MARCOLIN

EYEWEAR

2018 ANNUAL REPORT

MARCOLIN
EYEWEAR

MARCOLIN
EYEWEAR

TOM FORD

BALLY

Ermenegildo Zegna

VICTORIA'S SECRET

PINK

roberto cavalli
EYEWEAR

ATELIER SWAROVSKI

EMILIO PUCCI

BALENCIAGA

DSQUARED2

GUESS

DIESEL

Just cavalli
EYEWEAR

COVERGIRL
eyewear

MONT BLANC

KENNETH COLE

GANT
EYEWEAR

HARLEY-DAVIDSON
EYEWEAR

MARCIANO
LOS ANGELES

CATHERINE
DENEUVE
LUNETTES

SKECHERS
EYEWEAR

Candie's
eyewear

RAMPAGE
EYEWEAR

VIVA
eyewear

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GENERAL INFORMATION

MARCOLIN S.p.A.
Headquarters, Executive and Business Offices in
Z.I. Villanova, 4
32013 Longarone (Belluno)
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Tax I.D. and Companies
Register n. BL 01774690273
VAT n. 00298010257

Tel +39.0437.777111
Fax +39.0437.777282
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CORPORATE BOARDS AND AUDITORS

Board of Directors [1]

Vittorio Levi	Chairman
Massimo Renon	C.E.O. and General Manager
Giovanni Zoppas	Executive Deputy Chairman
Antonio Abete	Director
Nicolas Brugère	Director
Jacopo Forloni [2]	Director
Cirillo Coffen Marcolin	Director
Emilio Macellari	Director
Frédéric Jaques Mari Stévenin	Director
Franck Raymond Temam	Director
Raffaele Roberto Vitale	Director

Board of Statutory Auditors [1]

David Reali	Chairman
Mario Cognigni	Standing Auditor
Diego Rivetti	Standing Auditor
Alessandro Maruffi	Alternate Auditor
Rossella Porfido	Alternate Auditor

Internal Audit Committee [3]

Vittorio Levi	Chairman
Jacopo Forloni [2]	Supervisor
Cirillo Coffen Marcolin	Supervisor

Supervisory Body [3]

Federico Ormesani	Chairman
David Reali	Supervisor
Cirillo Coffen Marcolin	Supervisor

Independent Auditors [4]

PricewaterhouseCoopers S.p.A.

1) Term of office ends on the date of the General Meeting called to approve the annual financial statements for the year ended December 31, 2018 (pursuant to Shareholders’ Resolution of April 28, 2016).

2) Pursuant to Shareholders' Resolution of April 26, 2018.

3) Pursuant to Board of Directors' appointment of April 28, 2016.

4) Term of engagement: 2016 - 2018 (pursuant to Shareholders’ Resolution of April 28, 2016)

SHARE CAPITAL AND OWNERSHIP

The share capital of Marcolin S.p.A. (also referred to herein as the "Parent Company" or simply the "Company") is euro 35,902,749.82, fully paid-in, comprised of 61,458,375 ordinary shares without par value and 6,828,708 Class B shares without par value issued on October 5, 2017 to shareholder Vicuna Holding S.p.A., a company of the LVMH Group. Vicuna Holding S.p.A. became a shareholder as part of a broader plan for a joint venture agreement with the LVMH Group that was stipulated in 2017. Share capital was increased by euro 3,590,274.82 with a share premium of euro 18,309,725.18.

As at December 31, 2018, 90% of the share capital was owned by 3 Cime S.p.A. and 10% by Vicuna Holding S.p.A.

The Marcolin S.p.A. shares owned by 3 Cime S.p.A. are encumbered by liens stipulated when the bond notes were issued on February 10, 2017, secured by collateral for the same amount of the obligations assumed with the bondholders, including a lien on the shares of the Issuer, Marcolin.

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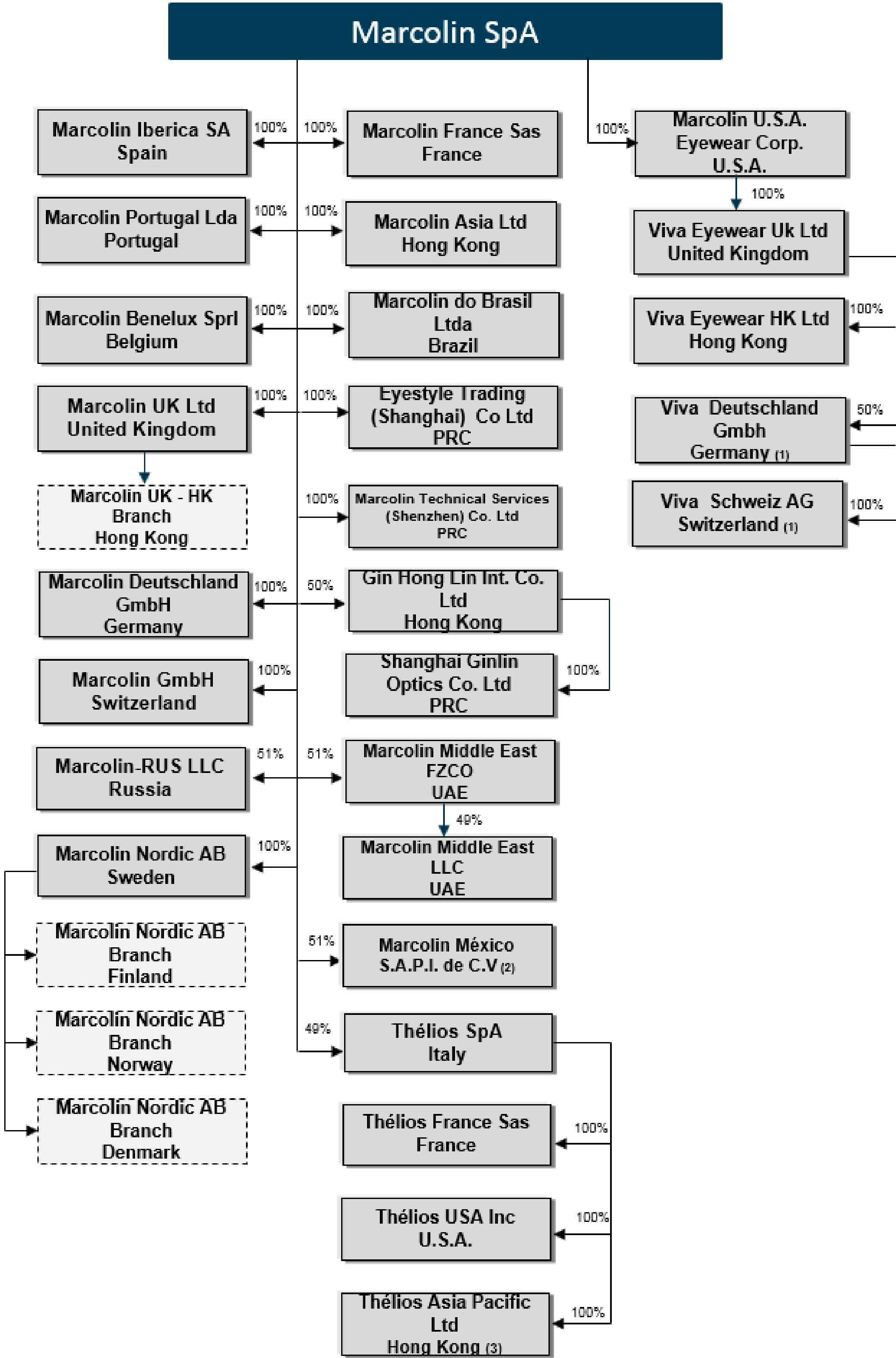
MARCOLIN GROUP STRUCTURE AS AT DECEMBER 31, 2018



1) Company undergoing liquidation
2) Company founded on April 19, 2018 of which 51% is owned by Marcolin SpA and 49% is owned by Moendi (a major independent distributor in Mexico).
3) Company founded on November 19, 2018.

THE MARCOLIN GROUP

Marcolin, a long-established company based in Longarone (Belluno) in the Italian eyewear district, is a designer, manufacturer and distributor of eyewear products. As a renowned leader in the global eyewear business, Marcolin stands out for its premium quality products, design skills, production capabilities, attention to detail and first-rate distribution.

In 2018 the Marcolin Group (also referred to herein as the "Group") sold an estimated 14.7 million pairs of eyeglasses and sunglasses worldwide, achieving sales of euro 482.2 million.

As part of its strategy to expand the target markets, in 2018 Marcolin set up a new company in Mexico in partnership with a local business, Moendi, a major independent distributor in that country with over 25 years of experience in the wholesale and retail distribution of luxury and lifestyle sunglasses and eyeglasses in Mexico.

Thanks to the important acquisition of the Viva Group in 2013 and to the stipulation of new partnership agreements with LVMH and other international businesses, the Marcolin Group has become a highly global eyewear business in terms of its brand portfolio, products, geographic presence and markets.

In 2018 the Marcolin Group had sales of euro 482.2 million and some 1,950 employees, plus a widespread, well-structured network of independent agents.

Marcolin has a strong portfolio of licensed brands in the luxury and mainstream ("diffusion") segments and men's and women's segments, with a good balance between eyeglass frames and sunglasses.
The luxury segment includes some of the most glamorous fashion brands such as Tom Ford, Tod’s, Roberto Cavalli, Ermenegildo Zegna, Pucci, Moncler and Omega (the Group has stipulated an exclusive supply contract for Omega boutiques); the diffusion segment includes Diesel, DSquared2, Guess, Guess by Marciano, Gant, Harley Davidson, Just Cavalli, Swarovski, Timberland, Cover Girl, Kenneth Cole New York, as well as other brands targeted specifically to the U.S. market.
New licensing agreements were stipulated with important brands in 2018. Bally was obtained in May 2018 and Victoria’s Secret and Victoria’s Secret Pink were obtained December 2018 under an agreement stipulated with L Brands. In 2019 the Group will begin to benefit from the licensing agreement stipulated with Max Mara Fashion Group for the Sportmax brand.
The house brands include WEB and Marcolin.

Geographically, the Group is present in all major countries across the world through direct affiliates, partnership agreements and exclusive distribution agreements with major players of the industry.

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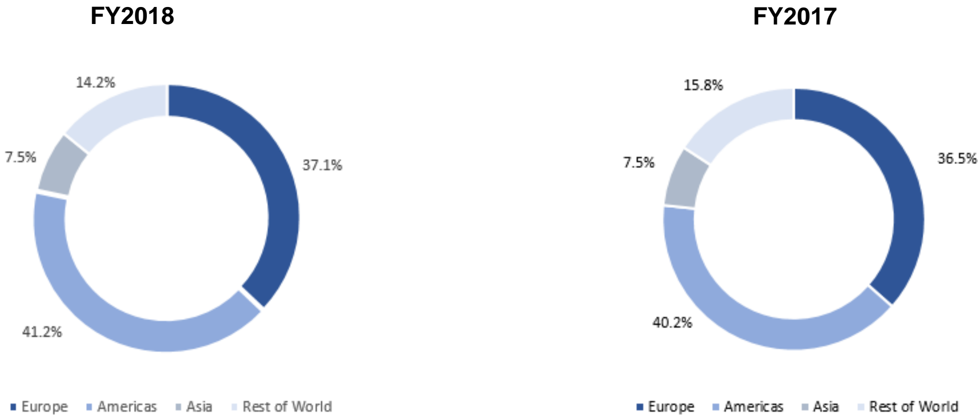
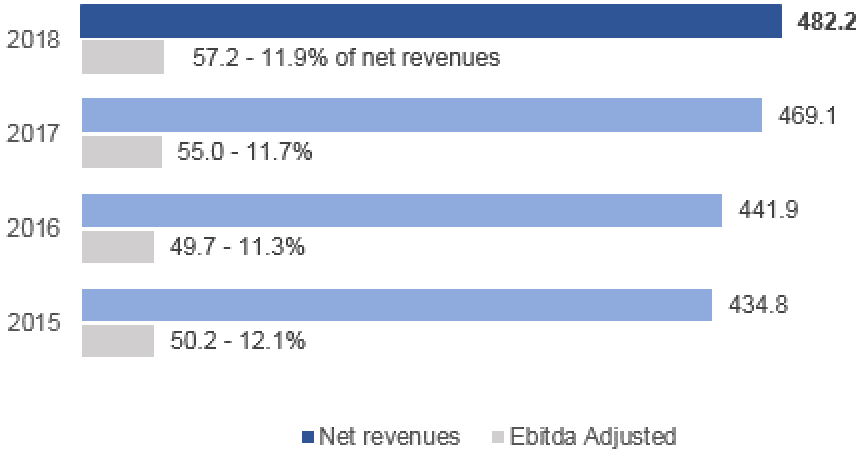
THE GROUP'S FINANCIAL HIGHLIGHTS

Sales by geographical area

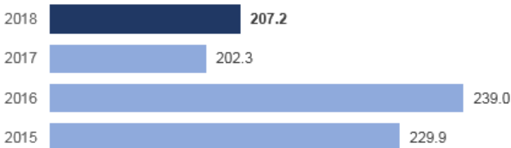


Sales and adjusted EBITDA *(euro/millions)*

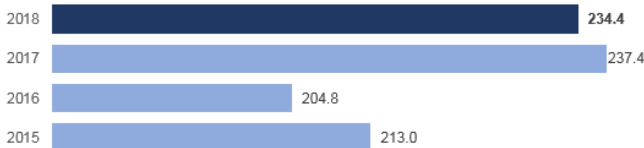
Adjusted EBITDA excluding non-recurring costs incurred for extraordinary transactions



Equity *(euro/millions)*



Net financial debt *(euro/millions)*



MARCOLIN GROUP

REPORT ON OPERATIONS

FOR THE YEAR ENDED

DECEMBER 31, 2018

GROUP REPORT FOR THE YEAR ENDED DECEMBER 31, 2018

Consistently with previous periods, the Annual Financial Report for the year ended December 31, 2018 (which includes the consolidated financial statements of the Marcolin Group and the separate financial statements of Marcolin S.p.A.) was prepared in conformity with the valuation and measurement criteria established by the international accounting standards (IAS/IFRS) adopted by the European Commission with Regulation 1606/2002, Article 6, of the European Parliament and of the Council of July 19, 2002 on the application of international accounting standards, and with the measures enacting Legislative Decree n. 38/2005.

BUSINESS PERFORMANCE

The eyewear industry [4]

Italian eyewear

According to ANFAO, the Italian eyewear industry appeared weak in 2018 while in a less solid global scenario. Exports are slowing and the domestic market remains below par. The gross world product has grown at a good pace, but there were slowdowns in some countries and downside risks heightened by the introduction of tariffs and their possible escalation, as well as energy price increases and financial tensions in some emerging countries. The decline in the Italian market is caused by a slackening of international trade due to lower European growth compared with the previous year and the effects of the 2017 euro appreciation. The Italian eyewear industry was affected by such macroeconomic dynamics, with a 2.9% fall in exports in the first half of 2018 that is more pronounced for sunglasses than for eyeglass frames. All major markets are negative, particularly the Americas, Europe and Asia. The American market is afflicted by uncertainties emerging from the political and trade decisions of local government. Europe shows slowdowns in France, Germany and Spain. The United Kingdom market is stable, whereas the Scandinavian market presents strong momentum. The French market is showing positive signs for eyeglass frames, after a decline ensuing from legislative changes that reduced insurance refunds for such product.
Emerging countries, foremost Mexico and India, have had positive results, although they account for less volumes compared with the other markets.
Despite the uncertain climate, the eyewear industry still has a positive outlook for the near future, driven mainly by emerging countries in Asia as well as the Middle East, Africa and Latin America, for both eyeglass and sunglass models.

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Introduction

Within the context described above, the sales of the Marcolin Group rose by 2.8% (+6.1% at constant exchange rates), whereas the Parent Company's sales rose by 5.1% (+6.3% at constant exchange rates). The growth is excellent considering the tough competition that the industry is experiencing in this period.

In 2018 the Group was engaged in developing the important investments in new companies made in the previous year with the LVMH Group and the Rivoli Group. In addition, in 2018 the Group founded a new company in Mexico, in collaboration with a local partner, Moendi, a key player in the eyewear industry there.
The brand portfolio expanded thanks to important new licensing agreements that enabled to acquire the Bally, Victoria's Secret, Victoria's Secret Pink and Sportmax brands and other important license renewals stipulated during the year with Timberland and Tod's. The licensing agreements with Montblanc and Balenciaga, which expired on December 31, 2018, were not renewed.

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[4] Freely adapted from ANFAO – Associazione Nazionale Fabbricanti Articoli Ottici (Italian Association of Eyewear Article Manufacturers) – report on eyewear data for first six months of 2018 and Taiyou Research

Financial and corporate activities

On February 10, 2017 Marcolin S.p.A. issued on the international market non-convertible senior-secured bond notes for a total amount of euro 250 million, with a 6-year maximum term, maturing on February 15, 2023, at a variable interest rate equal to the three-month Euribor (with a zero-based floor) plus a 4.125% spread. This use of this instrument was an appropriate means to restructure the financial debt efficiently and to obtain access to, at a favorable cost, financial resources designed to cover working capital requirements. Within the scope of the bond issue, a euro 40 million super senior revolving credit facility was stipulated to provide access to funding for carrying out and developing short-term activities, of which euro 10 million had been used as at December 31, 2018. These new bond notes present similar features to the previous ones, subscribed in 2013 and extinguished prior to maturity pursuant to the new note issuance, but they have much better terms and conditions because of the market conditions present when the new notes were issued. The notes issued are backed by more restricted collateral from the Company, its controlling shareholder 3 Cime S.p.A., and some other Group companies than the guarantees given on the previous bond notes.
The notes are listed on the Italian and Luxemburg stock markets, and the offering was made available only to qualified investors in the United States within the meaning of Rule 144A of the U.S. Securities Act of 1933, and in Italy and in other countries outside the United States in accordance with Regulation S under the U.S. Securities Act, excluding any placement with the general public and those exempt from the EU and Italian regulations for public offerings as per Directive 2003/71/EC, and Italian Legislative Decree n. 58, Article 100 of February 24, 1998 and the related enactment regulations contained in Article 34-*ter* of the Issuer Regulations adopted by CONSOB with Resolution n. 11971 of May 14, 1999. The subscription of the notes was reserved solely for qualified investors due to the features of the instruments offered and the opportunity that placement with qualified investors on the market offers to complete the transaction successfully in a short time period.
Additional information is available on the Marcolin Group website in the document entitled “Offering Memorandum” prepared for the bond issue transaction.

In October 2017 the LVMH Group became an investor of Marcolin by way of a transaction within a broader plan for collaboration between the Marcolin Group and the LVMH Group that created Thèlios S.p.A., a new eyewear company of which the Marcolin Group owns 49% and the LVMH Group owns 51%. The LVMH Group's shareholding was obtained, following approval secured from the antitrust authorities, through a capital increase for the issuance of 6,828,708 shares, with a different class of shares than those owned until then by the previously only shareholder, Marmolada S.p.A. (merged into its parent company 3 Cime S.p.A. with a deed dated November 27, 2017), representing 10% of share capital, with a contextual waiver by Marmolada S.p.A. of the pre-emption right under Civil Code Article 2441 and offered for subscription to Vicuna Holding S.p.A., a subsidiary of the LVMH Group. The capital increase had a total value of euro 21,900,000.00, including a share premium of euro 18,309,725.18. Some corporate changes took place within the scope of agreements with the new shareholder, including an increase in the maximum number of Marcolin S.p.A. Board of Director members to 13 members, the appointment as Director on October 18, 2017 of Massimo Renon, who had been with the Marcolin Group since January 2017 as the General Manager of Marketing, Products, Licenses and Sales, and who then assumed the role of C.E.O. and General Manager, whereas Giovanni Zoppas took on the role of Executive Deputy Chairman.
On the same date, Giovanni Zoppas also became C.E.O. of Thélios S.p.A. The purpose of the change was to contribute to the achievement of the two companies' best possible performance, and ensure the alignment of their interests.

Thèlios S.p.A., a manufacturer, distributor and promoter of sunglasses and eyeglasses with some brands of the LVMH Group, has an important brand portfolio that included Celine, Kenzo, Loewe and Fred as at December 31, 2018. The company's objective is to triple its eyewear production over the next few years, thanks in part to the construction of a second factory that commenced in early 2019.

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Products and licenses

Within the scope of its brand portfolio consolidation and development, the following activities were carried out in 2018 concerning licensed brands:

- On May 30, 2018, the Marcolin Group and Bally, a renowned Swiss luxury brand, announced their stipulation of an exclusive worldwide licensing agreement for the design, manufacturing and distribution of Bally brand women's and men's sunglasses and eyeglass frames. The agreement is in effect for 5 years until December 2023, with the possibility to renew it for another 4 years. The preview launch of the eyewear collection will be for the Asian market, and then will be extended to the rest of the world.

- On July 5, 2018, the Marcolin Group and the Tod's Group, a leading player in the luxury goods industry, announced the early renewal of the licensing agreement for the design, manufacturing and worldwide distribution of Tod's Eyewear brand sunglasses and eyeglass frames. The license, first stipulated in 2008, was extended for an additional 5 years until December 2023.

- On September 26, 2018 the Marcolin Group and TBL Licensing LLC announced the early renewal of the licensing agreement for the design, manufacturing and worldwide distribution of Timberland® sunglasses and eyeglass frames. The license, first stipulated in 2003, was extended for an additional 5 years until December 2023.

- On December 18, 2018 the Marcolin Group and L Brands signed a partnership agreement for the design, manufacturing and worldwide distribution of Victoria's Secret and Victoria's Secret PINK eyewear. The models will be sold on the victoriassecret.com website, in the boutiques and on the Instagram profiles of the two brands. The agreement will remain in effect until 2023. Distribution at eyewear stores will begin in 2019.

- On January 23, 2019 the Marcolin Group and Barton Perreira, an independent eyewear brand based on Los Angeles, announced the stipulation of an exclusive agreement for international distribution of Barton Perreira sunglasses and eyeglasses starting on February 1, 2019. Barton Perreira will continue to design and produce the eyewear and will manage the sales in parts in Europe, the U.S.A., Canada and Japan. The Marcolin Group will look after the distribution with selected retailers and eyewear stores in locations not already covered by Barton Perreira.

- On February 19, 2019 Marcolin Group and the Max Mara Fashion Group, one of the most important international fashion houses, renowned throughout the world as a forerunner of modern ready-to-wear apparel, announced the stipulation of an exclusive worldwide licensing agreement for the design, manufacturing and distribution of Sportmax brand women's and men's sunglasses and eyeglass frames. The agreement will remain in effect for 5 years, from January 1, 2019 until December 2023.

The Marcolin Group continued the activities to rationalize and optimize its product collections in order to make them more attractive to its markets, with special attention to international (Asian-fitting) distribution, with stylish and exclusive designs while improving the capacity to produce new models and focusing on opportunities emerging from the availability of new, original materials.

*****

Sales activities

Sales activities intended to strengthen relationships with the distribution network continued in 2018, with the objective of greater penetration into markets important for the Group's growth, through important projects aimed at ensuring an assortment of products better targeted to the market demands, with tangible benefits in terms of efficient management of sample collections and stock.

With respect to the American market, one of the Group's main outlets, the sales team is being reorganized especially for the optical segment, by strengthening the management and the sales agent network and resetting the marketing strategy in order to make the most of the opportunities of a market that is both significant and complex to manage.

On April 5, 2018, Marcolin founded a new company in Mexico in partnership with Moendi, a leading independent distributor in that country with over 25 years of experience in the wholesale and retail distribution of luxury and lifestyle sunglasses and eyeglasses in Mexico. The company is 51%-owned by Marcolin and 49%-owned by Moendi, and has enabled greater penetration of the Mexican market, whose eyewear segment has been expanding quickly in the past few years.

During the year marketing initiatives focused on increasing the turnover of the company established in 2017 in the Middle East, under a partnership between Marcolin and the Rivoli Group, one of the leading luxury retailers in that area.
Furthermore, the benefits of the 2017 transfer of the Latin America business division from the U.S. affiliate to Marcolin S.p.A. were received for the full year of 2018. The transfer had the twofold objective of allowing the U.S. affiliate to better focus on the operations referring to the North and Central American markets, and allowing Marcolin S.p.A. to develop greater cultural proximity to its customers in South America.

During 2018 the Group built up the management teams of its companies in the United Kingdom, France and Hong Kong. Moreover, in January 2019 Marcolin UK Ltd moved its headquarters to the heart of London, bringing clear advantages from a marketing point of view.

During 2018 the Group launched a plan in Asia to develop the direct channel. This was made possible by the activation of a logistics hub in Hong Kong where Asian-fitting products are stocked. The presence of a local warehouse enables to respond more rapidly to the market demands, reducing considerably the shipping time of the products purchased by customers.
Thanks to this decision, the Group is evaluating the opportunity of developing the direct channel in Singapore and Malaysia by setting up new Group companies.

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Logistics and organizational activities

In 2018 investments continued to be made in resources and systems in the production and sales planning area, strengthening the Supply Chain Management central organization in order to better handle the integrated logistics. This has enabled better allocation of resources by way of more careful and more rational demand planning, exploiting upstream and downstream synergies.

As described in the previous section on sales activities, during the year a new Asian logistics platform located in Hong Kong was activated, which is intended to cover the sales and logistical needs in Asia.

Currently, the Group's logistical activities are centered at three large logistics hubs:

- the American hub, directed by Marcolin USA Eyewear Corp. (sole legal entity, which focuses on distribution to North American markets);
- the European hub, directed by Marcolin S.p.A. partly using its affiliates, which addresses the entire European rim, Middle East & Africa, and Central and South America;
- the Asian platform, directed by Marcolin UK Ltd – HK Branch partly using Marcolin Group affiliates, which addresses the Far East market, one that is distant and difficult to penetrate, so only structures operating there locally may serve it efficiently.

Marcolin considers the consolidation and development of its production capacity in Italy essential in order to benefit from:

- reduced dependence on external suppliers, which enables to shorten the manufacturing lead time, and thus to increase the ability to seize market opportunities (and improve the time to market);
- made in/made out realignment according to the eyewear industry standards (and those of the main competitors);
- expansion of the capacity to produce more Italian-made products, which are increasingly perceived as having added value by the Italian and international clientele;
- as an essential condition for managing the inflation risk in the Chinese sourcing market, production insourcing allows greater control of production factors, and not only in terms of cost-effectiveness.

*****

INCOME STATEMENT HIGHLIGHTS

Where significant, the main changes of the year are reported herein by showing the impact of the extraordinary activities and thus of the non-recurring costs, also providing comparability, with a constant consolidation perimeter, of the 2018 data with that of the previous year, by presenting “normalized” income for both years. The past years have been affected by many new projects and activities of consolidation, development and global reorganization at all levels. The extraordinary activities carried out had an impact on the results of the various years, including 2018. This requires the results to be interpreted in the light of such extraordinary events.

*****

The following table summarizes the Group’s key performance indicators:

Year (euro/000.000)	Net revenues	YOY	EBITDA	% of net revenues	EBIT	% of net revenues	Net profit / (loss) for the year	% of net revenues	ROS	ROI	ROE
2016	441.9	1.6%	46.4	10.5%	31.3	7.1%	12.2	2.8%	7.1%	7.1%	5.1%
2017	469.1	7.9%	52.1	11.1%	34.0	7.3%	(14.5)	(3.1)%	7.3%	7.7%	(7.2)%
2018	482.2	2.8%	51.0	10.6%	28.9	6.0%	(0.8)	(0.2)%	6.0%	6.5%	(0.4)%

EBITDA: earnings before interest and taxation (EBIT), depreciation and amortization
ROS: Return on sales = EBIT/Net sales
ROI: Return on investment = EBIT /Cost of the investment
ROE: Return on equity = Net result/ Net Equity

The net revenues of 2018 were euro 482.2 million, compared with the euro 469.1 million of 2017.

EBITDA was euro 51.0 million, or 10.6% of sales (compared with the 2017 EBITDA of euro 52.1 million, corresponding to 11.1% of sales).
EBIT was euro 28.9 million, corresponding to 6.0% of sales (compared with the 2017 EBIT of euro 34.0 million, corresponding to 7.3% of sales).

In 2018, the impact of non-recurring, extraordinary costs on EBITDA was euro 6.3 million, compared with the euro 2.9 million of 2017. In order to better understand the business performance, those effects, consisting mainly in 2018 of non-recurring costs deriving from the ending of the Balenciaga and Montblanc license agreements and the resignation of some of the Group's top managers, should be eliminated.

Excluding the effects of such extraordinary transactions, the 2018 adjusted EBITDA is euro 57.2 million (11.9% of sales), against the 2017 amount of euro 55.0 million (11.7% of sales).

Excluding such effects, the 2018 adjusted EBIT (operating income) is euro 36.1 million (7.5% of sales), against the 2017 amount of euro 37.3 million (7.9% of sales).

The adjusted key performance indicators, filtered of the effects of the non-recurring costs, are as follows.

Indicatori economici - Adjusted	2018		2017	
(euro/000)	euro	% of net revenues	euro	% of net revenues
Ebitda	57,225	11.9%	54,977	11.7%
Operating income - Ebit	36,143	7.5%	37,285	7.9%

*****

SALES REVENUES

The consolidated sales revenues for the year ended December 31, 2018 were euro 482.2 million, compared with euro 469.1 million for 2017. The euro 13.1 million year-on-year increase corresponds to an increase of 2.8%, a very good result considering the overall performance of the eyewear industry.
At constant exchange rates, the year-on-year increase is 6.1%[5].

[5] The December 31, 2018 exchange rates and average exchange rates for 2018 are described in the Notes to the Consolidated Financial Statements under “Basis of consolidation”.

The Group continued to invest in brands and in its sales organization under a medium/long-term strategy, even in difficult markets, where it has decided to keep pace with demand in the short term instead of saturating customers with products, and to focus on credit quality.

The sales revenues obtained in 2018 by the Marcolin Group reflect the sales growth in European markets (especially in Italy, Spain and Germany), where an increase of 4.3% (euro 7.4 million) is reported year-on-year, and the recovery of the American market, whose sales rose by 5.5% (euro 10.3 million). Asia performed well with an increase of 3.6% (euro 1.3 million). The Rest-of-World segment was affected by a different sales timing.

The following table sets forth the sales revenues by geographical area.

Net Revenues by geographical area	**2018**		**2017**		**Change**	
(euro/000)	**euro**	**% of total**	**euro**	**% of total**	**euro**	**%**
Italy	*34,203*	*7.1%*	*33,110*	*7.1%*	*1,093*	*3.3%*
Rest of Europe	*144,570*	*30.0%*	*138,255*	*29.5%*	*6,315*	*4.6%*
Europe	178,774	37.1%	171,365	36.5%	7,409	4.3%
Americas	198,777	41.2%	188,495	40.2%	10,282	5.5%
Asia	36,372	7.5%	35,112	7.5%	1,259	3.6%
Rest of World	68,294	14.2%	74,171	15.8%	(5,877)	-7.9%
Total	**482,219**	**100.0%**	**469,143**	**100.0%**	**13,077**	**2.8%**

Europe generated growth of euro 7.4 million (4.3%), since it benefited from the positive effects of the sales reorganization carried out in previous years, although it is still influenced by fluctuating markets with uneven trends and growth rates.
The sales performance was very positive for some geographic areas, such as Italy, which reported growth of 3.3%, Spain (+6.1%), Germany (+5.4%), Benelux (+12.6%), Russia (+22.8%) and the Nordic countries (+15.1%). The United Kingdom showed recovery (+2.8%) after the slight downturn of 2017.
Europe accounted for 37.1% of the Group's total net revenues in 2018.

Sales in America rose by 5.5% in 2018 (11.2% at constant exchange rates), with growth for the second year in a row (+4.5% at current exchange rates and +3.3% at constant exchange rates in 2017), fully demonstrating the effect of the initiatives taken by management to reorganize the sales force, which improved sales, despite the pressures in the American market present since 2016.

Sales in Asia, accounting for 7.5% of the Marcolin Group's total sales, turned around in 2018 (+3.6% from the prior year), offsetting the previous year's downturn of consumer sales reported in the two main markets of that area, Korea and China (including Hong Kong).

In the Rest-of-World segment, sales fell by 7.9%, or euro 5.9 million. That area is comprised mainly of the Mediterranean area, Africa and the Middle East. It was affected by a different timing of procurement by customers on some channels compared with the previous year; the effect will be recovered in 2019.

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OTHER INCOME STATEMENT COMPONENTS

The Consolidated Income Statement highlights are set forth below:

	2018		2017	
(euro/000)	euro	% of net revenues	euro	% of net revenues
Net revenues	482,219	100.0%	469,143	100.0%
Gross profit	274,992	57.0%	272,449	58.1%
Ebitda	50,964	10.6%	52,078	11.1%
Operating income - Ebit	28,882	6.0%	34,027	7.3%
Financial income and costs	(24,073)	(5.0)%	(33,830)	(7.2)%
(Loss)/Profit before taxes	(4,202)	(0.9)%	(6,373)	(1.4)%
Net (loss)/profit for the period	(831)	(0.2)%	(14,468)	(3.1)%

Indicatori economici - Adjusted	2018		2017	
(euro/000)	euro	% of net revenues	euro	% of net revenues
Ebitda	57,225	11.9%	54,977	11.7%
Operating income - Ebit	36,143	7.5%	37,285	7.9%
Net (loss)/profit for the period	14,432	3.0%	15,271	3.4%

As shown by the key performance indicators, gross profit is 57.0% of sales, down slightly (in terms of percentage of sales) by 1% from the previous year (58.1% in 2017). The lower gross margin is attributable mainly to the sales mix in terms of geographical areas and distribution channels. The Group constantly pursues scrupulous management of manufacturing costs and sales policies aimed at enhancing the positioning of each brand in the respective market segments.

As mentioned, EBITDA is euro 51.0 million (10.6% of sales), compared with the euro 52.1 million of 2017 (11.1% of sales).
EBIT is euro 28.9 million, corresponding to 6.0% of sales (compared with the 2017 EBIT of euro 34.0 million, corresponding to 7.3% of sales).

As reported, the performance indicators are affected by non-recurring events for both 2018 and 2017, so they have been adjusted in order to provide margins that disregard the effects of the discontinuous organizational and corporate rationalization activities.
The adjusted EBITDA is euro 57.2 million, compared with the euro 55.0 million of 2017, and represents 11.9% of sales (11.7% in 2017).
Adjusted EBIT is euro 36.1 million (7.5% of sales), compared with the euro 37.3 million of 2017 (7.9% of sales).

The net finance costs of euro 24.1 million for 2018 consist primarily of interest on the bond notes and on the reversal of the bond issue transaction costs (accounted for under IFRS with the method of amortized cost over the life of the bond notes), and finance costs on other short-term and medium/long-term borrowings. In the previous year, the same item included non-recurring fees for early redemption of the previous bond notes and the related reversal to expenses of the residual portion of the previous transaction costs..

With respect to the Group's currency exchange results in 2018, it is noted that natural hedging occurs for the main foreign currencies in which the Group conducts business (primarily the U.S. dollar, British pound sterling and Hong Kong dollar) because of the similar amounts for transactions in the same currency, i.e. purchases from suppliers and sales to customers. The Group is more exposed on some currencies, mainly the Brazilian real and the Russian ruble, which led to losses in 2018 due to their depreciation.

The income taxes[6] were a negative euro 3.4 million, compared with a cost of euro 8.1 million for 2017. The Parent Company's current taxes amount to euro 1.2 million, consisting mainly of Marcolin S.p.A.'s IRAP (regional

6 On March 31, 2017 Marcolin S.p.A. opted to renew its participation in the Italian tax consolidation regime for IRES purposes pursuant to Presidential Decree 917, Articles 117 *et seq.* of December 22, 1986 (Italian Tax Code or "TUIR" with the ultimate parent, 3 Cime S.p.A. for the three-year term of 2017-2019.

business tax) and IRES (corporate income tax). The foreign affiliates accounted for a net current tax expense of euro 1.8 million.
Marcolin S.p.A. recognized a tax benefit of euro 4.3 million pursuant to the Patent Box regime (optional tax incentive regime for income deriving from the use of intangibles) under the agreement signed with the Italian Revenue Agency on July 31, 2018. The benefit accounted for in 2018 refers to the years 2015 to 2018, and it was determined through the identification, gathering and processing of financial information directly attributable to certain brands that are part of the Company's portfolio.
Deferred tax assets were recognized on the French affiliate's tax losses, as the conditions necessary for reasonably recovering them in the near future emerged.

The net result for the year is a loss of euro 0.8 million, compared with a loss of euro 14.5 million for 2017. Such result was adversely affected by euro 9.0 million from the consolidation with the equity method of associate Thélios S.p.A. and its subsidiaries, which generated operating losses originating from their start-up phase in 2018.

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STATEMENT OF FINANCIAL POSITION HIGHLIGHTS

The consolidated net financial position as at December 31, 2018 compared with the previous year is set forth below.

Net invested capital *(euro/000)*	**12/31/2018**	**12/31/2017**
Trade receivables	91,992	82,091
Inventories	126,061	122,582
Trade payables	(150,134)	(126,800)
Operating working capital	**67,919**	**77,874**
Other assets	32,128	14,680
Other liabilities	(47,500)	(44,185)
Net working capital	**52,547**	**48,369**
Non-current assets	46,249	37,490
Investments in subsidiaries and associates and other financial assets	1,377	610
Property, plant and equipment	29,941	29,071
Intangible assets	46,547	49,610
Goodwill	286,506	282,326
Fixed assets	**410,621**	**399,108**
Founds	(21,543)	(7,754)
Net invested capital	**441,625**	**439,722**
Current financial liabilities	40,214	39,369
Non-current financial liabilities	252,226	255,355
Gross financial indebtedness	**292,439**	**294,725**
Current financial assets and Cash and cash equivalents	(55,478)	(54,137)
Non-current financial assets	(2,513)	(3,171)
Net financial debt	**234,449**	**237,417**
Net equity	**207,176**	**202,305**

The net financial indebtedness at the reporting date is set forth below against the corresponding data of 2017:

Net financial debt *(euro/000)*	**12/31/2018**	**12/31/2017**
Cash and cash equivalents	34,184	40,805
Current and non-current financial assets	23,807	16,503
Current financial liabilities	(37,197)	(34,442)
Current portion of non-current financial liabilities	(3,017)	(4,928)
Non-current financial liabilities	(252,226)	(255,355)
Total	**(234,449)**	**(237,417)**

The Group's net financial position is indebtedness of euro 234.4 million, compared with the euro 237.4 million indebtedness of 2017, a year-on-year difference of euro 3.0 million. The main components of the Group's debt are the bond notes for a notional amount of euro 250 million, the super senior revolving credit facility of euro 40 million, of which euro 10 million had been used as at December 31, 2018, and short and medium-term loans granted by various banks. The current and non-current financial assets are composed prevalently of the loan granted to associate Thélios S.p.A. by Marcolin S.p.A. to provide it with sufficient funding for the start-up of its business.

The debt-to-equity ratio at December 31, 2018 is 1.13 (1.17 at December 31, 2017).

The Marcolin Group's net financial indebtedness decreased by euro 3.0 million, and it was affected by the following factors:

Net financial debt *(euro/000)*	**12/31/2018**	**12/31/2017**
Adjusted EBITDA	**57,225**	**54,977**
Increase / decrease in net working capital	2,213	(18,433)
Other operative adjustments	(4,163)	(8,410)
Net cash from / (used in) operating activities	**55,276**	**28,134**
(Purchase) of property, plant and equipment	(8,645)	(10,228)
Proceed from the sale of property, plant and equipment	700	241
(purchase) of intangible assets	(10,480)	(6,224)
Disposal in intangible assets	-	327
Net cash outflow on investments	(9,802)	(9,507)
Net cash from / (used in) investing activities	**(28,227)**	**(25,391)**
Net interest (paid) / cash in	(14,984)	(16,367)
Free Cash Flow	**12,064**	**(13,624)**
Non-recurring items not included on Free Cash Flow	(6,261)	(15,999)
Other financials items	(2,834)	(2,956)
Total change in net financial debt	**2,968**	**(32,579)**
Net financial debt as at December 31, 2017	**(237,417)**	**(204,837)**
Total change in net finance debt	2,968	(32,579)
Net financial debt as at December 31, 2018	**(234,448)**	**(237,417)**

The cash flow for the year was impacted by euro 6.3 million in non-recurring costs, as explained previously in the comments on EBITDA.
Additional outflows were incurred for capital expenditures totaling euro 18.4 million, referring largely to investments in the Group's manufacturing plants and logistical systems, and amounts referring to the renewal and upgrading of the Group's information systems.
2018 was also affected by a capital increase for Thélios S.p.A., which increased the indebtedness by euro 9.8 million (including euro 8.8 million through the waiver of financial receivables).

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The composition of net working capital, in comparison with the previous year, is detailed in the following table.

Net working capital *(euro/000)*	**12/31/2018**	**12/31/2017**
Inventories	126,061	122,582
Trade receivables	91,992	82,091
Trade payables	(150,134)	(126,800)
Total	**67,919**	**77,874**

With reference to the main items that make up net working capital:

- the value of inventories rose by euro 3.5 million compared with the previous year, due mainly to the initial acquisition of inventory by Marcolin's new company in Mexico;
- trade receivables rose considerably from those of the previous year, as they were largely affected by higher sales near the end of 2018. The 2018 "days sales outstanding" (DSO) is very positive, having remained steady after the 2017 improvement, thereby confirming the excellent credit management of the past few years. The item was affected by the 2018 adoption of the new accounting standards, IFRS 9 and 15, as explained in more detail subsequently in this Report;

- the trade payables at December 31, 2018 were affected by last-quarter purchases to support the substantial sales that typically take place in the first quarter of the year, and by year-end adjustments.

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The annual capital expenditures (excluding disposals) amounted to euro 18.4 million (euro 10.2 million for property, plant and equipment and euro 6.2 million for intangibles), compared with euro 16.4 million in 2017. The investments in tangible and intangible assets are described below:

Property, plant and equipment cash out *(euro/000)*	**12/31/2018**	**12/31/2017**
Land and buildings	1,010	1,252
Plant and machinery	2,134	2,024
Industrial equipement	1,690	1,364
Stand and commercial equipement	2,861	4,538
Hardware	611	716
Office forniture and furnishing	220	266
Other	119	69
Total	**8,645**	**10,228**

Intangible assets cash out *(euro/000)*	**12/31/2018**	**12/31/2017**
Software	2,539	2,251
Other	7,941	3,973
Total	**10,480**	**6,224**

The 2018 investments in tangibles regarded mainly new plant, machinery and equipment for the Parent Company's manufacturing facilities and other trade equipment.

The investments in intangibles refer mainly to software to improve and upgrade the information systems assisting the Group.

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Among the non-current assets, in line with the previous year, goodwill was euro 286.5 million (euro 186.2 million referring to the Parent Company, arising on the downstream merger with Cristallo S.p.A., and the remainder arising on the acquisition of Viva International in 2013 and the acquisition of Marcolin Middle East in 2017). Since it is considered an asset with an infinite useful life, it is not amortized.
The total amount was euro 282.3 million at December 31, 2017. The 2018 increase is attributable exclusively to translation differences emerging on the appreciation of the U.S. dollar in 2018.
Goodwill was tested for impairment; the related assumptions and results are described in the Marcolin Group's Notes to the Consolidated Financial Statements.

