which related parties	2015	of which related parties
Net sales	5.1	1,252,931	79,916	1,278,960	77,192
Cost of sales	5.2	(537,303)	-	(522,004)	(3,016)
Gross profit		**715,627**		**756,956**	
Selling and marketing expenses	5.3	(512,817)	(10,216)	(526,524)	(7,684)
General and administrative expenses	5.4	(167,759)		(171,468)	
Other operating income/(expenses)	5.5	(1,318)		(17,657)	
Impairment loss on goodwill	4.8 - 5.6	(150,000)		(40,475)	
Operating profit		**(116,267)**		**832**	
Share of income/(loss) of associates	5.7	-		1,010	
Financial charges, net	5.8	(6,354)	-	(27,401)	-
Profit/(Loss) before taxation		**(122,621)**		**(25,559)**	
Income taxes	5.9	(19,479)		(26,854)	
Profit/(Loss) of the period		**(142,101)**		**(52,413)**	
Profit/(Loss) attributable to:					
Owners of the parent		(142,101)		(52,745)	
Non-controlling interests		-		332	
Earnings/(Losses) per share - basic (Euro)	5.10	**(2.269)**		**(0.843)**	
Earnings/(Losses) per share - diluted (Euro)	5.10	**(2.267)**		**(0.840)**	

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(thousands of Euro)	Notes	2016	2015
Net profit (loss) for the period (A)		**(142,101)**	**(52,413)**
Gains/(Losses) that will not be reclassified subsequently to profit or loss:			
- Remeasurements of post employment benefit obligations		(1,269)	1,687
- Other gains/(losses)		-	-
Total gains/(losses) that will not be reclassified subsequently to profit or loss:		**(1,269)**	**1,687**
Gains/(Losses) that will be reclassified subsequently to profit or loss:			
- Gains/(Losses) on cash flow hedges	4.21	(572)	572
- Gains/(Losses) on exchange differences on translating foreign operations	4.20	20,446	76,191
Total gains/(losses) that will be reclassified subsequently to profit or loss:		**19,874**	**76,763**
Other comprehensive income/(loss), net of tax (B)		**18,605**	**78,450**
TOTAL COMPREHENSIVE INCOME/(LOSS) (A)+(B)		**(123,496)**	**26,037**
Attributable to:			
Owners of the parent		(123,496)	25,705
Non-controlling interests		-	332
TOTAL COMPREHENSIVE INCOME/(LOSS)		**(123,496)**	**26,037**

CONSOLIDATED STATEMENT OF CASH FLOWS

(thousands of Euro)	Notes	2016	2015
A - Opening net cash and cash equivalents (net financial indebtedness - short term)	4.1	**47,618**	**39,494**
B - Cash flow from (for) operating activities			
Net profit/(loss) for the period (including minority interests)		(142,101)	(52,413)
Depreciation and amortization	4.6 - 4.7	47,209	41,065
Impairment loss on goodwill	4.8 - 5.6	150,000	40,475
Other non-monetary P&L items		(4,427)	35,275
Interest expenses, net	5.8	7,005	7,873
Income tax expenses	5.9	19,479	26,853
Flow from operating activities prior to movements in working capital		**77,165**	**99,128**
(Increase) Decrease in trade receivables		11,393	29,006
(Increase) Decrease in inventory, net		(18,554)	1,990
Increase (Decrease) in trade payables		27,458	1,710
(Increase) Decrease in other receivables		(38,605)	(2,881)
Increase (Decrease) in other payables		60,346	23,877
Interest expenses paid		(2,104)	(3,342)
Income taxes paid		(28,034)	(34,690)
Total (B)		**89,065**	**114,799**
C - Cash flow from (for) investing activities			
Investments in property, plant and equipment		(40,868)	(34,148)
Net disposals of property, plant and equipment		10,476	2,059
Acquisition of minorities (in subsidiaries)		(2,500)	(2,912)
(Acquisition) Disposal of investments and bonds		-	8,592
Purchase of intangible assets, net of disposals		(11,442)	(13,629)
Total (C)		**(44,334)**	**(40,038)**
D - Cash flow from (for) financing activities			
Proceeds from borrowings		5,000	-
Repayment of borrowings		-	(71,264)
Share capital increase		166	631
Dividends paid		-	-
Total (D)		**5,166**	**(70,632)**
E - Cash flow for the period (B+C+D)		**49,897**	**4,129**
Translation exchange differences		1,510	3,995
Total (F)		**1,510**	**3,995**
G - Closing net cash and cash equivalents (net financial indebtedness - short term) (A+E+F)	4.1	**99,025**	**47,618**

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

(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, 2015	**312,675**	**484,689**	**53,166**	**-**	**121,006**	**971,536**	**2,720**	**974,256**
Profit/(Loss) for the period	-	-	-	-	(52,745)	(52,745)	332	**(52,413)**
Other comprehensive income (loss) for the period	-	-	76,191	572	1,687	78,450	-	**78,450**
Total comprehensive income (loss) for the period	**-**	**-**	**76,191**	**572**	**(51,058)**	**25,705**	**332**	**26,037**
Increase in share capital due to the exercising of stock option	475	156	-	-	-	631	-	**631**
Dividends distribution	-	-	-	-	-	-	-	**-**
Purchase of shares in subsidiaries from non-controlling interests	-	-	-	-	(1,013)	(1,013)	(1,899)	**(2,912)**
Net increase in the Reserve for share-based payments	-	-	-	-	638	638	-	**638**
Changes in other reserves	-	-	-	-	8	8	(54)	**(46)**
Consolidated net equity at December 31, 2015	**313,150**	**484,845**	**129,357**	**572**	**69,581**	**997,505**	**1,099**	**998,604**



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. On 27th April 2006 the company moved its head office from Vicenza to Pieve di Cadore (Belluno) and on the same date it opened a secondary office at the headquarters of the subsidiary Safilo S.p.A. 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 with a 37.232% equity interest. On 4th April 2012, in order to provide the Group with the financial resources needed to complete the acquisition of Polaroid Eyewear, Multibrands Italy BV subscribed and fully paid a capital increase. As at December 31, 2016 its stake in the parent company was 41.612%.

According to IFRS 10 HAL Holding N.V., is deemed to have control over Safilo Group S.p.A. and accordingly is required to consolidate Safilo Group S.p.A. in its financial statements as from 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 official currency in the countries where the Group does most of its business. The consolidated financial information relates to the period from 1st January 2016 to 31st December 2016 and also presents comparative data related to the financial period from 1st January 2015 to 31st December 2015.

These financial statements were approved by the Board of Directors on 15th March 2017.

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 2016 and 31st December 2015 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 2016

The following new standards and amendments, effective from 1 January 2016, are applicable to the Group.

On 21 November 2013, the IASB published narrow scope amendments to IAS 19—Defined Benefit Plans: Employee Contributions. The amendment reduces current services costs for the period by contributions paid by employees or by third parties during the period that are not related to the number of years of service, instead of allocating these contributions over the period when the services are rendered. The adoption of this amendment did not have any effect on the Group.

On 12 December 2013 the IASB issued the Annual Improvements to IFRSs 2010–2012 Cycle. The most important topics addressed in these amendments are, among others, the definition of vesting conditions in IFRS 2 – Share based payment, the aggregation of operating segments in IFRS 8 – Operating Segments, the definition of key management personnel in IAS 24 – Related Party disclosures, the extension of the exclusion from the scope of IFRS 3 – Business Combinations to all types of joint arrangements (as defined in IFRS 11 – Joint arrangements), to clarify the application of certain exceptions in IFRS 13 – Fair value Measurement, and IAS 16, clarifying the procedures for determining the gross carrying amount of assets when a revaluation is determined as a result of the revaluation model. The adoption of this amendment did not have any effect on the Group.

On 12 May 2014, the IASB issued amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets - "Clarification of acceptable methods of depreciation and amortization". The amendments to IAS 16 require that the criteria of depreciation determined on the basis of revenues are not appropriate, since, according to the amendment, the revenues generated by an activity that includes the use of amortized assets generally reflect different factors and not only the consumption of the economic benefits of the asset. The amendments to IAS 38 introduce a presumption, that a depreciation method based on revenues is considered generally inappropriate for the same reasons set out by the amendments made to IAS 16. In the case of intangible assets, however, this presumption may be overcome, but only in limited and specific circumstances. The adoption of this amendment did not have any effect on the Group.

On 25 September 2014, the IASB issued a set of amendments to IFRSs (Annual Improvements to IFRSs - Cycle 2012- 2014). They cover the following principles: the criteria for classification and evaluation of assets classified as "held for sale" or "held for distribution" in accordance with IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations, further guidance relating to the disclosures required by IFRS 7 for interim financial statements, certain clarifications to the determination of the discount rate in accordance with IAS 19 and the new requirements for disclosure under IAS 34 "Interim financial reporting". The adoption of this amendment did not have any effect on the Group.

On 18 December 2014, the IASB issued amendments to IAS 1 Disclosure Initiative. The amendments concern materiality, the aggregation of items, structure of the notes, information about accounting policies and the presentation of other comprehensive income arising from the measurement of equity method investments. The adoption of this amendment did not have any effect on the Group.

The Group applied these improvements retrospectively since 1 January 2016 and no significant effects arose in this report.

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

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

- Identify the contracts with a customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contract;
- Recognize revenue when the entity satisfies a performance obligation.

The new standard is applicable to periods beginning on or after January 1, 2018, subject to any subsequent deferrals established during its approval by the European Union.

On 24 July 2014 the IASB issued the final version of IFRS 9 "Financial Instruments". The standard brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39. The standard introduces new requirements for the classification and measurement of financial assets and liabilities. In particular, for financial assets the new standard uses a single approach based on management of financial instruments and the contractual cash flow characteristics of the financial assets in order to determine the method of valuation, replacing the many different rules in IAS 39. For financial liabilities, instead, the main change concerns the accounting treatment of changes in fair value of a financial liability designated as financial liability at fair value through profit or loss, if these variations are due to changes in the creditworthiness of the issuer of the liability. Under the new standard, these changes must be recognized in "Other comprehensive income" and not in the income statement.

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

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

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

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

The Group will comply with these new standards and amendments based on their relevant effective dates, and is currently evaluating their potential impacts, according to the analysis performed, their application should not cause any significant effect on the Consolidated financial statements.

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

On 19 January 2016 the IASB published the document "Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)" that contains the amendments to IAS 12. The document aims to provide some clarification on the recognition of deferred taxes on unrealized losses upon the occurrence of certain circumstances and the estimated taxable income for future years. The changes will apply from 1 January 2017 but early adoption is permitted.

On 29 January 2016 the IASB published the document "Disclosure Initiative (Amendments to IAS 7)" that contains the amendments to IAS 7. The document aims to provide some clarification to improve disclosures on financial liabilities. In particular, the amendments require to disclose information that enables users of financial statements to understand the changes in liabilities arising from financing operations. The changes will apply from 1 January 2017 but early application is allowed. It is not required to present comparative information relating to prior years.

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

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

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

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

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 2016 include the parent company, Safilo Group S.p.A, and 46 subsidiaries accounted for on a line-by-line basis, with the parent company holding, directly or indirectly, the majority of voting rights.

In 2016, the Group's consolidation area changed as follows:

- with effective date 1 January 2016 Canam Sport Eyewear Inc. is wholly owned by Safilo Canada Inc. and the holding company Quebec Inc. has been absorbed into Safilo Canada Inc.;
- in July 2016 the merger of the commercial subsidiaries Polaroid Eyewear GmbH, Polaroid Eyewear BV and Polaroid Eyewear AB, into Safilo respective commercial entities has been completed;
- on 28 September 2016 the subsidiary Safilo S.p.A., acquired a further 24.4% interest in Lenti S.r.l., an Italian manufacturer of sun lenses, already 75.6% owned. As a result, Safilo has increased its interest to 100%;
- on 12 October 2016 Safilo Industrial S.r.l., a new subsidiary wholly controlled by Safilo S.p.A. has been established and starting from 1 January 2017 will be effective as Italian manufacturing company comprising Safilo's Italian plants and workforce. The creation of Safilo Industrial S.r.l. is part of a reorganization of Safilo's corporate structure with the objective to drive consistency between the Group's global business model and its legal entity structure, thereby guaranteeing a close alignment with the choices of the Group's 2020 Strategic Plan;
- on 5 December 2016 the American real estate company Safilo Realty Corp. has been merged into Safilo America Inc..

At 31st December 2016 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	10,000	100.0
FOREIGN COMPANIES			
Safilo International B.V. - Rotterdam (NL)	EUR	24,165,700	100.0
Safint B.V. - Rotterdam (NL)	EUR	18,200	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 Korea Ltd – Seoul (K)	KRW	16,713,710,000	100.0
Safilo Hellas Ottica S.a. – Athens (GR)	EUR	489,990	100.0
Safilo Nederland B.V. - Bilthoven (NL)	EUR	18,200	100.0
Safilo South Africa (Pty) Ltd. – Bryanston (ZA)	ZAR	3,583	100.0
Safilo Austria Gmbh -Traun (A)	EUR	217,582	100.0
Safilo d.o.o. Ormož - Ormož (SLO)	EUR	563,767	100.0
Safilo Japan Co Ltd - Tokyo (J)	JPY	100,000,000	100.0
Safilo Do Brasil Ltda – Sao Paulo (BR)	BRL	117,435,000	100.0
Safilo Portugal Lda – Lisbon (P)	EUR	500,000	100.0
Safilo Switzerland AG – Zurich (CH)	CHF	1,000,000	100.0
Safilo India Pvt. Ltd - Bombay (IND)	INR	42,000,000	100.0
Safilo Australia Pty Ltd - Sydney (AUS)	AUD	3,000,000	100.0
Safint Optical UK Ltd - London (GB)	GBP	21,139,001	100.0
Safilo UK Ltd - London (GB)	GBP	250	100.0
Safilo America Inc. - Delaware (USA)	USD	8,430	100.0
Safilo USA Inc. - New Jersey (USA)	USD	23,289	100.0
Safilo Services LLC - New Jersey (USA)	USD	-	100.0
Smith Sport Optics Inc. - Idaho (USA)	USD	12,087	100.0
Solstice Marketing Corp. – Delaware (USA)	USD	1,000	100.0
Solstice Marketing Concepts LLC – Delaware (USA)	USD	-	100.0
Safilo de Mexico S.A. de C.V. - Distrito Federal (MEX)	MXP	10,035,575	100.0
Safilo Canada Inc. - Montreal (CAN)	CAD	100,000	100.0
Canam Sport Eyewear Inc. - Montreal (CAN)	CAD	199,975	100.0
Polaroid Eyewear Holding BV - Amsterdam (NL)	EUR	18,000	100.0
Polaroid Eyewear Ltd - Dumbarton (UK)	GBP	2	100.0
Safilo Optik Ticaret Limited Şirketi - Istanbul (TR)	TRL	1,516,000	100.0
Safilo Middle East FZE - Dubai (UAE)	AED	3,570,000	100.0

The total number of subsidiaries of Safilo Group S.p.A. moved from 50 in December 2015 to 46 in December 2016.

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 the modalities by which the management organizes the Group and attributes managerial responsibilities.

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

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

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

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

- assets and liabilities are converted using the exchange rates prevailing on the balance sheet date;
- costs, revenues, income and charges are converted at the average exchange rate of the period;
- the "conversion reserve" includes foreign exchange differences generated from the conversion of the opening shareholders' equity and the movements during the year at a rate different from that at the end of the year;
- the goodwill and fair value adjustments related to the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the exchange rate at the end of the period.

The exchange rates applied in the conversion of financial statements prepared in currencies other than Euro at 31st December 2016 and 31st December 2015 are given in the following table; appreciation (figures with a minus sign in the table below) indicates an increase in the value of the currency against the Euro.

Currency	Code	As of		(Appreciation)/ Depreciation	Average for		(Appreciation)/ Depreciation
		December 31, 2016	December 31, 2015	%	2016	2015	%
US Dollar	USD	1.0541	1.0887	-3.2%	1.1068	1.1095	-0.2%
Hong-Kong Dollar	HKD	8.1751	8.4376	-3.1%	8.5912	8.6014	-0.1%
Swiss Franc	CHF	1.0739	1.0835	-0.9%	1.0901	1.0679	2.1%
Canadian Dollar	CAD	1.4188	1.5116	-6.1%	1.4659	1.4186	3.3%
Japanese Yen	YEN	123.4000	131.0700	-5.9%	120.1815	134.3140	-10.5%
British Pound	GBP	0.8562	0.7340	16.7%	0.8196	0.7259	12.9%
Swedish Krown	SEK	9.5525	9.1895	4.0%	9.4696	9.3535	1.2%
Australian Dollar	AUD	1.4596	1.4897	-2.0%	1.4881	1.4777	0.7%
South-African Rand	ZAR	14.4570	16.9530	-14.7%	16.2605	14.1723	14.7%
Russian Ruble	RUB	64.3000	80.6736	-20.3%	74.1411	68.0720	8.9%
Brasilian Real	BRL	3.4305	4.3117	-20.4%	3.8558	3.7004	4.2%
Indian Rupee	INR	71.5935	72.0215	-0.6%	74.3654	71.1956	4.5%
Singapore Dollar	SGD	1.5234	1.5417	-1.2%	1.5274	1.5255	0.1%
Malaysian Ringgit	MYR	4.7287	4.6959	0.7%	4.5835	4.3373	5.7%
Chinese Renminbi	CNY	7.3202	7.0608	3.7%	7.3520	6.9733	5.4%
Korean Won	KRW	1,269.3600	1,280.7800	-0.9%	1,283.9913	1,256.5444	2.2%
Mexican Peso	MXN	21.7719	18.9145	15.1%	20.6678	17.6157	17.3%
Turkish Lira	TRY	3.7072	3.1765	16.7%	3.3431	3.0255	10.5%
Dirham United Emirates	AED	3.8696	3.9966	-3.2%	4.0630	4.0733	-0.3%

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 control whether their book value has been reduced.

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

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

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

2.9 Financial instruments

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

Financial assets

Financial assets are classified according to the following categories:

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

- Loans and receivables: these are non-derivative financial instruments, with fixed or determinable payments, not quoted on an active market. They are recorded as current assets with the exception of those amounts due beyond twelve months from the balance sheet date. The latter are classified as non-current assets. These assets are measured at amortized cost on the basis of the "effective interest rate" method. Any loss in value determined through an impairment test is recognized in the income statement. In particular, trade receivables are initially recognized in the financial statements at their current value and subsequently recorded under the amortized cost method less any write-downs for loss in value. An allowance for doubtful accounts is set-up when there is evidence that the Group will not be capable of receiving the original amount due. The provisions allocated for doubtful accounts are recorded in the income statement.

