MARCOLIN
EYEWEAR

2017 ANNUAL REPORT

MARCOLIN
EYEWEAR

MARCOLIN
EYEWEAR

TOM FORD
MONCLER LUNETTES
Ermenegildo Zegna
roberto cavalli EYEWEAR
ATELIER SWAROVSKI
TOD'S
EMILIO PUCCI
BALENCIAGA
SWAROVSKI
DSQUARED2
GUESS
DIESEL
Just cavalli EYEWEAR
COVERGIRL eyewear
KENNETH COLE
MONT BLANC
Timberland
GANT EYEWEAR
HARLEY-DAVIDSON EYEWEAR
MARCIANO LOS ANGELES
CATHERINE DENEUVE LUNETTES
SKECHERS EYEWEAR
BONGO EYEWEAR
Candie's eyewear
RAMPAGE EYEWEAR
VIVA eyewear
MARCOLIN EYEWEAR
WEB EYEWEAR

TABLE OF CONTENTS

GENERAL INFORMATION 5

CORPORATE BOARDS AND AUDITORS 7

SHARE CAPITAL AND OWNERSHIP 8

MARCOLIN GROUP STRUCTURE AS AT DECEMBER 31, 2017 9

THE MARCOLIN GROUP 10

THE GROUP'S FINANCIAL HIGHLIGHTS 11

GROUP REPORT FOR THE YEAR ENDED DECEMBER 31, 2017 15

BUSINESS PERFORMANCE 15

INCOME STATEMENT HIGHLIGHTS 20

STATEMENT OF FINANCIAL POSITION HIGHLIGHTS 24

MARCOLIN S.P.A. ANNUAL REPORT 30

INCOME STATEMENT HIGHLIGHTS 31

SALES REVENUES 32

STATEMENT OF FINANCIAL POSITION HIGHLIGHTS 34

SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES 37

ASSOCIATES 41

MAIN RISKS AND UNCERTAINTIES TO WHICH THE GROUP AND THE COMPANY ARE EXPOSED 42

OTHER INFORMATION 44

SUBSEQUENT EVENTS AND BUSINESS OUTLOOK 51

NOTICE OF CALLING TO GENERAL MEETING 52

PROPOSED RESOLUTION 53

CONSOLIDATED FINANCIAL STATEMENTS OF THE MARCOLIN GROUP 55

FOR THE YEAR ENDED DECEMBER 31, 2017 55

CONSOLIDATED STATEMENT OF FINANCIAL POSITION 57

CONSOLIDATED INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME 58

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY 59

CONSOLIDATED STATEMENT OF CASH FLOWS 60

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 61

ANALYSIS OF CONSOLIDATED STATEMENT OF FINANCIAL POSITION 82

INDEPENDENT AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS IN ACCORDANCE WITH LEGISLATIVE DECREE N. 39, ARTICLE 14 OF JANUARY 27, 2010 109

SEPARATE FINANCIAL STATEMENTS 113

OF MARCOLIN S.P.A. 113

FOR THE YEAR ENDED DECEMBER 31, 2017 113

STATEMENT OF FINANCIAL POSITION 115

INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME 116

STATEMENT OF CHANGES IN EQUITY 117

STATEMENT OF CASH FLOWS 118

NOTES TO THE SEPARATE FINANCIAL STATEMENTS OF MARCOLIN S.P.A. FOR THE YEAR ENDED DECEMBER 31, 2017 119

ANALYSIS OF MARCOLIN S.P.A. STATEMENT OF FINANCIAL POSITION 135

INDEPENDENT AUDITORS' REPORT ON THE SEPARATE FINANCIAL STATEMENTS 161

BOARD OF STATUTORY AUDITORS' REPORT 166

SUMMARY OF GENERAL MEETING RESOLUTIONS 170

GENERAL INFORMATION

MARCOLIN S.p.A.
Headquarters, Executive Management and Business Offices in
Z.I. Villanova, 4 32013 Longarone (Belluno)
Share Capital Euro 35,902,749.82 Fully Paid In
R.E.A. n. 64334
Tax and Companies Register n.BL 01774690273
VAT n. 00298010257

Tel +39.0437.777111
Fax +39.0437.777282
www.marcolin.com

CORPORATE BOARDS AND AUDITORS

Board of Directors[1]

Vittorio Levi	Chairman
Massimo Renon [2]	C.E.O. and General Manager Executive
Giovanni Zoppas [2]	Deputy Chairman
Antonio Abete	Director
Nicolas Brugère	Director
Francesco Capurro [3]	Director
Cirillo Coffen Marcolin	Director
Roberto Ferraresi [3]	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	Acting Auditor
Diego Rivetti	Acting Auditor
Alessandro Maruffi	Alternate Auditor
Rossella Porfido	Alternate Auditor

Internal Audit Committee [4]

Vittorio Levi	Chairman
Roberto Ferraresi [3]	Internal Auditor
Cirillo Coffen Marcolin	Internal Auditor

Supervisory Body [4]

Federico Ormesani	Chairman
David Reali	Supervisor
Cirillo Coffen Marcolin	Supervisor

Independent Auditors [5]

PricewaterhouseCoopers S.p.A.

---

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

2) Massimo Renon was appointed Director with a Shareholders' Resolution dated October 18, 2017. On the same date Marcolin S.p.A.'s Board of Directors appointed Massimo Renon C.E.O. and General Manager, and appointed Giovanni Zoppas as Executive Deputy Chairman.

3) Directors Francesco Capurro and Roberto Ferraresi, the latter also a member of the Internal Auditor Committee, submitted their resignations effective immediately after the approval of these financial statements. The other Directors appointed Jacopo Forloni by co-optation as a member of the Board of Directors and of the Audit Committee until the date of the next General Meeting, in accordance with Italian Civil Code Article 2386.

4) Board of Directors' appointment of April 28, 2016.

5) Term of engagement: 2016 - 2018 (under the Shareholders' Resolution of April 28, 2016)

SHARE CAPITAL AND OWNERSHIP

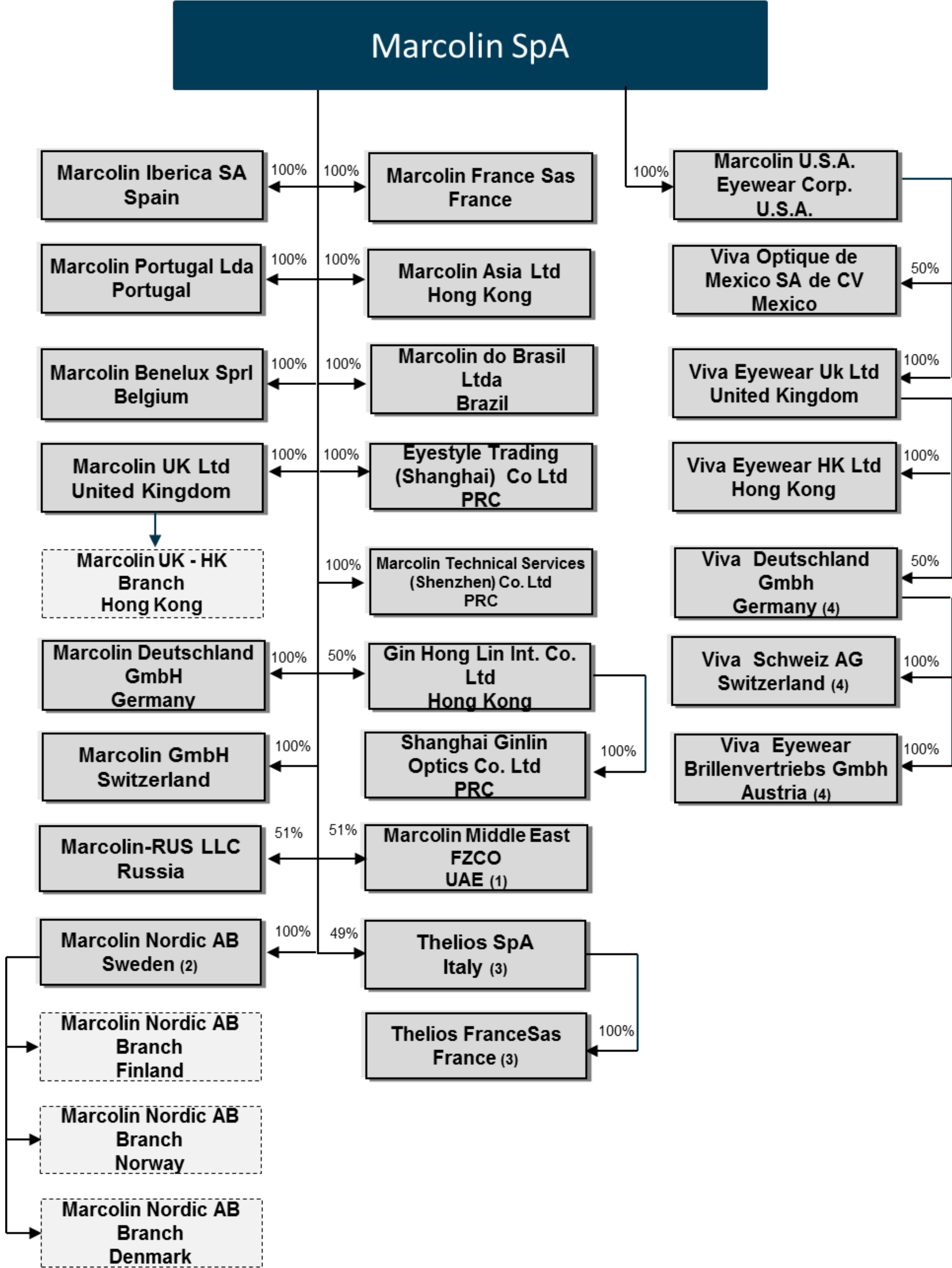
The Parent Company's share capital is euro 35,902,749.82, fully paid-in, comprised of 61,458,375 ordinary shares without par value and 6,828,708 Class B shares without par value issued on October 5, 2017 to the new shareholder, Vicuna Holding S.p.A., a company of the LVMH Group. The entry of new shareholder Vicuna Holding S.p.A. was part of a larger 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.

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, 2017.

The Marcolin shares owned by 3 Cime S.p.A. are encumbered by liens initially emerging at the end of 2013, pursuant 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 through the issuance of new notes. The new notes also involve a lien on the shares of Marcolin S.p.A. owned by 3 Cime S.p.A.

*****

MARCOLIN GROUP STRUCTURE AS AT DECEMBER 31, 2017



1) Joint venture agreement between Marcolin S.p.A. and Rivoli Group LLC stipulated on March 23, 2017. 51% of the shares of the new Company were acquired on June 6, 2017;
2) On May 9, 2017, Marcolin S.p.A. acquired the remaining 30% of the shares from the previous minority shareholders;
3) Joint venture agreement between Marcolin S.p.A. and LVMH Group stipulated on January 31, 2017. On August 8, 2017, Marcolin S.p.A. acquired 49% of the shares of the new company,Thélios S.p.A. On March 23, 2017, Thélios France Sas, a French company wholly owned by Thélios S.p.A., was established;
4) Company put into liquidation on December 31, 2017.

THE MARCOLIN GROUP

Marcolin, an 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 2017 the Marcolin Group sold an estimated 13.6 million pairs of eyeglasses and sunglasses worldwide, with sales exceeding euro 469.1 million.

In 2017 the Group set up an important joint venture with the LVMH Group. The joint venture, fully operational in 2018, will design, manufacture and distribute Cèline brand eyewear and potentially handle other brands of the French group as well.
In 2017 Marcolin also stipulated a joint venture agreement with the Rivoli Group, which enabled to strengthen the Group in the Middle Eastern market, given that the Rivoli Group is one of the leading luxury retailers in that area.

Thanks to the recent joint ventures and to the 2013 acquisition of the Viva Group, the Marcolin Group has become a highly global eyewear business in terms of its brand portfolio, products, geographic presence and markets.

In 2017 the Marcolin Group had sales of euro 469.1 million and some 1,849 employees, plus a widespread, well-structured network of independent agents.

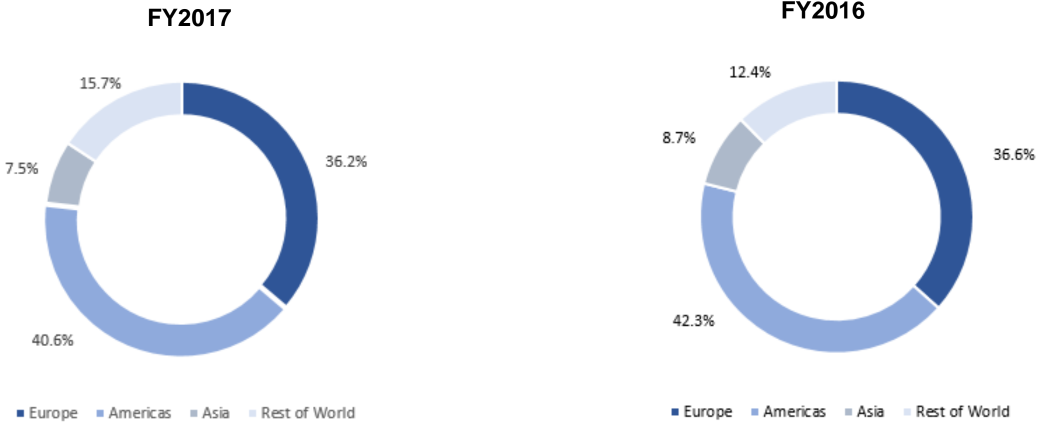
Today Marcolin has a strong portfolio of 28 licensed brands, with a good balance between the luxury and mainstream ("diffusion") segments, men's and women's products, and eyeglass frames and sunglasses.
The luxury segment includes some of the most glamorous fashion brands such as Tom Ford, Tod’s, Balenciaga, Roberto Cavalli, Montblanc, Ermenegildo Zegna, Pucci, Moncler and Omega (regarding the last brand, the Group has stipulated an exclusive supply contract for the 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.
The house brands include WEB and Marcolin.

Geographically, the Group is now present in all major countries across the world through direct affiliates, partnerships (joint ventures) and exclusive distribution agreements with major players of the industry.

*****

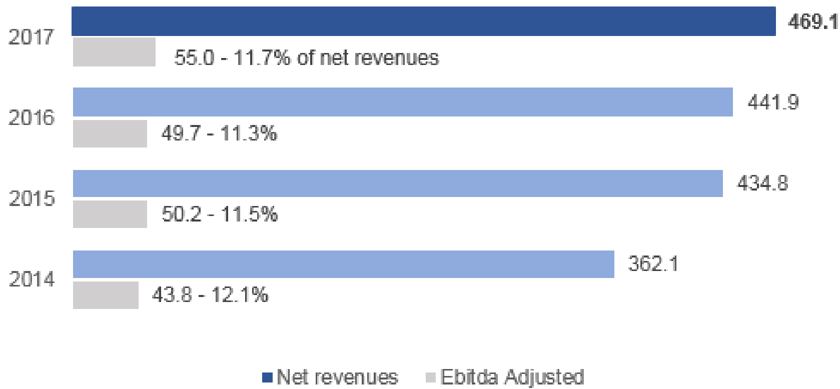
THE GROUP'S FINANCIAL HIGHLIGHTS

Sales by geographical area

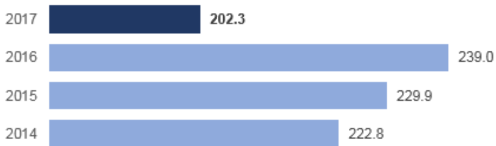


Sales and adjusted EBITDA *(euro/millions)*

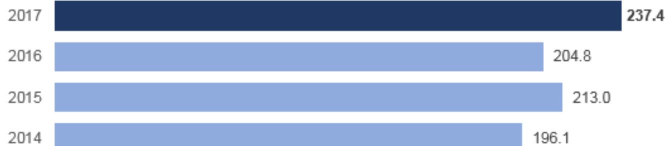
Adjusted EBITDA excluding non-current costs incurred for extraordinary transactions



Equity *(euro/millions)*



Net financial debt *(euro/millions)*



MARCOLIN GROUP

REPORT ON OPERATIONS

FOR THE YEAR ENDED

DECEMBER 31, 2017

GROUP REPORT FOR THE YEAR ENDED DECEMBER 31, 2017

Consistently with previous periods, the Annual Financial Report for the year ended December 31, 2017 (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, during 2017 Italian eyewear exports grew by 3.2%, whereas the domestic demand fell slightly by 1.2%. The rates reflect an economy featuring high uncertainty and contrasting trends, such as economic growth slightly above expectations in the euro zone and in the United States, counterbalanced by an uncertain political climate in both areas and in financial markets in general.

Italian eyewear production benefited from considerable growth in the past: 9.4% from 2013 to 2014 and 12.5% from 2014 to 2015, whereas it slowed down to 3.7% from 2015 to 2016. The trend of the prior year continued in 2017, with growth of 2.9%. Although the rate is lower than in previous years, due mainly to less export growth and little momentum in the domestic market, it is still higher than the rate for Italian GDP, which should be 1.5% for 2017, demonstrating the soundness of the Italian eyewear industry.

In 2017 export growth took place mainly in Europe and America, the industry's two main markets. America benefited prevalently from the increase in exports of eyeglass frames, whereas sunglass exports were stable compared with the prior year. In Europe the opposite occurred; sunglass exports performed very well, offsetting the negative trend of eyeglass frames. Excellent results are reported for Germany, Spain, Portugal and the Netherlands, which counterbalanced the below-expectation performance of France and the United Kingdom.
In 2017 Asia stayed on the negative trend of the previous year.
Although exports in emerging countries are still not significant in terms of volumes, they have excellent potential for the future. China, Russia and Mexico performed well in 2017, whereas the United Arab Emirates, South Korea and India had worse results than in the previous year.

Global scenario and future trends

The global economy is showing positive signs in the initial months of 2018. Good indications are present in all the major countries, driven by Europe.
The United States is expected to benefit from trade policies aimed to promote exports, thanks to the depreciation of the U.S. dollar and new stimuli provided by the recent tax reform.
The Italian market should witness excellent export performance, although there are mixed signals for domestic spending.

In this scenario, the eyewear industry will benefit from steady future growth, fostered in part by increased awareness worldwide of the dangers of UV exposure, the effect of multi-pairing (the consumer's willingness to buy more than one eyewear model), technological advances (greater market penetration of products with high added value, such as models with polarized lens), and greater penetration in emerging markets.

---

[4] Freely adapted from ANFAO – Associazione Nazionale Fabbricanti Articoli Ottici (Italian Association of Eyewear Article Manufacturers) – and Taiyou Research

*****

Introduction

Within the context described above, the sales of the Marcolin Group rose by 6.2% (7.1% at constant exchange rates), whereas the Parent Company's sales rose by 11.1% (11.9% at constant exchange rates); the growth is excellent compared with the industry results.

In 2017 the Group invested in new Italian and foreign subsidiaries and associates, stipulated with the LVMH Group and the Rivoli Group.
The brand portfolio increased thanks to important license renewals during the year with Diesel, Swarovski and Guess.
In 2017 the Marcolin Group issued new bond notes for euro 250 million, which enabled early redemption of the previous bond notes and settlement of additional outstanding credit lines, benefiting from better financial terms at the same time. Moreover, in 2017 LVMH became a new shareholder of the Group though Vicuna Holding S.p.A., which owned 10% of Marcolin S.p.A.'s shares as at December 31, 2017.

*****

Financial and corporate activities

In January and February 2017 Marcolin began a process to refinance its debt existing as at December 31, 2016. Pursuant to an in-depth analysis of the market situation, deemed favorable, on February 10, 2017 Marcolin S.p.A. issued 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, 2017.

Pursuant to the new note issue and the stipulation of the new credit facility, the previous bond notes and revolving credit facility existing at December 31, 2016 were extinguished.

The new bond notes present similar features to the previous ones, but they have much better terms and conditions given the current market conditions. Moreover, the notes issued are backed by collateral from the Company, its controlling shareholder 3 Cime S.p.A., and some other Group companies which is more restricted 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 is 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 January 2017 a joint venture agreement was signed with the LVMH Group to set up a company, 51% owned by LVMH and 49% by Marcolin S.p.A. (thus it is an associative relationship), for the production, distribution and promotion of sunglasses and eyeglasses with some brands of the LVMH Group. The first brand to be licensed to the new company by the LVMH Group is Céline. The LVMH Group will evaluate negotiations for licensing other brands of the Group in the future.
With respect to the obligations of such agreement, pursuant to the approval obtained from the antitrust authorities, on October 18, 2017 a capital increase of 6,828,708 shares was stipulated, with a different class of shares than those owned by 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 the 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, 2018 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 took over the management of the Marcolin Group/LVMH joint venture as the C.E.O. The purpose of the change is to contribute to the achievement of the two companies' best possible performance, and ensure the alignment of their interests.

Some of the proceeds received on the new bond issue were used by Marcolin S.p.A., together with subsidiary Marcolin USA Eyewear Corp. and parent companies Marmolada S.p.A. (merged into its parent company 3 Cime S.p.A. with a deed dated November 27, 2017) and 3Cime S.p.A., for a settlement agreement stipulated with HVHC Inc., former owner of the Viva Group, to discharge the Vendor Loan Note issued by 3Cime S.p.A. and to pay other amounts to settle all HVHC Inc.'s claims with Marcolin Group companies for a total amount of USD 27 million. 3 Cime S.p.A. received the amount for the Vendor Loan Note repayment by way of a euro 25.9 million dividend payment from Marcolin S.p.A. to parent Marmolada S.p.A. (merged into its parent company 3 Cime S.p.A. with a deed dated November 27, 2017).

*****

Products and licenses

Within the scope of its brand portfolio consolidation and development, the following activities were carried out in 2017 concerning licensed brands:

- In May 2017 Marcolin stipulated the early renewal until 2023 of the licensing agreement for the design, manufacturing and worldwide distribution of Diesel Eyewear eyeglass frames and sunglasses;
- In December 2017 Marcolin stipulated the renewal until 2023 of the licensing agreement for the design, manufacturing and worldwide distribution of Swarovski and Atelier Swarovski eyeglass frames and sunglasses;
- In December 2017 Marcolin confirmed the renewal until 2025 of the licensing agreement for the design, manufacturing and worldwide distribution of global lifestyle brand GUESS eyeglass frames and sunglasses. GUESS is the pillar brand in the diffusion segment for the Marcolin Group;
- In December 2017 Marcolin stipulated the renewal until 2020 of the licensing agreement for the design, manufacturing and worldwide distribution of Rampage eyeglass frames and sunglasses.

The Marcolin Group continued the activities to rationalize and optimize its product collections.

2017 benefited from the important organizational change occurring in 2016 whereby products are handled within the scope of the license area, putting an emphasis on the significance of harmonious, consistent management of the products in line with their respective licenses.

The efforts of past years continued to be made to enhance the collections, expand the eyeglass frame segment and add new lines and new products. The design and product departments were directly involved with exceptional designing activities aimed to adapt the collections to more 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

Business initiatives aimed to strengthen relationships with the distribution network continued in 2017, with the objective of greater penetration into the markets sustaining the Group's growth.

In order to improve the effectiveness and efficiency of the sales strategies, in January 2017 the Group appointed Massimo Renon, highly experienced in the industry, as the new Worldwide Sales General Manager, and on October 2017 he became Marcolin S.p.A.'s C.E.O.

Moreover, the Parent Company initiated an important project at the end of 2016, which was fully implemented in 2017, to rationalize the product offering for an assortment better targeted to market demands, while improving the efficiency of sample collection and inventory management.

In relation to the American market, in 2017 the sales team continued to be reorganized mainly for the optical segment, by strengthening the management and the sales agent network and resetting the marketing strategy in order to make up for the lower-than-expected results of 2016. In this respect, in May 2017 a new C.E.O. was appointed for the American affiliate.