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Additional information and comments on the financial statement results are reported in the Notes to the Consolidated Financial Statements.

MARCOLIN S.p.A.
REPORT ON OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2018

MARCOLIN S.P.A. ANNUAL REPORT

As described in the section dedicated to the Marcolin Group, the Report on Operations of Marcolin S.p.A. provides information that excludes the impact of the non-recurring transactions, in order to provide comparability of the 2018 data with that of the prior year on the basis of the same consolidation perimeter, by presenting "normalized" income.

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INCOME STATEMENT HIGHLIGHTS

The following table sets forth Marcolin S.p.A.'s key performance indicators:

Year *(euro/000.000)*	Net Revenues	YOY	EBITDA	% of net revenues	EBIT	% of net revenues	Net (loss)/profit	% of net revenues
2016	233.0	13.3%	27.3	11.7%	15.3	6.6%	3.7	1.6%
2017	259.0	11.1%	26.1	10.1%	14.9	5.7%	(10.8)	(4.2)%
2018	273.0	5.4%	27.3	10.0%	13.3	4.9%	24.4	8.9%

In summary, the income statement presents:

- Sales revenues of euro 273.0 million (euro 259.0 million in 2017);
- EBITDA of euro 27.3 million, corresponding to 10.0% of sales (euro 26.1 million in 2017, 10.1% of sales);
- EBIT of euro 13.3 million, corresponding to 4.9% of sales (euro 14.9 million in 2017, 5.7% of sales);
- A net profit of euro 24.4 million (compared with a net loss of euro 10.8 million for 2017);
- Net financial indebtedness of euro 144.3 million (compared with indebtedness of euro 150.8 million as at December 31, 2017);
- Equity of euro 224.7 million, against euro 200.9 million at the end of 2017.

The Parent Company reports 2018 sales revenues up by 5.4% (an increase of euro 14.0 million), with satisfactory results across all geographical areas.
The year-on-year sales growth was generated mainly by sales in America to Marcolin USA Eyewear Corp. (+35.8%) thanks to the recovery of consumer spending there and in Asia (+16.7%), which compensated for the temporary slight decline in the Rest of the World.

As explained for the Group, in order to better understand the 2018 business performance of Marcolin S.p.A., certain non-recurring events that impacted the margins should be taken into account.

The normalized (adjusted) key performance indicators, filtered of the effects of the non-recurring costs, are as follows.

Economic indicators - Adjusted	2018		2017	
(euro/000)	Valore	% sui ricavi	Valore	% sui ricavi
Ebitda	31,697	11.6%	26,722	10.7%
Operating income - Ebit	18,636	6.8%	15,471	6.3%
Net (loss)/profit for the period	24,409	8.9%	2,963	1.1%

In 2018 the non-recurring costs regarded primarily the costs deriving from the ending of the Balenciaga and Montblanc license agreements, the resignation of some of the Group's top managers and *ad-personam* agreements for changes in top management positions totaling euro 4.4 million (euro 0.6 million in 2017).

Excluding the effects of the non-recurring transactions, the 2018 adjusted EBITDA is euro 31.7 million, corresponding to 11.6% of sales (euro 27.6 million, 10.7% of sales in 2017), whereas the adjusted EBIT is euro 18.7 million, corresponding to 6.8% of sales (euro 15.5 million and 6.3% of sales in 2017).

SALES REVENUES

The 2018 sales revenues were euro 273.0 million, compared with the euro 259.0 million revenues of 2017, a substantial increase of euro 14.0 million (5.4%) from the prior year.
At constant exchange rates, the year-on-year increase is 6.7%.

The Parent Company's sales to third parties were euro 117.4 million in 2018, compared with euro 121.4 million in 2017, a decrease of euro 3.9 million or 3.3%.

The following table sets forth Marcolin S.p.A.'s sales revenues by geographical segment:

Net Revenues by geographical area	2018		2017		Change	
(euro/000)	euro	% of total	euro	% of total	euro	%
Italy	*34,184*	*12.5%*	*33,110*	*12.8%*	*1,073*	*3.2%*
Rest of Europe	*89,479*	*32.8%*	*88,295*	*34.1%*	*1,184*	*1.3%*
Europe	123,662	45.3%	121,405	46.9%	2,257	1.9%
Americas	62,904	23.0%	46,337	17.9%	16,567	35.8%
Asia	29,589	10.8%	25,349	9.8%	4,240	16.7%
Rest of World	56,842	20.8%	65,875	25.4%	(9,033)	-13.7%
Total	**272,997**	**100.0%**	**258,967**	**100.0%**	**14,030**	**5.4%**

The Company continued to invest in brands and in its sales organization under a medium-term strategy, even in difficult markets, where it has decided to keep pace with demand in the short term instead of saturating customers with products, and to focus on credit quality.

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Marcolin S.p.A.'s sales performance in 2018 reflects sales growth primarily in the European, American and Asian markets.

European markets reported excellent results (sales up by euro 2.3 million, or 1.9%), in continuance of the previous year's trend.
Some geographic areas performed particularly well: Italy had year-on-year growth of 3.2%, Germany 13.0%, Spain 4.1%, and Russia, Switzerland and Scandinavian countries had more than 20% growth, offsetting the considerable declines in Eastern European countries, France, Portugal, and the United Kingdom.
Europe accounted for 45.3% of the Company's total net revenues in 2018.

Sales in the Americas shows important growth (23.0%) due mainly to the recovery of procurement to the American subsidiary that covers the U.S. market. Latin America also performed very well.

Sales in Asia increased as a result of the recovery of consumer spending in the two main markets of that area, Korea and China (including Hong Kong), which offset the previous year's contraction. Sales to Asia account for 10.8% of Marcolin S.p.A.'s total sales.

The Rest-of-World segment had a contraction attributable to a different procurement timing by customers on some channels compared with the previous year; the effect will be recovered during 2019.

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The Company's income statement highlights are reported hereunder.

EBITDA is euro 27.3 million (10.0% of sales), compared with the 2017 amount of euro 26.1 million (10.1% of sales); EBIT is euro 13.3 million, 4.9% of sales, compared with the euro 14.9 million for 2017 (5.7% of sales).

The adjusted EBITDA is euro 31.7 million, compared with the euro 27.6 million of 2017, and represents 11.6% of sales (10.7% in 2017).
Adjusted EBIT is euro 18.6 million (6.8% of sales), compared with the euro 15.5 million of 2017 (6.3% of sales).

Income statement	2018		2017	
(euro/000)	euro	% of net revenues	euro	% of net revenues
Net revenues	272,997	100.0%	258,967	100.0%
Gross profit	114,923	42.1%	112,105	43.3%
Ebitda	27,339	10.0%	26,106	10.1%
Operating income - Ebit	13,277	4.9%	14,855	5.7%
Financial income and costs	(515)	(0.2)%	(27,085)	(10.5)%
(Loss)/Profit before taxes	26,868	9.8%	(11,330)	(4.4)%
Income tax expense	(2,472)	(0.9)%	577	0.2%
Net (loss)/profit for the period	24,396	8.9%	(10,753)	(4.2)%

According to the key performance indicators, the gross margin is 42.1% of sales, an improvement of 2.5% from 2017 (43.3%). The higher gross profit is attributable mainly to positive volumes and a good brand mix. It increased by euro 2.8 million.

Operating income is a positive euro 13.3 million (4.9% of sales), compared with the euro 14.9 million of 2017 (5.7% of sales).

The balance of financial costs and income is a net cost of euro 0.5 million for 2018. The costs include interest on the bond notes, reversal of the bond issuance transaction costs (accounted for under IFRS with the financial method of amortized cost over the life of the bond notes), and interest on other short-term and medium/long-term loans, including intercompany loans, totaling euro 15.4 million. The previous year's finance costs were impacted by the same components present in 2018 and by the cost of early redemption of the previous bond notes in February 2017.
Interest income was euro 10.1 million, accrued primarily on intercompany loans.
Foreign currency exchange resulted in income of euro 4.8 million, deriving mainly from the translation of a USD 125 million loan granted to Marcolin USA Eyewear Corp., affected by the 2018 appreciation of the U.S. dollar against the euro.

The income tax expense[7] is euro 2.5 million, compared with a negative euro 0.6 million for 2017.
The current taxes amount to euro 1.2 million, and consist mainly of Marcolin S.p.A.'s IRAP (regional business tax) and IRES (corporate income tax) expense.
Marcolin S.p.A. recognized a tax benefit of euro 4.3 million pursuant to the Patent Box regime (optional tax incentive regime for income deriving from the use of intangibles) under the agreement signed with the Italian Revenue Agency on July 31, 2018. The benefit accounted for in 2018 refers to the years 2015 to 2018, and it was determined through the identification, gathering and processing of financial information directly attributable to certain brands that are part of the Company's portfolio.

The net result for the year is a profit of euro 24.4 million (8.9% of sales), compared with a net loss of euro 10.8 million for 2017.

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7 On March 31, 2017 Marcolin S.p.A. opted to renew its participation in the Italian tax consolidation regime for IRES purposes pursuant to Presidential Decree 917, Articles 117 *et seq.* of December 22, 1986 (Italian Tax Code or TUIR"with the ultimate parent, 3 Cime S.p.A. for the three-year term of 2017-2019.

STATEMENT OF FINANCIAL POSITION HIGHLIGHTS

The Parent Company's financial position as at December 31, 2018 is presented below in comparison with the corresponding results of the previous year:

Net invested capital *(euro/000)*	**12/31/2018**	**12/31/2017**
Trade receivables	92,137	81,313
Inventories	73,052	74,008
Trade payables	(124,504)	(119,017)
Operating working capital	**40,685**	**36,304**
Other assets	19,286	9,151
Other liabilities	(23,860)	(17,000)
Net working capital	**36,111**	**28,455**
Non-current assets	16,100	15,378
Investments in subsidiaries and associates and other	94,969	85,167
Property, plant and equipment	23,302	23,565
Intangible assets	22,275	23,277
Goodwill	186,227	186,227
Fixed assets	**342,873**	**333,614**
Founds	(9,961)	(10,371)
Net invested capital	**369,023**	**351,697**
Current financial liabilities	58,935	77,945
Non-current financial liabilities	248,152	252,180
Gross financial indebtedness	**307,087**	**330,125**
Current financial assets and Cash and cash equivaler	(51,343)	(72,188)
Non-current financial assets	(111,395)	(107,152)
Net financial debt	**144,349**	**150,784**
Net equity	**224,674**	**200,913**

The net financial indebtedness at December 31, 2018 is set forth below against the corresponding data of 2017:

Net financial debt *(euro/000)*	**12/31/2018**	**12/31/2017**
Cash and cash equivalents	9,246	26,330
Current and non-current financial assets	153,492	153,011
Current financial liabilities	(55,918)	(73,017)
Current portion of non-current financial liabilities	(3,017)	(4,928)
Non-current financial liabilities	(248,152)	(252,180)
Total net financial debt	**(144,349)**	**(150,784)**

The Company's net financial position is indebtedness of euro 144.3 million, compared with the euro 150.8 million indebtedness of 2017, a year-on-year decrease of euro 6.4 million.
The main components of the debt are the bond notes for a notional amount of euro 250 million, the super senior revolving credit facility of euro 40 million, of which euro 10 million had been used as at December 31, 2018, and short and medium-term loans granted by various banks. The current and non-current financial assets consist primarily of loans granted to Group companies, including the euro 125 million loan granted to Marcolin USA Eyewear Corp. in 2013. In 2017 a loan was granted to associate Thélios S.p.A. to provide it with sufficient funds for the start-up of its business, under a business plan shared when the transaction was announced. Additional

funds were provided to such company during 2018. The loan receivable was euro 20.5 million at December 31, 2018.

More information on the cash generated by operating activities is reported Notes to the Financial Statements.

The debt-to-equity ratio at December 31, 2018 is 0.64 (compared with 0.75 at December 31, 2017).

Year *(euro/000.000)*	**Net financia debt**	**Net equity**	**Levarge (*)**
2012	(14.9)	92.0	(0.16)
2013	(102.1)	213.9	(0.48)
2014	(116.7)	213.1	(0.55)
2015	(143.0)	210.3	(0.68)
2016	(122.6)	214.0	(0.57)
2017	(150.8)	200.9	(0.75)
2018	(144.3)	224.7	(0.64)

(*) The Leverage is the debt to equity ratio

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The composition of net working capital, in comparison with the previous year, is set forth in the following table:

Net working capital *(euro/000)*	**12/31/2018**	**12/31/2017**
Inventories	73,052	74,008
Trade receivables	92,137	81,313
Trade payables	(124,504)	(119,017)
Total Net working capital	**40,685**	**36,304**

With reference to the main items that make up net working capital:

- the value of inventories fell by euro 1.0 million compared with the previous year, a good result given the considerable increase in the turnover of the Parent Company, which was engaged in selling to its customers and logistically supporting the other Group companies in EMEA countries;
- trade receivables, substantially higher than at the end of the prior year, were affected by the timing of sales to Group affiliates. With respect to receivables due from third-party customers, in recent years management has been taking measures to improve the "days sales outstanding" (DSO), which were continued in 2018. The item was affected by the 2018 adoption of the new accounting standards, IFRS 9 and 15, as explained in more detail subsequently in this Report;
- trade payables at the end of 2018 were affected by amounts due to Group companies and licensors at the end of the year that will be paid in the next year.

The working capital-to-sales ratio is 0.15 (0.14 for 2017).

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Among the non-current assets, in line with the previous year, the Parent Company recognized goodwill of euro 186.2 million accounted for since 2014 (arising on the downstream merger with Cristallo S.p.A.) as an asset with an indefinite useful life, and thus not amortized.
The goodwill was tested for impairment. The related assumptions and results are described in the Notes to the Separate Financial Statements of Marcolin S.p.A..

The non-current receivables include deferred tax assets of euro 11.0 million, whose decrease from the previous year is explained in the explanatory notes.
Investments in subsidiaries and associates and other financial assets, euro 95.0 million, increased as a result of new investments of euro 9.8 million in Thélios S.p.A. and an immaterial amount in the new company, Marcolin México S.A.P.I de C.V.

The annual capital expenditures for tangibles were not particularly significant, and regarded mainly the purchase of plant and equipment for the Longarone (Belluno) factory.
Investments in intangibles were made prevalently to adjust and rationalize the existing business software.

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SUBSIDIARIES AND ASSOCIATES

The results of the companies affiliated with the Group are summarized briefly hereunder.

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Marcolin France Sas

Marcolin France Sas (Paris) is wholly owned by Marcolin S.p.A. The company distributes Marcolin products in France, and in 2018 it produced sales revenues of euro 35.2 million (euro 36.4 million in 2017).
It broke even in 2018 (net loss of euro 0.1 million in 2017).

Marcolin Iberica S.A.

Marcolin Iberica S.A., located a Barcelona, is wholly owned by Marcolin S.p.A.
A distributor of Marcolin products in Spain and Andorra, in 2018 it produced sales revenues of euro 16.7 million (euro 15.7 million in 2017), an increase of 6.4%.
The company reported a net profit of euro 0.4 million for 2018 (net profit of euro 0.5 million for 2017).

Marcolin Portugal-Artigos de Optica Lda

Marcolin Portugal-Artigos de Optica Lda is based in Lisbon and is wholly owned by Marcolin S.p.A. In 2018 it produced sales revenues of euro 3.1 million, the same amount as in 2017. The company made a profit of euro 0.1 million in 2018 (it broke even in 2017).

Marcolin Deutschland GmbH

Marcolin Deutschland GmbH (wholly owned by Marcolin S.p.A.), based in Cologne, distributor for the German market, produced sales revenues of euro 11.8 million in 2018 (euro 11.2 million in 2017).
It broke even in 2018 (net loss of euro 0.1 million for 2017).

Marcolin Schweiz GmbH

Marcolin Schweiz GmbH (wholly owned by Marcolin S.p.A.), based in Muttenz, produced sales revenues of euro 1.6 million, the same amount as in the prior year.
The company shows a loss of euro 0.1 million for 2018 (it broke even in 2017).

Marcolin Benelux Sprl

Marcolin Benelux Sprl (Villers-Le-Bouillet), wholly owned by Marcolin S.p.A., produced sales revenues of euro 8.0 million in 2018 (euro 7.1 million in 2017) in Belgium, Luxembourg and the Netherlands.
It reports a net profit of euro 0.1 million for 2018 (the same as for 2017).

Marcolin (UK) Ltd

Marcolin U.K. Ltd, based in Newbury, wholly owned by Marcolin S.p.A., produced sales revenues of euro 11.5 million in 2018 (euro 12.3 million in 2017) in the United Kingdom and Ireland. It reports a net profit of euro 0.4 million for 2018 (net loss of euro 0.1 million for 2017). In January 2019 the company started the process of moving its headquarters to London in order to benefit from greater visibility for marketing and strategic purposes.

Viva Eyewear UK Ltd

The company is no longer operational, but acts solely as a holding company for some Group companies. The company is wholly owned by Marcolin USA Eyewear Corp. Before the Viva Group was integrated into the Marcolin Group, Viva Eyewear U.K. Ltd distributed products to the domestic and international markets. In September 2014 Marcolin S.p.A. and Marcolin UK Ltd took over its business divisions (international and domestic distribution, respectively).

Marcolin USA Eyewear Corp.

Marcolin USA Eyewear Corp., wholly owned by Marcolin S.p.A. and based in Somerville (New Jersey), is the Group's most important sales affiliate. The sales are conducted largely in the United States and Canada. It produced revenues of USD 208.3 million (euro 176.4 million) in 2018, compared with USD 197.2 million (euro 174.6 million) in 2017, an increase of 1.0% from the previous year.
It reports a net loss of euro 2.9 million for 2018 (net loss of euro 14.0 million for 2017).

Marcolin Do Brasil Ltda

Marcolin Do Brasil Ltda, based in Barueri, wholly owned by Marcolin S.p.A., produced sales revenues of euro 13.8 million (euro 12.9 million in 2017) in the Brazilian market.
It reports a net loss of euro 1.4 million for 2018 (net profit of euro 1.6 million for 2017).

Marcolin Asia HK Ltd

Marcolin Asia HK Ltd (wholly owned by Marcolin S.p.A.), based in Hong Kong, provides sourcing services in Asia exclusively to the Group's affiliates. It broke even in 2018, whereas it reported a net profit of euro 0.1 million for 2017.

Marcolin Technical Services Co. Ltd

This company, wholly owned directly by Marcolin S.p.A. and based in Shenzhen, Guangdong Province, China, monitors the production of Chinese-manufactured products, performs quality control and checks production work in progress for the Group's companies (Marcolin S.p.A., Marcolin USA Eyewear Corp., and Marcolin UK Hong Kong Branch). It broke even in 2018 and in 2017.

Marcolin UK Ltd Hong Kong Branch

In 2018 Marcolin UK Ltd Hong Kong Branch (branch of Marcolin UK Ltd) produced sales of euro 42.8 million (euro 36.7 million in 2017), and a net profit of euro 5.6 million (net profit of euro 5.5 million in 2017). The company represents the Group's main sales company in the Far East.

Viva Eyewear HK Ltd

This company, wholly owned by Viva Eyewear UK Ltd, is not operational. It was the Viva Group's main affiliate before that group was acquired by Marcolin. It broke even in 2018 and in 2017.

Eyestyle Trading (Shanghai) Co. Ltd

Eyestyle Trading (Shanghai) Co. Ltd (wholly owned by Marcolin S.p.A.) assists the importing and distribution of products with certain brands to the respective boutiques in China. It produced sales of euro 0.4 million in 2018 (euro 0.6 million in 2017) and a net profit of euro 0.1 million (net profit of euro 0.3 million in 2017).

Marcolin-RUS LLC

The subsidiary, set up in partnership with a local shareholder, Sover-M, an established, prestigious company operating in the eyewear business in Russia, is part of the Marcolin Group's strategy to develop business in new markets. The company is the distributor of all Marcolin products in Russia. Marcolin S.p.A. owns 51% of Marcolin-RUS LLC.
The company produced sales revenues of euro 7.6 million in 2018 (euro 6.2 million in 2017) and a net profit of euro 0.3 million (same amount in 2017).

Marcolin Nordic AB

Marcolin Nordic AB (Stockholm), wholly owned by Marcolin S.p.A., produced sales revenues of euro 8.6 million in 2018 (euro 7.5 million in 2017) in the Nordic countries (Denmark, Finland, Norway, Iceland and Sweden). In the first half of 2015 its structure was provided with branches to operate in the main countries of interest in the area. The company showed a net profit of euro 0.8 million for 2018 (net profit of euro 0.1 million for 2017). The company was initially set up with minority shareholders owning 30% of it, and then in 2017 Marcolin S.p.A. acquired the remaining stakes from them and became the sole shareholder.

Ging Hong Lin International Co. Ltd e Shanghai Jinlin Optical Co. Ltd

In order to improve the management of direct distribution in mainland China, in the second half of 2014 a company was set up with the Gin Hong Yu International Co. Ltd group, a well-known and respected business operating in the Chinese eyewear market.
The operations are managed by Shanghai Jinlin Optical Co. Ltd, a company based in Shanghai and wholly owned by Gin Hong Lin International Co. Ltd.
The Hong Kong company is 50%-owned directly by Marcolin S.p.A..
The company produced total sales revenues of euro 7.8 million in 2018 (euro 8.8 million in 2017) and broke even (net profit of euro 0.3 million in 2017).

Viva Deutschland GmbH and its subsidiaries

The company, set up in partnership with the Menrad Group, is 50%-owned by the Marcolin Group through Viva UK Eyewear Ltd. The company operated together with its two subsidiaries, Viva Schweiz AG and Viva Eyewear Brillenvertriebs Gmbh, under a product distribution agreement for the Guess and Gant brands, which expired on December 31, 2017. Upon expiration of the distribution agreement, the shareholders jointly decided to wind up all three companies. Viva Eyewear Brillenvertriebs GmbH completed the liquidation process on July 4, 2018, whereas the other two companies are still undergoing liquidation.
The companies were not operational in 2018, and their activities in the liquidation process were not significant on the whole. In the final year of operation (2017), they produced total sales revenues of euro 0.1 million and broke even.

Marcolin Middle East FZCO

Marcolin Middle East FZCO was set up in partnership with the Rivoli Group (one of the largest retailers in the Middle East) in May 2017. The company, based in Dubai in the United Arab Emirates, is 51%-owned by Marcolin S.p.A., and distributes eyewear collections with Marcolin's portfolio brands.
The company produced sales of euro 18.9 million in 2018 (euro 14.1 million in 2017) and a net profit of euro 2.7 million (euro 1.7 million in 2017).

Marcolin Mexico SAPI de CV

The company, based on Naucalpan (Mexico), was founded in April 2018 in partnership with a local business, Moendi. It is 51%-owned by Marcolin S.p.A. and its objective is to distribute luxury and lifestyle-brand sunglasses and eyeglasses in Mexico. The company produced sales of euro 3.3 million in 2018 and a net loss of euro 0.3 million.

ASSOCIATES

Thélios S.p.A. and its subsidiaries

The company was established in 2017 from the partnership between Marcolin S.p.A. and the LVMH Group. 2018 was its first year of operation, in which it developed all the business functions and the new brands of the LVMH Group arrived. Currently, the Thélios Group handles the Celine, Kenzo, Loewe and Fred brands.
On November 19, 2018 Thélios Asia Pacific Ltd was established in Hong Kong. Together with the other companies set up in the prior year (Thélios France Sas and Thélios USA Inc.), it will enable the Thélios Group to operate on an international scale.
The business strategy provides for the possibility to set up new distribution companies in other countries in order to satisfy the foreign markets.

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MAIN RISKS AND UNCERTAINTIES TO WHICH THE GROUP AND THE COMPANY ARE EXPOSED

Economic risks and competitive risks associated with the sectors in which the Group and the Company operate

The financial position and performance of the Marcolin Group and Marcolin S.p.A. are influenced by macroeconomic factors of the various countries in which they operate. Economic recession has been present on an international level for the past few years, which has caused some major markets to contract, in some cases to record minimums. Recently, some economies have shown signs of significant improvement and have resumed growth; others are still in recession and continue to experience slow growth or even stagnation.
In this critical moment it is difficult to predict the size and duration of economic cycles and make forecasts of future demand in the various countries; it is certain that, at least in the near future, the economies of certain countries will continue to have slow growth.

Significant declines in consumer spending showing up across markets and product lines could impact the Group's and the Company's financial position and performance, although the diversification of our markets and the Marcolin product/brand portfolio strongly limits such risk considerably compared with companies that are more concentrated in certain markets or segments.
The balance achieved since 2014 by Marcolin with the Viva acquisition and in recent years with additional investments in Middle Eastern countries, Mexico and China, and the plan to partner with the LVMH Group through Thélios S.p.A., not only expanded the possibilities to grow in markets having higher growth than Europe (particularly Viva's American markets, where much of production is offered), it also accelerated the distribution channel diversification (balance between eyeglass frames and sunglasses, luxury and diffusion, men's and women's), thereby reducing the risk of potential contractions of sales volumes due to economic recession.

Other uncertain factors could create negative consequences for the Group's and the Company's performance, such as rising energy prices and/or fluctuating raw material prices, but in such circumstances the effects could be transferred to selling prices, eliminating or at least limiting the impact on performance and thus on self-financing capability.
If sales volumes and/or selling prices were to fall significantly, the Group and the Company are able to implement actions in the short term to contain their cost structures in order to minimize any adverse effects on financial position and performance.

The tough economies/financial situations of some markets may lead to greater risks regarding the collection of trade receivables, at least in the most troubled situations.
For this purpose, within the scope of its policy to manage risks regarding customer accounts, the Company has an internal credit management department headed by a designated manager, which takes every action to manage credit risk at the time of customer evaluation and at delivery, sending payment notices for delinquent accounts and monitoring new accounts, risky accounts, and sales credit and payment extensions granted, in collaboration of the sales functions.

Cash flow risk

At the end of 2013 the first bond issue, redeemed subsequently though a new bond issue at the beginning of 2017, completely changed Marcolin's previous funding activities, which had been through the ordinary financial market, i.e. short-term and medium/long-term loans with major banks, often with bilateral agreements.
The bond issues provided the Group and the Company with conditions of relative stability, at least until the notes of the latest issue mature at the end of 2023.
The 2017 transaction involved a super senior revolving credit facility to be used to manage the timing mismatch between receipts and payments, or cash requirements for normal operating activities such as those involving ordinary investments.
The credit facility, a total of euro 40 million (including euro 10 million undrawn as of December 31, 2018), is considered adequate to support the Group's and the Company's ordinary funding requirements.
On December 31, 2018 additional undrawn credit facilities totaling some euro 12.0 million were present at major banks, consisting of revolving credit available for short-term cash flow requirements.
Moreover, the Parent Company had access to new bank loans and alternative funding sources, such as leasing, factoring and reverse factoring, to support investments in new projects and manage working capital.
Although significant, sudden reductions of sales volumes could have negative effects on the ability to generate cash flow from its operating activities, in the current circumstances the Group and the Company expect to maintain an adequate capacity to generate cash flows though operating activities.
The Marcolin Group plans to meet its cash requirements for repayment of its financial debts due and for the approved budget by using cash flows from operating activities (annual self-financing), cash and bank balances,

use of the aforementioned revolving credit facility, use of credit lines currently available, and funding through leasing, factoring and reverse factoring.

Currency and interest rate risks

The Marcolin Group and Marcolin S.p.A. operate in various markets throughout the world and thus are exposed to market risks connected with fluctuations of foreign exchange rates and interest rates.
Exposure to currency risk arises from the different geographic locations of its manufacturing and commercial activities. The Group and the Company are primarily exposed to fluctuations of the U.S. dollar on supplies received from Asia and on sales conducted in U.S. dollars, and to a lesser extent to fluctuations of the Brazilian real, British pound sterling, Hong Kong dollar, Russian ruble and Canadian dollar.

Currency risk consists of the risk on transactions in currencies other than the euro (transaction risk) and the risk on the translation of financial statements prepared in currencies other than the euro (translation risk).

Transaction risk is generated by sales and costs incurred in currencies other than the euro, mainly the U.S. dollar for sales and sourcing of goods from Asian suppliers. Although fluctuations of foreign exchange rates could affect the Group's profit or loss, we believe that the structure of revenues and expenses in foreign currency enable to maintain a natural hedge against the transactional risk, due to the fact that the amount of sales in foreign currency substantially corresponds to the amount of purchases in foreign currency.
In the past, the Group used currency hedges (foreign exchange forward contracts), which were no longer stipulated as of 2016 due to the natural hedge from which the Group benefits as a result of the current structure of revenues and expenses in foreign currency.

Translation risk arises because some consolidated revenues and expenses originate from Group companies whose functional currency differs from the euro. In the preparation of the consolidated financial statements, assets and liabilities are translated at the exchange rates in force at the reporting date, and revenues and expenses at the average exchange rates for the reporting period. This results in changes in the foreign currency translation reserve, a component of the consolidated equity. The main companies of the Group whose functional currency differs from the euro are Marcolin USA Eyewear Corp., Marcolin UK Ltd (including the Hong King branch) and Marcolin do Brasil Ltda.

With respect to interest rate risk, the Marcolin Group uses types of financing mainly with variable interest rates; the notes subscribed in 2017 have a variable interest rate calculated on the three-month Euribor (with a zero-based floor) plus a 4.125% spread. To mitigate the risk of an excessive increase in the three-month Euribor, in 2017 the Company stipulated a swaption, which gave the option until November 2018 of entering into an interest rate swap that would enable to reduce the risk deriving from fluctuations of the Euribor. Due to the performance of the Euribor, it was not necessary to exercise such option. The explanatory notes provide additional information thereon.
Additional information concerning the risks and hedging instruments used by the Group is provided in the explanatory notes.

Licensing risks

The markets in which the Group and the Parent Company operate are highly competitive in terms of product quality, innovation and business conditions.
Marcolin's success is partially due to its capacity to introduce products with innovative and new designs, its continuous search for new materials and new productive processes, and its ability to adapt to consumers' changing tastes, anticipating fashion shifts and reacting to such shifts in a timely manner.

The Company has signed long-term licensing agreements that enable it to produce and distribute eyeglass frames and sunglasses under trademarks owned by third parties. If in the long-term the Group and the Company were unable to maintain or renew their licensing agreements at market conditions, or if they were unable to stipulate new licensing agreements for other successful labels, the growth prospects and operating results of the Marcolin group and Marcolin S.p.A. could be negatively impacted.

For this reason the Group and the Company work constantly toward renewing existing licenses and procuring new licenses in order to maintain their long-term prospects.
In 2018 these activities produced positive results, as described in the Group Report on Operations. Many initiatives were carried out successfully in terms of extending license durations and acquiring new, prestigious licenses.

Moreover, all licensing agreements require payment of annual minimum guaranteed royalties (the “guaranteed minimum”) to the licensor, even if the sales should fall below certain thresholds, with possible negative effects on the Group’s financial position and performance.
The Group and the Company monitor these situations closely in order to safeguard the business performance when overheads are not adequately absorbed by sales revenues.
In 2018, some initiatives to revise the minimum guaranteed royalties due over the term of the licensing agreement were successfully implemented.

Supplier risks

The Group and the Company use contract manufacturers and third-party suppliers to manufacture and/or process some of their products.
The use of contract manufacturers and third-party suppliers involves additional risks, such as cancellation and/or termination of contracts, poor quality in the supplies and services provided and delivery delays.
Delays or defects of products supplied by third parties, or the cancellation or termination of supplier contracts without having adequate alternative sourcing available, could have a negative impact on the Group’s business operations, financial position and performance.
Contract manufacturers and third-party suppliers, located mainly in Italy and Asia, are submitted to continuous controls by the responsible functions to verify compliance with quality and service standards, including those relating to delivery timing and methods, and fair prices with respect to the target margins.
The Group and the Company manage this risk by constantly monitoring the sourcing markets, also in order to identify alternative manufacturers and suppliers in case of temporary or structural difficulties with the current suppliers.
With respect to procurement, the Group monitors directly with certain subsidiaries the performance of the Asian suppliers, from a quantitative and qualitative point of view (quality, reliability and service), in light of the particular social and economic dynamics characterizing that sourcing market.
Another factor that mitigates supplier risk is the new factory in Longarone (in the Fortogna district), inaugurated in 2015, which has enabled to double the production of Italian manufactured goods, thereby reducing the dependence on external supplies.
Reasons for which the consolidation and development of its production capacity in Italy are important to Marcolin include reduced dependence on external suppliers (both Italian and Asian), which enable to shorten the manufacturing lead time and thus increase the ability to seize market opportunities (and improve the time to market), and the possibility to manage the inflation risk regarding the Chinese sourcing market, as production insourcing will result in greater control of production factors.

Brexit risks

As a result of to the United Kingdom's decision to leave the European Union (EU), i.e. "Brexit", both parties are negotiating an exit deal and the framework for future relationships between the United Kingdom and the EU. Many uncertainties remain over the outcome of the negotiations between the United Kingdom and the EU, and the exit conditions that will result from them.
The Group is evaluating the potential business risks involving the United Kingdom and how to manage them.

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OTHER INFORMATION

Human resources

Marcolin considers the value of human resources to be a critical success factor.
Personnel training, promotion and enhancement constitute an investment in the Group's and the Company's business growth and development.

In 2018 the corporate Flexible Benefit project for employees was continued in collaboration with the firm, Willis. Employees may customize their own benefits package by deciding individually how to invest their quota.
The Unisalute health insurance policy was renewed and improvements were added for all employees.

In continuation of the "Smart Work, Smart Life" project, the following measures were proposed in 2018 regarding the work-life balance:

- Matilda Service: continuation of the service provided to all employees by the Longarone Receptionist, to whom errands and various types of practical matters are entrusted. In 2018 the service was upgraded in a way to extend it to the new hires.
- "At Work with Mom and Dad": days during the year when the work environment may be experienced by employees' children, letting them get to know their parents' work day. In 2018 it was repeated on March 30, with visits organized to the offices and factories. Children and youths watched the production process that leads to eyewear creation and distribution, and met their parents in the workplace. At the end of the visit, play sessions were proposed to them using various combinations of eyeglass frames, lenses and laboratories.
- In July 2018, two training sessions were held on the work-life balance for employees interested in exploring the subject of parenting in this digital era. The following points were discussed, among others: digital natives' relationship with technology, the changing role of parents, the corporate wellness function and rules regulating the work-life balance.
- Car pooling: in 2018 a questionnaire was given to analyze the habits of the employees. A final survey was taken at the end of the year to implement the project at the beginning of 2019.

In 2018 the Learning & Development division continued to implement the new software for the global management of the SuccessFactors human resources, completing the inputting of all European affiliates into the system and implementing the Goal Setting part.
In addition, Infoscreens were installed and put online in order to structure a more effective communication flow and the guest registration flow was changed at the Longarone Reception area to comply with the new General Data Protection Regulation (GDPR).

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On December 31, 2018, the Group had 1,950 employees (1,848 at the end of 2017), as shown below. The table presents the employees in service as at December 31, 2018, excluding independent agents who work exclusively for the Group and the Company.

Employees	Final number		Average number	
Category	**12/31/2018**	**12/31/2017**	**2018**	**2017**
Managers	118	69	102	60
Staff	1,066	1,043	1,060	1,011
Manual workers	766	736	786	745
Total	**1,950**	**1,848**	**1,948**	**1,816**

On December 31, 2018, Marcolin S.p.A. had 924 employees (903 in 2017) in the following categories:

Employees	Final number		Average number	
Category	12/31/2018	12/31/2017	2018	2017
Managers	22	23	22	18
Staff	349	328	346	321
Manual workers	553	552	562	558
Total	**924**	**903**	**930**	**897**

The data includes the temporary workers employed to meet the demand peaks. The increase is attributable mainly to the staff increase at the manufacturing and distribution divisions in Longarone.

Italian and second-level collective bargaining agreements

The Italian and collective bargaining agreement expired and negotiations began at a national level.
The supplementary agreement is due to expire at the end of this year. In the past few years the attention given to the work-life balance (special leaves of absence, part-time and reduced hours, flexible hours, leaves of absence for parents and other types), the introduction of health insurance for all employees and flexible benefits have certainly been appreciated. Attendance and performance parameters will be reviewed in the next supplementary agreement.

Employee wellness and assistance to families

In 2018 the wellness plan had a euro 400 budget for each employee, to be managed autonomously using a web portal to access the various services of the plan, such as services relating to education, sports, assistance to the elderly/children, store coupons and others.
New tax regulations call for stipulating an insurance policy for all employees in order to obtain medical expense refunds. This was paid for by the Company exclusively for the year 2018.

In 2018 it was possible to access the portal at any time without pre-set option windows.

Within the scope of the “Smart Work, Smart Life” project, begun in 2016, the following measures were proposed for a work-life balance in 2018:

- Matilda project: continuation and expansion of the service provided to all employees by a person to whom errands and various types of practical matters may be entrusted (such as:
  - Car services: servicing, tire replacement, light/headlight replacement and all services regarding car maintenance and bodywork. The service was activated under agreements with a repair shop and a body shop assigned to pick up and deliver personal cars of personnel;
  - Laundry services: an agreement is in effect with a dry cleaner assigned to pick up and deliver the laundry of personnel on the days scheduled;
  - Various phone bookings and searches for services/professionals located in the area;
  - Cash payments of bills, duties, mailing of packages, etc.;
  - Pharmaceutical purchases;
  - Clothing and leather repairs;
  - Flower delivery at the company.
- "At Work with Mom and Dad": in 2018 days were organized during the year when the work environment could be experienced by employees' children, letting them get to know their parents' work day, and secondary school orientation days were held.
- Digital parents: days for employees/parents with adolescent children were organized to address this subject.
- Car pooling: a questionnaire was given with the aim of understanding the needs/willingness of employees to use this service, the specific app was chosen and parking spaces were selected for use by the platform users.
- Smart Working: use of the software was extended to various business areas.

Research and development

The Company continued with its research and development activities in 2018.

Research and development activities are carried out by the Parent Company, Marcolin S.p.A., through two divisions.
The first division works in close partnership with licensors to come up with new collections, hone style and research new materials for sunglasses and eyeglass frames.
The second division, which works closely with the first, oversees the subsequent development of collections and manufacturing of products.

Related-party transactions

Related-party transactions, including intra-Group transactions, cannot be defined as either atypical or unusual, as they are part of the normal intercompany business activities.
Such transactions take place on an arm's length basis, taking into account the nature of the goods and services supplied.
Detailed information on related-party transactions is provided in the Notes to the Consolidated Financial Statements and in the Notes to the Separate Financial Statements of Marcolin S.p.A..

Treasury shares

On the reporting date, Marcolin S.p.A. did not own (and never owned in 2018) treasury shares or parent company shares, either directly or indirectly.

Personal data protection

Pursuant to the new European legislation, the General Data Protection Regulation ("GDPR") enacted on May 25, 2016 and effective from May 25, 2018, activities were implemented to evaluate the data protection systems of the Group companies subject to such legislation.
The activities found substantial compliance with the legislative requirements for the protection of the personal data processed by such companies, including the preparation of the Security Planning Document, which is constantly updated.

Branches

Marcolin S.p.A. operates from its headquarters in Longarone and with qualified contract manufacturers.

The operational premises are as follows:

- its headquarters in Longarone (Belluno), in zona industriale Villanova n. 4 (registered office, executive offices and operations);
- a logistics center and warehouse in Longarone (Belluno), in zona industriale Villanova n. 20 H;
- a manufacturing facility in Longarone (Belluno), via Fortogna 184/C (Fortogna district);
- a manufacturing facility in Quero Vas (Belluno), Zona Artigianale n. 1;
- a showroom and representative office in Milan, in corso Venezia, n. 36;
- a warehouse in Alpago (Belluno), Via dell'Artigianato n. 67.

The non-operational premises are as follows:

- the former Finitec premises in zona industriale Villanova S.N.C.;
- the premises in Domegge di Cadore (Belluno), Via Noai n. 31, Vallesella di Cadore district.

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SUBSEQUENT EVENTS

NOTICE OF CALLING TO GENERAL MEETING

PROPOSED RESOLUTION

SUBSEQUENT EVENTS AND BUSINESS OUTLOOK

As mentioned in the Report on Operations, in January 2019 the Group stipulated two new, important licensing agreements:

- On January 23, 2019 with Barton Perreira, an independent eyewear brand based in Los Angeles, effective from February 1, 2019. Barton Perreira will continue to design and manufacture eyewear and will manage sales in parts in Europe, the U.S.A., Canada and Japan. The Marcolin Group will look after distribution with selected retailers and eyewear stores in the locations not already covered by the manufacturer.

- On February 19, 2019 with Max Mara Fashion Group, one of the most important international fashion houses, renowned throughout the world as a forerunner of modern ready-to-wear apparel, through which for five years the Marcolin Group will be the exclusive designer, manufacturer and distributor of Sportmax brand women's and men's sunglasses and eyeglass frames.

No other significant events took place after December 31, 2018.

Additional strategic objectives

For Marcolin, after years of repositioning, reorganization and especially development activities, 2019 will be a year of solidity and additional growth, thanks to the unfolding of the positive effects of initiatives implemented successfully in previous years and to the more recent strategic projects.

The strategy for the Italian eyewear industry and for Marcolin essentially remains one of internationalization, the capacity to seize the opportunities offered on international markets.

Today Marcolin is the result of a strongly balanced product offering (between luxury and diffusion, men's and women's lines, and eyeglasses and sunglasses) and excellent geographical presence.

The important scale and balance achieved in the organizational structure are strengths that will enable the Group to pursue more effectively the consolidation of its existing brand portfolio and the introduction of new licenses, in keeping with the Group's growth targets in strategic markets, particularly in the more dynamic areas (United States, Middle East, Far East and emerging markets).

An increasing focus on innovation, certified quality, and exclusive and original designs that add value and convey added value is an integral part of Marcolin's strategies.

Longarone (BL); February 28, 2019

for the Board of Directors

C.E.O.
Signed by: *Massimo Renon*

NOTICE OF CALLING TO GENERAL MEETING

The Marcolin S.p.A. Shareholders are hereby called to the General Meeting to be held in Milan, corso Venezia n. 36 on March 28, 2019 at 11:30 a.m. at a first calling, and on March 29, 2019, same place and same time, at a second calling, to discuss and resolve upon the following

Agenda

- Approval of Annual Financial Statements for the year ended December 31, 2018, Board of Directors' Report, Board of Statutory Auditors' Report, Independent Auditors' Report;
- Presentation of the Marcolin Group's Consolidated Financial Statements for the year ended December 31, 2018 and related Reports;
- Appointment of members of the Board of Directors after determining their number and remuneration; resolutions thereon;
- Appointment of members of the Board of Statutory Auditors; determination of remuneration;
- Assignment of independent audit, in accordance with Italian Civil Code Article 2409-*bis* and Legislative Decree n. 39/2010, and determination of fees;
- Resolutions thereon.