- Investments held to maturity: these are non-derivative financial instruments with fixed or determinable payments, with a fixed maturity date, that the Group has the intention and the means to maintain until maturity. Receivables and investments held until maturity are assessed according to the "amortized cost" method using the effective interest rate, net of any write-downs for loss in value. The Group did not hold any investments of this kind during the financial period covered by these financial statements.

- Available-for-sale financial assets: these are non-derivative financial instruments that are expressly designated to this category or are not classified in any of the previous categories. They are measured at fair value, determined with reference to market prices at the balance sheet date or through financial measurement techniques or models, recording changes in value in an equity reserve. This reserve is recognized in the income statement only when the financial asset is sold, or in the case of negative cumulative variations, when it is considered that the reduction in value already recorded under equity cannot be recovered. Classification as a current or non-current asset depends on the intentions of the management and on the real liquidity of the security; they are recorded under current assets when they are expected to be realized within twelve months.

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

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

Borrowings

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

Convertible bonds are accounted for as a compound financial instrument made of two components, which are treated separately only if relevant: a liability and a conversion option. The liability is the present value of the future cash flows, based on the market interest rate at the time of issue for an equivalent non-convertible bond. The amount of the option is defined as the difference between the net proceeds and the amount of the liability component and included in equity. The value of the conversion option is not changed in subsequent periods. The conversion features of the equity-linked bond issued during 2014 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 stated above.

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

Derivative instruments

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

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

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

- *Fair value hedge* – if a derivative financial instrument is designated as a hedge for the exposure of changes in the current value of an asset or liability on the financial statements attributable to a specific risk that can determine effects on the income statement, the profit or loss after the initial valuation of the fair value of the hedge instruments is recognized in the income statement. The profit or loss on the hedged item, related to the hedged risk, changes the book value of that item and is recognized on the income statement.

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

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

2.10 Inventory

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

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

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

2.11 Trade receivables

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

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

2.12 Cash in hand and at bank

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

2.13 Employee benefits

Pension plans

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

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

The employee severance fund of Italian companies ("TFR") has always been considered to be a defined benefit plan however, following the changes to the discipline that governs the employment severance fund introduced by Italian law no. 296 of 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 and charges

The Group records provisions for risks and charges when:

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

2.15 Revenue recognition

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

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

2.16 Public contributions

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

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

2.17 Royalties

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

2.18 Dividends

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

2.19 Income taxes

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

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

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

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

2.20 Earnings per share

Basic

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

Diluted

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

2.21 Use of estimates

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

- *Goodwill*: in accordance with the accounting standards adopted for the preparation of the financial statements, the company tests goodwill at least once a year in order to ascertain the existence of any loss in value to be recorded in the income statement. In particular, the test results in the determination of the fair value allocated to the cash-generating units. This value is determined according to their current value in use. The allocation of the goodwill to the cash-generating units and the determination of their value require estimates which 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 inventory of finished products which are obsolescent or slow moving are regularly subjected to specific assessment tests, which take into consideration past experience, historic results and the probability of sale under normal market conditions. If the need to reduce the value of the stock should arise following these analyses, management proceeds with the appropriate write-downs.

- *Product warranty* provision: when a product is sold, the Group estimates the relative costs of performing work under guarantee and allocates a provision on the basis of historic information and a series of statistical data regarding the nature, frequency and the average cost of such work. The Group operates constantly to minimize the costs of work performed under guarantee and to improve the quality of its products.

- *(Contingent) liabilities*: the Group is subject to legal and tax actions regarding different types of problems; due to uncertainties relating to proceedings and the complexity of such proceedings, the management consults its lawyers, and other legal and fiscal experts, and when expenditure is considered probable and the amount can be reasonably estimated, adequate funds are allocated.

- *Pension plans*: the companies of the Group participate in pension plans, the costs of which are calculated by the management, with the assistance of the Group's actuarial consultants, on the basis of statistical assumptions and assessment factors regarding in particular the discount rate to be used, relative mortality and resignation rates.

- *Deferred taxes*: deferred tax assets are accounted for on the basis of the expectations of future taxable income. The 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.

2.22 Fair value estimates

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

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

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

3. RISK MANAGEMENT

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

- credit risks, relative to normal business relations with clients and to financial assets in the financial statements;

- market risks (mainly interest and exchange rate risks), since the Group operates internationally and uses financial instruments that generate interests;

- cash flow risks, with particular regard to the ability to promptly find resources on financial markets under normal market conditions when needed.

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

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

Credit risks

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

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

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

As required by IFRS 7, paragraph 36, the table below analyses the age of receivables as of 31st December 2016 and 31st December 2015:

(thousands of Euro)	December 31, 2016		December 31, 2015	
Ageing of trade receivables	**Nominal value trade receivables**	**Allowance for bad and doubtful debts**	**Nominal value trade receivables**	**Allowance for bad and doubtful debts**
Overdue and impaired				
up to 3 months	1,559	(1,559)	2,857	(1,385)
3 to 6 months	1,343	(1,016)	2,114	(1,245)
6 to 9 months	1,743	(1,710)	1,294	(1,065)
from 9 to 12 months	1,881	(1,337)	3,300	(2,902)
from 12 to 24 months	3,642	(3,566)	4,136	(4,112)
over 24 months	10,401	(10,401)	12,985	(12,985)
Total	**20,569**	**(19,589)**	**26,685**	**(23,695)**
Overdue and not impaired				
up to 3 months	28,925		32,487	
3 to 6 months	5,457		6,970	
6 to 9 months	2,105		1,256	
from 9 to 12 months	1,115		1,082	
from 12 to 24 months	2,404		1,061	
over 24 months	445		396	
Total	**40,450**		**43,251**	
Neither overdue nor impaired	205,810		209,787	
Grand total	**266,829**	**(19.589)**	**279,724**	**(23,695)**

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 2016 past due receivables for which no allowance for bad debts was made, as the Group considered them fully collectible, amounted to 40,450 thousand Euro (compared to 43,251 thousand Euro at 31st December 2015). Of these, receivables that were more than 12 months past due amounted to 2,849 thousand Euro (compared to 1,457 thousand at 31st December 2015) but accounted for 1.1% of the Group's total trade receivable compared to 0.5% in the previous year.

Market risks

Market risks can be divided into the following categories:

Exchange rate risk

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

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

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

As far as sensitivity analysis is concerned, an increase or decrease of 10% of Euro against the US Dollar and the Hong Kong Dollar would result respectively in a decrease or an increase of the 2016 net sales of around 48.6 million Euro (around 53 million Euro in 2015) and in a decrease or an increase of the net profit of the Group of around 2.1 million Euro (around 3.3 million Euro in 2015).

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

The table below summarizes the net financial assets of the Group per foreign currency at 31st December 2016 and 31st December 2015:

(thousands of Euro)	December 31, 2016	December 31, 2015
USD	498,576	453,537
HKD	127,387	254,073
CNY	69,179	80,591
GBP	23,129	25,120
CAD	33,426	29,818
CHF	25,063	25,172
SEK	15,483	17,389
BRL	15,025	20,687
Other currencies	11,572	16,877
Total	**818,840**	**923,263**

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 Euro 70.7 million (about Euro 81 million in 2015).

The table below summarizes the financial assets and liabilities of the Group per currency at 31st December 2016 and 31st December 2015:

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

(thousands of Euro)	December 31, 2015			
	Euro	US Dollar	Other currencies	Total
Cash in hand and at bank	16,611	37,323	32,706	86,640
Trade receivables, net	102,590	85,562	55,607	243,759
Derivative financial instruments	-	-	1,727	1,727
Other current assets	28,143	13,548	12,492	54,183
Total current financial assets	**147,344**	**136,433**	**102,532**	**386,309**
Derivative financial instruments	-	-	-	-
Other non-current assets	472	937	1,758	3,167
Total non-current financial assets	**472**	**937**	**1,758**	**3,167**
Trade payables	120,174	77,646	22,350	220,170
Short-term borrowings	44,022	-	-	44,022
Derivative financial instruments	760	117	-	877
Tax payables and other current liabilities	42,235	11,369	19,146	72,750
Total current financial liabilities	**207,191**	**89,132**	**41,496**	**337,818**
Long-term borrowings	132,526	-	-	132,526
Derivative financial instruments	3,614	-	-	3,614
Other non-current liabilities	30,017	5,154	413	35,584
Total non-current financial liabilities	**166,157**	**5,154**	**413**	**171,724**

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 2016 the floating-rate portion of the Group's total borrowings not subject to hedging amounted to 20,013 thousand Euro (accounting for 12.71% of total debt) compared to 44,022 thousand Euro in the previous year (accounting for 24.94% of total debt).

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

The table below summarizes the interest repricing calendar for the interest-bearing loans, floating and fixed loans, at 31st December 2016 and 31st December 2015:

December 31, 2016

(thousands of Euro)	**Floating**	**Fixed**	**Total**
within 1 year	20,013	-	20,013
between 1 and 2 years	-	-	-
between 3 and 5 years	-	137,393	137,393
Total	**20,013**	**137,393**	**157,406**

December 31, 2015

(thousands of Euro)	**Floating**	**Fixed**	**Total**
within 1 year	44,022	-	44,022
between 1 and 2 years	-	-	-
between 3 and 5 years	-	132,526	132,526
Total	**44,022**	**132,526**	**176,548**

The floating interest-bearing loans on December 31, 2016 are not covered by interest rate swap contracts.

The following table summarizes the main characteristics of the most significant variable and fixed rate medium and long term borrowings outstanding at 31st December 2016 and 31st December 2015:

December 31, 2016

(thousands of Euro)	**Currency**	**Nominal interest rate**	**Internal interest rate**	**Book value**	**Expiry**
Convertible Bonds Equity Linked	*EURO*	1.25%	5.101%	137,393	22/05/2019
Revolving facility	*EURO*	Euribor	-	-	July 2018

December 31, 2015 (thousands of Euro)	**Currency**	**Nominal interest rate**	**Internal interest rate**	**Book value**	**Expiry**
Convertible Bonds Equity Linked	*EURO*	1.25%	5.101%	132,526	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 would have represented a greater (lower) annual financial charge, on a pre-tax basis, of around 271 thousand Euro (371 thousand Euro at 31st December 2015).

Liquidity risk

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

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

December 31, 2016 (thousands of Euro)	**Credit lines granted**	**Uses**	**Credit lines available**
Credit lines on bank accounts and short-term bank loans	145,718	10,000	135,718
Credit lines on long-term loans	150,000	-	150,000
Total	**295,718**	**10,000**	**285,718**

December 31, 2015 (thousands of Euro)	**Credit lines granted**	**Uses**	**Credit lines available**
Credit lines on bank accounts and short-term bank loans	131,753	39,013	92,740
Credit lines on long-term loans	150,000	-	150,000
Total	**281,753**	**39,013**	**242,740**

The credit lines available on long-term loans are related to a committed revolving financing called "Revolving Credit Facility", underwritten by Intesa San Paolo, Unicredit and BNP Paribas, totalling a maximum of Euro 150 million, expiring on July 2018, not used at December 31, 2016.

The table below summarizes the financial assets and liabilities of the Group by maturity, undiscounted and inclusive of the interest payments, at 31st December 2016 and 31st December 2015:

	December 31, 2016				
(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	109,038	-	-	-	109,038
Trade receivables, net	237,407	-	-	-	237,407
Derivative financial instruments	1,997	-	-	-	1,997
of which Interest Rate Swaps	-	-	-	-	-
Other current assets	60,828	-	-	-	60,828
Other non-current assets	-	35,602	180	918	36,700
Total financial assets	**409,270**	**35,602**	**180**	**918**	**445,970**
Trade payables	248,492	-	-	-	248,492
Tax payables	18,627	-	-	-	18,627
Borrowings	20,013	-	137,393	-	157,406
Interest payments	1,875	1,875	938	-	4,688
Derivative financial instruments	1,624	-	484	-	2,108
of which Interest Rate Swaps	-	-	-	-	-
Other current liabilities	91,967	-	-	-	91,967
Other non-current liabilities	-	41,915	1,763	1,905	45,583
Total financial liabilities	**382,598**	**43,790**	**140,578**	**1,905**	**568,871**

(thousands of Euro)	December 31, 2015 within 1 year	between 1 and 2 years	between 3 and 5 years	beyond 5 years	Total
Cash in hand and at bank	86,640	-	-	-	86,640
Trade receivables, net	243,759	-	-	-	243,759
Derivative financial instruments	1,727	-	-	-	1,727
of which Interest Rate Swaps	-	-	-	-	-
Other current assets	54,183	-	-	-	54,183
Other non-current assets	-	2,097	155	915	3,167
Total financial assets	**386,309**	**2,097**	**155**	**915**	**389,476**
Trade payables	220,170	-	-	-	220,170
Tax payables	25,266	-	-	-	25,266
Borrowings	44,022	-	132,526	-	176,548
Interest payments	1,875	1,875	2,813	-	6,563
Derivative financial instruments	877	-	3,614	-	4,491
of which Interest Rate Swaps	-	-	-	-	-
Other current liabilities	47,484	-	-	-	47,484
Other non-current liabilities	-	30,912	1,384	3,288	35,584
Total financial liabilities	**339,694**	**32,787**	**140,337**	**3,288**	**516,105**

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 2016 and 31st December 2015:

December 31, 2016 (thousands of Euro)	within 1 year	between 1 and 2 years	between 3 and 5 years	beyond 5 years
Gross derivative financial instruments outflow	(161,298)	-	-	-
Gross derivative financial instruments inflow	161,406	-	-	-
Total undiscounted gross settled derivatives	**108**	**-**	**-**	**-**

December 31, 2015 (thousands of Euro)	within 1 year	between 1 and 2 years	between 3 and 5 years	beyond 5 years
Gross derivative financial instruments outflow	(142,213)	-	-	-
Gross derivative financial instruments inflow	142,579	-	-	-
Total undiscounted gross settled derivatives	**365**	**-**	**-**	**-**

Classification of financial instruments

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

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

Financial instruments (thousands of Euro)	**Financial instruments at fair value through** Income Statement	Equity	**Financial instruments at amortised cost**	**Investments and non-listed financial assets at cost**	**Current value at December 31, 2015**	**Fair value at December 31, 2015**
ASSETS						
Cash in hand and at bank	-	-	86,640	-	86,640	86,640
Trade receivables, net	-	-	243,759	-	243,759	243,759
Derivative financial instruments	1,155	572	-	-	1,727	1,727
Financial assets available for sale	-	-	-	-	-	-
Other current assets	-	-	54,183	-	54,183	54,183
Other non-current assets	-	-	3,167	-	3,167	3,167
Total assets	**1,155**	**572**	**387,749**	**-**	**389,476**	**389,476**
LIABILITIES						
Short-term and long-term borrowings	-	-	176,548	-	176,548	163,351
Derivative financial instruments	4,491	-		-	4,491	4,491
Other current liabilities	-	-	47,484	-	47,484	47,484
Other non-current liabilities	-	-	35,584	-	35,584	35,584
Total liabilities	**4,491**	**-**	**259,616**	**-**	**264,107**	**250,910**

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 2016, split by hierarchical level of the fair value.

(thousands of Euro)	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivative financial instruments	-	1,997	-	1,997
Total assets	**-**	**1,997**	**-**	**1,997**
Derivative financial instruments	-	(2,108)	-	(2,108)
Total liabilities	**-**	**(2,108)**	**-**	**(2,108)**

In 2016 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 in hand and at bank

This account totals Euro 99,025 thousand, compared to Euro 47,618 thousand at 31st December 2015 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 entry "Cash in hand and at bank" with the cash balance presented on the cash flow statement:

(thousands of Euro)	December 31, 2016	December 31, 2015
Cash and cash equivalents	109,038	86,640
Bank overdrafts	(13)	(3,022)
Current bank borrowings	(10,000)	(36,000)
Net cash and cash equivalents	**99,025**	**47,618**

4.2 Trade receivables, net

This item breaks down as follows:

(thousands of Euro)	December 31, 2016	December 31, 2015
Gross value receivables	266,829	279,724
Allowance for doubtful accounts and sales returns	(29,422)	(35,965)
Net value	**237,407**	**243,759**

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

The allowance for doubtful accounts and returns includes:

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

The following table shows changes in the above mentioned allowance:

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

(thousands of Euro)	Balance at January 1, 2015	Posted to income statement	Use (-)	Transl. Diff.	Balance at December 31, 2015
Allowance for bad debts	24,172	4,843	(5,333)	13	23,695
Allowance for sales returns	8,352	3,604	(322)	637	12,270
Total	**32,524**	**8,446**	**(5,656)**	**650**	**35,965**

4.3 Inventories

This item breaks down as follows:

(thousands of Euro)	December 31, 2016	December 31, 2015
Raw materials	111,562	109,621
Work in progress	8,212	8,996
Finished products	280,084	252,326
Gross	**399,858**	**370,943**
Obsolescence provision (-)	(127,043)	(116,864)
Total net	**272,815**	**254,079**

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

The movements in the aforementioned provision are shown below:

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

(thousands of Euro)	Balance at January 1, 2015	Posted to income statement	Transl. Diff.	Balance at December 31, 2015
Inventory gross value	357,263	2,855	10,825	370,943
Obsolescence provision	(109,646)	(4,865)	(2,373)	(116,864)
Total net	**247,617**	**(1,990)**	**8,452**	**254,079**

4.4 Derivative financial instruments

The following table summarizes the amount of financial instruments:

(thousands of Euro)	December 31, 2016	December 31, 2015
Current assets:		
- Foreign currency contracts - Fair value through P&L	1,997	1,155
- Foreign currency contracts - cash flow hedge	-	572
Total	**1,997**	**1,727**
Non-current assets:		
- Interest rate swaps - cash flow hedge	-	-
Total	**-**	**-**

(thousands of Euro)	December 31, 2016	December 31, 2015
Current liabilities:		
- Foreign currency contracts - Fair value through P&L	1,624	877
- Foreign currency contracts - cash flow hedge	-	-
- Interest rate swaps - Fair value through P&L	-	-
Total	**1,624**	**877**
Non-current liabilities:		
- Fair value cash settlement option convertible Bond	484	3,614
Total	**484**	**3,614**

The decrease for the portion relating to non-current liabilities is mainly due to the recognition of the component relating to the conversion option embedded in the "equity-linked" Bond issued on 22nd May 2014 which, given the presence of a "cash settlement option", represents a derivative financial instrument booked at fair value under non-current liabilities. The fair value changes of this instrument are immediately charged to income statement, and have contributed positively to the result of the period for Euro 3,129 thousand, as indicated in Note 5.8. At the balance sheet date, the fair value of the option amounts to Euro 484 thousand.