On March 23, 2017 the Marcolin Group stipulated a joint venture agreement in the Middle East with the Rivoli Group, one of the leading luxury retailers in that area. The new company, Marcolin Middle East FZCO, 51%-owned by Marcolin S.p.A. (the share acquisition was completed on June 6, 2017), is based in Dubai in the United Arab Emirates, and will distribute eyewear collections of Marcolin's portfolio brands: Tom Ford, Balenciaga, Ermenegildo Zegna, Montblanc, Roberto Cavalli, Tod’s, Emilio Pucci, Swarovski, Dsquared2, Diesel, Just Cavalli, Kenneth Cole, Timberland, Guess, Gant, Harley-Davidson, Marciano, Sketchers and Web.

During the year the “LATAM Distribution” business division, which distributes Marcolin products in Latin America, was transferred from Marcolin U.S.A. Eyewear Corp. to Marcolin S.p.A. effective August 1, 2017. The transfer is considered an opportunity for Marcolin USA Eyewear Corp. to better focus on the activities and operations in North and Central America and for Marcolin S.p.A. to have greater cultural proximity to its customers in South America. The European hub, directed by Marcolin S.p.A. using in part direct affiliates and associates, will address the entire European rim and its complementary and neighboring countries in terms of both geography and business, including South America.

The Group is evaluating new investment strategies in other geographical areas such as Japan and Mexico, possibly through joint ventures with local businesses.

*****

Logistics and organizational activities

In 2017 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 enabled better allocation of resources by way of more careful and more rational demand planning, exploiting upstream and downstream synergies.

The Group's logistical activities are centered at two 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 affiliates, which addresses the entire European rim, Asia, and complementary and neighboring countries in terms of both geography and business, and since August 2017 also customers in Central and South America pursuant to the transfer of the “LATAM Distribution” business division from the American affiliate to the parent company.

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

- 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 2017 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 2017. 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
2011		224.1	9.0%	34.2	15.3%	28.9	12.9%	21.0	9.4%	12.9%	29.5%	22.2%
2012		214.0	(4.5)%	11.2	5.2%	11.0	5.1%	6.0	2.8%	5.1%	5.2%	3.8%
2013	*	212.3	(0.8)%	15.9	7.5%	10.0	4.7%	12.0	5.7%	4.7%	2.6%	5.6%
2013	**	346.3	63.1%	28.5	8.2%	19.2	5.5%	(8.6)	(2.5)%	5.6%	5.0%	(4.0)%
2014		362.1	4.6%	29.4	8.1%	19.9	5.5%	0.4	0.1%	5.5%	4.8%	0.2%
2015		434.8	20.1%	39.7	9.1%	28.1	6.5%	(2.5)	(0.6)%	6.5%	6.3%	(1.1)%
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	6.2%	52.1	11.1%	34.0	7.3%	(14.5)	(3.1)%	7.3%	7.7%	(7.2)%

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
* Viva consolidated 1 month
** Pro-forma (Viva consolidated 12 months)

The net revenues of 2017 were euro 469.1 million, compared with the euro 441.9 million of 2016.

EBITDA was euro 52.1 million, or 11.1% of sales (compared with the 2016 EBITDA of euro 46.4 million, corresponding to 10.5% of sales).
EBIT was euro 34.0 million, corresponding to 7.3% of sales (compared with the 2016 EBIT of euro 31.3 million, corresponding to 7.1% of sales).

In 2017, the impact of non-recurring, extraordinary costs on EBITDA was euro 2.9 million, compared with the euro 3.3 million of 2016. In order to better understand the business performance, those effects, consisting mainly in 2017 of non-recurring costs deriving from the resignation of some of the Group's top managers and the reorganization of the American affiliate's sales network, should be eliminated.

Excluding the effects of the transactions described above, the 2017 normalized ("adjusted") EBITDA is euro 55.0 million (11.7% of sales), against the 2016 amount of euro 49.7 million (11.3% of sales).

Excluding such effects, the 2017 adjusted EBIT is euro 36.9 million (7.9% of sales), against the 2016 amount of euro 34.6 million (7.8% of sales).

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

Economic indicators- Adjusted	**2017**		**2016**	
(euro/000)	**euro**	**%of net revenues**	**euro**	**%of net revenues**
Ebitda	54,977	11.7%	49,736	11.3%
Operating income - Ebit	36,926	7.9%	34,610	7.8%

*****

SALES REVENUES

The consolidated sales revenues for the year ended December 31, 2017 were euro 469.1 million, compared with euro 441.9 million for 2016.
The euro 27.3 million year-on-year increase corresponds to an increase of 6.2%.
At constant exchange rates, the year-on-year increase is 7.1%[5].

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 2017 by the Marcolin Group reflect the sales growth in European markets (especially in Italy, Spain and Germany), where growth of 5.0% (euro 8.1 million) is reported year-on-year, and in some emerging markets classified in the Rest-of-World geographical segment, whose sales increase is euro 19.2 million. The American market produced an increase of 1.8% despite the pressures already reported in the previous year, whereas the Asian market suffered primarily as a result of economic pressures in South Korea.

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

Net Revenues by geographical area	**2017**		**2016**		**Change**	
(euro/000)	**euro**	**% of total**	**euro**	**% of total**	**euro**	**%**
Italy	*33,099*	*7.1%*	*29,076*	*6.6%*	*4,023*	*13.8%*
Rest of Europe	*136,876*	*29.2%*	*132,821*	*30.1%*	*4,055*	*3.1%*
Europe	169,974	36.2%	161,896	*36.6%*	8,078	5.0%
Americas	190,273	40.6%	186,875	*42.3%*	3,398	1.8%
Asia	35,093	7.5%	38,439	*8.7%*	(3,346)	(8.7)%
Rest of World	73,802	15.7%	54,644	*12.4%*	19,158	35.1%
Total	**469,143**	**100.0%**	**441,855**	**100.0%**	**27,288**	**6.2%**

Europe generated growth of euro 8.1 million (5.0%), 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, particularly Italy, which reported double-digit growth of 13.8%; the best-performing countries were Spain (+15.8%), Germany (15.0%), France (+4.3%) and Russia (+26.3%). Less favorable was the situation in the United Kingdom, for which a downturn had been reported in 2016 that remained in 2017 with similar results reported.
Europe accounted for 36.2% of the Group's total net revenues in 2017.

Sales in America rose by euro 3.4 million from the previous year (1.8%, or 3.3% at constant exchange rates). The performance of this market is the result of initiatives taken to reorganize the sales force, which improved sales, despite the pressures in the American market that have been reported since 2016.

Sales in Asia, accounting for 7.5% of the Marcolin Group's total sales, were affected by the contraction of consumer spending reported in the two main markets of that area, Korea and China (including Hong Kong sales), in 2017.

In the Rest-of-World segment, sales rose by 35.1%, or euro 19.2 million, assisted by favorable market trends in the Mediterranean area and Africa, possible thanks to a rationalization of our distribution partners and closer collaboration with them. The performance was positively influenced by the satisfactory results achieved by the new affiliate in the Middle East.

[5] The December 31, 2017 exchange rates and average exchange rates for 2017 are described in the notes to the consolidated financial statements under “Basis of consolidation”.

*****

OTHER INCOME STATEMENT COMPONENTS

The consolidated income statement highlights are set forth below:

	2017		2016	
(euro/000)	euro	% of net revenues	euro	% of net revenues
Net revenues	469,143	100.0%	441,855	100.0%
Gross profit	272,449	58.1%	255,744	57.9%
Ebitda	52,078	11.1%	46,429	10.5%
Operating income - Ebit	34,027	7.3%	31,303	7.1%
Financial income and costs	(33,830)	(7.2)%	(16,090)	(3.6)%
(Loss)/Profit before taxes	(6,373)	(1.4)%	15,385	3.5%
Net (loss)/profit for the period	(14,468)	(3.1)%	12,174	2.8%

Economic indicators- Adjusted	2017		2016	
(euro/000)	euro	% of net revenues	euro	% of net revenues
Ebitda	54,977	11.7%	49,736	11.3%
Operating income - Ebit	36,926	7.9%	34,610	7.8%
Net (loss)/profit for the period	15,966	3.4%	15,481	3.5%

As shown by the key performance indicators, gross profit is 58.1% of sales, up (in terms of percentage of sales) by 0.2% from the previous year (57.9% in 2016). The considerable increase in gross profit is the result of scrupulous management of manufacturing costs and a sales policy aimed to enhance the positioning of each brand in the respective market segments.

As noted, EBITDA is euro 52.1 million (11.1% of sales), compared with the euro 46.4 million of 2016 (10.5% of sales).
EBIT was euro 34.0 million, corresponding to 7.3% of sales (compared with the 2016 EBIT of euro 31.3 million, corresponding to 7.1% of sales).

As reported, the performance indicators are affected by non-recurring events for both 2017 and 2016, so they have been normalized in order to provide margins that disregard the effects of the inconstant organizational and corporate rationalization activities.
The adjusted EBITDA is euro 55.0 million, compared with the euro 49.7 million of 2016, and represents 11.7% of sales (11.3% in 2016).
Adjusted EBIT is euro 36.9 million (7.9% of sales), compared with the euro 34.6 million of 2016 (7.8% of sales).

The net finance cost of euro 33.8 million for 2017 consist primarily of interest payments on the bond notes and extraordinary costs referring to the new notes issued in February 2017 and the early redemption of the previous notes, the reversal of the issuance transaction costs, accounted for under IFRS with the financial method of amortized cost over the life of the bond notes, and finance costs referring to other short-term and medium/long-term loans.

The Group's foreign currency exchange in 2017 was balanced overall, without a particularly significant impact on the consolidated income statement.

The income tax expense[6] is euro 8.1 million, compared with euro 3.2 million for 2016. The Parent Company's current taxes amount to euro 1.4 million, consisting mainly of Marcolin S.p.A.'s IRAP (regional business tax) and IRES (corporate income tax) expense. The foreign affiliates' contribution is a net cost of euro 4.3 million for current taxes.
The amount of deferred tax was affected mainly by the reduction of deferred tax assets of the American affiliate resulting from the tax reform implemented in the United States, which in 2018 will cut the U.S. companies' tax rate from 35% to 21%. Accordingly, the deferred items, previously recognized with a tax rate of 35%, have been adjusted to the new tax rate of 21%.

The net result for the year is a loss of euro 14.5 million, compared with a net profit of euro 12.2 million for 2016. The difference is attributable primarily to the non-recurring items described in the preceding paragraphs, such as the euro 8.5 million cost for early redemption of the previous bond notes, the euro 7.6 million adjustment of the American affiliate's deferred tax assets to the new tax rate that will become effective in 2018, and the effect of consolidation with the equity method of the new associate, Thélios S.p.A.

*****

6 Marcolin S.p.A. had opted to participate in the Italian tax consolidation regime for IRES purposes pursuant to Presidential Decree 917, Article 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 2014-2016. Upon expiration of the term, on March 31, 2017 the Company renewed its participation for the three-year term of 2017-2019.

STATEMENT OF FINANCIAL POSITION HIGHLIGHTS

The consolidated net financial position as at December 31, 2017 compared with the previous year is set forth below.

Net invested capital *(euro/000)*	**12/31/2017**	**12/31/2016**
Trade receivables	82,091	72,643
Inventories	122,582	126,914
Trade payables	(126,800)	(128,526)
Operating working capital	**77,874**	**71,031**
Other assets	14,680	13,067
Other liabilities	(44,185)	(35,958)
Net working capital	**48,369**	**48,140**
Non-current assets	37,490	36,415
Investments in subsidiaries and associates and other financial assets	610	907
Property, plant and equipment	29,071	25,513
Intangible assets	49,610	49,824
Goodwill	282,326	290,902
Fixed assets	**399,108**	**403,562**
Founds	(7,754)	(7,839)
Net invested capital	**439,722**	**443,863**
Current financial liabilities	39,369	51,697
Non-current financial liabilities	255,355	199,866
Gross financial indebtedness	**294,725**	**251,563**
Current financial assets and Cash and cash equivalents	(54,137)	(42,929)
Non-current financial assets	(3,171)	(3,797)
Net financial debt	**237,417**	**204,837**
Net equity	**202,305**	**239,026**

The net financial indebtedness at the reporting date is set forth below against the corresponding data of 2016:

Net financial debt *(euro/000)*	**12/31/2017**	**12/31/2016**
Cash and cash equivalents	40,805	42,230
Current and non-current financial assets	16,503	4,497
Current financial liabilities	(34,442)	(46,897)
Current portion of non-current financial liabilities	(4,928)	(4,800)
Non-current financial liabilities	(255,355)	(199,866)
Total net financial debt	**(237,417)**	**(204,837)**

The Group's net financial position is indebtedness of euro 237.4 million, compared with the euro 204.8 million indebtedness of 2016, a year-on-year difference of euro 32.6 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, 2017, 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 the joint venture with sufficient funding for the start-up of its business.

The debt-to-equity ratio at December 31, 2017 is 1.17 (0.86 at December 31, 2016).

*****

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

Net working capital *(euro/000)*	**12/31/2017**	**12/31/2016**
Inventories	122,582	126,914
Trade receivables	82,091	72,643
Trade payables	(126,800)	(128,526)
Total	**77,874**	**71,031**

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

- the value of inventories fell by euro 4.3 million compared with the previous year, due mainly to better inventory management;
- trade receivables rose considerably from those of the previous year, as they were largely affected by higher sales near the end of 2017. Management has taken measures to improve the "days sales outstanding" (DSO) since the previous year. The measures implemented in 2017 reduced the rate by 2 days as at December 31, 2017 compared with 2016;
- the trade payables at the end of 2017 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.

The working capital-to-sales ratio is 0.17, up from the 0.16 of the prior year mainly as the result of non-recurring events such as the initial use of working capital generated by new associate Marcolin Middle East, made necessary for the business start-up.

*****

Among the non-current assets, in line with the previous year, goodwill was euro 282.3 million (euro 186.2 million referring to the Parent Company, arising on the reverse merger with Cristallo S.p.A., and the remainder arising on the acquisition of Viva International). Since it is considered an asset with an infinite useful life, it is not amortized.

The total amount had been euro 290.9 million at December 31, 2016. The 2017 decrease is attributable to translation differences of euro 12.3 million emerging on the depreciation of the U.S. dollar in 2017, offset in part by the increase deriving from the recognition of goodwill pursuant to the acquisition of Marcolin Middle East.
Goodwill was tested for impairment; the related assumptions and results are described in the Marcolin Group's notes to the consolidated financial statements.

*****

The Marcolin Group's net financial indebtedness increased by euro 32.6 million, and it was impacted by the following factors:

Net financial debt *(euro/000)*	**12/31/2017**	**12/31/2016**
Adjusted EBITDA	**54,977**	**49,736**
Increase / decrease in net working capital	(18,433)	10,592
Other operative adjustments	(8,410)	(9,435)
Net cash from / (used in) operating activities	**28,134**	**50,893**
(Purchase) of property, plant and equipment	(10,228)	(3,816)
Proceed from the sale of property, plant and equipment	241	782
(purchase) of intangible assets	(6,224)	(19,656)
Disposal in intangible assets	327	-
Net cash outflow on investments	(9,507)	948
Net cash from / (used in) investing activities	**(25,391)**	**(21,742)**
Net interest (paid) / cash in	(16,367)	(21,855)
Free Cash Flow	**(13,624)**	**7,295**
Non-recurring items not included on Free Cash Flow	(15,999)	(3,307)
Other financials items	(2,956)	4,162
Total change in net financial debt	**(32,579)**	**8,150**
Net financial debt as at December 31, 2016	**(204,837)**	**(212,988)**
Total change in net finance debt	(32,579)	8,150
Net financial debt as at December 31, 2017	**(237,416)**	**(204,837)**

Among the main items affecting the annual cash flow, euro 16.0 million consisted of non-recurring costs of euro 2.9 million, described in the comments regarding EBITDA, and extraordinary interest expense of euro 13.1 million referring the Group's debt refinancing in 2017 recognized in the year (euro 8.5 million paid to bondholders pursuant to the early redemption of the previous notes and transaction fees on issuance of the new notes).
Additional outflows were incurred for capital expenditures totaling euro 15.9 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.
2017 was also affected by further outflows for investments in financial assets: investments in the joint ventures with the LVMH Group and the Rivoli Group resulted in outflows of euro 5.7 million and euro 3.8 million, respectively; the other financial items include dividends paid to parent Marmolada S.p.A. (merged into 3 Cime S.p.A. with a deed dated November 27, 2017) totaling euro 24.8 million (the total amount of the dividend deliberated is euro 25.9 million, of which euro 1.1 million will be paid by December 31, 2018), offset in part by inflows from the euro 21.9 million capital increase subscribed and paid in by the new shareholder, LVMH.

*****

The annual capital expenditures (excluding disposals) amounted to euro 16.4 million (euro 10.2 million for property, plant and equipment and euro 6.2 million for intangibles), compared with euro 23.5 million in 2016. The investments in tangible and intangible assets are described below:

Property, plant and equipment cash out *(euro/000)*	12/31/2017	12/31/2016
Land and buildings	1,252	161
Plant and machinery	2,024	1,145
Industrial equipement	1,364	1,116
Stand and commercial equipement	4,538	88
Hardware	716	998
Office forniture and furnishing	266	208
Other	69	100
Total	**10,228**	**3,816**

Intangible assets cash out *(euro/000)*	12/31/2017	12/31/2016
Software	2,251	2,966
Other	3,973	16,690
Total	**6,224**	**19,656**

The 2017 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 to software to improve and upgrade the information systems assisting the Group.

*****

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, 2017

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 2017 data with that of the prior year on the basis of the same consolidation perimeter, by presenting "normalized" income.

*****

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 for the year	% of net revenues
2012	128.0	(10.3)%	9.6	7.5%	6.2	4.9%	4.9	3.8%
2013	123.4	(3.6)%	8.1	6.6%	3.8	3.1%	(8.5)	(6.9)%
2014	150.4	21.9%	16.1	10.7%	10.5	7.0%	4.5	3.0%
2015	205.7	36.7%	17.3	8.4%	6.2	3.0%	(2.6)	(1.3)%
2016	233.0	13.3%	27.3	11.7%	15.3	6.6%	3.7	1.6%
2017	259.0	11.1%	27.0	10.4%	15.8	6.1%	(10.8)	(4.2)%

In summary, the income statement presents:

- Sales revenues of euro 259.0 million (euro 233.0 million in 2016);
- EBITDA of euro 27.0 million, corresponding to 10.4% of sales (euro 27.3 million in 2016, 11.7% of sales);
- EBIT of euro 15.8 million, corresponding to 6.1% of sales (euro 15.3 million in 2016, 6.6% of sales);
- A net loss of euro 10.8 million (compared with a net profit of euro 3.7 million for 2016);
- Net financial indebtedness of euro 150.8 million (compared with indebtedness of euro 122.6 million as at December 31, 2016);
- Equity of euro 200.9 million, against euro 214.0 million at the end of 2016.

The Parent Company reports 2017 sales revenues up by 11.1% (an increase of euro 26.0 million), with satisfactory results across all geographical areas.
The year-on-year sales growth was generated mainly by sales in Europe (+13.7%) and in the Rest of the World (+24.6%), which more than compensated for the considerable declines in the Americas (-0.6%) and Asia (-4.7%).

As explained for the Group, in order to better understand the 2017 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	2017		2016	
(euro/000)	euro	% of net revenues	euro	% of net revenues
Ebitda	27,622	10.7%	28,360	12.2%
Operating income - Ebit	16,371	6.3%	16,343	7.0%
Net (loss)/profit for the period	2,963	1.1%	4,772	2.0%

In 2017 the non-recurring costs regarded *ad-personam* agreements for changes in top management positions totaling euro 0.6 million (euro 1.1 million in 2016).

Excluding the effects of the non-recurring transactions, the 2017 adjusted EBITDA is euro 27.6 million, corresponding to 10.7% of sales (euro 28.4 million, 12.2% of sales in 2016), whereas the adjusted EBIT is euro 16.4 million, corresponding to 6.3% of sales (euro 16.4 million and 7.0% of sales in 2016).

SALES REVENUES

The 2017 sales revenues were euro 259.0 million, compared with the euro 233.0 million revenues of 2016, an increase of a substantial euro 26.0 million (11.1%) from the prior year.
At constant exchange rates, the year-on-year increase is 11.9%.

The Parent Company's revenues from sales to third parties were euro 121.4 million in 2017, compared with euro 103.3 million in 2016, an increase of euro 18.1 million or 17.5%.

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

Net Revenues by geographical area	**2017**		**2016**		**Change**	
(euro/000)	**euro**	**% of total**	**euro**	**% of total**	**euro**	**%**
Italy	*33,099*	*12.8%*	*28,745*	*12.3%*	*4,354*	*15.1%*
Rest of Europe	*87,591*	*33.8%*	*77,448*	*33.2%*	*10,143*	*13.1%*
Europe	120,690	46.6%	106,193	45.6%	14,497	13.7%
Americas	47,091	18.2%	47,391	20.3%	(300)	-0.6%
Asia	25,349	9.8%	26,603	11.4%	(1,254)	-4.7%
Rest of World	65,837	25.4%	52,819	22.7%	13,018	24.6%
Total	**258,967**	**100.0%**	**233,006**	**100.0%**	**25,961**	**11.1%**

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.

*****

The Parent Company's sales performance in 2017 reflects sales growth primarily in the European market and in the new markets of the Rest-of-World segment.

European markets reported excellent results (sales up by euro 14.5 million, or 13.7%), in continuance of the previous year's trend.
Some geographic areas performed very well: Italy had year-on-year growth of 15.1%, Germany 9.2%, the United Kingdom 2.8%, France 11.2%, Spain 34.4%; Belgium, Eastern European countries, Scandinavian countries, Portugal, Slovenia and Switzerland report increases exceeding 20%.
Europe accounted for 46.6% of the Company’s total net revenues in 2017.

Sales in the Americas were substantially consistent with those of the prior year, with a year-on-year decrease of euro 0.3 million (0.6%). Marcolin S.p.A.'s American sales were affected largely by sales to subsidiary Marcolin USA Eyewear Corp.

Sales in Asia (down by 4.7%) were substantially consistent with the trend in the Far East markets, due to declines in the two major markets, Korea and China (including Hong Kong). Sales to Asia account for 9.8% of Marcolin S.p.A.'s total sales.

In the Rest-of-World segment, sales rose by 24.6% (euro 13.0 million), assisted by favorable market trends in the Mediterranean area and Africa, possible thanks to a rationalization of our distribution partners and closer collaboration with them.

*****

The Company's income statement highlights are reported hereunder.

EBITDA is euro 27.0 million (10.4% of sales), compared with the 2016 amount of euro 27.3 million (11.7% of sales); EBIT is euro 15.8 million, 6.1% of sales, compared with the euro 15.3 million for 2016 (6.6% of sales).

The adjusted EBITDA is euro 27.6 million, compared with the euro 28.4 million of 2016, and represents 10.7% of sales (12.2% in 2016).
Adjusted EBIT is euro 16.4 million (6.3% of sales), compared with the euro 16.3 million of 2016 (7.0% of sales).

Income statement	**2017**		**2016**	
(euro/000)	**euro**	**%of net revenues**	**euro**	**%of net revenues**
Net revenues	258,967	100.0%	233,006	100.0%
Gross profit	112,105	43.3%	94,882	40.7%
Ebitda	27,006	10.4%	27,304	11.7%
Operating income - Ebit	15,755	6.1%	15,286	6.6%
Financial income and costs	(27,085)	(10.5)%	(10,372)	(4.5)%
(Loss)/Profit before taxes	(11,330)	(4.4)%	4,914	2.1%
Income tax expense	577	0.2%	(1,198)	(0.5)%
Net (loss)/profit for the period	(10,753)	(4.2)%	3,716	1.6%

According to the key performance indicators, gross profit is 43.3% of sales, an improvement of 2.6% from 2016 (40.7%). The increase in this margin, euro 17.2 million, is largely attributable to volumes and the brand mix.