The right to attend the General Meeting, the right to proxies and the possibility to attend the General Meeting through electronic means of communication are regulated in Articles 14 and 15 of the Corporate By-Laws currently in effect .

Longarone (BL); February 28, 2019

for the Board of Directors

the Chairman
Signed: *Vittorio Levi*

PROPOSED RESOLUTION

Shareholders,

The Financial Statements of Marcolin S.p.A. submitted to you present a true and fair view of the Company's financial position, financial performance and cash flows for the year.

Therefore, we request the Company's Shareholders, 3 Cime S.p.A. and Vicuna Holding S.p.A., to approve the proposed Financial Statements for the year ended December 31, 2018.

We propose to allocate the net profit of euro 24,396,064.34 in the following manner:

- euro 1,219,803.22 to the Legal Reserve;
- carry forward the remainder.

Accordingly, after such allocation, the retained earnings/(losses) will have a balance of euro 93,504,457.55.

Longarone (BL); February 28, 2019

for the Board of Directors

the Chairman
Signed: *Vittorio Levi*

CONSOLIDATED FINANCIAL STATEMENTS OF
THE MARCOLIN GROUP
FOR THE YEAR ENDED DECEMBER 31, 2018

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
CONSOLIDATED INCOME STATEMENT
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
CONSOLIDATED STATEMENT OF CASH FLOWS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(euro/000)	Notes	12/31/2018	12/31/2017
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	1	29,941	29,071
Intangible assets	2	46,547	49,610
Goodwill	2	286,506	282,326
Investments in subsidiaries and associates	3	1,377	610
Deferred tax assets	4	41,916	34,895
Other non-current assets	5	4,333	2,596
Non-current financial assets	6	2,513	3,171
Total non-current assets		**413,134**	**402,278**
CURRENT ASSETS			
Inventories	7	126,061	122,582
Trade receivables	8	91,992	82,091
Other current assets	9	32,128	14,680
Current financial assets	10	21,294	13,332
Cash and cash equivalents	11	34,184	40,805
Total current assets		**305,659**	**273,491**
TOTAL ASSETS		**718,793**	**675,769**
EQUITY	12		
Share capital		35,902	35,902
Additional paid-in capital		170,304	170,304
Legal reserve		4,263	4,263
Other reserves		45,131	35,639
Retained earnings (losses)		(51,041)	(31,944)
Profit (loss) for the period		(2,246)	(15,514)
Group equity		**202,313**	**198,650**
Non controlling interests		4,864	3,658
TOTAL EQUITY		**207,176**	**202,305**
LIABILITIES			
NON-CURRENT LIABILITIES			
Non-current financial liabilities	13	252,226	255,355
Non-current funds	14	6,382	7,336
Deferred tax liabilities	4	7,889	5,546
Other non-current liabilities	15	3,344	4,689
Total non-current liabilities		**269,841**	**272,927**
CURRENT LIABILITIES			
Trade payables	16	150,134	126,800
Current financial liabilities	17	40,214	39,369
Current funds	18	15,162	418
Tax liabilities	29	5,419	6,447
Other current liabilities	19	30,848	27,503
Total current liabilities		**241,776**	**200,537**
TOTAL LIABILITIES		**511,617**	**473,464**
TOTAL LIABILITIES AND EQUITY		**718,793**	**675,769**

CONSOLIDATED INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME

(euro/000)	**Notes**	**2018**	**%**	**2017**	**%**
Net revenues	21	482,219	100.0%	469,143	100.0%
Cost of sales	22	(207,227)	(43.0)%	(196,694)	(41.9)%
GROSS PROFIT		**274,992**	**57.0%**	**272,449**	**58.1%**
Distribution and marketing expenses	23	(221,524)	(45.9)%	(207,610)	(44.3)%
General and administrative expenses	24	(39,803)	(8.3)%	(34,380)	(7.3)%
Other operating income/(expenses)	26	15,217	3.2%	3,568	0.8%
OPERATING INCOME – EBIT		**28,882**	**6.0%**	**34,027**	**7.3%**
Profit/(loss) from associates	27	(9,011)	(1.9)%	(6,570)	(1.4)%
Financial income	28	8,127	1.7%	10,272	2.2%
Financial costs	28	(32,201)	(6.7)%	(44,102)	(9.4)%
PROFIT (LOSS) BEFORE TAXES		**(4,202)**	**(0.9)%**	**(6,373)**	**(1.4)%**
Income tax expense	29	3,372	0.7%	(8,094)	(1.7)%
NET PROFIT (LOSS) FOR THE PERIOD		**(831)**	**(0.2)%**	**(14,468)**	**(3.1)%**
Profit (loss) attributable to:					
- owners of the parent		(2,246)	(0.5)%	(15,514)	(3.3)%
- non-controlling interests		1,415	0.3%	1,046	0.2%

(euro/000)	**2018**	**2017**
NET PROFIT (LOSS) FOR THE PERIOD	**(831)**	**(14,468)**
Other items that will be not subsequently reclassified to profit or loss:		
Effect (actuarial gain/losses) on defined benefit plans, net of taxes	54	7
TOTAL OTHER ITEMS THAT WILL NOT SUBSEQUENTLY RECLASSIFIED TO PROFIT OR LOSS	**54**	**7**
Other items that will be subsequently reclassified to profit or loss:		
Change in foreign currency translation reserve	5,664	(6,908)
Change in exchange rate difference on quasi equity loan	3,765	(10,912)
TOTAL OTHER ITEMS THAT WILL BE SUBSEQUENTLY RECLASSIFIED TO PROFIT OR LOSS	**9,429**	**(17,820)**
TOTAL CONSOLIDATED COMPREHENSIVE INCOME FOR THE	**8,652**	**(32,280)**
Profit (loss) attributable to:		
- owners of the parent	7,246	(32,906)
- non-controlling interests	1,406	626

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(euro/000)	Share capital	Additional paid-in capital	Legal Reserve	Other reserves					Profit (loss) for the period	Capital and reserves net total	Non-controlling interests in equity	Total equity
				S.holders deposit in s/capital	Translation reserve	Other	Actuarial gain / (loss) reserve	Retained earnings/ (losses)				
December 31, 2016	**32,312**	**151,994**	**4,077**	**46,108**	**8,958**	**834**	**(29)**	**(19,447)**	**12,167**	**236,975**	**2,052**	**239,027**
Allocation of 2016 profit	-	-	186	-	-	-	-	11,982	(12,167)	-	-	-
Dividends distribution	-	-	-	-	-	-	-	(25,900)	-	(25,900)	(50)	(25,950)
Share capital increase	3,590	18,310	-	-	-	-	-	-	-	21,900	512	22,412
Purchases from third parties of subsidiaries shares	-	-	-	-	-	-	-	(1,418)	-	(1,418)	518	(900)
Other movements	-	-	-	-	(2,839)	-	-	2,839	-	-	-	-
- Period result	-	-	-	-	-	-	-	-	(15,514)	(15,514)	1,046	(14,468)
- Other components of comprehensive income	-	-	-	-	(6,488)	(10,912)	7	-	-	(17,393)	(420)	(17,813)
Total comprehensive income	-	-	-	-	(6,488)	(10,912)	7	-	(15,514)	(32,906)	626	(32,280)
December 31, 2017	**35,902**	**170,304**	**4,263**	**46,108**	**(370)**	**(10,078)**	**(22)**	**(31,944)**	**(15,514)**	**198,650**	**3,658**	**202,305**
Allocation of 2017 loss	-	-	-	-	-	-	-	(15,514)	15,514	-	-	-
IFRS15 and IFRS9 impacts	-	-	-	-	-	-	-	(3,400)	-	(3,400)	(60)	(3,460)
Dividends distribution	-	-	-	-	-	-	-	-	-	-	(143)	(143)
Share capital increase	-	-	-	-	-	-	-	-	-	-	3	3
- Period result	-	-	-	-	-	-	-	-	(2,246)	(2,246)	1,415	(831)
- Other components of comprehensive income	-	-	-	-	5,673	3,765	54	(183)	-	9,309	(9)	9,300
Total comprehensive income	-	-	-	-	5,673	3,765	54	(183)	(2,246)	7,063	1,406	8,469
December 31, 2018	**35,902**	**170,304**	**4,263**	**46,108**	**5,303**	**(6,313)**	**32**	**(51,041)**	**(2,246)**	**202,313**	**4,864**	**207,176**

CONSOLIDATED STATEMENT OF CASH FLOWS

(euro/000)	12/31/2018	12/31/2017
OPERATING ACTIVITIES		
Profit (loss) for the period	(831)	(14,468)
Depreciation and amortization	19,062	15,806
Provisions	12,081	4,524
Impairment losses/(reversal) on investments	-	6,570
Income tax expense	(3,372)	8,094
Accrued interest expense	24,073	33,830
Adjustments to other non-cash items	8,920	(630)
Cash generated by operations	*59,933*	*53,727*
Cash generated by change in operating working capital	*2,213*	*(18,433)*
(Increase) decrease in other assets	(9,251)	(5,004)
(Decrease)/increase in other liabilities	4,105	3,166
(Use) of current and non-current provisions	(1,750)	(1,137)
(Decrease)/increase in current tax liabilities	(2,780)	(2,744)
Adjustments to other non-cash items	0	1
Other elements in working capital	*(9,676)*	*(5,718)*
Income taxes paid	(2,185)	(4,342)
Interest received	724	687
Interest paid	(13,257)	(26,089)
Total cash generated by change in other items of net working capital	*(24,394)*	*(35,463)*
Net cash from /(used in) net working capital	*(22,181)*	*(53,896)*
Net cash from /(used in) operating activities	**37,753**	**(169)**
INVESTING ACTIVITIES		
(Purchase) of property, plant and equipment	(8,645)	(10,228)
Disposal of property, plant and equipment	700	241
(Investments) in intangible assets	(10,480)	(6,224)
Disposal in intangible assets	-	327
(Purchase) minority shareholders share	-	(900)
Net (Investments)/disposal in investment in subsidiaries and associates	(9,802)	(3,808)
Cash out on business combinations net of liquidity acquired (Thélios S.p.A.)	-	(5,698)
Net cash from /(used in) investing activities	**(28,227)**	**(26,291)**
FINANCING ACTIVITIES		
Financial Assets		
- (Proceeds)	(7,431)	(12,006)
- Repayments	-	-
Financial Loans from banks		
- Proceeds	-	13,500
- (Repayments)	(9,673)	(9,220)
Other current and non current financial liabilities	*423*	*36,556*
Capital increase	3	22,412
Dividends paid	(143)	(24,843)
Changes on Reserves	-	-
Net cash from /(used in) financing activities	**(16,821)**	**26,399**
Net increase/(decrease) in cash and cash equivalents	**(7,296)**	**(61)**
Effect of foreign exchange rate changes	674	(1,364)
Cash and cash equivalents at beginning of year	**40,805**	**42,230**
Cash and cash equivalents at end of year	**34,184**	**40,805**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Introduction

The Parent Company's share capital is euro 35,902,749.82, fully paid-in, comprised of 61,458,375 ordinary shares without par value and 6,828,708 Class B shares without par value issued on October 5, 2017 to the shareholder, Vicuna Holding S.p.A., a company of the LVMH Group. Vicuna Holding S.p.A. became a shareholder as part of a broader plan for a joint venture agreement with the LVMH Group, stipulated in 2017. Share capital was increased by euro 3,590,274.82 with a share premium of euro 18,309,725.18.

As at December 31, 2018, 90% of the share capital was owned by 3 Cime S.p.A. and 10% by Vicuna Holding S.p.A.

The Marcolin S.p.A. shares owned by 3 Cime S.p.A. are encumbered by liens stipulated when the bond notes were issued on February 10, 2017, secured by collateral for the same amount of the obligations assumed with the bondholders, including a lien on the shares of the Issuer, Marcolin.

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General Information

The explanatory notes set out below form an integral part of the annual Consolidated Financial Statements of the Marcolin Group and were prepared in accordance with the accounting documents updated to December 31, 2018.

For the purpose of providing exhaustive financial information, the Report on the Operations of the Marcolin Group and Marcolin S.p.A. has been prepared, which contains additional information regarding the main events of the year, subsequent events, business outlook and other important financial and operational information of the business.

These financial statements were prepared on the basis of the going-concern assumption, the accrual basis of accounting and the historical cost basis, except for the measurement of financial assets and liabilities, which are required to be accounted for at fair value.

The Consolidated Financial Statements for the year ended December 31, 2018 include the financial statements of the Parent Company, Marcolin S.p.A., and those of its subsidiaries and well as the Group's interests in jointly controlled entities and in associates.

Marcolin S.p.A. is incorporated under Italian law, listed in the Belluno Companies Register with no. 01774690273, and has shares that until February 14, 2013 were traded in Italy on the Mercato Telematico Azionario (electronic stock exchange) organized and managed by Borsa Italiana S.p.A. Marcolin S.p.A. is the Parent Company of the Marcolin Group, which operates in Italy and abroad in the design, manufacturing and distribution of prescription frames and sunglasses, including by way of direct and indirect management of affiliates and partnerships located in major countries of interest worldwide, and through the management of qualified contract manufacturers.

The addresses of the locations from which the Parent Company's main operations are performed are listed in the Report on Operations. The addresses of the subsidiaries and associates are as follows.

Company	**Headquarters**	**Adress**
Marcolin Asia HK Ltd	Hong Kong	Units 2207-11, Tower I, Level 22 - Metroplaza, 223 Hing Fong Road - Kwai Fong, N.T.
Marcolin Benelux Sprl	Villers-Le-Bouillet, Belgio	Rue Le Marais 14B
Marcolin do Brasil Ltda	Barueri - SP, Brasile	Av Tamboré, 1180 - 06460-000
Marcolin Deutschland Gmbh	Colonia, Germania	Monreposstrasse, 55
Marcolin France Sas	Parigi, Francia	45, rue Saint Sébastien - 75011
Marcolin GmbH	Muttenz, Svizzera	Rheinstrasse, 26 - 4414
Marcolin Iberica SA	Barcellona, Spagna	Juan De Austria, 116 - 4a Planta - 08018
Marcolin Nordic AB	Stoccolma, Svezia	Frosundavisk Alle 1, 169 70 Solna
Marcolin Portugal Lda	Lisbona, Portogallo	Rua Jose Travassos, 15/B 1600-410
Eyestyle Trading (Shanghai) Co Ltd	Shanghai, PRC	Unit 313, no.555 Anyuan Road, Jingan District
Marcolin Technical Services (Shenzhen) Co. Ltd	Shenzhen, PRC	4018 Jin Tian Road, Fitian District
Marcolin UK Ltd	Newbury, Regno Unito	Building 107 - New Greenham Park-RG19 6HN
Marcolin USA Eyewear Corp.	Somerville, Usa	Route 22 west, 3140 - 08876 NJ
Viva Eyewear Hong Kong Ltd	Hong Kong	Workshop A-E, 8th Floor, Block 1, Kwai Tak Industrial Centre, Nos. 15-33 Kwai Tak Street, Kwai Chung
Viva Eyewear UK Ltd	North Yorkshire, Regno Unito	1-2 Milner Court, Hornbeam Square South, Hornbeam Business Park, Harrogate, North Yorkshire, HG2 8NB
Viva Deutschland Gmbh	Schwaebisch Gmund, Germania	Oderstrasse 2, Schwaebisch Gmund
Viva Schweiz AG	Wallis, Svizzera	Route d´Anchettes 6, 3973 Venthône
Marcolin-RUS LLC	Mosca, Russia	Building 1, 8 Bolshoy Chudov Pereulok
Gin Hong Lin Intenational Co Ltd	Hong Kong	Ocean Centre 609, Harbour City 5, Canton Road Tst Kowloon
Shanghai Ginlin Optics Co Ltd	Shanghai, PRC	Shanghai Jinlin Optical Co Ltd
Marcolin Middle East FZCO	Dubai Airport Freezone, UAE	7WB 2115, Dafza, P.O. Box 121, Dubai, U.A.E.
Marcolin México S.A.P.I. de C.V.	Naucaplan de Juarez, México	Av.16 de Septiembre No.784 Col.Alce Blanco C.P.53370
Thélios SpA	Longarone (BL), Italia	Zona Industriale Villanova, SNC - 32013 Longarone (BL) – Italia
Thélios France Sas	Parigi, Francia	Rue Juan Goujon 75008
Thélios USA Inc.	Somerville, USA	Route 22 west, 3140 - 08876 NJ
Thélios Asia Pacific Ltd	Hong Kong	Laford Centre, 838 Lai Chi Kok Road, Cheung Sha Wan, Kowloon

Presentation currency

These financial statements are presented in the Parent Company's presentation currency (Euro).
For the purpose of clarity, the amounts in the Consolidated Statement of Financial Position, Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Cash Flows, Consolidated Statement of Changes in Equity and explanatory notes are presented in thousands of Euros (unless specified otherwise). As a result of presenting the amounts in thousands of Euros, immaterial differences in the totals may emerge due to rounding off.

Italian tax consolidation

On March 31, 2017 Marcolin S.p.A. renewed the tax consolidation agreement for the three-year term of 2017 - 2019 involving the ultimate parent company, 3Cime S.p.A., and its subsidiaries for corporate income tax (IRES) purposes under Presidential Decree 917, Article 117 *et seq.* of December 22, 1986 (Italian Tax Code or "TUIR"), since the previous agreement for 2014 - 2016 had expired.

The tax consolidation agreement enables each participant (including the Company), by way of partial recognition of the group's tax burden, to optimize the financial management of corporate income tax (IRES), for example by netting taxable income and tax losses within the tax group.
Tax consolidation transactions are summarized below:

- in years with taxable income, the subsidiaries pay 3 Cime S.p.A. the additional tax due to the tax authorities;
- the consolidated companies with negative taxable income receive from 3 Cime S.p.A. a payment corresponding to 100% of the tax savings realized, accounted for on an accruals basis;
- the payment is made only at the time of actual use by 3 Cime S.p.A. for itself and/or for other Group companies;
- if 3 Cime S.p.A. and the subsidiaries do not renew the tax consolidation option, or if the requirements for continuance of tax consolidation should fail to be met before the end of the three-year period in which the option is exercised, tax loss carryforwards resulting from the tax return are split up proportionally among the companies that produced them.

Issuance

The Financial Statements were authorized for issue by the Board of Directors on February 28, 2019.

ACCOUNTING STANDARDS

Basis of preparation

The consolidated financial statements were prepared according to the International Accounting Standards/International Financial Reporting Standards (IAS/IFRS) issued by the International Accounting Standards Board (IASB) and approved by the European Union.
The IFRS include all the revised international accounting standards (IAS) and all the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), the former Standing Interpretations Committee (SIC), which at the date of approval of the financial statements had been authorized by the European Union according to Regulation (EC) no. 1606/2002, enacted by the European Parliament and European Council on July 19, 2002.

The accounting policies adopted to prepare the Consolidated Financial Statements for the year ended December 31, 2018 are the same as those used in the prior year except as regards the adoption of the following new or revised IFRS or IFRIC.

New accounting standards and interpretations approved by the European Union and effective for periods beginning on or after January 1, 2018

The following new standards and amendments became effective on January 1, 2018:

IFRS 9 (Financial Instruments)

IFRS 9 (Financial Instruments) endorsed by the European Union on November 22, 2016 with Regulation n. 2016/2067. The new standard replaces IAS 39 (Financial Instruments: Recognition and Measurement) and all previous versions of IFRS 9. IFRS 9 brings together all aspects of accounting for financial instruments: classification, measurement, impairment and hedge accounting. The standard is effective for annual periods beginning on or after January 1, 2018. IFRS 9 must be applied retrospectively except regarding hedge accounting (applied prospectively, with some exceptions), but the presentation of comparative information is not required. The Group adopted the new standard on the effective date.

Classification and measurement of financial assets and liabilities
Implementation of the IFRS 9 classification and measurement requirements did not significantly affect the Group's financial statements. Loans and trade receivables are held until their collection at the contractual dates, and their cash flows are expected to consist solely of the collection of principal and interest. Therefore, the Group will continue to measure them at amortized cost, in accordance with IFRS 9.

Impairment
IFRS 9 requires the Group to account for expected losses on all its bond notes, loans and trade receivables, on an annual or remaining life basis. The Group has adopted a retrospective credit adjusted approach, given its

business characteristics and the evaluation of the sales policies currently used, and added euro 2,485 thousand to the provision for doubtful debts at January 1, 2018, with a contra entry in an equity reserve, net of a euro 597 thousand tax effect.

The following table summarizes the impact of IFRS 9 adoption on the Marcolin Group's retained earnings as at January 1, 2018:

(euro/000)	**Opening 1st January 2018**
Retained earnings (losses)	**(31,944)**
Bad debts reserve adjustments in accordance with IFRS9 (net of fiscal effect)	(1,888)
Retained earnings (losses) - IFRS9 adoption	**(33,832)**

Hedge Accounting
IFRS 9 makes vast changes to the rules and requirements of accounting for derivative instruments classified as hedges, simplifying in part the current IAS 39 framework and making more cases eligible for hedge accounting. The accounting standard offers the possibility to choose whether to continue to apply IAS 39 or to adopt the prescriptions of IFRS 9. The Group does not have derivatives accounted for with the hedge accounting model, so the change made by IFRS 9 for measuring such instruments did not have any impact.

IFRS 15 (Revenue from contracts with customers)

IFRS 15 (Revenue from contracts with customers) endorsed by the European Union on September 22, 2016 with Regulation n. 2016/1905, and additional clarifications on IFRS 15 Revenue from Contracts with Customers endorsed by the European Union on October 31, 2017 with Regulation n. 2017/1987. The standard and guidelines supersede IAS 18 Revenue and IAS 11 Construction Contracts. IFRS 15 establishes a new model framework of five steps for recognizing revenues from contracts with customers (except those falling within the scope of application of other IAS/IFRS). The new standard requires recognizing revenue in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the transfer of goods or services to the customer.
The Marcolin Group adopted the new standard on January 1, 2018. In accordance with the IFRS 15 transition rules, the Group adopted the modified retrospective approach, recognizing the cumulative effects of IFRS 15 adoption in a specific equity reserve on the first-time adoption date of the standard (January 1, 2018). The comparative information relating to 2017 was not restated; it is presented in accordance with IAS 18, IAS 11 and the related interpretations.
The following table summarizes the impact of IFRS 15 adoption on the Marcolin Group's retained earnings as at January 1, 2018:

(euro/000)	**Opening 1st January 2018**
Retained earnings (losses)	**(31,944)**
Contract costs adjustments	(1,572)
Retained earnings (losses) - IFRS15 adoption	**(33,516)**

The Marcolin Group's adoption of IFRS 15 primarily regarded the following:

- Elimination of capitalized contractual costs: previously, the Marcolin Group deferred some costs regarding contracts with agents over the duration of the contracts. Under IFRS 15, such costs may not be considered incremental costs for acquiring the contract or for fulfilling the contract, so they were eliminated.
- Sales with a right of return: in its sales activities, the Group grants its customers a right of return for certain products within a specific time period. If that right is exercised, the Group must refund the selling price to the customer. Under the previous accounting standards, the Group recognized a provision for returns, classified among the trade receivables, whose net amount was equal to the margin of the sales with a right of return (Euro 5,582 thousand as at December 31, 2017). Pursuant to IFRS 15, the revenues were adjusted by the estimated amount of the returns and the cost of sales was adjusted by the amount corresponding to the products that are expected to be returned. Accordingly, at December 31, 2018, the Marcolin Group accounted for the following:
    - a liability, classified among "current provisions", with a corresponding adjustment to revenues, for an amount of Euro 11,633 thousand as at December 31, 2018; and
    - an asset representing the right to recover products from the customer when the right of return is exercised by the customer, classified within "other current assets", with a

corresponding adjustment to the cost of sales, for an amount of Euro 8,353 thousand as at December 31, 2018.

The following table presents the effects of IFRS 15 on the 2018 Income Statement and on the Statement of Financial Position as at December 31, 2018 compared with the application of the previous accounting standards, IAS 18, IAS 11 and the related interpretations:

	12/31/2018		
(euro/000)	**IAS18/IAS11**	**IFRS15**	**Change**
Net revenues	482,751	482,219	532
Cost of sales	(207,760)	(207,227)	(532)
GROSS PROFIT	**274,992**	**274,992**	**-**
Distribution and marketing expenses	(221,704)	(221,524)	(180)
General and administrative expenses	(39,803)	(39,803)	-
Other operating income/(expenses)	15,217	15,217	-
OPERATING INCOME – EBIT	**28,702**	**28,882**	**(180)**
Profit/(loss) from associates	(9,011)	(9,011)	-
Financial income	8,127	8,127	-
Financial costs	(32,201)	(32,201)	-
PROFIT (LOSS) BEFORE TAXES	**(4,382)**	**(4,202)**	**(180)**
Income tax expense	3,410	3,372	38
NET PROFIT (LOSS) FOR THE PERIOD	**(972)**	**(831)**	**(142)**

	12/31/2018		
(euro/000)	**IAS18/IAS11**	**IFRS 15**	**Change**
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	29,941	29,941	-
Intangible assets	46,547	46,547	-
Goodwill	286,506	286,506	-
Investments in subsidiaries and associates	1,377	1,377	-
Deferred tax assets	41,916	41,916	-
Other non-current assets	4,333	4,333	-
Non-current financial assets	2,513	2,513	-
Total non-current assets	**413,134**	**413,134**	**-**
CURRENT ASSETS			
Inventories	126,061	126,061	-
Trade receivables	88,712	91,992	(3,281)
Other current assets	25,161	32,128	(6,967)
Current financial assets	21,294	21,294	-
Cash and cash equivalents	34,184	34,184	-
Total current assets	**295,412**	**305,659**	**(10,247)**
TOTAL ASSETS	**708,545**	**718,793**	**(10,247)**
EQUITY			
Share capital	35,902	35,902	-
Additional paid-in capital	170,304	170,304	-
Legal reserve	4,263	4,263	-
Other reserves	45,087	45,131	(44)
Retained earnings (losses)	(49,469)	(51,041)	1,572
Profit (loss) for the period	(2,388)	(2,246)	(142)
Group equity	**203,699**	**202,313**	**1,386**
Non controlling interests	4,864	4,864	-
TOTAL EQUITY	**208,563**	**207,177**	**1,386**
LIABILITIES			
NON-CURRENT LIABILITIES			
Non-current financial liabilities	252,226	252,226	-
Non-current funds	6,382	6,382	-
Deferred tax liabilities	7,889	7,889	-
Other non-current liabilities	3,344	3,344	-
Total non-current liabilities	**269,841**	**269,841**	**-**
CURRENT LIABILITIES			
Trade payables	150,134	150,134	-
Current financial liabilities	40,214	40,214	-
Current funds	3,528	15,162	(11,633)
Tax liabilities	5,419	5,419	-
Other current liabilities	30,848	30,848	-
Total current liabilities	**230,143**	**241,776**	**(11,633)**
TOTAL LIABILITIES	**499,984**	**511,617**	**(11,633)**
TOTAL LIABILITIES AND EQUITY	**708,547**	**718,794**	**(10,247)**

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4), endorsed by the European Union on November 3, 2017 with Regulation n. 2017/1988. The amendments were introduced to clarify the accounting treatment of insurance contracts in light of the new requirements introduced by IFRS 9. The adoption of the amendments by the Group did not result in changes in its accounting policies or retrospective adjustments.

Annual Improvements to IFRSs: 2014-2016 Cycle (Amendments to IFRS 1 and IAS 28)

Annual Improvements to IFRSs: 2014-2016 Cycle (Amendments to IFRS 1 and IAS 28), endorsed by the European Union on February 7, 2018 with Regulation n. 2018/18. The primary objective of the annual improvements is to resolve non-urgent matters regarding inconsistencies found in IFRSs or to clarify wording, which had been discussed withe the IASB during the planning cycle. The amendments regard:
- IAS 28 Investments in Associates and Joint Ventures: measurement of associates or joint ventures at fair values when investment entities are present;
- IFRS 1 First-time adoption of International Financial Reporting Standards: elimination of short-term exemptions for first-time adopters;
- IFRS 12 Disclosure of Interests in Other Entities: clarification of the scope of the standard.

The adoption of the amendments by the Group did not result in changes in its accounting policies or retrospective adjustments.

Classification and measurement of share-based payment transactions (Amendments to IFRS 2)

Classification and measurement of share-based payment transactions (Amendments to IFRS 2), endorsed by the European Union on February 26, 2018 with Regulation n. 2018/289. The amendments are intended to clarify the accounting treatment of some types of share-based payments. The adoption of the amendments by the Group did not result in changes in its accounting policies or retrospective adjustments.

Transfers of investment property (Amendments to IAS 40)

Transfers of investment property (Amendments to IAS 40), endorsed by the European Union on March 14, 2018 with Regulation n. 2018/400. The amendments clarify when an entity is authorized to enact changes that result in the classification of property as "investment property", when it was not previously considered as such, or vice versa. The adoption of the amendments by the Group did not result in changes in its accounting policies or retrospective adjustments.

IFRIC 22 Interpretation

IFRIC 22 Interpretation – Foreign Currency Transactions and Advance Consideration, endorsed by the European Union on March 28, 2018 with Regulation n. 2018/519. The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The adoption of the Interpretation by the Group did not result in changes in its accounting policies or retrospective adjustments.

New accounting standards and interpretations approved by the European Union and effective for periods after December 31, 2018

IFRS 16 (Leases)

On October 31, 2017 the European Union issued Regulation n. 2017/1986 approving IFRS 16 (Leases). The standard will be effective for annual periods beginning on or after January 1, 2019. The main impact of the new standard will be the recognition of all leases in the Statement of Financial Position, effectively eliminating the different methods of accounting for operating leases and finance leases. The new standard provides for recognizing a right-of-use asset (right to use the leased asset) and a lease liability referring to the future payments for which a contractual obligation exists. Short-term leases and leases of low-value assets are excluded from the new accounting method. The Group is evaluating the impact of the new standard, especially regarding the recognition of operating leases. At December 31, 2018, the Group had liabilities referring to the future payments of operating leases amounting for some euro 15.0 million, for which the Group expects to recognize right-of-use assets and lease liabilities in the same amount at January 1, 2019 (the latter adjusted for prepayments and deferred payments recognized as such at December 31, 2018). The Group estimates that the adoption of the new standards in 2019 will reduce profit by euro 0.9 million and increase EBITDA by euro 4.4 million, considering that the operating lease costs were included in the calculation of EBITDA, whereas the deprecation of the right-to-use

assets and the interest accrued on the lease liabilities are excluded from it. The cash flow from operating activities will increase by euro 3.8 million, whereas the cash flow from financing activities will decrease by euro 3.6 million because the operating lease payments will be classified as finance costs. No material effects have emerged from this implementation phase. The Marcolin Group will adopt the new standard on January 1, 2019 using the simplified approach, without restating the comparative period before adopting the standard. The right-to-use asset will have the same value as the lease liability (adjusted for any prepaid or allocated lease costs at December 31, 2018). The leases are mainly property leases for office, warehouse and factory use and for motor vehicles.

Prepayment features with negative compensation (Amendments to IFRS 9)

On March 22, 2018 the European Union issued Regulation n. 2018/498 endorsing Prepayment Features with Negative Compensation (Amendments to IFRS 9). The Group is evaluating the impact of this new standard on its financial situation.

IFRIC 23 — Uncertainty over Income Tax Treatments

On October 23, 2018 the European Union issued Regulation n. 2018/1595 endorsing IFRIC 23 — Uncertainty over Income Tax Treatments. The Group is evaluating the impact of this new standard on its financial situation.

There are no other accounting standards endorsed by the European Union and effective from reporting periods after December 31, 2018 that are presumed to have a material effect for the Group in the next reporting period and in the foreseeable future.

New accounting standards and interpretations published by the IASB but not yet approved by the European Union

The following IFRSs, interpretations, amendments to existing standards and interpretations, or special provisions contained in the standards and interpretations approved by the IASB, not yet approved by the European Union as at the date of approval of this document, are set forth below:

Description	**Effective date of the standard**
IFRS 14 Regulatory Deferral Accounts	IFRS 14 became effective on January 1, 2016, but the European Commission decided not to endorse it until a new standard on rate-regulated activities is issued.
IFRS 17 (Insurance contracts)	January 1, 2021
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)	Postponed until conclusion of IASB project on the equity method
Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)	January 1, 2019
Annual Improvements to IFRS Standards (2015-2017 Cycle)	January 1, 2019
Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)	January 1, 2019
Amendments to References to the Conceptual Framework in IFRS Standards	January 1, 2020
Definition of business (Amendments to IFRS 3)	January 1, 2020
Definition of material (Amendments to IAS 1 and IAS 8)	January 1, 2020

No accounting standards and/or interpretations mandatorily effective for annual periods beginning after December 31, 2018 were adopted earlier.

The Marcolin Group is evaluating the effects of the application of the above new standards, which currently are not expected to be significant.

Financial statement format

The Consolidated Financial Statements consist of the Statement of Financial Position, Income Statement, Statement of Comprehensive Income, Statement of Cash Flows, Statement of Changes in Equity and the related explanatory Notes.
In order to provide comparability, the previous period data was restated as necessary, with explanations given of the restatements.

The Company and the Group prepared the financial statements on the basis of the following accounting policies.

Statement Of Financial Position

Assets and liabilities are classified separately as either current or non-current as envisaged by IAS 1.
An asset is classified as current when it satisfies any of the following criteria:
(a) it is expected to be realized in, or is intended for sale or consumption in, the entity's normal operating cycle;
(b) it is held primarily for the purpose of being traded;
(c) it is expected to be realized within twelve months from the end of the reporting period; or
(d) it is cash or a cash equivalent.
All other assets are classified as non-current.

A liability is classified as current when it satisfies any of the following criteria:
(a) it is expected to be settled in the entity's normal operating cycle;
(b) it is held primarily for the purpose of being traded;
(c) it is due to be settled within twelve months from the end of the reporting period; or
(d) the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period.
All other liabilities are classified as non-current.

As necessary, in accordance with IFRS 5, assets (and related liabilities) for which the book value will be recovered mainly through sale rather than continuing use are classified as "assets held for sale" and "liabilities relating to assets held for sale".

Income Statement

Costs are classified by function, stating separately the cost of sales, marketing and distribution expenses and administration expense in order to provide readers with more meaningful and relevant information than the alternative classification of costs by nature, in view of the business sector.
In addition, it was decided to present two separate statements: the Income Statement and the Statement of Comprehensive Income.

Statement of Changes in Equity

The statement was prepared presenting items in individual columns with reconciliation of the opening and closing balances of each item forming equity.

Statement of Cash Flows

Cash flows from operating activities are presented using the indirect method.
Based on this approach, the net profit for the year was adjusted to account for the effects of non-cash items on operating, investing and financing activities.

Basis of consolidation

The scope of consolidation includes direct and indirect subsidiaries.

Below is a list of the consolidated companies stating the consolidation method used.

List of Subsidiaries and Associates

Company	Currency	Share capital	Equity	Net profit / (loss) for the period	Consolidation method	% ownership Direct	Indirect
Marcolin Asia HK Ltd	HKD	1,539,785	9,881,418	379,575	Full consolidation	100.0%	
Marcolin Benelux Sprl	EUR	280,000	436,883	128,602	Full consolidation	100.0%	
Marcolin do Brasil Ltda	BRL	41,369,129	10,341,863	(5,879,736)	Full consolidation	100.0%	
Marcolin Deutschland Gmbh	EUR	300,000	1,231,011	(44,676)	Full consolidation	100.0%	
Marcolin France Sas	EUR	1,054,452	925,515	-	Full consolidation	100.0%	
Marcolin GmbH	CHF	200,000	177,191	(129,821)	Full consolidation	100.0%	
Marcolin Iberica SA	EUR	487,481	994,674	409,478	Full consolidation	100.0%	
Marcolin Nordic AB	SEK	50,000	(7,897,026)	8,021,410	Full consolidation	100.0%	
Marcolin Portugal Lda	EUR	420,000	245,212	87,482	Full consolidation	100.0%	
Eyestyle Trading (Shanghai) Co Ltd	CNY	3,001,396	8,441,190	970,245	Full consolidation	100.0%	
Marcolin Technical Services (Shenzhen) Co. Ltd	CNY	1,000,000	2,190,608	266,714	Full consolidation	100.0%	
Marcolin UK Ltd	GBP	3,572,718	12,939,806	5,317,845	Full consolidation	100.0%	
Marcolin USA Eyewear Corp.	USD	121,472,262	52,526,511	(3,428,428)	Full consolidation	100.0%	
Viva Eyewear Hong Kong Ltd	HKD	100	4,709,679	(146,880)	Full consolidation		100.0%
Viva Eyewear UK Ltd	GBP	-	810,706	793,186	Full consolidation		100.0%
Viva Deutschland Gmbh	EUR	25,000	180,913	5,935	Full consolidation		50.0%
Viva Schweiz AG	CHF	100,000	147,457	1,359	Full consolidation		50.0%
Marcolin-RUS LLC	RUB	305,520	173,882,396	20,276,675	Full consolidation	51.0%	
Gin Hong Lin Intenational Co Ltd	HKD	25,433,653	34,765,322	3,810,460	Full consolidation	50.0%	
Shanghai Ginlin Optics Co Ltd	CNY	22,045,100	18,863,453	(3,360,879)	Full consolidation		50.0%
Marcolin Middle East FZCO	AED	100,000	18,666,150	11,714,208	Full consolidation	51.0%	
Marcolin México S.A.P.I. de C.V.	MXN	100,000	(7,013,034)	(7,113,034)	Full consolidation	51.0%	
Thélios SpA	EUR	1,000,000	5,346,051	(16,429,406)	Equity	49.0%	
Thélios France Sas	EUR	40,000	895,881	885,736	Equity		49.0%
Thélios USA Inc.	USD	1,000	(3,881,054)	(3,778,271)	Equity		49.0%
Thélios Asia Pacific Ltd	HKD	100,000	100,000	-	Equity		49.0%

The following changes took place in the scope of consolidation after December 31, 2017:

- On January 24, 2018 the Marcolin Group sold its stake, consisting of 50% of the shares, in Viva Optique de Mexico SA de CV to the other 50% shareholder with which a partnership agreement had been in effect since before the Marcolin Group's acquisition of the Viva Group. At the same time, for the purpose of further developing the Mexican market, one of the fastest growing eyewear markets, Marcolin S.p.A. purchased 51% of a new company in Messico called Marcolin Mexico SAPI de CV, initially founded by the local partner, Moendi, the 49% shareholder;

- On July 4, 2018 Viva Eyewear Brillenvertriebs GmbH was canceled from the Companies Register following its liquidation, and so it was deconsolidated, without significant effects on the Group's financial performance since it had not been a significant company in the previous years;

- On November 19, 2018 Thélios Asia Pacific Ltd was founded in Hong Kong, wholly owned by Thélios S.p.A., consolidated with the equity method.

Basis of consolidation

The consolidation method adopted is as follows:

- the equity method is used to consolidate the companies in which the Group has more than 20% ownership ("associates") or over which the Group has significant influence even in another way; due to the use of the equity method, the carrying amount of the investee is aligned with the equity adjusted, as necessary to reflect the adoption of the IFRS approved by the European Commission and, includes the recognition of any goodwill identified at the time of the acquisition. The interest in the profits/losses realized by the associate after the acquisition date is recognized in the income statement, whereas the interest in changes in reserves after the acquisition date is recognized in the equity reserves. If the Group’s interest in the losses of an associate is equal to or in excess of its interest in the associate itself, taking into account all unsecured receivables, the value of the associate is written off and the Group does not recognize additional losses with respect to those attributable to it except and to the extent that the Group is required to answer for them. Unrealized profits and losses on transactions with associates are eliminated on the basis of the Group’s interest therein;
- companies are consolidated on a line-by-line basis when the Group exercises control over them ("subsidiaries") by virtue of direct or indirect ownership of the majority of shares with voting rights or by

exercise of dominant influence expressed by the power to govern, whether directly or indirectly, the company's financial and operating policies, obtaining the related benefits regardless of any equity ownership. Any potential voting rights exercisable at the reporting date are considered for the purpose of determining control. Subsidiaries are consolidated from the date on which control is gained and are deconsolidated on the date from which such control ceases;

- the financial statements of the subsidiaries, associates and joint arrangements are incorporated using the accounting policies of the Parent Company; consolidation adjustments are made as necessary to create consistency between items influenced by the application of different accounting policies;
- on consolidation, balances and transactions between consolidated subsidiaries are eliminated in full, i.e. receivables and payables outstanding at the end of the period, expenses and income, finance costs and financial income. Significant profits and losses realized between fully consolidated subsidiaries are also eliminated in full;
- significant profits included in products in stock originating from intercompany transactions are eliminated;
- any non-controlling interests in equity or net profit/(loss) are stated separately as non-controlling interests under the consolidated equity;
- dividends distributed by fully consolidated companies are eliminated from the income statement, which incorporates the net profits or losses realized by such companies;
- financial statements presented in a different functional currency from that of the Parent Company are translated into euros by applying the current exchange rates in force on the reporting date to assets and liabilities, and the average exchange rates for the reporting period to revenues, costs, income and expenses. The related currency exchange differences are recognized in the changes in equity [8].

The following table lists the exchange rates used for translation:

Currency	Symbol	Closing exchange rate			Average exchange rate		
		12/31/2018	12/31/2017	Change	2018	2017	Change
Dirham Emirati Arabi	AED	4.205	4.404	(4.5)%	4.337	4.148	4.6%
Australian Dollar	AUD	1.622	1.535	5.7%	1.580	1.473	7.2%
Brasilian Real	BRL	4.444	3.973	11.9%	4.309	3.605	19.5%
Canadian Dollar	CAD	1.561	1.504	3.8%	1.529	1.465	4.4%
Swiss Franc	CHF	1.127	1.170	(3.7)%	1.155	1.112	3.9%
Remimbi	CNY	7.875	7.804	0.9%	7.808	7.629	2.3%
Danish Krone	DKK	7.467	7.445	0.3%	7.453	7.439	0.2%
English Pound	GBP	0.895	0.887	0.8%	0.885	0.877	0.9%
Hong Kong Dollar	HKD	8.968	9.372	(4.3)%	9.256	8.805	5.1%
Japanese Yen	JPY	125.850	135.010	(6.8)%	130.396	126.711	2.9%
Mexican Pesos	MXN	22.492	23.661	(4.9)%	22.705	21.329	6.5%
Norwegian krone	NOK	9.948	9.840	1.1%	9.597	9.327	2.9%
Russian Rublo	RUB	79.715	69.392	14.9%	74.042	65.938	12.3%
Swedish Krone	SEK	10.255	9.844	4.2%	10.258	9.635	6.5%
USA Dollar	USD	1.145	1.199	(4.5)%	1.181	1.130	4.5%

Business combinations

The Group's business combinations are accounted for with the acquisition method in accordance with IFRS 3, "Business Combinations".
The cost of an acquisition is the fair value, at the control transfer date, of assets acquired, liabilities assumed, and equity instruments issued in exchange for the control of the acquired entity.
Based on the acquisition method, the cost of the business combination is allocated to the identifiable acquired net assets, at the acquisition date, through the fair value measurement of the assets acquired and liabilities and contingent liabilities assumed, and goodwill is recognized to the extent of the excess of the business combination cost over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized. If the initial accounting for a business combination can be determined only provisionally, adjustments to the values initially attributed are made within twelve months of the acquisition date. Non-controlling interests are recognized at the fair value of the net acquired assets.