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 positive net market value of Euro 373 thousand.

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

December 31, 2016			**Fair value**	
(thousands of Euro)	**Maturity**	**Notional amount**	**Assets**	**Liabilities**
Fair value hedge	within 1 year	194,761	1,997	1,624
Cash flow hedge	within 1 year	-	-	-
Total forward contracts		**194,761**	**1,997**	**1,624**

December 31, 2015			**Fair value**	
(thousands of Euro)	**Maturity**	**Notional amount**	**Assets**	**Liabilities**
Fair value hedge	within 1 year	175,155	1,155	877
Cash flow hedge	within 1 year	6,820	572	-
Total forward contracts		**181,975**	**1,727**	**877**

4.5 Other current assets

This item breaks down as follows:

(thousands of Euro)	**December 31, 2016**	**December 31, 2015**
VAT receivable	21,410	13,592
Tax credits and payments on account	18,005	13,099
Prepayments and accrued income	14,644	20,849
Receivables from agents	684	372
Other current receivables	6,085	6,271
Total	**60,828**	**54,183**

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

Prepayments and accrued income amounted to 14,644 thousand Euro (20,849 thousand Euro at December 31st, 2015) and mainly consisted of:

- prepaid royalty costs of 6,807 thousand Euro;
- prepaid advertising costs of 739 thousand Euro;
- prepaid rent and operating lease costs of 2,901 thousand Euro;
- prepaid insurance for 879 thousand Euro.

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

Other current receivables amounted to 6,085 thousand Euro, compared to 6,271 thousand Euro in 2015, and related mainly:

- receivables reported in the balance sheet of the subsidiary Safilo S.p.A. for 2,066 thousand Euro, referring mainly to receivables due from bankrupt customers for the amount of credit relating to VAT which, pursuant to Italian tax legislation, can only be recovered when the distribution plan of the bankruptcy procedure is executed;
- deposit payments due within 12 months for 625 thousand Euro;
- other receivables for 3,394 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, 2016	Increase	Decrease	Reclass.	Reclass. non-current assets held for sale	Transl. diff.	Balance at December 31, 2016
Gross value							
Land and buildings	139,301	550	(920)	1,965	(2,147)	(1,090)	137,658
Plant and machinery	204,636	1,835	(8,689)	15,383	-	(1,502)	211,663
Equipment and other assets	261,260	7,306	(68,391)	13,093	-	2,584	215,853
Assets under constructions	6,279	31,178	(386)	(30,441)	-	14	6,643
Total	**611,476**	**40,868**	**(78,386)**	**-**	**(2,147)**	**7**	**571,818**
Accumulated depreciation							
Land and buildings	49,125	3,586	(871)	235	(1,030)	(174)	50,870
Plant and machinery	151,458	11,462	(8,299)	-	-	(867)	153,755
Equipment and other assets	213,395	22,410	(68,137)	(235)	-	2,154	169,587
Total	**413,978**	**37,458**	**(77,307)**	**-**	**(1,030)**	**1,113**	**374,212**
Net value	**197,498**	**3,410**	**(1,079)**	**-**	**(1,117)**	**(1,106)**	**197,606**

(thousands of Euro)	Balance at January 1, 2015	Increase	Decrease	Reclass.	Reclass. non-current assets held for sale	Transl. diff.	Balance at December 31, 2015
Gross value							
Land and buildings	147,969	548	(3,612)	4,158	(13,035)	3,274	139,301
Plant and machinery	197,414	3,285	(4,708)	6,529	-	2,116	204,636
Equipment and other assets	242,799	13,230	(13,891)	8,213	-	10,910	261,260
Assets under constructions	8,407	17,086	(422)	(18,899)	-	108	6,279
Total	**596,589**	**34,148**	**(22,634)**	**-**	**(13,035)**	**16,408**	**611,476**
Accumulated depreciation							
Land and buildings	49,348	4,180	(1,977)	(3)	(3,121)	698	49,125
Plant and machinery	144,837	9,872	(4,571)	476	-	844	151,458
Equipment and other assets	199,126	20,470	(14,027)	(473)	-	8,299	213,395
Total	**393,311**	**34,521**	**(20,575)**	**-**	**(3,121)**	**9,841**	**413,978**
Net value	**203,279**	**(373)**	**(2,059)**	**-**	**(9,914)**	**6,567**	**197,498**

A total of 40,868 thousand Euro was invested in tangible fixed assets in the financial period (34,148 thousand Euro during 2015), mainly as follows:

- 29,319 thousand Euro for the factories, mainly for the upgrading of plants and for the purchase and production of equipment for new models;
- 6,311 thousand Euro for the U.S. companies;
- the remaining part in other companies of the Group.

During the year the Group has finalised the disposal of the headquarters and distribution centre of the American company Safilo USA Inc. that was classified at the end of December 2015 as "Non-current assets held for sale". The disposal has been performed according to the plan for the consolidation of the Distribution Centre into the Denver facility, and the relocation of the headquarters to a site closer to New York City.

The reclassification to "Non-current assets held for sale" refers to the production plant of Polaroid UK which is subject to a plan of disposal in course of negotiation. This disposal follows the closure of the Vale of Leven (Scotland) Polaroid production site as part of the integration of Polaroid lens production into Safilo's China based corporate supply network.

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

(thousands of Euro)	Balance at January 1, 2015	Increase	Decrease	Reclass.	Transl. diff.	Balance at December 31, 2015
Gross value						
Software	32,596	2,489	(227)	19,478	1,381	55,716
Trademarks and licenses	54,447	592	(4)	-	30	55,065
Other intangible assets	8,264	14	(1)	-	302	8,580
Intangible assets in progress	14,184	10,654	(114)	(19,478)	13	5,259
Total	**109,491**	**13,749**	**(346)**	**-**	**1,726**	**124,620**
Accumulated amortization						
Software	27,204	4,240	(226)	-	1,033	32,251
Trademarks and licenses	20,328	2,263	-	-	25	22,616
Other intangible assets	7,153	41	(1)	-	227	7,420
Total	**54,685**	**6,544**	**(227)**	**-**	**1,285**	**62,287**
Net value	**54,806**	**7,205**	**(119)**	**-**	**441**	**62,333**

Investments in intangible fixed assets made during the year amount to 11,512 thousand Euro (13,749 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	2016	2015
Cost of sales	5.2	23,910	22,432
Selling and marketing expenses	5.3	6,129	5,339
General and administrative expenses	5.4	15,257	13,294
Other operating income/(expenses)	5.5	1,913	-
Total		**47,209**	**41,065**

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

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

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, 2016	Increase	Decrease	Transl. diff.	Balance at December 31, 2016
Goodwill	583,908	-	(150,000)	14,394	448,302

(thousands of Euro)	Balance at January 1, 2015	Increase	Decrease	Transl. diff.	Balance at December 31, 2015
Goodwill	583,130	-	(40,475)	41,253	583,908

During the period, the item recorded a decrease for an impairment loss equal to 150,000 thousand Euro and an increase of 14,394 thousand Euro due to the translation difference for the goodwill denominated in currencies other than the Euro.

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

(thousands of Euro)	Italy and Europe	Americas	Asia	Total
December 31, 2016	160,612	241,610	46,080	448,302
December 31, 2015	161,743	231,328	190,837	583,908

Impairment test

Below describes the approach followed and the assumptions made to perform the impairment test.

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. This calculation is based on the business plan related to the period 2017-2021. 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 Strategic Plan of the Group. For the purposes of the impairment test, the Board has considered necessary to update the business plan of the Far East region with respect to the assumptions considered for the impairment test of the previous year, while carrying forward to 2021 the assumptions underlying the plan of the previous year for the CGU's of Americas and EMEA.

Overall, the impairment test methodology used for the 2016 financial statements is consistent with criteria used for 2015 financial statements and is in line with the following factors:

- the management used the most recent information in its possession 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 where the Group operates in, and have been adapted to the rate of inflation expected by analysts for 2021.

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 prudential 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	**2016**	**2015**	**2016**	**2015**
EMEA	7.3%	6.0%	1.5%	1.6%
Far East	8.2%	7.6%	2.3%	2.8%
Americas	7.5%	6.9%	2.1%	2.5%

The impairment test performed by the Group has shown a different level of coverage for the goodwill allocated on each of the three CGUs.

Both the EMEA and Americas CGUs have passed the test with sufficient cover to provide assurance that they should be able to pass also more challenging scenarios as calculated according to the sensitivity analysis.

The Far East CGU has highlighted a need for an impairment. The Group's Far East region in 2016 suffered the terminal year of the Gucci license, historically a large part of the region's business. The Group's business plan aims to replace the lost sales of the Gucci license over the next 5 years with its going-forward brands portfolio. Total business results in 2016 as well as the growth rates of the going-forward brands portfolio were lower than planned and the Group also sees risks behind a more uncertain economic outlook in the region going forward. Taking these, along with recent portfolio developments, into account, the Group has updated its business plan for the Far East region, refocusing its geographic priority choices on the highest potential markets and planning stronger cost reduction and go-to-market optimizations in the region. Considering these, according to the results of the sensitivity analysis, management has considered it appropriate to book an impairment loss of 150,000 thousand Euro on the goodwill allocated to the Far East CGU.

In monitoring the goodwill value, management has taken into consideration also exogenous factors, such as the stock market capitalization. The stock market valuation may be subject to various fluctuations and hence in practice different other valuation methods, such as those based on expected cash flows, exist. In the case of Safilo, the value determined by stock market prices is significantly different than the one obtainable with other methods. The Directors have approved the revised business plan for Far East and with regards to the CGU's Americas and EMEA believe that the assumptions incorporated in the business plan underlying the impairment test are reasonable.

In addition, the adequacy of the value expressed by the evaluation methodology based on discounted cash flows, used in the execution of the impairment test, is corroborated by the articulated sensitivity analysis developed assuming various future scenarios. The impairment test was performed in accordance with projections developed within the most conservative of the various sensitivities. The sensitivity analysis, performed on the outcome of the test, in terms of changes in the basic assumptions that determine the extent of the impairment, has been based on the following scenarios:

- WACC increase by one percentage point;
- growth "g" rate reduction by one percentage point.

The application of the mentioned assumptions have on the one hand supported the adequacy of the impairment loss of the Far East CGU goodwill, and on the other hand proven that EMEA and Americas CGU's business values remain sufficient to justify the value of goodwill allocated to them. Sensitivities results were also consistent with specific stress test results applied to assumptions reflected in the business plan, in term of achievement of net sales volume and margins for each CGU.

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, 2016	December 31, 2015
Deferred tax assets	155,236	138,041
Valuation Allowance (-)	(58,451)	(44,444)
Net deferred tax assets	**96,785**	**93,597**
Deferred tax liabilities	(16,241)	(11,146)
Total	**80,544**	**82,451**

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 provisioning, considered prudential, amounts to 58,451 thousand Euro and has been booked in order to take into account any potential assets that could not be recovered by the taxable profit forecasted according to the business plan related to the period 2017-2021. This write-down can be reversed in future years, as prescribed by the International Accounting principle no. 12, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and tax losses can be utilized.

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

Deferred tax assets

(thousands of Euro)	Balance at January 1, 2016	Posted to: Income statement	Posted to: Equity	Reclass./ Other changes	Transl. diff.	Balance at December 31, 2016
Tax losses carried forward	47,548	6,377	-	-	1,385	55,309
Inventories	45,345	(293)	-	-	1,401	46,453
Taxed allowances for doubtful accounts	9,546	1,497	-	-	199	11,242
Taxed provisions	3,854	23	-	-	26	3,903
Employees benefit liabilities	1,858	(39)	105	-	37	1,961
Intangible assets	2,572	(327)	-	-	(9)	2,236
Tangible assets	14,548	(814)	-	489	208	14,431
Other payables	561	(62)	-	-	9	508
Taxed financial interests	8,633	(109)	-	-	-	8,524
Other temporary differences	3,576	784	-	5,966	343	10,669
Total deferred tax assets	**138,041**	**7,037**	**105**	**6,455**	**3,599**	**155,236**
Devaluation of deferred tax assets on tax losses	(39,989)	(6,792)	-	-	(1,353)	(48,133)
Devaluation of deferred tax assets on other temporary differences	(4,455)	(5,629)	-	-	(234)	(10,318)
Total allowance on deferred tax assets	**(44,444)**	**(12,421)**	**-**	**-**	**(1,587)**	**(58,451)**
TOTAL NET	**93,597**	**(5,383)**	**105**	**6,455**	**2,012**	**96,785**

Deferred tax liabilities

(thousands of Euro)	Balance at January 1, 2016	Posted to: Income statement	Posted to: Equity	Reclass./ Other changes	Transl. diff.	Balance at December 31, 2016
Depreciation differences	7,767	(1,673)	-	517	134	6,744
Goodwill	2,536	184	-	6,156	79	8,954
Inventories	168	100	-	(103)	4	168
Receivables and payables	48	(13)	-	(24)	4	14
Other temporary differences	627	(180)	-	(90)	4	359
Total	**11,146**	**(1,583)**	**-**	**6,455**	**223**	**16,241**

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 48,133 thousand Euro because, at present, recovery via future taxable income is not considered probable. The tax losses carry forwards for which deferred tax assets have not been recognised equal to a total amount of 188,897 thousand Euro.

Expiration date (thousands of Euro)	Tax losses	Tax benefit
2020	1,496	374
2021	9,461	2,365
2025	4,110	904
2026	6,105	1,343
Unlimited	194,620	49,515
Other tax losses relating to local taxes:		
Various		807
Total	**215,793**	**55,309**
Valuation allowance (-)		(48,133)
TOTAL DEFERRED TAX ASSETS ON LOSSES CARRIED FORWARD		**7,176**

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

(thousands of Euro)	December 31, 2016	December 31, 2015
Deferred tax assets		
- recoverable within one year	50,882	58,524
- recoverable beyond one year	45,903	35,073
Total	**96,785**	**93,597**
Deferred tax liabilities		
- recoverable within one year	169	96
- recoverable beyond one year	16,072	11,050
Total	**16,241**	**11,146**
TOTAL NET	**80,544**	**82,451**

4.10 Other non-current assets

The table below shows details of non-current assets:

(thousands of Euro)	December 31, 2016	December 31, 2015
Long-term guarantee deposit	3,475	2,987
Other long-term receivables	30,213	180
Long-term tax receivables	3,012	-
Total	**36,700**	**3,167**

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

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

The first cash tranche of the compensation was received in January 2015, the second one equal to 30 million has been paid in December 2016. With the collection of the second instalment of the compensation the early termination of the Gucci licence agreement has become effective, the Group now is entitled to receive the third instalment of the compensation equal to further 30 million Euro that will be paid in September 2018 and is hence recognizing the related receivable. See also the information reported on note 5.5 “Other operating income (expenses)”.

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

4.11 Borrowings

This item breaks down as follows:

(thousands of Euro)	December 31, 2016	December 31, 2015
Bank overdrafts	13	3,022
Short-term bank loans	10,000	36,000
Debt to the factoring company	10,000	5,000
Short-term borrowings	**20,013**	**44,022**
Convertible Bonds	137,393	132,526
Long-term borrowings	**137,393**	**132,526**
TOTAL	**157,406**	**176,548**

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

- an unsecured and unsubordinated equity-linked Bond issued on 22 May 2014, from Safilo Group S.p.A., guaranteed by Safilo S.p.A., maturing on 22 May 2019 with an aggregate principal amount of Euro 150 million;
- a committed, unsubordinated and unsecured “Revolving Credit Facility” amounting to Euro 150 million expiring in July 2018, unused at December 31, 2016.

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

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

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

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

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

Such bond is carried at amortised cost, at an effective interest rate equal to 5.101%. Given the presence of a “cash settlement option”, the conversion option component represents an embedded derivative financial instrument booked in the corresponding balance sheet item under liabilities. The fair value changes of this instrument are immediately charged to the income statement. At the balance sheet date, the fair value of the option amounts to Euro 484 thousand (see note 4.4).

The committed, unsubordinated and unsecured “Revolving Credit Facility” amounting to Euro 150 million expiring in July 2018, has been underwritten by Safilo S.p.A. and Safilo U.S.A. Inc. in July 2014. On December 31, 2016 this facility was not drawn by the Group.

Such loan is subject to the respect of operating and financial commitments, standard for similar transactions. At 31st December 2016 the Group complies with all the outstanding covenants.

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

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

(thousands of Euro)	December 31, 2016	December 31, 2015
From 1 to 2 years	-	-
From 2 to 3 years	137,393	-
From 3 to 4 years	-	132,526
From 4 to 5 years	-	-
Beyond 5 years	-	-
Total	**137,393**	**132,526**

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, 2016	December 31, 2015	Change
A	Cash and cash equivalents	109,038	86,640	22,398
B	Cash and cash equivalents included as Assets held for sale	-	-	-
C	Current securities (securities held for trading)	-	-	-
D	**Liquidity (A+B+C)**	**109,038**	**86,640**	**22,398**
E	**Receivables from financing activities**	**-**	**-**	**-**
F	Bank overdrafts and short-term bank borrowings	(10,013)	(39,022)	29,009
G	Current portion of long-term borrowings	-	-	-
H	Other short-term borrowings	(10,000)	(5,000)	(5,000)
I	**Debts and other current financial liabilities (F+G+H)**	**(20,013)**	**(44,022)**	**24,009**
J	**Current financial position, net (D)+(E)+(I)**	**89,025**	**42,618**	**46,407**
K	Long-term bank borrowings	-	-	-
L	Bonds	(137,393)	(132,526)	(4,867)
M	Other long-term borrowings	-	-	-
N	**Debts and other non current financial liabilities (K+L+M)**	**(137,393)**	**(132,526)**	**(4,867)**
I	**Net financial position (J)+(N)**	**(48,368)**	**(89,908)**	**41,540**

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

The Group has no exposure on its financial borrowings in foreign currencies other than Euro.

4.12 Trade payables

This item breaks down as follows:

(thousands of Euro)	December 31, 2016	December 31, 2015
Trade payables for:		
Purchase of raw materials	55,824	47,469
Purchase of finished goods	72,247	60,031
Suppliers from subcontractors	7,078	7,503
Tangible and intangible assets	7,456	6,053
Commissions	1,775	2,812
Royalties	20,409	24,606
Advertising and marketing costs	26,758	35,625
Services	56,945	36,071
Total	**248,492**	**220,170**

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

4.13 Tax payables

At 31st December 2016 tax payables amounted to 18,627 thousand Euro (compared to 25,266 thousand Euro in 2015). Of this sum 6,229 thousand Euro referred to income tax for the period, 5,296 thousand Euro to VAT payable and 7,102 thousand Euro to taxes withheld, current and local taxes. Provision for the year's current income tax is shown in note 5.9 concerning income tax.

