ANNUAL REPORT 2017

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LUXOTTICA

Corporate bodies

BOARD OF DIRECTORS

In office until the approval of the financial statements as of and for the year ending December 31, 2017

Executive Chairman
Leonardo Del Vecchio

Deputy Chairman
Luigi Francavilla

Deputy Chairman and C.E.O.
Francesco Milleri

Directors
Stefano Grassi**
Marina Brogi* (Lead Independent Director)
Luigi Feola*
Elisabetta Magistretti*
Mario Notari***
Karl Heinz Salzburger*
Maria Pierdicchi*
Luciano Santel*
Cristina Scocchia*
Sandro Veronesi*
Andrea Zappia *

* Independent directors
** Executive director
*** Non-executive director

HUMAN RESOURCES COMMITTEE

Andrea Zappia (Chairman)
Marina Brogi
Mario Notari

INTERNAL CONTROL COMMITTEE

Elisabetta Magistretti (Chairman)
Luciano Santel
Cristina Scocchia

BOARD OF STATUTORY AUDITORS

In office until the approval of the financial statements as of and for the year ending December 31, 2017

Regular Auditors
Francesco Vella (Chairman)
Alberto Giussani
Barbara Tadolini

Alternate Auditors
Maria Venturini
Roberto Miccù

OFFICE RESPONSIBLE FOR PREPARING THE COMPANY'S FINANCIAL REPORTS

Stefano Grassi

INDEPENDENT AUDITORS

PricewaterhouseCoopers S.p.A.
In office until the approval of the financial statements as of and for the year ending December 31, 2020

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Dear Shareholders,

Just over a year has passed since we announced, together with Essilor, a historic agreement to combine our two companies and create a major integrated player in the eyewear industry.

Our vision is to push beyond the boundaries of the sector to unlock greater value for our customers and consumers. By integrating the beauty and craftsmanship of our design and the prestige of our brands with high-quality lenses manufactured with advanced digital technologies, we will offer innovative products and services that satisfy the needs and desires of people everywhere.

The agreement with Essilor, which we expect to close in the first half of 2018, will allow us to accelerate the completion of our integrated model by adding the final component to our value chain. Lenses and frames will be created as a single product right from conception through design and production.

Waiting to write a new chapter of our history together with our French partners at Essilor, in 2017 we continued to invest in our strategic priorities, mindful of the opportunities ahead for the Group.

Over the last three years, we have completed initiatives and a strategic refocusing that have improved the quality and competitiveness of the Group. This allowed us to close a record year in terms of revenues and of both earnings and cash generation, over one billion Euro. Our net margin was above the 10% threshold again after fifteen years.

Much has been done to enhance the brand portfolio, always at the center of our strategies, and its positioning in the market by introducing stricter trade policies in North America, streamlining our distribution in China and strongly investing in digital communication and new online platforms to engage even the younger generation.

2017 was also a year of major investments in our industrial infrastructure. We completed the expansion of three new large hubs in Italy, the United States and China, which are now equipped to produce and distribute frames and lenses together under one roof, and we streamlined our global logistics network to further improve the speed and quality of our customer service.

We continue to have a great focus on innovation. Again this year, we introduced approximately 2,000 new models, along with new materials and processes, giving life to collections that were well received in every market. We also made major investments to strengthen both the digital infrastructure along the entire supply chain and the IT platforms that today connect Luxottica directly with the market, from customers to consumers, and bring in store our true omnichannel experience. We have presented to the market the store of the future, easily sustainable, where digital integrates and completes the physical experience, breaking down barriers such as the limitation of physical spaces and the availability of products in store. The transformation is in progress.

Today we have over 4,000 windows equipped with digital screens in the Group's retail chains and in select independent optical stores, as well as large-scale installations, such as the Times Square mega screen in New York. They already allow a visual communication in real time with millions of people in the most prestigious streets and neighborhoods all over the world. 2018 saw the start of a new project dedicated to our wholesale customers, where we expect to install over 20,000 digital windows.

Retail has grown both in size and quality. In the last twelve months we have reached the milestone of about 9,000 stores worldwide, thanks to the acquisition of Óticas Carol, one of the most important franchise chains in Brazil. Digital and omnichannel are the focus of our future development.

Looking ahead, 2018 is expected to be another year of growth and important investments for the Group. The growth pillars remain unchanged: product quality, strong brands, efficient factories, widespread distribution and an increasingly direct relationship with the end consumer through retail and e-commerce.

As always, we will seize new opportunities ahead with a clear strategy, fierce determination and speed of execution.

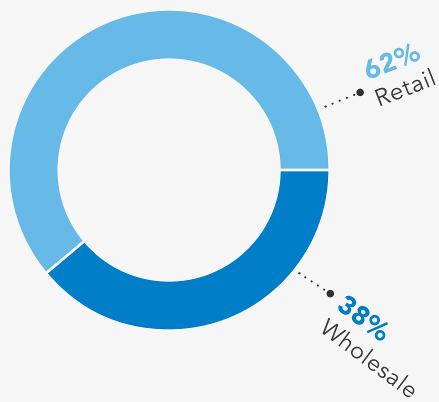
March 2018

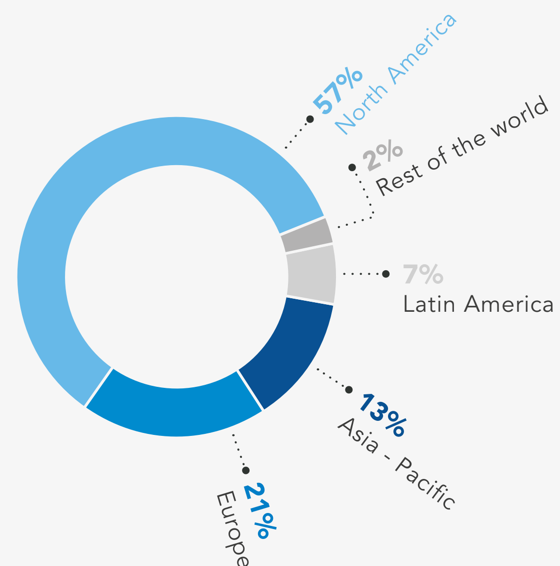
Leonardo Del Vecchio

1. Management report

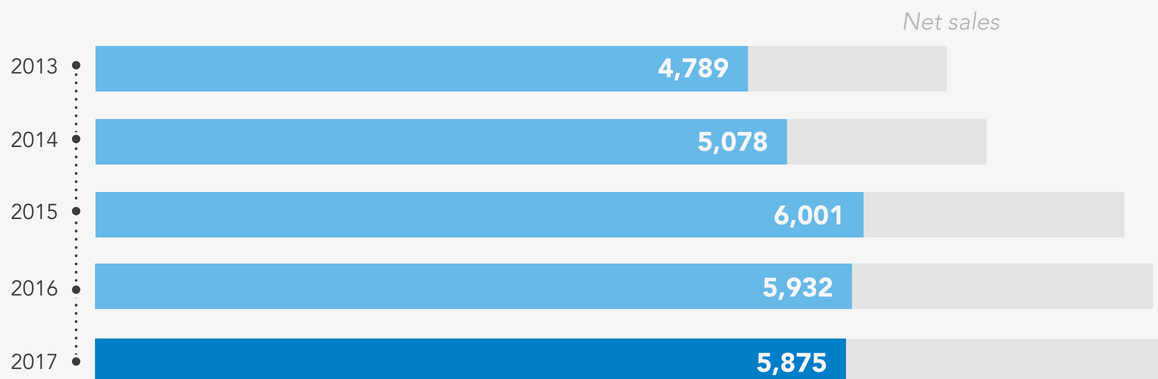
1. Luxottica Group at a glance

Financial highlights

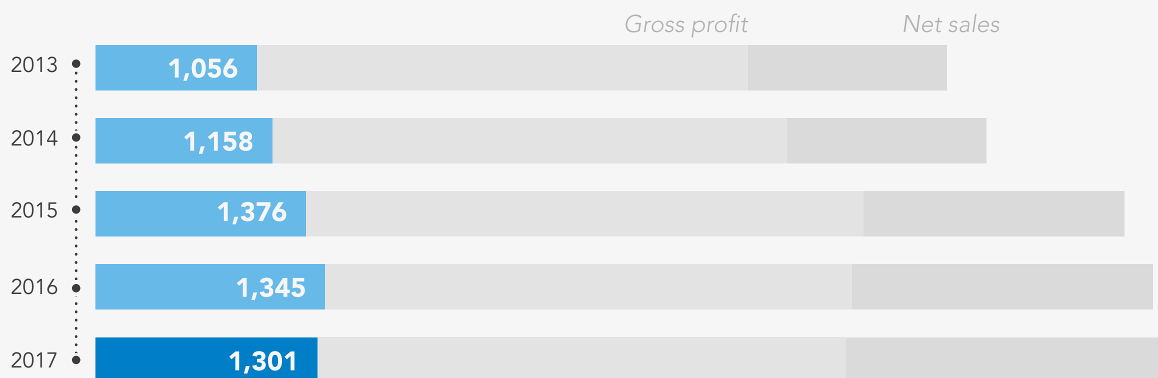




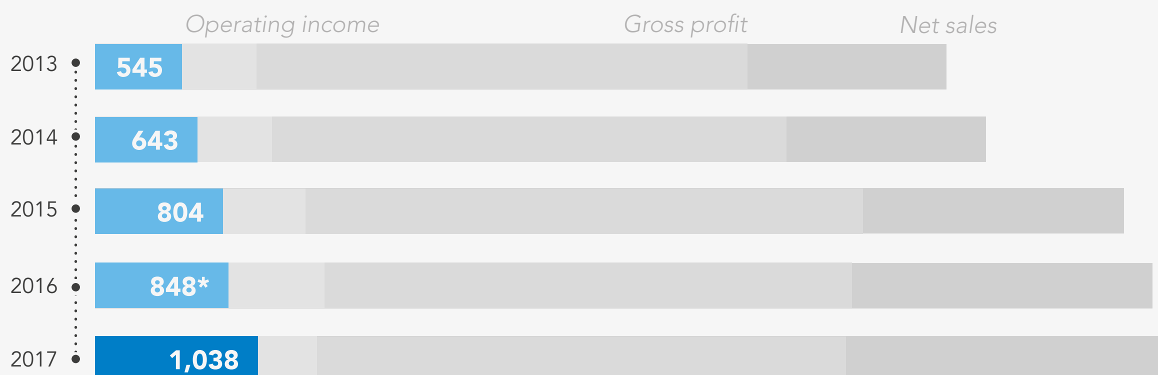
Gross profit (millions of Euro)



Operating income (millions of Euro)



Net income (millions of Euro)



** Net income attributable to Luxottica Group Stockholders at December 31, 2016 was restated to include Euro 2.4 million from the Salmoiraghi & Viganò's acquisition required by IFRS 3 - Business Combinations

Luxottica Group

Overview

Luxottica Group is a leader in the design, manufacture and distribution of fashion, luxury, sports and performance eyewear. Luxottica's 2017 financial performance confirms the Company's ability to continuously pursue growth while achieving key strategic and organizational goals.

2018 Ray-Ban campaign

The Company's total net sales were over Euro 9 billion, net income was over Euro one billion and headcount as of year-end was approximately 85,000 employees. Founded in 1961 by Leonardo Del Vecchio and listed on the Borsa Italiana since 2000, Luxottica is a vertically integrated organization whose manufacturing of sun and prescription eyewear is backed by a wide-reaching wholesale organization and a retail network located primarily in North America, Latin America, Asia-Pacific and Western Europe.

Product design, development and manufacturing for frames take place in Luxottica's six production facilities in Italy, three factories in China, one in Brazil and one facility in the United States devoted to sports and performance eyewear. Luxottica also has a small plant in India serving the local market. In 2017, the Group's worldwide production reached approximately 89 million units. Luxottica also has produced sun and ophthalmic lenses for more than 20 years. The Company has increased its manufacturing capacity since the end of 2016 with the addition of three new laboratories in Europe, North America and Asia-Pacific which are completely integrated with its logistics hubs.

The design and quality of Luxottica's products and strong well-balanced brand portfolio are recognized throughout the world. Proprietary brands include Ray-Ban, one of the world's best-known eyewear brands, Oakley, one of the leading product design and sport performance brands globally, Vogue Eyewear, Persol, Oliver Peoples, Alain Mikli and Arnette. Licensed brands include Giorgio Armani, Burberry, Bulgari, Chanel, Coach, Dolce&Gabbana, DKNY, Ferrari, Michael Kors, Miu Miu, Paul Smith, Prada, Ralph Lauren, Starck Eyes, Tiffany & Co., Tory Burch, Valentino and Versace.

The Group's wholesale distribution network covers more than 150 countries across five continents and has approximately 50 commercial subsidiaries providing direct operations in key markets. Direct wholesale operations are complemented by an extensive retail network comprised of approximately 9,000 stores worldwide as of December 31, 2017.

Luxottica is a leader in the optical retail business in North America with its LensCrafters and Pearle Vision brands, in Australia and New Zealand with the OPSM and Laubman & Pank brands, in China with the LensCrafters brand, in Italy with the Salmoiraghi & Viganò brand and in Latin America with the GMO and Óticas Carol brands. In North America, Luxottica also operates its licensed optical retail brands Sears Optical and Target Optical. Luxottica also operates one of the fastest growing managed vision care networks in the United States through EyeMed.

Luxottica is home to Sunglass Hut, the largest retailer of premium sunglasses in North America, Latin America, Europe, Asia-Pacific, South Africa and the Middle East. Additionally, Luxottica has developed its new Ray-Ban retail concept in China, offering an interactive space created for consumers to embrace the unique Ray-Ban experience and culture. The Oakley brand provides a powerful wholesale and retail presence in both the performance optics and sport channels with its "O" stores, offering Oakley-branded eyewear as well as apparel, footwear, backpacks and accessories designed for athletic lifestyles. Finally, retail brands including Oliver Peoples, Alain Mikli, Ilori Optical and Optical Shop of Aspen, give Luxottica a foothold in the luxury space.

Luxottica's distribution channels are complemented by its e-commerce platforms, including Ray-Ban.com, Oakley.com, Persol.com, Vogue-Eyewear.com, SunglassHut.com and Glasses.com.

Mission & strategy

As a global leader in the design, manufacture and distribution of sun and prescription eyewear with high technical and design standards, Luxottica's mission is multi-fold: to improve the well-being and satisfaction of its customers while simultaneously creating value for its employees, its shareholders and the communities in which the Group operates.

2018 Oakley campaign

Every collection and every frame is the result of an ongoing R&D process that anticipates and interprets the needs, desires and aspirations of consumers all over the world. This process has become more valuable as sun and prescription eyewear are increasingly perceived as a desirable and expressive accessory to complete one's personal look.

Luxottica delivers on its mission through a vertically integrated business model with manufacturing excellence, focus on service and a geographically diversified footprint. This has led to greater efficiency, flexibility and speed in product design, engineering, manufacturing, supply chain and logistics, and uncompromising quality.

The achievement of high standards in quality reflects the Group's strong technical and manufacturing expertise - the result of over 50 years of experience - and its constant commitment to technological innovation, style and design, the study of changing consumer tastes and the interpretation of fashion trends.

Luxottica's long-term strategy is to continue to expand in the eyewear and eyecare sectors by growing its various businesses, whether organically or through acquisitions. The Company will continue to focus on the following strategic pillars: vertical integration, design and technological innovation, brand portfolio management, global footprint, financial discipline and the development of talented and committed employees.

VERTICAL INTEGRATION

One of the competitive advantages underpinning the Group's past and future successes is the vertically integrated business model that Luxottica has built over time.

The Group's present structure, covering the entire value chain, is the result of a visionary choice made by the Company's founder and current Executive Chairman, Leonardo Del Vecchio, who understood the potential of a vertical integration strategy when he decided to make entire frames rather than just components. Vertical integration of manufacturing was gradually accompanied by the expansion of distribution, first with wholesale, then in 1995 with retail and later with e-commerce, and by the creation of a key presence in the high value-added businesses of lens processing.

Direct oversight of the entire production platform makes it possible to verify the quality of both products and processes, introduce innovations, identify synergies and new operating methods and optimize service, quality and costs.

Direct distribution enables Luxottica to offer its products in major developed and emerging markets and achieve a unique understanding of consumer needs and tastes both globally and locally. This capability is viewed as a strength by fashion houses that come to Luxottica to produce their eyewear collections and access the Group's global and widespread distribution network.

DEVELOPMENT OF A VERTICALLY INTEGRATED BUSINESS MODEL

Incorporation - Luxottica was founded by Leonardo Del Vecchio in 1961. The Company started out as a small workshop and operated until the end of the 1960s as a contract producer of dyes, metal components and semi-finished goods for the optical industry. It gradually widened the range of processes offered until it had an integrated manufacturing structure capable of producing a finished pair of glasses. In 1971, Luxottica's first collection of prescription eyewear was presented at Milan's MIDO (an international optics trade fair), marking Luxottica's definitive transition from contract manufacturer to independent producer.

> "One of the competitive advantages underpinning the Group's past and future successes is the vertically integrated business model that Luxottica has built over time."

Expansion in wholesale distribution - In the early 1970s, the Company sold its frames exclusively through independent distributors. In 1974, after five years of sustained development of its manufacturing capacity, it started to pursue a strategy of vertical integration, with the goal of distributing frames directly to retailers. The first step was the acquisition of Scarrone S.p.A., which had marketed the Company's products since 1971 bringing with it a vital knowledge of the Italian eyewear market.

Luxottica's international expansion began in the 1980s with the acquisition of independent distributors and the formation of subsidiaries and joint ventures in key markets.

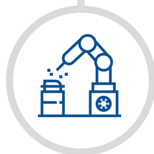
Luxottica's wholesale distribution expansion focuses on customer differentiation, customized service and new sales channels, such as large department stores, travel retail and e-commerce, as well as continuous penetration into new markets.

Eyewear, a new frontier of fashion - The 1981 acquisition of La Meccanoptica Leonardo, owner of the Sferoflex brand and developer of an important flexible hinge patent, enabled the Company to enhance the design and quality of its products and increase its market share. From the late 1980s, eyeglasses, previously perceived as mere sight-correcting instruments, began to evolve into eyewear. An aesthetic focus on everyday objects and designers' interest in the emerging accessories market led Luxottica to embark on its first collaboration with the fashion industry in 1988 by entering into a licensing agreement with Giorgio Armani. The Company followed that initial collaboration with numerous others and, with the acquisition of new brands, gradually began building its current world-class brand portfolio.

Over the years Luxottica has launched collections from names like Bulgari (1997), Chanel (1999), Prada (2003), Versace (2003), Donna Karan (2005), Dolce&Gabbana (2006), Burberry (2006), Ralph Lauren (2007), Paul Smith (2007), Tiffany & Co. (2008), Tory Burch (2009), Coach (2012), Starck Eyes (2013), Giorgio Armani (2013), Michael Kors (2015) and Valentino (2017).

VERTICAL INTEGRATION

Product development
(Design & Engineering)



Manufacturing

Logistics

Distribution
Wholesale/Retail/ E-commerce

Customers

Moreover, in 1999 Luxottica acquired Ray-Ban, one of the world's best-known sunglasses brands, along with its crystal sun lens technology.

In 2007, Luxottica acquired California-based Oakley, a leading sport and performance brand, which owned the Oliver Peoples brand and a license to manufacture and distribute eyewear under the Paul Smith name. At the time of the acquisition, Oakley had its own retail network of over 160 stores.

In 2013, Luxottica acquired Alain Mikli International, a French luxury and contemporary eyewear company, which owned the Alain Mikli brand and the Starck Eyes license. As a result of the acquisition, Luxottica strengthened both its luxury brand portfolio and prescription offerings.

Expansion in retail distribution - In 1995, Luxottica acquired The United States Shoe Corporation, which owned LensCrafters, one of North America's largest optical retail chains. Luxottica became the world's first significant eyewear manufacturer to enter the retail market, maximizing synergies with its production and wholesale distribution and increasing penetration of its products through LensCrafters stores.

Since 2000, Luxottica has strengthened its retail business by acquiring a number of chains, including Sunglass Hut (2001), a leading retailer of premium sunglasses, OPSM Group (2003), a leading optical retailer in Australia and New Zealand, and Cole National (2004), which brought with it another important optical retail chain in North America, Pearle Vision, and an extensive retail licensed brands store business (Target Optical and Sears Optical). In 2005, the Company began its retail expansion into China, where LensCrafters has become a leading brand in the country's high-end market. In the same year, the Group also started to expand Sunglass Hut globally in high-potential markets like the Middle East, South Africa, India, Southeast Asia, Mexico, Brazil, Europe and China. In 2011, Luxottica started its optical retail expansion in Latin America by completing the acquisition of GMO, a leading retailer in Chile, Peru, Ecuador and Colombia. In 2016, Luxottica completed the acquisition of Salmoiraghi & Viganò, one of the leading optical retail chains in Italy, in which Luxottica has held a minority stake since 2012. In 2017 the Group extended its presence in Brazil through the acquisition of Óticas Carol, one of the largest franchising optical retailers in the country.

A step further in the lens business - Luxottica is already a global leader in lens manufacturing. Ray-Ban, Oakley and Persol brands all carried a distinctive know-how in sun lenses when Luxottica acquired them and the acquisition of LensCrafters in 1995 brought an expertise in ophthalmic lenses. In 2016, the Company took a step further into the lens business with new state-of-the-art production facilities in Italy, the United States and China to increase its production capacity for both sun and ophthalmic lenses.

Persol campaign 2018

INNOVATION

The future of eyewear with all its untapped opportunities is a source of inspiration that drives the Group to create, experiment, refine and implement new ideas, from the research of new materials and product development to manufacturing, distribution and digital platforms.