[8] *Translation of foreign-currency financial statements*
Financial statements presented in a different functional currency are translated into euros in accordance with IAS/IFRS as follows:

- assets and liabilities are translated at the current exchange rates in force on the reporting date;
- revenues, costs, income and expenses are translated at the average exchange rate for the reporting period, considered to be a reasonable approximation of the actual exchange rates of the dates of the transactions;
- currency exchange differences arising from translation of opening equity and the annual changes in equity are recognized in the "foreign currency translation reserve" under "other reserves".

When a business combination is achieved in stages with subsequent share purchases, each stage is measured separately based on the cost and fair value of the assets, liabilities and contingent liabilities at each transaction date to determine the amount of any difference.
If a subsequent acquisition enables to obtain control of an entity, the previously owned interest is restated based on the fair value of identifiable assets, liabilities and contingent liabilities, determined at the date on which control was obtained.

SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted to prepare the consolidated financial statements are described hereunder:

Property, plant, and equipment (also "tangible assets")

Property, plant, and equipment are recorded at their acquisition or production cost, inclusive of ancillary costs incurred to bring the assets to working condition for their intended use, excluding land and buildings for which the deemed cost model was used on the transition date or business combination date based on the market value determined through an appraisal performed by an independent qualified appraiser.
They are stated net of depreciation except for land, which is not depreciated, and net of any impairment losses.
Costs incurred for routine and/or cyclical maintenance and repairs are recognized directly in the income statement of the period in which they are incurred. Costs concerning the extension, renovation or upgrading of owned or leased assets are capitalized to the extent that they can be separately classified as an asset or part of an asset.
The carrying value is adjusted by depreciation using the straight-line method calculated on the basis of estimated useful life.
If the depreciable asset consists of distinctly identifiable components with useful lives that differ significantly from the other components of the asset, each component of the assets is depreciated separately, according to the component approach.
Profits and losses deriving from the sale of assets or groups of assets are determined by comparing the sale price with the relevant net book value.
Government grants relating to tangible assets are recorded as deferred revenues and credited to the income statement over the depreciation period for the assets concerned.
Finance costs relating to purchases of a fixed asset are charged to the income statement, unless they are directly attributable to the acquisition, construction or production of an asset which justifies capitalizing them.
Assets held under finance leases are recognized as tangible assets against the related liability. The lease payment is broken down into a finance cost, recognized in the income statement, and repayment of principal, recognized as a reduction of the relevant financial liability.
Leases in which the lessor does not transfer substantially all the risks and rewards incidental to legal ownership are classified as operating leases. Lease payments under operating leases are recognized in the income statement on a straight-line basis over the duration of the operating lease.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, using the depreciation rates listed below:

Category	Depreciation Rate
Buildings	3%
Non-operating machinery	10%
Depreciable equipment	40%
Operating machinery	15.5%
Office furniture and furnishings	12%
Exhibition stands	27%
Electronic machines	20%
Vehicles	25%
Trucks	20%

Intangible assets

Intangible assets consist of controllable, non-monetary assets without physical substance that are clearly identifiable and able to generate future economic benefits. These assets are recognized at purchase and/or production cost, inclusive of directly attributable expenses to bring the asset to working condition for its intended use, net of accumulated amortization (except for those assets with an indefinite useful life) and any impairment losses. Amortization commences when the asset is available for use and is systematically distributed over the asset’s useful life.

If there is any indication that the assets have suffered an impairment loss, the recoverable amount of the asset is estimated and any impairment loss is recognized in the income statement. If an impairment loss subsequently reverses, the carrying amount of the asset is increased to the net carrying value that the asset would have had if there had been no impairment loss and if the asset had been amortized, recognizing the reversal of the impairment loss as income.

Goodwill

Goodwill is recognized at cost less any impairment losses.
Goodwill acquired in a business combination is represented by the excess of the cost of the combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized.
Goodwill is not amortized, but it is reviewed for impairment annually, and whenever events or circumstances give rise to the possibility of an impairment loss, the recoverable amount is reviewed in accordance with IAS 36 ("Impairment of Assets"). If the recoverable amount is less than its carrying amount, goodwill is reduced to its recoverable amount (see section on impairment losses on tangible and intangible assets). If goodwill has been allocated to a cash-generating unit that is partially disposed of, the goodwill associated with the unit disposed of is included in the determination of any gain or loss on disposal.

Trademarks and licenses

Trademarks and licenses are recognized at cost.
They have a finite useful life and are recognized at cost net of accumulated amortization. Amortization is calculated on a straight-line basis so as to allocate the cost of trademarks and licenses over their remaining useful lives.
If, aside from amortization, impairment should emerge, the asset is written down accordingly; if the reasons for the writedown should cease to exist in future financial years, the carrying amount of the asset is increased to the net carrying value that the asset would have had if there had been no impairment loss and if the asset had been amortized.
Trademarks are amortized on a straight-line basis over their estimated useful lives, ranging from 15 to 20 years.

Software

Software licenses acquired are capitalized on the basis of the costs incurred for their purchase and the costs necessary to make them serviceable. Amortization is calculated on a straight-line basis over their estimated useful lives (ranging from 3 to 5 years). Costs associated with software development and maintenance are recognized as costs in the period they are incurred.
The direct costs include the costs for the personnel to develop the software.

Research & development costs

Research and development costs for new products and/or processes are recognized as an expense as incurred unless they meet the conditions for capitalization under IAS 38.

Other intangible assets

The intangible assets also include renewal fees paid in some cases to licensors for the renewal of licensing agreements.
Other intangible assets also include certain internal costs incurred by the Group to develop new eyewear models; the amortization period, equal to the average life of a model on the market, commences when the related models are put on the market.

Impairment of tangible and intangible assets

IAS 36 requires impairment testing of tangible and intangible assets when there is any indication that those assets have suffered an impairment loss.
For intangible assets with an indefinite life, such as goodwill, testing for impairment is performed at least annually. The recoverable amount is determined by comparing the carrying amount of the asset with its fair value less costs to sell and value in use, whichever is greater. Value in use is determined on the basis of the present value of estimated future cash flows from operating activities. For purposes of impairment testing, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

If an asset's recoverable value is less than its carrying value, the carrying value is reduced to its recoverable value. This reduction is an impairment loss that is recognized as an expense immediately. If there are indications that an impairment loss should be reversed, the recoverable amount of the asset is recalculated and the carrying value is increased to that new value. The increased carrying value must not exceed the net carrying value the asset would have had without any impairment loss.
An impairment loss with respect to goodwill may not be reversed.

Financial derivatives

Financial derivatives are recognized in accordance with IFRS 9. On the contract stipulation date, the derivatives are initially accounted for at fair value as financial assets when the fair value is positive or as financial liabilities when the fair value is negative. If hedge accounting cannot be applied, the changes in the fair value after initial recognition are recognized in profit or loss.

Fair value measurement

The Group measures financial instruments (derivatives) at their fair values at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
Fair value measurement assumes that a transaction to sell an asset or to transfer a liability takes place:

- in the principal market for the asset or liability; or
- in absence of a principal market, the most advantageous market for the asset or liability.

The principal market or most advantageous market must be accessible to the Group. The fair value of an asset or liability is measured adopting assumptions that market participants would use to determine the price of the asset or liability, assuming that they act to best satisfy their economic interest.
Fair value measurement of a non-financial asset considers a market participant's capacity to generate economic benefits from the highest and best use of the asset or from the sale to another participant that can obtain its highest and best use.
The Group uses valuation techniques appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or stated in the financial statements are categorized into the following levels of the fair value hierarchy:

- Level 1 - quoted (unadjusted) prices in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 - inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3 - valuation techniques for which the inputs are unobservable for the asset or liability.

The fair value measurement is categorized entirely in the same level of the fair value hierarchy of the lowest level input used for measurement.
For recurring assets and liabilities, the Group determines whether there have been any transfers between levels of the fair value hierarchy and reviews the categorization (based on the lowest level input that is significant to the entire measurement) at the end of each reporting period.

Inventories

Inventories are stated at the lower of average purchase or production cost and the corresponding estimated realizable value based on market prices. Estimated realizable value represents the estimated selling price in normal market conditions less all direct selling costs.
Purchase cost was adopted for products purchased for resale and for materials directly or indirectly used, purchased and used in the production process, whereas production cost was adopted for finished and semi-finished products.
Purchase cost is determined on the basis of the cost actually incurred, inclusive of directly attributable ancillary costs, including transport and customs expenses and excluding trade discounts.
Production cost includes the cost of materials used, as defined above, and all directly and indirectly attributable manufacturing costs.
Obsolete and slow-moving inventories are written down to reflect their useful life or realizable value.

Trade and other receivables

Trade and other receivables are stated at amortized cost and are measured on the basis of the impairment model introduced by IFRS 9 (see paragraph on financial assets, regarding initial recognition). In accordance with such model, the Group measures receivables using a logic of expected losses, replacing the IAS 39 framework based on incurred losses. The Group has adopted the simplified approach for trade receivables, which instead of recognizing the periodic changes in credit risk, requires accounting for an expected credit loss ("ECL") calculated over the lifetime of the receivable ("lifetime ECL"). The amount of the receivables is shown in the Statement of Financial Position net of the related provisions for doubtful debts. Impairment losses calculated under IFRS 9 are recognized in the Consolidated Income Statement net of any positive effects relating to releases or reversals, and are presented in the line for net writedowns of financial assets among the general and administration expenses.

Financial assets – Loans and receivables

The Group's financial assets are classified on the basis of the business model adopted to manage them and their cash flows. The following categories were identified:

a. Financial assets measured at amortized cost

Financial assets meeting the following requisites are classified in such category: (i) the asset is held under a business model whose objective is to hold assets to collect contractual cash flows; and (ii) the contractual terms of the asset provide for cash flows represented solely by payments of principal and interest on the principal amount outstanding. They concern trade receivables, loan receivables and other receivables. Loan and other receivables are included with current assets, except for those whose contractual collection date is after twelve months from the reporting date, which are classified as non-current assets. The loan and other receivables are classified in the Statement of Financial Position as trade and other receivables. Except for the trade receivables that do not contain a significant financing component, the loan and other receivables are initially recognized at their fair value adjusted by directly attributable transaction costs. Trade receivables that do not contain a significant financing component are measured at the transaction price (determined in accordance with IFRS 15 Revenue from Contracts with Customers). After initial recognition, the assets belonging to such category are measured at amortized cost, using the effective interest rate. The effects of such measurement are recognized in profit and loss. The assets are subject to the impairment model described in the foregoing section on trade and other receivables.

b. Fair Value through Other Comprehensive Income (“FVOCI”)

Financial assets meeting the following requisites are classified in such category: (i) the asset is held under a business model whose objective is met both collecting contractual cash flows and selling these assets; and (ii) the contractual terms of the asset provide for cash flows represented solely by payments of principal and interest on the principal amount outstanding. The assets are initially recognized at their fair value adjusted by directly attributable transaction costs. Afterward, the initial recognition is updated and any changes in fair value are recognized in Other Comprehensive Income ("OCI"). Like the previous category, the assets are subject to the impairment model described in the section on trade and other receivables.

c. Fair Value through Profit and Loss (“FVPL”)

Financial assets that do not fall within the preceding categories are classified in this residual category. They are mainly derivatives and equity instruments, both listed and not listed on markets, that the Group has irrevocably decided to classify as FVOCI upon initial recognition or in transitioning. The assets belonging to this category are classified as current assets or non-current assets according to when they are due and they are stated at fair value upon initial recognition. Investments in unconsolidated companies over which the Group does not have significant influence are included in this category and accounted for as investments in subsidiaries and associates. Related costs incurred at initial recognition of the asset are accounted for immediately in the Consolidated Income Statement. FVPL financial assets are subsequently measured at fair value. Profits and losses deriving from changes in fair value are recognized in the Consolidated Income Statement as they arise, within the net other income/(expenses). Purchases and sales of financial assets are accounted for on the settlement date. Financial assets are derecognized when the rights to receive cash flows deriving from the instrument are extinguished and the Group has transferred substantially all the risks and rewards of ownership and control of the asset. The fair value of financial instruments is based on the current price offered. If the market for a financial asset is not active (or the asset consists of unlisted securities), the Group determines fair value by using valuation techniques. The techniques include referring to advanced negotiations in progress, referring to securities having the same characteristics, analysis based on cash flows, pricing models based on the use of market indicators and aligned, as much as possible, to the asset being measured. In the valuation process, the Group tends to use market information instead of internal information referring specifically to the nature of the business in which the Group operates.

Cash and bank balances

Cash and bank balances include cash, demand deposits at banks and other highly liquid short-term investments, i.e. with an original duration of up to three months, and are stated at the amounts actually on hand at the reporting date.

Assets held for sale and related liabilities

These items include non-current assets (or disposal groups of assets and liabilities) whose carrying value will be recovered mainly through sale rather than through continuing use. Assets held for sale (or disposal groups) are recognized at their net carrying value or fair value less costs to sell, whichever is less.
If those assets (or disposal groups) should cease to be classified as assets held for sale, the amounts are not reclassified or presented for comparative purposes with the classification in the most recent Statement of Financial Position.

Equity

Share capital

Share capital consists of the subscribed and paid-up capital.
Direct issue costs of new share issues are classified as a direct reduction of equity after deferred taxes.

Treasury shares

Treasury shares are shown as a deduction of equity. The original cost of treasury shares and revenues arising on subsequent sale are recognized as changes in equity. The nominal value of the treasury shares owned is directly deducted from share capital, while the value exceeding the nominal value is used to reduce the treasury share reserve included in the retained earnings/(losses) reserves.

Employee benefits

Post-employment benefit plans are classified, according to their characteristics, as either defined contribution plans or defined benefit plans.
Defined benefit plans, such as that of the "fondo trattamento di fine rapporto" ("TFR", severance indemnity provision) in place until the 2007 Italian Financial Law became effective, are plans under which guaranteed employee benefits are paid upon termination of employment. The defined benefit plan obligation is determined on the basis of actuarial assumptions and is recognized on an accruals basis consistently with the employment service necessary to obtain the benefits; the obligation is measured annually by independent actuaries.
The benefits accrued in the year, determined with actuarial methodology, are recognized in the income statement with the personnel costs, whereas the notional interest cost is recognized in net financial income/(costs). Actuarial gains and losses from changes in actuarial assumptions are recognized directly in the equity of the year they emerge, in accordance with Revised IAS 19.
On January 1, 2007, the 2007 Financial Law and related enactment decrees brought significant changes to employee severance indemnity regulations, including the possibility for the employee to choose, by June 30, 2007, how to allocate his or her accruing benefits. New accruing severance indemnities may be assigned by the employee to selected pension funds or kept within the company (in the latter case the company will pay the severance pay contributions into a treasury account held at the INPS).
Pursuant to these changes, the severance indemnity provision accrued up to the date of the employee's decision (defined benefit plans) was recalculated by independent actuaries, excluding the component of future salary raises. Severance indemnities accruing from the date of the employee's decision, and in any case from June 30, 2007, are considered a defined contribution plan, so the accounting treatment is similar to that in effect for all other contribution payments.

Provisions for risks and charges

Provisions for risks and charges consist of allowances for present obligations (either legal or constructive) toward third parties that arise from past events, the settlement of which will probably require an outflow of financial resources, and the amount of which can be estimated reliably.
Provisions are stated at the discounted best estimate of the amount the company should pay to settle the obligation or to transfer it to third parties as at the reporting date.
Changes in estimates are reflected in the income statement of the period in which the change occurs.
Risks for which the emergence of a liability is merely possible are identified in the section relating to commitments and guarantees without making any allowances for them.

Trade payables and other non-financial liabilities

This item refers to payables originating from the purchase of goods or services that have not been settled by the end of the reporting period. They are not usually covered by guarantees and are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method.

Financial liabilities

Borrowings (loans) are initially recognized at cost, corresponding to the fair value of the liability less their transaction costs.
They are subsequently measured at amortized cost; any difference between the amount financed (net of transaction costs) and the nominal value is recognized in the income statement over the life of the loan, using the effective interest method. If there is a change in the anticipated cash flows and management is able to estimate them reliably, the value of borrowings is recalculated to reflect such changes.
Loans are classified among current liabilities if they mature in less than 12 months from the end of the reporting period and if the Group does not have an unconditional right to defer their payment for at least 12 months.
Loans are derecognized when they are paid off or when all risks and costs associated with them have been transferred to third parties.

Revenues and income

In accordance with the five-step model introduced by IFRS 15, the Group recognizes revenue after having identified the contracts with its customers and the performance obligations in the contract (transfer of goods and/or services), determined the amount of consideration to which it expects to be entitled in exchange for satisfying each of the performance obligations, and evaluated how the performance obligations were satisfied (at a point in time or over time). The Group recognizes revenues only when all the following requirements have been met (requirements for identifying the contract(s) with the customer): a) the parties to the contact have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to performing their respective obligations; therefore, an agreement exists that creates the rights and obligations regardless of the form of such agreement; b) the Group can identify each party's rights in relation to the goods or services to be transferred; c) the Group can identify the payment terms of the goods or services to be transferred; d) the contract has commercial substance; and e) it is probable that the Group will collect the consideration to which it is entitled in exchange for the goods or services that will be transferred to the customer. If the above criteria are not met, the related revenues are recognized when: (i) the Group has already transferred goods and/or services to the customer and all, or substantially all, of the promised consideration has been received and is non-refundable; or (ii) the contract has been terminated and the consideration received is non-refundable.
If the above criteria are met, the sales revenues are recognized when the control of the good sold is transferred to the customer, or when the good is delivered to the customer under the terms of the contract and the customer acquires the full ability to direct the use of it, and obtain substantially all of the remaining benefits from it. When the sale contract provides for retrospective volume discounts, the Group estimates their effect and treats it as a variable component of the agreed consideration. The Group also estimates the effect of possible returns from customers. This effect is accounted for as a variable component of the contractual consideration with the contextual presentation of a refund liability among the short-term risk provisions and the corresponding return asset among other current assets in the Statement of Financial Position. The estimate is based on the right-of-return policies and practices adopted by the Group and past trends of sales returns. The variable components of the consideration (discounts and returns) are recognized in the financial statements only when it is highly probable that a significant adjustment to the amount of revenue recognized will not occur. No post-delivery obligations exist apart from the product warranties, where required by local regulations; the warranties do not constitute a separate service and they are accounted for in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets.
Interest income is accrued on a time basis by reference to the effective interest rate applicable to the related asset.
Dividends are recognized when the shareholder's rights to receive payment are established. This normally occurs when the dividend distribution resolution is approved at the General Meeting.

Cost of sales

The cost of sales includes the cost of producing or acquiring the goods and products sold. It includes all the costs of materials, processing, and expenses directly associated with production. It also includes the depreciation of buildings, plant and equipment, the amortization of the intangible assets used in production and inventory impairment losses.

Royalties

The Group accounts for royalty expense on an accruals basis according to the substance of the agreements stipulated.

Other costs

The costs are recognized according to the relevance and matching principles.

Financial income and costs

Interest is accounted for according to the accrual concept on the basis of the interest rate established by contract. If not established by contract, interest is recognized using the effective interest method, i.e. using the interest rate that makes all inflows and outflows of a specific transaction financially equivalent.

Translation of foreign currency amounts

Transactions in currency other than the Euro are translated into local currency using the exchange rates in force on the transaction date. Foreign exchange differences realized in the period are recognized in the income statement.
Foreign currency receivables and payables are adjusted at the exchange rate in force on the reporting date, recognizing the entire amount of profit or loss arising on exchange as financial income or finance costs in the income statement.

Income taxes

Income taxes are stated in the income statement, except for those regarding items recognized directly in equity, for which the tax effect is also recognized directly in equity.
Deferred taxes are calculated on the temporary differences generated between the value of the assets and liabilities reported in the financial statements and the value attributed to those assets and liabilities for tax purposes.
Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized.
Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which they may be recovered. The carrying value of deferred tax assets is reviewed at the end of each reporting period and, as necessary, is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered. Any such reductions are reversed if the conditions causing them should cease to exist.
Deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply when the assets are realized or the liabilities are settled, considering the tax rates in force and those that have been enacted or substantially enacted by the reporting date.
Other taxes not relating to income, such as property and equity taxes, are included in the operating items.

FINANCIAL RISK FACTORS

Financial risks

Financial risk management is an integral part of the Marcolin Group's activities and is performed centrally by the Parent Company based on strategies to cover specific areas, i.e. through hedges of foreign exchange risks and risks deriving from fluctuations of interest rates.
The Group seeks to minimize the impact of such risks on its results, and in previous years some hedging instruments were used.
Although the derivatives were designated exclusively to hedge against the risk of exchange rate variability on sales to customers in U.S. dollars, they do not qualify for hedge accounting because they do not fully meet the strict requirements, including formal ones, of the applicable accounting standard.
Those contracts were no longer stipulated in 2018 due to the natural hedge from which the Group benefits as a result of the current structure of revenues and expenses in foreign currency.

Currency risk

The Report on Operations provides details on the Marcolin Group's and Marcolin S.p.A.'s currency risk.

With respect to transaction risk, according to the sensitivity analysis performed, a change in exchange rates should not significantly impact the Group's Consolidated Financial Statements.

With respect to translation risk, according to the sensitivity analysis performed, a 5% appreciation of the U.S. dollar as at December 31, 2018 would result in a euro 2.4 million increase in the translation reserve, whereas a 5% depreciation of the U.S. dollar as at December 31, 2018 would result in a euro 2.2 million decrease in the translation reserve.

Interest rate risk

The Report on Operations provides details on the Marcolin Group's and Marcolin S.p.A.'s interest rate risk.
The section on liquidity risk provides a quantitative analysis of the Group's exposure to cash flow risk relating to interest rates on loans.
Information on outstanding loans is provided subsequently in these notes.

Interest rate sensitivity analysis

Interest rate sensitivity analysis was performed, assuming a 25 basis-point increase and a 10 basis-point decrease of the Euribor/Swap yield curves, published by Reuters for December 31, 2018. In this manner, the Group determined the impact that such changes would have on income and on equity.
The sensitivity analysis excluded financial instruments that are not exposed to significant interest rate risk, such as short-term trade receivables and payables.
The interest on bank borrowings was recalculated using the above assumptions and the investment position in the year, recalculating the higher/lower annual finance costs.
For cash and bank balances, the average balance of the period was calculated using the book values at the beginning and end of the year. The effect on income of a 25 basis-point increase/10 basis-point decrease in the interest rate from the first day of the period was calculated on the amount thus determined.
According to the sensitivity analysis performed on the basis of the above criteria, the Group is exposed to interest rate risk on its expected cash flows. If interest rates should rise by 25 basis points, income would decrease by euro 31 thousand due to higher interest expense with banks and third parties with respect to the increase in financial income on bank accounts.
If interest rates should fall by 10 basis points, income would increase by euro 12 thousand.

Credit risk

The Group has no significant concentration of credit risk. Receivables are recognized net of the impairment calculated in accordance with IFRS 9. Guidelines have been implemented for managing customer credit, supervised by the designated business function (Credit Management), to ensure that sales are conducted only with reasonably reliable and solvent parties, and through the setting of differentiated credit ceilings (according to creditworthiness).

The trade receivables and other current assets are set forth below by the main areas in which the Group operates in order to evaluate the country risk (for comparative purposes, for 2017 the provision for returns was reclassified

from trade receivables to the provisions for current risks, in accordance with IFRS 15). The section on accounting standards provides additional information.

Trade receivables by geographical area and other current assets *(euro/000)*	**12/31/2018**	**12/31/2017**
Italy	29,691	22,896
Rest of Europe	16,642	18,744
North America	24,959	20,695
Rest of Word	44,476	40,018
Total	**115,767**	**102,354**

Trade receivables not past-due are set forth below by geographical area below, in accordance with IFRS 7:

Trade receivables not overdue by geographical area *(euro/000)*	**12/31/2018**	**12/31/2017**
Italy	13,301	15,466
Rest of Europe	13,984	16,706
North America	24,447	18,189
Rest of Word	32,216	30,905
Total	**83,947**	**81,267**

The following table shows the undisputed trade receivables due and past due (in an aging analysis):

Ageing analysis of trade receivables not protested *(euro/000)*	**Gross value**	**Provision**	**Net value**
12/31/2017			
Not past due	81,267	(539)	80,728
Past due by less than 3 months	6,320	(435)	5,885
Past due by 3 to 6 months	721	(418)	303
Past due by more than 6 months	2,970	(2,402)	569
Total	**91,278**	**(3,794)**	**87,484**
12/31/2018			
Not past due	83,947	(2,154)	81,793
Past due by less than 3 months	9,000	(504)	8,496
Past due by 3 to 6 months	2,375	(940)	1,435
Past due by more than 6 months	4,304	(4,211)	93
Total	**99,626**	**(7,809)**	**91,817**

In some markets where the Group operates, receivables are regularly collected after the date stipulated by contract, without this necessarily indicating collection issues or financial difficulties.
Consequently, there are trade receivable balances that were not considered impaired even though they were past due.

The balance of these trade receivables is set forth in the table below by past-due category:

Trade receivables overdue but not impaired *(euro/000)*	**12/31/2018**	**12/31/2017**
Past due less than 3 months	2,307	1,630
Past due more than 3 months	1,245	630
Total	**3,552**	**2,261**

For the sake of exhaustive disclosure, an aging analysis of disputed receivables and the related writedowns is set forth below:

Ageing analysis of protested trade receivables *(euro/000)*	Gross value	Provision	Net value
12/31/2017			
Past due by less than 12 months	318	(284)	34
Past due by more than 12 months	4,187	(4,199)	(12)
Total	**4,505**	**(4,483)**	**22**
12/31/2018			
Past due by less than 12 months	484	(383)	101
Past due by more than 12 months	4,676	(4,603)	73
Total	**5,160**	**(4,985)**	**175**

The changes in the provision for doubtful debts are set forth below:

Provision for doubtful debts *(euro/000)*	12/31/2018	12/31/2017
December 31, 2017 - in accordance with IAS 39	8,277	7,580
Adjustments opening balance as at 1 January 2018 in accordance with IFRS9	2,485	-
Provisions/Reversal on P&L	3,020	2,350
Use	(1,023)	(1,071)
Reclassifications and other movements	-	-
Translation difference	35	(582)
Period end Total	**12,794**	**8,277**

In accordance with IFRS 9, the expected losses on trade receivables were estimated upon initial recognition of the receivable and over its lifetime (lifetime expected credit loss). As allowed by the standard, a matrix was used to estimate the expected credit losses, which took into account the geographical source of the receivable and the type of customer. The matrix considers different loss percentages according to the aging category of the receivables. The expected loss percentage rises when the receivable seniority rises.

Liquidity risk

Prudent management of liquidity risk entails keeping a sufficient level of liquidity and having sources of funding available to meet working capital requirements by means of adequate credit lines.
Due to the dynamic nature of its business, the Group has always preferred the flexibility of obtaining funding through the use of credit lines. As noted in the Report on Operations, since February 2017 the Parent Company has had a revolving credit facility (RCF) of nominal euro 40 million available for short-term cash flow requirements.
At present, based on its available sources of funding and credit facilities, the Group considers its access to funding to be sufficient for meeting the financial requirements of ordinary operations and for the capital expenditures planned. The Marcolin Group Report on Operations also discusses this subject.

Liquidity analysis

Liquidity analysis was performed on loans and trade payables. Principal repayments and non-discounted interest were specified by time brackets. Future interest amounts were determined using forward interest rates taken from the spot-rate curve published by Reuters at the end of the reporting period.
None of the cash flows included in the table were discounted. They also consider the Group's debt as at December 31, 2018.

(euro/000)	Within 1 year	From 1 to 3 years	From 3 to 5 years	More than 5 years	Carrying value
Loans and bonds (excluding capital lease)	39,551	6,058	250,000	-	289,431
Interest expenses on loans, bonds, leasing	11,519	20,647	11,612	-	1,549
Capital lease	663	844	-	-	1,460
Trade payables	150,134	-	-	-	150,134

CLASSIFICATION OF FINANCIAL INSTRUMENTS

The financial instruments are shown by type in the following table (in comparison with the amounts of the prior year), in accordance with IFRS 7.
In 2018 the financial instruments were classified in accordance with IFRS 9. The new instructions did not cause any classification differences from those adopted in the prior year under IAS 39.

Categories of financial assets *(euro/000)*	**Trade receivables**	**Financial assets**	**Cash and cash equivalents**
2018			
Loans and other financial recivables at amortized cost	91,992	23,807	34,184
Financial assets at faie value through P&L	-	-	-
Held to maturity investments	-	-	-
Financial assets available for sale	-	-	-
Total	**91,992**	**23,807**	**34,184**

Categories of financial assets *(euro/000)*	**Trade receivables**	**Financial assets**	**Cash and cash equivalents**
2017			
Loans and other financial recivables at amortized cost	82,091	16,375	40,805
Financial assets at faie value through P&L	-	128	-
Held to maturity investments	-	-	-
Financial assets available for sale	-	-	-
Total	**82,091**	**16,503**	**40,805**

Categories of financial liabilities *(euro/000)*	**Trade payables**	**Financial liabilities**	**Bond**
2018			
Financial liabilities at fair value through P&L	-	-	-
Derivates used for hedging	-	-	-
Financial liabilities at amortized cost	150,134	44,187	246,745
Financial liabilities as under IAS 17	-	1,507	-
Total	**150,134**	**45,694**	**246,745**

Categories of financial liabilities *(euro/000)*	**Trade payables**	**Financial liabilities**	**Bond**
2017			
Financial liabilities at fair value through P&L	-	-	-
Derivates used for hedging	-	-	-
Financial liabilities at amortized cost	126,800	46,515	246,745
Financial liabilities as under IAS 17	-	2,309	-
Total	**126,800**	**48,823**	**246,745**

FAIR VALUE MEASUREMENT HIERARCHY

The financial instruments measured at fair value are presented on the basis of the fair value hierarchy, described below:

- Level 1 - quoted (unadjusted) prices in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 - inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;

- Level 3 - valuation techniques for which the inputs are unobservable for the asset or liability.

The only financial instrument measured at fair value was the swaption, classified within the Level 2 fair value hierarchy. The swaption was no longer in effect at December 31, 2018, and the fair value difference of euro 128 thousand compared with December 31, 2017 is recognized in the Income Statement.

USE OF ESTIMATES

The preparation of consolidated financial statements requires making estimates that could affect the carrying value of some assets, liabilities, income and expenses, and disclosures concerning contingent assets and liabilities at the reporting date.
Estimates were used mainly to determine the recoverability of intangible assets (including goodwill), the useful lives of tangible assets, the recoverability of receivables (including deferred tax assets), the valuation of inventories and the recognition or measurement of provisions for risks and charges.
The estimates and assumptions are based on data that reflect currently available information.
The estimates and assumptions that involve a significant risk of changes in the carrying values of assets and liabilities are described hereunder.

Goodwill
Pursuant to IAS 36, the Group performs impairment tests at least annually.
Recoverable values are calculated based on "value in use".
The calculations require using estimates of the future performance of the cash-generating units (CGUs) to which goodwill belongs (business plan forecasts), the discount rate (WAAC) and the prospective growth rate to be applied to the forecast cash flows (“g” rate).

Impairment of non-current assets
When there is indication that the net carrying value could exceed the recoverable value, non-current assets are reviewed to determine whether they have suffered impairment losses, in accordance with the accounting standards adopted. The recoverable amount is analyzed by comparing the carrying amount of the asset with its fair value less costs to sell and value in use, whichever is greater.
If any such indication exists, management is required to perform subjective evaluations based on information available within the Group and on the market, and based on the management's knowledge.
If indications of impairment should exist, the Group calculates the potential impairment using the valuation techniques it considers to be the most appropriate.
Proper identification of impairment indications and estimates of potential impairment are dependent on factors that may vary over time, affecting the measurements and estimates made by management.

Provision for doubtful debts
The provision for doubtful debts reflects management’s estimates of future losses on trade receivables. The provision for doubtful debts is calculated in accordance with IFRS 9.

Returns provision and product warranty provision
The returns provision and product warranty provision reflect management's estimate of losses deriving from the customers' possibility under contact to return products sold. The product warranty provision gives the customer the possibility to return defective merchandise and receive in exchange an analogous (non-defective) product.
The returns provision is accounted for in accordance with IFRS 15, and the product warranty provision in accordance with IAS 37.

Provision for inventory impairment
The provision for inventory impairment reflects management’s estimates regarding the losses expected by the Group, determined on the basis of past experience and both past and anticipated market trends.

Deferred tax assets
Recognition of deferred tax assets is based on expectations of profits in future years.
Estimates of future earnings used to recognize deferred tax assets are dependent on factors that may vary over time and significantly affect estimates of deferred tax assets.

ANALYSIS OF CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Comments and the most significant changes in the items compared with the Consolidated Financial Statements for the year ended December 31, 2017 are described in this section (the amounts are in thousands of euros, unless specified otherwise).

BUSINESS COMBINATIONS

Marcolin Mexico SAPI de CV acquisition

On April 3, 2018, the Marcolin Group signed a partnership agreement with Moendi Distribucion SAPI de CV, a key player in eyewear distribution in Mexico. The agreement provided for Moendi's establishment of a new company called Marcolin Mexico SAPI de CV, and Marcolin S.p.A.'s subsequent acquisition on April 19, 2018 of 51% of the shares for 51 thousand Mexican pesos, equivalent to approximately euro 2 thousand. At that date the share capital amounted to 100 thousand Mexican pesos, equivalent to approximately euro 4 thousand. The equity had the same value. The financial statements are denominated in Mexican pesos. Under the agreements stipulated with the local partner, the company is controlled by Marcolin S.p.A.

No residual goodwill emerged from the difference between the cost of the business combination and the acquirer's interest in the net fair values of the acquired assets and liabilities.

The fair value of the net assets acquired was calculated definitively because no significant fair values of net assets that needed to be measured at the acquisition date were identified.

The transaction is part of Marcolin's international expansion plan, which by increasing the distribution of its products in Mexico to satisfy customer demands, creates the basis for direct, effective management of that market, representing a potential contribution to future profitability and to the generation of cash flows, quantifiable in terms of higher earnings and cash flows.

1. PROPERTY, PLANT, AND EQUIPMENT

The composition of and annual changes in the item are set forth below:

Property, plant and equipment (euro/000)	Land and buildings	Plant and machinery	Industrial and commercial equipment	Other PP & E	Assets under construction	Total
Net value at beginning of 2017	**13,453**	**6,564**	**2,019**	**3,314**	**163**	**25,513**
Increases	1,252	1,635	1,305	5,587	5,638	**15,417**
Decreases	(79)	(17)	(0)	(102)	(2)	**(200)**
Business combination	-	-	-	-	(5,579)	**(5,579)**
Depreciation	(832)	(1,626)	(1,352)	(1,870)	-	**(5,680)**
Translation difference	(70)	-	(66)	(265)	(0)	**(402)**
Reclassification and other movements	-	38	-	-	(38)	**-**
Net value at end of 2017	**13,724**	**6,595**	**1,906**	**6,664**	**182**	**29,070**
Net value at beginning of 2018	**13,724**	**6,595**	**1,906**	**6,664**	**182**	**29,070**
Increases	1,002	1,857	1,395	3,819	295	**8,367**
Decreases	(342)	(41)	(14)	(156)	(32)	**(585)**
Depreciation	(919)	(1,734)	(1,353)	(3,069)	-	**(7,075)**
Translation difference	38	-	16	99	9	**163**
Reclassification and other movements	97	-	(85)	93	(105)	**0**
Net value at end of 2018	**13,600**	**6,676**	**1,865**	**7,450**	**349**	**29,941**

The Group's 2018 capital expenditures totaled euro 8,367 thousand and regarded mainly the following investments:

- an increase of euro 1,002 thousand regards factory buildings, referring primarily to construction work done on some buildings owned;
- plant and machinery purchases of euro 1,857 thousand refer to industrial plant and machinery purchased by the Parent Company to renew production lines;
- equipment purchases of euro 1,395 thousand refer mainly to the Parent Company;
- other purchases totaling euro 3,819 thousand consist primarily of computer hardware, office furniture and other equipment and sales-related furnishings;
- increases of euro 295 thousand refer to work in progress and advances.

Depreciation is euro 7,075 thousand and consists of:

- euro 3,443 thousand recognized in the components of cost of sales;
- euro 2,513 thousand recognized in distribution and marketing expenses;
- euro 1,119 thousand recognized in general and administration expenses.

The undepreciated values of property, plant and equipment and their accumulated depreciation as at December 31, 2018 are shown in the following table:

Property, plant and equipment (euro/000)	Land and buildings	Plant and machinery	Industrial and commercial equipment	Other PP & E	Assets under construction	Total 12/31/2018
Undepreciated value	26,602	25,550	19,350	19,962	350	91,814
Accumulated depreciation	(13,002)	(18,874)	(17,485)	(12,512)	-	(61,872)
Net value	**13,600**	**6,676**	**1,865**	**7,450**	**350**	**29,941**

The following table presents the amounts of the previous year:

Property, plant and equipment (euro/000)	Land and buildings	Plant and machinery	Industrial and commercial equipment	Other PP & E	Assets under construction	Total 12/31/2017
Undepreciated value	26,059	23,970	18,057	16,314	182	84,581
Accumulated depreciation	(12,335)	(17,375)	(16,151)	(9,650)	-	(55,511)
Net value	**13,724**	**6,595**	**1,905**	**6,665**	**182**	**29,070**

2. INTANGIBLE ASSETS AND GOODWILL

The composition of and changes in this item are set forth below:

Intangible assets and goodwill (euro/000)	Software	Concessions, licenses and trademarks	Other	Intangible assets under formation and advances	Total	Goodwill
Net value at beginning of 2017	**8,745**	**10,893**	**18,261**	**11,924**	**49,823**	**290,902**
Increases	2,251	-	9,399	1,873	**13,524**	**3,750**
Decreases	-	-	(665)	-	**(665)**	**-**
Business combination	-	-	-	(177)	**(177)**	**-**
Amortization	(2,834)	(1,687)	(5,268)	-	**(9,788)**	**-**
Translation difference	(657)	(623)	(1,088)	(739)	**(3,108)**	**(12,326)**
Reclassification and other movements	697	-	1,215	(1,912)	**-**	**-**
Net value at end of 2017	**8,202**	**8,583**	**21,854**	**10,969**	**49,609**	**282,326**
Net value at beginning of 2018	**8,202**	**8,583**	**21,854**	**10,969**	**49,609**	**282,326**
Increases	2,539	-	3,799	1,533	**7,871**	**-**
Decreases	-	-	-	(10)	**(10)**	**-**
Amortization	(3,249)	(1,646)	(7,091)	-	**(11,987)**	**-**
Translation difference	156	167	489	252	**1,064**	**4,180**
Reclassification and other movements	617	-	-	(618)	0	**-**
Net value at end of 2018	**8,264**	**7,105**	**19,051**	**12,126**	**46,547**	**286,506**

The annual increase of euro 7,871 thousand includes euro 2,539 thousand for software, referring primarily to the Parent Company's new business software and the implementation thereof, and regards other intangible assets regarding amounts paid by the Parent Company and by the American affiliate to some licensors to extend licenses.

Amortization is euro 11,987 thousand and consists of:

- euro 8,759 thousand recognized in distribution expenses;
- euro 3,228 thousand recognized in general and administration expenses.

The unamortized value of intangible assets and goodwill and their accumulated amortization as at December 31, 2018 are shown in the following table:

Intangible assets and goodwill (euro/000)	Software	Concessions, licenses and trademarks	Other	Intangible assets under formation and advances	Total 12/31/2018	Goodwill
Undepreciated value	29,482	17,591	45,512	12,126	**104,711**	286,506
Accumulated depreciation	(21,217)	(10,486)	(26,460)	-	**(58,164)**	-
Net value	**8,264**	**7,105**	**19,052**	**12,126**	**46,546**	**286,506**

The following table presents the amounts of the previous year:

Intangible assets and goodwill *(euro/000)*	Software	Concessions, licenses and trademarks	Other	Intangible assets under formation and advances	Total 12/31/2017	Goodwill
Undepreciated value	25,824	17,138	41,141	10,970	**95,073**	282,326
Accumulated depreciation	(17,621)	(8,555)	(19,286)	-	**(45,463)**	-
Net value	**8,202**	**8,584**	**21,855**	**10,970**	**49,609**	**282,326**

The value of goodwill at December 31, 2018 is euro 286,506 thousand. The increase from December 31, 2017 is attributable exclusively to the translation into euro of the goodwill recognized by some Group companies in their local currency.

Goodwill was tested for impairment to assess the fairness of the carrying amount as at December 31, 2018.

The recoverable amount of goodwill was estimated using the Marcolin Group's value in use, assumed as the enterprise value emerging from the application of the unlevered free cash flow method to the projected cash flows of the Marcolin Group's continuing operation.

The following assumptions were made to determine value in use:

- the cash-generating unit was identified in the entire Marcolin Group (cash flows from projected operating/financing activities of Marcolin S.p.A. and all its Italian and foreign subsidiaries) because the Group's organizational structure uses a centralized model headed by Marcolin S.p.A.;
- the main data sources used were: the draft financial statements for the year ended December 31, 2018, the 2019 Budget and the 2020 - 2021 business plan[9];
- the terminal value was calculated by capitalizing the available cash flow expected perpetually from 2021 (estimated on the basis of the last year in the business plan, given an increase in the "g" rate from the last year stated), assuming that it will grow at an annual "g" rate of 2.5%, conservatively considering the inflation projections for the countries in which Marcolin is present. The terminal value was adjusted to account for the Parent Company's transfer of the provision for severance indemnities;
- the cash flow discount rate (WAAC) is 9.9%, calculated in line with the Capital Asset Pricing Model (CAPM) commonly used for valuation in doctrine and in standard practice. This rate reflects current market estimates referring to: 1) the cost of capital for debt (Kd = 2.9% , after taxes); 2) the expected return on the risk capital invested in Marcolin (Ke = 11.2%), weighted considering the source of the Group's main cash flows. Weighted Kd/Ke was determined under the applicable accounting standards by considering the average financial structure of Marcolin's main comparables, assuming that the value of the entity's projected cash flows does not derive from its specific debt/equity ratio.

Based on the results of the analysis performed, goodwill did not suffer any impairment losses given that the value in use exceeds the carrying amount as at December 31, 2018 by a wide margin.

Moreover, sensitivity analysis was performed on the Group's enterprise value, determined with the previously described methods, assuming:

- changes in WAAC;
- changes in the g rate.

In this case, a half-percentage point increase in WAAC would result in a 7% decrease in the enterprise value (given the same g), whereas a half-percentage point decrease in the g rate would result in an 6% decrease in the enterprise value (given the same WAAC). Neither case would result in an impairment loss.