4.14 Other current liabilities

This item breaks down as follows:

(thousands of Euro)	December 31, 2016	December 31, 2015
Payables to personnel and social security institutions	38,047	37,596
Agent fee payables	1,280	1,510
Payables to pension funds	1,294	1,160
Accrued advertising and sponsorship costs	581	952
Accrued interests on long-term loans	204	203
Other accruals and deferred income	48,625	4,308
Other current liabilities	1,936	1,755
Total	**91,967**	**47,484**

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

The increase of the "other accruals and deferred income" is mainly related to the accounting of the compensation for the conclusion of the Gucci license agreement that, according to the analysis of the underlying performance obligations has been deferred for the most part in term of profit and loss impact, the current deferred income includes the part of the compensation, equal to 43 million Euro, that will be recognized in the profit and loss in 2017. See also the information reported on note 5.5 "Other operating income (expenses)".

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

4.15 Provision for risks and charges

This item breaks down as follows:

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

(thousands of Euro)	Balance at January 1, 2015	Increase	Decrease	Reclass	Transl. diff.	Balance at December 31, 2015
Product warranty provision	4,988	465	(145)	-	-	5,308
Agents' severance indemnity	3,776	334	(882)	-	2	3,230
Provision for corporate restructuring	426	-	(110)	-	47	363
Other provisions for risks and charges	4,517	3,873	(1,078)	-	-	7,312
Provisions for risks - long term	**13,707**	**4,672**	**(2,215)**	**-**	**49**	**16,213**
Product warranty provision	2,013	801	(518)	-	7	2,303
Provision for corporate restructuring	1,838	427	(1,317)	-	195	1,143
Other provisions for risks and charges	1,807	19,228	(379)	-	22	20,678
Provisions for risks - short term	**5,658**	**20,456**	**(2,214)**	**-**	**224**	**24,124**
TOTAL	**19,365**	**25,128**	**(4,429)**	**-**	**273**	**40,337**

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 in place. The increase of the provision in 2016 for 2,199 thousand Euro is mainly related to the estimated cost associated with the integration of Polaroid lens production into Safilo's China based supply network.

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 increase of the other provision for risks in the long term portion is mainly related to the further accrual for the estimated liability related to a commercial restructuring in the EMEA Region.

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 Euro 17 million. Consequently, a provision was booked by the Group as the best estimate for the expected liability. On 15 December 2016, a hearing was held before the FCA during which all parties were given the opportunity to defend their case. On 24 February 2017, the FCA's Body decided to refer the entire case back for further investigation to the FCA's Investigation Services, without imposing any sanction on all the companies currently under investigation. While the next steps in the case from the side of the Authority are not yet known at today's date, the Group has at this point decided to maintain its provision unchanged at 17,000 thousand Euro.

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

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

4.16 Employees benefits

This item breaks down as follows:

(thousands of Euro)	December 31, 2016	December 31, 2015
Defined contribution plan	192	454
Defined benefit plan	31,203	30,721
Total	**31,395**	**31,175**

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

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

(thousands of Euro)	Balance at January 1, 2015	Posted to income statement	Actuarial (gains)/ losses	Uses	Transl. diff.	Balance at December 31, 2015
Defined benefit plan	32,350	1,504	(1,819)	(1,502)	188	30,721

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 such benefits, has always been considered to be a defined benefit plan. However, following the changes in legislation governing the employment severance fund introduced by Italian law no. 296 of 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 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 deriving 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 revaluation 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, 2016 and December 31, 2015 are summarized here follow:

	2016	**2015**
Discount rate	1.31%	2.03%
Inflation rate	1.50%	2.00%
Rate of benefit increase	2.63%	3.00%

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

Assumption (thousands of Euro)	**Change**	**Increase**	**Decrease**
Inflation	1.00%	1,622	(1,480)
Salary increase	0.25%	136	(127)
Discount rate	1.00%	(2,602)	3,085
Life expectancy	1 year	67	(69)

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

(thousands of Euro)	2016	2015
Service cost	(987)	(1,053)
Interest cost	(552)	(451)
Actuarial gain/(loss)	(1,390)	1,819
Total	**(2,929)**	**315**

4.17 Other non-current liabilities

Movements in other non-current liabilities were as follows:

(thousands of Euro)	Balance at January 1, 2016	Increase	Decrease	Transl. diff.	Balance at December 31, 2016
Other non current liabilities	35,584	61,224	(51,393)	168	45,583

At 31st December 2016 other non-current liabilities totalled 45,583 thousand Euro, compared to 35,584 thousand Euro at 31st December 2015.

The increase of the "other non-current liabilities" is mainly related to the accounting of the compensation for the conclusion of the Gucci license agreement which, according to the analysis of the underlying performance obligations has been deferred for the most part in terms of profit and loss impact. The item includes the non-current deferred income relating the part of the compensation, equal to 39 million Euro, that will be recognized in the profit and loss in 2018. See also the information reported on note 5.5 "Other operating income (expenses)".

The other non-current liabilities comprised also 6,583 thousand Euro 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). As at 31st December 2016, shareholders' equity amounts totaled 872,804 thousand Euro (non-controlling interests are nil) versus Euro 998,604 thousand Euro as at 31st December 2015 (of which Euro 1,099 thousand belonging to non-controlling interests).

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 2016, the ratio stood at 5% (8% at 31st December 2015).

4.18 Share capital

During the year, it should be noted that some of the beneficiaries of the Stock Option Plan 2010-2013, exercised options for the third tranche for a total amount of 30,000 options exercised at an exercise price equal to Euro 5.540 per share. This exercise resulted in the issuance of 30,000 shares with a nominal value of 5.00 euros, an increase of the share capital amounted of Euro 150,000 and an increase in the share premium reserve of Euro 16,200.

Following the above-mentioned capital increase, at 31st December 2016 the share capital of the Parent Company, Safilo Group S.p.A., amounts to Euro 313,299,825, consisting of no. 62,659,965 ordinary shares with a par value of Euro 5.00 each.

4.19 Share premium reserve

The share premium reserve represents:

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

Following the above-mentioned capital increase, at 31st December 2016 the share premium reserve of the Parent Company, Safilo Group S.p.A., has recorded an increase of 16,200 Euro and amounts to Euro 484,861,564.

4.20 Retained earnings and other reserves

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

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

- for 20,446 thousand Euro to the positive translation differences coming from the translation into Euro of the subsidiaries' financial statements;
- for 29 thousand Euro to the cost for the period of the outstanding *stock option* plan;
- for 1,269 thousand Euro to the decrease coming from the actuarial valuation, net of tax effect, of the employee termination indemnities of defined contribution plans;
- for 2,500 thousand Euro to the decrease related to the price paid for the purchase of minority interests, of which 1,401 thousand Euro belonging to the Group equal to the difference between the price paid and the book value of the minority interests acquired. It is considered that the price paid is approximately equal to the fair value of the minority interests purchased.

4.21 Cash flow hedge reserve

This item breaks down as follows:

	Consolidated statement of comprehensive income				
(thousands of Euro)	**Balance at January 1, 2016**	**Profit (loss) of the period**	**Gain (loss) reclass to profit and loss**	**Total Profit (loss) of the period**	**Balance at December 31, 2016**
Cash flow hedge reserve	572	-	(572)	(572)	-

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 general meeting held on 15 April 2014, as proposed by the Board of Directors held on 5 March 2014, approved the capital increase up to a nominal value of Euro 7,500,000.00 by means of the issuance of up to a maximum of 1,500,000 ordinary shares, with the par value equal to 5.00 Euro, for the purpose of the 2014-2016 Stock Option Plan in favour of directors and/or employees of Safilo Group S.p.A. and of its subsidiaries.

Such Plan, aimed at the retention and motivation of directors and/or employees, by means of granting in tranches and free of charge a maximum of 1,500,000 options which give the beneficiaries the right to subscribe newly issued ordinary shares of the Company, at a par value of Euro 5.00 each, arising from the paid and separable capital increase, with exclusion of the option rights according to article 2441, paragraph 4 second part of the Civil Code, at the rate of no. 1 share for each Option.

The Plan has a total duration of approximately 10 years (from 2014 to 2024). The options granted to beneficiaries are exercisable after a minimum of two years from the last possible granting date of each tranche.

In particular, there are three different granting dates:

- the first tranche was granted by the Board of Directors held on 29 April 2014;
- the second tranche was granted by the Board of Directors which has approved the financial statements of the Company for the year ended 31.12.2014;
- the third tranche was granted by the Board of Directors which has approved the financial statements of the Company for the year ended 31.12.2015.

This Plan is in addition to the one already in place deliberated by the Extraordinary Meeting held on 5th November 2010, in which the Shareholders approved the issue of up to 1,700,000 new ordinary shares with a nominal value of 5.00 Euro each, for a total of Euro 8,500,000.00, to be offered to directors and/or employees of the Company and its subsidiaries in connection with the "2010-2013 Stock Option Plan".

This Plan, designed to incentivise and retain directors and/or employees/managers, is carried out through the grant, in different tranches, of up to 1,700,000 options, each such option entitling the beneficiary to subscribe to 1 of the foregoing ordinary Company share with a nominal value of 5.00 Euro each, issued for cash and without any all-or-none clause, excluding all pre-emptive rights pursuant to article 2441, paragraph four, second sentence of the Italian Civil Code.

The Plan will last for 9 years (from 2010 to 2019). The options granted to the beneficiaries may be exercised after three years from the grant date (except the first tranche, which will benefit from a shorter vesting period).

On 13 November 2013, the Board of Directors has amended the rules of the "Stock Options Plan 2010-2013" in order to reassign certain options returned to the availability of the Company as a result of resignations by some beneficiaries. In execution of the amendment on that date the Company proceeded to reassign a tranche of 65,000 options ("Fourth Tranche - bis") that may be exercised under the same operating conditions and in the same exercise period for the options set out in the fourth tranche.

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

Information relating to the tranches of the Stock Options Plan 2010-2013 and of the Stock Options Plan 2014-2016 granted on 31st December 2016 is shown below.

	Grant date	No. of options	Fair value in Euro	Maturity
Stock Option Plan 2010-2013				
First tranche	05/11/10	-	4.08	31/05/16
Second tranche	16/03/11	35,000	1.48	31/05/17
Third tranche	08/03/12	165,000	1.06	31/05/18
Fourth tranche	06/03/13	187,500	1.12	31/05/19
Fourth tranche-bis	13/11/13	65,000	1.76	31/05/19
Stock Option Plan 2014-2016				
First tranche	29/04/14	255,000	2.67	31/05/22
Second tranche	05/03/15	515,000	2.20	31/05/23
Third tranche	14/03/16	535,000	1.56	31/05/24

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				
First tranche	12.00	8.047	29.61%	1.476%
Second tranche	11.70	12.550	32.08%	1.871%
Third tranche	5.33	5.540	46.45%	1.067%
Fourth tranche	8.70	8.470	26.16%	0.382%
Fourth tranche-bis	14.04	14.540	30.62%	0.373%
Stock Option Plan 2014-2016				
First tranche	15.67	15.050	30.00%	1.044%
Second tranche	13.71	13.290	30.00%	0.352%
Third tranche	8.68	8.3509	33.50%	0.364%

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	**600,000**	**8.319**
Granted	-	-
Forfeited	-	-
Exercised	(30,000)	5.540
Expired	(117,500)	7.985
Outstanding at period-end	**452,500**	**8.590**
Stock Option Plan 2014-2016		
Outstanding at the beginning of the period	**845,000**	**13.884**
Granted	585,000	8.351
Forfeited	(125,000)	11.737
Exercised	-	-
Expired	-	-
Outstanding at period-end	**1,305,000**	**11.609**

During the year, 30,000 options belonging to the third tranche, of the Plan 2010-2013, have been exercised at an exercise price of 5.540 Euro equal to a total value of 166,200 Euro.

In the same period 585,000 options have been granted related to the third tranche of the new Plan 2014-2016.

Among the options outstanding at the end of the period, the second, the third and the fourth tranche of the Plan 2010-2013 are exercisable until respectively the end of the exercise period set for 31st May 2017, 31st May 2018 and 31st May 2019. As far as the Plan 2014-2016 is concerned the first tranche, equal to a total of 255,000, will be exercisable from the date of the approval of these financials 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 707,500.

The average exercise price for options of the Plan 2010-2013 outstanding at the year-end is equal to 8.590 Euro with an average remaining contract life of 1.9 years, while for the Plan 2014-2016 is equal to 11.609 Euro with an average remaining contract life of 6.6 years.

The adoption of these plans has affected the income statement for the period for 29 thousand Euro (638 thousand Euro at 31st December 2015).

5. NOTES TO THE CONSOLIDATED INCOME STATEMENT

5.1 Net sales

Group sales in 2016 amounted to 1,252,931 thousand Euro, showing a 2.0% decrease on the previous year (1,278,960 thousand Euro). For a discussion on sales trends, reference should be made to the report on operations, section on the Group's economic results.

5.2 Cost of sales

This item breaks down as follows:

(thousands of Euro)	2016	2015
Purchase of raw materials and finished goods	380,201	370,947
Capitalisation of costs for increase in tangible assets (-)	(8,215)	(10,269)
Change in inventories	(18,554)	1,990
Wages and social security contributions	118,070	100,526
Subcontracting costs	23,716	20,024
Depreciation	23,910	22,432
Rental and operating leases	955	849
Other industrial costs	17,220	15,505
Total	**537,303**	**522,004**

Changes in inventories can be broken down as follows:

(thousands of Euro)	2016	2015
Finished products	(21,453)	1,736
Work-in-progress	652	(129)
Raw materials	2,247	383
Total	**(18,554)**	**1,990**

The average number of employees by rank is shown below:

	2016	2015
Executives	140	135
Clerks and middle management	2,958	3,206
Factory workers	3,971	3,870
Total	**7,068**	**7,211**

5.3 Selling and marketing expenses

This item breaks down as follows:

(thousands of Euro)	2016	2015
Payroll and social security contributions	126,554	127,196
Sales commissions	70,601	72,414
Royalty expenses	107,686	110,649
Advertising and promotional costs	129,438	145,141
Amortization and depreciation	6,129	5,339
Logistic costs	21,193	19,292
Consultants fees	1,082	1,078
Rental and operating leases	16,829	17,931
Utilities	1,020	1,007
Provision for risks	1,413	2,492
Other sales and marketing expenses	30,872	23,985
Total	**512,817**	**526,524**

5.4 General and administrative expenses

This item breaks down as follows:

(thousands of Euro)	2016	2015
Payroll and social security contributions	80,632	85,591
Allowance and write off of doubtful accounts	2,324	4,858
Amortization and depreciation	15,257	13,293
Consultants fees	18,355	15,157
Rental and operating leases	11,415	10,491
EDP costs	10,506	9,420
Insurance costs	2,140	2,551
Utilities, security and cleaning	6,759	7,202
Taxes (other than on income)	5,094	5,912
Other general and administrative expenses	15,277	16,993
Total	**167,759**	**171,468**

5.5 Other operating income (expenses)

This item breaks down as follows:

(thousands of Euro)	2016	2015
Losses on disposal of assets	(395)	(136)
Other operating expenses	(12,971)	(21,927)
Write downs of tangible assets	(1,913)	-
Gains on disposal of assets	1,999	616
Other operating incomes	11,962	3,790
Total	**(1,318)**	**(17,657)**

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

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

In 2015, non-recurring costs amounting to 20.052 thousand Euro were recorded mainly relating to 1,175 thousand Euro for the commercial restructuring costs in the EMEA Region, Euro 1,049 thousand for the consolidation of the Group's North American distribution network into its Denver facility and 17,000 thousand Euro for the provision regarding the litigation with the French Competition Authority.

Other operating expenses include also a cost of Euro 3,978 thousand related to the final acceleration to profit and loss of Gucci prepaid royalties.

Gains on disposal of tangible assets equal to 1,999 thousand Euro refer to the disposal of the headquarters and distribution centre of the American company Safilo USA Inc. that was classified at the end of December 2015 as "Non-current assets held for sale". The disposal has been performed according to the plan for the consolidation of the Distribution Centre into the Denver facility, and the relocation of the headquarters to a site closer to New York City.

Other operating incomes include Euro 8 million related to part of the total Euro 90 million accounting compensation for the early termination of the Gucci license. The accounting treatment of the Euro 90 million 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 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.

5.6 Impairment loss on goodwill

As reported in note 4.8 "Goodwill", the Group has performed the impairment test of goodwill. The impairment test showed a loss of Euro 150,000 thousand (Euro 40,475 thousand in 2015) on the goodwill allocated to Far East cash generating unit.

5.7 Share of income/(loss) of associated companies

The Group held no investment in associated companies, the item in 2015 totaled an income of 1,010 thousand Euro consisted of the profits deriving from the disposal of the investments in the associate companies Elegance Optical International Holding Ltd. finalized on September 18th 2015.

5.8 Financial charges, net

This item breaks down as follows:

(thousands of Euro)	2016	2015
Interest expenses on loans	826	1,602
Interest expenses and charges on Bond	6,744	6,495
Bank commissions	7,204	7,356
Negative exchange rate differences	33,254	39,929
Other financial charges	720	318
Total financial charges	**48,748**	**55,700**
Interest income	564	223
Positive exchange rate differences	37,069	27,208
Fair value gains on the Equity-linked Bond incorporated derivative	3,129	812
Other financial income	1,632	56
Total financial income	**42,394**	**28,299**
TOTAL FINANCIAL CHARGES, NET	**6,354**	**27,401**

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

The item exchange rate differences includes gains and losses on valuation of financial instruments related to forward contracts at fair value through profit or loss amounted to a gain of 73 thousand Euro (a charge of 1,316 thousand Euro in 2015).