Innovative thinking provided the foundation for Luxottica in its early years, when the founder and current Executive Chairman Leonardo Del Vecchio had a far-sighted vision to boost the growth of the Company by vertically integrating the entire value chain. Managing all stages of the production process ensures the highest levels of product quality and service. Moreover, the R&D team has brought to life some of the biggest innovations in frames and sun lenses by experimenting with new technologies, techniques and new materials – some of which had never been used in the optical industry before.

DESIGN AND TECHNOLOGICAL INNOVATION

Luxottica's designs both reflect and influence emerging fashion trends. The Group emphasizes unique product design and the continuous development of new styles that appeal to the needs and desires of consumers.

While wearable technology is in its early stages, Luxottica has taken a leading role in exploring and developing smart eyewear through partnerships with leading technology innovators. In 2016, Luxottica and Intel launched "Radar Pace", Oakley branded smart glasses with a voice-activated real-time coaching system to improve the work-out experience and performance for runners and cyclists.

BRAND PORTFOLIO MANAGEMENT

Building strong brands that create enduring relationships with consumers is key to Luxottica's sustainability in the future. The Company has a strong and well-balanced brand portfolio that includes a number of proprietary and licensed brands. Its composition is gradually modified by the acquisition of new brands and licensing agreements, along with the removal of brands no longer deemed strategic. These actions are taken in order to continually attract a wide range of consumers around the world with different tastes and lifestyles. Luxottica's long-term objectives remain consistent: to focus on leading premium brands loved by consumers, balance proprietary and licensed brands, avoid brand dilution and lengthen the average term of licensing agreements.

GLOBAL FOOTPRINT

Luxottica is committed to maintaining and strengthening its leading position in the markets where it operates. It also focuses on evaluating opportunities to further penetrate emerging markets, a key driver of its long-term growth strategy. Luxottica aims to increase its market presence through stronger retail distribution while consolidating its wholesale network and further growing its digital platforms.

FINANCIAL DISCIPLINE

Luxottica has delivered solid sales growth, while maintaining a strong focus on operating profitability, return on investment and cash flow generation in order to provide a solid basis for future growth. While it continuously invests in the business, the Company closely monitors working capital management and focuses on debt optimization to help further strengthen its financial position, accomplish its key objectives, and ultimately improve the rate of return for shareholders.

PEOPLE

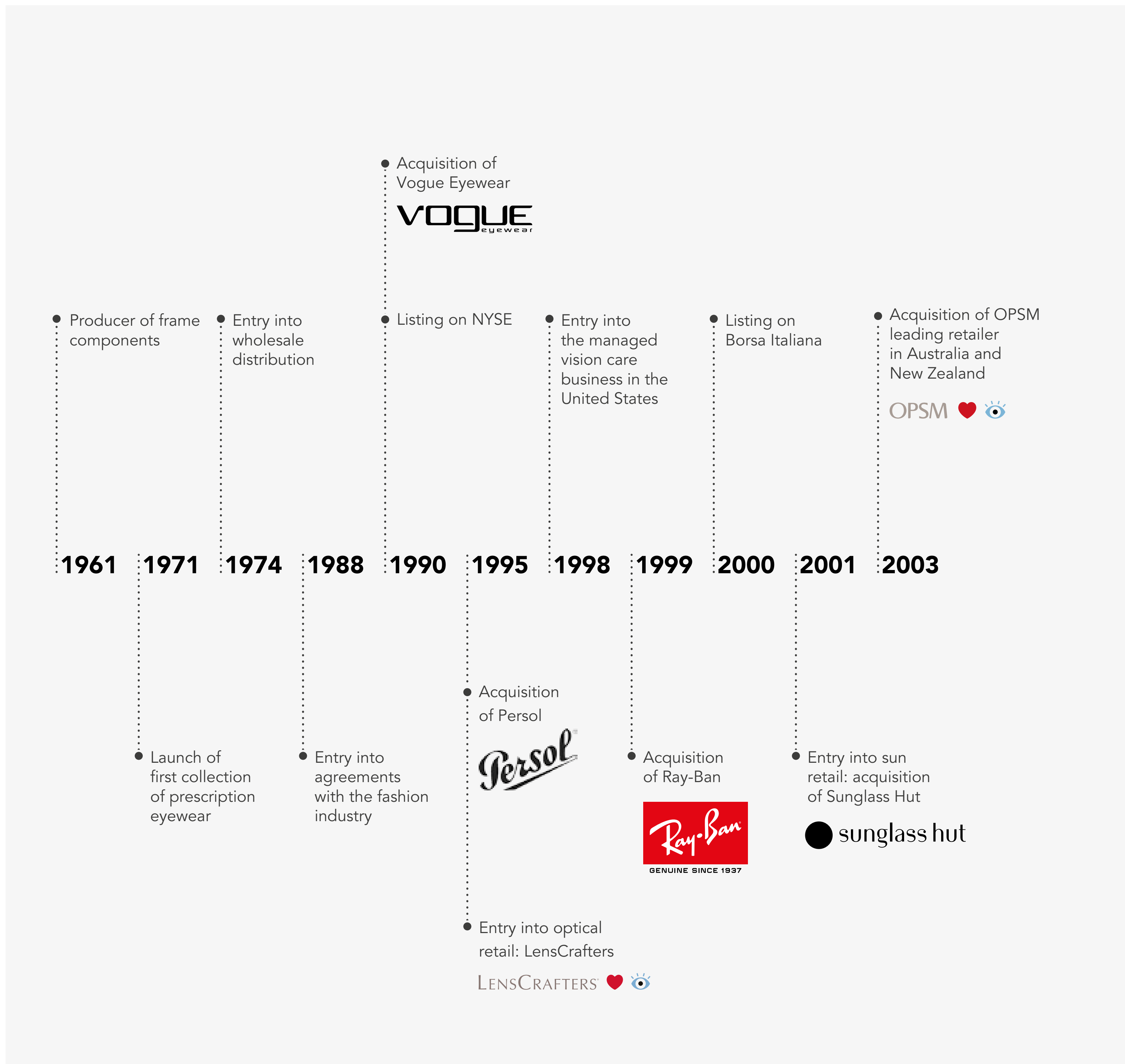
Highly qualified, motivated and committed employees are critical to the long-term success of the Company. Luxottica carefully manages the hiring and training process with the goal of recruiting and retaining top talent. It also designs comprehensive succession plans to ensure effective development and continuity.

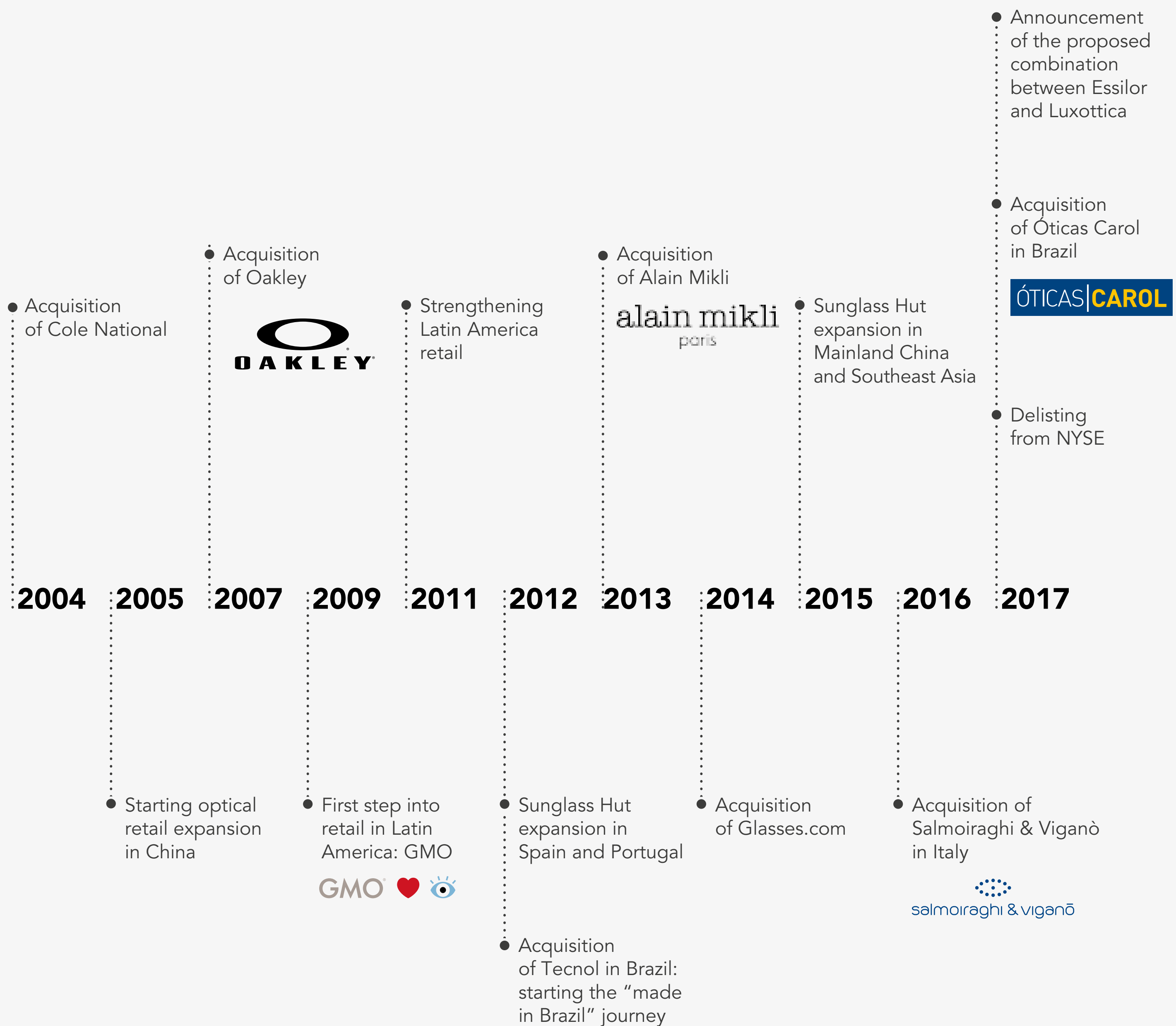
Over the last decade, the Group has developed a welfare system that is deep-rooted in its history and in its culture of responsibility and commitment to rewarding success. Luxottica invests in the future of the Company by investing in the well-being and satisfaction of its employees, which in turn boosts creativity, passion and collaboration.

Oliver Peoples, Miami

Over 50 years of excellence

A first-class brand portfolio.
A vertically integrated business model.




2004
Acquisition of Cole National
2005
Starting optical retail expansion in China
2007
Acquisition of Oakley
OAKLEY
2009
First step into retail in Latin America: GMO
GMO
2011
Strengthening Latin America retail
2012
Sunglass Hut expansion in Spain and Portugal
Acquisition of Tecnol in Brazil: starting the "made in Brazil" journey
2013
Acquisition of Alain Mikli
alain mikli
paris
2014
Acquisition of Glasses.com
2015
Sunglass Hut expansion in Mainland China and Southeast Asia
2016
Acquisition of Salmoiraghi & Viganò in Italy
salmoiraghi & viganò
2017
Announcement of the proposed combination between Essilor and Luxottica
Acquisition of Óticas Carol in Brazil
ÓTICAS CAROL
Delisting from NYSE

From design to logistics

Luxottica's vertically-integrated business model and geographically diversified manufacturing footprint have led to greater efficiency and speed in product design, engineering, manufacturing and logistics, while maintaining uncompromising quality.

Oliver Peoples, Miami

DESIGN

Emphasis on product design and the continuous development of new styles are key to Luxottica's success. During 2017, Luxottica added approximately 2,000 new styles to its eyewear collections. Each style is typically produced in two sizes and five colors.

The design of the Group's products is the focal point where vision, technology and creativity converge. Each frame expresses Luxottica's core precepts: innovation in style, materials, technologies and processes, and unparalleled craftsmanship. The design process begins with Luxottica's in-house designers who work in an environment that promotes inventiveness, originality and a creative process where eyewear is interpreted as art, as an object to put on display. They draw inspiration from both market trends and their own imagination. In addition, the design team works directly with the marketing and sales departments, which monitor the demand for current models, as well as general style trends in eyewear.

PRODUCT DEVELOPMENT

Product development is the next stage of execution. The research and development efforts of Luxottica's engineering staff play a crucial role in the development process.

Engineers are continuously looking for new materials, concepts and technology innovations to apply to products and processes in an effort to differentiate them in the eyewear market. During the initial phase of the development process, the prototype makers transform designs into one-off pieces, crafted by hand with meticulous precision. These frame prototypes are then shared with the product department, which analyzes the necessary steps to bring the prototype to mass production.

In the first phase of the cycle, the product department uses visual rendering and 3D software to design new models and the necessary equipment. The mold workshop then assembles the equipment needed to make the components for the new model. The very first samples are assembled and undergo a series of rigorous tests required by internal quality control procedures.

After the quality certification, the sales samples are produced and subjected to a new intensive series of tests to verify the quality of the engineering and production. Finally, Luxottica determines which of its plants is best suited to manufacture the product and large-scale production begins. By using a launch calendar that focuses on customer and geographic demand, the Group has been able to shrink product development timelines in recent years.

MANUFACTURING

In 2017, Luxottica's manufacturing facilities located in Italy, China, India, the United States and Brazil, produced a combined total of approximately 89 million prescription frames and sunglasses. Ongoing R&D and innovation has allowed the Company to strengthen its manufacturing processes, upgrade its capacity at each of these facilities and improve the overall quality of its products. Automation is also key in boosting the efficiency of Luxottica's productions.

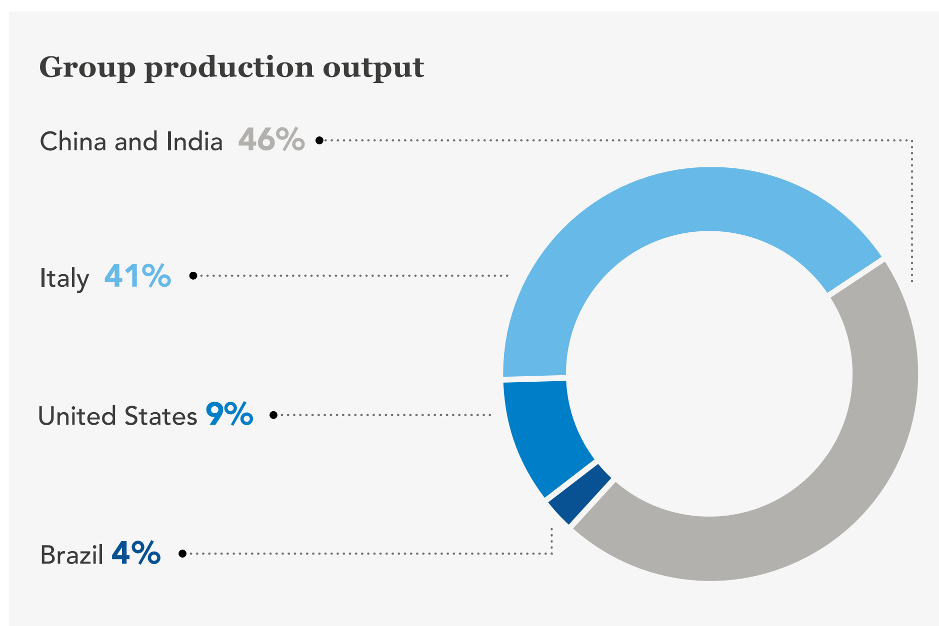
MANUFACTURING FOOTPRINT

Luxottica's manufacturing footprint includes six facilities located in Italy, the center of Luxottica's luxury eyewear production, all of which combine the tradition of Italian craftsmanship with the speed and efficiency of modern automation. These factories represent 41% of global production output. Five facilities are located in Northeastern Italy, where most of the country's eyewear industry is based, and one near Turin.

Three manufacturing facilities in China and a small plant in India collectively represent another 46% of total production output. From 1997 to 2001, Luxottica operated the Dongguan plant in China's Guangdong province through a 50%-owned joint venture with a Japanese partner. In 2001 the Company acquired the remaining 50% interest and, in 2006, it further increased manufacturing capacity in China through the construction of an entirely new facility. In 2010, Luxottica began producing plastic sun lenses to be paired with frames that are manufactured in the same location. Soon after, the Company integrated a new state-of-the-art plant, primarily dedicated to frame details and decorations.

The Foothill Ranch facility in California represents another approximately 9% of total production output and manufactures high-performance sunglasses, prescription frames and lenses and assembles most of Oakley's eyewear products. Oakley apparel, footwear and certain goggles are produced by third-party manufacturers.

In Brazil, the manufacturing facility in Campinas produces both plastic and metal frames for the local market. Shortly after Luxottica acquired the facility in 2012, they launched the first locally designed and produced Vogue Eyewear collection for Brazilians, followed by select Ray-Ban, Arnette, Oakley and A|X Armani Exchange collections. In 2017, the Campinas plant produced the remaining 4% of total production output and approximately 57% of the eyewear sold by Luxottica in the Brazilian market.



AUTOMATION AND ROBOTICS

In order to improve speed, flexibility, quality and productivity, Luxottica has incorporated robotics, automation, computing and big data into its manufacturing processes. The Group is tirelessly committed to operational excellence, tapping into new technologies and digital tools to achieve a higher level of factory digitalization. The Group has also accelerated its Digital Transformation Program in order to identify manufacturing needs early and monitor real-time production data, improve work and personal safety and allow teams to solve problems faster and more proactively than ever before.

PRODUCTS AND MATERIALS

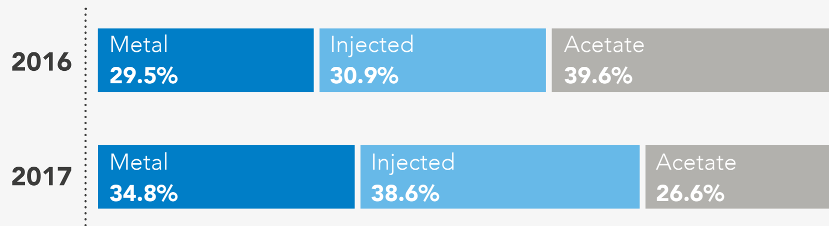
Frames

Over the years Luxottica has progressively diversified its technology mix from the traditional metal, plastic injection and acetate slabs to include aluminum, wood, die casting and fabric inserts. Consumer needs are continuously changing, which requires quick technological adaptations.

Luxottica's manufacturing process for metal frames has approximately 70 different phases, beginning with the production of basic components such as rims, temples and bridges using a molding process. These components are then welded together to form frames over numerous stages of detailed assembly work. Once assembled, the metal frames are treated with various coatings to improve their resistance and finish, and then prepared for lens fitting and packaging.

Plastic frames are manufactured using either a milling or an injection molding process. In the milling process, a computer-controlled machine carves frames from colored acetate slabs. This process produces rims, temples and bridges that are then assembled, finished and packaged. In the injection molding process, plastic resins are liquefied and injected into molds. The plastic parts are then assembled, coated, finished and packaged.

Technology breakdown



Lenses

Luxottica has gradually developed an expertise in producing its own lenses in-house. Investments in breakthrough technology and processes, rigorous testing and increasing synergies within the Group have improved the quality of Luxottica's lenses for sunglasses and eyeglasses over time.

The Lauriano plant in Italy is a benchmark for the world of Luxottica sun lenses with its multiple roles: production plant, research and experimental lab dedicated to the latest innovations, and logistics center delivering sun lenses to the rest of the Group. The Foothill Ranch facility also performs a key role in the Group's sun lens operations, manufacturing high-performance sunglasses, prescription frames and lenses and assembling most of Oakley's eyewear products.

Recently, Luxottica opened three new laboratories within its logistics hubs in Italy, the United States and China specifically for the production of ophthalmic lenses. These labs are in addition to the existing lens manufacturing network that has made Luxottica a key player in the high-end ophthalmic lens business. Luxottica also operates three other central labs in North America, including the Oakley Foothill Ranch facility, two labs in Latin America and the Eyebiz joint-venture with Essilor in Thailand which serves the Australian market.

2018 Vogue Eyewear campaign

LOGISTICS

The Group's distribution system, which serves both the retail and wholesale businesses and links them to the production facilities, is globally integrated and fed by a centralized manufacturing platform. It provides daily monitoring of global sales performance and inventory levels to meet local market demand.

Luxottica's logistics footprint consists of four main distribution service centers in strategic locations serving the Group's major markets: Sedico (Italy), Atlanta (United States), Dongguan (China) and Jundiaí (Brazil). They operate as centralized facilities under a highly automated order management system, which serves the Group's local distribution centers and, in some markets, ships products directly to customers, which further reduces delivery times and keeps stock levels low.

By the first quarter of 2017, the Group successfully opened its new service centers in Atlanta and Dongguan thereby strengthening the Group's global logistics centralization strategy in the North America and Asia-Pacific regions.

The Sedico hub was opened in 2001 and is one of the most technically advanced in the industry. In 2017, it managed approximately 25,000 orders per day, including eyeglasses and spare parts. The Sedico facility ships an average of approximately 240,000 units daily to customers in Europe, the Middle East, Africa, Mexico, Turkey, select United States markets and the Group's distribution centers in the rest of the world, where they are then delivered to local customers. In addition, it manages customized services, such as Ray-Ban Remix, providing direct global deliveries.