In addition, a stress test was performed assuming higher capital expenditures than those budgeted, and estimating possible cash outflows that the Group could incur to renew certain licenses upon their expiration.
The stress test confirmed that the coverage amounts remain positive, with broad safety margins.

Concessions, licenses and trademarks include the Web trademark. This asset, which was obtained in November 2008 for euro 1,800 thousand and whose purchase price was determined by an independent professional appraiser, is amortized over 18 years.

Concessions, licenses and trademarks also include euro 10,000 thousand for an option, already exercised, that enabled the Group to extend a licensing agreement beyond its expiration date (2015) to December 2022. This cost is amortized over 7 years starting from 2016.

9 The impairment test document was approved by the Parent Company's Board of Directors on January 31, 2019.

3. INVESTMENTS IN ASSOCIATES

The investments in associates, totaling euro 1,377 thousand, consist exclusively of the investment in Thélios S.p.A., consolidated with the equity method. The amount originates from use of the equity method of consolidation and reflects the Marcolin Group's interest in equity, whose amount at December 31, 2018 was considerably affected by losses having to do with the company's start-up phase. The losses are consistent with the business projections made by the company's management when the partnership agreement was stipulated, and resulted from heavy expenses incurred initially to start up production that were not offset by product sales, which commenced as planned in early 2018.

In accordance with IFRS 12, the key financial information of Thélios S.p.A. and its subsidiaries at December 31, 2018 is presented hereunder:

(euro/000)	**12/31/2018**	**12/31/2017**
Non-current assets	42,509	26,429
Current assets	42,731	9,807
Cash and cash equivalents	6,643	7,061
TOTAL ASSETS	**91,883**	**43,297**
EQUITY	**2,809**	**1,246**
Non-current financial liabilities	14,145	3,848
Other non-current liabilities	289	27
Current financial liabilities	45,879	27,461
Other current liabilities	28,759	10,716
TOTAL LIABILITIES	**89,072**	**42,051**
TOTAL LIABILITIES AND EQUITY	**91,883**	**43,298**

(euro/000)	**2018**	**2017**
Ricavi	38,746	-
Operating expenses	(59,109)	(15,349)
OPERATING INCOME – EBIT	**(20,362)**	**(15,349)**
Financial income	76	0
Financial costs	(724)	(33)
Depreciation, amortization, impairment loss on investments	(3,129)	-
PROFIT (LOSS) BEFORE TAXES	**(24,140)**	**(15,382)**
Income tax expense	5,703	3,677
NET PROFIT (LOSS) FOR THE PERIOD	**(18,437)**	**(11,705)**

The following table presents the reconciliation of the associate's net profit/loss with the carrying amount of the consolidated equity interest consolidated with the equity method in the Group' Statement of Financial Position.

(euro/000)	**2018**	**2017**
Equity al 1 gennaio	1,246	-
Risultato d'esercizio	(18,437)	(11,705)
Aumenti di capitale	20,000	12,950
Equity al 31 dicembre	**2,809**	**1,246**
% di possesso di Marcolin	49%	49%
Valore contabile	**1,377**	**610**

The associate did not pay any dividends to shareholders in 2018.

4. DEFERRED TAX ASSETS AND LIABILITIES

The net deferred tax assets as at December 31, 2018 are euro 34,028 thousand (euro 29,349 thousand in 2017), the balance of euro 41,916 thousand in deferred tax assets and euro 7,889 thousand in deferred tax liabilities.
The amount is primarily attributable to the Parent Company, for euro 6,117 thousand (euro 9,065 thousand in 2017), Marcolin USA Eyewear Corp. for euro 19,002 thousand (euro 15,249 thousand in 2017), and Marcolin France sas for euro 3,597 thousand (euro 1,029 thousand in 2017). The French subsidiary's amount refers to deferred tax assets on accumulated tax losses not recognized in previous periods because they are now expected to be recovered in the next few years.

The amount refers to:

- euro 20,510 thousand in temporary differences generated between the value of the assets and liabilities reported in the financial statements and the value attributed to those assets and liabilities for tax purposes;

- euro 13,518 thousand in tax assets recognized on tax losses.

Recognition of deferred tax assets was made possible by the prospect of realizing the assets due to the expectation of future taxable profits according to the business plans prepared by the Group.

More information is provided in Note 29 on income taxes.

5. OTHER NON-CURRENT ASSETS

The balance as at December 31, 2018 is euro 4,333 thousand (euro 2,596 thousand in 2017), and refers primarily to amounts recognized in 2018 that will also involve subsequent years, and residually to prepaid commissions on the Parent Company's euro 40 million senior revolving credit facility, of which euro 10 million had been used as at December 31, 2018.

6. NON-CURRENT FINANCIAL ASSETS

This item amounted to euro 2,513 thousand on December 31, 2018 (euro 3,171 thousand in 2017), referring primarily to a euro 5,000 thousand loan granted by the Parent Company to a third party, on which interest accrues at market rates and whose repayments began in 2013 (with installments until 2022). The current portion receivable, recognized among current financial assets, is euro 744 thousand.

7. INVENTORIES

Inventories are detailed below:

Inventories *(euro/000)*	**12/31/2018**	**12/31/2017**
Finished goods	121,296	112,309
Raw material	15,867	14,053
Work in progress	19,754	18,914
Gross inventory	**156,917**	**145,276**
Inventory provision	(30,856)	(22,694)
Net inventory	**126,061**	**122,582**

Net inventories rose by euro 3,479 thousand from the previous year. The fluctuation is attributable to a euro 11,641 thousand increase in the inventory itself and a euro 8,162 thousand increase in the inventory impairment provision. The increase in inventory identified at the end of 2018 is primarily the result of procurement relating to the new brands that have recently joined the Group's brand portfolio. In 2018 management acted to steadily reduce inventories and improve the efficiency of inventory management by reducing the number of models produced and accelerating the sales period for them.

The inventory impairment provision provides adequate coverage for obsolete and slow-moving inventory, taking into account the composition of and possibility to sell such inventory. The increase in the provision is attributable largely to extraordinary writedowns for certain brands referring to licensing agreements ended at the end of 2018.

8. TRADE RECEIVABLES

The composition of the trade receivables is as follows:

Trade receivables *(euro/000)*	**12/31/2018**	**12/31/2017**
Gross trade receivables	104,786	95,950
Provision for bad debts	(12,794)	(8,277)
Net trade receivables	**91,992**	**87,674**
Provision for returns	-	(5,582)
Total trade receivables	**91,992**	**82,091**

Net trade receivables rose by euro 9,901 thousand. Trade receivables, up from those of the prior year, were largely affected by the sales increase. In fact, the increase was not impacted by a worsening of credit quality, thanks to the Group's strategies to reduce the average collection period, or "days sales outstanding" (DSO).

The amount of receivables recognized was not discounted, since all receivables are due within 12 months.

The provision for doubtful debts was affected by a different calculation in 2018 according to the new accounting standard, IFRS 9. More information is provided in the section on financial risk factors.

The returns provision at December 31, 2018 is classified with other items of the Statement of Financial Position, as required by IFRS 15. Additional information is provided in the section on accounting standards.

9. OTHER CURRENT ASSETS

The composition of other current assets is shown below:

Other current assets *(euro/000)*	**12/31/2018**	**12/31/2017**
Tax credits	12,793	6,190
Prepaid expenses	7,650	4,870
Assets for rights to receive goods back	8,353	-
Other receivables	3,332	3,620
Total other current assets	**32,128**	**14,680**

This item, euro 32,128 thousand (euro 14,680 thousand in 2017), presents an increase of euro 17,189 thousand from the prior year.

The tax credits consist mainly of VAT and taxes paid on account. The annual increase of euro 6,602 thousand is attributable primarily to the rise in the Parent Company's VAT credits deriving from a different mix compared with the prior year of the purchasing and sales liable to VAT in the final months of the year. The increase will be offset in the initial months of 2019.

"Other receivables" consists primarily of amounts due from 3 Cime S.p.A. under the tax consolidation agreement in effect with that company. The balance due from 3 Cime S.p.A. at December 31, 2018 is euro 7,038 thousand, versus euro 3,812 thousand as at December 31, 2017. The increase derives mainly from the recognition of receivables transferred to the head entity emerging when the tax return was filed in October 2018, offset in part by tax consolidation expense as a result of Marcolin S.p.A.'s income subject to IRES in 2018.

The right-of-return assets comprise the estimated assets for the right to recover products returned, recognized in accordance with IFRS 15. Additional information is provided herein in the section on accounting standards.

"Other assets" consists mainly of prepaid insurance premiums and other costs for projects relating to 2019.

10. CURRENT FINANCIAL ASSETS

This item, euro 21,294 thousand at December 31, 2018 (euro 13,332 thousand in 2017), refers primarily to euro 20,539 thousand due to Marcolin S.p.A. by Thélios S.p.A. under the loan agreement stipulated with the associate to enable the latter to finance the start-up of its business. Euro 744 thousand refers to the current portion due on a loan granted by Marcolin S.p.A. to a third party which accrues interest at market rates, and whose repayments began in 2013 (with installments until 2022).

At December 31, 2017 the item included euro 128 thousand referring to the fair value of a swaption stipulated by Marcolin S.p.A. on July 17, 2017 to cover the risk deriving from fluctuations of the Euribor which, increased by a 4.125% spread, formed the interest rate of the new notes issued on February 10, 2017. The swaption would have enabled, on November 18, 2018, to exercise the option of entering into an interest rate swap (IRS) expiring on May 18, 2021. The option was not exercised and the swaption expired. If the IRS, with a notional amount of euro 180 million, had been purchased by exercising the option, it would have enabled to replace the three-month variable Euribor rate with a fixed interest rate of 0.5%, thereby mitigating the risk of fluctuations of the variable interest rate. Based on the value of the Euribor in 2018, the fair value of the swaption was reduced from the initial euro 128 thousand as at December 31, 2017 to zero at the date on which the option could be exercised. The difference is recognized in the Income Statement as financial interest expense.

11. CASH AND BANK BALANCES

This item represents the value of cash deposits and highly liquid financial instruments, i.e. those with a maturity of up to three months.
It decreased by euro 6,621 thousand in the period. The decrease is shown in the Consolidated Statement of Cash Flows, which provides information on the 2018 movements in cash and cash equivalents.

12. EQUITY

The Parent Company's share capital is euro 35,902,749.82, fully paid-in, comprised of 61,458,375 ordinary shares without par value and 6,828,708 Class B shares without par value issued on October 5, 2018 to the new shareholder, Vicuna Holding S.p.A. The entry of the new shareholder, Vicuna Holding S.p.A., was part of a broader plan for a joint venture agreement with the LVMH Group, stipulated in 2017. Share capital was increased by euro 3,590,274.82 with a share premium of euro 18,309,725.18.

As at December 31, 2018, 90% of the share capital was owned by 3 Cime S.p.A. and 10% by Vicuna Holding S.p.A.

The share premium reserve was euro 170,304 thousand as at December 31, 2018, and the capital reserve account remained unchanged at euro 46,108 thousand.

The legal reserve of euro 4,263 thousand has not reached the limit imposed by Italian Civil Code Article 2430.

The foreign currency translation reserve, euro 5,303 thousand, refers to the translation into euros of the financial statements of Group companies whose functional currency differs from the euro. The euro 5,673 thousand increase from the prior year is directly attributable to changes in currency exchange rates during the year. The appreciation of the U.S. dollar against the euro in 2018 had a significant impact; it rose by 4.5% from December 31, 2017 to December 31, 2018.

The other reserves, euro -6,313 thousand, include the euro 3,765 thousand foreign exchange difference on the intercompany loan denominated in U.S. dollars granted by Marcolin S.p.A. to subsidiary Marcolin USA Eyewear Corp. On November 18, 2016, pursuant to a Board of Directors' meeting held on October 27, 2016 by Marcolin S.p.A., the intercompany loan's maturity date was terminated without providing for repayment of the loan in the foreseeable future. Therefore, in accordance with IAS 21, the loan to the American subsidiary is classified as a quasi-equity loan, so all the exchange differences associated with it are recognized in the consolidated financial statements in a specific equity reserve, like the exchange differences of financial statements denominated in foreign currency.

The actuarial reserve regards future employee benefits accounted for under IAS 19, corresponding to Marcolin S.p.A.'s provision for severance indemnities.

The retained earnings/losses contain the amount deriving from first-time adoption of IFRS 9 and IFRS 15.

The Consolidated Statement of Changes in Equity provides more detailed information.

13. NON-CURRENT FINANCIAL LIABILITIES

This item, euro 252,226 thousand, was euro 255,355 thousand at the end of 2017; it has decreased by euro 3,129 thousand. The item consists primarily of the value of the bond notes subscribed on February 10, 2017 for euro 250 million[10].
The notes issued, which mature in 2023, are classified as non-current financial liabilities, and the related payable is accounted for in accordance with IFRS 9 with the amortized cost method in order to defer the transaction costs pertaining to future periods and to recognize them with the effective interest rate method. With respect to this financing, costs totaling euro 6,715 thousand were deferred, including euro 1,159 thousand pertaining to 2018, for a total amount of euro 4,677 thousand in costs deferred so far.

Within the scope of the refinancing transaction, a super senior revolving credit facility of euro 40 million was stipulated, of which euro 10 million had been used as at December 31, 2018, by Credit Suisse International, Deutsche Bank AG and Unicredit S.p.A., to be used for ordinary cash flow demands. With respect to this financing, accounted for with the non-current financial liabilities, costs totaling euro 260 thousand were deferred, including euro 43 thousand pertaining to 2018, for a total amount of euro 179 thousand in costs deferred so far.

For the sake of exhaustive disclosure, the net financial position is set forth below. More information is provided in the Report on Operations.

Net financial debt *(euro/000)*	**12/31/2018**	**12/31/2017**
Cash and cash equivalents	34,184	40,805
Current and non-current financial assets	23,807	16,503
Current financial liabilities	(37,197)	(34,442)
Current portion of non-current financial liabilities	(3,017)	(4,928)
Non-current financial liabilities	(252,226)	(255,355)
Total	**(234,449)**	**(237,417)**

In addition to the commitments described subsequently (in Note 20) for the revolving credit facility, commitments to meet financial covenants exist at a consolidated level for Marcolin S.p.A. and its subsidiaries. According to an analysis conducted at the time of preparation of these Notes, all the covenants were met as at December 31, 2018.

14. NON-CURRENT PROVISIONS

This item amounts to euro 6,382 thousand (euro 7,336 thousand in 2017), showing a decrease of euro 920 thousand.

The amounts of the long-term provisions and the relevant changes for the year and for the previous year are shown below:

[10] The notes, which have a six-year maturity and provide for voluntary early redemption, were issued in a single tranche on November 10, 2017. The key features are summarized below:
Purchasers: the notes may be offered and placed (1) in the United States, solely with qualified institutional buyers pursuant to Rule 144A of the U.S. Securities Act; (2) in Europe and in Italy solely with qualified investors pursuant to Directive 2003/71/EC, as subsequently amended and integrated, Italian Legislative Decree 58/1998 and CONSOB Regulation 11971/1999 for Issuers, unless in circumstances which are exempt from public offer rules.
Listing: (1) on the Luxembourg Stock Exchange for trading on the Euro MTF Market, and (2) with Borsa Italiana S.p.A. for trading on the extramot pro multilateral trading facility.
Issue Price: 100% (one hundred percent) of the nominal value of the notes, plus any accrued interest from the issue date.
Maturity Date: February 15, 2023.
Form: notes issued in registered form represented by (1) a global certificate representing the notes issued pursuant to Regulation S of the 1933 U.S. Securities Act, and (2) a global certificate representing the notes issued pursuant to Rule 144A of the 1933 U.S. Securities Act.
Interest Rate: Three-month Euribor (with a 0% floor) plus 4.125% per annum, reset quarterly.
Interest Payment Dates: February 15, May 15, August 15 and November 15 of each year, commencing on May 15, 2017 to the maturity date.

Non-current funds (euro/000)	Provision for severance employee indemnities	Provision for agency terminations	Other funds	Total
12/31/2016	**3,188**	**1,049**	**3,250**	**7,487**
Allowances	27	490	500	**1,017**
Use / reversal	(100)	(251)	(620)	**(972)**
Actuarial loss / (gain)	(9)	-	-	**(9)**
Translation difference	-	(35)	(151)	**(186)**
Other changes	-	-	-	**-**
12/31/2017	**3,104**	**1,253**	**2,978**	**7,336**
Allowances	72	219	600	**891**
Use / reversal	(215)	(173)	(1,423)	**(1,810)**
Actuarial loss / (gain)	(52)	-	-	**(52)**
Translation difference	-	(22)	38	**17**
12/31/2018	**2,908**	**1,277**	**2,194**	**6,382**

Employee benefits consist of the employee severance indemnity provision ("TFR") recognized in the Parent Company's financial statements for euro 2,908 thousand[11], which was measured with an actuarial calculation at the end of the year[12].
The additional information required under Revised IAS 19 is provided hereunder:

- sensitivity analysis of each significant actuarial assumption at the end of the year, showing effects of changes in actuarial assumptions reasonably possible at that date, in absolute terms:

Sensitivity analysis	DBO * at 12/31/2018
Inflation rate +0,25%	2,946
Inflation rate - 0,25%	2,882
Actuarial rate +0,25%	2,863
Actuarial rate - 0,25%	2,966
Turnover rate +1%	2,901
Turnover rate -1%	2,928

* Defined Benefit Obligation

- next year's service cost and average vesting period of the defined benefit obligation:

Next year service cost Vesting period	
Next year service cost	-
Vesting period	7.70

- payments foreseen under the plan:

Years	Payments foreseen
1	337
2	198
3	366
4	226
5	256

The provision for agency termination presents principally the liability regarding severance indemnities with respect to agents, and is calculated in accordance with the applicable regulations.

The provision for risks and charges presents the estimated amount, in a medium/long-term time horizon, of future obligations toward third parties for liabilities arising in previous periods. The use refers largely to payments made

[11] The provision consists of the benefits that accrued to employees until December 31, 2006 to be paid upon or subsequent to termination of employment: the TFR accruing from January 1, 2007 is treated as a defined contribution plan. By paying the contributions into (public and/or private) social security funds, the Company complies with all relevant obligations.

[12] The parameters used for the actuarial calculation are: 1) mortality rate: Table RG 48 of the Public Accounting Office; 2) disability rates: INPS table by age and gender; 3) personnel turnover rates: 5%; 4) frequency of severance payments: 2%; 5) discount/interest rate: 0.88%; 6) TFR growth rate: 2.8% for 2018, 2.7% for 2019, 3% for 2020 on; 7) inflation rate: 1.7% for 2018, 1.6% for 2019, 2% for 2020 on.

by Marcolin S.p.A. to the Italian Revenue Agency to conclude a tax assessment settlement procedure regarding years 2013, 2014 and 2015.

15. OTHER NON-CURRENT LIABILITIES

At the end of the period the amount of other non-current liabilities was euro 3,344 thousand (compared with the euro 4,689 thousand of 2017) and refers primarily to non-trade debts of Marcolin USA Eyewear Corp. that were partially paid during the year.

16. TRADE PAYABLES

The following table sets forth the trade payables by geographical area:

Trade payables by geographical area *(euro/000)*	**12/31/2018**	**12/31/2017**
Italy	72,338	42,056
Rest of Europe	3,092	6,476
North America	8,792	21,292
Rest of Word	65,911	56,997
Total	**150,134**	**126,821**

The trade payables at December 31, 2018 were substantially higher than those of the prior year as a result of a different procurement timing and thus different timing for the related payments. The recognized trade payables were not subject to discounting, as the amount is a reasonable representation of their fair value in consideration of the fact that there are no payables due beyond the short term.

In compliance with the disclosure requirements of IFRS 7, it is reported that on December 31, 2018 there were no past-due trade payables, excluding the accounts being disputed by the Company with suppliers, which are of immaterial amounts.

17. CURRENT FINANCIAL LIABILITIES

The current financial liabilities amount to euro 40,214 thousand (compared with the euro 39,369 thousand of 2017), up by euro 845 thousand year on year.

The item includes:

- euro 38,347 thousand in short-term borrowings from banks (euro 36,031 thousand in 2017);
- euro 1,866 thousand due to other financiers, primarily the interest accrued on the bond notes (euro 3,338 thousand in 2017).

The following table presents the maturities of the financial payables, which are classified as either current financial liabilities or non-current financial liabilities.

Borrowings maturity *(euro/000)*	**Within 1 year**	**From 1 to 3 years**	**From 3 to 5 years**	**More than 5 years**	**Total**
Credit lines used	10,169	-	-	-	**10,169**
Loans	28,179	2,010	-	-	**30,189**
Other financiers	1,866	4,893	245,323	-	**252,082**
12/31/2018	**40,214**	**6,903**	**245,323**	**-**	**292,439**

No instruments to hedge against currency risk were in place as at December 31, 2018.

18. CURRENT PROVISIONS

The table below presents the most significant changes of the year and of the previous year:

Current funds (euro/000)	Other funds	Returns Reserve	Warranty provision	Total Other funds
12/31/2016	**352**	**-**	**-**	**352**
Allowances	235	-	-	**235**
Use / reversal	(169)	-	-	**(169)**
Translation difference	-	-	-	**-**
Other changes	-	-	-	**-**
12/31/2017	**418**	**-**	**-**	**418**
Adjustment for IFRS15 adoption	-	10,164	2,895	**13,059**
Allowances	147	11,435	3,187	**14,769**
Use / reversal	(235)	(10,164)	(2,895)	**(13,294)**
Translation difference	-	199	11	**210**
Other changes	-	-	-	**-**
12/31/2018	**330**	**11,634**	**3,198**	**15,162**

The current provisions amount to 15,162 euro thousand as at December 31, 2018.
The other provisions, which totaled euro 330 thousand, refer to potential risks originating mainly from legal obligations.
The returns provision and product warranty provision were affected by the implementation of IFRS 15. Additional information is provided in the section on accounting standards.

19. OTHER CURRENT LIABILITIES

Below are the details of the other liabilities:

Other current liabilities (euro/000)	12/31/2018	12/31/2017
Payables to personnel	21,710	18,806
Social security payables	3,725	3,470
Other accrued expenses and deferred income	5,413	5,227
Total other current liabilities	**30,848**	**27,503**

The other current liabilities consist primarily of euro 21,710 thousand due to personnel (euro 18,806 thousand in 2017), euro 3,725 thousand due to social security authorities (euro 3,470 thousand in 2017), and other accrued expenses and deferred income of euro 5,413 thousand, including euro 1,111 thousand for the amount due to 3 Cime S.p.A. regarding dividends totaling euro 25,900 thousand distributed pursuant to the General Meeting resolution passed on February 10, 2017.

20. COMMITMENTS AND GUARANTEES

Guarantees associated with the bond issue

With a notarial deed dated January 31, 2017, the Board of Directors passed a resolution to issue non-convertible senior-secured notes; with a determination deed drawn up by a specifically designated director on February 3, 2017, and in implementation of the Board of Directors' mandate of January 31, 2017, the terms and conditions for the issuance of notes of nominal euro 250,000,000 were established.
The notes are secured by collateral provided by Marcolin S.p.A (the "Issuer") and by some subsidiaries of the Issuer for the exact amount of payment obligations assumed by the Issuer with the bondholders:

- a pledge over the shares of the Issuer representing 100% (one hundred percent) of share capital;
- an assignment of the Issuer’s receivables under the intercompany loans due from the following companies: Marcolin Nordic AB (February 12, 2015 loan agreement) and Marcolin U.S.A. Eyewear Corp. (December 3, 2013 loan agreement) (Intercompany Loan Agreement, which originally also included the loan to Marcolin International B.V., subsequently extinguished when such company was absorbed by Marcolin S.p.A., effective for legal purposes on December 31, 2017);
- a pledge over all Marcolin (UK) Limited shares owned by the Issuer;
- a pledge over all Marcolin France S.a.s. shares owned by the Issuer;
- a pledge over all Marcolin (Deutschland) Gmbh shares owned by the Issuer;
- a pledge over all the Marcolin U.S.A. Eyewear Corp. shares owned by the Issuer.;
- a pledge and security agreement from Marcolin U.S.A. Eyewear Corp. over its material assets;

- a special lien granted by Marcolin S.p.A. over movable assets assigned as security, including plants, existing works, concessions and capital goods.

Licenses

The Group has contracts in effect to use trademarks owned by third parties for the production and distribution of eyeglass frames and sunglasses.
Those contracts require payment of guaranteed minimum royalties over the duration of the contracts; at December 31, 2018 these future commitments amounted to euro 389,890 thousand (euro 352,855 thousand in 2017), including euro 67,571 thousand falling due within the next year.

Guaranteed minimum Royalties due *(euro/000)*	**12/31/2018**	**12/31/2017**
Within one year	67,571	72,728
In one to five years	248,367	215,119
After five years	73,952	65,009
Total	**389,890**	**352,855**

Rent and leases

Details of the rent and operating lease commitments are shown below, in accordance with IAS 17:

Commitments *(euro/000)*	**12/31/2018**	**12/31/2017**
Rent due		
Within one year	4.387	4.071
In one to five years	9.376	10.691
After five years	3.987	4.620
Total	**17.750**	**19.382**
Operating lease payments		
Within one year	888	1.115
In one to five years	1.033	871
Total	**1.921**	**1.986**
TOTAL	**19.671**	**21.369**

The rent commitments refer mainly to the office leases of the American affiliate.
The table above is not laid out in accordance with the new accounting standard, IFRS 16, which became effective on January 1, 2019, so the amounts presented therein are not directly comparable with the disclosures on the expected future effects of IFRS 16 implementation, required by IAS 8, described in the section on accounting standards.

The Group also has guarantees for third parties of euro 213 thousand (euro 225 thousand in 2017).

MARCOLIN GROUP CONSOLIDATED INCOME STATEMENT

The Group's Consolidated Income Statement results are presented in comparison with the 2017 results.

21. REVENUE

The following table sets forth the 2018 net sales revenue by geographical area:

Net Revenues by geographical area	2018		2017		Change	
(euro/000)	euro	% of total	euro	% of total	euro	%
Italy	*34,203*	*7.1%*	*33,110*	*7.1%*	*1,093*	*3.3%*
Rest of Europe	*144,570*	*30.0%*	*138,255*	*29.5%*	*6,315*	*4.6%*
Europe	178,774	37.1%	171,365	36.5%	7,409	4.3%
Americas	198,777	41.2%	188,495	40.2%	10,282	5.5%
Asia	36,372	7.5%	35,112	7.5%	1,259	3.6%
Rest of World	68,294	14.2%	74,171	15.8%	(5,877)	-7.9%
Total	**482,219**	**100.0%**	**469,143**	**100.0%**	**13,077**	**2.8%**

The 2018 revenue is euro 482,219 thousand, compared with euro 469,143 thousand in 2017.
The Report on Operations provides a description of revenue by geographical area.

22. COST OF SALES

The following table shows a detailed breakdown of the cost of sales:

Cost of sales *(euro/000)*	2018	% of net revenues	2017	% of net revenues
Cost of product	190,471	39.5%	180,377	38.4%
Cost of personnel	11,490	2.4%	9,687	2.1%
Amortization, depreciation and writedowns	3,482	0.7%	3,269	0.7%
Other costs	1,784	0.4%	3,360	0.7%
Total	**207,227**	**43.0%**	**196,694**	**41.9%**

The cost of sales is euro 207,227 thousand, compared with euro 196,694 thousand for 2017.
The other expenses refer principally to purchasing charges (transport and customs) and business consulting services.

23. DISTRIBUTION AND MARKETING EXPENSES

Below is a detailed breakdown of the 2018 distribution and marketing expenses:

Distribution and marketing expenses *(euro/000)*	2018	% of net revenues	2017	% of net revenues
Costo del personale	55,636	11.5%	50,897	10.8%
Provvigioni	29,511	6.1%	28,681	6.1%
Ammortamenti e svalutazioni	11,272	2.3%	8,673	1.8%
Royalties	59,394	12.3%	56,699	12.1%
Pubblicità e PR	33,568	7.0%	33,192	7.1%
Altri costi	32,143	6.7%	29,469	6.3%
Total	**221,524**	**45.9%**	**207,610**	**44.3%**

They amount to euro 221,524 thousand, versus euro 207,610 thousand for 2017.

The cost of personnel includes non-recurring costs of euro 1,494 thousand referring to *ad-personam* agreements for changes in job positions.
With respect to advertising and public relations ("PR") expenses, such advertising and marketing expenditure continued to promote the brands managed, including both licensed and house brands; as a percentage of net sales, the expenditure remained consistent with that of the previous year.

Other costs include mainly business expenses such as shipping costs on sales, marketing expenses incurred for the sales network, services regarding the sales area, rent expense, travel expenses, telephone expenses, insurance costs and entertainment expenses.

24. GENERAL AND ADMINISTRATION EXPENSES

The general and administrative expenses are set forth below:

General and administrative expenses *(euro/000)*	**2018**	**% of net revenues**	**2017**	**% of net revenues**
Cost of personnel	16,045	3.3%	12,914	2.8%
Writedown of receivables	3,020	0.6%	2,245	0.5%
Amortization, depreciation and writedowns	4,307	0.9%	3,864	0.8%
Other costs	16,430	3.4%	15,358	3.3%
Total	**39,803**	**8.3%**	**34,380**	**7.3%**

The 2018 general and administrative expenses amount to euro 39,803 thousand, versus euro 34,380 thousand for 2017.

The other costs include the compensation of directors, statutory auditors, the independent auditing firm and other external professionals; general and administrative services, information technology expenses, general and administrative consulting services, telephone expenses, insurance costs, travel expenses, rent expense, rentals and other sundry expenses.

25. EMPLOYEES

The 2018 end-of-period and average numbers of employees of the various Group companies (including the work force on temporary contracts) are broken down below in comparison with the previous year:

Employees	**Final number**		**Average number**	
Category	**12/31/2018**	**12/31/2017**	**2018**	**2017**
Managers	118	69	102	60
Staff	1,066	1,043	1,060	1,011
Manual workers	766	736	786	745
Total	**1,950**	**1,848**	**1,948**	**1,816**

26. OTHER OPERATING INCOME AND EXPENSES

The operating income and expenses are set forth below:

Other operating income and expenses *(euro/000)*	**2018**	**% of net revenues**	**2017**	**% of net revenues**
Other income	15,366	3.2%	3,898	0.8%
Other expenses	(148)	(0.0%)	(329)	(0.1%)
Total	**15,217**	**3.2%**	**3,568**	**0.8%**

The balance of this item is net operating income of euro 15,217 thousand, compared with euro 3,568 thousand for the previous year, an increase of euro 11,649 thousand. The amount corresponds to 3.2% of net sales, compared

with the 0.8% of the previous year. The item consists mainly of various amounts charged back to third parties, contingent gains and losses, and insurance compensation.

27. SHARE OF PROFITS/(LOSSES) OF ASSOCIATES

The amount of this item, euro 9,011 thousand, corresponds to the effect of consolidation using the equity method of the interest in Thélios S.p.A. and its subsidiaries. Additional information is provided in Note 3 on investments in associates.

28. FINANCIAL INCOME AND COSTS

The details for financial income and costs are presented below:

Financial income and costs *(euro/000)*	**2018**	**% of net revenues**	**2017**	**% of net revenues**
Financial income	8,127	1.7%	10,272	2.2%
Financial costs	(32,201)	(6.7)%	(44,102)	(9.4)%
Total	**(24,073)**	**(5.0)%**	**(33,830)**	**(7.2)%**

The composition of financial income is shown below:

Financial income *(euro/000)*	**2018**	**% of net revenues**	**2017**	**% of net revenues**
Interest income and others	724	0.2%	687	0.1%
Gains on currency exchange	7,404	1.5%	9,585	2.0%
Total	**8,127**	**1.7%**	**10,272**	**2.2%**

The composition of finance costs is shown below:

Financial costs *(euro/000)*	**2018**	**% of net revenues**	**2017**	**% of net revenues**
Interest expense	(17,907)	(3.7)%	(32,915)	(7.0)%
Losses on currency exchange	(14,294)	(3.0)%	(11,187)	(2.4)%
Total	**(32,201)**	**(6.7)%**	**(44,102)**	**(9.4)%**

Financial income and costs result in net costs of euro 24,073 thousand, compared with net costs of euro 33,830 thousand for 2017.

The net finance costs are the balance between income of euro 8,127 thousand and costs of euro 32,201 thousand. The components are classifiable in two different categories: financial income and costs, and exchange differences.
The first component consists of:

- interest and other financial income of euro 724 thousand;
- interest expense of euro 17,907 thousand consisting primarily of:
    - interest of euro 10,313 thousand servicing the bond notes issued by Marcolin S.p.A., paid quarterly in February, May, August and November;
    - the reversal to the income statement of bond issuance transaction costs, accounted for under IFRS with the amortized cost method;
    - euro 6,506 thousand in net finance costs (euro 4,040 thousand referring to Marcolin S.p.A. and euro 2,466 thousand referring to subsidiaries) regarding to bank interest expense and actualization differences;
    - euro 128 thousand for the fair value change compared with December 31, 2017 of the swaption stipulated by Marcolin S.p.A. on July 17, 2017. Additional information is available in section 10 on current financial assets.

The previous year's balance of finance costs included euro 8,500 thousand paid to the bondholders for early redemption of the notes subscribed in 2013, redeemed on February 10, 2017 instead of the original maturity date in 2019.

With respect to the component of gains and losses on currency exchange, the balance is a net loss of euro 6,890 thousand for 2018, compared with a net loss of euro 1,602 thousand for the previous year. The difference is attributable primarily to unrealized losses ensuing from the 12% depreciation of the Brazilian real during the year, and to the recognition of items in the Income Statement that had been classified in the Statement of Comprehensive Income in the previous year. In accordance with IAS 21, since November 18, 2016 the translation adjustment to a loan denominated in U.S. dollars from Marcolin S.p.A. to Marcolin USA Eyewear Corp. has been recognized in equity because it is classifiable as a quasi-equity loan. Additional information is available in Note 12 on equity.

There were no currency hedges (on purchases and sales) in place as at December 31, 2018.

29. INCOME TAXES

Income taxes are euro 3,372 thousand, including current taxes of euro -2,663 thousand, net deferred taxes of euro 5,971 thousand, tax consolidation expense of euro -330 thousand and taxes referring to the previous period of euro 394 thousand.

Income tax expense *(euro/000)*	**2018**	**2017**
Current taxes	(2,922)	(5,259)
Deferred taxes	5,971	369
Income/(Expenses) from Tax Consolidation	(70)	(516)
Taxes relating to prior year	394	(2,689)
Total income tax expense	**3,372**	**(8,094)**

The Parent Company's current taxes for 2018 are euro -1,220 thousand, and those of foreign subsidiaries are euro -1,773 thousand. The deferred taxes refers to the Parent Company for euro -1,718 thousand and foreign subsidiaries for euro 7,689 thousand.
The tax consolidation expense refers entirely to the Parent Company's IRES due to 3 Cime S.p.A. under the tax consolidation agreement with the ultimate parent company, whose renewal for the three-year term of 2017 - 2019 was stipulated on March 31, 2017. Additional information is contained in the section on Italian tax consolidation at the beginning of these notes.

The current tax burden was determined on the basis of the taxable income of each company, taking into account the use of any accumulated tax losses and applying the tax rules and tax rates in force in each country.

The income taxes for the year are reconciled with the theoretical tax burden in the following table:

Tax rate reconciliation *(euro/000)*	**12/31/2018**		**12/31/2017**	
Results before tax		**(4,202)**		**(6,373)**
Theoretical taxes	24.0%	1,009	24.0%	1,530
Impact of foreign tax rate different from italian tax rate	28.5%	1,199	8.1%	514
IRAP and other	-15.2%	(638)	-0.1%	(7)
Higher taxes due to non-deductible costs	-81.4%	(3,421)	-14.2%	(903)
Lower taxes for non-taxable income	31.7%	1,334	7.8%	495
Taxes relating to prior year	9.4%	394	-42.2%	(2,689)
Unrecognised deferred tax assets on tax losses	-0.9%	(36)	-0.2%	(13)
Use of accumulated tax losses unrecognised deferred tax assets in previous year	4.0%	166	2.5%	162
Impact of tax change rates on taxes	0.0%	-	-125.0%	(7,969)
Activation of deferred tax assets unrecognised previous years	68.9%	2,894	16.1%	1,029
Other	11.2%	471	-3.8%	(243)
Total income taxe expense	**80.2%**	**3,372**	**-127.0%**	**(8,094)**

The French subsidiary allocated deferred tax assets of euro 3,102 thousand on accumulated tax losses, which had not been recognized previously, because they are now expected to be recovered in the next few years.
The significant difference in the reconciliation statement compared with 2017 regarding the effect of changes in tax rates on deferred taxes is attributable primarily to the U.S. tax reform, which in 2018 cut the corporate income tax rate from 35% to 21%, among other changes to the U.S. tax code.

Deferred taxes and the changes therein are presented in the following tables:

Deferred tax assets *(euro/000)*	**Temporary differences 12/31/2018**	**Tax on tamporary differences 12/31/2018**	**Temporary differences 12/31/2017**	**Tax on tamporary differences 12/31/2017**
Accumulated tax losses	57,284	13,518	35,640	8,038
Grants and compensation deductible on a cash basis	14,710	3,842	16,236	4,340
Non-deductible financial interest	21,776	5,485	20,785	5,113
Inventory provisions	26,409	6,716	17,810	4,495
Provision for return risks	7,368	1,930	3,284	816
Intangible assets subject to taxation	4,688	1,228	6,049	1,578
Taxed provision for doubtful debts	7,827	2,338	4,817	1,331
Unrealized currency exchange differences	3,268	1,062	18,377	4,582
Income from CFC (controlled foreign companies)	-	-	2,098	504
Non-deductible temporary amortization	1,933	593	(607)	562
Supplementary client indemnity provision	638	178	671	171
Other	4,381	1,239	2,475	1,100
Provisions for risks and charges	3,172	831	41	3
Intercompany profit	8,966	2,959	6,851	2,261
Total deferred tax assets	**162,419**	**41,916**	**134,526**	**34,895**

Deferred tax liabilities *(euro/000)*	**Temporary differences 12/31/2018**	**Tax on tamporary differences 12/31/2018**	**Temporary differences 12/31/2017**	**Tax on tamporary differences 12/31/2017**
Unrealized currency exchange differences	(18,036)	(4,351)	(7,947)	(1,908)
Property, plant and equipment and intangible assets	(8,516)	(1,862)	(9,183)	(1,873)
Equity-method accounting of JV and other equity investments	-	-	-	-
Finance costs deducted on a cash basis	(4,598)	(1,104)	(5,847)	(1,403)
Other	(2,073)	(551)	(1,152)	(378)
Actuarial gain / losses on TFR under IAS	(87)	(21)	98	16
Intercompany profit	-	-	-	-
Total deferred tax liabilities	**(33,310)**	**(7,889)**	**(24,031)**	**(5,546)**
Total deferred assets / liabilities	**129,109**	**34,028**	**110,496**	**29,349**

The difference compared with the prior year in the balance of deferred tax assets and liabilities in the Statement of Financial Position, euro 4,679 thousand, differs from the balance of euro 5,971 thousand shown in the Income Statement due to the following reasons:

- Recognition of deferred taxes on amounts accounted for in equity totaling euro 610 thousand, including euro -597 thousand for IFRS 9 adoption;
- Euro 1,357 thousand adjustment to deferred taxes pursuant to the preparation of the tax return in 2018, whose Income Statement component is classified as "taxes regarding prior periods";
- Euro -675 thousand adjustment deriving from the translation into euros of the accounts of Group companies whose functional currency differs from the euro.

The Group companies' tax losses are euro 4.7 million for which, out of prudence, deferred tax assets were not recognized. Based on the tax rates of the various companies involved, such deferred tax assets would amount to euro 1.2 million.

DISCLOSURE OF ATYPICAL, UNUSUAL AND RELATED-PARTY TRANSACTIONS

The information with respect to atypical and unusual transactions and transactions with related parties is disclosed in this section.

Significant non-recurring events and transactions

Significant non-recurring events and transactions that impacted the Group's financial position, financial performance and cash flows in 2018 regard some non-recurring costs, described in detail in the Report on Operations.

Atypical and unusual transactions

There were no atypical and/or unusual transactions, including with other Group companies, nor were there any transactions outside the scope of the ordinary business activity in 2018 that could significantly impact the financial position, financial performance or cash flows of Marcolin S.p.A. and the Group.

Transactions with related parties with and equity-accounted associates

In addition to the transactions between the consolidated companies, during the year transactions took place with the equity-accounted associates and other related parties.
Related-party transactions were of a trade nature, conducted on an arm's length basis, and regarded licensing agreements in particular.

The transactions and outstanding balances with respect to related parties as at December 31, 2018 are shown below, as required by IAS 24:

Company *(euro/000)*	**Costi**	**Ricavi**	**Debiti**	**Crediti**	**Type**
Other related parties					
Tod's S.p.A	2,255	576	938	154	Related party
Pai Partners Sas	60	-	60	-	Related party
Coffen Marcolin Family	603	-	218	-	Related party
O.T.B. Group	2,260	50	-	26	Related party
3 Cime S.p.A.	-	-	-	7,038	Consolidating
Thélios S.p.A.	13,847	19,809	6,983	20,639	Associates
Total	**19,026**	**20,434**	**8,199**	**27,856**	

The same table is set forth for 2017:

Company *(euro/000)*	**Expenses**	**Revenues**	**Payables**	**Receivables**	**Type**
Other related parties					
Tod's S.p.A	3,170	884	1,125	472	Related party
Pai Partners Sas	40	-	71	-	Related party
Famiglia Coffen Marcolin	641	-	200	-	Related party
O.T.B. Group	1,866	56	2,074	28	Related party
3 Cime S.p.A.	-	-	-	3,812	Consolidating
Thélios S.p.A.	-	11,862	-	12,883	Associates
Total	**5,718**	**12,801**	**3,470**	**17,195**	

All related-party transactions are carried out at arm's length.

The remuneration of the Group's Directors, Statutory Auditors and Key Management Personnel ("Others") is reported below:

	2018		**2017**	
(euro/000)	**Board of Directors**	**Statutory Auditors**	**Board of Directors**	**Statutory Auditors**
Base fee	255	100	375	100
Salaries and benefits	1,135	-	876	-
Total	**1,390**	**100**	**1,251**	**100**

Other information pursuant to Italian Civil Code Article 2427, point 16 bis

The following table presents the 2018 fees of the auditing firm, Pricewaterhouse Coopers S.p.A., for audit services performed by that firm, as required under Italian Civil Code Article 2427, point 16 *bis*:

Audit and other services *(euro/000)*	**Importo**
Audit for Marcolin S.p.A.	70
Audit for other subsidiaries	105
Other services for Marcolin S.p.A not for Audit	15
Total	**190**

Government grants

The 2017 annual law for market and competition required disclosure in the notes to the financial statements of grants, subsidies, paid engagements and all financial benefits in general received from public entities and companies controlled by public entities (Law n. 124 of August 4, 2017 – Article 1, paragraphs 125 to 129 – hereinafter "Law 124/2017"). Mandatory disclosure will become effective in 2019 regarding all financial benefits received from January 1, 2018. The information for Marcolin S.p.A. is set out below, based on a cash perpective.