5.9 Income taxes

This item breaks down as follows:

(thousands of Euro)	2016	2015
Current tax	(15,679)	(22,019)
Deferred tax	(3,800)	(4,835)
Total	**(19,479)**	**(26,854)**

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

(thousands of Euro)	%	2016	%	2015
Profit/(Loss) before taxation	**100%**	**(122,621)**	**100%**	**(25,559)**
Income tax benefit (expense) at statutory rate	-27.5%	33,721	-27.5%	7,029
IRAP and other local taxes	2.3%	(2,833)	6.0%	(1,545)
Taxes relating to prior years	-4.4%	5,387	-2.5%	638
Foreign tax rate differential	2.5%	(3,073)	13.1%	(3,359)
Non taxable income	-0.7%	825	-5.2%	1,339
Non deductible costs	4.5%	(5,463)	33.5%	(8,573)
Impairment of goodwill not deductible	33.6%	(41,251)	43.6%	(11,131)
Non-recognition of new DTAs and write-off of existing DTAs	10.0%	(12,297)	65.0%	(16,626)
Benefit arising from unrecognized DTA of prior years	-0.9%	1,062	-36.2%	9,248
Deferred tax expense for changes in tax rate	0.6%	(716)	15.7%	(4,007)
Tax Credit and tax relief	-4.5%	5,542	-1.4%	352
Other differences	0.3%	(384)	0.9%	(219)
Total	**15.9%**	**(19,479)**	**105.1%**	**(26,854)**

Theoretical income taxes are calculated at 27.5% on the consolidated loss before tax: this percentage represents the statutory corporate income tax rate (IRES) applicable at the Italian holding company's level. The Group effective tax rate is primarily affected by the significant non-recurring items not tax deductible that have affected the profit before tax of the period and by the non recognition and write-down of deferred tax assets related to some legal entities for which the realization of sufficient future taxable profits were not considered probable enough to support the recognition of the related deferred tax assets. The benefit related to 'Taxes relating to prior years' refers mainly to US entities recording a prior year adjustment on corporate income tax advance payments.

5.10 Earnings per share

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

Basic	**2016**	**2015**
Profit/(Loss) for ordinary shares (in thousands of Euro)	(142,101)	(52,745)
Average number of ordinary shares (in thousands)	62,640	62,586
Earnings/(Losses) per share - basic (in Euro)	**(2.269)**	**(0.843)**

Diluted	**2016**	**2015**
Profit/(Loss) for ordinary shares (in thousands of Euro)	(142,101)	(52,745)
Profit for preferred shares	-	-
Profit in income statement	**(142,101)**	**(52,745)**
Average number of ordinary shares (in thousands)	62,640	62,586
Dilution effects:		
- Convertible Bond (in thousands)	-	-
- stock option (in thousands)	52	202
Total	**62,692**	**62,788**
Earnings/(Losses) per share - diluted (in Euro)	**(2.267)**	**(0.840)**

As for the bond "Safilo Group S.p.A. Euro 150 million, 1.25 per cent Guaranteed Equity-Linked Bond due 2019", based on current market and conversion conditions, no dilutive effect was considered.

5.11 Dividends

The parent company Safilo Group S.p.A. did not distribute dividends to shareholders during 2016.

5.12 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 2016 and 2015.

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

(thousands of Euro)	December 31, 2015			
	WHOLESALE	**RETAIL**	**Eliminat.**	**Total**
Net sales				
- to other segment	12,755	-	(12,755)	-
- to third parties	1,190,323	88,637	-	1,278,960
Total net sales	**1,203,078**	**88,637**	**(12,755)**	**1,278,960**
Gross profit	**702,122**	**54,834**	**-**	**756,956**
Operating profit	**(264)**	**1,096**	**-**	**832**
Share of income of associates	1,010	-		1,010
Financial charges, net				(27,401)
Income taxes				(26,854)
Net profit				**(52,413)**
Segment assets	1,131,212	39,526		1,170,738
Investment in associates	-	-		-
Unallocated corporate assets				420,067
Consolidated total assets				**1,590,805**
Segment liabilities	541,301	4,936		546,237
Unallocated corporate liabilities				45,964
Consolidated total liabilities				**592,201**
Other information				
Capital expenditure	46,000	1,898		47,897
Depreciation & amortization	37,072	3,993		41,065
Goodwill impairment	40,475	-		40,475
Non cash items other than depreciation and amortization	(15,286)	(57)		(15,343)

Breakdown of revenues and non-current assets by geographic area

(thousands of Euro)	Revenue from external customers		Non-current assets	
	2016	2015	December 31, 2016	December 31, 2015
Italy [1]	280,416	263,868	210,588	167,393
Europe [2]	301,134	290,249	177,934	184,664
America [3]	560,186	581,615	270,544	259,846
Asia [4]	111,195	143,229	87,650	235,003
Total	**1,252,931**	**1,278,960**	**746,716**	**846,906**

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

Non-current assets 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 table below shows the operating and financial figures determined by related party transactions as of 31st December 2016 and 31st December 2015.

Related parties transactions (thousands of Euro)	**Relationship**	**December 31, 2016**	**December 31, 2015**
Receivables			
Companies controlled by HAL Holding N.V.	(b)	20,965	15,342
Total		**20,965**	**15,342**
Payables			
Companies controlled by HAL Holding N.V.	(b)	8,386	9,027
Total		**8,386**	**9,027**

Related parties transactions

(thousands of Euro)	Relationship	2016	2015
Revenues			
Companies controlled by HAL Holding N.V.	(b)	79,916	77,192
Total		**79,916**	**77,192**
Operating expenses			
Elegance Optical International Holdings Ltd	(a)	-	3,016
Companies controlled by HAL Holding N.V.	(b)	10,216	7,684
Total		**10,216**	**10,700**

(a) Associated company.
(b) 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:

- Elegance Optical International Holdings Limited ("Elegance"), a company listed on the Hong Kong stock exchange, was 23.05% owned by Safilo Far East Limited (an indirect subsidiary) until the third quarter of 2015, and produces optical products for the Group in Asia. The price and other conditions of the production agreement between Safilo Far East Limited and Elegance were in line with those applied by Elegance to its other customers. In the third quarter of 2015 the Group has disposed its investment in the Company;
- The companies of HAL Holding N.V., primary shareholder of Safilo Group, mainly refer to the retail companies belonging to the GrandVision Group, with which Safilo carries out commercial transactions in line with market conditions.

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

(thousands of Euro)	2016	2015
Directors		
- Salaries ad short term compensations	1,693	1,613
- Non monetary benefits	41	43
- Other compensations	1,529	38
- Fair value of equity compensations	90	114
Statutory auditors		
- Fixed compensations and compensations for participation in committees	286	286
Managers with strategic responsabilities		
- Salaries ad short term compensations	806	1,023
- Non monetary benefits	16	19
- Other compensations	43	7
- Fair value of equity compensations	53	125
- Indemnity for end of position or cessation of employment relationship	-	-
Total	**4,557**	**3,268**

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 signatures. 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, 2016**	**December 31, 2015**
within 1 year	120,472	164,798
between 1 and 3 years	232,822	175,765
between 3 and 5 years	168,390	123,049
beyond 5 years	77,140	80,035
Total	**598,824**	**543,646**

Rent and operating lease:

The Group, at the balance sheet date, had various contracts for the rent or operating lease, 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 and automotive equipment.

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, 2016**	**December 31, 2015**
within 1 year	23,228	21,141
between 1 and 3 years	35,380	32,611
between 3 and 5 years	24,656	18,665
beyond 5 years	32,918	21,354
Rent due	**116,182**	**93,772**
within 1 year	7,154	8,308
between 1 and 3 years	7,821	5,967
between 3 and 5 years	942	574
beyond 5 years	4	3
Operating lease	**15,920**	**14,852**
Total	**132,102**	**108,623**

9. SUBSEQUENT EVENTS

In the period following 31st December 2016, there were no events in addition to those reported in the paragraph "Significant events after the year-end and outlook" included in the Report on operations, that might affect to a significant extent the data contained in this document.

10. SIGNIFICANT NON-RECURRING EVENTS AND TRANSACTIONS

At the balance sheet date the Group did not undertake any significant non-recurring transactions pursuant to the Consob Communication dated 28th July 2006.

11. TRANSACTIONS RESULTING FROM UNUSUAL AND/OR ABNORMAL OPERATIONS

Pursuant to Consob Communication of 28th July 2006, in 2016 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 2016 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 2016**
Audit (*)	Deloitte & Touche S.p.A.	Holding Company - Safilo Group S.p.A.	58
	Deloitte & Touche S.p.A.	Subsidaries	126
	Network Deloitte & Touche S.p.A.	Subsidaries	887
Attestation	Deloitte & Touche S.p.A.	Holding Company - Safilo Group S.p.A.	2
	Deloitte & Touche S.p.A.	Subsidaries	47
	Network Deloitte & Touche S.p.A.	Subsidaries	78
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	14
Total			**1,212**

(*) This item includes fees for the audit of the consolidated financial statements of the Group amounted to Euro 29.8 thousand.

ATTESTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ART. 154-bis of legislative decree 58/98

1. The undersigned Luisa Deplazes de Andrade Delgado, 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 2016 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 2016 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 2016:

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.

15th March 2017

The Chief Executive Officer	The manager responsible for preparing the company's financial statements
Luisa Deplazes de Andrade Delgado	*Gerd Graehsler*

REPORT OF INDEPENDENT AUDITORS

Deloitte.

Deloitte & Touche S.p.A.
Via N. Tommaseo, 78/C int. 3
35131 Padova
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www.deloitte.it

**INDEPENDENT AUDITORS' REPORT
PURSUANT TO ART. 14 AND 16 OF
LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010**

**To the Shareholders of
SAFILO GROUP S.p.A.**

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Safilo Group, which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

The Company's Directors are responsible for the preparation of these 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 n° 38/05.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) issued pursuant to art. 11 of Italian Legislative Decree 39/10. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation that give a true and fair view of consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Safilo Group as at December 31, 2016, and of its financial performance and 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 n° 38/05.

Report on Other Legal and Regulatory Requirements

Opinion on the consistency of the report on operations and of certain information included in the report on corporate governance with the consolidated financial statements

We have performed the procedures indicated in the Auditing Standard (SA Italia) n° 720B in order to express, as required by law, an opinion on the consistency of the report on operations and of certain information included in the report on corporate governance required by art. 123-bis, n° 4, of Italian Legislative Decree n° 58/98, which are the responsibility of the Directors of Safilo Group S.p.A., with the consolidated financial statements of Safilo Group as at December 31, 2016. In our opinion the report on operations and the information included in the report on corporate governance referred to above are consistent with the consolidated financial statements of Safilo Group as at December 31, 2016.

DELOITTE & TOUCHE S.p.A.

Signed by
Giorgio Moretto
Partner

Padova, Italy
March 29, 2017

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



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SAFILO GROUP S.p.A. STATUTORY FINANCIAL STATEMENTS AT DECEMBER 31ST 2016

CONTENTS

SAFILO GROUP S.P.A. - STATUTORY FINANCIAL STATEMENTS AT 31ST DECEMBER 2016

DIRECTORS OPERATIONS REPORT

Introduction

Safilo Group S.p.A. was incorporated on 14th October 2002. It is the holding company of the 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.

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.

Subsidiary Safilo S.p.A. is a manufacturer and 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

Starting from 1st January 2006 the Company joined the tax consolidation programme in the capacity of parent company, while Safilo S.p.A., Lenti S.r.l. and Smith Sport Optics in liquidation joined in the capacity of subsidiaries. In 2013 Polaroid S.r.l. was included as a subsidiary company, than in 2014 merged in Safilo S.p.A.. Moreover, from the 2007 financial year Safilo Group S.p.A., acting in the capacity of parent company, Safilo S.p.A. and Smith Sport Optics S.r.l. in liquidation, 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"). As from the 2008 financial year Smith Sport Optics S.r.l. in liquidation withdrew from the VAT offsetting procedure and from the 2012 financial year the company withdrew from the tax consolidation programme as well and the liquidation process was completed in 2013.

Dealings with the other companies in the Group are carried on 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 2016

(thousand of Euro)	**Receivables**	**Payables**	**Income**	**Financial Income**	**Costs**
Safilo S.p.A.	14,002	(8,459)	412	-	(25)
Lenti S.r.l. (held by Safilo S.p.A.)	2,101	-	-	-	-
Safilo Far East Ltd. (held by Safilo S.p.A.)	346		161	-	-
Safilo USA Inc. (held by Safilo S.p.A.)	120		154	-	-

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

- Euro 13,590 thousand for dividends resolved on by Safilo S.p.A. but not yet collected at the prior year Financial Statements date. Over 2016 fiscal year a total of Euro 5,900 thousand were received in dividends;
- Euro 412 thousand for sums charged to the subsidiary for administrative, accounting, legal and tax services performed on its behalf.

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

- Euro 531 thousand relating to the transfer from Safilo S.p.A. of benefits deriving from the assignment of tax losses and withholding tax resulting from its income tax return after joining the national tax consolidation scheme;
- Euro 1,702 thousand payable to Safilo S.p.A. for advances received;
- Euro 376 thousand for the debt payable to the subsidiary for services rendered;
- Euro 5,848 thousand for the VAT credit transferred by Safilo S.p.A. to the parent company as a result of the Group VAT mechanism.

The income from Safilo S.p.A. related to charges made for administrative, legal, accounting and tax services performed on its behalf.

The costs payable to subsidiary Safilo S.p.A. related to the charge made by Safilo S.p.A. for services performed on behalf of the parent company.

The receivables from subsidiary Lenti S.r.l. relate to the transfer of tax and to the receivables for withholding tax assigned to the consolidation programme.

The receivables, and the related income, from subsidiary Safilo Far East Ltd. and Safilo USA inc. relate to the recharge of the costs for the seconded staff.

Financial year 2015

(thousand of Euro)	**Receivables**	**Payables**	**Income**	**Financial Income**	**Costs**
Safilo S.p.A.	19,992	(4,765)	412	-	(25)
Lenti S.r.l. (held by Safilo S.p.A.)	1,214		-	-	-
Safilo Far East Ltd. (held by Safilo S.p.A.)	258		258	-	

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

- Euro 19,490 thousand for dividends resolved on by Safilo S.p.A. but not yet collected at the prior year Financial Statements date. Over 2015 fiscal year a total of Euro 3,050 thousand were received in dividends;
- Euro 502 thousand for sums charged to the subsidiary for administrative, accounting, legal and tax services performed on its behalf.

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

- Euro 525 thousand relating to the transfer from Safilo S.p.A. of benefits deriving from the assignment of tax losses and withholding tax resulting from its income tax return after joining the national tax consolidation scheme;
- Euro 1,879 thousand for a corporation tax (IRES) credit assigned by Safilo S.p.A. to the parent company when submitting the income tax return;
- Euro 346 thousand payable to Safilo S.p.A. for advances received;
- Euro 485 thousand for the debt payable to the subsidiary for services rendered;
- Euro 1.530 thousand for the VAT credit transferred by Safilo S.p.A. to the parent company as a result of the Group VAT mechanism.

The income from Safilo S.p.A. related to charges made for administrative, legal, accounting and tax services performed on its behalf.

The costs payable to subsidiary Safilo S.p.A. related to the charge made by Safilo S.p.A. for services performed on behalf of the parent company.

The receivables from subsidiary Lenti S.r.l. relate to the transfer of tax and to the receivables for withholding tax assigned to the consolidation programme.

The receivables, and the related income, from subsidiary Safilo Far East Ltd. relate to the recharge of the costs for the seconded staff.

Data protection obligations

Also during 2016, as in the past, the Company has continued the activities of analysis and monitoring of procedures and documentation to the mapping of security checks and measures in the field of security obligations established by current legislation on data protection personal.

Since May 24, 2016 came into force the new European Privacy Regulations (Reg. 2016/679 / EU), which will become directly applicable in each EU member state as of May 25, 2018, and therefore lead to the repeal of the Privacy Code governed by Legislative Decree 196/2003, during 2017 we will conduct an analysis of all internal processes in order to structure an action plan of all activities necessary to homologate the aforementioned legislation within the applicable terms.

The Legislative Decree n.1/2012, known in Italy as “Decreto semplificazioni” (“Simplification Decree”) cancelled the obligation to draw up the “Documento programmatico sulla sicurezza” (Safety Policy Document), which, in compliance with the former regime in force, had to be drawn up on an annual basis by March, 31 of each year.

Significant events after year-end

Starting from 1 January 2017, it has become effective the reorganization of Safilo's corporate structure approved by the Board of Directors on 9 November, 2016. The objective is to drive consistency between the Group's Global Business Model and its Legal Entity structure, thereby guaranteeing a close alignment with the choices of the Group's 2020 Strategic Plan.

As a result of this intervention, the Group's business units will each be focused on, and be accountable for specific unique business activities, organised as follows:

- Safilo Group S.p.A., as the "Holding Company", will host the Corporate Functions that provide corporate services to the entire Group;
- Safilo S.p.A. affirms its role as the "Strategic Company" that leads the global business, with namely Global Brand Management, Product Design & Creation, Sourcing, Quality Assurance, Sales Operations & Delivery, and Logistics;
- Safilo Industrial S.r.l. - newly created and wholly controlled by Safilo S.p.A. - will be the Italian "Manufacturing Company" that comprises Safilo's Italian plants of Santa Maria di Sala, Martignacco, and Longarone, along with the related employees.

The implementation of such reorganization has been performed via two one-off transactions: a transfer of going concern from Safilo S.p.A. to Safilo Group S.p.A., and a contribution in kind of going concern by Safilo S.p.A. into Safilo Industrial S.r.l..