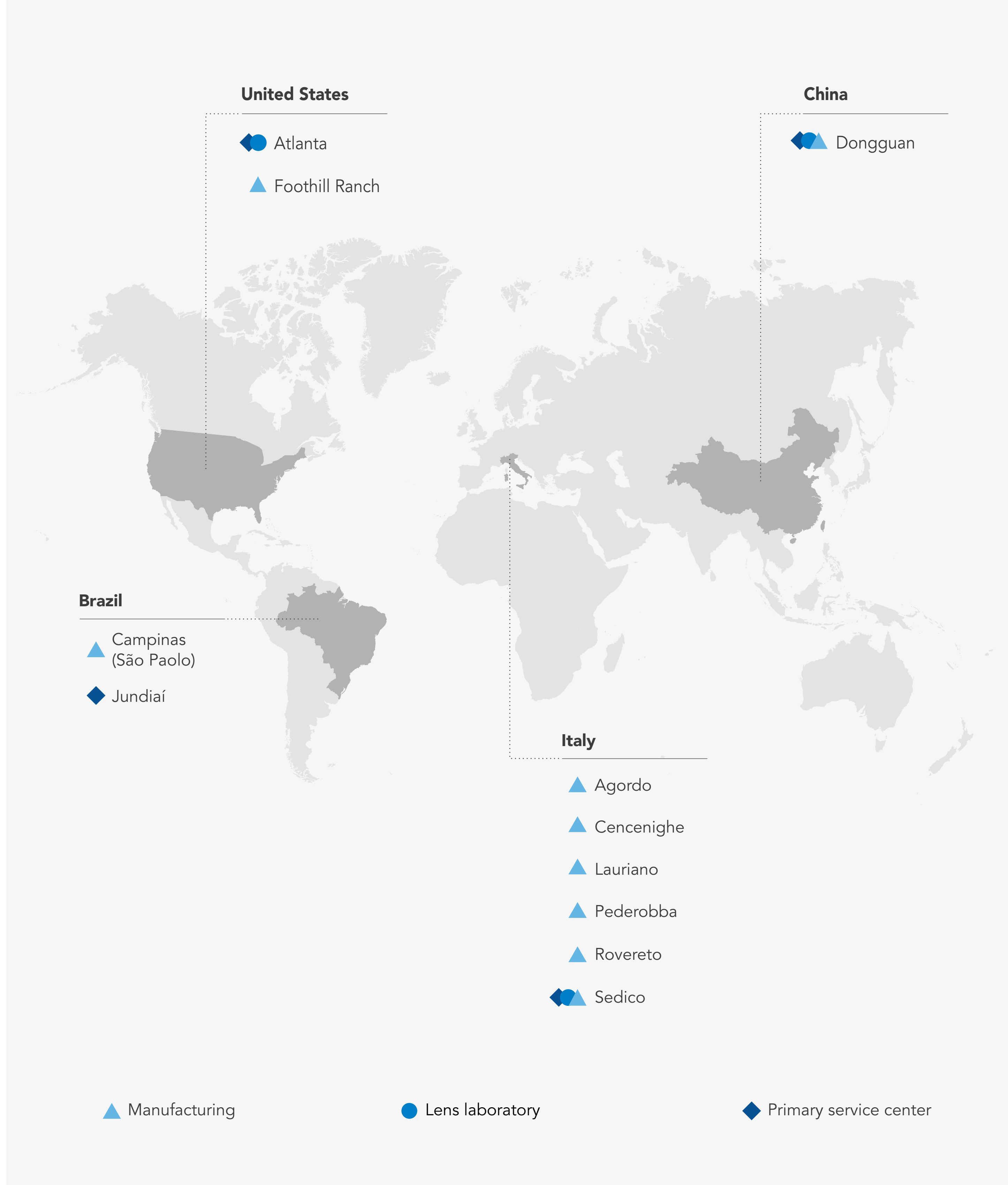
The Dongguan hub was opened in 2006 and manages an average of 220,000 units per day. The growth in the Asia-Pacific region has made this hub a strategic part of the Group's distribution network. Luxottica continues to invest in ways to improve services and increase capacity in order to create even greater efficiencies in the region.

The Atlanta facility, opened in 1996, has consolidated several North America-based facilities into a single state-of-the-art distribution center located close to one of the major airport hubs of the United States. It serves both Luxottica's retail and wholesale businesses in the North American market. This facility manages an average of 185,000 units per day.

The Jundiaí facility, opened in 2013 in Brazil, offers targeted distribution services to customers and serves the local market. This facility manages an average of 45,000 units per day.

The Sedico, Atlanta and Dongguan service centers include laboratories for the production of ophthalmic lenses to serve the European, North American and Asia-Pacific markets, creating integrated logistics and production hubs for ophthalmic lenses and frames.

In order to better serve the consumer with customized speed to market, Luxottica has continued to simplify its global network and concentrate on the Group's four main service centers allowing it to streamline its operational efficiency and progressively close decentralized local facilities.


Luxottica Operations - Main facilities
United States
Atlanta
Foothill Ranch
China
Dongguan
Brazil
Campinas
(São Paolo)
Jundiaí
Italy
Agordo
Cencenighe
Lauriano
Pederobba
Rovereto
Sedico
Manufacturing
Lens laboratory
Primary service center

A GLOBAL "CULTURE OF QUALITY"

The satisfaction of wholesale clients and retail consumers is one of Luxottica's primary and indispensable objectives. Achieving this objective depends on the continuous improvement of every phase of the production and distribution cycle. While increasing production capacity in both developed and emerging countries, the Company is pursuing a crucial goal: delivering the same made in Luxottica quality everywhere in the world.

Regardless of location, a single quality system is applied to product development, procurement, distribution, operational analysis and uniform and measurable performance management in the plants.

"Luxottica designs products to meet or exceed relevant industry standards for safety, performance and durability."

Luxottica manufactures products of the highest quality. Most of the equipment is specially designed and adapted for the Group's manufacturing processes. This facilitates a rapid response to customer demand and the observance of strict quality control standards. The teams regularly inspect semi-finished products, verifying the feasibility of prototypes in the design phase, controlling standards in both the product development and production phases, subsequently checking for resistance to wear and tear and reviewing optical properties in relation to type of use.

The manufacturing processes and materials used by primary suppliers are also controlled and certified.

Luxottica designs products to meet or exceed relevant industry standards for safety, performance and durability. Throughout the development process, eyewear products undergo extensive testing against standards established specifically for eyewear by ANSI (Z.80.3), ASTM, Standards Australia Limited (AS 1067) and EU (EN ISO 12312 and EN ISO 12870). These standards relate to product safety and performance and provide quantitative measures of optical quality, UV protection, light transmission and impact resistance.

Luxottica manufactures high quality sun and ophthalmic lenses. Its lenses are made from superior optical material, using advanced lens technology and aesthetic treatments, providing protection and visual clarity.

To assure its quality standards worldwide and the right support for quality improvement, Luxottica has four main labs in Italy, China, Brazil and the United States. Each lab is responsible for establishing and maintaining the quality standards in the region where it is located and supports activities in engineering, production and market feedback management. All of these labs conduct the same tests using the same equipment and procedures which are developed and approved in the central Italian lab.

Brand portfolio

Luxottica's brand portfolio is one of the largest in the industry with leading brands both at a regional level and in particular segments and niche markets.

2018 Persol campaign

The portfolio is well-balanced between proprietary and licensed brands and it continues to evolve.

The presence of Ray-Ban, one of the world's leading lifestyle eyewear brands, and Oakley, a leader in the sport and performance category, gives the proprietary brand portfolio a strong base, complemented by Persol, Oliver Peoples and Alain Mikli in the high-end of the market, Arnette in the sport market, and Vogue Eyewear in the fashion market. Alongside the proprietary brands, the portfolio has over 20 licensed brands, including some of the most well-known and prestigious names in the global fashion and luxury industries.

With its manufacturing and distribution know-how, its experience in international markets and direct retail operations supported by marketing investment, Luxottica is the ideal partner for fashion houses and stylists seeking to translate their style and values into successful premium eyewear collections. Luxottica differentiates each designer's offering to produce a broad range of models that appeal to a diverse group of consumers, lifestyles and geographies.

PROPRIETARY BRANDS

In 2017, proprietary brands accounted for approximately 70% of total sales of frames. Ray-Ban and Oakley eyewear, the two largest brands in Luxottica's portfolio, accounted for approximately 27% and 10%, respectively, of the Group's 2017 net sales.

Timeless style, authenticity and freedom of expression are the core values of Ray-Ban, a leader in sun and prescription eyewear for generations. Since the introduction of the iconic Aviator model created for the aviators of the United States Army, Ray-Ban has been at the forefront of cultural change, becoming a symbol of self-expression, worn by celebrities and public figures all around the world. The lifestyle brand joined the Luxottica Group in 1999 after which Ray-Ban accelerated its growth and redefined its distribution.

Established in 1975 and acquired in 2007, Oakley is one of the leading product design and sport performance brands in the world, chosen by world-class athletes to compete at the highest level possible. The holder of more than 850 patents, Oakley is also known for its innovative lens technologies, including PRIZM™. Oakley extended its position as a sports eyewear brand into apparel and accessories, offering men's and women's product lines that appeal to sport performance, active and lifestyle consumers.

Founded in 1992 and acquired by Luxottica in 1999, Arnette is an active lifestyle eyewear brand that appeals to young and "forever young" consumers with an easy going style. Key traits of Arnette are functional affordable quality designed for everyday use and an authentic love for popular freestyle action sports like surf and skate.

2018 Vogue Eyewear campaign

2018 Oakley campaign

Launched in 1973 under the same name as the famous fashion magazine, Vogue Eyewear was acquired by Luxottica in 1990. The brand, which reflects the dominant fashion trends of the moment at an affordable price, offers a wide global assortment as well as local collections for emerging markets. It has become a truly international contemporary fashion brand geared to young and fashion-savvy consumers who identify with featured international personalities such as Gigi Hadid.

Persol, the iconic made in Italy eyewear brand, made its debut in 1917 and was acquired by Luxottica in 1995. With its evocative name, meaning “for sun”, it is the proud heir to a culture of excellence and craftsmanship, a perfect alchemy of aesthetics and technology. The irresistible appeal of timeless design and art-like quality makes the brand a favorite in the world of cinema.

Acquired by Luxottica in 2007, Oliver Peoples was born in the heart of West Hollywood, California on iconic Sunset Boulevard in 1987. The unique culture of Los Angeles, with elements of fashion, film, art and music, continues to inspire the product and vibe of the brand. From the beginning, Oliver Peoples had a passion for superior craftsmanship, a distinctive culture rooted in California, and a chic approach to luxury. Through an authentic and consistent voice, Oliver Peoples has never relied on a logo but instead on fostering relationships with like-minded consumers.

Acquired by Luxottica in 2013, Alain Mikli has always targeted an audience of tastemakers and creative people around the world. Since 1978, the brand has been synonymous with distinctiveness and provocation, thanks to its unique design and exclusive color combinations. A union between a piece of art and a consumer product, frames to see as well as to be seen.

Launched in 1967, the Group’s original line best conveys the experience and tradition that are its essence.

Sferoflex, which joined the Group’s portfolio in 1981, takes its name from the patented flexible hinge enabling the temples to conform to the shape and size of the face, thus increasing the resilience of the frame itself and ensuring perfect fit.

LICENSED BRANDS

Designer lines are produced and distributed through license agreements with major fashion houses. These agreements are exclusive contracts which typically have terms of between four and ten years, and may contain options for renewal. Under these license agreements, Luxottica is required to pay a royalty ranging from 5% to 14% and a mandatory marketing contribution of between approximately 5% and 15% of net sales of the related collection.

Prada is the most significant license in Luxottica's portfolio as measured by total sales. In 2017, sales realized through the Prada, Prada Linea Rossa and Miu Miu brand names together represented approximately 4% of Group sales.

Armani Group

Under license since 2013, the Armani Group includes the following collections:

GIORGIO ARMANI

The Giorgio Armani brand has an incomparable and timeless sense of style. Armani's vision of the world of creative design is not just about turning heads, but about leaving a lasting impression. Pure lines, intrinsic elegance and care for details are the elemental concepts underlying all of Giorgio Armani's iconic designs as well as of its eyewear styles.

EMPORIO ARMANI

Created in the early 80's by Giorgio Armani, this label is designed for trendy customers who love the Armani DNA. Armani's core elements are revisited in a modern take on fresh style, with innovative and colorful designs that are distinguished by contemporary lines, shapes and materials.

A|X Armani Exchange is the youthful label created in 1991 by Giorgio Armani to capture the heritage of the Armani brand through the lens of its young fashion-forward urban spirit. Modern bold shapes in original shades reflect contemporary design with stylish details, even with an accessible price.

Characterized by lightweight materials and a slender line, the Brooks Brothers collections reflect the American brand's iconic style. This is an accessible product line with classic style that delivers high functionality and quality. The original license agreement was signed in 1992.

Since its founding in England in 1856, Burberry has been synonymous with design, craftsmanship and innovation. Now Burberry has become a leading fashion luxury brand with a global business and a distinctive British identity. The eyewear collection, under license since 2006, is inspired by the brand's innovative ready-to-wear and accessory collections and incorporates recognizable iconic elements for both men and women.

BVLGARI

Under license since 1997, Bulgari, the great Italian jeweler and master of colored gemstones of international fame, represents one of the most exclusive brands in eyewear. Contemporary design, unique styles and glamorous details are combined with superior quality. This brand is positioned for the highest segment of eyewear as jewelry, with luxury Italian craftsmanship and bold style. Bulgari eyewear features precious materials such as gold, gemstones and Austrian crystals and is carefully crafted in timeless designs.

CHANEL

Chanel, a must-have fashion accessory, celebrates elegance and femininity. From contemporary to iconic styles, the designs demonstrate the know-how and creativity of the House of Chanel. Throughout the seasons, collections are constantly reimagined to complement the Chanel wardrobe and express a woman's style.

Founded in 1941 as a family-run workshop in a Manhattan loft, Coach has grown into a leading American designer and marketer of fine accessories and ready-to-wear for women and men around the world. Under license since 2012, the Coach eyewear collection perfectly expresses the effortless New York style and the authentic American heritage of the Coach brand.

DOLCE & GABBANA

Dolce&Gabbana is a luxury brand which draws inspiration from the roots and the authentic values of its own DNA: Sicily, sensuality and sartorial ability. Dolce&Gabbana's essence lies in its contrasting yet complementary features. The eyewear collection, under license since 2006, is characterized by glamorous, unconventional shapes, prestigious materials and sumptuous detailing.

DKNY

DKNY is easy-to-wear fashion characterized by the energetic attitude of New York City: sleek, metropolitan, fun, fast and real. The brand caters to contemporary, urban, fashion-conscious women, addressing a broad range of lifestyle needs, from work to weekend, jeans to evening. Under license since 2005, DKNY eyewear offers modern design at an accessible price, for wardrobe staples that are the perfect mix of quality, value and style.

Ray-Ban has adapted its eyewear expertise to the racing track with a comprehensive range of sunglasses designed for the F1 Greatest Of All Time (GOAT) team Scuderia Ferrari. Using state-of-the-art technology, the unique range mirrors the aerodynamic design methodology of Scuderia Ferrari cars. Cutting edge materials provide retro classics with a racy new lease on life, while an unmistakable color palette of blazing Ferrari red and Modena yellow is used to striking effect.

MICHAEL KORS

Established in 1981, Michael Kors is an authentic contemporary fashion brand. Michael Kors eyewear, launched by Luxottica in 2015, offers a glamorous lifestyle for the consummate jetsetter that is as sophisticated as it is indulgent and as iconic as it is modern. Michael Kors' eyewear collections capture the glamor and effortless sophistication for which the designer is celebrated, drawing upon signature details found in the brand's most iconic designs.

Paul Smith
SPECTACLES

Launched in 1994 and licensed by Luxottica in 2007, the Paul Smith Spectacles brand includes prescription and sun eyewear featuring the whimsical yet classic designs and attention to detail that are synonymous with one of Britain's leading fashion designers.

Il Gruppo Prada

Under license since 2003, the Prada Group includes the following collections:

PRADA
EYEWEAR

Prada represents the best of Italian culture and tradition. It is one of the most innovative, prestigious and widely recognized brands in the fashion and luxury goods industries, with a keen attention to details and new trends. The Prada eyewear collection reflects this approach with unmistakable style, refined elegance and uncompromising quality. The Prada collection also includes the Prada Linea Rossa line, which is inspired by the world of luxury sports to convey an everyday casual yet sophisticated style.

miu miu
EYEWEAR

The Miu Miu eyewear collection was launched with brand-new luxury positioning in 2011 to align it with the brand's other product categories. Miu Miu, which reflects the essence of Miuccia Prada, is a brand for fashion forward, seriously light-hearted and provocative women who aspire to a more avant-garde and sophisticated lifestyle.

Ralph Lauren

Under license since 2007, Ralph Lauren includes the following collections:

RALPH LAUREN

Ralph Lauren has made an indelible imprint on the fashion world with his collections for men and women. Today, his signature themes - Hollywood romance, town-and-country heritage, cosmopolitan city-chic and Art Deco glamor - extend into the world of Ralph Lauren eyewear. With sleek modernity and classic proportions, each pair is a vivid expression of the designer's elegant, sophisticated style.

POLO
RALPH LAUREN

Representing Ralph Lauren's iconic status as a designer recognized throughout the world, Polo Ralph Lauren reflects a celebrated vision of classic yet spirited American style for men and women. Timeless and authentic, Polo Ralph Lauren is the enduring symbol of a modern-day American lifestyle: easy, energetic, young and cool.

Starck Eyes joined Luxottica's portfolio as part of the Alain Mikli acquisition in 2013. The unique Starck Eyes collection celebrates minimalism and innovation through an exclusive technological revolution: the heart of the product is the patented Biolink®, a screw-less hinge modelled after the human clavicle, which allows a full 360-degree movement for increased comfort and durability - biomechanics at the service of vision.

TIFFANY & CO.

Founded in 1837 in New York City, Tiffany & Co. is the world's premier jeweler and America's house of design, an iconic brand with a rich and storied heritage. Luxottica was the first Company licensed to produce Tiffany's eyewear collection, which takes inspiration from the most iconic jewelry collection, celebrating stunning originality and enduring beauty. The first collection was launched in 2008.

Tory Burch is an American attainable luxury lifestyle brand that embodies the unique sense of style of its chairman, CEO and designer, Tory Burch. Launched in 2004 with her now iconic Reva ballet flats and the tunic, the brand further expanded into accessories, apparel and beauty. Known for her bohemian preppy aesthetic, Tory Burch launched its eyewear collection with Luxottica in 2009. Her bold use of color, graphic prints and eclectic detailing are all signatures of the brand.

VALENTINO

Established in Rome in 1960, Maison Valentino is one of the highest expressions of couture savoir faire and the excellence that has made Italian products famous worldwide. The Ateliers in Palazzo Mignanelli, the company's historic headquarters in the heart of the Eternal City, are where creativity and expertise meld in search of timeless elegance. Lightness, grace and precious delicacy are the DNA of Valentino. The Valentino eyewear collections, launched in 2017, embodies the Maison's timeless elegance in a perfect balance between tradition and innovation in full respect of the iconic values of the brand.

VERSACE

Versace is one of the world's most iconic and famous luxury fashion houses. It is proudly Italian and independently owned by the Versace family. It is designed for men and women who desire a modern and glamorous style that combines sophistication and sex appeal. The Versace Group is the epitome of sensual glamor, sexy and empowering; a true symbol of Italian luxury. At its heart is Versace, a leading design house and the center of creativity that is flourishing globally. The eyewear collection, under license since 2003, combines technical innovation with the essence of the brand and bears the distinctive visual details the fashion house is known for.

Distribution

Luxottica’s global distribution network, including retail chains and a wholesale network of third party stores, is one of the Group’s core strengths. It extends to both developed and emerging markets, where Luxottica has made substantial investments over the last few years.

Ray-Ban, Milan

Luxottica's efficient distribution network makes it possible to maintain close contact with customers while maximizing the visibility of the Group's brand portfolio. In addition, the Group's expertise in the retail business has given it a unique understanding of consumer needs and tastes in key countries. All of this helps the Company achieve strategic optimization of brand diffusion, for both proprietary and licensed brands. The Group continues to invest in new channels of distribution, with a current emphasis on e-commerce.

Wholesale

The wholesale distribution network covers more than 150 countries, with approximately 50 commercial subsidiaries in major markets and approximately 80 independent distributors in other less developed markets. Wholesale customers are mostly retailers of mid to premium-priced eyewear, such as independent opticians, optical retail chains, specialty sun retailers, department stores, duty-free shops and online players. Certain brands, including Oakley, are also distributed to sporting goods stores and specialty sports locations.

In addition to giving wholesale customers access to some of the most popular brands and models, Luxottica provides them with pre- and post-sale services to enhance their business and maintains close contact with distributors in order to monitor sales and the quality of the points of sale.

In 2002, Luxottica introduced the STARS program within its Wholesale division, a true service innovation that leverages Luxottica's knowledge of local markets and brands to deliver fresh, high-turnover products to customers and maintain optimal inventory levels at each point of sale. By strengthening the partnership between Luxottica and its customers, this program directly manages product selection activities, assortment planning and automatic replenishment of Luxottica's products in the store, utilizing ad hoc systems, tools and state-of-the-art planning techniques. At the end of 2017, STARS served over 9,600 stores in the major European markets, the United States, the Middle East and emerging markets.

Retail

With a strong portfolio of retail brands, Luxottica is well positioned to serve every segment of the market with a variety of differentiation points, including the latest designer and high-performance frames, advanced lens options, advanced eyecare, everyday value and high-quality vision care health benefits.

As of December 31, 2017, Luxottica's retail business consisted of 7,102 stores and 1,811 franchised locations.

Luxottica's retail stores sell not only prescription frames and sunglasses that the Group manufactures but also a wide range of frames, lenses and ophthalmic products manufactured by other companies. In 2017, Luxottica's proprietary and licensed brands represented approximately 90% of the total net sales of frames by the Retail division.