"Superammortamento"

From January 1, 2017 to December 31, 2017, Marcolin S.p.A. incurred costs for investments in new capital goods for which it obtained a benefit called "superammortamento" by Law n. 208/2015 (Article 1, paragraph 91 and subsequents) and its amendments, the amount of which was reported in the tax return filed in 2018 as euro 448,576.

"Industria 2015" -- New Technologies for Made in Italy, from the District to the Production Line: Eyewear and manufacturing innovation

In 2010, the research, development and innovation project "Industria 2015" -- New Technologies for Made in Italy, from the District to the Production Line: Eyewear and manufacturing innovation, Objective B Area, Project Number MI00153 was launched. The purpose of the project was to create a platform for supply chain integration that operates on the technical and operational aspects of the companies, which should encourage the competitive and technological development of Italian eyewear business systems. The platform should enable marketing and supply chain events to be communicated quickly to the entire production process, and any critical issues leading to changes in supply chain planning to be made visible rapidly to all interested parties. The platform will also create interactive communications between the various parties in the supply chain.
Under Ministry of Economic Development Decree n. 00098MI01 dated December 21, 2013, expenses of euro 13,747,949 and total facilities of euro 4,247,627 were granted. Marcolin S.p.A.'s investment is euro 849,686.49 with a total contribution to expenses of euro 182,790.90, as budgeted. In 2016 the Company received euro 25,108.85 of the grant.

Optional tax incentive regime for income deriving from the use of intellectual property

In 2015 the Company filed an application with the Italian Revenue Agency for the assessment of tax benefits available under the Ministerial decree of July 30, 2015 regarding the optional tax incentive regime for income deriving from the use of intellectual property, patents, trademarks, industrial designs and models as well as processes, formulas and trade secrets obtained in legally protected industrial, business or scientific fields. Following the necessary preliminary activities, on July 31, 2018 an agreement was stipulated with the Italian Revenue Agency. A direct tax benefit of euro 4.3 million was obtained. The benefit accounted for in 2018 refers to the years 2015 to 2018, and it was determined through the identification, gathering and processing of financial information directly attributable to certain brands that are part of the Company's portfolio.

Investment bonus

In 2018 the Company offset tax liabilities with euro 52 thousand, through Form F24, constituting the second of three installments granted as a benefit under Decree-Law 91/2014 totaling euro 155 thousand referring to investments made in 2015.

In 2018 the Company offset tax liabilities with euro 8 thousand, through Form F24, constituting the last of three installments granted as a benefit under Decree-Law 91/2014 totaling euro 25 thousand referring to investments made in 2014.

Subsequent events

The subsequent events are described in the specific section of the Report on Operations.

INDEPENDENT AUDITORS' REPORT

ON THE CONSOLIDATED FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS IN ACCORDANCE WITH LEGISLATIVE DECREE N. 39, ARTICLE 14 OF JANUARY 27, 2010

Independent auditor's report

in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010

To the shareholders of Marcolin SpA

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Marcolin Group (the Group), which comprise the statement of financial position as of 31 December 2018, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2018, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

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

Responsibilities of the Directors and the Board of Statutory Auditors for the Consolidated Financial Statements

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and, in the terms prescribed by law, for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

PricewaterhouseCoopers SpA

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The directors are responsible for assessing the Group's ability to continue as a going concern and, in preparing the consolidated financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the consolidated financial statements, the directors use the going concern basis of accounting unless they either intend to liquidate Marcolin SpA or to cease operations, or have no realistic alternative but to do so.

The board of statutory auditors is responsible for overseeing, in the terms prescribed by law, the Group's financial reporting process.

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

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

As part of our audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised professional judgement and maintained professional scepticism throughout the audit. Furthermore:

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

- We obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

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

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/2010

The directors of Marcolin SpA are responsible for preparing a report on operations of the Marcolin Group as of 31 December 2018, including its consistency with the relevant consolidated financial statements and its compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations with the consolidated financial statements of the Marcolin Group as of 31 December 2018 and on its compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations is consistent with the consolidated financial statements of Marcolin Group as of 31 December 2018 and is prepared in compliance with the law.
With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/2010, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

Treviso, 13 March 2019

PricewaterhouseCoopers SpA

Signed by

Filippo Zagagnin
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers

MARCOLIN S.p.A. FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

STATEMENT OF FINANCIAL POSITION
INCOME STATEMENT
STATEMENT OF COMPREHENSIVE INCOME
STATEMENT OF CHANGES IN EQUITY
STATEMENT OF CASH FLOWS

STATEMENT OF FINANCIAL POSITION

(euro)	Notes	12/31/2018	12/31/2017
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	1	23,302,214	23,565,432
Intangible assets	2	22,275,102	23,276,942
Goodwill	2	186,226,529	186,226,529
Investments in subsidiaries and associates	3	94,969,224	85,166,954
Deferred tax assets	27	12,042,740	12,961,154
Other non-current assets	4	4,057,207	2,416,519
Non-current financial assets	5	111,395,306	107,152,466
Total non-current assets		**454,268,322**	**440,765,996**
CURRENT ASSETS			
Inventories	6	73,051,840	74,007,784
Trade receivables	7	92,136,831	80,125,250
Other current assets	8	19,285,634	7,292,157
Current financial assets	9	42,096,829	45,858,053
Cash and cash equivalents	10	9,245,841	26,330,100
Total current assets		**235,816,974**	**233,613,344**
TOTAL ASSETS		**690,085,296**	**674,379,340**
EQUITY	11		
Share capital		35,902,750	35,902,750
Additional paid-in capital		42,827,001	42,827,001
Legal reserve		4,263,080	4,263,080
Other reserves		46,956,591	46,903,006
Retained earnings (losses)		70,328,196	81,770,242
Profit (loss) for the period		24,396,064	(10,752,725)
TOTAL EQUITY		**224,673,683**	**200,913,354**
LIABILITIES			
NON-CURRENT LIABILITIES			
Non-current financial liabilities	12	248,152,402	252,180,164
Non-current funds	13	5,375,714	6,305,895
Deferred tax liabilities	27	5,925,476	3,896,093
Other non-current liabilities	14	50,000	50,000
Total non-current liabilities		**259,503,593**	**262,432,153**
CURRENT LIABILITIES			
Trade payables	15	124,503,523	119,017,376
Current financial liabilities	16	58,934,898	77,944,746
Current funds	17	4,585,393	1,018,099
Tax liabilities	27	1,492,013	1,545,190
Other current liabilities	18	16,392,192	11,508,422
Total current liabilities		**205,908,020**	**211,033,833**
TOTAL LIABILITIES		**465,411,613**	**473,465,986**
TOTAL LIABILITIES AND EQUITY		**690,085,296**	**674,379,341**

INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME

(euro)	Notes	2018	%	2017	%
Net revenues	20	272,997,166	100.0%	258,966,982	100.0%
Cost of sales	21	(158,073,824)	(57.9)%	(146,862,128)	(56.7)%
GROSS PROFIT		**114,923,342**	**42.1%**	**112,104,854**	**43.3%**
Distribution and marketing expenses	22	(96,157,453)	(35.2)%	(92,288,229)	(35.6)%
General and administrative expenses	23	(15,155,553)	(5.6)%	(12,815,780)	(4.9)%
Other operating income/(expenses)	25	9,666,811	3.5%	7,854,427	3.0%
OPERATING INCOME – EBIT		**13,277,147**	**4.9%**	**14,855,272**	**5.7%**
Income/(expenses) from investments in subsidiaries	26	14,105,552	5.2%	900,000	0.3%
Financial income	27	21,033,181	7.7%	19,288,667	7.4%
Financial costs	27	(21,547,799)	(7.9)%	(46,373,458)	(17.9)%
PROFIT (LOSS) BEFORE TAXES		**26,868,081**	**9.8%**	**(11,329,519)**	**(4.4)%**
Income tax expense	28	(2,472,017)	(0.9)%	576,794	0.2%
NET PROFIT (LOSS) FOR THE PERIOD		**24,396,064**	**8.9%**	**(10,752,725)**	**(4.2)%**

(euro)	2018	2017
NET PROFIT (LOSS) FOR THE PERIOD	**24,396,064**	**(10,752,725)**
Other items that will be not subsequently reclassified to profit or loss:		
Effect (actuarial gain/losses) on defined benefit plans, net of taxes	53,585	7,157
TOTAL OTHER ITEMS THAT WILL NOT SUBSEQUENTLY RECLASSIFIED TO PROFIT OR LOSS	**53,585**	**7,157**
Other items that will be subsequently reclassified to profit or loss:		
- Hedge accounting effect (cash flow hedge) of derivatives, net of fiscal effect	-	-
TOTAL OTHER ITEMS THAT WILL BE SUBSEQUENTLY RECLASSIFIED TO PROFIT OR LOSS	**-**	**-**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**24,449,650**	**(10,745,568)**

STATEMENT OF CHANGES IN EQUITY

(euro)	Share capital	Additional paid-in capital	Legal Reserve	Other reserves				Profit (loss) for the period	Total equity
				S.holders deposit in s/capital	Other	Actuarial gain / (loss) reserve	Retained earnings/ (losses)		
December 31, 2016	**32,312,475**	**24,517,276**	**4,077,295**	**46,107,590**	**(316,590)**	**(601,560)**	**104,140,321**	**3,715,706**	**213,952,514**
Allocation of 2016 profit	-	-	185,785	-	-	-	3,529,921	(3,715,706)	-
Dividends distribution	-	-	-	-	-	-	(25,900,000)	-	(25,900,000)
Share capital increase	3,590,275	18,309,725	-	-	-	-	-	-	21,900,000
Merger effect of Marcolin International BV	-	-	-	-	2,915,584	-	-	-	2,915,584
Other movements	-	-	-	-	(1,209,175)	-	-	-	(1,209,175)
- Period result	-	-	-	-	-	-	-	*(10,752,725.05)*	*(10,752,725)*
- Other components of comprehensive income	-	-	-	-	-	*7,157*	-	-	*7,157*
Total comprehensive income	-	-	-	-	-	7,157	-	(10,752,725)	(10,745,568)
December 31, 2017	**35,902,750**	**42,827,001**	**4,263,080**	**46,107,590**	**1,389,819**	**(594,403)**	**81,770,242**	**(10,752,725)**	**200,913,355**
Allocation of 2017 loss	-	-	-	-	-	-	(10,752,725)	10,752,725	-
IFRS9 impacts	-	-	-	-	-	-	(689,321)	-	(689,321)
- Period result	-	-	-	-	-	-	-	*24,396,064.34*	24,396,064
- Other components of comprehensive income	-	-	-	-	-	*53,585*	-	-	53,585
Total comprehensive income	-	-	-	-	-	53,585	-	24,396,064	24,449,650
December 31, 2018	**35,902,750**	**42,827,001**	**4,263,080**	**46,107,590**	**1,389,819**	**(540,818)**	**70,328,196**	**24,396,064**	**224,673,684**

STATEMENT OF CASH FLOWS

(euro)	Note	12/31/2018	12/31/2017
OPERATING ACTIVITIES			
Profit (loss) for the period		24,396,064	(10,752,725)
Depreciation and amortization		12,254,848	11,101,674
Provisions		6,980,393	1,516,066
Income tax expense		2,472,017	(576,794)
Accrued interest expense		514,618	27,084,792
Adjustments to other non-cash items		(14,221,465)	(1,489,351)
Cash generated by operations		*32,396,475*	*26,883,662*
Cash generated by change in operating working capital		*(10,330,168)*	*(4,317,445)*
(Increase) decrease in other assets		(8,339,090)	(1,477,971)
(Decrease)/increase in other liabilities		3,275,230	1,423,107
(Use) of current and non-current provisions		(1,965,000)	(198,000)
(Decrease)/increase in current tax liabilities		2,143	(6,354)
Adjustments to other non-cash items		-	-
Other elements in working capital		*(7,026,716)*	*(259,218)*
Income taxes paid		(378,000)	(994,793)
Interest received		10,144,008	996,492
Interest paid		(12,514,000)	(25,541,575)
Total cash generated by change in other items of net working capital		*(9,774,708)*	*(25,799,095)*
Net cash from /(used in) net working capital		(20,104,876)	(30,116,540)
Net cash from /(used in) operating activities		**12,291,599**	**(3,232,878)**
INVESTING ACTIVITIES			
(Purchase) of property, plant and equipment		(4,998,777)	(5,420,100)
Disposal of property, plant and equipment		657,913	190,000
(Investments) in intangible assets		(6,533,013)	(4,294,561)
Disposal in intangible assets		-	327,000
(Purchase) minority shareholders share		-	(900,000)
Net (Investments)/disposal in investment in subsidiaries and associates		(9,802,270)	(558,830)
Merger MBV		-	5,744
Cash out from business combination net of liquidity acquired (Marcolin Middle East FZCO)		-	(3,762,000)
Cash out on business combinations net of liquidity acquired (Thélios S.p.A.)		-	(5,697,849)
Cash out from business combinations net of liquidity acquired (LATAM)		-	(417,266)
Net cash from /(used in) investing activities		**(20,676,147)**	**(20,527,862)**
FINANCING ACTIVITIES			
Financial Assets			
- (Proceeds)		-	(24,490,448)
- Repayments		2,744,000	-
Financial Loans from banks			
- Proceeds		-	13,500,000
- (Repayments)		(9,673,000)	(9,219,820)
Other current and non current financial liabilities		*(16,034,501)*	*41,322,210*
Capital increase		-	21,900,000
Dividends cash in		14,105,552	900,000
Dividends paid		-	(24,793,000)
Change in reserves		-	-
Net cash from /(used in) financing activities		**(8,857,949)**	**19,118,942**
Net increase/(decrease) in cash and cash equivalents		**(17,242,497)**	**(4,641,798)**
Effect of foreign exchange rate changes		158,000	(701,272)
Cash and cash equivalents at beginning of year		**26,330,100**	**31,673,170**
Cash and cash equivalents at end of year		**9,245,841**	**26,330,100**

NOTES TO THE SEPARATE FINANCIAL STATEMENTS OF MARCOLIN S.P.A. FOR THE YEAR ENDED DECEMBER 31, 2018

Introduction

The Parent Company's share capital is euro 35,902,749.82, fully paid-in, comprised of 61,458,375 ordinary shares without par value and 6,828,708 Class B shares without par value issued on October 5, 2017 to the new shareholder, Vicuna Holding S.p.A. Vicuna Holding S.p.A. became a shareholder as part of a broader plan for a joint venture agreement with the LVMH Group, which was stipulated in 2017. Share capital was increased by euro 3,590,274.82 with a share premium of euro 18,309,725.18.

Accordingly, 90% of the share capital was owned by 3 Cime S.p.A. (parent company of Marmolada S.p.A., which took over the latter by way of a merger of Marmolada S.p.A. into 3 Cime S.p.A. on November 27, 2017) and 10% by Vicuna Holding S.p.A. as at December 31, 2018.

The Marcolin shares owned by 3 Cime S.p.A. (pursuant to the absorption of Marmolada S.p.A. with a merger deed dated November 27, 2017) are encumbered by liens initially emerging at the end of 2013 due to the issuance of bond notes, secured by collateral for the same amount of the obligations assumed with the bondholders, including a lien on the shares of the Issuer, Marcolin. On February 10, 2017 the bond notes were redeemed early when new notes were issued. The new notes also involve a lien on the shares of Marcolin S.p.A. owned by 3 Cime S.p.A.

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General Information

The explanatory notes set out below form an integral part of the Separate Financial Statements of Marcolin S.p.A. as at December 31, 2018, and were prepared on the basis of the accounting records updated to December 31, 2018.

For the purpose of providing exhaustive financial information, the Report on the Operations has been prepared, which contains additional information regarding the main events of the year, subsequent events, business outlook and other important financial and operational information of the business.

The financial statements were prepared on the basis of the going-concern assumption, the accrual basis of accounting and the historical cost basis, except for the measurement of financial assets and liabilities, which are required to be accounted for at fair value (and except for some revaluations performed in previous periods).

Marcolin S.p.A. is incorporated under Italian law, listed in the Belluno Companies Register with n. 01774690273, and has shares that until February 14, 2013 were traded in Italy on the Mercato Telematico Azionario (electronic stock exchange) organized and managed by Borsa Italiana S.p.A.

Marcolin S.p.A. is the Parent Company of the Marcolin Group, which operates in Italy and abroad in the design, manufacturing and distribution of eyeglass frames and sunglasses, including through direct and indirect management of business affiliates located in major countries of interest worldwide and qualified contract manufacturers.

The addresses of the locations from which the Company's main operations are performed are listed in the Report on Operations.

Pursuant to Article 2497-bis, paragraph 4 of the Italian Civil Code, we note that Marcolin S.p.A. is not subject to management and coordination activities by any entity.

The financial statements were authorized for issue by the Board of Directors on February 28, 2019.

ACCOUNTING STANDARDS

Basis of preparation

The Financial Statements were prepared according to the International Accounting Standards/International Financial Reporting Standards (IAS/IFRS) issued by the International Accounting Standards Board (IASB) and approved by the European Union.
The IFRS include all the revised international accounting standards (IAS) and all the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), the former Standing Interpretations Committee (SIC), which at the date of approval of the financial statements had been authorized by the European Union according to Regulation (EC) no. 1606/2002, enacted by the European Parliament and European Council on July 19, 2002.

The accounting policies adopted to prepare the Separate Financial Statements for the year ended December 31, 2018 are the same as those used in the prior year except as regards the adoption of the following new or revised IFRS or IFRIC.

New accounting standards and interpretations approved by the European Union and effective for periods beginning on or after January 1, 2018

The following new standards and amendments became effective on January 1, 2018:

IFRS 9 (Financial Instruments)

IFRS 9 (Financial Instruments) endorsed by the European Union on November 22, 2016 with Regulation n. 2016/2067. The new standard replaces IAS 39 (Financial Instruments: Recognition and Measurement) and all previous versions of IFRS 9. IFRS 9 brings together all aspects of accounting for financial instruments: classification, measurement, impairment and hedge accounting. The standard is effective for annual periods beginning on or after January 1, 2018. IFRS 9 must be applied retrospectively except regarding hedge accounting (applied prospectively, with some exceptions), but presenting comparative information is not required. The Parent Company adopted the new standard by the effective date.

Classification and measurement of financial assets and liabilities
Application of the IFRS 9 classification and measurement requirements did not significantly affect the Parent Company's financial statements. Loans and trade receivables are held until their contractual dates, and they are expected to generate cash flows represented solely by the collection of principal and interest. Therefore, Marcolin S.p.A. will continue to measure them at amortized cost, in accordance with IFRS 9.

Impairment
IFRS 9 requires the Company to account for expected losses on all its bond notes, loans and trade receivables, on an annual or remaining life basis. Marcolin S.p.A. has adopted a retrospective credit adjusted approach, given its business characteristics and the evaluation of the sales policies currently used, and has added euro 907 thousand to the provision for doubtful debts at January 1, 2018, with a contra entry in an equity reserve.

The following table summarizes the impact of IFRS 9 adoption on Marcolin S.p.A.'s retained earnings as at January 1, 2018:

(euro/000)	**Opening 1st January 2018**
Retained earnings (losses)	**81,770**
Bad debts reserve adjustments in accordance with IFRS9 (net of fiscal effect)	(689)
Retained (Retained earnings (losses) - IFRS9 adoption	**81,081**

Hedge Accounting
IFRS 9 introduces vast changes to rules and requirements for derivative instruments classified as hedges, simplifying the current IAS 39 framework and making more cases eligible for hedge accounting. The standard offers the possibility to choose whether to continue to apply IAS 39 or to adopt the prescriptions of IFRS 9. Marcolin S.p.A. does not have derivatives accounted for with the hedge accounting model, so the change made by IFRS 9 for measuring such instruments did not have any impact.

IFRS 15 (Revenue from contracts with customers)

IFRS 15 (Revenue from contracts with customers) endorsed by the European Union on September 22, 2016 with Regulation n. 2016/1905 and additional clarifications on IFRS 15 Revenue from Contracts with Customers endorsed by the European Union on October 31, 2017 with Regulation n. 2017/1987. The standard and guidelines supersede IAS 18 Revenue and IAS 11 Construction Contracts. IFRS 15 establishes a new model framework of five steps for recognizing revenues from contracts with customers (except those falling within the scope of application of other IAS/IFRS). The new standard requires recognizing revenue in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the transfer of goods or services to the customer.
Marcolin S.p.A. adopted the new standard on January 1, 2018. In accordance with the IFRS 15 transition rules, the Parent Company adopted the modified retrospective approach, by recognizing the cumulative effects of IFRS 15 adoption in a specific equity reserve on the first-time adoption date of the standard (January 1, 2018). The comparative information relating to 2017 was not restated; it is presented in accordance with IAS 18, IAS 11 and the related interpretations.
No effects of IFRS 15 adoption on Marcolin S.p.A.'s retained earnings are recognized at January 1, 2018.

Marcolin S.p.A.'s application of IFRS 15 primarily regarded the following:

- Sales with a right of return: in its sales activities, Marcolin S.p.A. grants its customers a right of return for certain products within a specific time period. If that right is exercised, Marcolin S.p.A. must refund the selling price to the customer. Under previous accounting standards, the Parent Company recognized a provision for returns, classified among the trade receivables, whose net amount was equal to the margin of the sales with a right of return (Euro 1,188 thousand as at December 31, 2017). Pursuant to IFRS 15, the revenues were adjusted by the estimated amount of the returns and the cost of sales was adjusted by the amount corresponding to the products that are expected to be returned. Accordingly, Marcolin S.p.A. accounted for the following at December 31, 2018:
    - a liability, classified within "current provisions", with a corresponding adjustment to revenues, for an amount of Euro 3,200 thousand as at December 31, 2018; and
    - an asset representing the right to recover the products from the customer when the right of return is exercised by the customer, classified within "other current assets", with a corresponding adjustment to the cost of sales, for an amount of Euro 2,071 thousand as at December 31, 2018.

The following table presents the effects of IFRS 15 on the 2018 Income Statement and on the Statement of Financial Position as at December 31, 2018 compared with the application of the previous accounting standards, IAS 18, IAS 11 and the related interpretations:

	12/31/2018		
(euro/000)	IAS18/IAS11	IFRS15	Change
Net revenues	273,205	272,997	208
Cost of sales	(158,282)	(158,074)	(208)
GROSS PROFIT	**114,923**	**114,923**	**-**
Distribution and marketing expenses	(96,157)	(96,157)	-
General and administrative expenses	(15,156)	(15,156)	-
Other operating income/(expenses)	9,667	9,667	-
OPERATING INCOME – EBIT	**13,277**	**13,277**	**-**
Income/(expenses) from investments in subsidiaries	14,106	14,106	-
Financial income	21,033	21,033	-
Financial costs	(21,548)	(21,548)	-
PROFIT (LOSS) BEFORE TAXES	**26,868**	**26,868**	**-**
Income tax expense	(2,472)	(2,472)	-
NET PROFIT (LOSS) FOR THE PERIOD	**24,396**	**24,396**	**-**

(euro/000)	12/31/2018 IAS18/IAS11	IFRS 15	Change
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	23,302	23,302	-
Intangible assets	22,275	22,275	-
Goodwill	186,227	186,227	-
Investments in subsidiaries and associates	94,969	94,969	-
Deferred tax assets	12,043	12,043	-
Other non-current assets	4,057	4,057	-
Non-current financial assets	111,395	111,395	-
Total non-current assets	**454,268**	**454,268**	**-**
CURRENT ASSETS			
Inventories	73,052	73,052	-
Trade receivables	91,008	92,137	(1,129)
Other current assets	17,215	19,286	(2,071)
Current financial assets	42,097	42,097	-
Cash and cash equivalents	9,246	9,246	-
Total current assets	**232,617**	**235,817**	**(3,200)**
TOTAL ASSETS	**686,885**	**690,085**	**(3,200)**
EQUITY			
Share capital	35,903	35,903	-
Additional paid-in capital	42,827	42,827	-
Legal reserve	4,263	4,263	-
Other reserves	46,957	46,957	-
Retained earnings (losses)	70,328	70,328	-
Profit (loss) for the period	24,396	24,396	-
TOTAL EQUITY	**224,674**	**224,674**	**-**
LIABILITIES			
NON-CURRENT LIABILITIES			
Non-current financial liabilities	248,152	248,152	-
Non-current funds	5,376	5,376	-
Deferred tax liabilities	5,925	5,925	-
Other non-current liabilities	50	50	-
Total non-current liabilities	**259,504**	**259,504**	**-**
CURRENT LIABILITIES			
Trade payables	124,504	124,504	-
Current financial liabilities	58,935	58,935	-
Current funds	1,385	4,585	(3,200)
Tax liabilities	1,492	1,492	-
Other current liabilities	16,392	16,392	-
Total current liabilities	**202,708**	**205,908**	**(3,200)**
TOTAL LIABILITIES	**462,211**	**465,412**	**(3,200)**
TOTAL LIABILITIES AND EQUITY	**686,885**	**690,085**	**(3,200)**

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4), endorsed by the European Union on November 3, 2017 with Regulation n. 2017/1988. The amendments were introduced to clarify the accounting treatment of insurance contracts in light of the new requirements introduced by IFRS 9. The adoption of the amendments by Marcolin S.p.A. did not result in changes in its accounting policies or retrospective adjustments.

Annual Improvements to IFRSs: 2014-2016 Cycle (Amendments to IFRS 1 and IAS 28)

Annual Improvements to IFRSs: 2014-2016 Cycle (Amendments to IFRS 1 and IAS 28), endorsed by the European Union on February 7, 2018 with Regulation n. 2018/18. The primary objective of the annual improvements is to resolve non-urgent matters regarding inconsistencies found in IFRSs or to clarify wording, which had been discussed withe the IASB during the planning cycle. The amendments regard:
- IAS 28 Investments in Associates and Joint Ventures: measurement of associates or joint ventures at fair values when investment entities are present;
- IFRS 1 First-time adoption of International Financial Reporting Standards: elimination of short-term exemptions for first-time adopters;
- IFRS 12 Disclosure of Interests in Other Entities: clarification of the scope of the standard.

The adoption of the amendments by Marcolin S.p.A. did not result in changes in its accounting policies or retrospective adjustments.

Classification and measurement of share-based payment transactions (Amendments to IFRS 2)

Classification and measurement of share-based payment transactions (Amendments to IFRS 2), endorsed by the European Union on February 26, 2018 with Regulation n. 2018/289. The amendments are intended to clarify the accounting treatment of some types of share-based payments. The adoption of the amendments by Marcolin S.p.A. did not result in changes in its accounting policies or retrospective adjustments.

Transfers of investment property (Amendments to IAS 40)

Transfers of investment property (Amendments to IAS 40), endorsed by the European Union on March 14, 2018 with Regulation n. 2018/400. The amendments clarify when an entity is authorized to enact changes that result in the classification of property as "investment property", when it was not previously considered as such, or vice versa. The adoption of the amendments by Marcolin S.p.A. did not result in changes in its accounting policies or retrospective adjustments.

IFRIC 22 Interpretation

IFRIC 22 Interpretation – Foreign Currency Transactions and Advance Consideration, endorsed by the European Union on March 28, 2018 with Regulation n. 2018/519. The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The adoption of the Interpretation by Marcolin S.p.A. did not result in changes in its accounting policies or retrospective adjustments.

New accounting standards and interpretations approved by the European Union and effective for periods after December 31, 2018

IFRS 16 (Leases)

On October 31, 2017 the European Union issued Regulation n. 2017/1986 approving IFRS 16 (Leases). The standard will be effective for annual periods beginning on or after January 1, 2019. The main impact of the new standard will be the recognition of all leases in the statement of financial position, effectively eliminating the different methods for accounting for operating leases and financial leases. The new standard provides for recognizing a right-of-use asset (right to use the leased asset) and a lease liability referring to the future payments for which a contractual obligation exists. Short-term leases and leases of low-value assets are excluded from the new accounting method. The Company is evaluating the impact of the new standard, especially regarding the recognition of operating leases. At December 31, 2018, the Company had liabilities referring to the future payments of operating leases amounting to euro 1.2 million, for which the it expects to recognize right-of-use assets and lease liabilities in the same amount at January 1, 2019 (the latter adjusted for prepayments and deferred payments recognized as such at December 31, 2018). The Company estimates that the adoption of the new standards in 2019 will reduce profit by euro 0.1 million and increase EBITDA by euro 0.5 million, considering that the operating lease costs were included in the calculation of EBITDA, whereas the deprecation of the right-to-use assets and the interest accrued on the lease liabilities are excluded from it. The cash flow from operating activities will increase by euro 0.4 million, whereas the cash flow from financing activities will decrease by euro 0.4 million because the operating lease payments will be classified as finance costs. No material effects have emerged from this implementation phase. The Company will adopt the new standard on January 1, 2019 using the simplified approach, without restating the comparative period before adopting the standard. The right-to-use asset will have the same value as the lease liability (adjusted for any prepaid or allocated lease costs at December 31, 2018). The leases regard mainly property leases for office, warehouse and factory use and for motor vehicles.

Prepayment features with negative compensation (Amendments to IFRS 9)

On March 22, 2018 the European Union issued Regulation n. 2018/498 endorsing Prepayment features with negative compensation (Amendments to IFRS 9). The Company is evaluating the impact of this new standard on its financial situation.

IFRIC 23 — Uncertainty over Income Tax Treatments

On October 23, 2018 the European Union issued Regulation n. 2018/1595 endorsing IFRIC 23 — Uncertainty over Income Tax Treatments. The Company is evaluating the impact of this new standard on its financial situation.

There are no other accounting standards endorsed by the European Union and effective from reporting periods after December 31, 2018 expected to have a material effect for Marcolin S.p.A. in the next reporting period and in the foreseeable future.

New accounting standards and interpretations published by the IASB but not yet approved by the European Union

The following IFRSs, interpretations, amendments to existing standards and interpretations, or special provisions contained in the standards and interpretations approved by the IASB, not yet approved by the European Union as at the date of approval of this document, are set forth below:

Description	Effective date of the standard
IFRS 14 Regulatory Deferral Accounts	IFRS 14 became effective on January 1, 2016, but the European Commission decided not to endorse it until a new standard on rate-regulated activities is issued.
IFRS 17 (Insurance contracts)	January 1, 2021
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)	Postponed until conclusion of IASB project on the equity method
Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)	January 1, 2019
Annual Improvements to IFRS Standards (2015-2017 Cycle)	January 1, 2019
Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)	January 1, 2019
Amendments to References to the Conceptual Framework in IFRS Standards	January 1, 2020
Definition of business (Amendments to IFRS 3)	January 1, 2020
Definition of material (Amendments to IAS 1 and IAS 8)	January 1, 2020

No accounting standards and/or interpretations mandatorily effective for annual periods beginning after December 31, 2018 were adopted earlier.

The Company is evaluating the effects of the application of the above new standards, which currently are not considered significant.

Financial statement format

The Company adopted the following formats for the financial statements.

In summary:

- In the Statement of Financial Position, current and non-current assets and current and non-current liabilities are classified separately. Current assets are those intended to be realized, sold or consumed in the Company's normal operating cycle; current liabilities are those expected to be settled either in the Company's normal operating cycle or within twelve months from the end of the reporting period;
- in the Income Statement costs are classified by function;
- the Statement of Comprehensive Income is presented separately from the Income Statement, and the individual items are stated in compliance with Revised IAS 1;
- the indirect method is used for the Statement of Cash Flows, with presentation of cash flows from operating, investing and financing activities;
- the Statement of Changes in Equity presents separately the profit/(loss) for the year and all revenues and expenses not recognized in profit or loss, but recognized directly in equity on the basis of specific IAS/IFRS accounting standards, and presents separately transactions with Shareholders.

In order to provide comparability, the previous period data was restated as necessary, with explanations given of the restatements.

The significant accounting policies adopted to prepare the Separate Financial Statements of Marcolin S.p.A. are as follows:

Property, plant, and equipment (also "tangible assets")

Property, plant, and equipment are recorded at their acquisition or production cost, inclusive of ancillary costs incurred to bring the assets to working condition for their intended use, excluding land and buildings for which the deemed cost model was used on the transition date or business combination date based on the market value determined through an appraisal performed by an independent qualified appraiser.
They are stated net of depreciation except for land, which is not depreciated, and net of any impairment losses.

Costs incurred for routine and/or cyclical maintenance and repairs are recognized directly in the income statement of the period in which they are incurred. Costs concerning the extension, renovation or upgrading of owned or leased assets are capitalized to the extent that they can be separately classified as an asset or part of an asset. The carrying value is adjusted by depreciation using the straight-line method calculated on the basis of estimated useful life.
If the depreciable asset consists of distinctly identifiable components with useful lives that differ significantly from the other components of the asset, each component of the assets is depreciated separately, according to the component approach.
Profits and losses deriving from the sale of assets or groups of assets are determined by comparing the sale price with the relevant net book value.
Government grants relating to tangible assets are recorded as deferred revenues and credited to the income statement over the depreciation period for the assets concerned.
Finance costs relating to purchases of a fixed asset are charged to the income statement, unless they are directly attributable to the acquisition, construction or production of an asset which justifies capitalizing them.
Assets held under finance leases are recognized as tangible assets against the related liability. The lease payment is broken down into a finance cost, recognized in the income statement, and repayment of principal, recognized as a reduction of the relevant financial liability.
Leases in which the lessor does not transfer substantially all the risks and rewards incidental to legal ownership are classified as operating leases. Lease payments under operating leases are recognized in the income statement on a straight-line basis over the duration of the operating lease.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, using the depreciation rates listed below:

Category	Depreciation rate
Buildings	3%
Light structures	10%
General-purpose machinery	10%
General-purpose plastic machinery	10%
Depreciable equipment	40%
Special-purpose machines	16%
Special-purpose plastic machines	15.5%
Office furniture and furnishings	12%
Exhibition stands	27%
Electronic machines	20%
Non-instrumental vehicles	25%
Instrumental cehicles	20%

Intangible assets
Intangible assets consist of controllable, non-monetary assets without physical substance that are clearly identifiable and able to generate future economic benefits. These assets are recognized at purchase and/or production cost, inclusive of directly attributable expenses to bring the asset to working condition for its intended use, net of accumulated amortization (except for those assets with an indefinite useful life) and any impairment losses. Amortization commences when the asset is available for use and is systematically distributed over the asset’s useful life.
If there is any indication that the assets have suffered an impairment loss, the recoverable amount of the asset is estimated and any impairment loss is recognized in the income statement. If an impairment loss subsequently reverses, the carrying amount of the asset is increased to the net carrying value that the asset would have had if there had been no impairment loss and if the asset had been amortized, recognizing the reversal of the impairment loss as income.

Goodwill
Goodwill is recognized at cost less any impairment losses. Goodwill acquired in a business combination is represented by the excess of the cost of the combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized.
Goodwill is not amortized, but it is reviewed for impairment annually, and whenever events or circumstances give rise to the possibility of an impairment loss, the recoverable amount is reviewed in accordance with IAS 36 ("Impairment of Assets"). If the recoverable amount is less than its carrying amount, goodwill is reduced to its recoverable amount. If goodwill has been allocated to a cash-generating unit that is partially disposed of, the goodwill associated with the unit disposed of is included in the determination of any gain or loss on disposal.

Trademarks and licenses
Trademarks and licenses are recognized at cost. They have a finite useful life and are recognized at cost net of accumulated amortization. Amortization is calculated on a straight-line basis so as to allocate the cost of trademarks and licenses over their remaining useful lives.

If, aside from amortization, impairment should emerge, the asset is written down accordingly; if the reasons for the writedown should cease to exist in future financial years, the carrying amount of the asset is increased to the net carrying value that the asset would have had if there had been no impairment loss and if the asset had been amortized.
Trademarks are amortized on a straight-line basis over their estimated useful lives, ranging from 15 to 20 years.

Software
Software licenses acquired are capitalized on the basis of the costs incurred for their purchase and the costs necessary to make them serviceable. Amortization is calculated on a straight-line basis over their estimated useful lives (ranging from 3 to 5 years). Costs associated with software development and maintenance are recognized as costs in the period they are incurred.
The direct costs include the costs for the personnel to develop the software.

Research & development costs
Research and development costs for new products and/or processes are recognized as an expense as incurred unless they meet the conditions for capitalization under IAS 38.

Other intangible assets
The intangible assets also include renewal fees paid in some cases to licensors for the renewal of licensing agreements.
Other intangible assets also include certain internal costs incurred by the Company to develop new eyewear models; the amortization period, equal to the average life of a model on the market, commences when the related models are put on the market.

Impairment of tangible and intangible assets
IAS 36 requires impairment testing of tangible and intangible assets when there is any indication that those assets have suffered an impairment loss. For intangible assets with an indefinite life, such as goodwill, testing for impairment is performed at least annually. The recoverable amount is determined by comparing the carrying amount of the asset with its fair value less costs to sell and value in use, whichever is greater. Value in use is determined on the basis of the present value of estimated future cash flows from operating activities. For purposes of impairment testing, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). If an asset’s recoverable value is less than its carrying value, the carrying value is reduced to its recoverable value. This reduction is an impairment loss that is recognized as an expense immediately. If there are indications that an impairment loss should be reversed, the recoverable amount of the asset is recalculated and the carrying value is increased to that new value. The increased carrying value must not exceed the net carrying value the asset would have had without any impairment loss. An impairment loss with respect to goodwill may not be reversed.

Investments in subsidiaries and associates
Investments in subsidiaries and associates are valued at acquisition cost net of any impairment losses.
If the reasons for writedowns made no longer apply, the equity investments are revalued to the extent of such writedowns. The investments are tested for impairment when indications of impairment are detected. If there is evidence of a loss in value, an impairment loss in recognized in the income statement. If the Company's share in any losses of a subsidiary or associate exceeds the carrying amount of the investment, and the Company has the obligation or intention to cover such losses, the value of the investment is written off and the Company's portion of further losses is recognized as a provision under liabilities. If the loss in value is subsequently reversed or reduced, the impairment loss is likewise reversed up to an amount not exceeding cost. When significant influence over an associate or joint venture is lost, the Company measures and discloses the retained investment at its fair value. The difference between the carrying amount of the investment on the date on which the significant influence or common control is lost and the fair value of the retained investment and the consideration received is recognized in the Income Statement.

Financial derivatives
Financial derivatives are recognized in accordance with IFRS 9. On the contract stipulation date, the derivatives are initially accounted for at fair value as financial assets when the fair value is positive or as financial liabilities when the fair value is negative. If hedge accounting cannot be applied, the changes in the fair value after initial recognition are recognized through profit or loss.

Fair value measurement
The Company measures financial instruments (derivatives) at their fair values at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value measurement assumes that a transaction to sell an asset or to transfer a liability takes place:

- in the principal market for the asset or liability;
- or in absence of a principal market, the most advantageous market for the asset or liability.

The principle market or most advantageous market must be accessible to the Company.
The fair value of an asset or liability is measured adopting assumptions that market participants would use to determine the price of the asset or liability, assuming that they act to best satisfy their economic interest.
Fair value measurement of a non-financial asset considers a market participant's capacity to generate economic benefits from the highest and best use of the asset or from the sale to another participant that can obtain its highest and best use.
The Company uses valuation techniques appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or stated in the financial statements are categorized into the following levels of the fair value hierarchy:
• Level 1 - quoted (unadjusted) prices in active markets for identical assets or liabilities that the entity can access at the measurement date;
• Level 2 - inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
• Level 3 - valuation techniques for which the inputs are unobservable for the asset or liability.

The fair value measurement is categorized entirely in the same level of the fair value hierarchy of the lowest level input used for measurement.

For recurring assets and liabilities, the Company determines whether there have been any transfers between levels of the fair value hierarchy and reviews the categorization (based on the lowest level input that is significant to the entire measurement) at the end of each reporting period.

Inventories
Inventories are stated at the lower of average purchase or production cost and the corresponding estimated realizable value based on market prices. Estimated realizable value represents the estimated selling price in normal market conditions less all direct selling costs.
Purchase cost was adopted for products purchased for resale and for materials directly or indirectly used, purchased and used in the production process, whereas production cost was adopted for finished and semi-finished products.
Purchase cost is determined on the basis of the cost actually incurred, inclusive of directly attributable ancillary costs, including transport and customs expenses and excluding trade discounts.
Production cost includes the cost of materials used, as defined above, and all directly and indirectly attributable manufacturing costs.
Obsolete and slow-moving inventories are written down to reflect their useful life or realizable value.

Trade and other receivables
Trade and other receivables are stated at amortized cost and are measured on the basis of the impairment model introduced by IFRS 9 (see paragraph on financial assets regarding the initial recognition). In accordance with such model, the Company measures receivables using a logic of expected losses, replacing the IAS 39 framework based on incurred losses. The Company has adopted the simplified approach for trade receivables, which instead of recognizing the periodic changes in credit risk, requires accounting for an expected credit loss ("ECL") calculated over the lifetime of the receivable ("lifetime ECL"). The amount of the receivables is shown in the Statement of Financial Position net of the related provisions for doubtful debts. Impairment losses calculated under IFRS 9 are recognized in the Income Statement net of any positive effects relating to releases or reversals, and are presented in the line for net writedowns of financial assets within the general and administration expenses.

Financial assets – Loans and receivables
The financial assets are classified on the basis of the business model adopted to manage them and of their cash flows. The following categories were identified:

a. Financial assets measured at amortized cost

Financial assets meeting the following requisites are classified in such category: (i) the asset is held under a business model whose objective is to hold assets to collect contractual cash flows; and (ii) the contractual terms of the asset provide for cash flows represented solely by payments of principal and interest on the principal amount outstanding. They concern trade receivables, loans and other receivables. Loan and other receivables are included with current assets, except those whose contractual collection date is after twelve months from the

reporting date, which are classified as non-current assets. The loan and other receivables are classified in the Statement of Financial Position as trade and other receivables. Except for trade receivables that do not contain a significant financing component, the loan and other receivables are initially recognized at their fair value adjusted by directly attributable transaction costs. Trade receivables that do not contain a significant financing component are measured at the transaction price (determined in accordance with IFRS 15 Revenue from Contracts with Customers). After initial recognition, the assets belonging to such category are measured at amortized cost, using the effective interest rate. The effects of such measurement are recognized in profit and loss. The assets are also subject to the impairment model described in the foregoing section on trade and other receivables.

b. Fair Value through Other Comprehensive Income (“FVOCI”)

Financial assets meeting the following requisites are classified in such category: (i) the asset is held under a business model whose objective is met both collecting contractual cash flows and selling these assets; and (ii) the contractual terms of the asset provide for cash flows represented solely by payments of principal and interest on the principal amount outstanding. The assets are initially recognized at their fair value adjusted by directly attributable transaction costs. Afterward, the initial recognition is updated and any changes in fair value are recognized in Other Comprehensive Income ("OCI"). Like the previous category, the assets are subject to the impairment model described in the section on trade and other receivables.

c. Fair Value through Profit and Loss (“FVPL”)

Financial assets that do not fall within the preceding categories are classified in this residual category. They are mainly derivatives and equity instruments, both listed and not listed on financial markets, that the Company has irrevocably decided to classify as FVOCI upon initial recognition or in transitioning. The assets belonging to this category are classified as current assets or non-current assets according to when they are due and they are stated at fair value at initial recognition. Investments in unconsolidated companies over which the Company does not have significant influence are included in this category and accounted for as investments in subsidiaries and associates. Related costs incurred at initial recognition of the asset are accounted for immediately in the Income Statement. FVPL financial assets are subsequently measured at fair value. Profits and losses deriving from changes in fair value are recognized in the Income Statement as they arise, within the net other income/(expenses). Purchases and sales of financial assets are accounted for on the settlement date. Financial assets are derecognized when the rights to receive cash flows deriving from the instrument are extinguished and the Company has transferred substantially all the risks and rewards of ownership and control of the asset. The fair value of financial instruments is based on the current price offered. If the market for a financial asset is not active (or the asset consists of unlisted securities), the Company determines fair value by using valuation techniques. The techniques include referring to advanced negotiations in progress, referring to securities having the same characteristics, analysis based on cash flows, pricing models based on the use of market indicators and aligned, as much as possible, to the asset being measured. In the valuation process, the Company tends to use market information instead of internal information referring specifically to the nature of the business in which the Company operates.