This new corporate setup will enable a more immediate reading of the performance of the different business units.

for the Board of Directors
Chief Executive Officer
Luisa Deplazes de Andrade Delgado

RESOLUTIONS REGARDING THE RESULT FOR THE YEAR

We submit for your approval the financial statements for the financial year ending on 31st December 2016, drafted according to the IFRS International Accounting Standards, and recommend that the loss for the year, amounting to Euro 5,805,119 be carried forward.

for the Board of Directors
Chief Executive Officer
Luisa Deplazes de Andrade Delgado

STATUTORY FINANCIAL STATEMENTS

Balance Sheet

(Euro)	Notes	December 31, 2016	December 31, 2015
ASSETS			
Current assets			
Cash and cash equivalents	4.1	334,104	113,499
Trade receivables	4.2	992,511	760,788
Other current assets	4.3	23,786,601	25,892,231
Total current assets		**25,113,216**	**26,766,518**
Non-current assets			
Investments in subsidiaries	4.4	903,256,718	903,267,936
Deferred tax assets	4.5	1,904,084	1,792,596
Other non-current assets	4.6	2,100,523	1,213,910
Total non-current assets		**907,261,325**	**906,274,442**
TOTAL ASSETS		**932,374,541**	**933,040,960**

(Euro)	Notes	December 31, 2016	December 31, 2015
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Trade payables	4.7	1,036,740	788,290
Tax payables	4.8	181,234	196,327
Other current liabilities	4.9	8,251,675	4,595,589
Provision for risk and charges	4.12	1,144,018	-
Total current liabilities		**10,613,667**	**5,580,206**
Non-current liabilities			
Long-term borrowings	4.10	137,393,195	132,525,703
Employee benefit liability	4.11	49,763	62,558
Provision for risk and charges	4.12	-	1,819,031
Derivative financial instruments	4.13	484,473	3,613,643
Other non-current liabilities	4.14	531,485	524,497
Total non-current liabilities		**138,458,916**	**138,545,432**
Total liabilities		**149,072,583**	**144,125,638**
Shareholders' equity			
Share capital	4.15	313,299,825	313,149,825
Share premium reserve	4.16	484,861,564	484,845,364
Retained earnings (losses) and other reserves	4.17	(9,054,312)	(2,783,077)
Net profit (loss) of the year		(5,805,119)	(6,296,790)
Total shareholders' equity		**783,301,958**	**788,915,322**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**932,374,541**	**933,040,960**

Income Statement

(Euro)	Notes	2016	2015
Net sales	5.1	412,000	412,000
Gross profit		**412,000**	**412,000**
General and administrative expenses	5.2	(3,543,093)	(3,463,823)
Other income/(expenses)		(59,981)	118,712
Operating profit/(loss)		**(3,191,074)**	**(2,933,111)**
Financial charges, net	5.3	(3,612,156)	(5,693,659)
Profit/(loss) before taxation		**(6,803,230)**	**(8,626,770)**
Income taxes	5.4	998,111	2,329,980
Net profit/(loss) for the year		**(5,805,119)**	**(6,296,790)**

Statement of comprehensive Income

(Euro)	2016	2015
Net profit (loss) for the period	(5,805,119)	(6,296,790)
Actuarial gain/(loss)	(1,799)	28,188
Total comprehensive income	**(5,806,918)**	**(6,268,602)**

Statement of Cash Flows

(Euro)	2016	2015
A - Opening net cash and cash equivalents (net financial indebtedness - short term)	**113,499**	**175,824**
B - Cash flow from (for) operating activities		
Net profit/(loss) for the period	(5,805,119)	(6,296,793)
Depreciation and Amortization	-	-
Net changes in employees benefits liability	38,572	115,759
Net changes in provision for risks	(14,594)	14,341
Stock Options figurative cost	(675,013)	822,734
Other non monetary P&L items	(3,129,169)	(810,909)
Interest expenses, net	6,743,748	6,494,398
Income tax expenses	(998,111)	(2,329,980)
Income (loss) from (for) operating activities prior to movements in working capital	**(3,839,686)**	**(1,990,450)**
(Increase) Decrease in trade receivables	(231,723)	(169,037)
(Increase) Decrease in other receivables	(4,792,470)	(818,196)
Increase (Decrease) in trade payables	248,450	1,585,410
Increase (Decrease) in other payables	4,644,834	(476,502)
Interests expenses paid	(1,875,000)	(1,875,000)
Income taxes paid	-	-
Total (B)	**(5,845,595)**	**(3,743,775)**
C - Cash flow from (for) investing activities		
(Investments) disinvestments in subsidiaries	-	-
Total (C)	**-**	**-**
D - Cash flow from (for) financing activities		
Proceed from borrowings	-	-
Share capital increase	166,200	631,450
Dividends received	5,900,000	3,050,000
Total (D)	**6,066,200**	**3,681,450**
E - Cash flow for the period (B+C+D)	**220,605**	**(62,325)**
F - Closing net cash and cash equivalents (net financial indebtedness - short term) (A+E)	**334,104**	**113,499**

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, 2015	**312,674,825**	**484,688,914**	**3,007,774**	**(17,037,641)**	**10,580,351**	**793,914,223**
Previous year's profit allocation	-	-	-	10,580,351	(10,580,351)	-
Increase in share capital due to the exercising of stock option	475,000	156,450	-	-	-	631,450
Net increase in the Reserve for share-based payments	-	-	-	638,252	-	638,252
Total comprehensive income (loss) for the period	-	-	-	28,187	(6,296,790)	(6,268,603)
Equity at December 31, 2015	**313,149,825**	**484,845,364**	**3,007,774**	**(5,790,851)**	**(6,296,790)**	**788,915,322**
Previous year's profit allocation	-	-	-	(6,296,790)	6,296,790	-
Increase in share capital due to the exercising of stock option	150,000	16,200	-	-	-	166,200
Net increase in the Reserve for share-based payments	-	-	-	27,354	-	27,354
Total comprehensive income (loss) for the period	-	-	-	(1,799)	(5,805,119)	(5,806,918)
Equity at December 31, 2016	**313,299,825**	**484,861,564**	**3,007,774**	**(12,062,086)**	**(5,805,119)**	**783,301,958**

NOTES TO THE STATUTORY FINANCIAL STATEMENTS

1. General information

1.1 General information

Safilo Group S.p.A. is a joint-stock company ("società per azioni") incorporated in Italy on 14th October 2002 and registered at the Chamber of Commerce and in the Administrative Business Register (REA) of Belluno. The company has its registered office at Pieve di Cadore (Belluno) and a branch in Padua, at the offices of its subsidiary Safilo S.p.A..

Safilo Group S.p.A. is an Italian company that operates pursuant to Italian law. Its corporate purpose is the manufacture and sale of spectacle frames, and the acquisition, trade and management of equity investments in public companies operating in the eyewear business.

Safilo Group S.p.A. has been listed on the electronic stock market (MTA) of Milan since 9th December 2005. It manages and co-ordinates Safilo S.p.A., in which has a 95.201% equity interest (the remaining share is owned by Safilo S.p.A. in the form of treasury stock).

The company also manages and co-ordinates, pursuant to articles 2497 et seq. Italian Civil Code, Lenti S.r.l., a subsidiary of Safilo S.p.A..

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.

This annual report is presented in Euro and covers the financial period from 1st January 2016 to 31st December 2016. It also includes information relating to the financial period from 1st January 2015 to 31st December 2015 for comparison purposes.

This annual report was approved by the Board of Directors on 15th March 2017.

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 2016 and 31st December 2015 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 2.3 "Use of estimates".

Accounting standards, amendments and interpretations effective as of 1st January 2016

The following new standards and amendments, effective from 1 January 2016, are applicable to the Company.

On 21 November 2013, the IASB published narrow scope amendments to IAS 19—Defined Benefit Plans: Employee Contributions. The amendment reduces current services costs for the period by contributions paid by employees or by third parties during the period that are not related to the number of years of service, instead of allocating these contributions over the period when the services are rendered. The adoption of this amendment did not have any effect on the Company.

On 12 December 2013 the IASB issued the Annual Improvements to IFRSs 2010–2012 Cycle. The most important topics addressed in these amendments are, among others, the definition of vesting conditions in IFRS 2 – Share based payment, the aggregation of operating segments in IFRS 8 – Operating Segments, the definition of key management personnel in IAS 24 – Related Party disclosures, the extension of the exclusion from the scope of IFRS 3 – Business Combinations to all types of joint arrangements (as defined in IFRS 11 – Joint arrangements), to clarify the application of certain exceptions in IFRS 13 – Fair value Measurement, and IAS 16, clarifying the procedures for determining the gross carrying amount of assets when a revaluation is determined as a result of the revaluation model. The adoption of this amendment did not have any effect on the Company.

On 12 May 2014, the IASB issued amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets - "Clarification of acceptable methods of depreciation and amortization". The amendments to IAS 16 require that the criteria of depreciation determined on the basis of revenues are not appropriate, since, according to the amendment, the revenues generated by an activity that includes the use of amortized assets generally reflect different factors and not only the consumption of the economic benefits of the asset. The amendments to IAS 38 introduce a presumption, that a depreciation method based on revenues is considered generally inappropriate for the same reasons set out by the amendments made to IAS 16. In the case of intangible assets, however, this presumption may be overcome, but only in limited and specific circumstances. The adoption of this amendment did not have any effect on the Company.

On 25 September 2014, the IASB issued a set of amendments to IFRSs (Annual Improvements to IFRSs - Cycle 2012- 2014). They cover the following principles: the criteria for classification and evaluation of assets classified as "held for sale" or "held for distribution" in accordance with IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations, further guidance relating to the disclosures required by IFRS 7 for interim financial statements, certain clarifications to the determination of the discount rate in accordance with IAS 19 and the new requirements for disclosure under IAS 34 "Interim financial reporting". The adoption of this amendment did not have any effect on the Company.

On 18 December 2014, the IASB issued amendments to IAS 1 Disclosure Initiative. The amendments concern materiality, the aggregation of items, structure of the notes, information about accounting policies and the presentation of other comprehensive income arising from the measurement of equity method investments. The adoption of this amendment did not have any effect on the Company.

The Company applied these improvements retrospectively since 1 January 2016 and no significant effects arose in this report.

Accounting standards, amendments and interpretations not yet applicable and not adopted early by the Company starting from 1st January 2016

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

- Identify the contracts with a customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contract;
- Recognize revenue when the entity satisfies a performance obligation.

The new standard is applicable to periods beginning on or after January 1, 2018, subject to any subsequent deferrals established during its approval by the European Union.

On 24 July 2014 the IASB issued the final version of IFRS 9 "Financial Instruments". The standard brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39. The standard introduces new requirements for the classification and measurement of financial assets and liabilities. In particular, for financial assets the new standard uses a single approach based on management of financial instruments and the contractual cash flow characteristics of the financial assets in order to determine the method of valuation, replacing the many different rules in IAS 39. For financial liabilities, instead, the main change concerns the accounting treatment of changes in fair value of a financial liability designated as financial liability at fair value through profit or loss, if these variations are due to changes in the creditworthiness of the issuer of the liability. Under the new standard, these changes must be recognized in "Other comprehensive income" and not in the income statement.

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

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

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

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

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

On 19 January 2016 the IASB published the document "Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)" that contains the amendments to IAS 12. The document aims to provide some clarification on the recognition of deferred taxes on unrealized losses upon the occurrence of certain circumstances and the estimated taxable income for future years. The changes will apply from 1 January 2017 but early adoption is permitted.

On 29 January 2016 the IASB published the document "Disclosure Initiative (Amendments to IAS 7)" that contains the amendments to IAS 7. The document aims to provide some clarification to improve disclosures on financial liabilities. In particular, the amendments require to disclose information that enables users of financial statements to understand the changes in liabilities arising from financing operations. The changes will apply from 1 January 2017 but early application is allowed. It is not required to present comparative information relating to prior years.

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

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

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

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

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 ff. of IAS 1. The indirect method has been used for the statement of cash flow and the presentation of cash flows.

2.3 Cash in hand and at bank

Cash and cash equivalents include cash, bank demand deposits and other highly liquid short-term investments that can be unwound within three months after purchase. The items included in the net cash and cash equivalents are measured at fair value and the relative changes are recognised in income. Bank overdrafts are posted under current liabilities.

2.4 Trade receivables and other receivables

Trade receivables are initially recognised on the statement of financial position at their current value and subsequently recalculated according to the amortised cost method, net of any impairments.

A provision for doubtful accounts is accrued when there is evidence that the Company will not succeed in collecting the original amount due. The provisions accrued for doubtful accounts are recognised in profit or loss.

2.5 Intangible assets

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

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

2.6 Investments in associates (financial assets)

The equity investment in the subsidiary Safilo S.p.A. has been recognised at the grant value resulting from the specific appraisal prepared by an external consultant. The positive difference resulting from the grant value and the portion of shareholders' equity at current values of the subsidiary is included in the carrying value of the equity investment. The equity investment in the subsidiary Safilo S.p.A. tested for impairment every year.

2.7 Financial instruments

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

Financial assets

Financial assets are classified according to the following categories:

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

- Loans and receivables: these are non-derivative financial instruments, with fixed or determinable payments, not quoted on an active market. They are recorded as current assets with the exception of those amounts due beyond twelve months from the balance sheet date. The latter are classified as non-current assets. These assets are measured at amortised cost on the basis of the "effective interest rate" method. Any loss in value determined through an impairment test is recognised in the income statement. In particular, trade receivables are initially recognised in the financial statements at their current value and subsequently recorded under the amortised cost method less any write-downs for loss in value. An allowance for doubtful accounts is set-up when there is evidence that the Group will not be capable of receiving the original amount due. The provisions allocated for doubtful accounts are recorded in the income statement.

- Investments held to maturity: these are non-derivative financial instruments with fixed or determinable payments, with a fixed maturity date, that the Group has the intention and the means to maintain until maturity. Receivables and investments held until maturity are assessed according to the "amortised cost" method using the effective interest rate, net of any write-downs for loss in value. The Group did not hold any investments of this kind during the financial period covered by these financial statements.

- Available-for-sale financial assets: these are non-derivative financial instruments that are expressly designated to this category or are not classified in any of the previous categories. They are measured at fair value, determined with reference to market prices at the balance sheet date or through financial measurement techniques or models, recording changes in value in an equity reserve. This reserve is recognised in the income statement only when the financial asset is sold, or in the case of negative cumulative variations, when it is considered that the reduction in value already recorded under equity cannot be recovered. Classification as a current or non-current asset depends on the intentions of the management and on the real liquidity of the security; they are recorded under current assets when they are expected to be realized within twelve months.

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

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

Borrowings

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

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

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

Derivative instruments

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

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

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

- *Fair value hedge* – if a derivative financial instrument is designated as a hedge for the exposure of changes in the current value of an asset or liability on the financial statements attributable to a specific risk that can determine effects on the income statement, the profit or loss after the initial valuation of the fair value of the hedge instruments is recognised in the income statement. The profit or loss on the hedged item, related to the hedged risk, changes the book value of that item and is recognised on the income statement.

- *Cash flow hedge* – if a derivative financial instrument is designated as a hedge for the exposure of changes in the cash flows of an asset or liability recorded on the financial statements or of an operation considered highly probable and which may have effects on the income statement, the effective portion of the profits or losses of the financial instrument is recognised in an equity reserve. The cumulative profits or losses are reversed from equity and recorded in the income statement in the same period as the operation that is hedged. The profits or losses associated with a hedge or with that part of the hedge that has become ineffective, are immediately recorded in the income statement. If a hedge instrument or a relation of a hedge is closed, but the hedged operation has not yet been realized, the cumulative profits and losses, up to that moment recorded in equity, are recognised in the income statement when the relative operation is realized. If the operation hedged is no longer considered probable, the profits or losses not yet realised in equity are recognised immediately in the income statement.

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

2.8 Employees benefits

Pension plans

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

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

The employee severance fund of Italian companies ("TFR") has always been considered to be a defined benefit plan however, following the changes to the discipline that governs the employment severance fund introduced by Italian law no. 296 of 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, when it is deemed that there may be contingent impairment, the company determines this using the most appropriate technical measurement 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.

Fair value: the fair value of financial instruments that are not traded on an active market is determined by means of valuation methods. Various valuation methods are used, and the associated assumptions are based on market conditions at the reporting date. In particular:

- the fair value of trade receivables and payables and for other current assets and other current liabilities is deemed to coincide with their par value minus any impairment in receivables;
- the fair value of floating rate loans not listed on an active market is deemed to approximate their face value.

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

Hierarchical levels of the fair value measurement

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

- Level 1 – if the instrument is quoted in an active market;
- Level 2 – if the fair value is measured based on valuation techniques for which all significant inputs are based on observable market data, other than quotations of the financial instrument;
- Level 3 – if the fair value is calculated based on valuation techniques for which any significant input is not based on observable market data.

The following table shows the liabilities and assets valued at their fair value at 31st December 2016, split by hierarchical level of the fair value.

(Euro)	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivative financial instruments	-	(484,473)	-	(484,473)
Total liabilities	**-**	**(484,473)**	**-**	**(484,473)**

In 2016 there have been no transfers from level 1 to level 2 and from level 2 to level 3.

4. Notes to the balance sheet

4.1 Cash in hand and at bank

This account totals Euro 334,104 (compared with Euro 113,499 in the previous year) and represents the momentary availability of cash invested at market rates. The book value of the available liquidity is aligned with its fair value at the reporting date and the related credit risk is very limited as the counterparts are primary banks.

4.2 Trade receivables, net

The trade receivables total Euro 992,511 against Euro 760,788 in 2015 and they come from the amounts charged by the Company to its subsidiary Safilo S.p.A. for administrative, accounting, legal and tax services.

The book value of the trade receivables is maintained as being approximately the same as the fair value. There were no transactions executed in currencies other than Euro. In 2016 the company also charged to the subsidiary Safilo Far East ltd. and Safilo USA inc. costs of staff in secondment.

(Euro)	December 31, 2016	December 31, 2015
Trade receivables from subsidiaries		
- Safilo S.p.A.	412,000	502,640
- Safilo Far East Ltd	426,157	258,148
- Safilo USA Inc.	154,354	-
Total	**992,511**	**760,788**

4.3 Other current assets

This item breaks down as follows:

(Euro)	December 31, 2016	December 31, 2015
VAT receivables	9,380,105	5,637,319
Tax credits and payments on account	772,247	765,215
Prepayments and accrued income	12,422	-
Other receivables from subsidiaries - Safilo S.p.A.	13,589,697	19,489,697
Other receivables	5,880	-
Other receivables from related parties	26,250	-
Total	**23,786,601**	**25,892,231**

Vat receivables refer to the VAT credit of the Group VAT mechanism, of which Euro 2,000,000 has been request for the reimbursement in the period.

Tax credits and payments equal to Euro 772,247 refer to withholding tax on interest income resulting from the national tax consolidation scheme.

The receivables from the subsidiary Safilo S.p.A. equal to Euro 13,589,697 refers to dividends resolved by the shareholders' meeting of the subsidiary and not yet collected at the reporting date. During the financial year 2016 were collected dividends for Euro 5,900,000.

The item "other receivables from related parties" includes an amount from HAL Investments BV related to a recharge for administrative expenses.

It is considered that the book value of the item "Other current assets" is approximately equal to their fair value. There were no transactions executed in currencies other than Euro.

4.4 Investments in subsidiaries

This item totalled Euro 903,256,718 versus Euro 903,267,936 in the previous year. In accordance with IFRIC 11, the value of the investments in subsidiaries was increased with a corresponding increase in the "other reserves" under shareholders' equity for the same amount.