Operating income is a positive euro 15.8 million (6.1% of sales), compared with the euro 15.3 million of 2016 (6.6% of sales).

The net finance costs of euro 27.1 million for 2017 consist primarily of interest on the bond notes and extraordinary costs referring to the issuance of new notes in February 2017, early redemption of the previous notes, reversal of the transaction costs (accounted for under IFRS with the financial method of amortized cost over the life of the bond notes), and finance costs on other short-term and medium/long-term loans.

Foreign currency exchange resulted in a net loss of euro 12.6 million, versus a profit of euro 5.5 million. The downturn derives mainly from the 2017 depreciation of the U.S. dollar against the euro, which had an adverse effect on the translation of a USD 125 million loan granted to Marcolin USA Eyewear Corp.

The income tax expense[7] is euro 0.6 million, compared with euro 1.2 million for 2016.

The current taxes amount to euro 1.4 million, consisting mainly of Marcolin S.p.A.'s IRAP (regional business tax) and IRES (corporate income tax) expense.

The net result for the year is a loss of euro 10.8 million (4.2% of sales), compared with a net profit of euro 3.7 million for 2016.

*****

7 Marcolin S.p.A. had opted to participate in the Italian tax consolidation regime for IRES purposes pursuant to Presidential Decree 917, Article 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 2014-2016. Upon expiration of the term, on March 31, 2017 the Company renewed its participation for the three-year term of 2017-2019.

STATEMENT OF FINANCIAL POSITION HIGHLIGHTS

The Parent Company's financial position as at December 31, 2017 is presented below in comparison with the corresponding results of the previous year:

Net invested capital *(euro/000)*	**12/31/2017**	**12/31/2016**
Trade receivables	80,125	68,860
Inventories	74,008	73,725
Trade payables	(119,017)	(109,384)
Operating working capital	**35,116**	**33,200**
Other assets	7,292	8,455
Other liabilities	(17,000)	(13,109)
Net working capital	**25,408**	**28,546**
Non-current assets	15,378	9,300
Investments in subsidiaries and associates and other financial assets	85,167	70,064
Property, plant and equipment	23,565	22,913
Intangible assets	23,277	26,111
Goodwill	186,227	186,227
Fixed assets	**333,614**	**314,615**
Founds	(7,324)	(6,597)
Net invested capital	**351,698**	**336,564**
Current financial liabilities	77,945	91,860
Non-current financial liabilities	252,180	203,122
Gross financial indebtedness	**330,125**	**294,982**
Current financial assets and Cash and cash equivalents	(72,188)	(50,186)
Non-current financial assets	(107,152)	(122,185)
Net financial debt	**150,784**	**122,611**
Net equity	**200,913**	**213,953**

The net financial indebtedness at December 31, 2017 is set forth below against the corresponding data of 2016:

Net financial debt *(euro/000)*	**12/31/2017**	**12/31/2016**
Cash and cash equivalents	26,330	31,673
Current and non-current financial assets	153,011	140,697
Current financial liabilities	(73,017)	(87,060)
Current portion of non-current financial liabilities	(4,928)	(4,800)
Non-current financial liabilities	(252,180)	(203,122)
Total net financial debt	**(150,784)**	**(122,611)**

The Company's net financial position is indebtedness of euro 150.8 million, compared with the euro 122.6 million indebtedness of 2016, a year-on-year increase of euro 28.2 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, 2017, 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 the joint venture with sufficient funds for the start-up of its business.

More information on the cash generated by operating activities is reported notes to the financial statements.

The debt-to-equity ratio at December 31, 2017 is 0.75 (compared with 0.57 at December 31, 2016).

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)

(*) The Leverage is the debt to equity ratio

*****

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

Net working capital *(euro/000)*	**12/31/2017**	**12/31/2016**
Inventories	74,008	73,725
Trade receivables	80,125	68,860
Trade payables	(119,017)	(109,384)
Total Net working capital	**35,116**	**33,200**

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

- The value of inventories rose by euro 0.3 million compared with the previous year;
- trade receivables rose considerably from those of the previous year, as they were largely affected by higher sales near the end of 2017. Since the previous year, management has been taking measures to improve the "days sales outstanding" (DSO). Those measures were continued in 2017, with good results.
- trade payables at the end of 2017 were affected by amounts due to Group companies and licensors recognized at the end of the year that will be settled in the next year.

The working capital-to-sales ratio is 0.14 (in line with the 2016 ratio).

*****

Among the non-current assets, in line with the previous year, the Parent Company recognized goodwill of euro 186.2 million accounted for since the end of 2014 (arising on the reverse 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 of euro 15.4 million refer primarily to deferred tax assets, whose increase from the previous year is explained in the explanatory notes.

Investments in subsidiaries and associates and other financial assets, euro 85.2 million, increased as a result of new investments of euro 6.3 million in associate Thélios S.p.A. and euro 3.8 million in new affiliate Marcolin Middle East, and increased investments totaling euro 3.6 million in Marcolin USA Eyewear Corp., Marcolin France Sas, and Marcolin Asia Ltd, pursuant to the merger whereby Marcolin International BV was absorbed by Marcolin S.p.A.

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.

From January 1, 2016 to December 31, 2016 the Company incurred costs for investments in new capital goods for which it obtained a tax credit provided by Decree-Law n. 91, Article 18 of June 24, 2014, converted with amendments into Law 116 of August 11, 2014, (known as the “competitiveness decree”), the amount of which was reported in the tax return filed in 2017.

*****

SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

The results of the companies affiliated with the Group are summarized briefly hereunder.
The performance of the subsidiaries as at December 31, 2017 in comparison with December 31, 2016 is reported in detail at the end of this document.

*****

Marcolin France Sas

Marcolin France Sas (Paris) is wholly owned by Marcolin S.p.A. The company distributes Marcolin products in France, and in 2017 it produced sales revenues of euro 36.4 million (euro 34.9 million in 2016).
It reports a net loss of euro 0.1 million for 2017 (net loss of euro 0.2 million for 2016).

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 2017 it produced sales revenues of euro 15.7 million (euro 13.6 million in 2016), an increase of 15.4%.
The company reported a net profit of euro 0.5 million for 2017 (net profit of euro 0.4 million for 2016).

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 2017 it produced sales revenues of euro 3.1 million (euro 2.9 million in 2016).
It broke even in 2017 (net profit of euro 0.1 million in 2016).

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 11.2 million in 2017 (euro 9.7 million in 2016).
It reports a net loss of euro 0.1 million for 2017 (net loss of euro 0.3 million for 2016).

Marcolin Schweiz GmbH

Marcolin Schweiz GmbH (wholly owned by Marcolin S.p.A.), based in Muttenz, produced sales revenues of euro 1.6 million, consistent with those of the prior year.
It broke even in 2017, as in 2016.

Marcolin Benelux Sprl

Marcolin Benelux Sprl (Villers-Le-Bouillet), wholly owned by Marcolin S.p.A., produced sales revenues of euro 7.1 million in 2017 (euro 6.5 million in 2016) in Belgium, Luxembourg and the Netherlands.
It reports a net profit of euro 0.1 million for 2017 (the same as for 2016).

Marcolin (UK) Ltd

Marcolin U.K. Ltd, based in Newbury, wholly owned by Marcolin S.p.A., produced sales revenues of euro 12.3 million in 2017 (euro 12.6 million in 2016) in the United Kingdom and Ireland. It reports a net loss of euro 0.1 million for 2017 (net profit of euro 0.8 million for 2016).

Viva Eyewear UK Ltd

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). As a result of completing the aforementioned integration process, 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.

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 197.2 million (euro 174.6 million) in 2017, compared with USD 202.7 million (euro 183.1 million) in 2016, a decrease of 2.7% from the previous year attributable prevalently to a decline in the sales of diffusion brands in optical stores.
It reports a net loss of euro 14.0 million for 2017 (net loss of euro 1.5 million for 2016), which was largely impacted by the adverse effect of the reduction of deferred tax assets, which were recalculated with the new tax rate applied under the recent tax reform in the United States.

Marcolin Do Brasil Ltda

Marcolin Do Brasil Ltda, based in Barueri, wholly owned by Marcolin S.p.A., produced sales revenues of euro 12.9 million (euro 9.0 million in 2016) in the Brazilian market.
The company reported a net profit of euro 1.6 million for 2017 (net profit of euro 0.2 million for 2016).

Marcolin Asia HK Ltd

Marcolin Asia Ltd Hong Kong (wholly owned by Marcolin S.p.A.), based in Hong Kong, did not produce any sales revenues in 2017, nor in the prior year, as a result of the transfer of its operating division to Marcolin UK Ltd - Hong Kong Branch on July 1, 2015. The transaction enabled to concentrate the sales activities in the Far East in the branch, for more efficient management of the market.
The subsidiary continues to provide sourcing services to the Group's affiliates in Asia.
It reports a net profit of euro 0.1 million for 2017 (net loss of euro 0.1 million for 2016).

Marcolin Technical Services Co. Ltd

This company, wholly owned directly by Marcolin S.p.A. and based in Shenzhen, Guangdong Province, China, was founded in October 2015. It 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 2017 (net profit of euro 0.1 million in 2016).

Marcolin UK Ltd Hong Kong Branch and Viva Eyewear HK Ltd

In 2017 Marcolin UK Ltd Hong Kong Branch (branch of Marcolin UK Ltd) produced sales of euro 36.7 million (euro 45.7 million in 2016), and a net profit of euro 5.5 million (net profit of euro 3.8 million in 2016).
The company was set up in Hong Kong with the objective of combining the product distribution in the Far East.
The company, established in July 2014 through a transfer of Viva Eyewear HK Ltd's operating division, was the subject of a subsequent business transfer by Marcolin S.p.A., which continued to serve the Asian market directly until the end of 2014, when it transferred the entire Asia Pacific business to the new organization (through a business transfer effective January 1, 2015).
Viva Eyewear HK Ltd, wholly owned by Viva Eyewear UK Ltd, is a pure holding company. It broke even in 2017, after reporting a net profit of euro 0.6 million for 2016 resulting from proceeds from the winding up of associate Viva Eyewear Australia Pty Ltd.

Eyestyle Trading (Shanghai) Co. Ltd

Eyestyle Trading (Shanghai) Co. Ltd (wholly owned by Marcolin S.p.A.) produced sales of euro 0.6 million in 2017 (euro 0.6 million in 2016) and a net profit of euro 0.3 million (euro 0.2 million in 2016).
The subsidiary assists the importing and distribution of products with certain brands to the respective boutiques in China.

Marcolin International B.V.

In 2017 Marcolin International B.V. (Netherlands), a holding company wholly owned by Marcolin S.p.A., was absorbed into the parent, Marcolin S.p.A., pursuant to a strategic decision to reduce administrative costs, simplify the organizational structure and improve the operating efficiency of some of the Group's businesses. The absorption merger, completed with a deed dated November 23, 2017, took effect for legal purposes on December 31, 2017.

Marcolin-RUS LLC

The company, set up as a joint venture with 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 6.2 million in 2017 (euro 4.8 million in 2016) and a net profit of euro 0.3 million (net profit of euro 0.2 million in 2016).

Marcolin Nordic AB

In Europe, at the beginning of 2015 an affiliate was established in Frösundaviks (Stockholm), Sweden.
Marcolin Nordic began operating at the end of February 2015, and its mission is to manage closely and directly the Nordic market (Denmark, Finland, Norway, Iceland and Sweden) in order to distribute all brands in the Marcolin Group's portfolio there.
In the first half of 2015 its structure was provided with branches to operate in the main countries of interest in the area.
In 2017 Marcolin S.p.A. acquired the remaining 30% stake in the company from the minority shareholders, thereby becoming the sole shareholder.
The company, along with its branches, produced sales revenues of euro 7.5 million in 2017 (euro 6.2 million in 2016) and a net profit of euro 0.1 million (net loss of euro 0.4 million in 2016).

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

In order to improve the management of direct distribution in mainland China, in the second half of 2014 a joint venture 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 joint venture produced sales revenues of euro 8.8 million in 2017 (euro 5.5 million in 2016) and a net profit of euro 0.3 million (net loss of euro 0.1 million in 2016).

Viva Deutschland GmbH and its subsidiaries

The company, a joint venture with the Menrad Group, is 50%-owned by 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 the company. The liquidation process was begun at the end of 2017 and will conclude in 2018.
The joint venture produced total sales revenues of euro 0.1 million in 2017 (euro 1.6 million in 2016) and broke even (net profit of euro 0.2 million in 2016).

Marcolin Middle East FZCO

The subsidiary represents a joint venture between the Rivoli Group (one of the largest retailers in the Middle East) and the Marcolin Group set up in May 2017. The new company, based in Dubai in the United Arab Emirates, is 51%-owned by Marcolin S.p.A., and will distribute eyewear collections with Marcolin's portfolio brands. Additional information is provided in the Group Report on Operations.
The company produced sales of euro 14.1 million in 2017 and a net profit of euro 1.7 million.

ASSOCIATES

Viva Optique de Mexico SA de CV

The company, a 50/50 joint venture between Marcolin USA Eyewear Corp. and a major distributor of optical products in the Mexican market, ceased operations in 2017 as a result of the shareholders' joint decision to terminate the existing relationships. The agreement to terminate the relationships was stipulated on January 24, 2018.
The Mexican market is strategically important, so in 2018 the Marcolin Group has been evaluating the possibility of new agreements with business partners working in that area.

Thélios S.p.A.

The company, a joint venture between Marcolin S.p.A. and the LVMH Group, was established in 2017 within the scope of joint venture agreements stipulated with the LVMH Group. Additional information is provided in the Group Report on Operations. The company started operating in the initial months of 2018. Under the joint venture agreements, the Company established French company Thélios France Sas on March 23, 2017 and American company Thélios USA Inc. on November 29, 2017. The joint venture project provides for the possibility to set up new companies in other countries in order to satisfy the respective foreign market.

*****

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 not only expanded the possibilities to grow in markets having higher growth than Europe (particularly Viva's American markets, where much of the product 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 contraction 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 30 million undrawn as of December 31, 2017), is considered adequate to support the Group's and the Company's ordinary funding requirements.
On December 31, 2017 additional undrawn credit facilities totaling some euro 10.9 million were present at major banks, consisting of revolving credit available for short-term cash flow requirements.

Moreover, in 2017 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 and Hong Kong 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 costs 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. In order to mitigate such risk, during the year the Company stipulated a swaption, which gives the option of entering into an interest rate swap that will enable to reduce the risk deriving from fluctuations of the Euribor. The explanatory notes provide additional information.
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 2017 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 2017, 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.

*****

OTHER INFORMATION

Human resources

Marcolin considers the value of human resources to be a critical success factor. Training and personnel enhancement constitute an investment in the Group's and the Company's business consolidation and development.

In 2017 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. In 2017 it became possible to obtain access to the portal without pre-set option windows.

In 2017 the **Unisalute** health insurance policy was introduced for all employees.

The SuccessFactors system was further expanded,

enabling to develop the following themes:

- Employee Central: to put people at the center of the process and make information more easily accessible;
- Performance: the Marcolin Evaluation System (MES) enables people to be highly involved in the annual review process. The objective of the MES is to evaluate the abilities of the individual and reveal any training gaps in various areas (technical, linguistic, computer and managerial) in order to intervene with customized training programs to meet the specific needs more efficiently and in a targeted manner. Moreover, MES enables to schedule one-on-one meetings with managers based on constructive communication with a long-term perspective.
- Goals & Performance: the MES system becomes a process based on shared objectives of managers and staff.

Employee Central is being implemented at all Marcolin's foreign affiliates for the purpose of an integrated multi-country operation that extends the same tools and the same logic to such countries.

*****

On December 31, 2017, the Group had 1,848 employees (1,713 at the end of 2016), as presented below. The table presents the employees in service as at December 31, 2017, excluding independent agents who work exclusively for the Group and the Company.

Employees	Final number	
Category	**12/31/2017**	**12/31/2016**
Managers	69	53
Staff	1,043	916
Manual workers	736	744
Total	**1,848**	**1,713**

On December 31, 2017, Marcolin S.p.A. had 903 employees (838 in 2016) in the following categories:

Employees	Final number	
Category	**12/31/2017**	**12/31/2016**
Managers	23	13
Staff	328	292
Manual workers	552	533
Total	**903**	**838**

The data includes the temporary workers employed to meet the demand peaks. As noted, 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 had been renewed in 2016.
The supplementary agreement was signed during the year and will be effective from January 1, 2017 to December 31, 2019 as agreed with the trade union delegates. Measures were introduced to improve the work-life balance (special leaves of absence, part-time and reduced hours, flexible hours, leaves of absence for parents and other types leaves of absence) and provide health insurance for all employees, a generational turnover system, supplementary pension, flexible benefits and a system awarding diligence and performance.

Employee welfare and assistance to families

The ideas emerging from a survey taken in 2015 were the starting point in 2016 to improve activities supporting families and to make welfare programs even more accessible and smoother. In 2017 the welfare 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 medical expense refunds, services relating to education, sports, assistance to the elderly/children, store coupons and others.

In 2017 it became possible to access the portal without pre-set option windows.

In continuation of the **“Smart Work, Smart Life”** project, begun in 2016, the following measures were proposed for work-life balance in 2017:

- **Matilda Service**: 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: car washing, servicing, tire replacement, light/headlight replacement and all services regarding car maintenance. The service is activated through an agreement with a specific repair shop assigned to pick up and deliver personal cars of personnel; Laundry services: The service is activated through an agreement with a specific 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 repair; flower delivery in the company);
- **"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; Three such days were held in 2017 (the first on April 18, 2017 involving 100 children/youths, the second on October 31 for Halloween and the third on December 1 with a workshop dedicated to girls and boys in their second and third year of middle school);
- **Car Pooling**: at the end of 2017 Human Resources began to study a plan to facilitate and streamline travel, thereby minimizing the environmental impact; the plan will be implemented in 2018, starting with the administration of a questionnaire to activate the dedicated app.
- **Smart Working**: expansion of teleworking technologies and compliance with the new regulations on the subject.

Research and development

The Company continued with its research and development activities in 2017.

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.

In 2010, the research, development and innovation project “Industria 2015” -- New Technologies for Made in Italy, from the District to the Production Line was launched: Eyewear and industrial innovation, Objective B Area, Project Number MI00153. 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 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.
In 2016 the Company filed a supplementary brief for the same purpose, but had not yet received a response from the respective authorities as of the date of this Report.

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 2017) treasury shares or parent company shares, either directly or indirectly.

Personal data protection

Pursuant to Legislative Decree 196/03, the “Personal Data Protection Code,” 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.

*****

SUBSEQUENT EVENTS

NOTICE OF CALLING TO GENERAL MEETING

PROPOSED RESOLUTION

SUBSEQUENT EVENTS AND BUSINESS OUTLOOK

No significant events took place after December 31, 2017.

Additional strategic objectives

For Marcolin, after years of repositioning, reorganization and especially development activities, 2018 will be a year of consolidation 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 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 (Belluno); March 22, 2018

for the Board of Directors

C.E.O.
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 April 26, 2018 at 3:00 p.m. at a first calling, and April 30, 2018, 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, 2017, 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, 2017 and related Reports;
- Appointment of new Board Directors following the resignation of two members, Mr. Roberto Ferraresi and Mr. Francesco Capurro;
- Resolutions thereon.

Shareholders satisfying the legal conditions and complying with the requirements set out in Italian Civil Code Article 2370 at least two business days before the date of the meeting are entitled to attend the General Meeting.

The General Meeting may be attended through electronic means of communication enabling participation in discussions and equal information for all attendees, in accordance with Article 12.3 of the Corporate By-Laws currently in effect.

Longarone (Belluno); March 22, 2018

for the Board of Directors

the Chairman
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, 2017.

We propose to carry forward the net loss of euro 10,752,725.05.
Accordingly, after such allocation, the retained earnings/(losses) will have a balance of euro 71,017,517.42.

Longarone (Belluno); March 22, 2018

for the Board of Directors

the Chairman
Vittorio Levi

CONSOLIDATED FINANCIAL STATEMENTS
OF THE MARCOLIN GROUP
FOR THE YEAR ENDED DECEMBER 31, 2017

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	12/31/2017	12/31/2016
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	1	29,071	25,513
Intangible assets	2	49,610	49,824
Goodwill	2	282,326	290,902
Investments in subsidiaries and associates	3	610	907
Deferred tax assets	4	34,895	35,950
Other non-current assets	5	2,596	465
Non-current financial assets	6	3,171	3,797
Total non-current assets		**402,278**	**407,360**
CURRENT ASSETS			
Inventories	7	122,582	126,914
Trade receivables	8	82,091	72,643
Other current assets	9	14,680	13,067
Current financial assets	10	13,332	699
Cash and cash equivalents	11	40,805	42,230
Total current assets		**273,491**	**255,553**
TOTAL ASSETS		**675,769**	**662,912**
EQUITY	12		
Share capital		35,902	32,312
Additional paid-in capital		170,304	151,994
Legal reserve		4,263	4,077
Other reserves		35,639	55,871
Retained earnings (losses)		(31,944)	(19,447)
Profit (loss) for the period		(15,514)	12,167
Group equity		**198,650**	**236,975**
Non controlling interests		3,658	2,052
TOTAL EQUITY		**202,305**	**239,027**
LIABILITIES			
NON-CURRENT LIABILITIES			
Non-current financial liabilities	13	255,355	199,866
Non-current funds	14	7,336	7,487
Deferred tax liabilities	4	5,546	7,602
Other non-current liabilities	15	4,689	86
Total non-current liabilities		**272,927**	**215,040**
CURRENT LIABILITIES			
Trade payables	16	126,800	128,526
Current financial liabilities	17	39,369	51,697
Current funds	18	418	352
Tax liabilities	29	6,447	6,484
Other current liabilities	19	27,503	21,787
Total current liabilities		**200,537**	**208,846**
TOTAL LIABILITIES		**473,464**	**423,886**
TOTAL LIABILITIES AND EQUITY		**675,769**	**662,912**

CONSOLIDATED INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME

(euro/000)	Notes	2017	%	2016	%
Net revenues	21	469,143	100.0%	441,855	100.0%
Cost of sales	22	(196,694)	(41.9)%	(186,111)	(42.1)%
GROSS PROFIT		**272,449**	**58.1%**	**255,744**	**57.9%**
Distribution and marketing expenses	23	(207,610)	(44.3)%	(195,545)	(44.3)%
General and administrative expenses	24	(34,380)	(7.3)%	(30,673)	(6.9)%
Other operating income/(expenses)	26	3,568	0.8%	1,777	0.4%
OPERATING INCOME – EBIT		**34,027**	**7.3%**	**31,303**	**7.1%**
Profit/(loss) from associates	27	(6,570)	(1.4)%	171	0.0%
Financial income	28	10,272	2.2%	18,500	4.2%
Financial costs	28	(44,102)	(9.4)%	(34,590)	(7.8)%
PROFIT (LOSS) BEFORE TAXES		**(6,373)**	**(1.4)%**	**15,385**	**3.5%**
Income tax expense	29	(8,094)	(1.7)%	(3,211)	(0.7)%
NET PROFIT (LOSS) FOR THE PERIOD		**(14,468)**	**(3.1)%**	**12,174**	**2.8%**
Profit (loss) attributable to:					
- owners of the parent		(15,514)	(3.3)%	12,167	2.8%
- non-controlling interests		1,046	0.2%	7	0.0%