RETAIL BRANDS

Founded in 1983, LensCrafters pioneered a revolutionary concept to combine eyecare, eyewear and onsite labs to craft glasses in about an hour. Today, LensCrafters is one of the largest optical retail brands in North America in terms of sales.

Most LensCrafters stores are located in high-traffic commercial malls and shopping centers. A wide selection of premium and luxury optical frames, sunglasses and high-quality lenses and optical products made by Luxottica and other suppliers are available in most locations. Each location has an experienced doctor, either an independent or employed doctor of optometry, who is focused on building patient relationships. All of the stores have access to the Group's state-of-the-art lens processing network with the ability to craft, surface, finish and fit lenses.

As part of its underlying commitment to customer satisfaction and industry innovation, LensCrafters has made significant investments in technology including AccuFit Digital Measurement™ and continued its digital transformation with associate iPads to enhance the customer's omnichannel experience, and a digital eye exam experience, Clarifye℠, in a growing number of locations.

In 2006, Luxottica began to expand the LensCrafters brand in China by acquiring and then rebranding local retail chains in Beijing, Shanghai, Guangdong and Hong Kong. As of December 31, 2017, the Group operated a retail network of 1,190 LensCrafters stores, of which 1,044 are in North America and the other 146 stores are in China and Hong Kong.

Acquired by Luxottica in 2004, Pearle Vision is one of the largest franchised optical retailers in North America. Built around the neighborhood doctor, Pearle Vision allows local business operators to provide trusted eyecare to their patients with the support and resources of the Pearle Vision brand. As of December 31, 2017, Pearle Vision operated 118 corporate stores and had 417 franchises throughout North America.

With the acquisition of Cole National in 2004, Sears Optical and Target Optical, both licensed brands operating within their host stores, became part of the Luxottica retail network. The two brands, each with their own marketing positions within Luxottica, offer consumers the convenience of taking care of their optical needs while shopping at their preferred retailers. As of December 31, 2017, Luxottica operated 405 Sears Optical and 511 Target Optical locations throughout North America.

OPSM is a leading eyecare and eyewear retailer in Australia and New Zealand with more than 80 years of history. Through its world-class technology and exceptional service, OPSM's goal is to raise the standard of eye health and eyecare. In addition to its eyecare services, OPSM is renowned for its exclusive range of optical frames and sunglasses from international brands. As of December 31, 2017, Luxottica operated 324 corporate stores and 48 franchises.

Laubman & Pank is renowned for high-quality eyecare and personalized service in regional Australian markets. As of December 31, 2017, Luxottica managed 26 corporate owned stores and 15 franchises throughout Australia.

GMO, an optical market leader in Latin America, became a part of Luxottica in July 2011, following the acquisition of Multiópticas Internacional. Since its beginning in the late 1990s, GMO has developed a reputation for optical retail excellence among consumers in Chile, Peru, Ecuador and Colombia with its strong Ópticas GMO and Econópticas retail brands. As of December 31, 2017, Luxottica operated 413 Ópticas GMO stores and 99 Econópticas stores.

Óticas Carol, which was founded in 1997 with the goal to satisfy the needs of the Brazilian consumer in the eyewear industry, is one of Brazil's leading optical retail brands. Óticas Carol's mission is to provide the best platform for the sustainable growth of its franchisees, delighting its customers with excellent optical services and products. Óticas Carol joined the Group in 2017. As of December 31, 2017, Luxottica managed 18 corporate owned stores and 1,047 franchises throughout Brazil.

Luxottica operates David Clulow, a premium optical retailer in the United Kingdom and Ireland. The brand emphasizes service, quality and fashion. Its targeted marketing reinforces these brand values and builds long-term relationships with customers. In addition to operating optical stores, David Clulow manages a number of designer sunglass concessions in up-market department stores, further reinforcing its position as a premium brand in the United Kingdom. As of December 31, 2017, David Clulow operated 42 locations and 80 sun concessions.

Founded in 1974 by the merger of two brands that were started respectively by Angelo Salmoiraghi and Angelo Viganò in the mid-nineteenth century, Salmoiraghi & Viganò is an Italian premium optical retail brand. The key principles on which Salmoiraghi & Viganò was founded are relevant today and include innovation, customer experience, service and quality products. Its retail stores stock a wide assortment of optical and sun eyewear by the premier brands available on the international scene. As of December 31, 2017, Salmoiraghi & Viganò had 380 corporate owned stores and 38 franchises spread throughout Italy.

EyeMed Vision Care is the second largest vision benefits company in the United States, serving approximately 47 million members in large, medium and small-sized companies, as well as government entities. EyeMed members are enrolled through employer-sponsored benefits sold directly by EyeMed or bundled with benefits offered in partnership with many of the largest and most-respected healthcare organizations in the United States. EyeMed offers the largest network of eyecare providers in the United States, including a diverse range of independent practitioners and retail locations that include Luxottica optical retail locations.

Founded in 1971 as a small kiosk in a Miami mall, Sunglass Hut has grown into one of the world's leading destinations for the most sought-after high quality and performance sunglass brands. Stores can be found in fashionable shopping districts across the globe, from the Americas, Europe and the Middle East to Australia, South Africa, China and Southeast Asia and beyond, providing consumers with a fun, highly engaging shopping experience.

Sunglass Hut offers a consistent and connected experience across all customer touch-points including online, in-store, social and mobile, and utilizes in-store digital tools to access to an "endless aisle" assortment in every store location. As part of this strategy, the brand is investing in the digitalization of the in-store shopping experience, particularly in North America, Brazil, the United Kingdom and Australia.

As of December 31, 2017, Sunglass Hut operated a retail network of 3,213 stores worldwide, including 3,059 corporate stores and 154 franchised locations mainly in the Middle East, Latin America and India. In North America alone, the Company operated 1,701 Sunglass Hut core stores.

Ray-Ban, Milan

In 2016, Luxottica introduced a brand-new Ray-Ban retail concept in China converting some of its pre-existing LensCrafters locations and opening new retail locations. In the United States, the Group opened a flagship store in New York's Soho neighborhood, and recently has extended the new monobrand retail concept in Southeast Asia and Latin America. More than physical stores, they offer an interactive space created for consumers to embrace the unique Ray-Ban experience and culture. As of December 31, 2017, Luxottica operated 116 locations, mainly in China.

As of December 31, 2017, the Group operated 355 Oakley "O" stores worldwide (including 85 franchised locations), offering a full range of Oakley products including sunglasses, apparel, footwear and accessories. These stores are designed and merchandised to immerse consumers in the Oakley brand through innovative use of product presentation, graphics and original audio and visual elements. In the United States, Oakley "O" stores are in major shopping centers. Oakley's retail operations are also located in Latin America, Europe and the Asia-Pacific region.

As of December 31, 2017, Luxottica operated 31 luxury retail stores under the Oliver Peoples name, which sell Oliver Peoples branded products exclusively. Five Oliver Peoples retail locations are operated under license.

As of December 31, 2017, Luxottica operated 12 luxury retail stores under the Alain Mikli name of which two are franchised. The stores are located in the most cosmopolitan cities worldwide.

Founded in the 1970s, Optical Shop of Aspen is known in the eyewear industry for its luxury prescription and sun eyewear and first-class customer service. As of December 31, 2017, Luxottica operated two stores in upscale and exclusive locations in the American west.

Ilori Optical is Luxottica's luxury retail brand, with 12 stores in North America as of December 31, 2017, featuring a flagship location in New York's SoHo district. Ilori Optical caters to an elite clientele, offering exclusive brands and collections with highly-personalized service.

Oliver Peoples, Miami

Ray-Ban campaign 2018

E-COMMERCE

Luxottica offers consumers around the globe a premium online shopping experience that lives up to the same high standards found at its brick and mortar locations.

Oakley, Ray-Ban, Sunglass Hut, Oliver Peoples and recently added Persol and Vogue Eyewear e-commerce websites serve as important sales channels that complement Luxottica's retail operations and wholesale distribution. The websites drive brand awareness and allow consumers to purchase products efficiently, extending superior customer service into the digital space.

Ray-Ban.com was launched in the United States in 2009 and is home to the most extensive assortment of premium Ray-Ban, exclusive offerings and a consumer experience that is unique to the brand. Currently, Ray-Ban.com operates in 27 countries. Ray-Ban Remix, the online customization platform first launched in Europe in 2013, is a key driver of the brand's e-commerce expansion and its growing connection with millennials. Its success in allowing customers to personalize the style, material, lens color, engraving and other aspects of their Ray-Ban frames led to Remix launches in the United States, Canada and China in 2014, in Australia, Brazil, Japan and Hong Kong in 2015 and in Mexico in 2016. Recently, Ray-Ban.com introduced a 3D virtual try-on technology that gives Ray-Ban fans the ability to virtually try on thousands of frames and immediately find their preferred look. This technology renders images of each user with photo realism and matches them with the image of the frame by pulling together a 3D model that can be used to quickly compare different frames.

Oakley.com provides a digital window into the Oakley brand, presenting the most comprehensive assortment of Oakley products globally and an e-commerce channel across multiple markets including the United States, Canada, Australia, Japan, Brazil and 16 countries in Europe. Its online custom eyewear experience gives Oakley fans the ability to customize their favorite models from Jawbreaker to Frogskins, selecting frame color, lens tint, personalized etching and other features.

Launched in 2008, SunglassHut.com has become the digital destination for consumers looking to find the latest trends and hottest premium sunglasses. Over the years, the United Kingdom, Brazil, New Zealand and Mexico joined the United States, Canada and Australia in offering online shopping on their local Sunglass Hut websites. Additionally, Sunglass Hut redesigned its mobile and desktop sites across all countries to enhance customer experiences, storytelling and business performance. Specific focus has been given to the implementation of omnichannel experiences that allow the Company to seamlessly engage consumers across more than 3,000 Sunglass Hut stores and the website.

Luxottica introduced the new Persol and Vogue Eyewear e-commerce platforms at the end of 2017 in Italy, the United Kingdom, France, Germany and Spain.

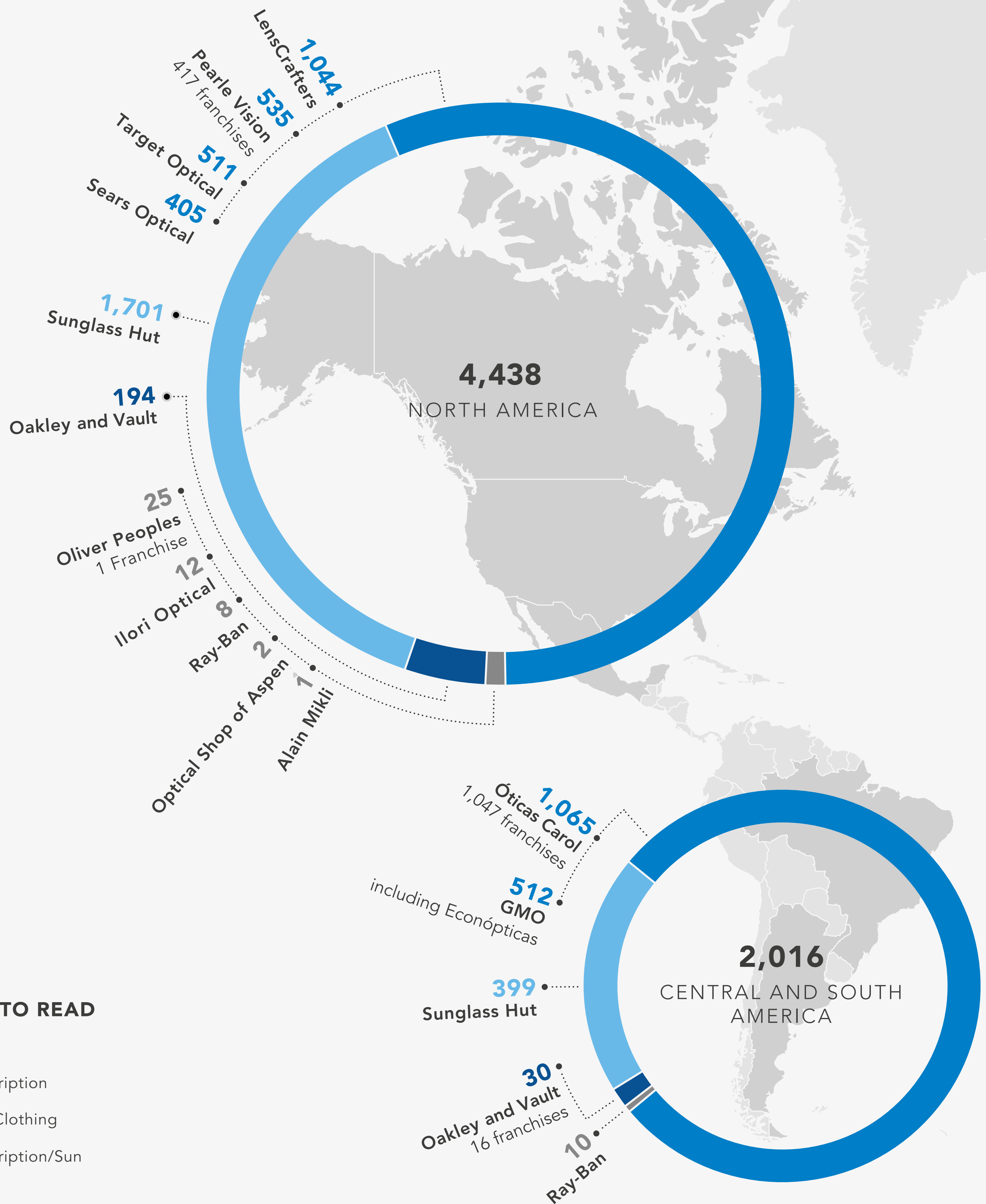
Luxottica plans to bring its e-commerce strategy to additional markets as the business matures. For example, the Group formed strategic partnerships in China to open both Ray-Ban and "O" stores within Tmall, the world's largest local online mall.

Luxottica is also investing in increasing its optical e-commerce footprint, with a wide portfolio of brands and solutions that cover vision correction needs, including clear and sun prescription frames and contact lenses.

Distribution network

8,913 retail stores
of which 1,811 franchises

ALL OVER THE WORLD



HOW TO READ

- Sun
- Prescription
- Sun/Clothing
- Prescription/Sun

Approximately
50 wholesale subsidiaries

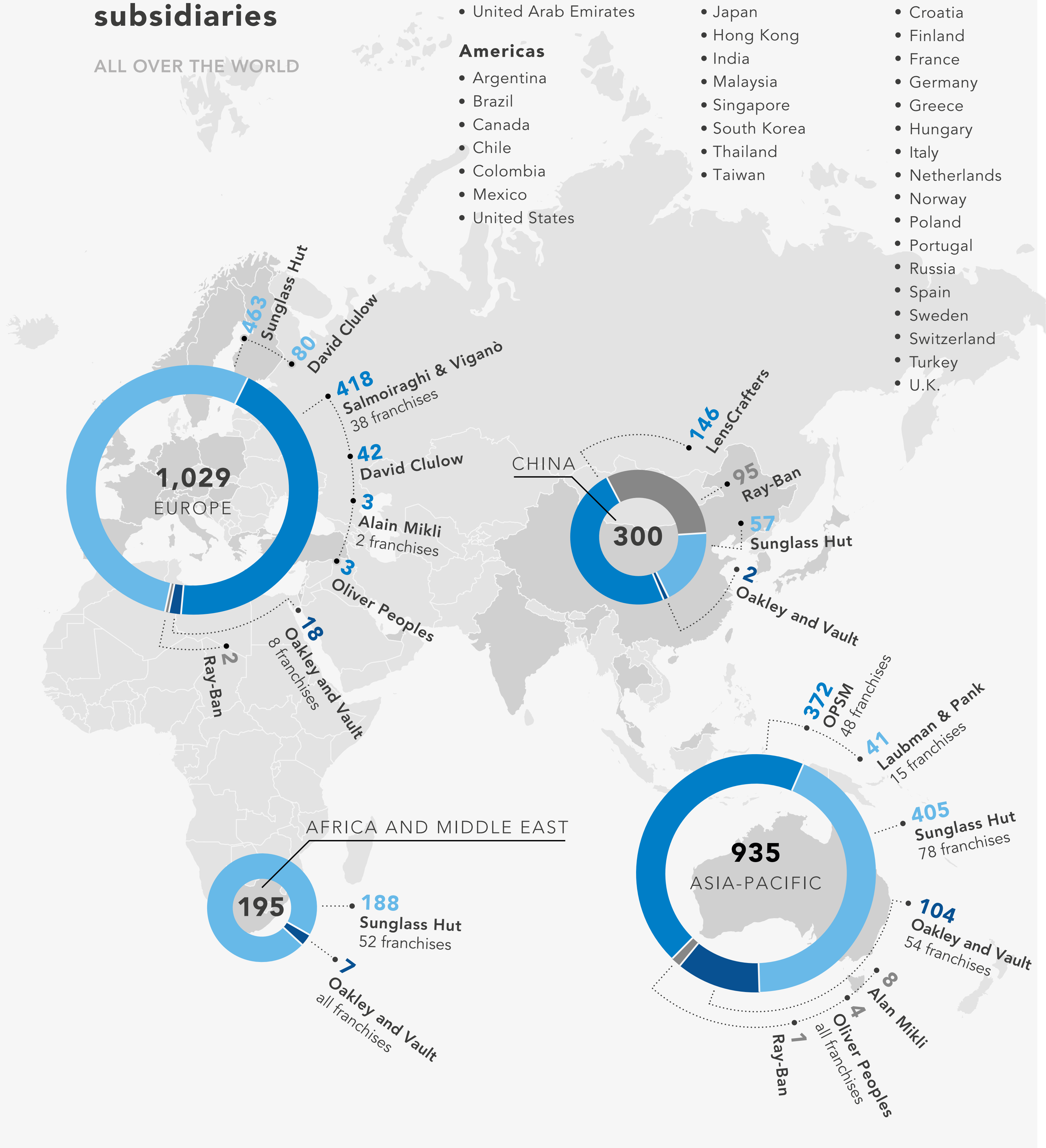
ALL OVER THE WORLD

Africa and Middle East
- Israel
- South Africa
- United Arab Emirates

Americas
- Argentina
- Brazil
- Canada
- Chile
- Colombia
- Mexico
- United States

Asia-Pacific
- Australia
- China
- Japan
- Hong Kong
- India
- Malaysia
- Singapore
- South Korea
- Thailand
- Taiwan

Europe
- Austria
- Belgium
- Croatia
- Finland
- France
- Germany
- Greece
- Hungary
- Italy
- Netherlands
- Norway
- Poland
- Portugal
- Russia
- Spain
- Sweden
- Switzerland
- Turkey
- U.K.



2018 Oakley campaign

2. Operating performance for the year ended December 31, 2017

The Group's growth continued throughout 2017. Despite the generally more challenging global macroeconomic environment, net sales increased by 0.8% (2.2% at constant exchange rates[1]) reaching Euro 9,157.3 million, compared to Euro 9,085.7 million in the same period of 2016.

The trend of the main performance indicators is summarized below.

EBITDA[2] decreased by 0.9% to Euro 1,841.0 million, down from Euro 1,858.1 million in 2016. Adjusted EBITDA[2] increased by Euro 37.8 million, equal to 1.9%, from Euro 1,945.0 million to Euro 1,982.8 million in 2017.

Income from operations decreased by 3.3%, reaching Euro 1,300.6 million, down from Euro 1,345.3 million in the previous year, while the operating margin for 2017 was equal to 14.2%, down from 14.8% in the previous year. Adjusted income from operations[3] increased by 0.7% to Euro 1,442.4 million compared to Euro 1,432.1 million in 2016, while adjusted operating margin[4] remained unchanged at 15.8% as in 2016.

Net income attributable to Luxottica Group stockholders increased by 22.4% to Euro 1,038.4 million from Euro 848.1 million in 2016. Adjusted[5] net income attributable to Luxottica Group stockholders increased by 10.0% from Euro 881.7 million to Euro 970.1 million.

Earnings per share (EPS) came in at Euro 2.17 and Euro 1.77 in 2017 and 2016, respectively. EPS expressed in USD was USD 2.45 in 2017 and USD 1.96 in 2016. Adjusted EPS[6] was equal to Euro 2.03 and Euro 1.84 in 2017 and 2016, respectively. Adjusted EPS[6] expressed in USD was USD 2.29 in 2017 and USD 2.04 in 2016 (at an average rate of Euro/USD of 1.1297 in 2017 and 1.1069 in 2016).

In 2017, careful control of our working capital created strong free cash flow[7] which was equal to Euro 1,028 million. Net debt as of December 31, 2017 was Euro 739.9 million (Euro 1,177.0 million at the end of 2016), with a ratio of net debt to EBITDA[8] of 0.4x (0.6x as of December 31, 2016).

1. We calculate constant exchange rates by applying to the current period the average exchange rates between the Euro and the relevant currencies of the various markets in which we operated during the same period of 2016. Please refer to Attachment 1 for further details on exchange rates
2. For a further discussion of EBITDA and adjusted EBITDA, see the "Non-IFRS Measures" section of the Appendix to this Report
3. For a further discussion of adjusted operating income, see the "Non-IFRS Measures" section of this Report
4. For a further discussion of adjusted operating margin, see the "Non-IFRS Measures" section of this Report
5. For a further discussion of adjusted net income, see the "Non-IFRS Measures" section of the Appendix to this Report
6. For a further discussion of adjusted earnings per share, see the "Non-IFRS Measures" section of the Appendix to this Report
7. For a further discussion of free cash flow, see the "Non-IFRS Measures" section of the Appendix to this Report
8. For a further discussion of net debt to EBITDA, see the "Non-IFRS Measures" section of the Appendix to this Report

3. Significant events in 2017

JANUARY

On January 16, 2017, Essilor International S.A. ("Essilor") and Delfin S.à r.l. ("Delfin") announced the strategic integration of Essilor and Luxottica (the "Integration") through: (i) the transfer from Delfin to Essilor of its shareholding equal to about 62.44% of the current Luxottica share capital (the "Shareholding") against the assignment of newly issued Essilor shares on the basis of an exchange rate of 0.461 Essilor Shares per 1 Luxottica Share (the "Transfer", upon the execution of which Essilor will be renamed EssilorLuxottica"); and (ii) the subsequent mandatory tender offer by EssilorLuxottica, pursuant to the Italian Law, of all outstanding Luxottica shares at the same exchange rate.