The following tables illustrate the changes that took place during the financial year 2016 and the previous one:

(Euro)	% of share capital	Value at January 1, 2016	Increase / (Decrease)	Value at December 31, 2016
Safilo S.p.A.	95.201	899,922,209	-	899,922,209
Contribution for Stock Options to subsidiaries		3,345,727	(11,218)	3,334,509
Total		**903,267,936**	**(11,218)**	**903,256,718**

(Euro)	% of share capital	Value at January 1, 2015	Increase / (Decrease)	Value at December 31, 2015
Safilo S.p.A.	95.201	899,922,209		899,922,209
Contribution for Stock Options to subsidiaries		2,823,234	522,493	3,345,727
Total		**902,745,443**	**522,493**	**903,267,936**

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 2016	Euro 66,176,000 i.v
Shareholders' equity at 31st December 2016	Euro 706,720,518
Net loss for the financial year 2016	Euro (10,484,568)

4.5 Deferred tax assets

Deferred tax assets equal to 1,904,084 Euro 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 programme are Safilo S.p.A. and Lenti S.r.l.

(100% owned by Safilo S.p.A). The effect of this option allows calculation of a single Group taxable income, corresponding to the algebraic sum of the taxable income of the participating entities.

Deferred tax assets have been written down via provisioning of an allowance for tax credit impairment in order to take into account market trends and the changed prospects for future profitability. The prudential provision totals Euro 31,402,179. Pursuant to IAS 12, the adjustment reserve mentioned hereinabove might be recovered in future financial years if there is taxable income that can absorb the losses and temporary difference on which the deferred tax assets and liabilities were calculated.

The following table illustrates the breakdown of accounts on which the tax prepayments and adjustment reserve with reversal of the associated deferred tax assets at 31st December 2016:

		Impact to			
(Euro)	Balance at January 1, 2016	Income statement	Equity	Receivables/ Payables due to tax consolidation	Balance at December 31, 2016
Tax losses Safilo Group S.p.A.	6,583,571	90,281	-	(773,645)	5,900,207
Tax losses from Safilo S.p.A.	23,143,911	419,151	-	1,802,626	25,365,688
Tax losses from Lenti S.r.l.	23,990	-	-	-	23,990
Tax losses before fiscal consolidation	192,629	-	-	-	192,629
Interest expenses not deducted carryforward	-	1,618,361	-	-	1,618,361
Other temporary differences	92,038	113,350	-	-	205,388
Total deferred tax assets	**30,036,139**	**2,241,142**	**-**	**1,028,981**	**33,306,263**
Write downs of deferred tax assets	28,243,543)	(2,129,654)	-	(1,028,981)	(31,402,179)
Total deferred tax assets, net	**1,792,596**	**111,488**	**-**	**-**	**1,904,084**

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

Financial year (Euro)	**Tax losses**	**Tax benefit**
2006	4,009,969	962,393
2010	30,551,198	7,332,288
2011	9,874,484	2,369,876
2012	35,477,267	8,514,544
2013	6,224,412	1,493,859
2014	11,587,763	2,781,063
2015	27,985,238	6,716,457
2016	4,664,194	1,119,407
Total	**130,374,525**	**31,289,886**

Following the changes introduced in 2011 to the art. 84 of TUIR regarding the recoverability of tax losses, starting from 2012 all tax losses can be carried forward without time limitation, in order to offset future taxable income to an extent not greater than 80% of the taxable income for each single fiscal year.

4.6 Other non-current assets

The item totals Euro 2,100,523 (compared to Euro 1,213,911 in the previous year) and refers to withholding from Lenti S.r.l. tax transferred to the national tax consolidation.

4.7 Trade payables

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

(Euro)	**December 31, 2016**	**December 31, 2015**
Trade payables for services	545,538	442,164
Trade payables to subsdiaries:		
- Safilo S.p.A.	376,626	346,126
- Safilo Far East Ltd	79,835	-
- Safilo USA Inc.	34,741	-
Total	**1,036,740**	**788,290**

4.8 Tax payables

This account totaled Euro 181,324 at 31st December 2016, compared to Euro 196,327 in the previous year, and refers to the IRPEF (personal income tax) on wages, salaries and independent contractor compensation in the month of December that was paid in January 2017.

4.9 Other current liabilities

This item breaks down as follows:

(Euro)	December 31, 2016	December 31, 2015
Payables to personnel and social security institutions	495,758	496,986
Payables to pension funds	-	1,764
Other current liabilities	3,312	3,368
Accrued expenses	202,015	200,905
Other payables to subsidiaries - Safilo S.p.A.	7,550,590	3,892,566
Total	**8,251,675**	**4,595,589**

The debt to the subsidiary Safilo S.p.A refers mainly at the VAT credit transferred for the Group VAT mechanism for a total amount of Euro 5,848,386.

4.10 Long Term borrowings

(Euro)	December 31, 2016	December 31, 2015
Convertible Bonds	137,393,195	132,525,703

The item refers to the an unsecured and unsubordinated equity-linked Bond the issued by Safilo Group S.p.A. on 22 May 2014, guaranteed by Safilo S.p.A., maturing on 22 may 2019 with an aggregate principal amount of Euro 150 million.

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

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

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

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

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

Such bond is carried at amortised cost, at an effective interest rate equal to 5.101%. Given the presence of a "cash settlement option", the conversion option component represents an embedded derivative financial instrument booked in the corresponding balance sheet item under liabilities. The fair value changes of this instrument are immediately charged to income statement. At the balance sheet date, the fair value of the option amounts to Euro 484,473 (see note 4.13).

4.11 Employees benefits liability

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

(Euro)	Balance at January 1, 2016	Changes during the year Posted to income statement	Actuarial gains/ (losses)	Uses/ Payments	Balance at December 31, 2016
Defined benefit plan	62,558	2,951	1,785	(17,531)	49,763

(Euro)	Balance at January 1, 2015	Changes during the year Posted to income statement	Actuarial gains/ (losses)	Uses/ Payments	Balance at December 31, 2015
Defined benefit plan	76,407	14,339	(28,188)	-	62,558

The changes made to termination benefit (TFR) rules by Law 296 of 27th December 2006 ("2007 Italian Budget") and subsequent decrees and regulations issued over the first several months of 2007 did not impact the accounting classification of TFR for Safilo Group S.p.A., insofar as it is a legal entity with less than 50 employees. Consequently, on the basis of a generally accepted interpretation, the reserve for termination benefits of Safilo Group S.p.A. continues to be considered a defined benefits pension plan, which must thus be discounted.

The actuarial estimates used to measure the TFR reserve are based on a system of plausible hypotheses based on:

- demographic parameters;
- economic parameters;
- financial parameters.

The demographic parameters are normally summarised in tables based on samples deriving 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 revaluation of amounts accrued in the reserve for termination benefits. They also include the dynamics in collective compensation under examination. The average increases in compensation were considered, both according to accumulated seniority in service and for macro-categories of contractual classification (white-collar employees, middle-level managers and executives). The principal financial parameter is given by the discount rate.

The amounts booked to the income statement (operating and financial component) and to shareholders' equity (actuarial differences) break down as follows:

(Euro)	December 31, 2016	December 31, 2015
Service cost	(1,857)	(13,201)
Interest cost	(1,094)	(1,138)
Actuarial gains/(losses)	(1,785)	28,188
Total	**(4,736)**	**13,849**

4.12 Provision for risks and charges

(Euro)	Balance at January 1, 2016	Increase	Decrease	Reclass	Balance at December 31, 2016
Other provisions for risks and charges	1,819,031	-	(1,031,969)	(787,062)	-
Provisions for risks - long term	**1,819,031**	**-**	**(1,031,969)**	**(787,062)**	**-**
Other provisions for risks and charges	-	356,956	-	787,062	1,144,018
Provisions for risks - short term	**-**	**356,956**	**-**	**787,062**	**1,144,018**
Total	**1,819,031**	**356,956**	**(1,031,969)**	**-**	**1,144,018**

The provision for risks and charges refers to the estimated liability related to a long term inventive plan issued in favour of key managers. The changes of the period refer to the increase of the provision for the accrual of the period, to a decrease for the payment of the first tranche of the plan and to a reclassification from long term to short term of the liability that will be settled in 2017.

4.13 Derivative financial instruments

(Euro)	December 31, 2016	December 31, 2015
Fair value cash settlement option convertible Bond	484,473	3,613,643

This amounts, for the portion relating to non-current liabilities is mainly due to the recognition of the component relating to the conversion option embedded in the "equity-linked" Bond issued on 22nd May 2014 which, given the presence of a "cash settlement option", represents a derivative financial instrument booked at fair value under non-current liabilities. The fair value changes of this instrument are immediately charged to income statement.

4.14 Other non-current liabilities

(Euro)	December 31, 2016	December 31, 2015
Other payables to subsidiaries - Safilo S.p.A.	531,485	524,497

The long-term payable to subsidiary Safilo S.p.A. relates to the transfer by Safilo S.p.A. of benefits deriving from the national tax fiscal unity scheme.

SHAREHOLDERS' EQUITY

The shareholders' equity is both the value contributed by the shareholders of Safilo Group SpA (share capital and share premium reserve) and the value generated by the subsidiaries in terms of results achieved from the operations (retained earnings and other reserves).
As at 31st December 2016, shareholders' equity amounts to Euro 783,301,958 compared to Euro 788,915,322 at 31st December 2015.

4.15 Share capital

During the year, it should be noted that some of the beneficiaries of the Stock Option Plan 2010-2013, exercised options for the third tranche for a total amount of 30,000 options exercised at an exercise price equal to Euro 5.540 per share. This exercise resulted in the issuance of 30,000 shares with a nominal value of 5.00 euros, an increase of the share capital amounted of Euro 150,000 and an increase in the share premium reserve of Euro 16,200.

Following the above-mentioned capital increase, at 31st December 2016 the share capital of the Parent Company, Safilo Group S.p.A., amounts to Euro 313,299,825, consisting of no. 62,659,965 ordinary shares with a par value of Euro 5.00 each.

4.16 Share premium reserve

The share premium reserve represents:

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

4.17 Retained earnings and other reserves

This account breaks down as follows:

(Euro)	December 31, 2016	December 31, 2015
Legal reserve	3,007,774	3,007,774
Stock option reserve	1,391,064	1,822,810
Reserve for actuarial gain (losses) of defined benefit plan	(4,375)	28,468
Retained losses	(13,448,775)	(7,642,129)
Total	**(9,054,312)**	**(2,783,077)**

Equity accounts - possible use and distribution

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

(Euro)	Amount	Possible use	Available amount	Pevious years' use: Losses coverage	Pevious years' use: Distribution of reserves
Share capital	313,299,825				
Paid in capital	484,861,564	A - B - C (*)	484,861,564	340,972,002	
Legal reserve	3,007,774	B			
Stock option reserve	1,391,064				
Reserve for actuarial gain (losses) of defined benefit plan	(4,375)				
Retained losses	(13,448,775)				
Loss for the period	(5,805,119)				
Total	**783,301,958**				

A = For capital increase.
B = To hedge against losses.
C = For distribution to shareholders.
(*) Fully available for capital increases and to hedge against losses. For other uses, it is necessary to adjust (also through transfer from the share premium reserve) the legal reserve to 20% of the share capital.

4.18 Stock option plans

The extraordinary general meeting held on 15 April 2014, as proposed by the Board of Directors held on 5 March 2014, approved the capital increase up to a nominal value of Euro 7,500,000.00 by means of the issuance of up to a maximum of 1,500,000 ordinary shares, with the par value equal to 5.00 Euro, for the purpose of the 2014-2016 Stock Option Plan in favour of directors and/or employees of Safilo Group S.p.A. and of its subsidiaries.

Such Plan, aimed at the retention and motivation of directors and/or employees, by means of granting in tranches and free of charge a maximum of 1,500,000 options which give the beneficiaries the right to subscribe newly issued ordinary shares of the Company, at a par value of Euro 5.00 each, arising from the paid and separable capital increase, with exclusion of the option rights according to article 2441, paragraph 4 second part of the Civil Code, at the rate of no. 1 share for each Option.

The Plan has a total duration of approximately 10 years (from 2014 to 2024). The options granted to beneficiaries are exercisable after a minimum of two years from the last possible granting date of each tranche.

In particular, there are three different granting dates:

- the first tranche was granted starting from the Board of Directors held on 29 April 2014;
- the second tranche has been granted from the Board of Directors which has approved the financial statements of the Company for the year ended 31.12.2014;
- the third tranche has been granted from the Board of Directors which has approved the financial statements of the Company for the year ended 31.12.2015.

This Plan is in addition to the one already in place deliberated by the Extraordinary Meeting held on 5th November 2010, in which the Shareholders approved the issue of up to 1,700,000 new ordinary shares with a nominal value of 5.00 Euro each, for a total of Euro 8,500,000.00, to be offered to directors and/or employees of the Company and its subsidiaries in connection with the "2010-2013 Stock Option Plan".

This Plan, designed to incentivise and retain directors and/or employees/managers, is carried out through the grant, in different tranches, of up to 1,700,000 options, each such option entitling the beneficiary to subscribe to 1 of the foregoing ordinary Company share with a nominal value of 5.00 Euro each, issued for cash and without any all-or-none clause, excluding all pre-emptive rights pursuant to article 2441, paragraph four, second sentence of the Italian Civil Code.

The Plan will last for 9 years (from 2010 to 2019). The options granted to the beneficiaries may be exercised after three years from the grant date except the first tranche, which will benefit from a shorter vesting period.

On 13 November 2013, the Board of Directors has amended the rules of the "Stock Options Plan 2010-2013" in order to reassign certain options returned to the availability of the Company as a result of resignations by some beneficiaries. In execution of the amendment on that date the Company proceeded to reassign a tranche of 65,000 options ("Fourth Tranche - bis") that may be exercised under the same operating conditions and in the same exercise period for the options set out in the fourth tranche.

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

Information relating to the tranches of the Stock Options Plan 2010-2013 and of the Stock Options Plan 2014-2016 granted on 31st December 2016 is shown below.

	Grant date	No. of options	Fair value in Euro	Maturity
Stock Option Plan 2010-2013				
First tranche	05/11/10	-	4.08	31/05/16
Second tranche	16/03/11	35,000	1.48	31/05/17
Third tranche	08/03/12	165,000	1.06	31/05/18
Fourth tranche	06/03/13	187,500	1.12	31/05/19
Fourth tranche-bis	13/11/13	65,000	1.76	31/05/19
Stock Option Plan 2014-2016				
First tranche	29/04/14	255,000	2.67	31/05/22
Second tranche	05/03/15	515,000	2.20	31/05/23
Third tranche	14/03/16	535,000	1.56	31/05/24

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	Free risk rate
Stock Option Plan 2010-2013				
First tranche	12.00	8.047	29.61%	1.476%
Second tranche	11.70	12.550	32.08%	1.871%
Third tranche	5.33	5.540	46.45%	1.067%
Fourth tranche	8.70	8.470	26.16%	0.382%
Fourth tranche-bis	14.04	14.540	30.62%	0.373%
Stock Option Plan 2014-2016				
First tranche	15.67	15.050	30.00%	1.044%
Second tranche	13.71	13.290	30.00%	0.352%
Third tranche	8.68	8.3509	33.50%	0.364%

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	**600,000**	**8.319**
Granted	-	-
Forfeited	-	-
Exercised	(30,000)	5.540
Expired	(117,500)	7.985
Outstanding at period-end	**452,500**	**8.590**
Stock Option Plan 2014-2016		
Outstanding at the beginning of the period	**845,000**	**13.884**
Granted	585,000	8.351
Forfeited	(125,000)	11.737
Exercised	-	-
Expired	-	-
Outstanding at period-end	**1,305,000**	**11.609**

During the year, 30,000 options belonging to the third tranche, of the Plan 2010-2013, have been exercised at an exercise price of 5.540 Euro equal to a total value of 166,200 Euro.

In the same period 585,000 options have been granted related to the third tranche of the new Plan 2014-2016.

Among the options outstanding at the end of the period, the second, the third and the fourth tranche of the Plan 2010-2013 are exercisable until respectively the end of the exercise period set for 31st May 2017, 31st May 2018 and 31st May 2019. As far as the Plan 2014-2016 is concerned the first tranche, equal to a total of 255,000, will be exercisable from the date of the approval of these financials 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 707,500.

The average exercise price for options of the Plan 2010-2013 outstanding at the year-end is equal to 8.590 Euro with an average remaining contract life of 1.9 years, while for the Plan 2014-2016 is equal to 11.609 Euro with an average remaining contract life of 6.6 years.

The adoption of these plans has affected the income statement for the period for Euro 38.572 (Euro 115.759 at 31st December 2015).

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 412,000 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)	2016	2015
Payroll and social security contributions	366,517	389,417
Corporate compliance costs	197,012	278,577
Remunerations to directors and statutory auditors	2,091,624	1,601,023
Consultancies	445,131	288,218
Cost of services rendered by Safilo S.p.A.	25,000	25,000
Other general and administrative expenses	60,853	58,854
Provision for risks	356,956	822,734
Total	**3,543,093**	**3,463,823**

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

	2016	2015
Executives	3	3
Clerks and middle management	-	1
Total	**3**	**4**

5.3 Financial charges, net

This item breaks down as follows:

(Euro)	2016	2015
Interest expenses and charges on Bond	6,743,602	6,494,662
Bank commissions	2,067	2,131
Negative exchange rate differences	12,702	8,367
Other financial charges	1,356	1,138
Total financial charges	**6,759,727**	**6,506,298**
Interests income	116	264
Positive exchange rate differences	18,286	90
Fair value gains on the Equity-linked Bond incorporated derivative	3,129,169	812,285
Total financial income	**3,147,571**	**812,639**
TOTAL FINANCIAL (CHARGES) INCOME, NET	**(3,612,156)**	**(5,693,659)**

Interest expense amounted to Euro 6,743,602 of which Euro 1,876,110 relate to nominal interest expense accrued on the bond "Equity Linked" and Euro 4,867,492 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".

5.4 Income taxes

This item breaks down as follows:

(Euro)	2016	2015
Current tax	886,623	537,384
Deferred tax	111,488	1,792,596
Totale	**998,111**	**2,329,980**

Current and deferred taxes, which are positive for Euro 998,111, refer to the fiscal consolidation profit retrieved from Lenti srl taxable income fully offset with consolidated fiscal losses for Euro 886,623 and to deferred taxes equal to Euro 111,488 referring to temporary differences changes.