(euro/000)	2017	2016
NET PROFIT (LOSS) FOR THE PERIOD	**(14,468)**	**12,174**
Other items that will be not subsequently reclassified to profit or loss:		
Effect (actuarial gain/losses) on defined benefit plans, net of taxes	7	(17)
TOTAL OTHER ITEMS THAT WILL NOT SUBSEQUENTLY RECLASSIFIED TO PROFIT OR LOSS	**7**	**(17)**
Other items that will be subsequently reclassified to profit or loss:		
Change in foreign currency translation reserve	(6,908)	(3,615)
Change in exchange rate difference on quasi equity loan	(10,912)	-
TOTAL OTHER ITEMS THAT WILL BE SUBSEQUENTLY RECLASSIFIED TO PROFIT OR LOSS	**(17,820)**	**(3,615)**
TOTAL CONSOLIDATED COMPREHENSIVE INCOME FOR THE PERIOD	**(32,280)**	**8,542**
Profit (loss) attributable to:		
- owners of the parent	(32,906)	8,309
- non-controlling interests	626	233

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, 2015	**32,312**	**151,994**	**4,077**	**46,108**	**12,799**	**123**	**(12)**	**(16,903)**	**(2,543)**	**227,954**	**1,969**	**229,924**
Allocation of 2015 loss	-	-	-	-	-	-	-	(2,543)	2,543	-	-	**-**
Change in consolidation perimeter	-	-	-	-			-	-	-	-	(151)	**(151)**
Other movements	-	-	-	-	-	712	-	-	-	712	-	**712**
- Period result	-	-	-	-	-	-	-	-	12,167	12,167	7	**12,174**
- Other components of comprehensive income	-	-	-	-	(3,841)	-	(17)	-	-	(3,858)	226	**(3,632)**
Total comprehensive income	**-**	**-**	**-**	**-**	**(3,841)**	**-**	**(17)**	**-**	**12,167**	**8,309**	**233**	**8,542**
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**

CONSOLIDATED STATEMENT OF CASH FLOWS

(euro/000)	Notes	12/31/2017	12/31/2016
OPERATING ACTIVITIES			
Profit (loss) for the period		(14,468)	12,174
Depreciation and amortization	1.2	15,806	13,146
Provisions	14.18	4,524	(7,557)
Impairment losses/(reversal) on investments	27	6,570	-
Income tax expense	29	8,094	3,211
Accrued interest expense	28	33,830	16,090
Adjustments to other non-cash items		(630)	(443)
Cash generated by operations		*53,727*	*36,621*
(Increase)/decrease in trade receivables	8	(23,459)	5,402
(Increase)/decrease in inventories	7	(3,818)	1,342
(Decrease)/increase in trade payables	16	8,845	3,842
Cash generated by change in operating working capital		*(18,433)*	*10,586*
(Increase) decrease in other assets	5.9	(5,004)	1,977
(Decrease)/increase in other liabilities	15.19	3,166	3,285
(Use) of current and non-current provisions	14.18	(1,137)	(2,156)
(Decrease)/increase in current tax liabilities	29	(2,744)	(1,668)
Adjustments to other non-cash items		1	(137)
Other elements in working capital		*(5,718)*	*1,301*
Income taxes paid		(4,342)	(1,138)
Interest received		687	686
Interest paid		(26,089)	(19,546)
Total cash generated by change in other items of net working capital		*(35,463)*	*(18,697)*
Net cash from /(used in) net working capital		*(53,896)*	*(8,111)*
Net cash from /(used in) operating activities		**(169)**	**28,509**
INVESTING ACTIVITIES			
(Purchase) of property, plant and equipment	1	(10,228)	(3,816)
Disposal of property, plant and equipment	1	241	782
(Investments) in intangible assets	2	(6,224)	(19,656)
Disposal in intangible assets	2	327	-
(Purchase) minority shareholders share	3	(900)	-
Net (Investments)/disposal in investment in subsidiaries and associates	3	(3,808)	948
Cash out on business combinations net of liquidity acquired (Thélios S.p.A.)	27	(5,698)	-
Net cash from /(used in) investing activities		**(26,291)**	**(21,742)**
FINANCING ACTIVITIES			
Financial Assets			
- (Proceeds)	6,10	(12,006)	-
- Repayments	6,10	-	984
Financial Loans from banks			
- Proceeds	13.17	13,500	5,500
- (Repayments)	13.17	(9,220)	(5,611)
Other current and non current financial liabilities	6,10,13,17	*36,556*	*(5,646)*
Capital increase	Mov. PN	22,412	-
Dividends paid	Mov. PN	(24,843)	(149)
Net cash from /(used in) financing activities		**26,399**	**(4,922)**
Net increase/(decrease) in cash and cash equivalents		**(61)**	**1,845**
Effect of foreign exchange rate changes		(1,364)	2
Cash and cash equivalents at beginning of year		**42,230**	**40,382**
Cash and cash equivalents at end of year		**40,805**	**42,230**

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 new shareholder, Vicuna Holding S.p.A., a company of the LVMH Group. The entry of new shareholder Vicuna Holding S.p.A. was part of a larger 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.

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, 2017.

The Marcolin shares owned by 3 Cime S.p.A. are encumbered by liens initially emerging at the end of 2013, pursuant 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.

*****

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, 2017.

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.

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).

The consolidated financial statements for the year ended December 31, 2017 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, Belgium	Rue Le Marais 14B
Marcolin do Brasil Ltda	Barueri - SP, Brasil	Av Tamboré, 1180 - 06460-000
Marcolin Deutschland Gmbh	Colonia, Germany	Monreposstrasse, 55
Marcolin France Sas	Paris, France	45, rue Saint Sébastien - 75011
Marcolin GmbH	Muttenz, Switzerland	Rheinstrasse, 26 - 4414
Marcolin Iberica SA	Barcelona, Spain	Juan De Austria, 116 - 4a Planta - 08018
Marcolin Nordic AB	Stockholm, Sweden	Frosundavisk Alle 1, 169 70 Solna
Marcolin Portugal Lda	Lisbona, Portugal	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, UK	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, UK	1-2 Milner Court, Hornbeam Square South, Hornbeam Business Park, Harrogate, North Yorkshire, HG2 8NB
Viva Deutschland Gmbh	Schwaebisch Gmund, Germany	Oderstrasse 2, Schwaebisch Gmund
Viva Eyewear Brillenvertriebs Gmbh	Voklabruck, Austria	Teichstrasse 12, 4863 Seewalchen
Viva Schweiz AG	Wallis, Switzerland	Route d´Anchettes 6, 3973 Venthône
Marcolin-RUS LLC	Moscow, 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.
Viva Optique de Mexico SA de CV	Edo, Mexico	Boulevard Toluca No. 128, Col. San Andres Atoto, C.P. 53500, Naucalpan, Edo
Thélios SpA	Longarone (BL), Italy	Zona Industriale Villanova, SNC - 32013 Longarone (BL) – Italia
Thélios France Sas	Paris, France	Rue Juan Goujon 75008

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

At the end of 2016 the three-year term ended for exercising the option of Italian tax consolidation among the ultimate parent company, 3Cime S.p.A., and its subsidiaries, including Marcolin S.p.A., for corporate income tax (IRES) purposes 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, 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 March 22, 2018.

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 separate financial statements for the year ended December 31, 2017 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, 2017

The following new standards and amendments became effective on January 1, 2017:

- Disclosure Initiative – Amendments to IAS 7;
- Recognition of deferred tax assets for unrealized losses– Amendments to IAS 12.

New accounting standards and interpretations approved by the European Union and effective for periods after December 31, 2017

On September 22, 2016 the European Union issued Regulation n. 2016/1905 approving IFRS 15 (Revenue from contracts with customers). The standard will be effective for annual periods beginning on or after January 1, 2018. The Group is evaluating the impact of the new standard on the consolidated financial statements.

On November 22, 2016 the European Union issued Regulation n. 2016/2067 approving IFRS 9 (Financial Instruments). The standard will be effective for annual periods beginning on or after January 1, 2018. The Group is evaluating the impact of the new standard on the consolidated financial statements.

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 Group is evaluating the impact of the new standard on the consolidated financial statements.

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 17 (Insurance contracts)	*January 1, 2021*
IFRIC 23 Uncertainly over Income Tax Treatments	*January 1, 2019*
Amendments to IAS 19: Plan Amendment, Curtailment or Settlement	*January 1, 2019*
Annual Improvements to IFRS 2015-2017 Cycle	*January 1, 2019*
IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration	*January 1, 2018*
Amendments to IAS 40: Transfers of Investment Property	*January 1, 2018*
Amendments to IFRS 9: Prepayment Features with Negative Compensation	*January 1, 2019*
Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures	*January 1, 2019*
Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions	*January 1, 2018*

No accounting standards and/or interpretations mandatorily effective for annual periods beginning after December 31, 2017 were adopted earlier.

The Marcolin Group is evaluating the effects of the application of the above standards, which currently are not considered to cause an impact.

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 companies consolidated on a line-by-line basis and, for the sake of comprehensive disclosure, a list of the companies accounted for using the equity method.

A summary of the 2017 reclassified financial statements of the subsidiaries (Income Statement and Statement of Financial Position), in comparison with the corresponding results of the previous year, is provided at the end of this Annual Report.

List of Subsidiaries and Associates

Company	Currency	Share capital	Equity	Net profit / (loss) for the period	Consolidation method	% ownership Direct	% ownership Indirect
Marcolin Asia HK Ltd	HKD	1,539,785	9,501,843	1,045,830	Full consolidation	100.0%	
Marcolin Benelux Sprl	EUR	280,000	688,282	88,009	Full consolidation	100.0%	
Marcolin do Brasil Ltda	BRL	41,369,129	16,221,598	5,611,077	Full consolidation	100.0%	
Marcolin Deutschland Gmbh	EUR	300,000	1,275,686	111,310	Full consolidation	100.0%	
Marcolin France Sas	EUR	1,054,452	925,515	-	Full consolidation	100.0%	
Marcolin GmbH	CHF	200,000	303,153	49,323	Full consolidation	100.0%	
Marcolin Iberica SA	EUR	487,481	3,523,559	512,540	Full consolidation	100.0%	
Marcolin Nordic AB	SEK	50,000	(15,658,310)	748,876	Full consolidation	100.0%	
Marcolin Portugal Lda	EUR	420,000	157,730	29,486	Full consolidation	100.0%	
Eyestyle Trading (Shanghai) Co Ltd	CNY	3,001,396	7,470,945	2,084,586	Full consolidation	100.0%	
Marcolin Technical Services (Shenzhen) Co. Ltd	CNY	1,000,000	1,923,894	229,833	Full consolidation	100.0%	
Marcolin UK Ltd	GBP	3,572,718	14,712,232	5,169,267	Full consolidation	100.0%	
Marcolin USA Eyewear Corp.	USD	121,472,262	57,754,664	(15,865,807)	Full consolidation	100.0%	
Viva Eyewear Hong Kong Ltd	HKD	100	4,857,792	37,041	Full consolidation		100.0%
Viva Eyewear UK Ltd	GBP	-	28,591,868	(254,207)	Full consolidation		100.0%
Viva Deutschland Gmbh	EUR	25,000	114,658	(23,925)	Full consolidation		50.0%
Viva Eyewear Brillenvertriebs Gmbh	EUR	35,000	28,580	(6,420)	Full consolidation		50.0%
Viva Schweiz AG	CHF	150,305	146,099	(4,206)	Full consolidation		50.0%
Marcolin-RUS LLC	RUB	305,520	174,905,721	16,796,576	Full consolidation	51.0%	
Gin Hong Lin Intenational Co Ltd	HKD	25,433,653	30,954,862	5,502,414	Full consolidation	50.0%	
Shanghai Ginlin Optics Co Ltd	CNY	22,045,100	21,650,450	(2,799,699)	Full consolidation		50.0%
Marcolin Middle East FZCO	AED	100,000	6,951,941	6,851,941	Full consolidation	51.0%	
Viva Optique de Mexico SA de CV	MXN	3,694,685	41,065,692	1,550,226	Equity		50.0%
Thélios SpA	EUR	1,000,000	1,381,483	(11,568,917)	Equity	49.0%	
Thélios France Sas	EUR	40,000	(94,963)	(134,963)	Equity		49.0%

The following changes took place in the scope of consolidation since December 31, 2016:

- In May 2017 Marcolin S.p.A. acquired the remaining 30% stake in Marcolin Nordic AB for euro 900 thousand, thereby becoming the sole shareholder.
- In June 2017 Marcolin S.p.A. acquired 51% of the Marcolin Middle East FZCO shares from the Rivoli Group under a joint venture agreement stipulated with the Rivoli Group in March 2017. Additional information is available in the section on business combinations. The company is controlled by Marcolin S.p.A.;
- In August 2017 Marcolin S.p.A. acquired 49% of the Thélios S.p.A. (formerly Vicuna 2 S.p.A.) shares from the LVMH Group under a joint venture agreement stipulated with the LVMH Group in January 2017;
- On September 8, 2017 Marcolin S.p.A. shareholders approved the cross-border merger whereby Marcolin International BV was absorbed by Marcolin S.p.A. in accordance with Directive 2005/56/EC of October 26, 2005 on cross-border mergers. The November 23, 2017 merger deed provided for legal effectiveness of the merger as of December 31, 2017, whereas the effectiveness for accounting and tax purposes was backdated to January 1, 2017;
- In April 2017 Marcolin S.p.A. increased the capital of the Gin Hon Lin International Co. joint venture by euro 500 thousand from each shareholder, in accordance with the joint venture agreement. The equal partner, Ginko, carried out the same capital increase;
- At the end of 2017 the liquidation process began for Viva Deutschland Gmbh and its subsidiaries, upon expiration of the distribution agreement for the Guess and Gant brands originally stipulated with such companies. The liquidation process will conclude in 2018.
- On January 24, 2018 an agreement was stipulated to terminate relationships with the Mexican shareholder, with which a joint venture had existed through Viva Optique de Mexico SA de CV.

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 ventures 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:

[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".

Currency	Symbol	Closing exchange rate			Average exchange rate		
		12/31/2017	12/31/2016	Change	2017	2016	Change
Dirham Emirati Arabi	AED	4.404	3.870	13.8%	4.148	4.063	2.1%
Australian Dollar	AUD	1.535	1.460	5.1%	1.473	1.488	(1.0)%
Brasilian Real	BRL	3.973	3.431	15.8%	3.605	3.856	(6.5)%
Canadian Dollar	CAD	1.504	1.419	6.0%	1.465	1.466	(0.1)%
Swiss Franc	CHF	1.170	1.074	9.0%	1.112	1.090	2.0%
Remimbi	CNY	7.804	7.320	6.6%	7.629	7.352	3.8%
Danish Krone	DKK	7.445	7.434	0.1%	7.439	7.445	(0.1)%
English Pound	GBP	0.887	0.856	3.6%	0.877	0.819	7.0%
Hong Kong Dollar	HKD	9.372	8.175	14.6%	8.805	8.592	2.5%
Japanese Yen	JPY	135.010	123.400	9.4%	126.711	120.197	5.4%
Mexican Pesos	MXN	23.661	21.772	8.7%	21.329	20.667	3.2%
Norwegian krone	NOK	9.840	9.086	8.3%	9.327	9.291	0.4%
Russian Rublo	RUB	69.392	64.300	7.9%	65.938	74.145	(11.1)%
Swedish Krone	SEK	9.844	9.553	3.0%	9.635	9.469	1.8%
USA Dollar	USD	1.199	1.054	13.8%	1.130	1.107	2.1%

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.
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

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.
Property, plant, and equipment 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, which are amortized when the related models are put on the market, for a period equal to the average life of a model 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

Derivative financial instruments are used by the Group solely for hedging purposes, in order to reduce Companies' exposure to currency risks.
All financial derivatives are measured at fair value, in compliance with IAS 39. Under IAS 39, financial derivatives qualify for hedge accounting only if, at the inception of the hedge, there is formal designation and documentation of the hedging relationship, the hedge is expected to be highly effective, the effectiveness of the hedge can be reliably measured and the hedge is highly effective throughout the financial reporting periods for which the hedge was designated.
If the hedge is effective, the following accounting policies apply:
Fair value hedge – If a financial derivative is designated as a hedge of the exposure to changes in fair value of a recognized asset or liability due to a particular risk, and could affect profit or loss, the gain or loss from remeasuring the hedging instrument at fair value is recognized in the income statement. The hedged item is adjusted to fair value for the portion of risk hedged, and the adjustment is recognized in profit or loss;
Cash flow hedge – If a financial derivative is designated as a hedge of the exposure to the future cash flow variability of a recognized asset or liability, the effective portion of changes in fair value of the financial derivative is recognized directly in equity. The cumulative gain or loss is reversed from equity and recognized in profit or loss in the period in which the hedged transaction is recognized. The profit or loss associated with a hedge (or part of a hedge) that has become ineffective is entered in the income statement immediately. If a hedged instrument or a hedging relationship is terminated, but the hedged transaction has not occurred yet, the cumulative gain or loss that has remained recognized in equity from the period when the hedge was effective is reclassified into profit or loss when the forecast transaction occurs. If the forecast transaction is no longer expected to occur, the related cumulative gain or loss that has remained recognized in equity is immediately recognized in the income statement.
If hedge accounting cannot be applied, the gains or losses arising on changes in the fair value of the financial derivative are recognized immediately in the income statement.

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.

Financial assets – Loans and receivables

Trade receivables, current loan receivables and other current receivables with fixed maturities, excluding those assets arising on financial derivatives and all financial assets for which prices on an active market are unavailable and whose fair value cannot be determined reliably, are stated at amortized cost calculated using the effective-interest method. Financial assets without fixed maturities are stated at cost. Receivables maturing after more than a year that do not accrue interest or that accrue interest at below-market rates are discounted using market rates and recognized as non-current assets.
Reviews are carried out regularly to determine the presence of any objective evidence that the financial assets taken individually or within a group of assets may have suffered an impairment loss. If such evidence exists, the impairment loss is shown as a cost in the income statement for the period.
Trade receivables are adjusted to their realizable value by means of a provision for irrecoverable amounts when there are objective indications that the Group will not be able to collect the receivable at its original value.

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, 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 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

Revenues are measured at their fair value net of returns, sales, discounts, allowances, and bonuses.
The Group recognizes sales revenues when all risks and rewards of ownership of the goods are effectively transferred to the customers under the terms of the sales agreement.
The revenues are recognized net of an allowance representing the best estimate of lost margin due to any product returns from customers. The allowance is calculated based on past experience.
Revenues are stated net of returns, discounts, vouchers, bonuses and taxes directly connected with the sale of the goods and supply of the services.
Revenues from services are recognized by reference to the state of completion of the transaction at the end of the reporting period.
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 tax expense

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 2017 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 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 and Hong Kong 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 costs in foreign currency.
In the past, the Group used currency hedges (foreign exchange forward contracts), which were no longer stipulated in 2017 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 end-of-period 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 transaction risk, according to the sensitivity analysis performed, a change in exchange rates should not significantly impact the Group's consolidated financial statements, thanks to the previously described situation.

With respect to translation risk, according to the sensitivity analysis performed, a 5% appreciation of the U.S. dollar as at December 31, 2017 would result in a euro 1.2 million increase in the translation reserve, whereas a 5% depreciation of the U.S. dollar as at December 31, 2017 would result in a euro 1.1 million decrease in the translation reserve.

Interest rate risk

In the Group's debt structure, the main sources of financing have a variable interest rate. In order to partially mitigate interest rate risk, in 2017 Marcolin S.p.A. stipulated a swaption, which, if executed, will enable to reduce the risk deriving from interest rate fluctuations as of 2018. Additional information is provided in these notes. 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, 2017. 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 123 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 49 thousand.

Credit risk

The Group has no 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 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.

Trade receivables and other current assets are set forth below by the main areas in which the Group operates in order to evaluate country risk (the table excludes the provision for returns, which is classified within the trade receivables).

Trade receivables by geographical area and other current assets *(euro/000)*	**12/31/2017**	**12/31/2016**
Italy	22,896	21,557
Rest of Europe	18,744	18,454
North America	20,695	18,006
Rest of Word	40,018	33,702
Total	**102,354**	**91,718**

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. The types of credit lines available and the base rate on the reference date are reported herein.

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, 2017.

(euro/000)	**Within 1 year**	**From 1 to 3 years**	**From 3 to 5 years**	**More than 5 years**
Loans and bonds (excluding capital lease)	38,606	9,670	(0)	244,140
Interest expenses on loans, bonds, leasing	11,444	20,719	20,627	1,300
Capital lease	763	1,200	346	-
Trade payables	126,800	-	-	-

Fair value measurement of financial liabilities

For the fair value measurement of financial liabilities recognized at fair value, future cash flows were estimated using implicit forward interest rates from the yield curve of the measurement date, and the latest Euribor fixing was used to calculate the current coupon.
The values calculated in this manner were discounted based on discount factors related to the different maturities of such cash flows.

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	6,507	-	-	-	**6,507**
Loans	29,525	5,454	-	-	**34,978**
Other financiers	3,338	5,417	346	244,140	**253,240**
12/31/2017	**39,369**	**10,870**	**346**	**244,140**	**294,725**

CLASSIFICATION OF FINANCIAL INSTRUMENTS

The financial instruments are classified in the following table (in comparison with the amounts of the prior year), in accordance with IFRS 7.

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 assets *(euro/000)*	**Trade receivables**	**Financial assets**	**Cash and cash equivalents**
2016			
Loans and other financial recivables at amortized cost	72,643	4,496	42,230
Financial assets at faie value through P&L	-	-	-
Held to maturity investments	-	-	-
Financial assets available for sale	-	-	-
Total	**72,643**	**4,496**	**42,230**

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	46,837	245,579
Financial liabilities as under IAS 17	-	2,309	-
Total	**126,800**	**49,146**	**245,579**

Classi di passività finanziarie *(euro/000)*	**Trade payables**	**Financial liabilities**	**Bond**
2016			
Financial liabilities at fair value through P&L	-	-	-
Derivates used for hedging	-	-	-
Financial liabilities at amortized cost	128,526	53,157	194,826
Financial liabilities as under IAS 17	-	1,127	-
Total	**128,526**	**54,284**	**194,826**

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 financial assets measured at fair value (euro 128 thousand) consist of the swaption in effect as at December 31 2017, which is within the Level 2 fair value hierarchy.

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 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 Group estimates the provision for doubtful debts on the basis of expected losses, determined according to knowledge of the customer, past experience for similar receivables, current and historic past-due receivables, losses and collected receivables, careful monitoring of credit quality and forecasts of economic and market conditions.

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, 2016 are described in this section (the amounts are in thousands of euros, unless specified otherwise).

BUSINESS COMBINATIONS

Acquisition of Marcolin Middle East FZCO

On March 23, 2017 the Marcolin Group stipulated a joint venture agreement in the Middle East with the Rivoli Group, one of the leading luxury retailers in that area. The new joint venture, Marcolin Middle East FZCO, 51% of which is owned by Marcolin S.p.A. pursuant to the share acquisition completed on June 6, 2017, is based in Dubai in the United Arab Emirates and distributes eyewear collections with Marcolin's portfolio brands. The share capital and the value of equity on the acquisition date was AED 100 thousand. The financial statements are presented in United Arab Emirates Dirhams (AED). Under the agreements stipulated with the local partner, the company is controlled by Marcolin S.p.A.

Goodwill recognized pursuant to the business combination
Goodwill of euro 3,750 thousand (as at December 31, 2017) emerged as the difference between the cost of the business combination and the acquirer's interest in the net fair value of the acquired assets and liabilities, resulting from the difference between the euro 3,762 thousand price paid and the corresponding interest in equity of euro 12 thousand, translated at the June 6, 2017 exchange rate.

The goodwill represents the future economic benefits arising from the business combination, due primarily to the company's legacy of expertise and knowledge of the local market.
The transaction is part of Marcolin's international expansion plan, which by increasing the distribution of its products in the United Arab Emirates 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.

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.