As a result of the above and following the hive down of essentially all of its operating assets into a wholly owned subsidiary which was completed on November 1, 2017, the existing Essilor entity will become a holding company with the new name EssilorLuxottica.

As a result of the Transfer, Delfin will hold a 31% to 38% stake in EssilorLuxottica, depending on the level of acceptance of the exchange offer.

The Board of Directors of Luxottica unanimously recognized that the transaction is in Luxottica's best interest and agreed with the strategic reasons for the integration with Essilor.

The Stockholders' Meeting of Essilor held on May 11, 2017 approved, among other things, the Transfer and a capital increase as well as a capital increase to effectuate the exchange offer. The Stockholders' Meeting also approved: (i) amendments to the current by-laws of Essilor; and (ii) adoption of by-laws of EssilorLuxottica, which will enter into force from the date of completion of the Transfer, including, among other things: (i) a 31% limit of voting rights for all stockholders, and (ii) the elimination of double voting rights previously envisioned by the by-laws of Essilor.

The completion of the transaction is pending authorization by the relevant antitrust authorities. To date, the transaction has been unconditionally approved in the European Union and in 14 other countries: Australia, Canada, Chile, Colombia, India, Japan, Mexico, Morocco, New Zealand, Russia, South Africa, South Korea, Taiwan and United States.

As regards the governance of EssilorLuxottica, for the three-year period following the Transfer, the Executive Chairman of Luxottica, Leonardo Del Vecchio, will be the Executive Chairman *(Président-Directeur Général*) of EssilorLuxottica, and the Chairman and CEO of Essilor, Hubert Sagnières, will be the Deputy Executive Chairman *(Vice-Président-Directeur Général délégué)* of EssilorLuxottica, with the same powers as the Executive Chairman.

Upon the conclusion of the Transfer, the Board of Directors of EssilorLuxottica will consist of sixteen members and notably, according to the resolutions of the aforementioned Essilor Stockholders' Meeting held on May 11, 2017:

- Leonardo Del Vecchio, Executive Chairman (Président-Directeur Général) of EssilorLuxottica;
- Hubert Sagnières, Deputy Executive Chairman (Vice-Président-Directeur Général délégué) of EssilorLuxottica;
- Francesco Milleri, Romolo Bardin, Giovanni Giallombardo, Olivier Pécoux to be qualified as non-independent Directors;

- Gianni Mion, Cristina Scocchia, Lucia Morselli, Henrietta Fore[9], Bernard Hours, Annette Messemer and Rafaella Mazzoli to be qualified as independent Directors;
- Juliette Favre, representative of Valoptec Association, the association of Essilor employee stockholders;
- Two directors representing Essilor employees appointed by the Workers' Committee.

On January 29, 2017, the Series D private placement entered into by the company Luxottica U.S. Holdings on January 29, 2010 was repaid at maturity. For further information on accounting issues, see note 22–Long-term financial debt in the notes to the consolidated financial statements.

On January 30, 2017, the Board of Directors of the Luxottica Group authorized the early repayment of the Series I private placement entered into by the company Luxottica U.S. Holdings on December 15, 2011. This repayment took place on April 10, 2017. For further information on accounting issues, see note 22–Long-term financial debt in the notes to the consolidated financial statements.

FEBRUARY

On February 9, 2017, the loans and credit revolving facilities arising from the acquisition of Salmoiraghi & Viganò were respectively repaid and cancelled in advance, as was the pledge of trademarks. For further discussion see Note 22—Long-term financial debt.

On February 23, 2017, the Luxottica Group consolidated its cooperation with Ferrari S.p.A., announcing the signing of a multi-year license agreement for the development, production and marketing of an eyewear product range featuring the Ferrari and Ray-Ban brands.

On February 24, 2017, the French Antitrust Authority informed the Company of its decision regarding the proceedings mentioned in paragraph 29, to which reference should be made for further details.

MARCH

On March 10, 2017 Luxottica Group signed two term facility agreements each for the total notional amount of Euro 250 million each, guaranteed by the subsidiary Luxottica U.S. Holdings Corp. The agreements were signed with Banca IMI S.p.A./Intesa San Paolo, in the role of mandated lead arranger and original lender, respectively ("IMI/Intesa facility") and with Natixis S.A. – Milan Branch in the role of both mandated lead arranger and original lender. The maturity of both agreements is March 10, 2022. In execution of the agreements, on March 10, 2017, Euro 500 million was financed at the EURIBOR interest rate plus a spread of 0.70% and 0.62% for the IMI/Intesa facility and the Natixis Facility, respectively. In relation to these loans, two derivative contracts for interest rate hedging were signed for an aggregate notional value of Euro 500 million, with Intesa San Paolo S.p.A. and Natixis S.A. – Milan Branch, respectively. These contracts qualify as cash flow hedges that fix the EURIBOR rate at an average value of 0.1185% per year.

9. On February 7, 2018 Essilor announced the resignation of Henrietta Fore from the Essilor Board of Directors starting from January 1, 2018. As a consequence a new female director will be nominated in the near future and that appointment will be submitted for approval to Essilor's next General Shareholders' Meeting.

APRIL

At the Stockholders' Meeting on April 28, 2017, the Group's Stockholders approved the Statutory Financial Statements as of December 31, 2016, as proposed by the Board of Directors, and the distribution of a cash dividend of Euro 0.92 per ordinary share. The aggregate dividend amount of Euro 439.7 million was fully paid in May 2017.

On April 10, 2017 Luxottica U.S. Holdings repaid in advance the Series I private placement entered into on December 15, 2011 for a total of USD 350 million (Euro 330.9 million).

MAY

On May 16, 2017, the Board of Directors of Luxottica Group S.p.A. decided to initiate the delisting procedure for the American Depositary Shares (ADS) represented by American Depositary Receipts (ADR) from the New York Stock Exchange.

On May 16, 2017, the Board of Directors of Luxottica Group S.p.A., with regard to the planned integration with Essilor and in view of the changed context resulting therefrom, also approved certain changes to the Stock Option and Performance Share Plans. The changes to the Stock Option Plan concern the anticipation of the term within which the options may be exercised, in consideration of the exchange offer. Regarding the Performance Shares Plan, in accordance with the Regulation approved by the Stockholders' Meeting, the Board resolved to recalibrate its performance targets and to anticipate allocation to before the end of the 2015-2017 reference period. Certain changes to the plans are subject to the launch of the exchange offer by Essilor.

JULY

On July 6, 2017, executing an agreement signed on January 30, 2017, Luxottica Group completed the acquisition of 100% of the Óticas Carol optics franchise chain in Brazil. In particular, the subsidiary Luxottica Brasil Produtos Oticos e Esportivos Ltda acquired 100% of the share capital of the Brazilian company Orange County Participaçoes S.A., owner of the Óticas Carol retail chain. The newly acquired Brazilian company also controls six companies based in Brazil. Following the acquisition, Luxottica Group S.p.A. promptly made the necessary communications to CONSOB pursuant to the CONSOB Market Regulation. Following the investigations carried out, Orange County Participaçoes S.A. and its subsidiaries do not fall within the scope of these provisions.

SEPTEMBER

On September 15, 2017 Luxottica Group repaid the Series G private placement entered into on September 30, 2010 for a total of Euro 50 million.

NOVEMBER

On November 24, 2017, Luxottica Group S.p.A. announced that it had signed a prior agreement with the Italian Revenue Agency for access to the tax benefit of the Patent Box for certain trademarks in its portfolio. The tax benefit related to the Company for the three-year period from 2015 to 2017, amounting to Euro 102.8 million, has been recognized in the 2017 financial statements.

DECEMBER

On December 14, 2017, Luxottica Group and Tiffany & Co. announced the renewal of the exclusive license agreement for the design, manufacture and worldwide distribution of Tiffany & Co. frames and sunglasses. The agreement will continue until December 31, 2027, in compliance with the provided terms and conditions.

On December 15, 2017, Luxottica Group announced a streamlining of its governance system with the departure of Massimo Vian, CEO for Product and Operations, three months before the expiry of his mandate, and by concentrating the powers in the hands of Leonardo Del Vecchio, Executive Chairman, and Francesco Milleri, Deputy Chairman, who also took the office of Chief Executive Officer. Stefano Grassi, Chief Financial Officer of the Group, was co-opted to the Board of Directors.

On December 22, 2017, the President of the United States signed law H.R.1. The new law signed represents the most important tax reform in the United States over the past 30 years. The law includes substantial changes in corporate taxation; more specifically, the law provides for a permanent reduction in the rate applied to companies to 21%. For further discussion, see Note 28 — Information on the consolidated statement of income.

4. Financial results

Luxottica is a leader in the design, manufacture and distribution of fashion, luxury and sports eyewear, with net sales reaching Euro 9.2 billion in 2017, approximately 85 thousand employees and a strong global presence. The Group operates in two segments, which make up sales: (i) manufacturing and wholesale distribution (hereinafter also "Manufacturing & Wholesale" or "Wholesale"); and (ii) retail distribution (hereinafter also "Retail"). See Note 5 of the Notes to the Consolidated Financial Statements as of December 31, 2017 for additional disclosures about our operating segments.

Through our Wholesale distribution segment, we are engaged in the design, manufacture, distribution and marketing of mid- to premium-priced prescription frames and sunglasses, with both own brands and licensed brands. We operate our Retail distribution segment principally through our own chains, which include, among others, LensCrafters, Sunglass Hut, OPSM, Pearle Vision, Laubman and Pank, Oakley ''O'' Stores and Vaults, David Clulow, GMO, Salmoiraghi & Viganò and our Licensed Brands (Sears Optical and Target Optical).

As a result of our numerous acquisitions and the subsequent expansion of our business activities in the United States through these acquisitions, our results of operations, which are reported in Euro, are susceptible to exchange rate fluctuations between the Euro and the US dollar. The average Euro/US dollar exchange rate amounted to USD 1.1297 in 2017 from USD 1.1069 in the same period last year. Our results of operations are also susceptible to currency fluctuations between the Euro and the Australian Dollar due to the significant presence in the Australian Retail distribution segment. Additionally, we incur part of our manufacturing costs in Chinese Yuan; therefore, the fluctuation of the Chinese Yuan against the other currencies in which the Group generates its revenue could impact the demand of our products or our consolidated profitability.

RESULTS OF OPERATIONS

Results of operations (Euro/000)	2017	% Net sales	2016 restated[a]	% Net sales	% Change
Net Sales	**9,157,291**	**100.0%**	**9,085,707**	**100.0%**	**0.8%**
Cost of sales	3,282,098	35.8%	3,153,264	34.7%	4.1%
Gross Profit	**5,875,194**	**64.2%**	**5,932,443**	**65.3%**	**(1.0%)**
Selling expenses	3,025,835	33.0%	2,889,177	31.8%	4.7%
Royalties	164,043	1.8%	169,890	1.9%	(3.4%)
Advertising expenses	501,748	5.5%	567,895	6.3%	(11.6%)
General and administrative expenses	882,971	9.6%	960,214	10.6%	(8.0%)
Total Operating expenses	**4,574,597**	**50.0%**	**4,587,176**	**50.5%**	**(0.3%)**
Income from operations	**1,300,596**	**14.2%**	**1,345,267**	**14.8%**	**(3.3%)**
Financial income	18,199	0.2%	15,469	0.2%	17.6%
Financial expenses	(107,746)	(1.2%)	(81,528)	(0.9%)	32.2%
Other net income/(expenses)	45,441	0.5%	37,099	0.4%	22.5%
Total other income/(expenses)	**(44,106)**	**(0.5%)**	**(28,960)**	**(0.3%)**	**52.3%**
Income before taxes	**1,256,490**	**13.7%**	**1,316,307**	**14.5%**	**(4.5%)**
Income taxes	(216,085)	(2.4%)	(466,373)	(5.1%)	(53.7%)
Net income	**1,040,405**	**11.4%**	**849,934**	**9.4%**	**22.4%**
Of which attributable to					
- Luxottica Group stockholders	*1,038,445*	*11.3%*	*848,137*	*9.3%*	*22.4%*
- Non-controlling interests	*1,960*	*0.0%*	*1,797*	*0.0%*	*9.1%*

(a) The balance of other net income/(expenses) as of December 31, 2016 was retrospectively restated by Euro 2.4 million to reflect the effects described in Note 4 – Business Combinations of the Notes, to which reference should be made for further details

In order to better reflect the Group's operating performance in this Management Report, certain information as presented in these Financial Statements have been adjusted to take into account the following events:

During 2017, the Group incurred:

- Restructuring and reorganization expenses for Euro 115.7 million, Euro 87.3 million net of taxes;
- Non-recurring expenses of Euro 55.6 million, (Euro 36.6 million net of taxes) regarding: (i) the early repayment of loans equal to Euro 29.5 million (Euro 18.2 million net of taxes), (ii) costs related to the integration plan with Essilor of Euro 18.5 million (Euro 13.0 million net of taxes) and (iii) Euro 7.6 million (Euro 5.3 million net of taxes) mainly related to the departure of the CEO for Product and Operations, Massimo Vian;

- Non-recurring expenses of Euro 48.7 million, (Euro 192.3 million net of taxes) regarding: (i) capital gains realized on the sale of a property owned by the Group for Euro 48.7 million (Euro 34.9 million net of tax) and (ii) tax benefits deriving from the Patent Box and the US tax reform for Euro 157.4 million.

During 2016, the Group incurred into:

- Restructuring and reorganization expenses for Euro 69.5 million, Euro 55.0 million net of taxes;

- Non-recurring expenses of Euro 17.4 million, Euro 12.0 million net of taxes, mainly related to the departure of Adil Mehboob-Khan as CEO for Market and to the Oakley integration.

- Non-recurring income of Euro 33.4 million related to the Salmoiraghi & Viganò acquisition.

The cost of sales, income from operations, EBITDA and net income attributable to Luxottica Group stockholders adjusted for items set forth above are as follows:

(Euro mn)	2017	% Net sales	2016	% Net sales	%Change
Adjusted net sales	9,157.3	100%	9,085.7	100%	0.8%
Adjusted cost of sales	3,224.4	35.2%	3,134.6	34.5%	2.9%
Adjusted gross profit	5,932.9	64.8%	5,951.1	65.5%	-0.3%
Adjusted operating expenses	4,490.5	49.0%	4,519.0	49.7%	-0.6%
Adjusted income from operations	1,442.4	15.8%	1,432.1	15.8%	0.7%
Adjusted EBITDA	1,982.8	21.7%	1,945.0	21.4%	1.9%
Other adjusted income/(expenses)	(63.2)	-0.7%	(62.3)	-0.7%	1.5%
Adjusted net income attributable to Luxottica Group stockholders	970.1	10.6%	881.7	9.7%	10.0%
Adjusted EPS	2.03	-	1.84	-	10.3%

Net Sales. Net sales increased by Euro 71.6 million, or 0.8%, to Euro 9,157.3 million in 2017 from Euro 9,085.7 million in 2016. This increase represents increased sales of Euro 94.4 million in the Retail distribution segment, net of the decrease in sales of Euro 22.8 million in the Wholesale distribution segment.

Net sales for the Retail distribution segment increased by Euro 94.4 million, or 1.7%, to Euro 5,652.4 million in 2017 from Euro 5,558.0 million in 2016. The effects from currency fluctuations between the Euro, which is our reporting currency, and the other currencies in which we conduct business, in particular the weakening of the US dollar and the British pound against the Euro, resulted in a decrease in net sales in the Retail distribution segment of Euro 92.4 million.

Net sales in the Wholesale distribution segment decreased by Euro 22.8 million, or -0.6%, to Euro 3,504.9 million in 2017 from Euro 3,527.7 million in 2016. The effects from currency fluctuations between the Euro, which is our reporting currency, and the other currencies in which we conduct business, in particular the weakening of the US dollar and the British pound against the Euro, resulted in a decrease in net sales in the Wholesale distribution segment of Euro 31.8 million.

In 2017, net sales in the Retail distribution segment accounted for approximately 61.7% of total net sales, as compared to approximately 61.2% of total net sales in 2016. This increase in net sales for the Retail distribution segment as a percentage of Group total net sales was primarily attributable to a 1.7% increase in net sales for the Retail distribution segment, which was partially offset by a 0.6% decrease in net sales for the and Wholesale distribution segment compared to 2016.

In 2017, net sales in our Retail distribution segment in the United States and Canada was approximately 74.2% of our total net sales in this segment from 78.2% in 2016. In US dollars, retail net sales in the United States and Canada decreased by 1.7% to USD 4,735.4 million in 2017 from USD 4,819.5 million in 2016. Net sales in the Retail distribution segment in the rest of the world (excluding the United States and Canada) were 25.8% and 21.8% of total net sales in the Retail distribution segment in 2017 and 2016, respectively. During 2017, net sales increased by 20.0% to Euro 1,455.6 million from Euro 1,212.9 million in 2016.

In 2017, net sales in the Wholesale distribution segment in Europe were Euro 1,446.7 million, accounting for 41.3% of our total net sales in this segment, compared to Euro 1,442.7[10] million, or 40.9% of total net sales in this segment, in 2016, increasing by Euro 4.0 million or 0.3% in 2017 as compared to 2016. The increase in net sales in Europe in 2017 compared to 2016 was primarily due to a general increase in consumer demand. Net sales in the United States and Canada were Euro 1,055.6 million, approximately 30.1% of net sales in this segment in 2017, compared to Euro 1,036.2[10] in 2016, approximately 29.4%; in 2017, net sales in the Wholesale distribution segment in the rest of the world were Euro 1,002.6 million or 28.6% of total net sales in this segment, compared to Euro 1,048.8 million, or 29.7% in 2016.

Cost of Sales. Cost of sales increased by Euro 128.8 million, or 4.1%, to Euro 3,282.1 million in 2017 from Euro 3,153.3 million in 2016. As a percentage of net sales, cost of sales increased to 35.8% in 2017 from 34.7% in 2016. This increase was mainly due to the different presentation of certain research and development costs directly correlated to the product. These costs, not material to the Group and included under operating costs in 2016, were reclassified to better reflect the breakdown into various income statement items and to standardize the breakdown between companies belonging to the consolidation scope.

The average number of frames manufactured daily in our facilities in 2017 was approximately 347,979 and 349,488 in 2017 and 2016, respectively.

The adjusted cost of sales[11] increased by Euro 89.9 million, from Euro 3,134.6 million (34.5% of net sales) to Euro 3,224.4 million (35.2% of net sales). A reconciliation of adjusted cost of sales[11] to cost of sales is presented in the table below:

(Euro mn)	2017	2016
Cost of sales	**3,282.1**	**3,153.3**
Restructuring and Reorganization Expenses	(57.7)	(18.6)
Non-recurring Expenses	-	(0.1)
Adjusted cost of sales	**3,224.4**	**3,134.6**

Gross Profit. Our gross profit decreased by Euro 57.2 million, or 1.0%, to Euro 5,875.2 million in 2017 from Euro 5,932.4 million in 2016. As a percentage of net sales, gross profit decreased to 64.2% in 2017 from 65.3% in 2016.

10. As of December 31, 2016, sales relating to the European and North American Wholesale distribution segment was revised to reflect some reclassifications between geographies, such reclassifications are deemed immaterial
11. For a further discussion of adjusted cost of sales, see the "Non-IFRS Measures" section of the Appendix to this Report

Adjusted gross profit[12] decreased by Euro 18.3 million, going down from Euro 5,951.1 million (65.5% of net sales) to Euro 5,932.9 million (64.8% of net sales). Please find the reconciliation between adjusted gross profit[12] and gross profit in the following table:

(Euro mn)	2017	2016
Gross Profit	**5,875.2**	**5,932.4**
Restructuring and Reorganization Expenses	57.7	18.6
Non-recurring Expenses	-	0.1
Adjusted gross profit	**5,932.9**	**5,951.1**

Operating Expenses. Total operating expenses decreased by Euro 12.6 million, or -0.3%, to Euro 4,574.6 million in 2017 from Euro 4,587.2 million in 2016. As a percentage of net sales, operating expenses were 50.0% in 2017 compared to 50.5% in 2016. The reduction is primarily driven by general and administrative expenses which decreased by Euro 77.2 million and by advertising expenses, which decreased by Euro 66.1 million, as a result of the initiatives aimed at improving the Group's efficiency undertaken in 2017.

Adjusted operating expenses[13] decreased by Euro 28.5 million, going down from Euro 4,519.0 million (49.7% of net sales) to Euro 4,490.5 million (49.0% of net sales). A reconciliation of adjusted operating expenses[13] to operating expenses is shown in the table below.

(Euro mn)	2017	2016
Operating expenses	**4,574.6**	**4,587.2**
Restructuring and Reorganization Expenses	(58.0)	(50.9)
Non-recurring Expenses	(26.1)	(17.3)
Adjusted operating expenses	**4,490.5**	**4,519.0**

Selling expenses. Selling and advertising expenses (including royalty expenses) increased by Euro 64.7 million, or 1.8%, to Euro 3,691.6 million in 2017 from Euro 3,627.0 million in 2016 due to the combined effect of the following factors: (i) increase of selling expenses by Euro 136.7 million (+4.7%); (ii) decrease of advertising expenses by Euro 66.1 million (-11.6%) and; (iii) decrease of royalties by Euro 5.8 million (-3.4%). As a percentage of net sales, selling and advertising expenses (including royalty expenses) went from 40.3% in 2017 to 39.9% in 2016.