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

(Euro)	%	2016	%	2015
Profit/(Loss) before taxation	**100%**	**(6,803,230)**	**100%**	**(8,626,770)**
Income tax benefit (expense) at statutory rate	-27.5%	1,870,888	-27.5%	2,372,362
Non deductible costs	0.3%	(20,243)	0.3%	(28,530)
Income from tax fiscal unity	-13.0%	886,623	-6.2%	537,384
Non-recognition of new DTAs and write-off of existing DTAs	26.4%	(1,796,020)	6.4%	(551,236)
Other differences	-0.8%	56,862	0.0%	-
Total	**-14.7%**	**998,111**	**-27.0%**	**2,329,980**

5.5 Earnings (losses) per share

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

Basic	**2016**	**2015**
Profit/(Loss) for ordinary shares	(5,805,119)	(6,296,790)
Average number of ordinary shares	62,639,555	62,585,828
Earnings (loss) per share - basic (in Euro)	**(0.093)**	**(0.101)**

Diluited	**2016**	**2015**
Profit/(Loss) for ordinary shares	(5,805,119)	(6,296,790)
Profit for preferred shares	-	-
Profit/(Loss) in income statement	**(5,805,119)**	**(6,296,790)**
Average number of ordinary shares	62,639,555	62,585,828
Dilution effects:		
- stock option	51,968	201,869
Total	**62,691,523**	**62,787,697**
Earnings (loss) per share - diluted (in Euro)	**(0.093)**	**(0.100)**

5.6 Dividends

The Company did not distribute dividends to shareholders neither in financial year 2016.

5.7 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 2016 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 2016 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)	2016	2015
Directors		
- Salaries ad short term compensations	1,322,703	1,252,833
- Non monetary benefits	-	-
- Other compensations	1,500,000	9,050
- Fair value of equity compensations	90,415	114,097
Statutory auditors		
- Fixed compensations and compensations for participation in committees	143,000	143,000
Managers with strategic responsibilities		
- Salaries ad short term compensations	30,000	30,000
Total	**3,086,118**	**1,548,980**

APPENDIX

Information pursuant to Article 149-duodecies of the CONSOB Issuers' Regulation

The following table, prepared in accordance with article 149-duodecies of the Issuers' Regulation (*Regolamento Emittenti*) issued by CONSOB, reports the amount of fees charged in the financial year 2016 for audit and non-audit services provided by the independent auditors.

(Euro)	2016
Audit	55,050
Attestation	2,000
Total	**57,050**

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

The undersigned Luisa Deplazes De Andrade Delgado, 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 2016 financial year.

It is also certified that the annual report at 31st December 2016:

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.

15th March 2017

The Chief Executive Officer

Luisa Deplazes De Andrade Delgado

The manager responsible for preparing the company's financial statements

Gerd Graehsler

REPORT OF THE BOARD OF STATUTORY AUDITORS

To the Shareholders' Meeting of Safilo Group S.p.A. on the financial year 2016

Dear Shareholders,

during the financial year ended 31 December 2016, the Board of Statutory Auditors of Safilo Group S.p.A. carried out the supervision activity required by law, in accordance with the principles of conduct of the Board of Statutory Auditors recommended by the *Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili* (Italian national council of graduate accountants and accounting experts), considering the recommendations made by Consob in Communication no. 1025564 dated 6 April 2001, as subsequently amended, on company controls and the activities of the Board of Statutory Auditors.
As regards the methods employed by the Board of Statutory Auditors to carry out its institutional activities, we confirm the following:

- we monitored compliance with the law and bylaws;
- we attended the Shareholders' Meeting and all the meetings of the Board of Directors held during this year, and obtained from the Directors quarterly reports on activities carried out and significant operations executed by the company or its subsidiaries and verified that the aforesaid operations were coherent with the assumed deliberations and in respect for the principles of correct management;
- we monitored, within our area of responsibility, the organisational adequacy of the company, its respect for the principles of correct management and the organisational evolution of the Group;
- we monitored the operation of the administrative and accounting system, in order to assess its adequacy for management requirements and its reliability for the reporting of business operations. During this activity, we relied on the information supplied by the executive Director in charge of the internal control system and the Internal Audit Manager, together with the information obtained during periodic meetings with the auditing firm Deloitte&Touche S.p.A. which reported on the outcome of systematic checks and on the proper keeping of accounting records. We have no particular comments to make in this respect;
- not having been appointed to perform an analytical inspection of the content of the financial statements, we verified the general structure of the financial statements and consolidated financial statements, drawn up in compliance with IAS/IFRS international accounting principles, and of the respective management reports through direct checks and using specific information supplied by the auditing company;
- we verified that the impairment test had been carried out for the intangible asset entries made in the consolidated financial statements.

We report that:

- to the best of our knowledge, the Directors did not infringe the provisions of article 2423 paragraph 4 of the Civil Code in the Notes to the Financial Statements;
- we verified that, following adoption of its own "Internal Dealing Code", the Company has set up specific operational and management procedures for any communications from "relevant" parties;
- we verified that, pursuant to the provisions of Legislative Decree No. 231 of 8/6/2001, your company has equipped itself with an Organisation, Management and Control Model that complies with the *Confindustria* Guidelines and fulfils the requirements of the aforementioned legislative decree, disseminated the Code of Ethics and established a Supervisory Committee that reported to the Control and Risk Committee and the Board of Directors on its activities. The necessary actions and measures have been taken to ensure that the organisational model remains appropriate and up-to-date for the purpose of fulfilling its functions and complying with new regulatory requirements.

In accordance with the aforementioned Consob communications, we hereby provide the following information:

1. starting from 1 January 2017, it has become effective the reorganization of Safilo's corporate structure via two one-off transactions: a transfer of going concern from Safilo S.p.A. to Safilo Group S.p.A., and a contribution in kind of going concern by Safilo S.p.A. into Safilo Industrial S.r.l.. As a result of this intervention, Safilo Group S.p.A. and its Italian subsidiaries are organised as follows: Safilo Group S.p.A., as the "Holding Company", with Corporate Functions that provide corporate services to the entire Group; Safilo S.p.A., as the "Strategic Company" that leads the global business functions; Safilo Industrial S.r.l. newly created as "Manufacturing Company" that comprises production plants of Santa Maria di Sala, Longarone and Martignacco;
2. the significant economic, financial and capital operations carried out by the company and its subsidiaries were executed in accordance with the law and company bylaws. Based on the information acquired, we were able to ascertain that they were not manifestly imprudent or risky, that they did not result in a conflict of interest and did not compromise the integrity of the company's assets;
3. we ascertained that no atypical and/or unusual operations, as defined by Consob communication DEM/6064293 of 28 July 2006, were carried out within the group or with related or third parties, having found confirmation of this in the information supplied by the Board of Directors and the Auditing Firm.
   Furthermore, we ascertained that the standard operating procedures in force within the Group guarantee that all commercial operations with related parties take place according to market conditions;
4. we believe that the information presented by the Directors in their report on operations and explanatory notes in respect of the operations mentioned in paragraph 2 is adequate;

5. the reports prepared by the audit firm Deloitte & Touche S.p.A., issued on March 29th 2017, regarding the individual and consolidated balance sheet of Safilo Group S.p.A. as of 31.12.2016 do not contain significant findings and/or disclosure requests. The auditing firm issued its assessment of the consistency of the Management Report with the relevant financial statements without any observations and/or objections;
6. during 2016, no reports were made to the Board of Statutory Auditors under article 2408 of the Civil Code, and no complaints were submitted by shareholders;
7. during 2016, 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, the limited audit of the half-yearly report, the procedures for the verification of the regular bookkeeping and the correct presentation of the administrative facts in the bookkeeping writings and the signature of the fiscal declarations;
8. 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;
9. during the 2016 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. a list is attached to this Report 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 2016, both the Board of Directors held seven meetings and the Board of Statutory Auditors held seven meetings. Additionally, the "Control and Risk Committee" met five times as well as the "Remuneration and Nomination Committee", while the "Related Parties Transactions Committee" met two times. These meetings were attended by at least one member of the Board of Statutory Auditors;
13. on the basis of the information gathered from the company's departmental managers and during periodic meetings with the Auditing Firm, we believe that the principles of correct management were constantly observed;
14. we 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 and Risk Committee and the Supervisory Board, we verified the adequacy and reliability of the internal control system and risks management;
16. we verified the adequacy of the administrative and accounting system and the reliability of the same in correctly representing business operations;
17. we 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 "2016 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 net result of the year has been affected by an impairment loss on the goodwill for Euro 150 million, based on impairment test results. For the purposes of the impairment test, the Board has considered necessary to update the business plan 2017-2021 of the Far East region with respect to the assumptions considered for the impairment test of the previous year, while carrying forward to 2021 the assumptions underlying the plan of the previous year for the CGU's of Americas and EMEA. As highlighted in disclosures to the financial statement, the impairment test performed has shown a different level of coverage for the goodwill allocated on each of the three CGUs. Both the EMEA and Americas CGUs have passed the test with sufficient cover considering the sensitivity analysis, while the Far East CGU has highlighted a need for an impairment. The value of the Group determined by stock market prices results significantly lower than the evaluation of the Equity Value based on the expected Discounted Cash Flows method applied for the impairment test purpose, however as reported in disclosures to the financial statement, the Board of Directors believes that the assumptions incorporated in the business plan underlying the impairment test are reasonable;
23. we confirm that no omissions, irregularities or wrongful actions emerged from our supervisory activities that would need to be reported to the Supervisory Bodies or Shareholders.

To conclude, we express our approval, to the extent of our responsibilities, of the 2016 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, 29 March 2017

THE BOARD OF STATUTORY AUDITORS

Signed by
Paolo Nicolai Chairman
Franco Corgnati Regular auditor
Bettina Solimando Regular auditor

Following a list of positions as director or statutory auditor held by the Board of Statutory Auditors at other companies (pursuant to Article-quinquiesdecies of the Issuer Regulations):

PAOLO NICOLAI - LIST OF POSITIONS HELD AT MARCH 29th, 2017:

COMPANY	FISCAL CODE	REGISTERED OFFICE	PR	POSITION	TERM OF OFFICE
Multitecno S.r.l.	00975890286	Fossalta di Portogruaro	VE	Chairman of the Board of Statutory auditors	31/12/2017
Ca' del bosco S.r.l. - Società Agricola	01749900989	Erbusco	BS	Chairman of the Board of Statutory auditors	31/12/2017
Aquafin Holding S.p.A.	01286160062	Milano	MI	Chairman of the Board of Statutory auditors	31/12/2017
Safilo Group S.p.A.	03032950242	Pieve di Cadore	BL	Chairman of the Board of Statutory auditors	31/12/2016
Safilo S.p.A.	03625410281	Padova	PD	Chairman of the Board of Statutory auditors	31/12/2016
Santa Margherita S.p.A.	00717760243	Fossalta di Portogruaro	VE	Chairman of the Board of Statutory auditors	31/12/2017
Holding Fis S.p.A.	004041380249	Montecchio Maggiore	VI	Chairman of the Board of Statutory auditors	31/12/2018
Sviluppo 35 S.p.A.	03585530268	Conegliano	TV	Chairman of the Board of Statutory auditors	3 years
Rpm S.p.A.	00226730299	Badia Polesine	RO	Regular auditor	31/12/2016
Elettrotest S.p.A.	00356140293	Badia Polesine	RO	Regular auditor	31/12/2016
Cementizillo S.p.A.	00203550280	Padova	PD	Regular auditor	31/12/2017
Calcestruzzi Zillo S.p.A.	00867100281	Padova	PD	Regular auditor	31/12/2017
Zignago Holding S.p.A.	03781170281	Fossalta di Portogruaro	VE	Regular auditor	31/12/2017
S.M. Tenimenti Lamole e Vistarenni e San Disdagio S.r.l.	00308350529	Greve in Chianti (FI)	SI	Regular auditor	31/12/2017
Acciaierie Venete S.p.A.	00224180281	Padova	PD	Regular auditor	31/12/2018
Cementeria di Monselice S.p.A.	01575210164	Padova	PD	Regular auditor	31/12/2017
Aquafil S.p.A.	00123150229	Arco	TN	Regular auditor	31/12/2016
Aquafin Capital S.p.A.	04197570239	Verona	VR	Regular auditor	31/12/2016
G.R. Motori Elettrici S.p.A.	00897380291	Rovigo	RO	Regular auditor	31/12/2018
Villanova Energia S.r.l.	04247980271	Fossalta di Portogruaro	VE	Sole auditor	31/12/2016
Antonio Carraro S.p.A.	00186830287	Campodarsego	PD	Director	31/12/2017
Officina S.r.l.	04920430289	Padova	PD	Director	Until revocation

FRANCO CORGNATI - LIST OF POSITIONS HELD AT MARCH 29th, 2017:

COMPANY	FISCAL CODE	REGISTERED OFFICE	PR	POSITION	TERM OF OFFICE
ABC Assicura S.p.A.	00647820232	Verona	VR	Regular auditor	31/12/2018
Baglio di Pianetto S.r.l.	02940950245	Vicenza	VI	Chairman of the Board of Statutory auditors	31/12/2016
Burgo Energia S.r.l.	08737780018	Altavilla Vicentina	VI	Regular auditor	31/12/2017
Burgo Group S.p.A.	13051890153	Altavilla Vicentina	VI	Regular auditor	31/12/2018
Burgo Distribuzione S.r.l.	00623020377	Altavilla Vicentina	VI	Chairman of the Board of Statutory auditors	31/12/2017
Burgo Factor S.p.A.	10209320158	Milano	MI	Chairman of the Board of Statutory auditors	31/12/2017
Centro Servizi Metalli S.p.A.	01323290351	Reggio Emilia	RE	Regular auditor	31/12/2017
Consorzio Automazione Tessile in liquidation	02481270243	Valdagno	VI	Liquidator	Until revocation
Ferriera di Cittadella S.p.A.	00800140246	Vicenza	VI	Regular auditor	31/12/2018
Filivivi S.r.l.	04816000964	Quaregna	BI	Chairman of the Board of Statutory auditors	31/12/2016
Forint S.p.A.	00167200245	Vicenza	VI	Chairman of the Board of Statutory auditors	31/12/2017
Holding Gruppo Marchi S.p.A.	01791370024	Altavilla Vicentina	VI	Chairman of the Board of Statutory auditors	31/12/2018
Licana S.p.A. in liquidation	03038590240	Villa d'Almè	BG	Chairman of the Board of Statutory auditors	31/12/2017
Manifattura Lane G. Marzotto & Figli S.p.A.	00166580241	Milano	MI	Chairman of the Board of Statutory auditors	31/12/2017
Mosaico S.r.l.	03506890247	Altavilla Vicentina	VI	Chairman of the Board of Statutory auditors	31/12/2016
Palladio Group S.p.A.	03079210245	Dueville	VI	Chairman of the Board of Statutory auditors	31/12/2017
PFC S.r.l.	03247130242	Vicenza	VI	Chairman of the Board of Statutory auditors	31/12/2016
Prodotti Stella S.p.A.	01419130685	Altavilla Vicentina	VI	Chairman of the Board of Statutory auditors	31/12/2016
Safilo Group S.p.A.	03032950242	Pieve di Cadore	BL	Regular auditor	31/12/2016
Safilo S.p.A.	03625410281	Padova	PD	Regular auditor	31/12/2016
Società Veneta Autoferrovie e Raccordi S.p.A.	00170100275	Roma	RM	Regular auditor	31/12/2016
Veninvest S.p.A.	01619690249	Vicenza	VI	Chairman of the Board of Statutory auditors	31/12/2017
Vigel S.p.A.	01587520246	Vicenza	VI	Chairman of the Board of Statutory auditors	31/12/2018

BETTINA SOLIMANDO – LIST OF POSITIONS HELD AT MARCH 29th, 2017:

COMPANY	FISCAL CODE	REGISTERED OFFICE	PR	POSITION	TERM OF OFFICE
Infia S.r.l.	03355330238	Bertinoro	FO	Regular auditor	31/12/2018
Castello Monaci S.r.l.	03541900753	Salice Salentino	LE	Alternate auditor	31/12/2018
Equibox Holding S.p.A.	04339950265	Asolo	TV	Regular auditor	31/12/2018
GCE Mujelli S.p.A.	02101430961	S. Martino B.A.	VR	Regular auditor	31/12/2018
Hoerbiger Italiana S.p.A.	00884990151	Verona	VR	Regular auditor	31/12/2017
A.S.D.EA. S.A.P.A. di Giuliano Ambrosini e Figli	03606550238	Verona	VR	Alternate auditor	31/12/2018
Safilo Group S.p.A.	03032950242	Pieve di Cadore	BL	Regular auditor	31/12/2016
Safilo S.p.A.	03625410281	Padova	PD	Regular auditor	31/12/2016
Specchiasol S.r.l.	01365850237	Bussolengo	VR	Alternate auditor	31/12/2017
Volkswagen Group Firenze S.p.A.	05671860483	Firenze	FI	Regular auditor	31/12/2017
Paul Hartmann S.p.A.	07179150151	Verona	VR	Regular auditor	31/12/2016
E-Globalservice S.p.A.	03147280238	Verona	VR	Alternate auditor	31/12/2018
Esprinet S.p.A.	05091320159	Vimercate	MB	Regular auditor	31/12/2017
Hartmann Foromed S.r.l.	03329310233	Verona	VR	Alternate auditor	31/12/2017

REPORT OF INDEPENDENT AUDITORS

Deloitte.

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**INDEPENDENT AUDITORS' REPORT
PURSUANT TO ART. 14 AND 16 OF
LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010**

**To the Shareholders of
SAFILO GROUP S.p.A.**

Report on the Financial Statements

We have audited the accompanying financial statements of Safilo Group S.p.A., which comprise the statement of financial position as at December 31, 2016, the income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

The Company's Directors are responsible for the preparation of these 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 n° 38/05.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) issued pursuant to art. 11 of Italian Legislative Decree 39/10. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation that give a true and fair view of financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Safilo Group S.p.A. as at December 31, 2016, and of its financial performance and 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 n° 38/05.

Report on Other Legal and Regulatory Requirements

Opinion on the consistency of the report on operations and of certain information included in the report on corporate governance with the financial statements

We have performed the procedures indicated in the Auditing Standard (SA Italia) n° 720B in order to express, as required by law, an opinion on the consistency of the report on operations and of certain information included in the report on corporate governance required by art. 123-bis, n° 4, of Italian Legislative Decree n° 58/98, which are the responsibility of the Directors of Safilo Group S.p.A., with the financial statements of Safilo Group S.p.A as at December 31, 2016. In our opinion the report on operations and the information included in the report on corporate governance referred to above are consistent with the financial statements of Safilo Group S.p.A as at December 31, 2016.

DELOITTE & TOUCHE S.p.A.

Signed by
Giorgio Moretto
Partner

Padova, Italy
March 29, 2017

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

Safilo GROUP

www.safilogroup.com