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 2016	**14,543**	**7,199**	**2,242**	**3,200**	**73**	**27,258**
Increases	161	877	1,116	1,294	119	**3,567**
Decreases	(388)	(11)	(1)	(97)	(13)	**(510)**
Depreciation	(901)	(1,517)	(1,347)	(1,148)	-	**(4,913)**
Translation difference	28	-	15	88	-	**131**
Reclassification and other movements	10	16	(5)	(24)	(16)	**(19)**
Net value at end of 2016	**13,453**	**6,564**	**2,019**	**3,314**	**163**	**25,513**
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**

The Group's 2017 capital expenditures totaled euro 15,417 thousand and regarded mainly the following investments:

- an increase of euro 1,252 thousands regard factory buildings, referring primarily to construction work done on some buildings owned;
- plant and machinery purchases of euro 1,635 thousand refer to industrial plant and machinery purchased by the Parent Company to renew production lines;
- equipment purchases of euro 1,305 thousand refer mainly to the Parent Company;
- other purchases totaling euro 5,587 thousand consist primarily of computer hardware, office furniture and other equipment and sales-related furnishings;
- the euro 5,638 thousand increase in assets under construction and advances refers largely to assets acquired by Marcolin S.p.A. that were subsequently transferred to associate Thélios S.p.A. within the scope of a share capital increase carried out during the year. The transfer is described in Section 3 on investments in subsidiaries and associates.

Depreciation is euro 5,680 thousand and consists of:

- euro 3,312 thousand recognized in the components of cost of sales;
- euro 1,309 thousand recognized in distribution and marketing expenses;
- euro 1,059 thousand recognized in general and administration expenses.

The undepreciated values of property, plant and equipment and their accumulated depreciation as at December 31, 2017 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 12/31/2017
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**

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 12/31/2016
Undepreciated value	25,364	22,442	17,251	11,800	163	77,019
Accumulated depreciation	(11,911)	(15,878)	(15,232)	(8,485)	-	(51,506)
Net value	**13,453**	**6,564**	**2,019**	**3,315**	**163**	**25,513**

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 2016	**8,292**	**12,444**	**19,110**	**6,196**	**46,043**	**288,225**
Increases	2,484	-	2,802	6,165	**11,451**	-
Decreases	-	-	-	-	**-**	-
Amortization	(2,340)	(1,712)	(4,181)	-	**(8,233)**	-
Translation difference	154	162	150	97	**564**	2,677
Reclassification and other movements	154	(1)	380	(534)	**0**	-
Net value at end of 2016	**8,745**	**10,893**	**18,261**	**11,924**	**49,824**	**290,902**
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**

The annual increase of euro 13,524 thousand is attributable mainly to euro 2,251 thousand for software, euro 1,563 thousand of which refers to the Parent Company and euro 570 thousand to Marcolin USA Eyewear Corp. for new business software and the implementation thereof, and other intangible assets regarding amounts paid by the Parent Company and by the American affiliate to some licensors to extend licenses.

Amortization is euro 9,788 thousand and consists of:

- euro 6,983 thousand recognized in distribution expenses;
- euro 2,805 thousand recognized in general and administration expenses.

The effects of Marcolin S.p.A.'s business division transfer to Thélios S.p.A. are reported in Section 3 of the notes to the separate financial statements of Marcolin S.p.A.

The unamortized value of intangible assets and goodwill and their accumulated amortization as at December 31, 2017 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 12/31/2017	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 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 12/31/2016	Goodwill
Undepreciated value	24,397	18,453	38,606	11,924	**93,381**	290,902
Accumulated depreciation	(15,652)	(7,560)	(20,344)	-	**(43,557)**	-
Net value	**8,745**	**10,893**	**18,262**	**11,924**	**49,824**	**290,902**

The goodwill of December 31, 2017 is affected by a euro 12,326 thousand decrease for translation differences on the component regarding the Viva International acquisition, recognized in the financial statements of Marcolin USA Eyewear Corp, offset in part by the euro 3,750 thousand increase for the acquisition of 51% of Marcolin Middle East FZCO.

Goodwill was tested for impairment to assess the fairness of the carrying amount as at December 31, 2017.

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, 2017, the 2018 Budget and the 2019 - 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 9.1%, 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 = 3.3% , after taxes); 2) the expected return on the risk capital invested in Marcolin (Ke = 10.0%), 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, 2017 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.

3. INVESTMENTS IN ASSOCIATES

The investments in associates, totaling euro 610 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 is the difference between the euro 6,345 thousand carrying amount of the

9 The impairment test document was approved by the Parent Company's Board of Directors on February 1, 2018.

investment recognized by Marcolin S.p.A. and the corresponding interest in equity, whose amount at December 31, 2017 was considerably affected by the net loss for the year. The net loss was consistent with the business projections made by the company's management when the joint venture was stipulated, and resulted from heavy expenses incurred initially to start up the business that were not offset by product sales, which commenced as planned in January 2018.

In accordance with IFRS 12, the key financial information of Thélios S.p.A. as at December 31, 2017 is presented hereunder:

(euro/000)	**12/31/2017**
Non Current Assets	26,378
Current Assets	16,307
Total Assets	**42,685**
Equity	**1,381**
Non Current Liabilities	3,875
Current Liabilities	37,429
Total Liabilities	**41,304**
Total Liabilities and Equity	**42,685**

(euro/000)	**12/31/2017**
Net Sales	-
Operating expenses	(15,144)
Operating Income	**(15,144)**
Net Financial Interests	(32)
Earnings before tax	**(15,176)**
Tax	3,607
Net Result	**(11,569)**

The investments in associates as at December 31, 2016, euro 907 thousand, consisted exclusively of the investment in the Viva Optique de Mexico SA de CV joint venture, consolidated with the equity method, which is not present at December 31, 2017 due to the termination of the joint venture agreement.

4. DEFERRED TAX ASSETS AND LIABILITIES

The net deferred tax assets as at December 31, 2017 are euro 29,349 thousand (euro 28,348 thousand in 2016), the balance of euro 34,895 thousand in deferred tax assets and euro 5,546 thousand in deferred tax liabilities.
The amount is primarily attributable to the Parent Company, for euro 9,065 thousand (euro 6,275 thousand in 2016), Marcolin USA Eyewear Corp. for euro 15,249 thousand (euro 20,139 thousand in 2016), and Marcolin France sas for euro 1,029 thousand (euro 1,118 thousand in 2016).

The amount refers to:

- euro 21,311 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;
- deferred tax assets of euro 8,038 thousand 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 28 on income taxes.

5. OTHER NON-CURRENT ASSETS

The balance as at December 31, 2017 is euro 2,596 thousand (euro 465 thousand in 2016), and refers primarily to prepaid expenses recognized in 2017 that will also involve subsequent years, and 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, 2017.

6. NON-CURRENT FINANCIAL ASSETS

This item amounted to euro 3,171 thousand on December 31, 2017, referring primarily to euro 3,600 thousand for a 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 721 thousand.

7. INVENTORIES

Inventories are detailed below:

Inventories *(euro/000)*	**12/31/2017**	**12/31/2016**
Finished goods	112,309	116,101
Raw material	14,053	17,438
Work in progress	18,914	17,618
Gross inventory	**145,276**	**151,157**
Inventory provision	(22,694)	(24,244)
Net inventory	**122,582**	**126,914**

Net inventories fell by euro 4,331 thousand from the previous year. The fluctuation is attributable to a euro 5,881 thousand decrease in the inventory itself and a euro 1,550 thousand decrease in the inventory impairment provision. The reduction of the provision in 2017 is part of a larger plan to steadily reduce inventories and improve the efficiency of inventory management. The result is the direct consequence of measures that have been implemented by management since the previous year to streamline the product offer by downsizing the number of models produced and accelerating the sales periods for some models.

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.

8. TRADE RECEIVABLES

The composition of the trade receivables is as follows:

Trade receivables *(euro/000)*	**12/31/2017**	**12/31/2016**
Gross trade receivables	95,950	86,232
Provision for bad debts	(8,277)	(7,580)
Net trade receivables	**87,674**	**78,652**
Provision for returns	(5,582)	(6,009)
Total trade receivables	**82,091**	**72,643**

Gross trade receivables rose by euro 9,448 thousand. Trade receivables, up from those of the prior year, were largely affected by the sales increase. The strategies to reduce the average collection period, or "days sales outstanding" (DSO), were continued successfully. Indeed, in recent years the DSO has been greatly reduced, including by 2 days in 2017 alone.

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

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

Trade receivables not overdue by geographical area *(euro/000)*	**12/31/2017**	**12/31/2016**
Italy	15,466	14,895
Rest of Europe	16,706	15,866
North America	18,189	13,503
Rest of Word	30,905	24,677
Total	**81,267**	**68,941**

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**
12/31/2016			
Not past due	68,941	(29)	68,912
Past due by less than 3 months	6,406	(564)	5,842
Past due by 3 to 6 months	2,376	(617)	1,758
Past due by more than 6 months	5,069	(3,003)	2,066
Total	**82,791**	**(4,213)**	**78,578**
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**

In some markets in which 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)*	**12/31/2017**	**12/31/2016**
Past due less than 3 months	1,630	4,311
Past due more than 3 months	630	2,328
Total	**2,261**	**6,640**

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**
12/31/2016			
Past due by less than 12 months	617	(575)	42
Past due by more than 12 months	2,824	(2,793)	31
Total	**3,441**	**(3,367)**	**74**
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**

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

Provision for doubtful debts *(euro/000)*	**12/31/2017**	**12/31/2016**
Opening amount	7,580	5,948
Provisions	2,350	1,870
Use/reversal	(1,071)	(515)
Translation difference	(582)	277
Period end Total	**8,277**	**7,580**

The provision for doubtful debts increased by euro 696 thousand from the prior year. The provision is deemed adequate for presenting receivables at their estimated realizable value given their composition and age and the related guarantees. A large portion of the annual allocation was made by Marcolin USA Eyewear Corp.
Some trade receivables are covered by the types of guarantees typically used for sales on international markets.

9. OTHER CURRENT ASSETS

The composition of other current assets is shown below:

Other current assets *(euro/000)*	**12/31/2017**	**12/31/2016**
Tax credits	6,190	6,508
Prepaid expenses	4,870	3,989
Other receivables	3,620	2,570
Total other current assets	**14,680**	**13,067**

This item, euro 14,680 thousand (euro 13,067 thousand in 2016), presents an increase of euro 1,613 thousand from the prior year.

The tax credits consist mainly of VAT and taxes paid on account. The annual decrease of euro 317 thousand is attributable primarily to less VAT credit reported by the Parent Company and by other Group companies in the final months of the year.

"Other receivables" consists primarily of amounts due from parent 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, 2017 is euro 3,812 thousand, compared with euro 3,118 thousand as at December 31, 2016. The increase results from the recognition of tax consolidation expense as a result of Marcolin S.p.A.'s 2017 income subject to IRES, offset by other receivables transferred to the head entity emerging when the tax return was filed in September 2017.

"Other assets" consists mainly of prepaid insurance premiums and other costs for projects relating to 2018.

10. CURRENT FINANCIAL ASSETS

This item, euro 13,332 thousand at December 31, 2017 (euro 699 thousand in 2016), refers primarily to euro 12,469 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 721 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).

The item also includes 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, forms the interest rate of the new notes issued on February 10, 2017. The swaption will enable, on November 18, 2018, to exercise the option of entering into an interest rate swap (IRS) expiring on May 18, 2021. If the IRS, with a notional amount of euro 180 million, should be entered into by exercising the option, it will enable 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. The fair value of the swaption at the stipulation date of July 17, 2017 was euro 403 thousand, reduced to euro 128 thousand as at December 31, 2017. The difference of euro 275 thousand is recognized in the Income Statement as financial interest.

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 1,425 thousand in the period. The decrease is shown in the Consolidated Statement of Cash Flows, which provides information on the 2017 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 new shareholder Vicuna Holding S.p.A. was part of a larger 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.

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, 2017.

As a result of the share capital increase, the share premium reserve was euro 170,304 thousand as at December 31, 2017, 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 370 thousand, refers to the translation into euros of the financial statements of Group companies whose functional currency differs from the euro. The euro 9,327 thousand reduction from the prior year is directly attributable to changes in currency exchange rates during the year. The depreciation of the U.S. dollar against the euro had a significant impact; it fell by 13.8% from December 31, 2016 to December 31, 2017.

The other reserves, - euro 10,078 thousand, include the euro -10,912 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 Consolidated Statement of Changes in Equity provides more detailed information.

13. NON-CURRENT FINANCIAL LIABILITIES

This item, euro 255,355 thousand, was euro 199,866 thousand at the end of 2016; it has increased by euro 55,489 thousand.

The increase is due primarily to the early redemption of the previous notes, subscribed originally for a nominal euro 200 million in 2013, through the issuance on February 10, 2017 of new notes subscribed for a nominal amount of euro 250 million[10]. The proceeds received from the issuance of the new notes

---

[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.

and the euro 21.9 million capital increase subscribed and paid in by the new shareholder, Vicuna Holding S.p.A., enabled to redeem early the previous notes and to extinguish the super senior revolving credit facility originally stipulated with Banca IMI S.p.A., IKB Deutsche Industriebank AG, Natixis S.A., UniCredit S.p.A. and Goldman Sachs, to pay dividends to Marmolada S.p.A. (absorbed by its parent, 3 Cime S.p.A., in 2017) in order to repay the vendor loan and other amounts due to 3 Cime S.p.A. by HVHC Inc., the Viva Group former shareholder, and to repay certain short/medium-term bank borrowings.

The notes issued, which mature in 2023, are classified as non-current financial liabilities, and the related payable is accounted for in accordance with IAS 39 (amortized cost) 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 878 thousand pertaining to 2017, for a total amount of euro 5,837 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, 2017, 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 38 thousand pertaining to 2017, for a total amount of euro 222 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)*	**12/31/2017**	**12/31/2016**
Cash and cash equivalents	40,805	42,230
Current and non-current financial assets	16,503	4,497
Current financial liabilities	(34,442)	(46,897)
Current portion of non-current financial liabilities	(4,928)	(4,800)
Non-current financial liabilities	(255,355)	(199,866)
Total net financial debt	**(237,417)**	**(204,837)**

In additional to the commitments described subsequently (see Note 20), for the revolving credit facility, commitments to comply with 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 this Report, all the covenants were met as at December 31, 2017.

14. NON-CURRENT PROVISIONS

This item amounts to euro 7,336 thousand (euro 7,487 thousand in 2016), a decrease of euro 151 thousand.

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

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
12/31/2015	**3,448**	**1,342**	**3,913**	**8,703**
Allowances	46	117	602	**765**
Use / reversal	(330)	(457)	(1,299)	**(2,086)**
Actuarial loss / (gain)	24	-	-	**24**
Translation difference	-	47	34	**81**
Other changes	-	-	-	**-**
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**

Employee benefits consist of the employee severance indemnity provision ("TFR") recognized in the Parent Company's financial statements for euro 3,104 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 12/31/2017
Inflation rate +0,25%	3,058
Inflation rate - 0,25%	3,173
Actuarial rate +0,25%	3,150
Actuarial rate - 0,25%	3,079
Turnover rate +1%	3,097
Turnover rate -1%	3,134

* Defined Benefit Obligation

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

Next year service cost Vesting period	
2017 Service cost	-
Vesting period	8.00

- payments foreseen under the plan:

[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.

Years	Payments foreseen
1	374
2	212
3	210
4	354
5	219

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.

15. OTHER NON-CURRENT LIABILITIES

At the end of the period the amount of other non-current liabilities was euro 4,689 thousand (compared with the euro 86 thousand of 2016). The considerable increase is attributable to the increase in non-trade payables of Marcolin USA Eyewear Corp.

16. TRADE PAYABLES

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

Trade payables by geographical area *(euro/000)*	**12/31/2017**	**12/31/2016**
Italy	42,056	36,468
Rest of Europe	6,476	11,379
North America	21,292	24,402
Rest of Word	56,997	56,277
Total	**126,821**	**128,526**

The trade payables as at December 31, 2017 have not undergone significant changes with respect to the previous reporting date. 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, 2017 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 39,369 thousand (compared with the euro 51,697 thousand of 2016), down by euro 12,328 thousand year on year.

The item includes:

- euro 36,024 thousand in short-term borrowings from banks (euro 48,292 thousand in 2016);
- euro 3,345 thousand due to other financiers, primarily the interest accrued on the bond notes (euro 2,865 thousand in 2016);

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	6,507	-	-	-	**6,507**
Loans	29,525	5,454	-	-	**34,978**
Other financiers	3,338	5,417	346	244,140	**253,240**
12/31/2017	**39,369**	**10,870**	**346**	**244,140**	**294,725**

No instruments to hedge against currency risk were in place as at December 31, 2017.

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
12/31/2015	**423**
Use / reversal	(71)
12/31/2016	**352**
Allowances	235
Use / reversal	(169)
12/31/2017	**418**

The other provisions, which totaled euro 418 thousand, refer to potential risks originating mainly from legal obligations.

19. OTHER CURRENT LIABILITIES

Below are the details of the other liabilities:

Other current liabilities (euro/000)	12/31/2017	12/31/2016
Payables to personnel	18,806	17,394
Social security payables	3,470	3,658
Other accrued expenses and deferred income	5,227	735
Total other current liabilities	**27,503**	**21,787**

The other current liabilities consist primarily of euro 18,806 thousand due to personnel (euro 17,394 thousand in 2016), euro 3,470 thousand due to social security authorities (euro 3,658 thousand in 2016), and other accrued expenses and deferred income of euro 5,227 thousand, including euro 1,111 thousand for the amount due to 3 Cime S.p.A. by December 31, 2018 regarding dividends totaling euro 25,900 thousand distributed pursuant to the General Meeting resolution passed on February 10, 2017, and euro 2,501 thousand in other amounts due to third parties by the end of the following year.

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 International B.V. (July 16, 1999 loan), Marcolin Nordic AB (February 12, 2015 loan) and Marcolin U.S.A. Eyewear Corp. (December 3, 2013 loan) (Intercompany Loan Agreements)
- and 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.

The guarantees securing the previous notes were extinguished within the scope of the new issuance of notes on February 10, 2017 and replaced by those securing the new notes.

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, 2017 these future commitments amounted to euro 352,855 thousand (euro 315,017 thousand in 2016), including euro 72,728 thousand falling due within the next year.

Guaranteed minimum Royalties due *(euro/000)*	**12/31/2017**	**12/31/2016**
Within one year	72,728	71,594
In one to five years	215,119	202,535
After five years	65,009	40,888
Total	**352,855**	**315,017**

Rent and leases

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

Commitments *(euro/000)*	**12/31/2017**	**12/31/2016**
Rent due		
Within one year	4,071	3,565
In one to five years	10,691	10,104
After five years	4,620	6,740
Operating lease payments	**19,382**	**20,409**
Within one year		
In one to five years	1,115	851
After five years	871	1,208
Total	**1,986**	**2,059**
TOTAL	**21,369**	**22,468**

The rent commitments refer mainly to the office leases of the American affiliate.

The Group also has guarantees for third parties of euro 225 thousand (euro 40 thousand in 2016).

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 2017 net sales revenue by geographical area:

Net Revenues by geographical area	2017		2016		Change	
(euro/000)	euro	% of total	euro	% of total	euro	%
Italy	*33,099*	*7.1%*	*29,076*	*6.6%*	*4,023*	*13.8%*
Rest of Europe	*136,876*	*29.2%*	*132,821*	*30.1%*	*4,055*	*3.1%*
Europe	169,974	36.2%	161,896	*36.6%*	8,078	5.0%
Americas	190,273	40.6%	186,875	*42.3%*	3,398	1.8%
Asia	35,093	7.5%	38,439	*8.7%*	(3,346)	(8.7)%
Rest of World	73,802	15.7%	54,644	*12.4%*	19,158	35.1%
Total	**469,143**	**100.0%**	**441,855**	**100.0%**	**27,288**	**6.2%**

The 2017 revenue is euro 469,143 thousand, compared with euro 441,855 thousand in 2016.
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)*	**2017**	**% of net revenues**	**2016**	**% of net revenues**
Cost of product	180,377	38.4%	170,564	38.6%
Cost of personnel	9,687	2.1%	10,275	2.3%
Amortization, depreciation and writedowns	3,269	0.7%	3,132	0.7%
Other costs	3,360	0.7%	2,140	0.5%
Total	**196,694**	**41.9%**	**186,111**	**42.1%**

The cost of sales is euro 196,694 thousand, compared with euro 186,111 thousand for 2016.
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 2017 distribution and marketing expenses:

Distribution and marketing expenses *(euro/000)*	**2017**	**% of net revenues**	**2016**	**% of net revenues**
Cost of personnel	50,897	10.8%	45,794	10.4%
Commissions	28,681	6.1%	25,433	5.8%
Amortization, depreciation and writedowns	8,673	1.8%	6,858	1.6%
Royalties	56,699	12.1%	56,212	12.7%
Advertising and PR	33,192	7.1%	32,590	7.4%
Other costs	29,469	6.3%	28,658	6.5%
Total	**207,610**	**44.3%**	**195,545**	**44.3%**

They amount to euro 207,610 thousand, versus euro 195,545 thousand for 2016.
The cost of personnel includes non-recurring costs of euro 1,895 thousand referring to *ad-personam* agreements for changes in job positions, particularly regarding the reorganization of the American affiliate's sales network.

With respect to advertising and public relations ("PR") expenses, advertising and marketing expenditure continued to promote the brands handled, 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 payments;
- travel expenses;
- telephone and insurance expenses;
- entertainment expenses.

24. GENERAL AND ADMINISTRATION EXPENSES

The general and administrative expenses are set forth below:

General and administrative expenses *(euro/000)*	**2017**	**% of net revenues**	**2016**	**% of net revenues**
Cost of personnel	12,914	2.8%	12,604	2.9%
Writedown of receivables	2,245	0.5%	1,808	0.4%
Amortization, depreciation and writedowns	3,864	0.8%	3,156	0.7%
Other costs	15,358	3.3%	13,105	3.0%
Total	**34,380**	**7.3%**	**30,673**	**6.9%**

The 2017 general and administrative expenses amount to euro 34,380 thousand, against euro 30,673 thousand for 2016.

The other costs include:

- 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;
- other general and administrative expenses (sundry purchases, telephone expenses, insurance, travel expenses, rent and rentals).

25. EMPLOYEES

The 2017 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	12/31/2017	12/31/2016	2017	2016
Managers	69	53	60	65
Staff	1,043	916	1,011	903
Manual workers	736	744	745	659
Total	**1,848**	**1,713**	**1,816**	**1,627**

26. OTHER OPERATING INCOME AND EXPENSES

The operating income and expenses are set forth below:

Other operating income and expenses *(euro/000)*	2017	% of net revenues	2016	% of net revenues
Other income	3,898	0.8%	1,824	0.4%
Other expenses	(329)	(0.1%)	(47)	0.0%
Total	**3,568**	**0.8%**	**1,777**	**0.4%**

The balance of this item is net operating income of euro 3,568 thousand, compared with euro 1,777 thousand for the previous year, an increase of euro 1,791 thousand. The amount corresponds to 0.8% of net sales, compared with the 0.4% 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 6,570 thousand, corresponds to the effect of consolidation using the equity method of the interest in Thélios S.p.A. for euro 5,735 thousand, and deconsolidation of the interest in Viva Optique de Mexico SA de CV for euro 835 thousand. Additional information is provided in Note 3 on investments in subsidiaries and associates.