Adjusted selling expenses[14] increased by Euro 109.1 million, going up from Euro 2,878.7 million (31.7% of net sales) to Euro 2,987.7 million (32.6% of net sales). A reconciliation of adjusted selling expenses[14] to selling expenses is shown in the table below.

(Euro mn)	2017	2016
Selling expenses	**3,025.8**	**2,889.2**
Restructuring and Reorganization Expenses	(38.1)	(10.1)
Non-recurring Expenses	-	(0.4)
Adjusted selling expenses	**2,987.7**	**2,878.7**

12. For a further discussion of adjusted gross profit, see the "Non-IFRS Measures" section of the Appendix to this Report
13. For a further discussion of adjusted operating expenses, see the "Non-IFRS Measures" section of the Appendix to this Report
14. For a further discussion of adjusted selling expenses, see the "Non-IFRS Measures" section of the Appendix to this Report

General and administrative expenses. General and administrative expenses, including intangible asset amortization, decreased by Euro 77.2 million, or -8.0%, to Euro 883.0 million in 2017, as compared to Euro 960.2 million in 2016. As a percentage of net sales, general and administrative expenses were 9.6% and 10.6% in 2017 and 2016. This decrease is mainly due to initiatives aimed at improving the Group's efficiency.

Adjusted general and administrative expenses[15] decreased by Euro 65.6 million from Euro 902.6 million (9.9% of net sales) to Euro 836.9 million (9,1% of net sales). A reconciliation of adjusted general and administrative expenses[15] to general and administrative expenses is shown in the table below:

(Euro mn)	2017	2016
General and administrative expenses	**883.0**	**960.2**
Restructuring and Reorganization Expenses	(19.9)	(40.8)
Non-recurring Expenses	(26.1)	(16.9)
Adjusted general and administrative expenses	**836.9**	**902.6**

Income from Operations. For the reasons described above, income from operations decreased by Euro 44.7 million, or -3.3%, to Euro 1,300.6 million in 2017 from Euro 1,345.3 million in 2016. As a percentage of net sales, income from operations decreased to 14.2% in 2017 from 14.8% in 2016.

Adjusted income from operations[16] increased by Euro 10.2 million, from Euro 1,432.1 million (15.8% of net sales) to Euro 1,442.4 million (15.8% of net sales). A reconciliation of adjusted income from operations[16] to income from operations is shown in the table below:

(Euro mn)	2017	2016
Income from operations	**1,300.6**	**1,345.3**
Restructuring and Reorganization Expenses	115.7	69.5
Non-recurring Expenses	26.1	17.4
Adjusted income from operations	**1,442.4**	**1,432.1**

Other Income/(Expenses). Other income/(expenses) were Euro (44.1) million in 2017 as compared to Euro (29.0) million in 2016. Net interest expense was Euro (89.5) million in 2017 as compared to Euro (66.1) million in 2016. This increase was mainly due to non-recurring expenses relating to the early repayment of the Series I private placement signed by Luxottica U.S. Holding on December 15, 2011, and the bank loans signed by Salmoiraghi & Viganò on December 23, 2015.

Other net income/(expenses) amounted to Euro 45.4 million in 2017 and mainly relate to non-recurring capital gains on the sale of a property owned by the Group. In 2016, this item amounted to Euro 37.1 million and mainly related to the capital gain generated by the acquisition of Salmoiraghi & Viganò.

15. For a further discussion of adjusted general and administrative expenses, see the "Non-IFRS Measures" section of the Appendix to this Report
16. For a further discussion of adjusted income from operations, see the "Non-IFRS Measures" section of the Appendix to this Report

Adjusted other income/(expenses)[17] increased by Euro (0.9) million, from Euro (62.3) million (0.7% of net sales) to Euro 63.2 million (0.7% of net sales). Reconciliation between other income/(expenses) and adjusted other income/(expenses)[17] is shown in the table below:

(Euro mn)	2017	2016
Other income/(expenses)	**(44.1)**	**(29.0)**
Non-recurring Expenses	29.5	-
Non-recurring Income	(48.7)	(33.4)
Other adjusted income/(expenses)	**(63.2)**	**(62.3)**

Income before taxes. Income before taxes decreased by Euro 59.8 million, or -4.7%, to Euro 1,256.5 million in 2017 from Euro 1,316.3 million in 2016. As a percentage of net sales, income before taxes decreased to 13.7% in 2017 from 14.5% in 2016.

Adjusted income before taxes[18] increased by Euro 9.3 million, from Euro 1,369.8 million (15.1% of net sales) to Euro 1,379.1 million (15.1% of net sales). A reconciliation of adjusted income before taxes[18] to net income before taxes is shown in the table below:

(Euro mn)	2017	2016
Income before taxes	**1,256.5**	**1,316.3**
Restructuring and Reorganization Expenses	115.7	69.5
Non-recurring Expenses	55.6	17.4
Non-recurring Income	(48.7)	(33.4)
Adjusted income before taxes	**1,379.1**	**1,369.8**

Tax rate. Our effective tax rate was 17.2% in 2017, down compared to 35.4% in 2016. The decrease is mainly due to the tax benefits deriving from the US tax reform (Euro 97.4 million) and the Patent Box benefit attributable to Luxottica Group S.p.A. (approximately Euro 102.8 million).

Adjusted tax rate[19] was 29.5% in 2017, down compared to 35.5% in 2016. A reconciliation of the adjusted tax rate[19] to the tax rate is shown in the tables below:

2017 (Euro mn)	Income before taxes	Taxes	Net Income	Tax Rate	Reconciliation adjusted tax rate[(a)]
Reported	**1,256.5**	**(216.1)**	**1,038.4**	**17.2%**	**15.7%**
Restructuring and Reorganization Expenses	115.7	(28.4)	87.3	24.6%	2.1%
Non-recurring Expenses	55.6	(19.0)	36.6	34.2%	1.4%
Non-recurring Income	(48.7)	(143.6)	(192.3)	295.0%	10.4%
Adjusted	**1,379.1**	**(407.1)**	**970.1**	**29.5%**	**29.5%**

(a) Amount of reported taxes and taxes related to adjustments on income before taxes in percentage terms

17. For a further discussion of adjusted income from operations, see the "Non-IFRS Measures" section of the Appendix to this Report
18. For a further discussion of adjusted income before taxes see the "Non-IFRS Measures" section of the Appendix to this Report
19. For a further discussion of adjusted tax rate, see the "Non-IFRS Measures" section of the Appendix to this Report

2016 (Euro mn)	Income before taxes	Taxes	Net Income	Tax Rate	Reconciliation adjusted tax rate[a]
Reported	**1,316.3**	**(466.4)**	**848.1**	**35.4%**	**34.0%**
Restructuring and Reorganization Expenses	69.5	(14.5)	55.0	20.9%	1.1%
Non-recurring Expenses	17.4	(5.4)	12.0	31.2%	0.4%
Non-recurring Income	(33.4)	-	(33.4)	0.0%	0.0%
Adjusted	**1,369.8**	**(486.3)**	**881.7**	**35.5%**	**35.5%**

(a) Amount of reported taxes and taxes related to adjustment on income before taxes in percentage terms

Net income. Net income attributable to Luxottica Group stockholders increased by Euro 190.3 million, or 22.4%, to Euro 1,038.4 million in 2017 from Euro 848.1 million in 2016. Net income attributable to Luxottica Group stockholders as a percentage of net sales increased to 11.3% in 2017 from 9.3% in 2016.

Adjusted net income attributable to Luxottica Group stockholders[20] increased by Euro 88.4 million, from Euro 881.7 million (9.7% of net sales) to Euro 970.1 million (10.6% of net sales). A reconciliation of adjusted net income attributable to Luxottica Group stockholders[20] to net income attributable to Luxottica Group stockholders is shown in the table below:

(Euro mn)	2017	2016
Net income	**1,038.4**	**848.1**
Restructuring and Reorganization Expenses	115.7	69.5
- of which tax effect	*(28.4)*	*(14.5)*
Non-recurring Expenses	55.6	17.4
- of which tax effect	*(19.0)*	*(5.4)*
Non-recurring Income	(48.7)	(33.4)
- of which tax effect	*(143.6)*	-
Adjusted net income attributable to Luxottica Group stockholders	**970.1**	**881.7**

Basic earnings per share were Euro 2.17 in 2017 and Euro 1.77 in 2016. Diluted earnings per share were Euro 2.17 in 2017 and Euro 1.77 in 2016.

Adjusted basic earnings per share[21] and adjusted diluted earnings per share[21] were Euro 2.03 and Euro 2.03 in 2017, respectively. Adjusted basic earnings per share[21] and adjusted diluted earnings per share[21] were Euro 1.84 and Euro 1.84 in 2016, respectively.

Net income attributable to non-controlling interests was equal to Euro 2.0 million and Euro 1.8 million in 2017 and 2016, respectively.

20. For a further discussion of adjusted net income attributable to Luxottica Group stockholders, see the “Non-IFRS Measures” section of the Appendix to this Report
21. For a further discussion of adjusted basic earnings per share and adjusted diluted earnings per share, see the “Non-IFRS Measures” section of the Appendix to this Report

CASH FLOW

The following table sets forth certain items included in the consolidated statement of cash flows of this report for the periods indicated.

Consolidated statement of cash flows (Euro/000)	December 31 2017	December 31 2016
A. Cash and cash equivalents, beginning of the period	**866,864**	**864,852**
B. Cash provided by/(used in) operating activities	1,603,240	1,311,270
C. Cash provided by/(used in) investing activities	(700,204)	(763,712)
D. Cash provided by/(used in) financing activities	(530,694)	(572,415)
E. Effect of exchange rate changes on cash and cash equivalents	(79,886)	26,869
F. Net change in cash and cash equivalents	292,456	2,011
G. Cash and cash equivalent, end of the period	**1,159,320**	**866,864**

Operating Activities. Net cash provided by operating activities in 2017 and 2016 was Euro 1,603.2 million and Euro 1,311.3 million, respectively.

Depreciation and amortization were Euro 540.4 million in 2017 as compared to Euro 512.8 million in 2016. The increase is mainly due to investments during the period.

Stock-based compensation expense was equal to Euro 0.8 million in 2017 as compared to Euro 9.6 million in 2016. The decrease in 2017 as compared to 2016 is mainly due to the expiration of the employee stock options plans.

Net cash used for accounts receivable was equal to Euro 80.4 million in 2017 as compared to Euro 28.8 million in 2016. The change is mainly due to the increase in receivables from the North American insurance business.

Net cash provided by inventories was Euro 24.3 million in 2017 compared to the cash outlay of 7.2 million in 2016. The change compared to last year is due to a strict and efficient inventory management, which has made it possible to neutralize the negative impact of extraordinary initiatives related to the change in the distribution model.

Net cash provided by accounts payable was equal to Euro 31.9 million in 2017 compared to net cash used of 28.8 million in 2016. This change is mainly due to the review of contractual terms with certain strategic suppliers started in 2016 and continued in 2017, which led to favorable price conditions while maintaining substantially unchanged payment terms.

Net cash provided by other assets and liabilities was equal to Euro 166.2 million and Euro 30.0 million for 2017 and 2016, respectively. The change in 2017 is primarily driven by the increase in the liability to employees in the North America Retail division due to the timing in payment of salaries to store personnel.

Tax expenses were equal to Euro 319.9 million in 2017 and Euro 475.4 million in 2016. The decrease is mainly due to the tax benefits deriving from the Patent Box benefit amounting to approximately Euro 123.5 million.

Interest expense was equal to 100.9 million and 79.7 million, for 2017 and 2016, respectively.

Investing Activities. Net cash used in investing activities was Euro 700.2 million and Euro 763.7 million in 2017 and 2016, respectively. The investment activities in 2017 were related primarily to (i) the acquisition of property, plant and equipment for Euro 601.2 million; (i) the sale of property, plant and equipment for Euro 100.0 million; (iii) the purchase of intangible assets for Euro 63.8 million; (iv) business acquisitions net of the cash acquired for Euro 136.3 million relating to Óticas Caros for Euro 98 million, Exciton for Euro 11 million, the buyback of franchised stores for Euro 8 million and the adjustment of the price paid for the purchase of 63.2% of Salmoiraghi & Viganò for Euro 4 million.

The investment activities in 2016 were related primarily to (i) the acquisition of property, plant and equipment for Euro 546.2 million, (ii) the acquisition of intangible assets for Euro 111.8 million, (iii) the acquisition of 63.2% of Salmoiraghi & Viganò for Euro 127.5 million, net of the cash acquired.

Financing Activities. Net cash used in financing activities was Euro 530.7 million in 2017 and Euro 572.4 million in 2016. Cash used by financing activities in 2017 consisted primarily of (i) the payment of dividends to the stockholders of the Company for Euro 439.7 million; (ii) the contracting of new loans for Euro 500.0 million; (iii) the repayment of loans for Euro 469.3 million (iv) the decrease in short-term financial debt of Euro 136.7 million. These effects were offset by the exercise of stock options amounting to Euro 17.5 million.

Cash used in financing activities in 2016 consisted primarily of (i) Euro 427.7 million used to pay dividends to the Company stockholders, (ii) Euro 92.4 million related to the increase in bank overdrafts, and (iii) Euro 219.7 million related the acquisition of treasury shares. These amounts are offset by the exercise of stock options equal to Euro 10.1 million.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Assets (Euro/000)	December 31, 2017	December 31, 2016 restated[(a)]	% Change
Current assets:			
Cash and cash equivalents	1,159,320	866,864	34%
Accounts receivable	943,778	932,340	1%
Inventories	831,549	893,472	-7%
Other current assets	232,821	287,759	-19%
Assets held for sale	-	51,284	-
Total current assets	**3,167,467**	**3,031,719**	**4%**
Non-current assets:			
Property, plant and equipment	1,808,834	1,672,554	8%
Goodwill	3,622,396	3,864,955	-6%
Intangible assets	1,225,475	1,477,316	-17%
Investments	14,488	20,186	-28%
Other non-current assets	73,756	97,300	-24%
Deferred tax assets	130,454	133,369	-2%
Total non-current assets	**6,875,403**	**7,265,680**	**-5%**
Total assets	**10,042,870**	**10,297,400**	**-2%**

(a) The balances of goodwill, stockholders' equity and other current assets as of December 31, 2016 were restated by Euro 6.5 million, Euro 2.4 million and Euro 4.1 million, respectively, to reflect the effects described in Note 4 – Business Combinations of the Notes, to which reference should be made for further details

Liabilities and stockholders' equity (Euro/000)	December 31, 2017	December 31, 2016 restated[(a)]	% Change
Current liabilities:			
Short-term borrowings	77,486	208,813	-63%
Current portion of long-term debt	150,411	154,094	-2%
Accounts payable	906,749	944,402	-4%
Tax payable	22,299	17,238	29%
Short-term provisions for risks	169,226	145,701	16%
Other current liabilities	764,394	745,921	2%
Total current liabilities	**2,090,564**	**2,216,168**	**-6%**
Non-current liabilities:			
Long-term financial debt	1,671,281	1,680,951	-1%
Employee benefits	121,555	159,364	-24%
Deferred tax liabilities	147,843	257,036	-42%
Long-term provisions for risks	130,453	122,107	7%
Other non-current liabilities	74,626	79,783	-6%
Total non-current liabilities	**2,145,758**	**2,299,241**	**-7%**
Stockholders' equity:			
Luxottica Group stockholders' equity[(a)]	5,801,085	5,776,036	0%
Non-controlling interests	5,463	5,954	-8%
Total stockholders' Equity	**5,806,548**	**5,781,990**	**0%**
Total liabilities and stockholders' equity	**10,042,870**	**10,297,400**	**-2%**

(a) The balances of goodwill, stockholders' equity and other current assets as of December 31, 2016 were restated by Euro 6.5 million, Euro 2.4 million and Euro 4.1 million, respectively, to reflect the effects described in Note 4 – Business Combinations of the Notes, to which reference should be made for further details

As of December 31, 2017, total assets decreased by Euro 254.5 million to Euro 10,042.9 million, compared to Euro 10,297.4 million as of December 31, 2016 as a result of a decrease in non-current assets of Euro 390.3 million, partially offset by an increase in current assets of Euro 135.7 million.

The increase in current assets of Euro 135.7 million was due to the following: (i) an increase in cash and cash equivalents of Euro 292.5 million due to the effect of what is described in the paragraph on the net financial position; (ii) an increase in accounts receivable (Euro 11.4 million) mainly due to the increase in receivables in the US insurance sector; (iii) a decrease in inventories (Euro 61.9 million) mainly due to a strict and efficient inventory management, which has made it possible to neutralize the negative impact of extraordinary initiatives related to the change in the distribution model; (iv) a decrease in other assets (Euro 106.2 million) mainly due to the sale of a property owned by the Group in March 2017 and reclassified within available-for-sale assets as of December 31, 2016.

The decrease of Euro 390.3 million in non-current assets compared to December 31, 2016 is mainly due to the decrease in goodwill (Euro 242.6 million) and in intangible assets (Euro 251.8 million), partially offset by the increase in property, plant and equipment (Euro 136.3). The following factors must be added to these changes: (i) decrease in equity investments (Euro 5.7 million) mainly due to the

measurement of the equity investment in Eyebiz using the equity method; (ii) decrease in deferred tax assets (Euro 2.9 million) which, together with the change in deferred tax liabilities (Euro 109.2 million), resulted in a net decrease in deferred tax liabilities of Euro 112.1 million. This decrease is mainly due to the adjustment of balances following the US tax reform. The increase in property, plant and equipment (net) is attributable to the acquisition in the period equal to Euro 577.9 million and the acquisition of Óticas Carol, Tortona 35, and the buyback of 20 stores from Australian franchisees, totaling Euro 30.9 million. This effect is partially offset by the negative effect of the fluctuation of exchange rates during 2017 (Euro 138.8 million), by the depreciation in the period equal to Euro 309.2 million and by the decreases in the period equal to Euro 24.5 million. The decrease in intangible assets is due to the negative effect of the exchange rate changes for Euro 124.6 million and to the amortization for the period equal to Euro 231.3 million. These effects are partially offset by purchases for the period of Euro 85.1 million and by the acquisitions of Óticas Carol and Exciton for Euro 20.5 million. The decrease in goodwill is due to the negative effect of exchange rate changes for Euro 345.3 million. This effect was partially offset by the acquisitions of Óticas Carol, Tortona 35 and by the buyback of 20 stores from Australian franchisees, totaling Euro 102.7 million.

The overall decrease of Euro 254.5 million in liabilities is attributable to the decrease in current liabilities (Euro 125.6 million) and in non-current liabilities (Euro 153.5 million). These changes are partially offset by the increase in stockholders' equity (Euro 24.6 million).

The decrease in current liabilities was mainly due to: (i) a decrease in short-term financial payables (Euro 135.0 million) as described in the following paragraph; (ii) an increase in short-term provisions for risks of Euro 23.5 million, mainly due to tax provisions and to returns provisions (Euro 18.0 million); (iii) a decrease in accounts payable (Euro 37.7 million) mainly due to the review of contractual terms with certain strategic suppliers, started in 2016 and continued in 2017, which led to favorable prices while maintaining almost unchanged payment terms; (iv) an increase in other liabilities (Euro 18.5 million) mainly due to changes in payables to employees for wages and salaries, payables to social security authorities and tax payables; (v) an increase in payables for current taxes (Euro 5.1 million).

The change in non-current liabilities was mainly due to the following factors: (i) a decrease in long-term financial payables (Euro 9.7 million) described in the following paragraph related to net financial position; (ii) a decrease in provisions for employee benefits for Euro 37.8 million; (iii) a decrease in deferred tax liabilities for Euro 109.2 million mainly due to the US tax reform, which led to an overall net decrease in the Group's deferred tax liabilities of Euro 78.2 million; (iv) an increase in long-term provisions for risks for Euro 8.3 million; and (v) a decrease in other liabilities for Euro 5.2 million.

Net financial position as of December 31, 2017 and December 31, 2016 was as follows:

Net financial position		
(Euro/000)	**December 31, 2017**	**December 31, 2016**
Cash and cash equivalents	1,159,320	866,864
Short-term borrowings	(77,486)	(208,813)
Current portion of medium-/long-term debt	(150,411)	(154,094)
Long-term financial debt	(1,671,281)	(1,680,951)
Total net financial position	**(739,858)**	**(1,176,993)**

Short-term borrowings consist of the utilized portion of short-term credit lines granted to various subsidiaries of the Group. The interest rate applied to these credit lines depends on the loan currency and is usually floating.

Luxottica and its Italian subsidiaries had credit lines aggregating Euro 540.1 million. The interest rate is a floating rate and is agreed with banks upon use of credit lines. As of December 31, 2017, these credit lines were not utilized.

As of December 31, 2017, the subsidiary Luxottica U.S. Holdings Corp. maintained short-term credit lines with an aggregate maximum availability of Euro 104.7 million (USD 125.6 million converted at the applicable exchange rate of December 31, 2017). The interest rate is a floating rate and is agreed with banks upon use of credit lines. As of December 31, 2017, these credit lines were not utilized. As of December 31, 2017, there was Euro 44.4 million in aggregate face amount of stand-by letters of credit outstanding.

Long-term financial debt, including the portion repayable within 12 months, decreased by Euro 13.4 million compared to December 31, 2016, mainly due to the repayment of the two Private Placements at maturity, the early repayment of the Series I Private Placement of USD 350 million and the bank loan signed by Salmoiraghi & Viganò, partially offset by the signing of two term facility agreements of Euro 250 million each.