Cash and bank balances

Cash and bank balances include cash, demand deposits at banks and other highly liquid short-term investments, i.e. with an original duration of up to three months, and are stated at the amounts actually on hand at the reporting date.

Assets held for sale and related liabilities

These items include non-current assets (or disposal groups of assets and liabilities) whose carrying value will be recovered mainly through sale rather than through continuing use. Assets held for sale (or disposal groups) are recognized at their net carrying value or fair value less costs to sell, whichever is less.

If these assets (or disposal groups) should cease to be classified as assets held for sale, the amounts are not reclassified or presented for comparative purposes with the classification in the most recent Statement of Financial Position.

Equity

Share capital

Share capital consists of the subscribed and paid-up capital.

Direct issue costs of new share issues are classified as a direct reduction of equity after deferred taxes.

Treasury shares

Treasury shares are shown as a deduction of equity. The original cost of treasury shares and revenues arising on subsequent sale are recognized as changes in equity.

The nominal value of the treasury shares owned is directly deducted from share capital, while the value exceeding the nominal value is used to reduce the treasury share reserve included in the retained earnings/(losses) reserves.

Employee benefits

Post-employment benefit plans are classified, according to their characteristics, as either defined contribution plans or defined benefit plans.

Defined benefit plans, such as that of the "fondo trattamento di fine rapporto" ("TFR", severance indemnity provision) in place until the 2007 Italian Financial Law became effective, are plans under which guaranteed employee benefits are paid upon termination of employment. The defined benefit plan obligation is determined on the basis of actuarial assumptions and is recognized on an accruals basis consistently with the employment service necessary to obtain the benefits; the obligation is measured annually by independent actuaries.

The benefits accrued in the year, determined with actuarial methodology, are recognized in the income statement with the personnel costs, whereas the notional interest cost is recognized in net financial income/(costs). Actuarial gains and losses from changes in actuarial assumptions are recognized directly in the equity of the year they emerge, in accordance with Revised IAS 19, effective from January 1, 2013.

On January 1, 2007, the 2007 Financial Law and related enactment decrees brought significant changes to employee severance indemnity regulations, including the possibility for the employee to choose, by June 30, 2007, how to allocate his or her accruing benefits. New accruing severance indemnities may be assigned by the employee to selected pension funds or kept within the company (in the latter case the company will pay the severance pay contributions into a treasury account held at the INPS).

Pursuant to these changes, the severance indemnity provision accrued up to the date of the employee's decision (defined benefit plans) was recalculated by independent actuaries, excluding the component of future salary raises. Severance indemnities accruing from the date of the employee's decision, and in any case from June 30, 2007, are considered a defined contribution plan, so the accounting treatment is similar to that in effect for all other contribution payments.

Provisions for risks and charges

Provisions for risks and charges consist of allowances for present obligations (either legal or constructive) toward third parties that arise from past events, the settlement of which will probably require an outflow of financial resources, and the amount of which can be estimated reliably.

Provisions are stated at the discounted best estimate of the amount the company should pay to settle the obligation or to transfer it to third parties as at the reporting date.

Changes in estimates are reflected in the income statement of the period in which the change occurs.

Risks for which the emergence of a liability is merely possible are identified in the section relating to commitments and guarantees without making any allowances for them.

Trade payables and other non-financial liabilities

Payables with settlement dates that are consistent with normal terms of trade are not discounted to present value and are recorded at their face value.

Financial liabilities

Borrowings (loans) are initially recognized at cost, corresponding to the fair value of the liability less their transaction costs. They are subsequently measured at amortized cost; any difference between the amount financed (net of transaction costs) and the nominal value is recognized in the income statement over the life of the loan, using the effective interest method. If there is a change in the anticipated cash flows and management is able to estimate them reliably, the value of borrowings is recalculated to reflect such changes.

Loans are classified among current liabilities if they mature in less than 12 months from the end of the reporting period and if the Company does not have an unconditional right to defer their payment for at least 12 months.

Loans are derecognized when they are paid off or when all risks and costs associated with them have been transferred to third parties.

Revenues and income

In accordance with the five-step model introduced by IFRS 15, the Company recognizes revenue after having identified the contracts with its customers and the performance obligations in the contract (transfer of goods and/or services), determined the amount of consideration to which it is entitled in exchange for satisfying each of the performance obligations, and evaluated how the performance obligations were satisfied (at a point in time or over time). The Company recognizes revenues only when all the following requirements have been met (requirements for identifying the contract(s) with the customer): a) the parties to the contact have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to performing their respective obligations; therefore, an agreement exists that creates the rights and obligations regardless of the form of such agreement; b) the Company can identify each party’s rights in relation to the goods or services to be transferred; c) the Company can identify the payment terms of the goods or services to be transferred; d) the contract has commercial substance; and e) it is probable that the Company will collect the consideration to which it is entitled in exchange for the goods or services that will be transferred to the customer. If the above criteria are not met, the related revenues are recognized when: (i) the Company has already transferred goods and/or services to the customer and all, or substantially all, of the promised consideration has

been received and is non-refundable; or (ii) the contract is terminated and the consideration received is non-refundable.
If the above criteria are met, the sales revenues are recognized when the control of the good sold is transferred to the customer, or when the good is delivered to the customer under the terms of the contract and the customer acquires the full ability to direct the use of it, and obtain substantially all of the remaining benefits from it. When the sale contract provides for retrospective volume discounts, the Company estimates their effect and treats it as a variable component of the agreed consideration. The Company also estimates the effect of possible returns from customers. This effect is accounted for as a variable component of the contractual consideration with the contextual presentation of a refund liability among the short-term risk provisions and the corresponding return asset among other current assets in the Statement of Financial Position. The estimate is based on the right-of-return policies and practices adopted by the Company and past trends of sales returns. The variable components of the consideration (discounts and returns) are recognized in the financial statements only when it is highly probable that a significant adjustment to the amount of revenue recognized will not occur. No post-delivery obligations exist besides the product warranties, where required by local regulations; the warranties do not constitute a separate service and they are accounted for in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets.
Interest income is accrued on a time basis by reference to the effective interest rate applicable to the related asset.
Dividends are recognized when the shareholder’s rights to receive payment are established. This normally occurs when the dividend distribution resolution is approved at the General Meeting.

Cost of sales
The cost of sales includes the cost of producing or acquiring the goods and products sold. It includes all the costs of materials, processing, and expenses directly associated with production. It also includes the depreciation of buildings, plant and equipment, the amortization of the intangible assets used in production and inventory impairment losses.

Royalties
The Company accounts for royalty expense on an accrual basis according to the substance of the agreements stipulated.

Other costs
The costs are recognized according to the relevance and matching principles.

Financial income and costs
Interest is accounted for according to the accrual concept on the basis of the interest rate established by contract. If not established by contract, interest is recognized using the effective interest method, i.e. using the interest rate that makes all inflows and outflows of a specific transaction financially equivalent.

Translation of foreign currency amounts
Transactions in currency other than the Euro are translated into local currency using the exchange rates in force on the transaction date. Foreign exchange differences realized in the period are recognized in the Income Statement.
Foreign currency receivables and payables are adjusted at the exchange rate in force on the reporting date, recognizing the entire amount of profit or loss arising on exchange as financial income or finance costs in the income statement.

Income taxes
Income taxes are stated in the Income Statement, except for those regarding items recognized directly in equity, for which the tax effect is also recognized directly in equity.
Deferred taxes are calculated on the temporary differences generated between the value of the assets and liabilities reported in the financial statements and the value attributed to those assets and liabilities for tax purposes.
Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized.
Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which they may be recovered. The carrying value of deferred tax assets is reviewed at the end of each reporting period and, as necessary, is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered. Any such reductions are reversed if the conditions causing them should cease to exist.
Deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply when the assets are realized or the liabilities are settled, considering the tax rates in force and those that have been enacted or substantially enacted by the reporting date.
Other taxes not relating to income, such as property and equity taxes, are included in the operating items.

Italian tax consolidation

At the end of 2016 the three-year term ended for the option of Italian tax consolidation for IRES purposes between the ultimate parent company, 3Cime S.p.A., and its subsidiaries, including Marcolin S.p.A., under Presidential Decree 917, Article 117 *et seq.* of December 22, 1986 (Italian Tax Code or "TUIR"). On March 31, 2017 the Company renewed the tax consolidation agreement for the three-year term of 2017 - 2019.
The tax consolidation agreement enables each participant (including the Company), by way of partial recognition of the group's tax burden, to optimize the financial management of corporate income tax (IRES), for example by netting taxable income and tax losses within the tax group.
Tax consolidation transactions are summarized below:

- in years with taxable income, the subsidiaries pay 3 Cime S.p.A. the additional tax due to the tax authorities;
- the consolidated companies with negative taxable income receive from 3 Cime S.p.A. a payment corresponding to 100% of the tax savings realized, accounted for on an accruals basis;
- the payment is made only at the time of actual use by 3 Cime S.p.A. for itself and/or for other Group companies;
- if 3 Cime S.p.A. and the subsidiaries do not renew the tax consolidation option, or if the requirements for continuance of tax consolidation should fail to be met before the end of the three-year period in which the option is exercised, tax loss carryforwards resulting from the tax return are split up proportionally among the companies that produced them.

FINANCIAL RISK FACTORS

Market risks

Marcolin S.p.A. operates in various markets throughout the world and thus is exposed to risks connected with fluctuations of foreign exchange rates and interest rates.
Exposure to currency risk arises from the different geographic locations of its manufacturing and commercial activities. The Company is primarily exposed to fluctuations of the U.S. dollar on supplies received from Asia and on sales conducted in U.S. dollars, and to a lesser extent to fluctuations of the British pound sterling.

Marcolin S.p.A.'s currency risk refers to transaction risk, generated by sales and costs incurred in currencies other than the euro, mainly the U.S. dollar for sales and sourcing goods from Asian suppliers. Although fluctuations of foreign exchange rates could affect the Company's profit or loss, the structure of revenues and expenses in foreign currency is considered to enable maintaining a natural hedge against the transactional risk, due to the fact that the amount of sales in foreign currency substantially corresponds to the amount of costs in foreign currency.
In the past, the Company used currency hedges (foreign exchange forward contracts), which were no longer stipulated in 2016 due to the natural hedge from which the Company benefits as a result of the current structure of revenues and expenses in foreign currency.

With respect to transaction risk, according to the sensitivity analysis performed, a change in exchange rates should not significantly impact the Company's separate financial statements, thanks to the previously described situation.

Interest rate risk

The Report on Operations provides details on Marcolin S.p.A.'s interest rate risk.
The section on liquidity risk provides a quantitative analysis of the Company's exposure to cash flow risk relating to interest rates on loans.
Information on outstanding loans is provided subsequently in these notes.

Interest rate sensitivity analysis

Interest rate sensitivity analysis was performed, assuming a 25 basis-point increase and a 10 basis-point decrease of the Euribor/Swap yield curves, published by Reuters for December 31, 2018. In this manner, the Company determined the impact that such changes would have had on the income statement and on equity.
The sensitivity analysis excluded financial instruments that are not exposed to significant interest rate risk, such as short-term trade receivables and payables.
The interest on bank borrowings was recalculated using the above assumptions and the investment position in the year, recalculating the higher/lower annual finance costs.

For cash and bank balances, the average balance of the period was calculated using the book values at the beginning and end of the year. The effect on income of a 25 basis-point increase/10 basis-point decrease in the interest rate from the first day of the period was calculated on the amount thus determined.
According to the sensitivity analysis performed on the basis of the above criteria, the Company is exposed to interest rate risk on its expected cash flows. If interest rates should rise by 25 basis points, income would decrease by euro 277 thousand due to higher interest expense with banks and third parties with respect to the increase in financial income on intercompany loans and bank accounts.
If interest rates should fall by 10 basis points, income would increase by euro 111 thousand.

Credit risk

The Company does not have a significant concentration of credit risk. Receivables are recognized net of writedowns for risk of counterparty default, calculated based on available information regarding the customer's solvency and any useful statistical records.
Guidelines and internal policies have been implemented for managing customer credit, supervised by the designated business function (Credit Management), to ensure that sales are conducted only with reasonably reliable and solvent parties, and through the setting of differentiated credit exposure ceilings (according to creditworthiness).

Receivables and other current assets are set forth below by the main areas in which the Company operates (the table excludes the provision for returns, which is classified with trade receivables).

Trade receivables by geographical area and other current assets *(euro/000)*	**12/31/2018**	**12/31/2017**
Italy	30,214	22,069
Rest of Europe	18,701	21,951
North America	17,376	11,486
Rest of Word	43,061	33,100
Total	**109,352**	**88,605**

Trade receivables not past-due are set forth below by geographical area (IFRS 7) below:

Trade receivables not overdue by geographical area *(euro/000)*	**12/31/2018**	**12/31/2017**
Italy	13,836	15,307
Rest of Europe	17,252	18,314
North America	10,104	11,517
Rest of Word	27,389	23,747
Total	**68,581**	**68,884**

In compliance with IFRS 7, the following table provides an aging analysis of the undisputed trade receivables:

Ageing analysis of trade receivables not protested *(euro/000)*	Gross value	Provision	Net value
12/31/2017			
Not past due	68,884	-	68,884
Past due by less than 3 months	5,155	(402)	5,557
Past due by 3 to 6 months	2,506	(398)	2,904
Past due by more than 6 months	5,657	(113)	5,770
Total	**82,202**	**(913)**	**83,115**
12/31/2018			
Not past due	68,581	(1,078)	67,503
Past due by less than 3 months	8,101	(495)	7,606
Past due by 3 to 6 months	4,389	(848)	3,541
Past due by more than 6 months	14,363	(942)	13,421
Total	**95,434**	**(3,363)**	**92,070**

In some markets in which Marcolin S.p.A. operates, receivables are regularly collected after the date stipulated by contract, without this necessarily indicating collection issues or financial difficulties.
Consequently, there are trade receivable balances that were not considered impaired even though they were past due.

These trade receivables are set forth in the table below by past-due category.

Trade receivables overdue but not impaired *(euro/000)*	12/31/2018	12/31/2017
Past due less than 3 months	659	1,172
Past due more than 3 months	1,454	53
Total	**2,113**	**1,225**

For the sake of exhaustive disclosure, an aging analysis of disputed receivables and the related writedowns is set forth below.

Ageing analysis of protested trade receivables *(euro/000)*	Gross value	Provision	Net value
12/31/2017			
Past due by less than 12 months	1	(5)	(4)
Past due by more than 12 months	1,216	(1,188)	29
Total	**1,152**	**(1,129)**	**23**
12/31/2018			
Past due by less than 12 months	30	(28)	1
Past due by more than 12 months	1,298	(1,233)	65
Total	**1,328**	**(1,261)**	**66**

Some trade receivables are covered by the types of guarantees typically used for sales on international markets.

The changes in the provision for doubtful debts are set forth below:

Provision for doubtful debts *(euro/000)*	**12/31/2018**	**12/31/2017**
December 31, 2017 - in accordance with IAS 39	2,106	1,924
Adjustments opening balance as at 1 January 2018 in accordance with IFRS9	907	-
Provisions/Reversal on P&L	1,691	150
Use	(79)	(55)
!Distribution LATAM" business acquisition	-	87
Period end Total	**4,625**	**2,106**

In accordance with IFRS 9, the expected losses on trade receivables were estimated upon initial recognition of the receivable and over its lifetime (lifetime expected credit loss). As allowed by the standard, a matrix was used to estimate the expected credit losses that took into account the geographical source of the receivable and the type of customer. The matrix considers different loss percentages according to the aging category of the receivables. The expected loss percentage rises when the receivable seniority rises.

Liquidity risk

Prudent management of liquidity risk entails keeping a sufficient level of liquidity and having sources of funding available by means of adequate credit lines.
Due to the dynamic nature of its business, the Company prefers the flexibility of obtaining funding through the use of credit lines. At present, based on its available sources of funding and credit lines, the Company considers its access to funding to be sufficient for meeting the financial requirements of ordinary operations and for the investments envisioned in its business plans and budgets.
The types of credit lines available and the base rate on the reference date are reported subsequently in these Notes.

Liquidity analysis
Liquidity analysis was performed on loans, derivatives, and trade payables. Borrowings were specified by time bracket for principal repayments and non-discounted interest. Future interest amounts were determined using forward interest rates taken from the spot-rate curve published by Reuters at the end of the reporting period.
None of the cash flows included in the following table was discounted.

(euro/000)	**Within 1 year**	**From 1 to 3 years**	**From 3 to 5 years**	**More than 5 years**	**Carrying value**
Loans and bonds (excluding capital lease)	58,272	2,000	250,000	-	304,078
Interest expenses on loans, bonds, leasing	10,387	20,647	11,612	-	1,549
Capital lease	663	829	-	-	1,460
Trade payables	124,504	-	-	-	124,504

CLASSIFICATION OF FINANCIAL INSTRUMENTS

The financial instruments are shown by type in the following table (in comparison with the amounts of the prior year), in accordance with IFRS 7.
In 2018 the financial instruments were classified in accordance with IFRS 9. The new instructions did not cause any classification differences from those adopted in the prior year under IAS 39.

Categories of financial assets (euro/000)	Trade receivables	Financial assets	Cash and cash equivalents
2018			
Loans and other financial recivables at amortized cost	92,137	153,492	9,246
Financial assets at faie value through P&L	-	-	-
Held to maturity investments	-	-	-
Financial assets available for sale	-	-	-
Total	**92,137**	**153,492**	**9,246**

Categories of financial assets (euro/000)	Trade receivables	Financial assets	Cash and cash equivalents
2017			
Loans and other financial recivables at amortized cost	80,125	152,883	26,330
Financial assets at faie value through P&L	-	128	-
Held to maturity investments	-	-	-
Financial assets available for sale	-	-	-
Total	**80,125**	**153,011**	**26,330**

Categories of financial liabilities (euro/000)	Trade payables	Financial liabilities	Bond
2018			
Financial liabilities at fair value through P&L	-	-	-
Derivates used for hedging	-	-	-
Financial liabilities at amortized cost	124,504	58,850	246,745
Financial liabilities as under IAS 17	-	1,492	-
Total	**124,504**	**60,342**	**246,745**

Categories of financial liabilities (euro/000)	Trade payables	Financial liabilities	Bond
2017			
Financial liabilities at fair value through P&L	-	-	-
Derivates used for hedging	-	-	-
Financial liabilities at amortized cost	119,017	82,382	245,579
Financial liabilities as under IAS 17	-	2,163	-
Total	**119,017**	**84,546**	**245,579**

FAIR VALUE MEASUREMENT HIERARCHY

The financial instruments measured at fair value are presented on the basis of the fair value hierarchy, described below:

- Level 1 - quoted (unadjusted) prices in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 - inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3 - valuation techniques for which the inputs are unobservable for the asset or liability.

The only financial instrument measured at fair value was the swaption, classified within the Level 2 fair value hierarchy. The swaption was no longer in effect at December 31, 2018, and the fair value difference of euro 128 thousand compared with December 31, 2017 was recognized in the Income Statement.

USE OF ESTIMATES

The preparation of financial statements requires management to make estimates that could affect the carrying value of some assets, liabilities, income and expenses, and disclosures concerning contingent assets and liabilities at the reporting date.
Estimates were used mainly to determine the recoverability of intangible assets (including goodwill), the useful lives of tangible assets and any market values used to evaluate impairment, the value of investments in subsidiaries and associates, the recoverability of receivables (including deferred tax assets), the valuation of inventory and the recognition or measurement of provisions for risks and charges.
The estimates and assumptions are based on data that reflect currently available information.
Estimates and assumptions that involve a significant risk of changes in the carrying values of assets and liabilities are described hereunder.

Goodwill
Pursuant to IAS 36, the Company performs impairment tests at least annually.
Recoverable values are calculated based on "value in use".
The calculations require using estimates of the future performance of the cash-generating units (CGUs) to which goodwill belongs (business plan forecasts), the discount rate (WAAC) and the prospective growth rate to be applied to the forecast cash flows (“g” rate).

Impairment of non-current assets
When there is indication that the net carrying value exceeds the recoverable value, non-current assets are reviewed to determine whether they have suffered an impairment loss, in accordance with the accounting principles adopted.
The recoverable value is represented by the fair value less costs to sell, or value in use, whichever is greater. Recoverable values are calculated based on their value in use. Those calculations require using estimates of future performance, the discount rate and the prospective growth rate to be applied to the forecast cash flows.
If any such indication exists, management is required to perform subjective evaluations based on information available within the Company and on the market.
If indications of impairment should exist, the Company calculates the potential impairment using the valuation techniques it considers to be the most appropriate.
Proper identification of impairment indications and estimates of potential impairment are dependent on factors that may vary over time, affecting the measurements and estimates made by management.

Provision for doubtful debts
The provision for doubtful debts reflects management’s estimates of future losses on trade receivables. The provision for doubtful debts is calculated in accordance with IFRS 9.

Returns provision and product warranty provision
The returns provision and product warranty provision reflect management's estimate of losses deriving from the customers' possibility under contact to return products sold. The product warranty provision gives the customer the possibility to return defective merchandise and receive in exchange an analogous (non-defective) product.
The returns provision is accounted for in accordance with IFRS 15, and the product warranty provision with IAS 37.

Provision for inventory impairment
The provision for inventory impairment reflects management’s estimates regarding the losses expected by the Company, determined on the basis of past experience and both past and anticipated market trends.

Deferred tax assets
Recognition of deferred tax assets is based on expectations of profits in future years. Estimates of future earnings used to recognize deferred tax assets are dependent on factors that may vary over time and significantly affect estimates of deferred tax assets.

ANALYSIS OF MARCOLIN S.P.A. STATEMENT OF FINANCIAL POSITION

Comments and the most significant changes in the items compared with the Separate Financial Statements for the year ended December 31, 2017 are described in this section (the amounts are in thousands of euros, unless specified otherwise).

BUSINESS AND BUSINESS DIVISION COMBINATIONS

Acquisition of Marcolin México S.A.P.I. de C.V.

The acquisition is described in the corresponding section of the analysis of the Consolidated Statement of Financial Position.

1. PROPERTY, PLANT, AND EQUIPMENT

The composition of and changes in the item for the past two years are set forth below:

Property, plant and equipment (euro/000)	Land and buildings	Plant and machinery	Industrial and commercial equipment	Other PP & E	Assets under construction	Total
Net value at beginning of 2017	**12,873**	**6,565**	**1,316**	**2,020**	**138**	**22,913**
Increases	449	1,635	1,125	1,890	5,621	**10,721**
Decreases	(73)	(17)	(1)	(98)	-	**(190)**
Business combination	-	-	-	-	(5,579)	**(5,579)**
Depreciation	(614)	(1,626)	(1,121)	(939)	-	**(4,300)**
Reclassification and other movements	-	38	-	-	(38)	**-**
Net value at end of 2017	**12,635**	**6,596**	**1,319**	**2,873**	**143**	**23,565**
Net value at beginning of 2018	**12,635**	**6,596**	**1,319**	**2,873**	**143**	**23,565**
Increases	606	1,857	1,191	1,346	-	**4,999**
Decreases	(342)	(41)	(11)	(117)	(31)	**(542)**
Depreciation	(640)	(1,734)	(1,143)	(1,203)	-	**(4,720)**
Reclassification and other movements	97	-	-	-	(97)	**-**
Net value at end of 2018	**12,356**	**6,676**	**1,356**	**2,898**	**15**	**23,302**

The capital expenditures of the year totaled euro 4,999 thousand (euro 10,721 thousand in 2017) and consisted largely of purchases of:

- plant and machinery for euro 1,857 thousand;
- industrial and commercial equipment for euro 1,191 thousand;
- hardware and office furniture, included in other tangible assets, for euro 1,346 thousand.
- and increases in land and buildings for euro 606 thousand.

The undepreciated values of property, plant and equipment and their accumulated depreciation as at December 31, 2018 are shown in the following table:

Property, plant and equipment (euro/000)	Land and buildings	Plant and machinery	Industrial and commercial equipment	Other PP & E	Assets under construction	Total 12/31/2018
Undepreciated value	22,885	25,550	17,420	9,582	15	**75,452**
Accumulated depreciation	(10,528)	(18,874)	(16,064)	(6,684)	-	**(52,149)**
Net value	**12,356**	**6,676**	**1,356**	**2,898**	**15**	**23,302**

The following table presents the amounts of the previous year:

Property, plant and equipment (euro/000)	Land and buildings	Plant and machinery	Industrial and commercial equipment	Other PP & E	Assets under construction	Total 12/31/2017
Undepreciated value	22,535	23,970	16,244	8,603	143	**71,496**
Accumulated depreciation	(9,900)	(17,375)	(14,925)	(5,731)	-	**(47,930)**
Net value	**12,635**	**6,595**	**1,320**	**2,873**	**143**	**23,565**

2. INTANGIBLE ASSETS AND GOODWILL

The composition of and changes in this item are set forth below:

Intangible assets and goodwill (euro/000)	Software	Concessions, licenses and trademarks	Other	Intangible assets under formation and advances	Total	Goodwill
Net value at beginning of 2017	**3,049**	**5,335**	**11,892**	**5,836**	**26,111**	**186,227**
Increases	1,563	-	1,131	1,777	**4,471**	-
Decreases	-	-	(665)	-	**(665)**	-
Business combination	-	-	-	(177)	**(177)**	-
Amortization	(1,389)	(822)	(4,251)	-	**(6,463)**	-
Reclassification and other movements	697	-	1,215	(1,912)	**-**	-
Net value at end of 2017	**3,920**	**4,512**	**9,322**	**5,523**	**23,278**	**186,227**
Net value at beginning of 2018	**3,920**	**4,512**	**9,322**	**5,523**	**23,278**	**186,227**
Increases	2,507	-	2,958	1,077	**6,543**	-
Decreases	-	-	-	(10)	**(10)**	-
Amortization	(1,713)	(819)	(5,003)	-	**(7,535)**	-
Reclassification and other movements	77	-	-	(77)	**-**	-
Net value at end of 2018	**4,791**	**3,693**	**7,277**	**6,514**	**22,276**	**186,227**

The intangible assets include mainly the amounts recognized as a result of the 2013 merger, particularly the goodwill of originally euro 189,722 thousand. In 2015 goodwill decreased by euro 3,496 thousand pursuant to the transfer of the Asia Pacific business division to Marcolin UK Ltd.

Goodwill was tested for impairment to evaluate whether its carrying value was consistent with its fair value at the reporting date.
The recoverable value of goodwill was estimated using the Company's value in use, taken as the enterprise value emerging from the application of the unlevered free cash flow method to the projected cash flows in a continuing operation.
The methods and sensitivity analysis used for the test results are described in the subsequent section on impairment testing.
The impairment test and sensitivity analysis results provided values consistent with the invested capital presented in the financial statements.
No shortages emerged from the sensitivity analysis; therefore, it is reasonable to conclude that the carrying value of goodwill in the Company's financial statements is consistent with its fair value, as the test did not require writing down the value of goodwill in Marcolin S.p.A.'s Financial Statements.

During the year investments of euro 6,543 thousand were made (euro 4,471 thousand in 2017), consisting of euro 2,507 thousand for software and the remainder referring mainly to payments made by the Company to some licensors.

The purchase cost and accumulated amortization of the intangible assets deducted directly from the cost are shown in the following table:

Intangible assets and goodwill (euro/000)	Software	Concessions, licenses and trademarks	Other	Intangible assets under formation and advances	Total 12/31/2018	Goodwill
Undepreciated value	16,426	7,437	26,783	6,514	**57,160**	186,227
Accumulated depreciation	(11,635)	(3,744)	(19,506)	-	**(34,885)**	-
Net value	**4,791**	**3,693**	**7,277**	**6,514**	**22,275**	**186,227**

The following table presents the amounts of the previous year:

Intangible assets and goodwill (euro/000)	Software	Concessions, licenses and trademarks	Other	Intangible assets under formation and advances	Total 12/31/2017	Goodwill
Undepreciated value	13,842	7,437	23,824	5,524	**50,627**	186,227
Accumulated depreciation	(9,922)	(2,925)	(14,503)	-	**(27,350)**	-
Net value	**3,920**	**4,512**	**9,321**	**5,524**	**23,277**	**186,227**

Concessions, licenses and trademarks include the Web trademark.
This asset was obtained near the end of 2008 for euro 1,800 thousand after being appraised by an independent professional, and is amortized over an estimated useful life of 18 years.

Concessions, licenses and trademarks also include euro 5,000 thousand for an option, already exercised, that enabled the Company to extend a licensing agreement beyond its expiration date (2015) to December 2022. This cost is amortized over 7 years starting from 2016.

Impairment testing

Impairment testing, under IAS 36, is performed at least annually for intangible assets with an indefinite useful life, such as goodwill. Other intangible assets are tested whenever there are external or internal indications that they have suffered an impairment loss.

The total goodwill of euro 286,506 thousand recognized in the Group's consolidated financial statements as at December 31, 2018, of which euro 186,227 thousand refers to the Parent Company, was tested for impairment to assess the fairness of the carrying amount as at the reporting date.

The Group's new organizational structure resulting from Viva International integration represents the full integration of all Viva structures into Marcolin; Viva's previous structures lost their identity in the integration process through acquisitions, mergers and business division transfers conducted within the vast international reorganization of the Group, which is now managed as a single unit coordinated by the Parent Company using a centralized model. For this reason goodwill was measured at a Group level.

The recoverable amount of goodwill was estimated using the Marcolin Group's value in use, assumed as the entreprise value emerging from the application of the unlevered free cash flow method to the projected cash flows of the Marcolin Group's continuing operation.

The following assumptions were made to determine value in use:

- the cash-generating unit was identified in the entire Marcolin Group (cash flows from projected operating/financing activities of Marcolin S.p.A. and all its Italian and foreign subsidiaries) because the Group's organizational structure uses a centralized model headed by Marcolin S.p.A.;
- the main data sources used were: the draft financial statements for the year ended December 31, 2018, the 2019 Budget and the 2020 - 2021 business plan[13];
- the terminal value was calculated by capitalizing the available cash flow expected perpetually from 2021 (estimated on the basis of the last year in the business plan, given an increase in the "g" rate from the last year stated), assuming that it will grow at an annual "g" rate of 2.5%, conservatively considering the inflation projections for the countries in which Marcolin is present. The terminal value was adjusted to account for the Parent Company's transfer of the provision for severance indemnities;
- the cash flow discount rate (WAAC) is 9.9%, calculated in line with the Capital Asset Pricing Model (CAPM) commonly used for valuation in doctrine and in standard practice. This rate reflects current market estimates referring to: 1) the cost of capital for debt (Kd = 2.9% , after taxes); 2) the expected return on the risk capital invested in Marcolin (Ke = 11.2%), weighted considering the source of the Group's main cash flows. Weighted Kd/Ke was determined under the applicable accounting standards by considering the average financial structure of Marcolin's main comparables, assuming that the value of the entity's projected cash flows does not derive from its specific debt/equity ratio.

Based on the results of the analysis performed, goodwill did not suffer any impairment losses given that the value in use exceeds the carrying amount as at December 31, 2018 by a wide margin.

Moreover, sensitivity analysis was performed on the Group's enterprise value, determined with the previously described methods, assuming:

- changes in WAAC;
- changes in the g rate.

In this case, a half-percentage point increase in WAAC would result in a 7% decrease in the enterprise value (given the same g), whereas a half-percentage point decrease in the g rate would result in an 6% decrease in the enterprise value (given the same WAAC). Neither case would result in an impairment loss.

In addition, a stress test was performed assuming higher capital expenditures than those budgeted, and estimating possible cash outflows that the Group could incur to renew certain licenses upon their expiration.
The stress test confirmed that the coverage amounts remain positive, with broad safety margins.

13 The impairment test document was approved by the Parent Company's Board of Directors on January 31, 2019.

3. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

The investments in directly controlled subsidiaries and associates and their changes for the year are reported below:

Subsidiaries *(euro/000)*	**12/31/2017**	**Subscription/disposal**	**12/31/2018**
Marcolin USA Eyewear Corp.	53,558		53,558
Marcolin UK Ltd	6,133	-	6,133
Marcolin do Brasil Ltda	5,431	-	5,431
Marcolin Iberica SA	3,268	-	3,268
Marcolin-RUS LLC	1,533	-	1,533
Marcolin Deutschland Gmbh	1,161	-	1,161
Ging Hong Lin International Co Ltd	1,500	-	1,500
Marcolin International B.V.	-	-	-
Marcolin Benelux Sprl	477	-	477
Eyestyle Trading (Shanghai) Co Ltd	397	-	397
Marcolin Gmbh	166	-	166
Marcolin Technical Services (Shenzhen) Co. Ltd	142	-	142
Marcolin Nordic AB	904	-	904
Marcolin Portugal Lda	-	-	-
Marcolin France Sas	214	-	214
Marcolin Asia Ltd	176	-	176
Marcolin México S.A.P.I. de C.V.	-	2	2
Marcolin Middle East FZCO	3,762	-	3,762
Total	**78,821**	**2**	**78,823**

Associates *(euro/000)*	**12/31/2017**	**Subscription/disposal**	**12/31/2018**
Thélios S.p.A.	6,346	9,800	16,146
Total	**6,346**	**9,800**	**16,146**

The investments in subsidiaries amount to euro 78,823 thousand (euro 78,821 thousand in 2017), and the investments in associates amount to euro 16,146 thousand.
On January 24, 2018 Marcolin USA Eyewear Corp. sold its 50% stake in Viva Optique de Mexico SA de CV to the other 50% shareholder with which a partnership agreement had been in effect since before the Marcolin Group's acquisition of the Viva Group. At the same time, for the purpose of further developing the Mexican market, one of the fastest growing eyewear markets, Marcolin S.p.A. purchased 51% of a new company in Messico called Marcolin Mexico SAPI de CV, founded by the local partner, Moendi, the 49% shareholder;

Investments in associates, totaling euro 16,146 thousand, consist exclusively of the investment in new associate Thélios S.p.A., a company established in partnership with the LVMH Group, through which Marcolin owns a 49% stake. The value of the investment as at December 31, 2018 derives from the following transactions:

- March 17, 2017 subscription of 58,800 Class B shares (euro 58,800), corresponding to 49% of the total number of shares issued by the company.

- October 16, 2017 capital increase by way of a new share issue. Marcolin S.p.A.'s portion is 431,200 Class B shares for euro 431,200 and a share premium of euro 5,855,696, released by Marcolin S.p.A. though a contribution in kind of the business division composed of assets, contracts and employees dedicated to the design, manufacturing and production of eyeglass frames and sunglasses with LVMH brands, established in 2017 upon completion of the company's start-up process and the beginning of extension and renovation works on the Longarone building. Using the unlevered free cash flow formula, the economic value of the transferred business division is euro 6,287 thousand. A professional valuation was drawn up for the contribution in kind, in accordance with Italian Civil Code Article 2343-*quater*. Vicuna Holding S.p.A., which owns 51% of the Thélios S.p.A. shares, carried out the capital increase with a monetary contribution.

- April 19, 2018 capital increase in accordance with Civil Code Article 2447 pursuant to accruing losses recognized by the company in the first few months of 2018, by way of clearing and re-establishing share capital with a share premium, of which the portion referring to Marcolin S.p.A. was carried out with a subscription of 490,000 Class B shares for a value of euro 490,000 and a share premium of euro 542,430 paid with a bank transfer.

- April 19, 2018 waiver of interest-bearing receivables, in accordance with Civil Code Article 1236, referring to a euro 8,767,570 loan from Marcolin S.p.A. to Thélios S.p.A.

The difference between the value of Thélios S.p.A.'s equity and the value of the interest recognized by the company as at December 31, 2018, attributable to the associate's net losses for 2017 and 2018, does not indicate impairment because the difference is not considered permanent. In fact, the losses are consistent with the business projections made by the company's management when it was established, and resulted from heavy expenses incurred initially to start up the production that were not offset by product sales, which commenced as planned in January 2018.

4. OTHER NON-CURRENT ASSETS

The amount of other non-current assets is euro 4,057 thousand (euro 2,416 thousand in 2017), and refers primarily to prepaid expenses recognized in 2018 that will also involve subsequent years, and prepaid commissions on the euro 40 million senior revolving credit facility, of which euro 10 million had been used as at December 31, 2018.

5. NON-CURRENT FINANCIAL ASSETS

Non-current financial assets were euro 111,395 thousand, compared with euro 107,152 thousand in 2017.

The 2018 amount consists of:
- euro 109,170 thousand in loans granted to subsidiary Marcolin USA Eyewear Corp. used to finance the December 3, 2013 acquisition of Viva Optique, Inc.;
- a loan granted to a third party with an outstanding balance of euro 2,200 thousand at December 31, 2018, accruing interest at market rates, whose repayment commenced on January 1, 2016 with semiannual installments until 2022. The current portion receivable, recognized among current financial assets, is euro 744 thousand.

The difference from the balance of the prior year is attributable to the reclassification of the current portion of the loan granted to a third party, and to the effect of translation at the 2018 year-end exchange rate of the intercompany loan to Marcolin USA Eyewear Corp. denominated in U.S. dollars.

6. INVENTORIES

The composition of other current assets is shown below.

Inventories *(euro/000)*	**12/31/2018**	**12/31/2017**
Finished goods	57,020	55,324
Raw material	13,749	12,749
Work in progress	19,754	18,914
Gross inventory	**90,523**	**86,987**
Inventory provision	(17,471)	(12,979)
Net inventory	**73,052**	**74,008**

Net inventories fell by euro 956 thousand from the previous year.
The decrease is attributable to a euro 3,536 thousand increase in the inventory itself and a euro 4,492 thousand increase in the inventory impairment provision. The substantial increase in the provision is of an extraordinary nature and relates to the ending of licensing agreements with Montblanc and Balenciaga in December 31, 2018. The Company continues to pursue efficient inventory management aiming to streamline the products offered by

considerably reducing the number of models produced and accelerating the sales periods for some models. This resulted in better quality inventories, enabling to reduce the impairment rate.

The inventory impairment provision provides adequate coverage for obsolete and slow-moving inventory, taking into account the composition of and possibility to sell such inventory.

In detail:

- the value of finished products rose by euro 1,696 thousand;
- the value of raw materials rose by euro 1,000 thousand;
- the value of work in progress rose by euro 840 thousand.

7. TRADE RECEIVABLES

The composition of the trade receivables is as follows:

Trade receivables *(euro/000)*	**12/31/2018**	**12/31/2017**
Gross trade receivables	96,761	83,419
Provision for bad debts	(4,624)	(2,106)
Net trade receivables	**92,137**	**81,313**
Provision for returns	**-**	(1,188)
Total trade receivables	**92,137**	**80,125**

Trade receivables are up considerably from the previous year as they were affected primarily by intercompany accounts, which reflect a different timing of supplies to Group companies than in the previous year.

The provision for doubtful debts was affected by a different calculation in 2018 under the new accounting standard, IFRS 9.

The returns provision at December 31, 2018 is classified with other items of the Statement of Financial Position, as required by IFRS 15. Additional information is provided in the section on accounting standards.

The amount of receivables recognized was not discounted, since all receivables are due within 12 months.

The trade receivables due from directly and indirectly controlled subsidiaries are set forth below:

Receivables due from subsidiaries *(euro/000)*	12/31/2018	12/31/2017
Marcolin USA Eyewear Corp.	17,338	10,343
Marcolin do Brasil Ltda	14,430	9,179
Marcolin UK Hong Kong Branch	11,917	8,343
Marcolin France Sas	6,254	6,419
Gin Hon Lin Int. Co. Ltd	6,015	5,873
Marcolin Iberica SA	2,900	3,013
Marcolin México S.A.P.I. de C.V.	2,245	-
Marcolin Middle East FZCO	1,970	3,267
Marcolin UK Ltd	1,910	2,276
Marcolin Nordic AB Sweden	1,711	1,655
Marcolin-RUS LLC	897	417
Marcolin Portugal Lda	798	731
Marcolin Deutschland Gmbh	568	752
Marcolin Nordic AB Norway	555	603
Marcolin Nordic AB Finland	312	319
Marcolin Benelux Sprl	267	428
Eyestyle Trading (Shanghai) Co Ltd	148	136
Marcolin Gmbh	36	118
Marcolin Asia Ltd	24	2
Viva Deutschland Gmbh	-	(0)
Marcolin Nordic AB Denmark	(2)	199
Total	**70,294**	**54,073**

8. OTHER CURRENT ASSETS

The composition of other current assets is shown below.

Other current assets *(euro/000)*	12/31/2018	12/31/2017
Tax credits	7,918	2,743
Prepaid expenses	2,084	617
Assets for rights to receive goods back	2,071	-
Other receivables	7,213	3,932
Total other current assets	**19,286**	**7,292**

This item, euro 19,286 thousand (euro 7,292 thousand in 2017), presents an increase of euro 11,993 thousand from the prior year and is broken down below:

- tax credits of euro 7,918 thousand (euro 2,743 thousand in 2017);
- prepaid expenses of euro 2,084 thousand (euro 617 thousand in 2017), referring principally to insurance premiums and other costs for projects of 2019;
- other receivables of euro 7,213 thousand (euro 3,932 thousand in 2017), consisting mainly of the amount due from 3 Cime S.p.A. under the Italian tax consolidation agreement with that company;
- other receivables of euro 2,071 thousand for returns from customers pursuant to the new accounting standard, IFRS 15.

9. CURRENT FINANCIAL ASSETS

This item, euro 42,097 thousand (compared with euro 45,858 thousand as at December 31, 2017), consists primarily of euro 41,353 thousand due from Group companies.