28. FINANCIAL INCOME AND COSTS

The financial income and costs are presented below:

Financial income and costs *(euro/000)*	2017	% of net revenues	2016	% of net revenues
Financial income	10,272	2.2%	18,500	4.2%
Financial costs	(44,102)	(9.4)%	(34,590)	(7.8)%
Total	**(33,830)**	**(7.2)%**	**(16,090)**	**(3.6)%**

The composition of financial income is shown below:

Financial income *(euro/000)*	**2017**	**% of net revenues**	**2016**	**% of net revenues**
Interest income and others	687	0.1%	686	0.2%
Gains on currency exchange	9,585	2.0%	17,814	4.0%
Total	**10,272**	**2.2%**	**18,500**	**4.2%**

The composition of finance costs is shown below:

Financial costs *(euro/000)*	**2017**	**% sui ricavi**	**2016**	**% sui ricavi**
Interest expense	(30,153)	(6.4)%	(22,540)	(5.1)%
Financial discounts	(2,762)	(0.6)%	(2,790)	(0.6)%
Losses on currency exchange	(11,187)	(2.4)%	(9,260)	(2.1)%
Total	**(44,102)**	**(9.4)%**	**(34,590)**	**(7.8)%**

Financial income and costs result in net finance costs of euro 33,830 thousand, compared with euro 16,090 thousand for 2016.

The net finance costs are the balance between income of euro 10,272 thousand and costs of euro 44,102 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 687 thousand;
- interest expense of euro 30,153 thousand consisting primarily of:
    - interest of euro 9,310 thousand servicing the bond notes issued by Marcolin S.p.A., accrued as of the issuance date of February 10, 2017, paid quarterly in May, August and November 2017; and interest of euro 1,911 thousand accrued on the previous notes from January 1, 2017 to the early redemption date of February 10, 2017;
    - The reversal to the income statement of the bond issue transaction costs, accounted for under IFRS with the financial method of amortized cost;
    - euro 3,940 thousand in net finance costs (euro 2,652 thousand referring to Marcolin S.p.A. and euro 1,288 thousand referring to subsidiaries) regarding to bank interest expense and actualization differences;
    - euro 8,500 thousand paid to the bondholders for early redemption of the previous notes, redeemed on February 10, 2017 instead of on the original maturity date in 2019;
    - euro 275 thousand for the fair value measurement of the swaption stipulated by Marcolin S.p.A. on July 17, 2017. Additional information is available in section 10 on current financial assets;
- financial discounts given to customers totaling euro 2,762 thousand, nearly entirely attributable to foreign subsidiaries.

With respect to the component of gains and losses on currency exchange, the balance is a net loss of euro 1,602 thousand for 2017, compared with a net gain of euro 8,554 thousand for the previous year. Its components are broken down as follows:

- gains on currency exchange of euro 9,585 thousand (euro 17,814 thousand in 2016), consisting of realized gains of euro 5,416 thousand (euro 7,952 thousand in 2016), and gains of euro 4,170 thousand referring to end-of-period translation differences on trade and financial accounts in foreign currency (euro 9,862 thousand in 2016). In respect of the latter, in accordance with IAS 21, on November 18, 2016 the translation adjustment to a loan denominated in U.S. dollars from Marcolin S.p.A. to Marcolin USA Eyewear Corp. was recognized in equity because it is classifiable as a quasi-equity loan. Additional information is available in Note 12 on equity. The considerable decrease in gains on currency exchange is attributable primarily to the effect at a consolidated level, based on the assets and liabilities in foreign currency, of the 15.8% depreciation of the Brazilian real against the euro during 2017, compared with 20.4%

appreciation in the previous year, and the 13.8% depreciation of the U.S. dollar against the euro during 2017, compared with 3.2% appreciation in the previous year;

- losses on currency exchange of euro 11,187 thousand (euro 9,260 thousand in 2016), consisting of realized losses of euro 4,318 thousand (euro 5,905 thousand in 2016), and losses of euro 6,869 thousand referring to end-of-period translation differences on trade and financial accounts in foreign currency (euro 3,355 thousand in 2016). The significant increase in losses on currency exchange is attributable mainly to the performance of the U.S. dollar, as explained previously.

There were no currency hedges (on purchases and sales) in place as at December 31, 2017.

29. INCOME TAX EXPENSE

Income taxes are euro 8,094 thousand, including current taxes of euro 5,259 thousand, net deferred tax expense of euro 369 thousand, tax consolidation expense of euro 516 thousand and taxes referring to the previous period of euro 2,689 thousand.

Income tax expense *(euro/000)*	**2017**	**2016**
Current taxes	(5,259)	(3,813)
Deferred taxes	369	1,601
Income/(Expenses) from Tax Consolidation	(516)	(682)
Taxes relating to prior year	(2,689)	(317)
Total income tax expense	**(8,094)**	**(3,211)**

The Parent Company's current taxes for 2017 are euro 923 thousand, and those of foreign subsidiaries are euro 4,336 thousand. The deferred tax expense refers to the Parent Company's expense of euro 3,182 thousand and the foreign subsidiaries' income of euro 2,813 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 tax expense for the year is reconciled with the theoretical tax burden in the following table:

Tax rate reconciliation				
(euro/000)	31/12/2017		31/12/2016	
Results before tax		**(6,373)**		**15,385**
Theoretical taxes	24.0%	1,530	27.5%	(4,231)
Impact of foreign tax rate different from italian tax rate	8.1%	514	-17.0%	2,613
IRAP and other	-0.1%	(7)	9.2%	(1,412)
Higher taxes due to non-deductible costs	-14.2%	(903)	14.1%	(2,173)
Lower taxes for non-taxable income	7.8%	495	-3.0%	464
Taxes relating to prior year	-42.2%	(2,689)	2.1%	(317)
Unrecognised deferred tax assets on tax losses	-0.2%	(13)	1.3%	(204)
Use of accumulated tax losses unrecognised deferred tax assets in previous year	2.5%	162	-0.6%	97
Impact of tax change rates on taxes	-125.0%	(7,969)	1.4%	(212)
Activation of deferred tax assets unrecognised previous years	16.1%	1,029	-13.7%	2,112
Other	-3.8%	(243)	-0.3%	51
Total income taxe expense	**-127.0%**	**(8,094)**	**20.9%**	**(3,211)**

The significant difference in the reconciliation statement regarding the effect of changes in tax rates on deferred taxes is attributable primarily to the U.S. tax reform, which in 2018 will 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 12/31/2017	Tax on tamporary differences 12/31/2017	Temporary differences 12/31/2016	Tax on tamporary differences 12/31/2016
Accumulated tax losses	35,640	8,038	35,751	12,107
Grants and compensation deductible on a cash ba:	37,021	9,453	17,451	4,510
Inventory provisions	17,810	4,495	21,845	6,686
Provision for return risks	3,284	816	7,657	2,797
Intangible assets subject to taxation	6,049	1,578	10,924	4,062
Taxed provision for doubtful debts	4,817	1,331	4,391	1,437
Unrealized currency exchange differences	18,377	4,582	2,432	590
Income from CFC (controlled foreign companies)	2,098	504	5,622	1,814
Non-deductible temporary amortization	(607)	562	457	111
Supplementary client indemnity provision	671	171	392	108
Other	2,475	1,100	5,542	1,652
Provisions for risks and charges	41	3	275	77
Intercompany profit	6,851	2,261	-	-
Total deferred tax assets	**134,526**	**34,895**	**112,741**	**35,950**

Deferred tax liabilities *(euro/000)*	Temporary differences 12/31/2017	Tax on tamporary differences 12/31/2017	Temporary differences 12/31/2016	Tax on tamporary differences 12/31/2016
Unrealized currency exchange differences	(7,947)	(1,908)	(10,936)	(3,034)
Property, plant and equipment and intangible asset	(9,183)	(1,873)	(3,881)	(1,219)
Equity-method accounting of JV and other equity inv	-	-	(10,620)	(3,948)
Finance costs deducted on a cash basis	(5,847)	(1,403)	(5,354)	(1,242)
Other	(1,152)	(378)	(1,334)	(496)
Actuarial gain / losses on TFR under IAS	98	16	62	15
Intercompany profit	-	-	7,039	2,323
Total deferred tax liabilities	**(24,031)**	**(5,546)**	**(25,024)**	**(7,602)**
Total deferred assets / liabilities	**110,496**	**29,349**	**87,717**	**28,348**

The balance of deferred tax assets and liabilities presented in the Statement of Financial Position differs by euro 1,001 thousand from the balance of euro 369 thousand shown in the Income Statement due to the following reasons:

- Recognition of deferred taxes on amounts recognized in equity totaling euro 3,713 thousand;
- Euro 398 thousand adjustment to deferred taxes pursuant to the preparation of the tax return in 2017, whose Income Statement component is classified as "taxes regarding prior periods".
- Euro 2,684 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 include euro 17.7 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 5.5 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 2017 regard some non-recurring costs, described in detail in the Report on Operations. Such costs were much less than those of previous years, due to the conclusion of the Viva integration process.

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 2017 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, 2017 are shown below, as required by IAS 24:

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**	

The same table is set forth for 2016:

Company *(euro/000)*	Expenses	Revenues	Payables	Receivables	Type
Other related parties					
Tod's S.p.A	1,530	560	750	277	Related party
Pai Partners Sas	75	2	75	-	Related party
Famiglia Coffen Marcolin	616	0	155	-	Related party
O.T.B. Group	3,428	50	195	25	Related party
3 Cime S.p.A.	-	-	-	3,118	Consolidating
Total	**5,648**	**612**	**1,175**	**3,420**	

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

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

(euro/000)	2017 Board of Directors	Statutory Auditors	2016 Board of Directors	Statutory Auditors
Base fee	375	100	415	100
Salaries and benefits	876	-	753	-
Total	**1,251**	**100**	**1,168**	**100**

Other information pursuant to Italian Civil Code Article 2427, point 6 bis

The following table presents the 2017 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)*	**Amount**
Audit for Marcolin S.p.A.	65
Audit for other subsidiaries	105
Other services for Marcolin S.p.A not for Audit	15
Total	**185**

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 n° 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 2017, 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 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 2017, 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 Management and Those Charged with Governance for the Consolidated Financial Statements

Management is 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 management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

PricewaterhouseCoopers SpA

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. Euro 6.890.000,00 i.v., C.F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n° 119644 del Registro dei Revisori Legali - Altri Uffici: **Ancona** 60131 Via Sandro Totti 1 Tel. 0712132311 - **Bari** 70122 Via Abate Gimma 72 Tel. 0805640211 - **Bologna** 40126 Via Angelo Finelli 8 Tel. 0516186211 - **Brescia** 25123 Via Borgo Pietro Wuhrer 23 Tel. 0303697501 - **Catania** 95129 Corso Italia 302 Tel. 0957532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 - **Genova** 16121 Piazza Piccapietra 9 Tel. 01029041 - **Napoli** 80121 Via dei Mille 16 Tel. 08136181 - **Padova** 35138 Via Vicenza 4 Tel. 049873481 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 - **Parma** 43121 Viale Tanara 20/A Tel. 0521275911 - **Pescara** 65127 Piazza Ettore Troilo 8 Tel. 0854545711 - **Roma** 00154 Largo Fochetti 29 Tel. 06570251 - **Torino** 10122 Corso Palestro 10 Tel. 011556771 - **Trento** 38122 Viale della Costituzione 33 Tel. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 43 Tel. 043225789 - **Varese** 21100 Via Albuzzi 43 Tel. 0332285039 - **Verona** 37135 Via Francia 21/C Tel. 0458263001 - **Vicenza** 36100 Piazza Pontelandolfo 9 Tel. 0444393311

www.pwc.com/it

Management is 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, management uses the going concern basis of accounting unless management either intends to liquidate Marcolin SpA or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with 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 an 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 management;
- We concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- 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 n° 39/10

Management of Marcolin SpA is responsible for preparing a report on operations of the Marcolin Group as of 31 December 2017, 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) n° 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 2017 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 2017 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 n° 39/10, 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.

Bologna, 6 April 2018

PricewaterhouseCoopers SpA

Signed by

Edoardo Orlandoni
(Partner)

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

SEPARATE FINANCIAL STATEMENTS OF MARCOLIN S.P.A. FOR THE YEAR ENDED DECEMBER 31, 2017

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	12/31/2017	12/31/2016
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	1	23,565,432	22,912,626
Intangible assets	2	23,276,942	26,110,760
Goodwill	2	186,226,529	186,226,529
Investments in subsidiaries and associates	3	85,166,954	70,064,481
Deferred tax assets	27	12,961,154	9,009,278
Other non-current assets	4	2,416,519	291,211
Non-current financial assets	5	107,152,466	122,184,575
Total non-current assets		**440,765,996**	**436,799,459**
CURRENT ASSETS			
Inventories	6	74,007,784	73,724,899
Trade receivables	7	80,125,250	68,860,011
Other current assets	8	7,292,157	8,455,141
Current financial assets	9	45,858,053	18,512,798
Cash and cash equivalents	10	26,330,100	31,673,170
Total current assets		**233,613,344**	**201,226,018**
TOTAL ASSETS		**674,379,340**	**638,025,478**
EQUITY	11		
Share capital		35,902,750	32,312,475
Additional paid-in capital		42,827,001	24,517,276
Legal reserve		4,263,080	4,077,295
Other reserves		46,903,006	45,189,440
Retained earnings (losses)		81,770,242	104,140,321
Profit (loss) for the period		(10,752,725)	3,715,706
TOTAL EQUITY		**200,913,354**	**213,952,514**
LIABILITIES			
NON-CURRENT LIABILITIES			
Non-current financial liabilities	12	252,180,164	203,122,095
Non-current funds	13	6,305,895	5,509,022
Deferred tax liabilities	27	3,896,093	2,733,674
Other non-current liabilities	14	50,000	50,000
Total non-current liabilities		**262,432,153**	**211,414,791**
CURRENT LIABILITIES			
Trade payables	15	119,017,376	109,384,499
Current financial liabilities	16	77,944,746	91,859,939
Current funds	17	1,018,099	1,088,099
Tax liabilities	27	1,545,190	1,224,574
Other current liabilities	18	11,508,422	9,101,061
Total current liabilities		**211,033,833**	**212,658,173**
TOTAL LIABILITIES		**473,465,986**	**424,072,964**
TOTAL LIABILITIES AND EQUITY		**674,379,341**	**638,025,478**

INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME

(euro)	Notes	2017	%	2016	%
Net revenues	20	258,966,982	100.0%	233,005,981	100.0%
Cost of sales	21	(146,862,128)	(56.7)%	(138,124,222)	(59.3)%
GROSS PROFIT		**112,104,854**	**43.3%**	**94,881,760**	**40.7%**
Distribution and marketing expenses	22	(92,288,229)	(35.6)%	(77,902,859)	(33.4)%
General and administrative expenses	23	(12,815,780)	(4.9)%	(12,266,774)	(5.3)%
Other operating income/(expenses)	25	8,754,427	3.4%	10,573,965	4.5%
OPERATING INCOME – EBIT		**15,755,272**	**6.1%**	**15,286,092**	**6.6%**
Financial income	26	19,288,667	7.4%	21,015,641	9.0%
Financial costs	26	(46,373,458)	(17.9)%	(31,387,579)	(13.5)%
PROFIT (LOSS) BEFORE TAXES		**(11,329,519)**	**(4.4)%**	**4,914,154**	**2.1%**
Income tax expense	27	576,794	0.2%	(1,198,448)	(0.5)%
NET PROFIT (LOSS) FOR THE PERIOD		**(10,752,725)**	**(4.2)%**	**3,715,706**	**1.6%**

(euro)	2017	2016
NET PROFIT (LOSS) FOR THE PERIOD	**(10,752,725)**	**3,715,706**
Other items that will be not subsequently reclassified to profit or loss:		
Effect (actuarial gain/losses) on defined benefit plans, net of taxes	7,157	(17,172)
TOTAL OTHER ITEMS THAT WILL NOT SUBSEQUENTLY RECLASSIFIED TO PROFIT OR LOSS	**7,157**	**(17,172)**
Other items that will be subsequently reclassified to profit or loss:		
TOTAL OTHER ITEMS THAT WILL BE SUBSEQUENTLY RECLASSIFIED TO PROFIT OR LOSS	**-**	**-**
TOTAL COMPREHENSIVE INCOME FOR THEPERIOD	**(10,745,568)**	**3,698,535**

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, 2015	**32,312,475**	**24,517,276**	**4,077,295**	**46,107,590**	**(316,590)**	**(584,389)**	**106,745,082**	**(2,604,761)**	**210,253,979**
Allocation of 2015 loss	-	-	-	-	-	-	(2,604,761)	2,604,761	-
- Period result	-	-	-	-	-	-	-	3,715,706	3,715,706
- Other components of comprehensive income	-	-	-	-	-	(17,172)	-	-	(17,172)
Total comprehensive income	-	-	-	-	-	(17,172)	-	3,715,706	3,698,535
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
Avanzo di fusione Marcolin International BV	-	-	-	-	2,915,584	-	-	-	2,915,584
Other movements	-	-	-	-	(1,209,175)	-	-	-	(1,209,175)
- Period result	-	-	-	-	-	-	-	(10,752,725)	(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**

STATEMENT OF CASH FLOWS

(euro)	Notes	12/31/2017	12/31/2016
OPERATING ACTIVITIES			
Profit (loss) for the period		(10,752,725)	3,715,706
Depreciation and amortization	1.2	11,101,674	9,155,266
Provisions	13.17	1,516,066	(1,169,613)
Impairment losses/(reversal) on investments	3	-	2,500,000
Income tax expense	27	(576,794)	1,198,448
Accrued interest expense	26	27,084,792	10,371,938
Adjustments to other non-cash items		(1,489,351)	(18,572)
Cash generated by operations		*26,883,662*	*25,753,174*
(Increase)/decrease in trade receivables	7	(8,884,343)	14,286,960
(Increase)/decrease in inventories	6	(973,775)	2,250,186
(Decrease)/increase in trade payables	15	5,540,673	(2,829,678)
Cash generated by change in operating working capital		*(4,317,445)*	*13,707,468*
(Increase) decrease in other assets	4.8	(1,477,971)	1,779,628
(Decrease)/increase in other liabilities	14.18	1,423,107	2,788,630
(Use) of current and non-current provisions	13.17	(198,000)	(1,119,000)
(Decrease)/increase in current tax liabilities	27	(6,354)	(296,526)
Adjustments to other non-cash items		-	82
Other elements in working capital		*(259,218)*	*3,152,814*
Income taxes paid		(994,793)	(208,000)
Interest received		996,492	9,991,034
Interest paid		(25,541,575)	(25,456,062)
Total cash generated by change in other items of net working capital		*(25,799,095)*	*(12,520,214)*
Net cash from /(used in) net working capital		(30,116,540)	1,187,254
Net cash from /(used in) operating activities		**(3,232,878)**	**26,940,428**
INVESTING ACTIVITIES			
(Purchase) of property, plant and equipment	1	(5,420,100)	(3,106,613)
Disposal of property, plant and equipment	1	190,000	64,572
(Investments) in intangible assets	2	(4,294,561)	(9,664,060)
Disposal in intangible assets	2	327,000	-
(Purchase) minority shareholders share	3	(900,000)	-
Net (Investments)/disposal in investment in subsidiaries and associates	3	(558,830)	-
Merger MBV	3	5,744	-
Cash out from business combination net of liquidity acquired (Marcolin Middle East FZCO)	3	(3,762,000)	-
Cash out on business combinations net of liquidity acquired (Thélios S.p.A.)	3	(5,697,849)	-
Cash out from business combinations net of liquidity acquired (LATAM)	11	(417,266)	-
Net cash from /(used in) investing activities		**(20,527,862)**	**(12,706,101)**
FINANCING ACTIVITIES			
Financial Assets			
- (Proceeds)	5,9	(24,490,448)	(7,924,123)
- Repayments		-	-
Financial Loans from banks			
- Proceeds	12.16	13,500,000	5,500,000
- (Repayments)	12.16	(9,219,820)	(5,610,719)
Other current and non current financial liabilities	5,9,12,16	*41,322,210*	*10,293,619*
Capital increase	11	21,900,000	-
Dividends cash in	11	900,000	-
Dividends paid	11	(24,793,000)	-
Net cash from /(used in) financing activities		**19,118,942**	**2,258,777**
Net increase/(decrease) in cash and cash equivalents		**(4,641,798)**	**16,493,104**
Effect of foreign exchange rate changes		(701,272)	-
Cash and cash equivalents at beginning of year		**31,673,170**	**15,180,066**
Cash and cash equivalents at end of year		**26,330,100**	**31,673,170**

NOTES TO THE SEPARATE FINANCIAL STATEMENTS OF MARCOLIN S.P.A. FOR THE YEAR ENDED DECEMBER 31, 2017

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, 2018 to the new shareholder, Vicuna Holding S.p.A. The entry of new shareholder Vicuna Holding S.p.A. was part of a larger 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.

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, 2017.

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.

*****

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, 2017, and were prepared in accordance with the accounting documents updated to December 31, 2017.

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 March 22, 2018.

ACCOUNTING STANDARDS

Basis of preparation

The 2017 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, 2017 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, 2017

The following new standards and amendments became effective on January 1, 2017:

- Disclosure Initiative – Amendments to IAS 7;
- Recognition of deferred tax assets for unrealized losses– Amendments to IAS 12.

New accounting standards and interpretations approved by the European Union and effective for periods after December 31, 2017

On September 22, 2016 the European Union issued Regulation n. 2016/1905 approving IFRS 15 (Revenue from contracts with customers). The standard will be effective for annual periods beginning on or after January 1, 2018. The Group is evaluating the impact of the new standard on the financial statements.

On November 22, 2016 the European Union issued Regulation n. 2016/2067 approving IFRS 9 (Financial Instruments). The standard will be effective for annual periods beginning on or after January 1, 2018. The Group is evaluating the impact of the new standard on the financial statements.

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 Group is evaluating the impact of the new standard on the financial statements.

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 17 (Insurance contracts)	*January 1, 2021*
IFRIC 23 Uncertainly over Income Tax Treatments	*January 1, 2019*
Amendments to IAS 19: Plan Amendment, Curtailment or Settlement	*January 1, 2019*

Annual Improvements to IFRS 2015-2017 Cycle	*January 1, 2019*
IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration	*January 1, 2018*
Amendments to IAS 40: Transfers of Investment Property	*January 1, 2018*
Amendments to IFRS 9: Prepayment Features with Negative Compensation	*January 1, 2019*
Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures	*January 1, 2019*
Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions	*January 1, 2018*

No accounting standards and/or interpretations mandatorily effective for annual periods beginning after December 31, 2017 were adopted earlier.

The Company is evaluating the effects of the application of the above new standards, which currently are not considered to cause an impact.

The 2017 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.
Regulation no. 1606, enacted by the European Parliament and European Council in July 2002, provided for the compulsory application of IAS/IFRS to the accounts of companies listed on EU regulated markets starting from 2005.
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).
The accounting standards used are the same as those used in the previous year.

The financial statements were prepared on the basis of the going-concern assumption, the accrual basis of accounting and the historical cost basis, revised as required for the measurement of certain financial instruments (with the exception of some revaluations performed in previous periods).

The currency used in the primary economic environment in which the Company operates ("functional currency") is the Euro.

For the purpose of clarity, the amounts in the Statement of Financial Position, Income Statement, Statement of Comprehensive Income, Statement of Cash Flows, Statement of Changes in Equity and explanatory Notes are presented in thousands of Euros, unless specified otherwise.

Financial statement format and significant accounting policies

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 ("PP&E" or "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.
PP&E 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 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.