NOTE TO THE RESULTS OF THE PARENT COMPANY LUXOTTICA GROUP S.P.A.

The parent company Luxottica Group S.p.A.'s growth continued throughout 2017: (i) net sales increased by 2.8% reaching Euro 3,045.6 million, compared to Euro 2,961.9 million in the same period of 2016; (ii) income from operations increased by 8.5% reaching Euro 699.1 million, compared to Euro 644.6 million in the same period of 2016; (iii) net income increased by 38.9% reaching Euro 631.3 million, compared to Euro 454.4 million in the same period of 2016. Net income increase is mainly ascribable to Patent Box fiscal benefit (approximately Euro 102.8 million) and to the gain realised from the sale of a building held by the Group and sold in March 2017 (approximately Euro 48.7 million).

Net financial position as of December 31, 2017 increased to Euro 1,104 million compared to Euro 921.6 million as of December 31, 2016. The increase is mainly ascribable to the non-current financial indebtedness increase for Euro 500 million, following the signing of two term facility agreements of Euro 250 million each.

Net financial position as of December 31, 2017 and December 31, 2016 is summararised in the table below:

(Euro/000)	December 31, 2017	December 31, 2016	Change
A. Cash and cash equivalents	0	4	(3)
B. Other availabilities	405.767	112.288	293.479
C. Hedging instruments on foreign exchange rates	5.429	5.477	(49)
D. Availabilities (A) + (B) + (C)	**411.196**	**117.769**	**293.427**
E. Current Investments	**379.866**	**371.962**	**7.904**
F. Bank overdrafts	0	49.997	(49.997)
G. Current portion of long term debt	27.481	28.159	(677)
H. Notes payables	-	-	-
I. Other current financial debt	323.101	288.280	34.821
J. Current Liabilities (F) + (G) + (H) + (I)	**350.583**	**366.436**	**(15.853)**
K. Net liquidity (J) - (E) - (D)	**(440.478)**	**(123.295)**	**(317.183)**
L. Long term debt	500.000	-	500.000
M. Notes payables	1.044.082	1.043.230	852
N. Other non-current financial debt	760	1.683	(922)
O. Total non current liabilities (L) + (M) + (N)	**1.544.843**	**1.044.913**	**499.929**
P. Net Financial Position (K) + (O)	**1.104.364**	**921.618**	**182.746**

5. Investments

Investments amounted to Euro 663.0 million in 2017 and Euro 651.6 million in 2016, broken down as follows (in millions of Euro):

(Euro mn)	December 31, 2017	December 31, 2016
Manufacturing and Wholesale distribution and Corporate	426.2	310.1
Retail distribution	236.8	341.5
Group Total	**663.0**	**651.6**

Investments in the manufacturing and Wholesale distribution segment were primarily in Italy (Euro 290.0 million in 2017 and Euro 128.1 million in 2016), in China (Euro 55.7 million in 2017 and Euro 56.5 million in 2016), and in North America (Euro 47.8 million in 2017 and Euro 105.7 million in 2016). The overall increase in investments in 2017 as compared to 2016 is related to routine technology upgrades and expansion of the manufacturing structure and to the continued development of the IT platform and to real estate investment.

Investments in the Retail distribution segment were primarily in North America (Euro 165.4 million in 2017 and Euro 280.9 million in 2016) and Australia and China (Euro 28.6 million in 2017 and Euro 26.0 million in 2016) and related, for both 2017 and 2016, to the opening of new stores, the remodeling of older stores, and to projects for upgrading the IT system.

Intangible assets of Euro 4,847.9 million primarily reflect the Group's investment in goodwill and trademarks as a result of acquisitions over the years.

Amortization recognized in the consolidated statement of income was Euro 540.4 million in 2017 as compared to Euro 512.8 million in 2016.

6. Corporate governance

Information about ownership structure and corporate governance is contained in the corporate governance report which is an integral part of the annual financial report. For additional details please refer to the *Report on Corporate Governance*.

7. Related party transactions

Our related party transactions are neither atypical nor unusual and occur in the ordinary course of our business. These transactions are managed as arms-length market transactions, taking into account the characteristics of the goods and services provided.

For further details regarding related party transactions carried out in 2017, please refer to Note 30 of the Notes to the Consolidated Financial Statements as of December 31, 2017 and to Note 42 of the Notes to the Separate Finanancial Statements as of December 31, 2017 where the transactions with subsidiaries, associates and parent companies are dislosed.

8. Risk Factors

Our future operating results and financial condition may be affected by various factors, including those set forth below.

RISKS RELATING TO OUR INDUSTRY AND GENERAL ECONOMIC CONDITIONS

a. *If current economic conditions deteriorate, demand for the Group's products will be adversely affected, access to credit will be reduced and our customers and the counterparties with which we do business will suffer financial hardship. These factors could reduce sales and in turn adversely impact our business, results of operations, financial condition and cash flows.*

Uncertainty about global economic conditions poses a risk to our business because consumers and businesses may postpone spending in response to tighter credit markets, unemployment, negative financial news and/or declines in income or asset values, which could have a material adverse effect on demand for our products and services.

Discretionary spending can be affected by many factors, including general business conditions, inflation, interest rates, consumer debt levels, unemployment rates, availability of consumer credit, conditions in the real estate and mortgage markets, exchange rates and other matters that may influence consumer confidence. Many of these factors are outside our control. Purchases of these items could decline during periods in which disposable income is lower or prices have increased in response to rising costs or in periods of actual or perceived unfavorable economic conditions. If this occurs or if unfavorable economic conditions continue to challenge the consumer environment, our business, results of operations, financial condition and cash flows could be materially adversely affected.

In the event of financial turmoil affecting the banking system and financial markets, additional consolidation of the financial services industry or significant failure of financial services institutions, there could be a tightening of the credit markets, decreased liquidity and extreme volatility in fixed income, credit, currency and equity markets. In addition, a credit crisis could have material adverse effects on our business, including the inability of customers of our Wholesale distribution business to obtain credit to finance purchases of our products, restructurings, bankruptcies, liquidations and other unfavorable events for our consumers, customers, vendors, suppliers, logistics providers, other service providers and the financial institutions that are counterparties to our credit facilities and other related transactions. The likelihood that such third parties will be unable to overcome such unfavorable financial difficulties may increase. If the third parties on which we rely for goods and services or our wholesale customers are unable to overcome financial difficulties resulting from the deterioration of worldwide economic conditions or if the counterparties to our credit facilities and related transactions do not perform their obligations as intended, our business, results of operations, financial condition and cash flows could be materially adversely affected.

b. *If our business suffers due to changing local conditions, our profitability and future growth may be affected.*

We currently operate worldwide and have our operations in many continents, including Asia, South America and Africa.

Therefore, we are subject to various risks inherent in conducting business internationally, including the following:

- exposure to local economic and political conditions;
- export and import restrictions;
- exchange rate fluctuations and currency controls;
- cash repatriation restrictions;
- application of the Foreign Corrupt Practices Act and similar laws;
- difficulty in enforcing intellectual property and contract rights;
- disruptions of the market, including the financial market;
- accounts receivable collection and longer payment cycles;
- potential hostilities and changes in diplomatic and trade relationships;
- legal or regulatory requirements;
- local antitrust and other market abuse provisions;
- withholding and other taxes on remittances and other payments by subsidiaries;
- investment restrictions or requirements; and
- local laws requiring that certain products contain a specified minimum percentage of domestically produced components.

The likelihood of such occurrences and their potential effect on us vary from country to country and are unpredictable, but any such occurrence may result in the loss of sales or increased costs of doing business and may have a material adverse effect on our business, results of operations, financial condition and prospects.

c. *Political changes in certain countries in which we do business and/or regulatory uncertainty with respect to international trade may and could materially adversely affect our business, financial condition and results by increasing costs and slowing distribution processes.*

On June 23, 2016, the United Kingdom held a referendum in which voters approved an exit from the European Union, commonly referred to as “Brexit.” As a result of the referendum, the British government is negotiating the terms of the United Kingdom’s future relationship with the European Union. Although it is unknown what those terms will be, it is possible that there will be greater restrictions on imports and exports between the United Kingdom and European Union countries and increased regulatory complexity. These changes may adversely affect our operations and financial results. In the United States of America, the new government has expressed its intention to reassess and possibly amend existing trade arrangements such as the North America Free Trade Agreement. During 2017, amendments to some existing trade agreements were approved to restrict free trade, including significant increases in tariffs on goods imported into the US. Any future changes in the US political or regulatory conditions or in laws or policies governing foreign trade, manufacturing, development and investment in the territories and countries where we currently develop and sell products could adversely affect our business.

d. If vision correction alternatives to prescription eyeglasses become more widely available, or consumer preferences for such alternatives increase, our profitability could suffer through a reduction in sales of our prescription eyewear products, including lenses and accessories.

Our business could be negatively impacted by the availability and acceptance of vision correction alternatives to prescription eyeglasses, such as contact lenses and refractive optical surgery.

Increased use of vision correction alternatives could result in decreased use of our prescription eyewear products, including a reduction in sales of lenses and accessories sold in our retail outlets, which could have a material adverse impact on our business, results of operations, financial condition and prospects.

e. Unforeseen or catastrophic losses not covered by insurance could materially adversely affect our results of operations and financial condition.

The Luxottica Group has insurance coverage for the financial mitigation of a series of catastrophic risks. However, losses exceeding the insured limits could materially adversely affect our results of operations and financial condition.

RISKS RELATING TO THE INTEGRATION WITH ESSILOR

f. The completion of the integration is subject to authorization by the Antitrust Authorities of 5 Countries; this authorization process could prevent or delay the integration or modify the economic assumptions.

The Contribution to Essilor of the Luxottica shares held by Delfin, and by extension the integration, is subject to clearance from the relevant antitrust authorities. This authorization process could prevent or delay the integration or reduce synergies and expected benefits.

g. The integration of the operations of Luxottica and Essilor may not be successful and may disrupt operations or generate unanticipated expenses.

The anticipated benefits of the integration will depend in part on the successful integration of the activities of Luxottica and Essilor, which are two complex groups of considerable size that currently operate independently. The companies could encounter significant difficulties in implementing an integration plan, some of which may be unforeseen or beyond the control of Luxottica and Essilor. There is no certainty that all anticipated synergies and benefits will be realized in the envisioned timeframe. In addition, the process of integration will be complex and time-consuming, and management will have to devote significant time and resources to the effort. These efforts could divert management's focus and resources from other strategic opportunities and from day-to-day operational matters during the integration process. Integration efforts also may generate significant unanticipated costs, which could adversely affect the Company's or the combined Group's results of operations.

h. The integration may trigger change of control provisions in certain of Luxottica's financing and operating agreements.

The integration could potentially trigger certain change of control provisions (including requirements to obtain approval from a counterparty or early repayment in the case of certain financing documents), which could result in a range of adverse consequences, including termination of the contracts or amendments to the contracts. Luxottica may be unable to obtain the required consent of a counterparty or may be required to renegotiate contracts on terms that are less favorable to Luxottica. In particular, with the completion of the Transaction with Essilor, there will be a change of control for the

purpose of the Private Placement contracts. Luxottica will have to notify the holders of debt notes of the change of control and offer early repayment, the amount of which will vary depending on whether or not the holders of debt notes will accept the repayment offer.

i. The integration requires a mandatory tender offer for all of the shares of Luxottica that are outstanding subsequent to the Contribution, which could diminish the liquidity of the Luxottica shares that are held by stockholders that do not tender their shares.

The integration requires that, after the Contribution, Essilor will launch a mandatory exchange tender offer for all outstanding shares of Luxottica, pursuant to articles 102 and 106 of the Italian Financial Act, at the same exchange ratio that is applicable to the Contribution. The tender offer would be conducted with a view toward the delisting of the Luxottica shares from the Italian Stock Exchange. Nevertheless, Luxottica's ability to delist will depend on the acceptance level of Luxottica stockholders in the tender offer. If, following the tender offer, Essilor's squeeze out right under article 111 of the Italian Financial Act is not triggered but the Luxottica shares are delisted for lack of sufficient free float, or the free float is significantly reduced, Luxottica stockholders who did not tender their shares will hold shares that are less liquid and, consequently, could encounter difficulties in disposing of them.

RISKS RELATING TO OUR BUSINESS AND OPERATIONS

j. If we are unable to successfully introduce new products and develop and defend our brands, our future sales and operating performance may suffer.

The market segments of mid- and premium-priced prescription frames and sunglasses in which we compete are particularly vulnerable to changes in fashion trends and consumer preferences. Our historical success is attributable, in part, to our introduction of innovative products which are perceived to represent an improvement over products otherwise available in the market. Our future success will depend on our continued ability to develop and introduce such innovative products and continued success in building our brands. If we are unable to do so, sales could be affected, inventory levels could rise, leading to additional costs for storage and potential write-downs relating to the value of excess inventory. Moreover, there could be a negative impact on production costs since fixed costs would represent a larger portion of total production costs due to the decline in quantities produced, which could materially adversely affect our results of operations.

k. In the next few years, Luxottica may continue to be exposed to disputes by holders of shares issued on the New York Stock Exchange despite the delisting.

Despite the delisting from the New York Stock Exchange, Luxottica and its directors may continue to be subject to legal actions by the shareholding, within the statute of limitations established by local laws.

l. If we are not successful in completing and integrating strategic acquisitions to expand or complement our business, our future profitability and growth could be at risk.

As part of our growth strategy, we have made, and may continue to make, strategic business acquisitions to expand or complement our business. Our acquisition activities, however, can be disrupted by actions undertaken by competitors, changes in governmental regulations and rapid developments in our industry. We may face additional risks and uncertainties following an acquisition, including (i) difficulty in integrating the newly acquired business and operations in an efficient and effective manner, (ii) inability to achieve strategic objectives, cost savings and other benefits from the acquisition, (iii) the lack of success by the acquired business in its markets, (iv) the loss of key employees of the acquired business, (v) a decrease in the focus of senior management on our operations, (vi) difficulty

integrating human resources systems, information systems, inventory management systems and assortment planning systems of the acquired business with our systems, (vii) management of the cultural differences between our organization and that of the acquired business and (viii) liabilities that were not known at the time of acquisition or the need to address tax or accounting issues.

If we fail to timely recognize or address these matters or to devote adequate resources to them, we may fail to achieve our growth strategy or otherwise realize the intended benefits of any acquisition.

Even if we are able to integrate our business operations successfully, the integration may not result in the realization of the full benefits of synergies, cost savings, innovation and operational efficiencies that may be possible from the integration or in the achievement of such benefits within the forecasted period of time.

m. If we are unable to grow according to our plans, operating margins may be reduced as a result of decreased efficiency of distribution.

In order to achieve our business objectives and manage our growth effectively, we are required to increase and streamline production and implement manufacturing efficiencies where possible, while maintaining strict quality control and the ability to deliver products to our customers in a timely and efficient manner. Therefore, we must also continuously develop new product designs and features, and it is necessary to expand our information systems and operations, and train and manage an increasing number of management-level and other employees. If we are unable to manage these matters effectively, our distribution process could be adversely affected and we could lose market share in affected regions, which could materially adversely affect our business prospects.

n. If we do not correctly predict future economic conditions and changes in consumer preferences, our sales of premium products and profitability could suffer.

The fashion and consumer products industries in which we operate are cyclical. Downturns in general economic conditions and uncertainties regarding future economic prospects, which affect consumer disposable income, have historically adversely affected consumer spending habits in our principal markets and thus made difficult the growth in sales and profitability of premium-priced product categories. Therefore, future economic downturns or uncertainties could have a material adverse effect on our business, results of operations and financial condition, including sales of our designer and other premium brands.

The industry is also subject to rapidly changing consumer preferences and future sales may suffer if the fashion and consumer products industries do not continue to grow or if consumer preferences shift away from our products. Changes in fashion could also affect the popularity and, therefore, the value of the fashion licenses granted to us by designers. Any event or circumstance resulting in reduced market acceptance of one or more of these designers could reduce our sales and the value of our models from that designer. Unanticipated shifts in consumer preferences may also result in excess inventories and underutilized manufacturing capacity. In addition, our success depends, in large part, on our ability to anticipate and react to changing fashion trends in a timely manner. Any sustained failure to identify and respond to such trends could materially adversely affect our business, results of operations and financial condition and may result in the write-down of excess inventories and idle manufacturing facilities.

o. If we do not continue to negotiate and maintain favorable license agreements, our sales or cost of sales could suffer.

We have entered into license agreements that enable us to manufacture and distribute prescription frames and sunglasses under certain designer names, including Chanel, Prada, Miu Miu, Dolce &

Gabbana, Bulgari, Tiffany & Co., Versace, Valentino, Burberry, Ralph Lauren, Tory Burch, Coach, Armani, and Michael Kors. These license agreements typically have terms of between four and ten years and may contain options for renewal for additional periods and require us to make guaranteed and contingent royalty payments to the licensor. We believe that our ability to maintain and negotiate favorable license agreements with leading designers in the fashion and luxury goods industries is essential to the branding of our products and, therefore, material to the success of our business. Accordingly, if we are unable to negotiate and maintain satisfactory license agreements with leading designers, our growth prospects and financial results could materially suffer from a reduction in sales or an increase in advertising expenses and royalty payments to designers. For the years ended December 31, 2017 and 2016, no single license agreement accounted for more than 5.0% of total sales.

p. As we operate in a complex international environment, if new laws, regulations or policies of governmental organizations, or changes to existing ones, occur and cannot be managed efficiently, the results could have a negative impact on our operations, our ability to compete or our future financial results.

Compliance with international laws and regulations that apply to our international operations increases our costs of doing business, including cost of compliance, in certain jurisdictions, and such costs may rise in the future as a result of changes in these laws and regulations or in their interpretation or enforcement. This includes, in particular, our manufacturing activities and services provided to us by third parties within our supply chain, which are subject to numerous workplace health and safety laws, environmental laws, labor laws and other similar regulations and restrictions on the sourcing of materials (including with respect to "conflict mineral" zones) that may vary from country to country and are continuously evolving. In certain countries, failure to comply with applicable laws and regulations relating to workplace health and safety protection and environmental matters could result in criminal and/or civil penalties being imposed on responsible individuals and, in certain cases, the Company.

Starting from May 2018, a new Regulation on Data Protection will come into force in the European Union with fines and penalties calculated on the basis of turnover.

In certain circumstances, even if no fine or penalty is imposed for our failure to comply with an applicable law or regulation, we may suffer reputational harm if we fail to comply with applicable laws and regulations.

We have implemented policies and procedures designed to facilitate our compliance with these laws and regulations, but there can be no assurance that our employees, contractors or agents will not violate such laws and regulations or our policies. Any such violations could individually, or in the aggregate, adversely affect our financial condition or operating results.

Moreover, in some specific businesses, such as Oakley and the Eye Safety System, the Luxottica Group is subject to specific laws and regulations given the government nature of the counterparty. These laws and regulations, including those for obtaining authorizations from public authorities, approvals and export licenses, may impose various additional costs and risks on our business. We also may become subject to audits, reviews and investigations of our compliance with these laws and regulations.

q. If we are unable to protect our proprietary rights, our sales might suffer, and we may incur significant additional costs to defend such rights.

We rely on trade secret, fair competition, trademark, patent and copyright laws to protect our rights to certain aspects of our products and services, including product designs, brand names, proprietary

manufacturing processes and technologies, product research and concepts and goodwill, all of which we believe are essential to the success of our products and services and our competitive position. However, pending trademark or patent applications may not in all instances result in the issuance of a registered trademark or patent, and trademarks or patents granted may not be effective in thwarting competition or be held valid if subsequently challenged.

In addition, the actions we take to protect our proprietary rights may be inadequate to prevent imitation of our products and services. Our proprietary information and data could become known to competitors, and we may not be able to meaningfully protect our rights to proprietary information/know-how. Furthermore, other companies may independently develop substantially equivalent or better products or services that do not infringe on our intellectual property rights or could even assert rights in, and ownership of, our proprietary rights. Moreover, the laws of certain countries do not protect proprietary rights to the same extent as the laws of the United States or of the member states of the European Union.

Consistently with our strategy of vigorously defending our intellectual property rights, we devote substantial resources to the enforcement of patents and trademarks, to the protection of our trade secrets or other intellectual property rights and to the determination of the scope or validity of the proprietary rights of others that might be asserted against us. However, if the level of potentially infringing activities by others were to increase substantially, we might have to significantly increase the resources we devote to protecting our rights. Additionally, third parties may assert patent, copyright, trademark or similar rights against intellectual property that is important to our business.

The resolution or compromise of any litigation or other legal process to enforce such alleged third-party rights, regardless of its merit or resolution, could be costly and divert the efforts and attention of our management. We may not prevail in any such litigation or other legal process or we may compromise or settle such claims because of the complex technical issues and inherent uncertainties in intellectual property disputes and the significant expense in defending such claims. An adverse determination in any dispute involving our proprietary rights could, among other things, (i) require us to coexist in the market with competitors utilizing the same or similar intellectual property, (ii) require us to grant licenses to, or obtain licenses from, third parties, (iii) prevent us from manufacturing or selling our products, (iv) require us to discontinue the use of a particular patent, trademark, copyright or trade secret or (v) subject us to substantial liability. Any of these possibilities could have an adverse effect on our business by reducing our future sales or causing us to incur significant costs to defend our rights.

r. If we are unable to maintain our current operating relationships with host stores including of our retail licensed brands and other host relationships, we could suffer a loss in sales and possible impairment of certain intangible assets.