Marcolin S.p.A.'s main current financial assets from loans to subsidiaries and associates are listed below:

- euro 20,539 thousand due from associate Thélios S.p.A.;

- euro 14,819 thousand due from Marcolin U.S.A. Eyewear Corp.;
- euro 3,401 thousand due from Marcolin Middle East FZCO;
- euro 915 thousand due from Marcolin México S.A.P.I. de C.V.;
- euro 807 thousand due from Marcolin Portugal Lda;
- euro 464 thousand due from Marcolin Benelux SPRL;
- euro 207 thousand due from Marcolin Nordic AB;
- euro 103 thousand due from Marcolin France Sas;
- euro 62 thousand due from Viva Hong Kong Ltd;
- euro 25 thousand due from Marcolin Deutschland Gmbh;
- euro 11 thousand due from Marcolin Iberica.

The total amount is lower than that of the prior year by euro 3,655 thousand primarily as a result of a euro 11,726 decrease in loan amounts due from subsidiaries to the Parent Company, offset in part by a euro 8,070 thousand increase in the balance of the loan granted to Thélios S.p.A. to provide it with sufficient funding to start up its business.

In accordance with EEC IVth Directive 78/660 Article 43, paragraph 1, n. 13, it is confirmed that as at December 31, 2018 there were no loans to members of administrative, management, or control bodies, nor any commitments undertaken for guarantees given to any members of administrative, management, or control bodies, directors or statutory auditors.

At December 31, 2017 the item had included euro 128 thousand referring to the fair value recognition of a swaption stipulated by Marcolin S.p.A. on July 17, 2017 to cover the risk deriving from fluctuations of the Euribor which, increased by a 4.125% spread, formed the interest rate of the new notes issued on February 10, 2017. If the swaption had been exercised on November 18, 2018, it would have meant entering into an interest rate swap (IRS) expiring on May 18, 2021. If the IRS, with a notional amount of euro 180 million, had been purchased by exercising the option, it would have enabled to replace the three-month variable Euribor rate with a fixed interest rate of 0.5%, thereby mitigating the risk of fluctuations of the variable interest rate. Considering the value of the Euribor on November 18, 2018, the Company decided not to exercise the option. The fair value difference of euro 128 thousand from December 31, 2017 to the option exercise date is recognized in the Income Statement as financial interest expense.

10. CASH AND BANK BALANCES

This item, which amounts to euro 9,246 thousand, represents the value of cash deposits and highly liquid financial instruments, i.e. those with a maturity of up to three months.
Cash and bank balances fell by euro 17,084 thousand from December 31, 2017. The decrease is presented in the Statement of Cash Flows, which provides information on the 2018 movements in cash and cash equivalents.

11. EQUITY

The Parent Company's share capital is euro 35,902,749.82, fully paid-in, comprised of 61,458,375 ordinary shares without par value and 6,828,708 Class B shares without par value issued on October 5, 2018 to the new shareholder, Vicuna Holding S.p.A. Vicuna Holding S.p.A. became a shareholder as part of a broader plan for a joint venture agreement with the LVMH Group, stipulated in 2017. Share capital was increased by euro 3,590,274.82 with a share premium of euro 18,309,725.18.

As at December 31, 2018, 90% of the share capital was owned by 3 Cime S.p.A. and 10% by Vicuna Holding S.p.A.

The share premium reserve was euro 42,827 thousand as at December 31, 2018, and the capital reserve account remained unchanged at euro 46,108 thousand.

The legal reserve of euro 4,263 thousand has not reached the limit imposed by Italian Civil Code Article 2430.

The actuarial reserve regards future employee benefits accounted for under IAS 19, corresponding to Marcolin S.p.A.'s provision for severance indemnities.

The retained earnings/losses contain the amount deriving from first-time adoption of IFRS 9 and IFRS 15.

The Statement of Changes in Equity provides more detailed information.

The following table presents the composition of the Company's equity at December 31, 2018:

Item *(euro/000)*	Amount	Possible use	Available portion	Uses in previous three years	
				Loss coverage	Other
Share capital	35,903		-	-	-
Share premium reserve	42,827	A-B-C	42,827	-	-
Legal reserve	4,263	B	-	-	-
Other reserves	46,957		-	-	-
Retained earnings/(losses)	70,328	A-B-C	70,328	-	25,900
Total	**200,278**		**113,155**	-	**-**
Non-distributable portion under Civil Code Art. 2426, comma 1 n. 5 c.c.			-		
Non-distributable portion under Civil Code Art. 2426, comma 1 n. 8 bis, c.c.			2,005		
Non-distributable portion under Civil Code Art. 2431			2,917		
Distributable portion			**108,233**		
Restricted portion under TUIR Art. 109 paragraph 4/b			**-**		

Legend
A - to increase share capital B - to cover losses C - to distribute to shareholders D - others

12. NON-CURRENT FINANCIAL LIABILITIES

This item has an amount of euro 248,152 thousand as at December 31, 2018, consisting of the euro 246,142 thousand value of the bond notes, accounted for in accordance with the amortized cost method, and loans from banks and other financiers, the non-current portion of which is euro 2,010 thousand.

The net financial position is set forth below. Additional information is provided in the Report on Operations.

Net financial debt *(euro/000)*	**12/31/2018**	**12/31/2017**
Cash and cash equivalents	9,246	26,330
Current and non-current financial assets	153,492	153,011
Current financial liabilities	(55,918)	(73,017)
Current portion of non-current financial liabilities	(3,017)	(4,928)
Non-current financial liabilities	(248,152)	(252,180)
Total net financial debt	**(144,349)**	**(150,784)**

The following table presents the maturities of the financial payables, which are classified as current liabilities and non-current liabilities.

Borrowings maturity *(euro/000)*	**Within 1 year**	**From 1 to 3 years**	**From 3 to 5 years**	**More than 5 years**	**Total**
Credit lines used	10,169	-	-	-	10,169
Loans	17,892	2,010	-	-	19,902
Other financiers	1,768	819	245,323	-	247,910
Intercompany	29,107	-	-	-	29,107
12/31/2018	**58,935**	**2,829**	**245,323**	**-**	**307,087**

In addition to the commitments described subsequently (in Note 20) for the revolving credit facility, commitments to meet financial covenants exist at a consolidated level for Marcolin S.p.A. and its subsidiaries. According to an analysis conducted at the time of preparation of these Notes, all the covenants were met as at December 31, 2018.

13. NON-CURRENT PROVISIONS

The composition of non-current provisions is shown below:

Non-current funds *(euro/000)*	Provision for severance employee	Provision for agency terminations	Other funds	Total
12/31/2016	**3,185**	**645**	**1,680**	**5,509**
Allowances	27	407	500	934
Use / reversal	(108)	(8)	(11)	(127)
Actuarial loss / (gain)	(9)	-	-	(9)
12/31/2017	**3,095**	**1,044**	**2,169**	**6,307**
Allowances	62	126	600	788
Use / reversal	(215)	(63)	(1,389)	(1,667)
Actuarial loss / (gain)	(52)	-	-	(52)
12/31/2018	**2,890**	**1,106**	**1,380**	**5,376**

Employee benefits consist of the employee severance indemnity provision ("TFR").
The provision, euro 2,890 thousand[14], was measured with an actuarial calculation at the end of the year[15].
The additional information required under Revised IAS 19 is provided hereunder:

- sensitivity analysis of each significant actuarial assumption at the end of the year, showing effects of changes in actuarial assumptions reasonably possible at that date, in absolute terms:

Sensitivity analysis	DBO * at 12/31/2018
Inflation rate +0,25%	2,946
Inflation rate - 0,25%	2,882
Actuarial rate +0,25%	2,863
Actuarial rate - 0,25%	2,966
Turnover rate +1%	2,901
Turnover rate -1%	2,928

* Defined Benefit Obligation

- next year's service cost and average vesting period of the defined benefit obligation:

Next year service cost Vesting period	
Next year service cost	-
Vesting period	7.70

- payments foreseen under the plan:

Years	Payments foreseen
1	337
2	198
3	366
4	226
5	256

The provision for agency termination presents principally the liability regarding severance indemnities with respect to agents, and is calculated in accordance with the applicable regulations.

The provision for risks and charges presents the estimated amount, in a medium/long-term time horizon, of future obligations toward third parties for liabilities arising in previous periods.

14. OTHER NON-CURRENT LIABILITIES

This item consists primarily of security deposits due after 12 months from the reporting date.

[14] The provision consists of the benefits that accrued to employees until December 31, 2006 to be paid upon or subsequent to termination of employment: the TFR accruing from January 1, 2007 is treated as a defined contribution plan. By paying the contributions into (public and/or private) social security funds, the Company complies with all relevant obligations.

[15] The parameters used for the actuarial calculation are: 1) mortality rate: Table RG 48 of the Public Accounting Office; 2) disability rates: INPS table by age and gender; 3) personnel turnover rates: 5%; 4) frequency of severance payments: 2%; 5) discount/interest rate: 0.88%; 6) TFR growth rate: 2.8% for 2018, 2.7% for 2019, 3% for 2020 on; 7) inflation rate: 1.7% for 2018, 1.6% for 2019, 2% for 2020 on.

15. TRADE PAYABLES

The following table sets forth the trade payables by geographical area:

Trade payables by geographical area *(euro/000)*	**12/31/2018**	**12/31/2017**
Italy	64,929	41,611
Rest of Europe	7,507	16,951
North America	9,403	19,106
Rest of Word	42,665	41,349
Total	**124,503**	**119,017**

The euro 5,450 thousand increase in trade payables was affected by the different timing for purchasing goods from suppliers than in the previous year, and by the considerably higher payables due to subsidiaries as at December 31, 2018, partly as a result of non-recurring transactions with some Group companies that had not been settled yet.

The trade payables were not subject to discounting; the amount is a reasonable representation of their fair value since there are no payables due after 12 months.

In compliance with the disclosure requirements of IFRS 7, it is reported that on December 31, 2018 there were no past-due trade payables, excluding the accounts being disputed by the Company with suppliers.

16. CURRENT FINANCIAL LIABILITIES

The amount of euro 58,935 thousand consists of short-term bank borrowings (euro 26,638 thousand), loans from other financiers (euro 3,190 thousand), and other financial payables of euro 29,107 thousand due to the Group's subsidiaries within 12 months from the reporting date.

The main current financial liabilities with subsidiaries and associates are listed below:

- euro 12,506 thousand due to Marcolin U.S.A. Eyewear Corp.;
- euro 7,891 thousand due to Marcolin UK Ltd - HK Branch;
- euro 4,406 thousand due to Marcolin UK Ltd;
- euro 1,789 thousand due to Marcolin France Sas;
- euro 1,535 thousand due to Viva Eyewear UK Ltd;
- euro 809 thousand due to Marcolin Deutschland GmbH;
- euro 152 thousand due to Marcolin Iberica SA;
- euro 11 thousand due to Marcolin Benelux Sprl;
- euro 5 thousand due to Marcolin Asia Ltd;
- euro 2 thousand due to Marcolin México S.A.P.I. de C.V.

17. CURRENT PROVISIONS

The table below presents the most significant changes in the current provisions of the past two years:

Current funds *(euro/000)*	**Other funds**	**Returns reserve**	**Warranty provision**
12/31/2016	**1,088**	**-**	**-**
Allowances	**-**	-	-
Use / reversal	(70)	**-**	**-**
12/31/2017	**1,018**	**-**	**-**
Adjustment for IFRS15 adoption	**-**	2,683	363
Allowances	-	3,199	4
Use / reversal	-	(2,683)	-
12/31/2018	**1,018**	**3,199**	**367**

The other provisions consist of allowances for risks regarding:

- contingent liabilities arising from legal obligations (euro 15 thousand);
- commitments of euro 1,003 thousand to cover losses of subsidiaries.

The returns provision and product warranty provision were affected by the implementation of IFRS 15. Additional information is provided in the section on accounting standards.

18. OTHER CURRENT LIABILITIES

The other current liabilities are as follows.

Other current liabilities *(euro/000)*	**12/31/2018**	**12/31/2017**
Payables to personnel	12,591	8,220
Social security payables	2,483	2,128
Other accrued expenses and deferred income	1,193	1,161
Total other current liabilities	125	-
Totale	**16,392**	**11,508**

The other current liabilities consist primarily of amounts due to personnel and the related social security contributions. The accrued expenses and deferred income contain the euro 1,111 thousand residual amount due to 3 Cime S.p.A. for the part of the dividend deliberated in 2017.

19. COMMITMENTS AND GUARANTEES

Guarantees associated with the bond issue

The commitments and guarantees are described in Note 20 of the Notes to the Consolidated Financial Statements.

Other commitments:

The Company's other commitments are as follows:

Commitments *(euro/000)*	**12/31/2018**	**12/31/2017**
Rent due		
Within one year	458	488
In one to five years	792	1,250
Total	**1,250**	**1,739**

The table above is not laid out in accordance with the new accounting standard, IFRS 16, which became effective on January 1, 2019, so the amounts presented therein are not directly comparable with the disclosures on the expected future effects of IFRS 16 implementation, required by IAS 8, described in the section on accounting standards.

The Company also has guarantees for third parties of euro 213.0 thousand (euro 225.4 thousand in 2017).

Licenses

The Company has contracts in effect to use trademarks owned by third parties for the production and distribution of eyeglass frames and sunglasses.

Those contracts require payment of guaranteed minimum royalties over the duration of the contracts; At December 31, 2018 these future commitments amounted to euro 270,424 thousand (euro 227,877 thousand in 2017), including euro 47,875 thousand falling due within the next year.

Guaranteed minimum Royalties due *(euro/000)*	**12/31/2018**	**12/31/2017**
Within one year	47,875	53,844
In one to five years	204,550	151,598
After five years	18,000	22,436
Total	**270,424**	**227,877**

INCOME STATEMENT

As described in the Report on Operations, the balances can include some non-recurring costs incurred for special initiatives undertaken or pursued during the year, such as extraordinary costs for employees who left the company, consulting services and services associated with the non-recurring transactions of the year, and costs of investment and development that have not been matched by revenue streams yet.
The effects of those costs are described in the Report on Operations in order to take them into account for the purpose of determining normalized income for 2018, duly compared with 2017.

The Company's main income statement items and changes therein are described in this section.

20. REVENUE

The following table sets forth the 2018 net sales revenues by geographical area:

Net Revenues by geographical area	**2018**		**2017**		**Change**	
(euro/000)	**euro**	**% of total**	**euro**	**% of total**	**euro**	**%**
Italy	*34,184*	*12.5%*	*33,110*	*12.8%*	*1,073*	*3.2%*
Rest of Europe	*89,479*	*32.8%*	*88,295*	*34.1%*	*1,184*	*1.3%*
Europe	123,662	45.3%	121,405	46.9%	2,257	1.9%
Americas	62,904	23.0%	46,337	17.9%	16,567	35.8%
Asia	29,589	10.8%	25,349	9.8%	4,240	16.7%
Rest of World	56,842	20.8%	65,875	25.4%	(9,033)	-13.7%
Total	**272,997**	**100.0%**	**258,967**	**100.0%**	**14,030**	**5.4%**

The 2018 sales revenues were euro 272,997 thousand, compared with the euro 258,967 thousand revenues of 2017, presenting an increase of euro 14,030 thousand (5.4%) from the prior year.
The Report on Operations describes the 2018 performance of sales.

21. COST OF SALES

Below is a detailed breakdown of the cost of sales:

Cost of sales *(euro/000)*	**2018**	**% of net revenues**	**2017**	**% of net revenues**
Cost of product	140,855	51.6%	130,304	50.3%
Cost of personnel	9,706	3.6%	8,100	3.1%
Amortization, depreciation and writedowns	3,482	1.3%	3,269	1.3%
Other costs	4,031	1.5%	5,189	2.0%
Total	**158,074**	**57.9%**	**146,862**	**56.7%**

The cost of sales rose in terms of amount by euro 11,212 thousand, and was 57.9% of sales, compared with 56.7% in 2017.

The other expenses refer principally to purchasing costs (transport and customs) and business consulting services.

22. DISTRIBUTION AND MARKETING EXPENSES

Below is a breakdown of the distribution and marketing expenses:

Distribution and marketing expenses *(euro/000)*	**2018**	**% of net revenues**	**2017**	**% of net revenues**
Cost of personnel	13,979	5.1%	13,598	5.3%
Commissions	4,180	1.5%	4,626	1.8%
Amortization, depreciation and writedowns	8,050	2.9%	6,582	2.5%
Royalties	40,979	15.0%	37,384	14.4%
Advertising and PR	20,595	7.5%	22,502	8.7%
Other costs	8,375	3.1%	7,597	2.9%
Total	**96,157**	**35.2%**	**92,288**	**35.6%**

Distribution and marketing expenses rose by euro 3,869 thousand (4.2%) from the previous year. As a percentage of net sales, they improved by 40 basis points.
The other expenses consist primarily of sales expenses, including transport costs, travel expenses, rent expense and entertainment expenses.

23. GENERAL AND ADMINISTRATION EXPENSES

The general and administrative expenses are set forth below:

General and administrative expenses *(euro/000)*	**2018**	**% of net revenues**	**2017**	**% of net revenues**
Cost of personnel	7,620	2.8%	5,601	2.2%
Writedown of receivables	1,691	0.6%	150	0.1%
Amortization, depreciation and writedowns	838	0.3%	1,249	0.5%
Other costs	5,006	1.8%	5,816	2.2%
Total	**15,156**	**5.6%**	**12,816**	**4.9%**

General and administration expenses increased by euro 2,340 thousand compared with the previous year.

The other costs, euro 5,006 thousand (down by euro 810 thousand year-on-year), consist primarily of the compensation for directors, statutory auditors and the independent auditing firm, other general and administrative consulting services, and expenses regarding the Parent Company's information systems.

24. EMPLOYEES

The 2018 end-of-period and average numbers of employees (including the work force on temporary contracts) are broken down below in comparison with the previous year:

Employees	**Final number**		**Average number**	
Category	**12/31/2018**	**12/31/2017**	**2018**	**2017**
Managers	22	23	22	18
Staff	349	328	346	321
Manual workers	553	552	562	558
Total	**924**	**903**	**930**	**897**

25. OTHER OPERATING INCOME AND EXPENSES

The other operating income and expenses are set forth below:

Other operating income and expenses *(euro/000)*	**2018**	**% of net revenues**	**2017**	**% of net revenues**
Other income	9,703	3.6%	8,115	3.1%
Other expenses	(36)	(0.0%)	(261)	(0.1%)
Total	**9,667**	**3.5%**	**7,854**	**3.0%**

The balance of this item is net operating income of euro 9,667 thousand, compared with net operating income of euro 7,854 thousand for 2017 (an increase of euro 1,812 thousand).
Other income consists mainly of euro 5,944 thousand for the recovery of advertising expenses incurred by the Parent Company and charged to other Group companies, compared with euro 6,398 thousand in 2017.

26. DIVIDEND INCOME FROM SUBSIDIARIES

This item consists of income from dividends distributed by some Group companies: euro 10,634 thousand from Marcolin UK Ltd (HK Branch), euro 2,938 thousand from Marcolin Iberica SA, euro 380 thousand from Marcolin Benelux Sprl and euro 153 thousand from Marcolin-RUS LLC. The amount recognized in the previous year derived exclusively from the dividend distributed by Marcolin Iberica SA.

27. FINANCIAL INCOME AND COSTS

The financial income and costs are set forth below:

Financial income and costs *(euro/000)*	**2018**	**% of net revenues**	**2017**	**% of net revenues**
Financial income	21,033	7.7%	19,289	7.4%
Financial costs	(21,548)	(7.9%)	(46,373)	(17.9%)
Total	**(515)**	**(0.2%)**	**(27,085)**	**(10.5%)**

The composition of financial income and finance costs is shown below:

Financial income *(euro/000)*	**2018**	**% of net revenues**	**2017**	**% of net revenues**
Interest income from subsidiaries	9,627	3.5%	12,022	4.6%
Interest income and others	517	0.2%	42	0.0%
Gains on currency exchange	10,889	4.0%	7,224	2.8%
Total	**21,033**	**7.7%**	**19,289**	**7.4%**

Financial costs *(euro/000)*	**2018**	**% of net revenues**	**2017**	**% of net revenues**
Interest expense	(15,440)	(5.7)%	(26,532)	(10.2)%
Losses on currency exchange	(6,107)	(2.2%)	(19,841)	(7.7%)
Total	**(21,548)**	**(7.9)%**	**(46,373)**	**(17.9)%**

Financial income and costs result in net costs of euro 515 thousand, compared with net costs of euro 27,085 thousand for 2017.

The net finance costs are the balance between income of euro 21,033 thousand and costs of euro 21,548 thousand. The components are classifiable in two different categories: financial income and costs, and exchange differences.
The first component consists of:

- interest income of euro 9,627 thousand from Group companies referring to loans granted to such companies, and from others for euro 517 thousand;
- interest expense of euro 15,440 thousand consisting primarily of:
  - interest of euro 10,313 thousand servicing the bond notes issued by Marcolin S.p.A., paid quarterly in February, May, August and November;
  - the reversal to the Income Statement of bond issuance transaction costs, accounted for under IFRS with the amortized cost method;
  - euro 3,968 thousand in net finance costs referring to bank interest expense, actualization differences and intercompany loans;
  - euro 128 thousand for the fair value change compared with December 31, 2017 of the swaption stipulated by Marcolin S.p.A. on July 17, 2017. Additional information is available in Note 9 on current financial assets.

The previous year's balance of finance costs had included euro 8,500 thousand paid to the bondholders for early redemption of the notes subscribed in 2013, redeemed on February 10, 2017 instead of on the original maturity date in 2019.

With respect to the component of gains and losses on currency exchange, the balance is a net gain of euro 4,782 thousand for 2018, compared with a net loss of euro 12,617 thousand for the previous year. The main reason for the considerable difference between the two years is the translation adjustment to a loan denominated in U.S. dollars from Marcolin S.p.A. to Marcolin USA Eyewear Corp., which generated an unrealized gain of euro 4,943 thousand in 2018 compared with an unrealized loss of euro 14,357 thousand in 2017. It is the direct consequence of the 4.5% appreciation of the U.S. dollar against the euro in 2018, compared with 13.8% depreciation in the previous year. Excluding that, the exchange rate effect was practically neutral for Marcolin S.p.A. in 2018.

There were no currency hedges (on purchases and sales) in place as at December 31, 2018.

28. INCOME TAXES

Current tax was determined by applying the tax rates in force to taxable income (profit for the year determined with the changes generated by the applicative tax rules).

Income taxes are euro 2,472 thousand, including current taxes of euro -890 thousand, net deferred taxes of euro -1,718 thousand, tax consolidation expense of euro -330 thousand and taxes regarding the prior period of euro 466 thousand.

Income tax expense *(euro/000)*	**2018**	**2017**
Current taxes	(1,150)	(924)
Deferred taxes	(1,718)	3,182
Income/(Expenses) from Tax Consolidation	(70)	(516)
Taxes relating to prior year	466	(1,166)
Total income tax expense	**(2,472)**	**577**

The tax consolidation expense refers entirely to the Parent Company's IRES due to 3 Cime S.p.A. under the tax consolidation agreement with the ultimate parent company, whose renewal for the three-year term of 2017 - 2019 was stipulated on March 31, 2017. Additional information is contained in the section on Italian tax consolidation at the beginning of the Notes to the Consolidated Financial Statements.

The income taxes for the year are reconciled with the theoretical tax burden in the following table:

Tax rate reconciliation *(euro/000)*	%	12/31/2018	%	12/31/2017
Results before tax		**26,868**		**(11,330)**
Theoretical taxes	24.0%	(6,448)	24.0%	2,719
IRAP and other	4.5%	(1,209)	(8.1)%	(916)
Higher taxes due to non-deductible costs	2.1%	(574)	(3.6)%	(407)
Lower taxes for non-taxable income	(19.7)%	5,294	3.1%	347
Taxes relating to prior year	(1.7)%	466	(10.3)%	(1,166)
Total income tax expenses	**9.2%**	**(2,472)**	**5.1%**	**577**

The deferred taxes and changes therein for the year are set forth below:

Deferred tax assets *(euro/000)*	Temporary differences 12/31/2018	Tax rate	Tax on tamporary differences 12/31/2018	Temporary differences 12/31/2017	Tax rate	Tax on tamporary differences 12/31/2017
Accumulated tax losses	13,647	24%	3,275	-	-	-
Inventory provisions	14,742	24,0%/27,9%	3,538	10,078	24,0%/27,9%	2,419
Grants and compensation deductible on a cash basis	4,300	24,0%/27,9%	1,121	5,654	24,0%/27,9%	1,566
Non-deductible financial interest	9,990	24.0%	2,398	14,818	24.0%	3,556
Unrealized currency exchange differences	465	24.0%	112	16,257	24.0%	3,902
Income from CFC (Controlled Foreign Companies)	-	24.0%	-	2,098	24.0%	504
Taxed provision for doubtful debts	2,388	24.0%	791	1,086	24.0%	261
Supplementary client indemnity provision	638	27.9%	178	671	27.9%	171
Provision for return risks	1,496	27.9%	417	1,188	27.9%	331
Provisions for risks and charges	15	27.9%	4	15	27.9%	3
Other	844	24,0%/27,9%	209	1,009	24,0%/27,9%	249
Total deferred tax assets	**48,525**		**12,043**	**52,875**		**12,961**

Deferred tax liabilities *(euro/000)*	Temporary differences 12/31/2018	Tax rate	Tax on tamporary differences	Temporary differences 12/31/2017	Tax rate	Tax on tamporary differences
Unrealized currency exchange differences	(17,779)	24.0%	(4,267)	(7,934)	24.0%	(1,904)
Finance costs deducted on a cash basis	(4,598)	24.0%	(1,104)	(5,847)	24.0%	(1,403)
Land and buildings	(3,253)	27.9%	(534)	(4,335)	27.9%	(605)
Actuarial gain / losses on TFR under IAS	(87)	24.0%	(21)	98	24.0%	16
Total deferred tax liabilities	**(25,716)**		**(5,925)**	**(18,017)**		**(3,896)**
Total deferred assets / liabilities	**22,809**		**6,117**	**34,858**		**9,065**

The difference in the balance of deferred tax assets and liabilities presented in the Statement of Financial Position, euro 2,948 thousand, differs from the balance of euro 1,718 thousand shown in the Income Statement due to the following reasons:

- Deferred tax recognition on amounts accounted for in equity totaling euro -197 thousand;
- Euro 1,427 thousand adjustment to deferred taxes pursuant to the preparation of the tax return in 2018, classified as "taxes regarding the prior period".

INCOME AND EXPENSES WITH SUBSIDIARIES AND ASSOCIATES

The intercompany transactions are mainly of a trade and/or financial nature and are conducted on an arm's length basis.

The income and expenses with directly controlled subsidiaries are set forth below:

Company *(euro/000)*	Revenues for sales and services	Dividends	Other income	Financial income from non-current assets	Financial expenses for non-current liabilities	Cost of row, ancillary and consumable material and products	Cost of services	12/31/2018
Eyestyle Trading (Shanghai) Co Ltd	180	-	-	-	-	-	-	180
Gin Hon Lin International Co. Ltd	3,892	-	480	-	-	5	23	4,344
Marcolin (Deutschland) GmbH	7,326	-	429	8	9	-	62	7,692
Marcolin (UK) Ltd	7,932	-	410	-	84	0	145	8,112
Marcolin Asia Ltd.	0	-	22	-	-	42	1,080	(1,100)
Marcolin Benelux S.p.r.l.	4,722	380	228	6	1	-	158	5,177
Marcolin do Brasil Ltda	7,924	-	314	-	-	-	(0)	8,238
Marcolin France SAS	20,653	-	2,221	27	13	0	823	22,066
Marcolin GmbH	1,170	-	88	-	-	0	58	1,200
Marcolin Iberica S.A.	11,227	2,938	752	10	17	-	561	14,349
Marcolin Middle East FZCO	7,655	-	19	132	-	-	165	7,641
Marcolin Nordic AB Denmark	1,090	-	56	-	-	-	2	1,144
Marcolin Nordic AB Finland	262	-	59	-	-	-	1	320
Marcolin Nordic AB Norway	691	-	146	-	-	-	18	820
Marcolin Nordic AB Sweden	2,714	-	154	7	-	-	(2)	2,877
Marcolin Portugal Lda	2,054	-	164	28	-	-	29	2,216
Marcolin Technical Services (Shenzhen) Co.Ltd	-	-	-	-	-	-	454	(454)
Marcolin Uk Hong Kong Branch	25,625	10,634	1,746	-	602	205	291	36,908
Marcolin Usa Eyewear Corp.	44,757	-	9,377	9,199	70	1,582	13,278	48,403
Marcolin-RUS LLC	3,087	153	-	-	-	-	26	3,214
Viva Deutschland Gmbh	(53)	-	-	-	-	-	-	(53)
Viva Eyewear HK Ltd	-	-	-	1	-	-	-	1
Viva Eyewear UK Ltd	-	-	-	-	397	-	-	(397)
Marcolin México S.A.P.I. de C.V.	2,707	-	7	24	-	-	(0)	2,739
Thélios S.p.A.	6,013	-	3,225	491	-	152	(5)	9,582
Total	**161,629**	**14,106**	**19,897**	**9,933**	**1,194**	**1,986**	**17,167**	**185,218**

RELATED-PARTY TRANSACTIONS

Related-party transactions were of a trade nature, conducted on an arm's length basis, and regarded licensing agreements in particular.
The transactions and outstanding balances with related parties as at December 31, 2018 are shown below, as required by IAS 24.

Company *(euro/000)*	Expenses	Revenues	Payables	Receivables	Type
Other related parties					
Tod's S.p.A	2,255	576	938	154	Related party
Pai Partners Sas	60	-	60	-	Related party
Coffen Marcolin Family	603	-	218	-	Related party
O.T.B. Group	2,260	50	-	26	Related party
3 Cime S.p.A.	-	-	-	7,038	Consolidating
Thélios S.p.A.	152	9,734	9	21,071	Associates
Total	**5,331**	**10,360**	**1,225**	**28,288**	

The same table is set forth for 2017:

Company *(euro/000)*	Expenses	Revenues	Payables	Receivables	Type
Other related parties					
Tod's S.p.A	3,170	884	1,125	472	Related party
Pai Partners Sas	40	-	71	-	Related party
Famiglia Coffen Marcolin	641	-	200	-	Related party
O.T.B. Group	1,866	56	2,074	28	Related party
3 Cime S.p.A.	-	-	-	3,812	Consolidating
Thélios S.p.A.	-	10,215	-	12,724	Associates
Total	**5,718**	**11,154**	**3,470**	**17,036**	

The remuneration of the Directors and Statutory Auditors is reported below (the table does not present Key Management Personnel because they are included in the category of the Company's Directors).

(euro/000)	2018 Board of Directors	2018 Statutory Auditors	2017 Board of Directors	2017 Statutory Auditors
Base fee	255	100	375	100
Salaries and benefits	1,135	-	876	-
Total	**1,390**	**100**	**1,251**	**100**

Atypical and unusual transactions

In 2018 there were no atypical and/or unusual transactions, including with other Group companies, nor were there any transactions outside the scope of the ordinary business activity that could significantly impact the financial position, financial performance or cash flows of Marcolin S.p.A.

Significant non-recurring events and transactions

The significant non-recurring events and transactions that impacted the Company's financial position, financial performance and cash flows in 2018 are described in the Report on Operations, in the description of the Income Statement highlights.

Government grants

The 2017 annual law for market and competition required disclosure in the notes to the financial statements of grants, subsidies, paid engagements and all financial benefits in general received from public entities and companies controlled by public entities (Law n. 124 of August 4, 2017 – Article 1, paragraphs 125 to 129 – hereinafter "Law 124/2017"). Mandatory disclosure will become effective in 2019 regarding all financial benefits received from January 1, 2018. The information for Marcolin S.p.A. is set out below, based on a cash perpective.

"Superammortamento"

From January 1, 2017 to December 31, 2017, Marcolin S.p.A. incurred costs for investments in new capital goods for which it obtained a benefit called "superammortamento" by Law n. 208/2015 (Article 1, paragraph 91 and subsequents) and its amendments, the amount of which was reported in the tax return filed in 2018 as euro 448,576.

"Industria 2015" -- New Technologies for Made in Italy, from the District to the Production Line: Eyewear and manufacturing innovation

In 2010, the research, development and innovation project "Industria 2015" -- New Technologies for Made in Italy, from the District to the Production Line: Eyewear and manufacturing innovation, Objective B Area, Project Number MI00153 was launched. The purpose of the project was to create a platform for supply chain integration that operates on the technical and operational aspects of the companies, which should encourage the competitive and technological development of Italian eyewear business systems. The platform should enable marketing and supply chain events to be communicated quickly to the entire production process, and any critical issues leading to changes in supply chain planning to be made visible rapidly to all interested parties. The platform will also create interactive communications between the various parties in the supply chain.
Under Ministry of Economic Development Decree n. 00098MI01 dated December 21, 2013, expenses of euro 13,747,949 and total facilities of euro 4,247,627 were granted. Marcolin S.p.A.'s investment is euro 849,686.49 with a total contribution to expenses of euro 182,790.90, as budgeted. In 2016 the Company received euro 25,108.85 of the grant.

Optional tax incentive regime for income deriving from the use of intellectual property

In 2015 the Company filed an application with the Italian Revenue Agency for the assessment of tax benefits available under the Ministerial decree of July 30, 2015 regarding the optional tax incentive regime for income deriving from the use of intellectual property, patents, trademarks, industrial designs and models as well as processes, formulas and trade secrets obtained in legally protected industrial, business or scientific fields. Following the necessary preliminary activities, on July 31, 2018 an agreement was stipulated with the Italian Revenue Agency. A direct tax benefit of euro 4.3 million was obtained. The benefit accounted for in 2018 refers to the years 2015 to 2018, and it was determined through the identification, gathering and processing of financial information directly attributable to certain brands that are part of the Company's portfolio.

Investment bonus

In 2018 the Company offset tax liabilities with euro 52 thousand, through Form F24, constituting the second of three installments granted as a benefit under Decree-Law 91/2014 totaling euro 155 thousand referring to investments made in 2015.

In 2018 the Company offset tax liabilities with euro 8 thousand, through Form F24, constituting the last of three installments granted as a benefit under Decree-Law 91/2014 totaling euro 25 thousand referring to investments made in 2014.

Subsequent events

The subsequent events are described in the specific section of the Report on Operations.

INDEPENDENT AUDITORS' REPORT

ON THE SEPARATE FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT ON THE SEPARATE FINANCIAL STATEMENTS

Independent auditor's report

in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010

To the shareholders of Marcolin SpA

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Marcolin SpA (the Company), which comprise the statement of financial position as of 31 December 2018, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2018, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

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

Responsibilities of the Directors and the Board of Statutory Auditors for the Financial Statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and, in the terms prescribed by law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

PricewaterhouseCoopers SpA

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The directors are responsible for assessing the Company's ability to continue as a going concern and, in preparing the financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the financial statements, the directors use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The board of statutory auditors is responsible for overseeing, in the terms prescribed by law, the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of our audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised our professional judgement and maintained professional scepticism throughout the audit. Furthermore:

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

We communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and

significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/2010

The directors of Marcolin SpA are responsible for preparing a report on operations of the Company as of 31 December 2018, including its consistency with the relevant financial statements and its compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations with the financial statements of Marcolin SpA as of 31 December 2018 and on its compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations is consistent with the financial statements of Marcolin SpA as of 31 December 2018 and is prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/2010, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

Treviso, 13 March 2019

PricewaterhouseCoopers SpA

Signed by

Filippo Zagagnin
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers

BOARD OF STATUTORY AUDITORS' REPORT

BOARD OF STATUTORY AUDITORS' REPORT FOR THE GENERAL MEETING OF MARCOLIN S.P.A. PURSUANT TO ITALIAN CIVIL CODE ARTICLE 2429, ARTICLE 2

For the attention of the Shareholders

Dear Sir/Madam,
The external audit of the accounts for each of the three years ending December 31, 2016, 2017 and 2018 has been assigned to PricewaterhouseCoopers S.p.A. (the "Independent Auditors"), in accordance with Italian Legislative Decree 39/2010, Article 14 and Italian Civil Code Articles 2409-bis et seq., and pursuant to the justified proposal of this Board of Statutory Auditors for the period from December 31, 2016 to December 31, 2018.
The Board of Directors has provided us with the report on operations and draft financial statements for the year from January 1, 2018 to December 31, 2018, showing a profit of euro 24,396,064, approved on February 28, 2019.
During the year ended on December 31, 2018, we performed the supervisory duties required by law, in observance of the provisions issued by Consob and also in accordance with the Board of Statutory Auditors' code of conduct recommended by the Italian association of certified accountants.
With respect to our supervisory duties, we report that:

- we attended the Board of Director meetings and verified the observance of the principles of fair management, laws and by-laws, and the correct use of the proxies assigned to the Directors;
- the Board of Statutory Auditors attended the General Meetings, which were held in observance of the law to pass appropriate resolutions;
- the Company's Board of Statutory Auditors held 6 meetings during the year to perform the statutory controls and to exchange information with the firm responsible for the external audit;
- we obtained the information necessary to perform our general supervisory function by constantly participating in Board of Director meetings and by meeting with management. We also obtained from the Directors, on a regular basis, information on the activities performed by the executive directors in execution of the powers assigned to them, on the most significant business, financial and equity transactions, on related-party transactions including infra-group transactions, and on any atypical or unusual transactions, in accordance (as necessary) with Italian Legislative Decree 58/1998, Article 150, paragraph 1. This took place in keeping with the Company's specific corporate governance procedure to ensure that Directors and Statutory Auditors have at their disposal all information needed to ensure the correct fulfillment of their duties. Based on the information obtained, we verified that the main operations carried out by the Company were consistent with the business purpose and with the law and by-laws, and we can confirm that those operations were not manifestly risky, hazardous, such as to compromise the integrity of the Company's net worth, or in contrast to the decisions taken at the General Meeting or in conflict of interest;
- during the Board of Director meetings we were given periodic and timely information on the activity performed by the Company and the Subsidiaries, and on the most significant business, financial and equity transactions, and we verified that those transactions were consistent with the business purpose and with the law and by-laws, and were not manifestly risky, hazardous, such as to compromise the integrity of the Company's net worth, or in contrast to the decisions taken at the General Meeting or in conflict of interest;
- during the year we met regularly with the Independent Auditors and with other heads of functions; no matters worthy of note emerged from the meetings;
- we found no evidence of atypical or unusual transactions as defined in Consob Communication 6064293 of July 28, 2006;
- we verified that there are no routine intercompany or related-party transactions that are in conflict of the Company's interest or inconsistent; the intercompany and related-party transactions are described adequately by the Directors in the Report on Operations and in the explanatory notes; all such transactions were carried out on an arm's length basis;
- the Company applied the principles regarding procedures that companies must adopt to ensure the necessary conditions of fairness in the process of carrying out transactions with related parties;
- we evaluated, as within our competence, the adequacy of the Company's organizational structure, internal control system, administrative and accounting systems, and their reliability to accurately represent business matters, by collecting information from department heads, by meeting with the Independent Auditors with the reciprocal exchange of data and information, and by attending Internal Audit Committee meetings, and given the business activity and the size of the Company, we deem the organization and systems to be adequate;

- we monitored the implementation of organizational measures associated with business developments;
- we checked the Company's observance of the law and by-laws.

We inspected and obtained information about the organizational and procedural activities implemented by the Company and its subsidiaries in accordance with Italian Legislative Decree 231/01 on the administrative liability of entities for the crimes contemplated by such legislation (and as subsequently amended). The Supervisory Body reported on the activity performed during the year ended December 31, 2018, without finding any wrongdoing or specific violations of the Company's and the subsidiaries' Organizational Model.

As noted, PricewaterhouseCoopers S.p.A. audited the Company's separate financial statements for the year ended December 31, 2018 and on March 13, 2019 it submitted an unqualified opinion, stating that the Company's separate financial statements for the year ended December 31, 2018 "give a true and fair view of the financial position, results of operations and cash flows of Marcolin S.p.A for the year ended December 31, 2018". The Independent Auditors also state that the report on operations is consistent with the separate financial statements of the Company. The Board of Statutory Auditors performed its supervisory function with the full collaboration of the corporate boards and adequate documentation was always provided. No omissions, wrongdoing or irregularities were found.
We checked the accounting policies of the separate financial statements, upon which we agree in that they correspond to the Italian Civil Code rules and are consistent with those applied in the previous year. Intangible assets were recognized and amortized with our consent, as necessary.

On February 28, 2019 the Board of Directors of MARCOLIN S.p.A. approved the draft consolidated financial statements of MARCOLIN Group for the year ended December 31, 2018; those financial statements, drawn up according to IAS/IFRS, were also audited by PricewaterhouseCoopers S.p.A., which on March 13, 2019 issued a clean opinion on the true and fair view of the financial position, results of operations and cash flows of the group.
The Independent Auditors state that the report on operations is consistent with the consolidated financial statements of MARCOLIN S.p.A. As within our competence, we acknowledge that the Directors' report on the consolidated financial statements describes adequately the situation of the companies of the group, the financial and business matters, the subsequent events, the annual business performance and the business outlook for the current year.
We reviewed the report to verify compliance with Italian Legislative Decree 127/1991, Article 40, the correct identification of the consolidated companies in accordance with the international accounting standards, and the information as per Article 39 of the same Decree.
On the basis of the controls performed, the Board of Statutory Auditors considers the report on operations to be correct and consistent with the consolidated financial statements.
The explanatory notes contain the information required by the international accounting standards, present the accounting principles and policies adopted, and present the consolidation methods, which correspond to those used for the previous year.
No claims were made to the Board of Statutory Auditors under Italian Civil Code Article 2408 or of any other nature.
During the year we issued the opinions requested of the Board of Statutory Auditors in accordance with the law.
In consideration of the foregoing, pursuant to the supervisory activity performed, and on the basis of the information exchanged with the Independent Auditors, we are in favor of the approval of the financial statements and we agree with the Board of Directors' proposal to destine the profit of the period of some euro 24,396,064.

For the attention of the Shareholders,
We remind you that the terms of the current Board of Statutory Auditors and the Board of Directors expire with the approval of the financial statements for the year ended December 31, 2018. We thank you for your confidence in us and we invite you to engage in the necessary deliberations to appoint the new corporate boards.

Longarone (Belluno), March 13, 2019

Dr. David Reali

Dr. Mario Cognigni

Rag. Diego Rivetti

SUMMARY OF GENERAL MEETING RESOLUTIONS

SUMMARY OF GENERAL MEETING RESOLUTIONS

The General Meeting of Shareholders, held at a first calling on March 28, 2019, passed resolutions to:

- approve Marcolin S.p.A.'s Financial Statements and Report on Operations for the year ended December 31, 2018, and the Marcolin Group's Consolidated Financial Statements for the year ended December 31, 2018 and accompanying Report on Operations;

- allocate the Company's profit for the year of euro 24,396,064.34 as follows:

    - euro 1,219,803.22 to the Legal Reserve;
    - carry forward the remainder.

Milan; March 28, 2019

for the Board of Directors

the Chairman
Signed: *Vittorio Levi*

MARCOLIN
EYEWEAR