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
Derivative financial instruments are used by the Company solely for hedging purposes, in order to reduce Company's exposure to currency risks.
All financial derivatives are measured at fair value, in compliance with IAS 39. Under IAS 39, financial derivatives qualify for hedge accounting only if, at the inception of the hedge, there is formal designation and documentation of the hedging relationship, the hedge is expected to be highly effective, the effectiveness of the hedge can be reliably measured and the hedge is highly effective throughout the financial reporting periods for which the hedge was designated.
If the hedge is effective, the following accounting policies apply:
Fair value hedge – If a financial derivative is designated as a hedge of the exposure to changes in fair value of a recognized asset or liability due to a particular risk, and could affect profit or loss, the gain or loss from remeasuring the hedging instrument at fair value is recognized in the income statement. The hedged item is adjusted to fair value for the portion of risk hedged, and the adjustment is recognized in profit or loss;
Cash flow hedge – If a financial derivative is designated as a hedge of the exposure to the future cash flow variability of a recognized asset or liability, the effective portion of changes in fair value of the financial derivative is recognized directly in equity. The cumulative gain or loss is reversed from equity and recognized in profit or loss in the period in which the hedged transaction is recognized. The profit or loss associated with a hedge (or part of a hedge) that has become ineffective is entered in the income statement immediately. If a hedged instrument or a hedging relationship is terminated, but the hedged transaction has not occurred yet, the cumulative gain or loss that has remained recognized in equity from the period when the hedge was effective is reclassified into profit or loss when the forecast transaction occurs. If the forecast transaction is no longer expected to occur, the related cumulative gain or loss that has remained recognized in equity is immediately recognized in the income statement.
If hedge accounting cannot be applied, the gains or losses arising on changes in the fair value of the financial derivative are recognized immediately in the income statement.

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.

Financial assets – Loans and receivables

Trade receivables, current loan receivables and other current receivables with fixed maturities, excluding those assets arising on financial derivatives and all financial assets for which prices on an active market are unavailable and whose fair value cannot be determined reliably, are stated at amortized cost calculated using the effective-interest method.

Financial assets without fixed maturities are stated at cost.

Receivables maturing after more than a year that do not accrue interest or that accrue interest at below-market rates are discounted using market rates and recognized as non-current assets. Reviews are carried out regularly to determine the presence of any objective evidence that the financial assets taken individually or within a group of assets may have suffered an impairment loss. If such evidence exists, the impairment loss is shown as a cost in the income statement for the period.

Trade receivables are adjusted to their realizable value by means of a provision for irrecoverable amounts when there are objective indications that the Company will not be able to collect the receivable at its original value.

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
Revenues are measured at their fair value net of returns, sales, discounts, allowances, and bonuses.
The Company recognizes sales revenues when all risks and rewards of ownership of the goods are effectively transferred to the customers under the terms of the sales agreement. The revenues are recognized net of an allowance representing the best estimate of lost margin due to any product returns from customers. The allowance is calculated based on past experience.
Revenues are stated net of returns, discounts, vouchers, bonuses and taxes directly connected with the sale of the goods and supply of the services.
Revenues from services are recognized by reference to the state of completion of the transaction at the end of the reporting period.
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 tax expense
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 Company is exposed to risk deriving from interest rate fluctuations on some financing agreements that entail payment of variable-rate interest. Specifically, the Company is exposed to interest rate risk mainly on the bond notes issued on February 10, 2017 at a variable interest rate calculated on the three-month Euribor (with a zero-based floor) plus a 4.125% spread, and on some short-term credit lines, for modest amounts, used by the Company to meet temporary cash flow requirements.
With respect to the interest paid on the bond notes, on July 17, 2017, in order to mitigate the risk deriving from Euribor fluctuations, the Company stipulated a swaption, exercisable by November 18, 2018, that gives the option, if exercised, to enter into an interest rate swap maturing on May 18, 2021. The IRS, with a notional amount of euro 180 million, will enable to replace the three-month variable Euribor rate with a fixed interest rate of 0.5%, thereby mitigating the risk of the variable interest rate fluctuations. The fair value of the swaption was euro 128 thousand as at December 31, 2017. The amount is disclosed with the current financial assets; additional information is provided in the notes thereon.

The section describing 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 herein.

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, 2017. 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 90 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 36 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.

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)*	**12/31/2017**	**12/31/2016**
Italy	22,069	21,522
Rest of Europe	21,951	21,936
North America	11,486	8,982
Rest of Word	33,100	25,822
Total	**88,605**	**78,262**

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
Loans and bonds (excluding capital lease)	77,273	6,549	(0)	244,140
Interest expenses on loans, bonds, leasing	10,552	20,719	20,627	1,300
Capital lease	672	1,146	346	-
Trade payables	119,017	-	-	-

Fair value measurement of financial liabilities

For the fair value measurement of financial liabilities recognized at fair value, future cash flows were estimated using implicit forward interest rates from the yield curve of the measurement date, and the latest Euribor fixing was used to calculate the current coupon.

The values calculated in this manner were discounted based on discount factors related to the different maturities of such cash flows.

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	6,507	-	-	-	**6,507**
Loans	19,610	5,454	-	-	**25,064**
Other financiers	3,196	2,241	346	244,140	**249,923**
Intercompany	48,632	-	-	-	**48,632**
12/31/2017	**77,945**	**7,695**	**346**	**244,140**	**330,125**

CLASSIFICATION OF FINANCIAL INSTRUMENTS

The financial instruments are classified in the following table, in accordance with IFRS 7.

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 assets (euro/000)	**Trade receivables**	**Financial assets**	**Cash and cash equivalents**
2016			
Loans and other financial recivables at amortized cost	68,860	140,697	31,673
Financial assets at faie value through P&L	-	-	-
Held to maturity investments	-	-	-
Financial assets available for sale	-	-	-
Total	**68,860**	**140,697**	**31,673**

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**

Categories of financial liabilities *(euro/000)*	**Trade payables**	**Financial liabilities**	**Bond**
2016			
Financial liabilities at fair value through P&L	-	-	-
Derivates used for hedging	-	-	-
Financial liabilities at amortized cost	109,384	93,380	198,287
Financial liabilities as under IAS 17	-	862	-
Total	**109,384**	**94,242**	**198,287**

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 financial assets measured fair value of euro 128 thousand consist of the swaption in effect as at December 31 2017, which is within the Level 2 fair value hierarchy.

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 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 Company estimates the provision for doubtful debts on the basis of expected losses, determined according to knowledge of the customer, past experience for similar receivables, current and historic past-due receivables, losses and collected receivables, careful monitoring of credit quality and forecasts of economic and market conditions.

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, 2016 are described in this section (the amounts are in thousands of euros, unless specified otherwise).

BUSINESS AND BUSINESS DIVISION COMBINATIONS

Acquisition of Marcolin Middle East FZCO

The acquisition is described in the corresponding section of the analysis of the consolidated statement of financial position.

Acquisition of "LATAM Distribution" business division from subsidiary Marcolin USA Eyewear Corp.

On August 1, 2017 Marcolin S.p.A. stipulated an agreement with Marcolin USA Eyewear Corp. to acquire the latter company's "LATAM Distribution" business division, which distributes Marcolin products in Latin America, effective immediately. The acquisition is considered an opportunity for Marcolin USA Eyewear Corp. to better focus on the activities and operations in North and Central America and for Marcolin S.p.A. to have greater cultural proximity to its customers in South America. The European hub, directed by Marcolin S.p.A. using in part direct affiliates and associates, will address the entire European rim and its complementary and neighboring countries in terms of both geography and business, including South America.

Goodwill recognized on business combination
The difference between the economic value of the business division acquired, USD 5,211 thousand, and the fair value of the net assets acquired, USD 3,793 thousand, resulted in goodwill of USD 1,418 thousand recognized in equity in accordance with IFRS 3, as the transaction is classified as a business combination under common control.

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 2016	**13,401**	**7,200**	**1,371**	**1,981**	**48**	**24,001**
Increases	86	877	1,043	726	106	**2,839**
Decreases	-	(11)	(1)	(51)	-	**(63)**
Depreciation	(613)	(1,517)	(1,097)	(636)		**(3,864)**
Reclassification and other movements	-	16	-	-	(16)	**-**
Net value at end of 2016	**12,873**	**6,565**	**1,316**	**2,020**	**138**	**22,913**
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**

The capital expenditures of the year totaled euro 10,721 thousand (euro 2,839 thousand in 2016) and consisted largely of purchases of:

- plant and machinery for euro 1,635 thousand;
- industrial and commercial equipment for euro 1,125 thousand;
- hardware and office furniture, included in other PP&E, for euro 1,890 thousand.
- the euro 5,621 thousand increase in assets under construction and advances refers largely to assets acquired by Marcolin S.p.A. that were subsequently transferred to associate Thélios S.p.A. within the scope of a share capital increase carried out during the year. The transfer is described in Section 3 on investments in subsidiaries and associates.

The undepreciated values of property, plant and equipment and their accumulated depreciation as at December 31, 2017 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 12/31/2017
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**

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 12/31/2016
Undepreciated value	22,197	22,443	15,349	6,968	138	**67,096**
Accumulated depreciation	(9,324)	(15,878)	(14,033)	(4,949)	-	**(44,183)**
Net value	**12,873**	**6,565**	**1,316**	**2,020**	**138**	**22,913**

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 2016	**1,917**	**6,164**	**12,965**	**3,206**	**24,252**	**186,227**
Increases	1,890	-	2,096	3,164	**7,150**	-
Decreases	-	-	-	-	**-**	-
Amortization	(917)	(830)	(3,544)	-	**(5,291)**	-
Reclassification and other movements	159	-	375	(534)	**0**	-
Net value at end of 2016	**3,049**	**5,335**	**11,892**	**5,836**	**26,111**	**186,227**
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**

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 4,471 thousand were made (euro 7,150 thousand in 2016), consisting of euro 1,563 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	Concessioni, licenze, marchi	Altre	Immobilizz. In corso e acconti	Totale	Avviamento
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**

The following table presents the amounts of the previous year:

Intangible assets and goodwill *(euro/000)*	Software	Concessioni, licenze, marchi	Altre	Immobilizz. In corso e acconti	Totale	Avviamento
Undepreciated value	11,582	7,437	22,621	5,836	**47,476**	186,227
Accumulated depreciation	(8,533)	(2,102)	(10,729)	-	**(21,365)**	-
Net value	**3,049**	**5,335**	**11,892**	**5,836**	**26,111**	**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 282,326 thousand recognized in the Group's consolidated financial statements as at December 31, 2017, 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, 2017, the 2018 Budget and the 2019 - 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 9.1%, 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 = 3.3% , after taxes); 2) the expected return on the risk capital invested in Marcolin (Ke = 10.0%), 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, 2017 by a wide margin.

13 The impairment test document was approved by the Parent Company's Board of Directors on February 1, 2018.

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.

3. INVESTMENTS IN ASSOCIATES AND SUBSIDIARIES

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

Subsidiaries *(euro/000)*	**12/31/2016**	**Merger effects**	**Subscription/disposal**	**Writedown of the year**	**12/31/2017**
Marcolin USA Eyewear Corp.	49,622	3,936		-	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	1,000	-	500	-	1,500
Marcolin International B.V.	731	(731)	-		-
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	4	-	900	-	904
Marcolin Portugal Lda	-	-	-	-	-
Marcolin France Sas	-	214	-	-	214
Marcolin Asia Ltd	-	176	-	-	176
Marcolin Middle East FZCO	-	-	3,762	-	3,762
Total	**70,064**	**3,594**	**5,162**	**-**	**78,821**

Associates *(euro/000)*	**12/31/2016**	**Merger effects**	**Subscription/disposal**	**Writedown of the year**	**12/31/2017**
Thélios S.p.A.	-	-	6,346	-	6,346
Total	**-**	**-**	**6,346**	**-**	**6,346**

The investments in subsidiaries amount to euro 78,821 thousand (euro 70,064 thousand in 2016), and the investments in associates amount to euro 6,346 thousand. The changes during the year were as follows:

- In April 2017 Marcolin S.p.A. increased the capital of Gin Hon Lin International Co. by euro 500 thousand, in accordance with the joint venture agreement with the local partner. The equal partner, Ginko, carried out the same capital increase.
- In May 2017 Marcolin S.p.A. acquired the remaining 30% stake in Marcolin Nordic AB for euro 900 thousand, thereby becoming the sole shareholder.
- In June 2017 Marcolin S.p.A. acquired 51% of the Marcolin Middle East FZCO shares from the Rivoli Group for euro 3,762 thousand under the joint venture agreement stipulated with the Rivoli Group in March 2017. Additional information on the acquisition is provided in the section on business combinations;
- On September 8, 2017 Marcolin S.p.A. shareholders approved the cross-border merger whereby Marcolin International BV was absorbed by Marcolin S.p.A. in accordance with Directive 2005/56/EC of October 26, 2005 on cross-border mergers. Under the November 23,

2017 merger deed, the merger took effect for legal purposes on December 31, 2017, whereas the accounting and tax effectiveness was backdated to January 1, 2017.

Investments in associates, totaling euro 6,345 thousand, consist exclusively of the investment in new associate Thélios S.p.A., a joint venture with the LVMH Group in which Marcolin owns a 49% stake. The amount consists of euro 58,800 from the March 17, 2017 subscription of 58,800 Class B shares, corresponding to 49% of the total number of shares issued by the company, increased on October 16, 2017 pursuant to an additional capital increase by way of a new share issue. Marcolin S.p.A.'s portion of the latter 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 joint venture's start-up process and the enlargement and renovation of the Longarone building, which is one of the Company's most important assets.
The business division transferred consists of:

- intangible assets of euro 177 thousand (mainly software);
- property, plant and equipment of euro 5,578 thousand (referring primarily to the renovation and enlargement of the building located in Longarone, which became Thélios S.p.A.'s premises);
- payables due to personnel of euro 52 thousand, referring to 34 employees of Marcolin S.p.A. transferred to Thélios S.p.A.;
- construction contracts, manufacturing contracts, sales contracts, insurance policies and other user agreements.

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*. The other shareholder, Vicuna Holding S.p.A., which owns 51% of the Thélios S.p.A. shares, carried out the capital increase with a monetary contribution.
The difference between the value of Thélios S.p.A.'s equity and the value of the investment recognized by the company as at December 31, 2017, attributable to the associate's net loss for 2017, does not indicate impairment because the difference is not considered permanent. In fact, the net loss is consistent with the business projections made by the company's management when the joint venture was stipulated, and resulted from heavy expenses incurred initially to start up the business 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 2,416 thousand (euro 291 thousand in 2016), and refers primarily to prepaid expenses recognized in 2017 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, 2017.

5. NON-CURRENT FINANCIAL ASSETS

Non-current financial assets were euro 107,152 thousand, compared with euro 122,185 thousand in 2016.

The 2017 amount consists of:

- euro 104,227 thousand in loans granted to subsidiary Marcolin USA, Inc. 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 2,900 thousand at December 31, 2017, 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 721 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 effects emerging on translation at the 2017 year-end exchange rate of the intercompany loan to Marcolin USA Eyewear Corp. denominated in U.S. dollars.

6. INVENTORIES

The composition of inventories is shown below.

Inventories *(euro/000)*	**12/31/2017**	**12/31/2016**
Finished goods	55,324	55,673
Raw material	12,749	14,702
Work in progress	18,914	17,618
Gross inventory	**86,987**	**87,993**
Inventory provision	(12,979)	(14,268)
Net inventory	**74,008**	**73,725**

Net inventories rose by euro 283 thousand from the previous year.
The fluctuation is attributable to a euro 1,007 thousand decrease in the inventory itself, offset in part by a euro 1,289 thousand decrease in the inventory impairment provision. The provision reduction is the direct consequence of measures implemented by management from the previous year to streamline the product offer by downsizing the number of models produced and accelerating the sales periods for some models. This resulted in better quality inventories, enabling to reduce the writedown 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 fell by euro 349 thousand;
- the value of raw materials fell by euro 1,953 thousand;
- the value of work in progress rose by euro 1,295 thousand.

7. TRADE RECEIVABLES

The composition of the trade receivables is as follows:

Trade receivables *(euro/000)*	**12/31/2017**	**12/31/2016**
Gross trade receivables	83,419	71,731
Provision for bad debts	(2,106)	(1,924)
Net trade receivables	**81,313**	**69,807**
Provision for returns	(1,188)	(947)
Total trade receivables	**80,125**	**68,860**

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.
Successful measures were taken by management to reduce the average collection period, or "days sales outstanding" (DSO), with third parties.

The amount of receivables stated in the financial statements was not discounted, since there are no long-term receivables or receivables due beyond the short term.

For the purpose of providing the disclosures required by IFRS 7, the trade receivables due are set forth below by geographical area:

Trade receivables not overdue by geographical area *(euro/000)*	**12/31/2017**	**12/31/2016**
Italy	15,307	14,867
Rest of Europe	18,314	19,515
North America	11,517	8,233
Rest of Word	23,747	19,057
Total	**68,884**	**61,672**

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**
12/31/2016			
Not past due	61,672	-	61,672
Past due by less than 3 months	2,946	(277)	2,669
Past due by 3 to 6 months	1,261	(353)	908
Past due by more than 6 months	4,700	(165)	4,535
Total	**70,579**	**(795)**	**69,784**
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**

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)*	**12/31/2017**	**12/31/2016**
Past due less than 3 months	1,172	2,387
Past due more than 3 months	53	1,226
Total	**1,225**	**3,612**

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**
12/31/2016			
Past due by less than 12 months	43	(20)	23
Past due by more than 12 months	1,109	(1,109)	0
Total	**1,152**	**(1,129)**	**23**
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	**1,217**	**(1,193)**	**24**

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)*	**12/31/2017**	**12/31/2016**
Opening amount	1,924	1,903
Provisions	150	300
Use / reversal	(55)	(279)
!Distribution LATAM" business acquisition	87	-
Total	**2,106**	**1,924**

Euro 150 thousand was allocated to the provision in the year, and euro 55 thousand of the provision was used. Euro 87 thousand of the allocation derives from the acquisition of the “LATAM Distribution” business division from Marcolin USA Eyewear Corp.

The trade receivables due from directly and indirectly controlled subsidiaries are set forth below:

Receivables due from subsidiaries *(euro/000)*	**12/31/2017**	**12/31/2016**
Marcolin USA Eyewear Corp.	10,343	8,649
Marcolin do Brasil Ltda	9,179	6,338
Marcolin UK Hong Kong Branch	8,343	9,940
Marcolin France Sas	6,419	7,386
Gin Hon Lin Int. Co. Ltd	5,873	2,256
Marcolin Middle East FZCO	3,267	-
Marcolin Iberica SA	3,013	2,043
Marcolin UK Ltd	2,276	2,211
Marcolin Nordic AB Sweden	1,655	1,932
Marcolin Deutschland Gmbh	752	1,058
Marcolin Portugal Lda	731	932
Marcolin Nordic AB Norway	603	460
Marcolin Benelux Sprl	428	426
Marcolin-RUS LLC	417	498
Marcolin Nordic AB Finland	319	187
Marcolin Nordic AB Denmark	199	442
Eyestyle Trading (Shanghai) Co Ltd	136	123
Marcolin Gmbh	118	153
Marcolin Asia Ltd	2	11
Viva Eyewear Hong Kong Ltd	-	17
Viva Deutschland Gmbh	(0)	93
Total	**54,073**	**45,155**

8. OTHER CURRENT ASSETS

The composition of other current assets is shown below.

Other current assets *(euro/000)*	**12/31/2017**	**12/31/2016**
Tax credits	2,743	4,092
Prepaid expenses	617	1,153
Other receivables	3,932	3,210
Total other current assets	**7,292**	**8,455**

This item, euro 7,292 thousand (euro 8,455 thousand in 2016), presents a decrease of euro 1,163 thousand from the prior year and is broken down below:

- tax credits of euro 2,743 thousand (euro 4,092 thousand in 2016);
- prepaid expenses of euro 617 thousand (euro 1,153 thousand in 2016), referring principally to insurance premiums and other costs for projects of 2018;
- other receivables of euro 3,932 thousand (euro 3,210 thousand in 2016), consisting mainly of the amount due from 3 Cime S.p.A. under the Italian tax consolidation agreement with that company.

9. CURRENT FINANCIAL ASSETS

This item, euro 45,858 thousand (compared with euro 18,513 thousand as at December 31, 2016), consists primarily of euro 45,008 thousand due from Group companies.

Marcolin S.p.A.'s main current financial assets from loans to subsidiaries and associates are listed below:

- euro 23,628 thousand due from Marcolin U.S.A. Eyewear Corp.;
- euro 12,469 thousand due from associate Thélios S.p.A.;
- euro 4,123 thousand due from Marcolin France Sas;
- euro 3,248 thousand due from Marcolin Middle East FZCO;
- euro 1,090 thousand due from Marcolin Portugal Lda;
- euro 200 thousand due from Marcolin Nordic AB.
- euro 153 thousand due from Marcolin Deutschland Gmbh;
- euro 97 thousand due from Marcolin Benelux SPRL.

The increase in the balance is attributable mainly to the new 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, 2017 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.

The item also includes 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, forms the interest rate of the new notes issued on February 10, 2017. The swaption, if executed, will enable on November 18, 2018 to enter into an interest rate swap (IRS) expiring on May 18, 2021. If the IRS, with a notional amount of euro 180 million, should be entered into by exercising the option, the IRS will enable 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. The fair value of the swaption at the stipulation date of July 17, 2017 was euro 403 thousand, reduced to euro 128 thousand as at December 31, 2017. The difference of euro 275 thousand is recognized in the Income Statement as financial interest.

10. CASH AND BANK BALANCES

This item, which amounts to euro 26,330 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 5,343 thousand from December 31, 2016. The decrease is presented in the Statement of Cash Flows, which provides information on the 2017 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. The entry of new shareholder Vicuna Holding S.p.A. was part of a larger 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.

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, 2017.

As a result of the share capital increase, the share premium reserve was euro 42,827 thousand as at December 31, 2017, 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 other reserves, euro 1,390 thousand, increased by euro 2,916 thousand in the year due to the recognition of the surplus emerging on the cross-border merger whereby Marcolin International BV was absorbed by Marcolin S.p.A., which took effect for legal purposes on December 31, 2017, and the reserves decreased by euro 1,209 thousand due to the recognition in equity of the difference between the USD 5,211 thousand economic value of the “LATAM Distribution” business division sold by Marcolin USA Eyewear Corp., regarding the distribution of Marcolin products in Latin America, and the USD 3,793 thousand fair value of the net assets acquired, based on IFRS 3, as the transaction is classified as a business combination under common control.

The actuarial reserve regards future employee benefits accounted for under IAS 19, corresponding to the Company's provision for severance indemnities.

The Statement of Changes in Equity provides more detailed information.

The following table presents the composition of the Company's equity at December 31, 2017:

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	46,903		-	-	-
Retained earnings/(losses)	81,770	A-B-C	81,770	-	-
Total	**211,666**		**124,597**	-	**-**
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.			12,651		
Non-distributable portion under Civil Code Art. 2431			2,917		
Distributable portion			**109,029**		
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 252,180 thousand as at December 31, 2017, consisting of the euro 246,726 thousand value of the bond notes, accounted for in accordance with IAS 39 (amortized cost method), and loans from banks and other financiers, the non-current portion of which is euro 5,454 thousand.

The net financial position is set forth below. Additional information is provided in the Report on Operations.

Net financial debt *(euro/000)*	**12/31/2017**	**12/31/2016**
Cash and cash equivalents	26,330	31,673
Current and non-current financial assets	153,011	140,697
Current financial liabilities	(73,017)	(87,060)
Current portion of non-current financial liabilities	(4,928)	(4,800)
Non-current financial liabilities	(252,180)	(203,122)
Total net financial debt	**(150,784)**	**(122,611)**

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	6,507	-	-	-	**6,507**
Loans	19,610	5,454	-	-	**25,064**
Other financiers	3,196	2,241	346	244,140	**249,923**
Intercompany	48,632	-	-	-	**48,632**
12/31/2017	**77,945**	**7,695**	**346**	**244,140**	**330,125**

In additional 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 this Report, all the covenants were met as at December 31, 2017.

13. NON-CURRENT PROVISIONS

The composition of non-current provisions is shown below:

Non-current funds *(euro/000)*	**Provision for severance employee indemnities**	**Provision for agency terminations**	**Other funds**	**Total**
12/31/2015	**3,446**	**678**	**1,673**	**5,796**
Allowances	46	117	600	763
Use / reversal	(330)	(150)	(593)	(1,073)
Actuarial loss / (gain)	24	-	-	24
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**

Employee benefits consist of the employee severance indemnity provision ("TFR").
The provision, euro 3,095 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 12/31/2017**
Inflation rate +0,25%	3,058
Inflation rate - 0,25%	3,173
Actuarial rate +0,25%	3,150
Actuarial rate - 0,25%	3,079
Turnover rate +1%	3,097
Turnover rate -1%	3,134

* Defined Benefit Obligation

[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.

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

Next year service cost **Vesting period**	
2017 Service cost	-
Vesting period	8.00

- payments foreseen under the plan:

Years	Payments foreseen
1	374
2	212
3	210
4	354
5	219

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.

15. TRADE PAYABLES

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

Trade payables by geographical area *(euro/000)*	**12/31/2017**	**12/31/2016**
Italy	41,611	36,205
Rest of Europe	16,951	18,139
North America	19,106	11,773
Rest of Word	41,349	43,267
Total	**119,017**	**109,385**

The euro 9,633 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 from subsidiaries as at December 31, 2017, partly as a result of non-recurring transactions with some Group companies that were not settled yet.

The trade payables were not subject to discounting, as 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, 2017 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 77,945 thousand consists of short-term bank borrowings (euro 26,110 thousand), loans from other financiers (euro 3,203 thousand), and other financial payables of euro 48,632 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 26,744 thousand due to Viva Eyewear UK Ltd;
- euro 13,083 thousand due to Marcolin UK Ltd - HK Branch;
- euro 3,893 thousand due to Marcolin UK Ltd;
- euro 2,525 thousand due to Marcolin France Sas;
- euro 1,541 thousand due to Marcolin Iberica SA;
- euro 832 thousand due to Marcolin Deutschland Gmbh;
- euro 9 thousand due to Marcolin Benelux SPRL;
- euro 5 thousand due to Marcolin Asia Ltd.

Financial liabilities at fair value through profit and loss
As at December 31, 2017, the Company did not have any hedging agreements with banks regarding the U.S. dollar exchange rate. Although the derivatives stipulated in previous years were designated exclusively to hedge the risk of exchange rate variability on purchases from suppliers in U.S. dollars, they did not qualify for hedge accounting because they did not fully meet the strict requirements, including formal ones, of the applicable accounting standard.

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**
12/31/2015	**1,158**
Use / reversal	(70)
12/31/2016	**1,088**
Use / reversal	(70)
12/31/2017	**1,018**

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 uses for the period refer to the contingent liabilities.

18. OTHER CURRENT LIABILITIES

The other current liabilities are as follows.

Other current liabilities (euro/000)	12/31/2017	12/31/2016
Payables to personnel	8,220	6,891
Social security payables	2,128	2,160
Other accrued expenses and deferred i	1,161	50
Total other current liabilities	**11,508**	**9,101**

The other current liabilities consist primarily of amounts due to personnel and the related social security contributions. The increase in accrued expenses and deferred income includes the euro 1,111 thousand residual amount due to 3 Cime S.p.A. for the dividend deliberated during the year, which will be paid by December 31, 2018.

19. 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 International B.V. (July 16, 1999 loan), Marcolin Nordic AB (February 12, 2015 loan) and Marcolin U.S.A. Eyewear Corp. (December 3, 2013 loan) (Intercompany Loan Agreements)
- and 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 France S.a.s. shares owned by Marcolin International B.V.;
- 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 over all the Marcolin U.S.A. Eyewear Corp. shares owned by Marcolin International B.V.;
- 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.

The guarantees securing the previous notes were extinguished within the scope of the new issuance of notes on February 10, 2017 and replaced by those securing the new notes.

Other commitments:

The Company's other commitments are as follows:

Commitments *(euro/000)*	**12/31/2017**	**12/31/2016**
Rent due		
Within one year	180	180
In one to five years	540	720
Total	**720**	**900**

The Company also has guarantees with third parties of euro 225.4 thousand (euro 40 thousand in 2016).

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, 2017 these future commitments amounted to euro 227,877 thousand (euro 226,546 thousand in 2016), including euro 53,844 thousand falling due within the next year.

Guaranteed minimum Royalties due *(euro/000)*	**12/31/2017**	**12/31/2016**
Within one year	53,844	51,038
In one to five years	151,598	134,620
After five years	22,436	40,888
Total	**227,877**	**226,546**

INCOME STATEMENT

As described in the Report on Operations, the balances partly include 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 2017, duly compared with 2016.

The Company's main income statement items and changes therein are described in this section.

20. REVENUE

The following table sets forth the 2017 net sales revenues by geographical area:

Net Revenues by geographical area	**2017**		**2016**		**Change**	
(euro/000)	**euro**	**% of total**	**euro**	**% of total**	**euro**	**%**
Italy	*33,099*	*12.8%*	*28,745*	*12.3%*	*4,354*	*15.1%*
Rest of Europe	*87,591*	*33.8%*	*77,448*	*33.2%*	*10,143*	*13.1%*
Europe	120,690	46.6%	106,193	45.6%	14,497	13.7%
Americas	47,091	18.2%	47,391	20.3%	(300)	-0.6%
Asia	25,349	9.8%	26,603	11.4%	(1,254)	-4.7%
Rest of World	65,837	25.4%	52,819	22.7%	13,018	24.6%
Total	**258,967**	**100.0%**	**233,006**	**100.0%**	**25,961**	**11.1%**

The 2017 sales revenues were euro 258,967 thousand, compared with the euro 233,006 thousand revenues of 2016, presenting an increase of euro 25,961 thousand (11.1%) from the prior year.
The Report on Operations describes the 2017 performance of sales.

21. COST OF SALES

Below is a detailed breakdown of the cost of sales:

Cost of sales *(euro/000)*	**2017**	**% of net revenues**	**2016**	**% of net revenues**
Cost of product	130,304	50.3%	121,972	52.3%
Cost of personnel	8,100	3.1%	8,784	3.8%
Amortization, depreciation and writedowns	3,269	1.3%	3,127	1.3%
Other costs	5,189	2.0%	4,241	1.8%
Total	**146,862**	**56.7%**	**138,124**	**59.3%**

The cost of sales rose by euro 8,738 thousand, and was 56.7% of sales, compared with 59.3% in 2016.

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)*	2017	% of net revenues	2016	% of net revenues
Cost of personnel	13,598	5.3%	10,773	4.6%
Commissions	4,626	1.8%	3,859	1.7%
Amortization, depreciation and writedowns	6,582	2.5%	4,937	2.1%
Royalties	37,384	14.4%	28,726	12.3%
Advertising and PR	22,502	8.7%	22,895	9.8%
Other costs	7,597	2.9%	6,713	2.9%
Total	**92,288**	**35.6%**	**77,903**	**33.4%**

Distribution and marketing expenses rose by euro 14,385 thousand (18.5%) from the previous year; the increase is mainly the result of higher royalties and personnel costs.
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)*	2017	% of net revenues	2016	% of net revenues
Cost of personnel	5,601	2.2%	5,770	2.5%
Writedown of receivables	150	0.1%	300	0.1%
Amortization, depreciation and writedowns	1,249	0.5%	1,091	0.5%
Other costs	5,816	2.2%	5,106	2.2%
Total	**12,816**	**4.9%**	**12,267**	**5.3%**

General and administration expenses increased by euro 549 thousand compared with the previous year.

Other expenses, euro 5,816 thousand (up by euro 710 thousand year on year), refer mainly to:

- compensation for Directors, Statutory Auditors and the independent auditing firm;
- other general and administrative consulting services;
- expenses regarding the Parent Company's information technology systems.

24. EMPLOYEES

The 2017 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	**12/31/2017**	**12/31/2016**	**2017**	**2016**
Managers	23	13	18	13
Staff	328	292	321	289
Manual workers	553	533	558	532
Total	**904**	**838**	**897**	**834**

25. OTHER OPERATING INCOME AND EXPENSES

The other operating income and expenses are set forth below:

Other operating income and expenses *(euro/000)*	**2017**	**% of net revenues**	**2016**	**% of net revenues**
Other income	9,015	3.5%	13,178	5.7%
Other expenses	(261)	(0.1%)	(2,604)	(1.1%)
Total	**8,754**	**3.4%**	**10,574**	**4.5%**

The balance of this item is net operating income of euro 8,754 thousand, compared with net operating income of euro 10,574 thousand for 2016 (a decrease of euro 1,820 thousand).
Other income consists mainly of euro 6,398 thousand in advertising expenses incurred by the Parent Company and charged to other Group companies, compared with euro 12,024 thousand in 2016.
Other income includes the euro 900 thousand dividend distributed by subsidiary Marcolin Iberica in 2017.
Other expenses amount to euro 261 thousand (euro 2,604 thousand in 2016). The difference from the previous year is attributable to the euro 2,500 thousand writedown of the investment in Marcolin Do Brasil Ltda in 2016.

26. FINANCIAL INCOME AND COSTS

The financial income and costs are set forth below:

Financial income and costs *(euro/000)*	**2017**	**% of net revenues**	**2016**	**% of net revenues**
Financial income	19,289	7.4%	21,016	9.0%
Financial costs	(46,373)	(17.9%)	(31,388)	(13.5%)
Total	**(27,085)**	**(10.5)%**	**(10,372)**	**(4.5)%**

The composition of financial income and finance costs is shown below:

Financial income *(euro/000)*	**2017**	**% of net revenues**	**2016**	**% of net revenues**
Interest income from subsidiaries	12,022	4.6%	9,983	4.3%
Interest income and others	42	0.0%	8	0.0%
Gains on currency exchange	7,224	2.8%	11,025	4.7%
Total	**19,289**	**7.4%**	**21,016**	**9.0%**

Financial costs *(euro/000)*	**2017**	**% of net revenues**	**2016**	**% of net revenues**
Interest expense	(26,427)	(10.2)%	(25,456)	(10.9)%
Financial discounts	(105)	(0.0)%	(402)	(0.2)%
Losses on currency exchange	(19,841)	(7.7)%	(5,529)	(2.4)%
Total	**(46,373)**	**(17.9)%**	**(31,388)**	**(13.5)%**

Financial income and costs result in net costs of euro 27,085 thousand, compared with net costs of euro 10,372 thousand for 2016.

Marcolin S.p.A.'s net finance costs are the balance between income of euro 19,289 thousand and costs of euro 46,373 thousand. The components are classifiable in two difference categories: financial income and costs, and exchange differences.

The first component consists of:

- interest income of euro 12,022 thousand from Group companies referring to loans granted to such companies and to others for euro 42 thousand;
- interest expense of euro 26,427 thousand consisting primarily of:
    - interest of euro of 9,310 thousand servicing the bond notes issued by Marcolin S.p.A. accrued as of the issuance date of February 10, 2017, paid quarterly in May, August and November 2017; and euro 1,911 thousand in interest accrued on the previous notes from January 1, 2017 to the early redemption date of February 10, 2017;
    - The reversal to the income statement of bond issue transaction costs, accounted for under IFRS with the financial method of amortized cost;
    - euro 3,003 thousand in net finance costs referring to bank interest expense, actualization differences and intercompany loans;
    - euro 8,500 thousand paid to the bondholders for early redemption of the previous notes, redeemed on February 10, 2017 instead of on the original maturity date in 2019;
    - euro 275 thousand for the fair value measurement of the swaption stipulated by Marcolin S.p.A. on July 17, 2017. Additional information is available in section 9 on current financial assets;
- financial discounts given to customers totaling euro 105 thousand.

With respect to the component of gains and losses on currency exchange, the balance is a net loss of euro 12,617 thousand for 2017, compared with a net gain of euro 5,496 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 loss of euro 14,357 thousand in 2017 compared with an unrealized gain of euro 3,769 thousand in 2016. It is the direct consequence of the 13.8% depreciation of the U.S. dollar against the euro in 2017, compared with 3.2% appreciation in the previous year. Excluding such effect from both years, the net financial items have a positive balance, without significant changes in the two years.

There were no currency hedges (on purchases and sales) in place as at December 31, 2017.

27. INCOME TAX EXPENSE

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 577 thousand, including current taxes of euro 924 thousand, net deferred tax of euro 3,182 thousand, tax consolidation expense of euro 516 thousand and taxes referring to the previous period of euro 1,166 thousand.

Income tax expense *(euro/000)*	**2017**	**2016**
Current taxes	(924)	(741)
Deferred taxes	3,182	573
Income/(Expenses) from Tax Consolidation	(516)	(682)
Taxes relating to prior year	(1,166)	(348)
Total income tax expense	**577**	**(1,198)**

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 tax expense for the year is reconciled with the theoretical tax burden in the following table:

Tax rate reconciliation *(euro/000)*	%	12/31/2017	%	12/31/2016
Results before tax		**(11,330)**		**4,914**
Theoretical taxes	24.0%	2,719	27.5%	(1,351)
IRAP and other	(8.1)%	(916)	15.1%	(741)
Higher taxes due to non-deductible costs	(3.6)%	(407)	23.1%	(1,135)
Lower taxes for non-taxable income	3.1%	347	(9.7)%	477
Taxes relating to prior year	(10.3)%	(1,166)	7.1%	(348)
Impact of tax change rates on deferred taxation	-	-	4.3%	(212)
Activation of deferred tax assets unrecognised previous years	-	-	(43.0)%	2,112
Total income tax expenses	**5.1%**	**577**	**24.4%**	**(1,198)**

The deferred taxes and changes for the year are set forth below:

Deferred tax assets *(euro/000)*	Temporary differences 12/31/2017	Tax rate	Tax on temporary differences 12/31/2017	Temporary differences 12/31/2016	Tax rate	Tax on temporary differences 12/31/2016
Accumulated tax losses	-	-	-	759	24.0%	182
Inventory provisions	10,078	24,0%/27,9%	2,419	10,783	24,0%/27,9%	2,588
Grants and compensation deductible on a cash	20,472	24,0%/27,9%	5,122	17,288	24,0%/27,9%	4,393
Unrealized currency exchange differences	16,257	24.0%	3,902	2,363	24.0%	567
Income from CFC (Controlled Foreign Companies)	2,098	24.0%	504	2,098	24.0%	504
Taxed provision for doubtful debts	1,086	24.0%	261	1,155	24.0%	277
Supplementary client indemnity provision	671	27.9%	171	392	27.9%	108
Provision for return risks	1,188	27.9%	331	947	27.9%	264
Provision for risks and charges	15	27.9%	3	85	27.9%	22
Other	1,009	24,0%/27,9%	249	419	24,0%/27,9%	104
Total deferred tax assets	**52,875**		**12,961**	**36,289**		**9,009**

Deferred tax liabilities *(euro/000)*	Temporary differences 12/31/2017	Tax rate	Tax on temporary differences 12/31/2017	Temporary differences 12/31/2016	Tax rate	Tax on temporary differences 12/31/2016
Unrealized currency exchange differences	(7,934)	24.0%	(1,904)	(6,922)	24.0%	(1,661)
Finance costs deducted on a cash basis	(5,847)	24.0%	(1,403)	(1,713)	24.0%	(411)
Land and buildings	(4,335)	27.9%	(605)	(2,420)	27.9%	(676)
Actuarial gain / losses on TFR under IAS	98	24.0%	16	62	24.0%	15
Total deferred tax liabilities	**(18,017)**		**(3,896)**	**(10,993)**		**(2,734)**
Total deferred asstes / liabilities	**34,858**		**9,065**	**25,295**		**6,276**

The balance of deferred tax assets and liabilities presented in the Statement of Financial Position differs by euro 2,789 thousand from the balance of euro 3,182 thousand shown in the Income Statement due to the following reasons:

- Deferred tax recognition on amounts recognized in equity totaling euro 2 thousand;
- Euro 393 thousand adjustment to deferred taxes pursuant to the preparation of the tax return in 2017, classified as "taxes regarding prior periods”.

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	Another party's affairs	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	12/31/2017
Eyestyle Trading (Shanghai) Co Ltd	253	-	-	-	-	-	-	**253**
Gin Hon Lin International Co. Ltd	5,513	-	79	-	-	(44)	148	**5,488**
Marcolin (Deutschland) GmbH	6,563	-	290	18	14	(20)	81	**6,796**
Marcolin (UK) Ltd	8,424	-	421	-	112	(33)	138	**8,629**
Marcolin Asia Ltd.	2	-	11	0	8	21	1,186	**(1,202)**
Marcolin Benelux S.p.r.l.	4,558	-	175	1	4	(26)	161	**4,595**
Marcolin do Brasil Ltda	6,112	-	216	-	-	(0)	-	**6,327**
Marcolin France SAS	22,541	-	2,038	58	13	(215)	826	**24,013**
Marcolin GmbH	752	-	72	-	-	(2)	40	**787**
Marcolin Iberica S.A.	10,780	-	536	0	59	(86)	570	**10,774**
Marcolin Middle East FZCO	7,611	-	62	66	-	(3)	52	**7,691**
Marcolin Nordic AB Denmark	1,084	-	338	-	-	-	1	**1,422**
Marcolin Nordic AB Finland	316	-	129	-	-	-	-	**445**
Marcolin Nordic AB Norway	863	-	389	-	-	-	12	**1,240**
Marcolin Nordic AB Sweden	1,480	-	571	7	-	(0)	-	**2,059**
Marcolin Portugal Lda	2,135	-	172	23	-	(9)	40	**2,298**
Marcolin Technical Services (Shenzhen) Co.Ltd	-	-	-	-	-	-	435	**(435)**
Marcolin Uk Hong Kong Branch	19,702	-	1,311	-	350	(18)	260	**20,420**
Marcolin Usa Eyewear Corp.	36,626	-	9,556	11,850	-	1,148	13,595	**43,290**
Marcolin-RUS LLC	2,558	-	-	-	-	5	-	**2,553**
Viva Deutschland Gmbh	(153)	-	0	-	-	-	-	**(152)**
Viva Eyewear UK Ltd	-	-	-	-	463	-	-	**(463)**
Thélios S.p.A.	4,514	4,773	919	8	-	-	-	**10,215**
Total	**142,235**	**4,773**	**17,286**	**12,030**	**1,023**	**715**	**17,544**	**157,042**

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 respect to related parties as at December 31, 2017 are shown below, as required by IAS 24.

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 same table is set forth for 2016:

Company *(euro/000)*	**Expenses**	**Revenues**	**Payables**	**Receivables**	**Type**
Other related parties					
Tod's S.p.A	1,530	560	750	277	Related party
Pai Partners Sas	75	2	75	-	Related party
Famiglia Coffen Marcolin	616	0	155	-	Related party
O.T.B. Group	3,428	50	195	25	Related party
3 Cime S.p.A.	-	-	-	3,118	Consolidating
Total	**5,648**	**612**	**1,175**	**3,420**	

The remuneration of the Directors and Statutory Auditors is reported below (the table does not present Managers with key responsibilities because they are included in the category of the Company's Directors).

(euro/000)	2017 Board of Directors	Statutory Auditors	2016 Board of Directors	Statutory Auditors
Base fee	375	100	415	100
Salaries and benefits	876	-	753	-
Total	**1,251**	**100**	**1,168**	**100**

Atypical and unusual transactions

In 2017 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 2017 are described in the Report on Operations, specifically in the description of the Income Statement highlights.

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 n° 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 2017, 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 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 2017, 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 Management and Those Charged with Governance for the Financial Statements

Management is 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 management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

PricewaterhouseCoopers SpA

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. Euro 6.890.000,00 i.v., C.F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n° 119644 del Registro dei Revisori Legali - Altri Uffici: **Ancona** 60131 Via Sandro Totti 1 Tel. 0712132311 - **Bari** 70122 Via Abate Gimma 72 Tel. 0805640211 - **Bologna** 40126 Via Angelo Finelli 8 Tel. 0516186211 - **Brescia** 25123 Via Borgo Pietro Wuhrer 23 Tel. 0303697501 - **Catania** 95129 Corso Italia 302 Tel. 0957532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 - **Genova** 16121 Piazza Piccapietra 9 Tel. 01029041 - **Napoli** 80121 Via dei Mille 16 Tel. 08136181 - **Padova** 35138 Via Vicenza 4 Tel. 049873481 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 - **Parma** 43121 Viale Tanara 20/A Tel. 0521275911 - **Pescara** 65127 Piazza Ettore Troilo 8 Tel. 0854545711 - **Roma** 00154 Largo Fochetti 29 Tel. 06570251 - **Torino** 10122 Corso Palestro 10 Tel. 011556771 - **Trento** 38122 Viale della Costituzione 33 Tel. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 43 Tel. 043225789 - **Varese** 21100 Via Albuzzi 43 Tel. 0332285039 - **Verona** 37135 Via Francia 21/C Tel. 0458263001 - **Vicenza** 36100 Piazza Pontelandolfo 9 Tel. 0444393311

www.pwc.com/it

Management is 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, management uses the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with 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 an 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 management;
- We concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- 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 n° 39/10

Management of Marcolin SpA is responsible for preparing a report on operations of Marcolin SpA as of 31 December 2017, 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) n° 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 2017 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 2017 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 n° 39/10, 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.

Bologna, 6 April 2018

PricewaterhouseCoopers SpA

Signed by

Edoardo Orlandoni
(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, 2017 to December 31, 2017, showing a loss of euro 10,752,725, approved on March 22, 2018.
During the year ended on December 31, 2017, 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;

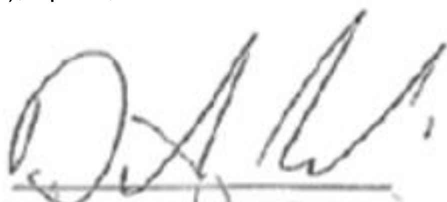
- we monitored the implementation of organizational measures associated with business developments;
- we checked the Company's observance of the law and by-laws.

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, 2017, without finding any wrongdoing or specific violations of the Company's and the subsidiaries' Organizational Model.

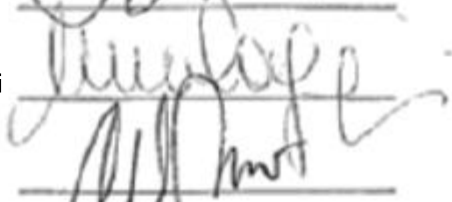
As noted, PricewaterhouseCoopers S.p.A. audited the Company's separate financial statements for the year ended December 31, 2017 and on April 6, 2018 it submitted an unqualified opinion, stating that the Company's separate financial statements for the year ended December 31, 2017 "give a true and fair view of the financial position, results of operations and cash flows of Marcolin S.p.A for the year ended December 31, 2017". 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 March 22, 2018 the Board of Directors of MARCOLIN S.p.A. approved the draft consolidated financial statements of MARCOLIN Group for the year ended December 31, 2017; those financial statements, drawn up according to IAS/IFRS, were also audited by PricewaterhouseCoopers S.p.A., which on April 6, 2018 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 carry over the loss of the period of some euro 10,752,725.

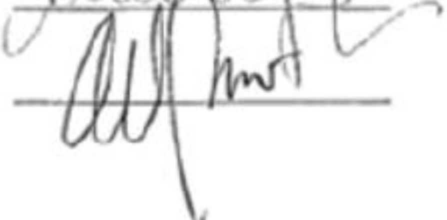
Longarone (Belluno); April 6, 2018



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 April 26, 2018, passed resolutions to:

- approve the Company's Financial Statements and Report on Operations for the year ended December 31, 2017, and the Marcolin Group's Consolidated Financial Statements for the year ended December 31, 2017 and accompanying Report on Operations;

- carry forward the Company's loss for the year of euro 10,752,725.05. Accordingly, after such allocation, the retained earnings/(losses) will have a balance of euro 71,017,517.42.

Milan; April 26, 2018

for the Board of Directors

the Chairman
Vittorio Levi

MARCOLIN
EYEWEAR