Our sales depend in part on our relationships with the host stores that allow us to operate our retail licensed brands, including Sears Optical and Target Optical and other host relationships, including Macy's. If our relationship with Sears Optical, Target Optical or Macy's were to end, we would suffer a loss of sales and the possible impairment of certain intangible assets. This could have a material adverse effect on our business, results of operations, financial condition and prospects.

s. If we fail to maintain an efficient distribution and production network or if there is a disruption to our critical manufacturing plants or distribution network in highly competitive markets, our business, results of operations and financial condition could suffer.

The market segments of mid- and premium-priced prescription frames and sunglasses in which we operate are highly competitive. We believe that, in addition to successfully introducing new products, responding to changes in the market environment and maintaining superior production capabilities,

our ability to remain competitive is highly dependent on our success in maintaining an efficient distribution network. If we are unable to maintain an efficient distribution network, our sales may decline due to the inability to timely deliver products to customers and our profitability may decline due to an increase in our per unit distribution costs in the affected regions, which may have a material adverse impact on our business, results of operations and financial condition.

t. If we were to become subject to adverse judgments or determinations in current or future legal proceedings, our future profitability could suffer through a reduction in sales, increased costs or reputational damage due to our failure to adequately communicate the impact of any such proceeding or its outcome to the investor and business communities.

In the ordinary course of our business, we become involved in some claims, lawsuits, investigations and governmental and administrative proceedings, some of which are or may be significant. Adverse judgments or determinations in one or more of these proceedings could require us to change the way we do business or use substantial resources in adhering to the settlements and could have a material adverse effect on our business, including, among other consequences, by significantly increasing the costs required to operate our business.

Ineffective communications, during or after these proceedings, could amplify the negative effects, if any, of these proceedings on our reputation and may result in a negative market impact on the price of our securities.

u. Changes in our tax rates or exposure to additional tax liabilities could affect our future results.

We are subject to taxes in Italy, the United States and numerous other jurisdictions. Our future effective tax rates could be affected by changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities, or changes in tax laws or their interpretation. Any of these changes could have a material adverse effect on our profitability. We also are regularly subject to the examination of our income tax returns by the Italian tax authority, the U.S. Internal Revenue Service as well as the governing tax authorities in other countries where we operate. We routinely assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for tax risks. Currently, some of our companies are under examination by various tax authorities. There can be no assurance that the outcomes of the current ongoing examinations and possible future examinations will not materially adversely affect our business, results of operations, financial condition and prospects.

v. If there is any inadequacy, interruption, security failure or breach of our information technology systems, whether owned by us or managed by third parties, this may result in remediation costs, reduced sales due to an inability to properly process information and increased costs of operating our business.

We rely on information technology systems both managed internally and outsourced to third parties across our operations, including for management of our supply chain, point of sale processing in our stores and various other processes and transactions. Our ability to effectively manage our business and coordinate the production, distribution and sale of our products depends on, among other things, the reliability and capacity of these systems. The failure of these systems to operate effectively, network disruptions, problems with transitioning to upgraded or replacement systems, data losses or a breach in data security of these systems could cause delays in product supply and sales, reduced efficiency of our operations, unintentional disclosure of customer or other confidential information of the Group leading to additional costs and possible fines or penalties, legal defense and settlement costs, or damage to our reputation. Luxottica obtained insurance coverage to limit the financial impact of these circumstances; in spite of this, should the damage exceed the policy limits, our results

of operations could be materially affected.

w. If we record a write-down for inventories that are obsolete or exceed anticipated demand or for other assets the net realizable value of which is below the carrying amount, such charges could have a material adverse effect on our results of operations.

We record a write-down for product and component inventories that have become obsolete or exceed anticipated demand or net realizable value. We review our property, plant and equipment for impairment whenever events or changed circumstances indicate that the carrying amount of an asset may not be recoverable, and we determine whether valuation allowances are needed against other assets, including, but not limited to, accounts receivable. If we determine that impairments have occurred, we record a write-down equal to the amount by which the carrying value of the assets exceeds their recoverable amount. Although we believe our inventory and other asset-related provisions are currently adequate, no assurance can be made that, given the rapid and unpredictable pace of product obsolescence, we will not incur additional inventory or asset-related charges, which could have a material adverse effect on our results of operations.

x. Leonardo Del Vecchio, our chairman and principal stockholder, controls 62.44% of our voting power and is in a position to affect our ongoing operations, corporate transactions and any matters submitted to a vote of our stockholders, including the election of directors and a change in corporate control.

As of December 31, 2017, Mr. Leonardo Del Vecchio, the Chairman of our Board of Directors, through the company Delfin S.à r.l., has voting rights of 302,846,957 ordinary shares, or 62.44% of the issued share capital. As a result, Mr. Del Vecchio has the ability to exert significant influence over our corporate affairs and to control the outcome of virtually all matters submitted to a vote of our stockholders, including the election of our directors, the amendment of our Bylaws, and the approval of mergers and acquisitions and other significant corporate transactions.

Mr. Del Vecchio's interests may conflict with or differ from the interests of our other stockholders. In situations involving a conflict of interest between Mr. Del Vecchio and our other stockholders, Mr. Del Vecchio may exercise his control in a manner that would benefit him to the potential detriment of other stockholders. Mr. Del Vecchio's significant ownership interest could delay, prevent or cause a change in control of our Company, any of which may be adverse to the interests of our other stockholders.

FINANCIAL RISKS

y. If the U.S. dollar or the Australian dollar weaken relative to the Euro or the Chinese Yuan strengthens relative to the Euro, our profitability as a consolidated group could suffer.

Our principal manufacturing facilities are located in Italy and China. We also maintain manufacturing facilities in Brazil, India and the United States as well as sales and distribution facilities throughout the world. As a result, our results of operations could be materially adversely affected by exchange rate fluctuations in two principal areas:

- we incur most of our manufacturing costs in Euro and in Chinese Yuan, and receive a significant part of our revenue in other currencies such as the U.S. dollar, the Australian dollar and the Brazilian real. Therefore, a strengthening of the Chinese Yuan could negatively impact our consolidated results of operations; and

- a substantial portion of our assets, liabilities, revenue and costs are denominated in various currencies other than Euro, with a substantial portion of our revenue and operating expenses being denominated in U.S. dollars. As a result, our operating results, which are reported in Euro, are affected by exchange rate fluctuations, particularly between the U.S. dollar and the Euro.

As our international operations grow, future changes in the exchange rate of the Euro against the U.S. dollar and other currencies may negatively impact our reported results, although we have in place policies designed to manage such risk.

z. If economic conditions around the world worsen, we may experience an increase in our exposure to credit risk on our accounts receivable which may result in a higher risk that we are unable to collect payments from our customers and, potentially, increased costs due to reserves for doubtful accounts and a reduction in sales to customers experiencing credit-related issues.

A substantial majority of our outstanding accounts receivable are not covered by collateral or credit insurance. While we have procedures to monitor and limit exposure to credit risk on our trade and nontrade receivables, there can be no assurance such procedures will effectively limit our credit risk and avoid losses, which could have a material adverse effect on our results of operations.

9. Consolidated non-financial statement

The Luxottica approach to sustainability

"TO SEE THE BEAUTY OF LIFE". THIS IS LUXOTTICA'S SUSTAINABILITY VISION, AND HAS ALWAYS BEEN PART OF ITS DNA AND BUSINESS APPROACH.

The eyewear created by Luxottica has an intrinsic social purpose: that of helping people to see. The cornerstone of the Group's mission is the health and well-being of the eyes, which is enabled by the Company's finest products, manufactured according to the highest standards that define "made in Luxottica" quality, and cutting-edge services.

Sustainability in its widest environmental, social and economic sense is an integral part of the Group's strategy and its entire value chain, and is deeply rooted in its history. Founded in 1961 among the Belluno Dolomites of Italy, Luxottica has grown decade by decade into a global company and a leading designer, manufacturer and distributor of high-end, luxury and sports eyewear. Growth and success have gone hand-in-hand with its commitment to sustainable development and social responsibility: a commitment that is evidenced by the focus on the well-being of the Group's employees and the communities in which Luxottica operates, as well as by the Group's respect for the environment. One needs to look no further than the Group's bond with the areas where it operates, which Luxottica has protected and promoted since the construction of its very first manufacturing facility in Agordo, Italy, near the National Park that was declared a UNESCO site in 2009.

On April 28, 2017, an important milestone was reached in the path towards sustainable and responsible growth: the Group published a dedicated section on www.luxottica.com, detailing its various sustainability initiatives and accomplishments, with the aim of beginning to announce its performance in a transparent and systematic way. The launch of the Sustainability section on the website paved the way for this Consolidated non-financial statement, prepared in accordance with Italian Legislative Decree 254/2016 (which implemented European Directive 2014/95/EU on the disclosure of non-financial information and information on diversity within administrative, management and supervisory bodies).

THE SUSTAINABILITY REPORTING PROCESS

MATERIALITY ANALYSIS

Commitment to excellence, Visual well-being, Social impact and Protecting the environment are the pillars of Luxottica's sustainability vision, and make up the chapters of this Statement.

Their identification was based on the principle of materiality, and involved the definition, assessment and selection of stakeholders and topics regarded as relevant and material for the Group, integrating the requirements of the GRI Standards[22] with the UN Sustainable Development Goals (SDGs), and the information obligations established by Italian Legislative Decree 254/2016.

22. The GRI Sustainability Reporting Standards, or GRI Standards, will definitively replace the GRI-G4 guidelines for sustainability reporting as of 1 July 2018

1. Relevance for Luxottica	2. International framework	3. Legislative framework
Topics identified and selected on the basis of the Group's strategic priorities and through discussion with the top management	Topics selected according to the framework defined by the Sustainable Development Goals to which the Group contributes	Topics selected in accordance with the minimum content explicitly established by Italian Legislative Decree 254/2016

The first phase of the process involved the analysis of various information sources inside and outside the Group[23], the examination of regulations and international guidelines[24] and a comparative analysis of best-practice companies in the area of sustainability reporting. This process led to the identification of thematic areas (in the form of a topic tree diagram) and Luxottica stakeholders, that were subsequently the subject of the interviews carried out in November 2016 with representatives of the Company's various departments in Italy and abroad. The aim was to ascertain the strategic importance of these topics and of stakeholders within the organization. At the end of the cycle of interviews, all of the topics and stakeholders were confirmed as strategic, and were used as the starting point for a direct dialogue with the top management concerning the social and environmental impact that the Group's activities have both internally and externally.

Luxottica's sustainability vision, "To see the beauty of life", and its pillars are a natural reflection of the thoughts and ideas that surfaced during these conversations. Based on these thoughts and considerations, it was also possible to correlate the content of each pillar with the Sustainable Development Goals, and to identify those goals to which the Group directly contributes.

The materiality analysis concluded with the integration of these identified topics with the content required by Italian Legislative Decree 254/2016 that are to be included in the Group's Consolidated non-financial statement.

The entire materiality analysis process also shed light on activities developed by individual business areas and subsidiaries over the years, further proof that sustainability is part of Luxottica's DNA. This was important in terms of:

- defining relevant and priority issues for non-financial reporting;
- consolidating the sustainability strategy adopted by the Group, which has never been disclosed publicly up until now, and identifying its key elements:
  - the central importance of the system of values represented by the Group's Code of Ethics, mentioned in the Commitment to Excellence chapter;
  - the responsible management of energy resources, water and waste, and the use of alternative energy sources. See chapter Protecting the environment;
  - the responsible management of the supply chain, as described in the Commitment to Excellence chapter;

23. The so-called "desk analysis" included the following documents: the communication texts produced by the Investor Relations department, the Perception Study carried out in 2015, the questionnaires sent by SRI investors, the ESG reports published by Sustainalytics in 2015, 2016 and 2017, the social listening reports, and the analyses carried out by the Reputation Institute on behalf of Luxottica Group
24. Examples include Directive 2014/95/EU of the European Parliament and of the Council, the European Commission Guidelines on non-financial reporting, the UN Sustainable Development Goals, the GRI Standards, the UN Global Compact ten principles , the AccountAbility principles, and the Carbon Disclosure Project

- the culture of quality and consumer satisfaction, as described in the Visual well-being chapter;

- the welfare system, the management of talent and diversity, the protection of employee health and safety. See the Social impact chapter;

- the initiatives in the areas and local communities in which the Group operates, outlined in the Social impact chapter;

- defining future environmental sustainability and social responsibility goals inspired by many international initiatives such as the UN's 2030 Agenda and the Paris Climate Change Conference;

- communicating the theme of sustainability in a strategic and structured way.

NON-FINANCIAL REPORTING SCOPE

In order to provide a complete and consistent overview of the Group's activities, in addition to meeting the information requirements of Italian Legislative Decree 254/2016, in 2017 Luxottica outlined a plan to expand its non-financial reporting scope, that has led to the creation of this Statement.

With regard to the economic and social results, the reporting scope corresponds to that of the consolidated companies, with the full line-by-line method in the Group's consolidated financial statements.

Meanwhile, as regards environmental, employee health and safety issues and the supply chain, the scope of analysis corresponds to the Group's manufacturing and logistics activities (Operations), i.e. the first phases of its value chain. It is indeed because of their industrial nature that Operations have the greatest environmental impact in the Wholesale division, and a notable impact on the Group overall and, as such, represent a suitable example of the effects that Luxottica's activities have on the environment and the health and safety of its employees.

Not included, however, was the Retail division, which comprises approximately 9,000 stores across the world, of which around 1,800 are franchises and over 7,000 are directly managed. The introduction of additional formats (free standing stores, shop-in-shops and concessions), the presence of stores in different types of channels (department stores, shopping malls and travel retail locations) and the use, in most cases, of full service rental contracts which do not provide the level of expense data that is required to summarize energy consumption and other related information, result in an extremely fragmented overview. As a result of these factors, it was not possible to identify and collect the necessary information to give an accurate representation of the relative environmental impact.

As a result, along with the Italian manufacturing facilities already analyzed in 2016 in the Sustainability section of the Company website, the reporting scope of environmental, health and safety and supply chain aspects also includes the Group's other manufacturing sites and logistics hubs. More specifically, environmental indicators were identified with the input of representatives of the Group's central Operations department, starting with the Italian sites, and then with a gradual expansion of the reporting scope. With regard to 2017, the same indicators were also calculated in the Chinese, Brazilian and US manufacturing facilities to allow management to measure relevant aspects from a strategic perspective that can be monitored over time. At the same time, the measurement of the Carbon footprint of the Group's logistics and distribution system also began.

During the analysis phase, the GRI Standards Topics and relative Disclosures were selected, required in order to provide a complete and consistent overview of the economic, environmental and social impact of the Group's activities, and meet the information requirements of Italian Legislative Decree 254/2016 through the GRI-referenced option. With reference to health and safety matters within the Operations, the information reported in this Statement are those that the Group analyses and

monitors in the normal course of its business. The indicators were developed in accordance with the "Workplace accident statistics" UNI 7249/2007 regulation and then integrated with additional Company-specific KPIs. Please refer to the Content index at the end of this Statement for the list of GRI Standard topics and relative indicators used here.

The data collection process was managed centrally by the working group dedicated to drafting the document, and coordinated by the Group's Investor Relations and Corporate Communications department. In this way, all of the departments providing information contributed to tracking and validating data and information which was subsequently consolidated at Group level. The data collected as a result of this was then used to draft the content which is the basis of this Consolidated non-financial statement and used in the Sustainability section of www.luxottica.com.

As well as covering the entire value chain, the gradual extension of non-financial reporting to the Retail and Wholesale divisions in the primary geographic regions and to the analysis of local distribution flows, will help the Company management:

- monitor the environmental impact of processes and activities;
- identify priority action areas;
- gather information for launching new initiatives and defining improvement plans.

#ToSeeTheBeautyOfLife

It is the vision that inspires Luxottica's sustainable business approach and is an integral part of the Group's strategy. It stems from a notion of universal beauty, visible to everyone, that assumes a tangible form in the search for a balance between well-being, respect for the environment, ethics and the transparency of relations.

Luxottica has always strived to make the best eyewear in the world, innovative in design and excellent in quality, so people can enjoy the beauty of life in every aspect of the world. A world to understand, protect and promote. For Luxottica, this is sustainability.

Sustainability in its wider meaning - environmental, social, economic – is indeed a principle that has deep roots in the Luxottica story, becoming part of the Company culture over the years and permeating the entire value chain.

Leveraging on the excellence of the Group, Luxottica makes an increasingly greater contribution to the economic and social progress of the communities in which it operates, the protection of the environment and the promotion of the territory, thus forming a connection between its economic and financial results and the creation of shared value.

Evidence of this vision is found in the Code of Ethics, which outlines the key principles and values that inspire Luxottica's ethical and responsible way of doing business. Due to its fundamental importance, the Code is applied to all companies, geographies and functions of the organization, and must be adopted by all stakeholders that have direct relations with Luxottica, including employees, partners and suppliers.

The environment is a crucial factor in Luxottica's vision of sustainability. The Company was founded close to what is today the National Park of the Belluno Dolomites. The attention and respect the Group pays to this land of extraordinary beauty and universal value, declared a UNESCO World Heritage Site, is part of its DNA and has accompanied its growth over time. Therefore, the desire to preserve resources and promote the beauty of nature and the landscape, reducing the impact of its activities on the environment, has deep roots and strong reasons behind it.

Due to its pragmatic and uncompromising approach focused on excellence, the Group has set increasingly challenging sustainability goals for itself that go beyond the standards required by regulations, drawing on best practices from the international arena.

Luxottica's vision of sustainability is founded on four pillars that correspond to specific commitments and concrete initiatives. When defining these pillars the Group took much of its inspiration from two of the most recent milestones: the United Nations 2030 Agenda, which established the Sustainable Development Goals to be met by 2030, and the Paris Climate Change Conference (COP21), which defined a global action plan to avoid dangerous climate change by limiting global warming to well below 2°C.

COMMITMENT TO EXCELLENCE

In its continuous quest for excellence, its ability to reinvent itself and innovate are part of the story of Luxottica and characteristic of the Group's business approach. This commitment can be seen everywhere and it shapes Luxottica's long-term goals and success. It is a reflection of the Group's untiring desire to keep evolving and improving while staying faithful to its principles.

VISUAL WELL-BEING

Luxottica promotes the well-being and health of the eyes through the excellence of its products and its world-class customer service in stores and online. High quality glasses and lenses, the result of continuous design, material and technology innovations, are complemented by the cutting-edge ophthalmic treatments and eye exams available in the Group's over 5,100 optical retail stores around the world.

SOCIAL IMPACT

Since the outset Luxottica has stood out for being a socially responsible company, ready to respond with innovative solutions to changes and the emergence of new requirements from communities and employees. This is a role it will play in an increasingly insightful manner to promote well-being and social equality in the countries where it operates, as well as the professional and personal growth, health and safety of its employees.

PROTECTING THE ENVIRONMENT

The desire to preserve resources and promote the beauty of nature and the landscape, reducing the impact of its activities on the environment, has deep roots in Luxottica's bond with the communities where it operates, which it has protected and promoted since the construction of its first building in Agordo among the Belluno Dolomites, now a National Park. This is an important responsibility that involves the entire organization in its various business areas and locations and daily guides sustainable actions and decisions.

Luxottica's strategic approach to the Sustainable Development Goals

Luxottica Group is aware of the fundamental contribution every individual company can make to the global transition towards more environmentally respectful economies that are more efficient in terms of energy consumption and attentive to the well-being of individuals. Thus, it recognizes and supports the Sustainable Development Goals (SDGs) promoted by the United Nations 2030 Agenda. In particular, the four pillars of Luxottica's vision of sustainability are strictly connected to 10 out of 17 SDGs that the Group contributes to in the way it conducts business.

For each goal and related target, the Group identified the social and environmental areas where it has made a medium to long-term commitment. In sharing the sustainable actions and initiatives done in the main business areas and geographies, Luxottica demonstrates its ability to create value over time, promoting the economic and social development of the territories and communities in which the Group operates.

Pillar

Commitment to excellence

SDG

Topics

A company open to the world

Risk management & compliance

The responsible management of the supply chain

Pillar

Visual well-being

Topics

Eyecare

A culture of quality: at the service of customers, employees and the community

Sustainable product development

Protecting intellectual property and the struggle against counterfeiting

Pillar

Social impact

Topics

Creation and distribution of economic value

People, the real driving force of Luxottica

The safety culture

Pillar

Protecting the environment

Topics

Certifications

Measurement of environmental impacts

The use of energy resources in the Group's Operations

Monitoring the Carbon footprint

Consumption and responsible management of water resources

Waste treatment

Commitment to excellence

Luxottica's continuous quest for excellence and its ability to reinvent itself and innovate are part of the company's story and characteristic of its business approach. This commitment to keep evolving and improving while staying faithful to its principles shapes the Group's long-term goals and success. In over 50 years, acute perception and strategic decisions have given rise to a Company which, today, has truly global reach, working in over 150 countries and employing approximately 85,000 people of different cultures and nationalities.

Its commitment to excellence is evident in its products, the result of continuous investments in research, design and innovation and developed according to high quality standards with stringent controls that are equal or superior to industry standards in terms of safety, performance and durability. And it begins with qualified, specialized people who are committed every day to giving their best and to providing products of high technical and stylistic quality and the best service in the world.

The quest for excellence and the continuous creation of value over time is a goal common to all of the Group's activities. It has long distinguished Luxottica's Corporate Governance, the set of values represented by the Code of Ethics, the internal control and risk management system and the Internal Audit activities.

› For more information on shareholdings and corporate governance go to the "Report on corporate governance and ownership structure" section of this document.

A COMPANY OPEN TO THE WORLD

This focus on excellence can be seen in the strategies undertaken to expand the business in new countries. Whether in Italy or abroad, Luxottica creates strong ties to local communities, where it develops a unique understanding of the people and culture. It promotes local development and, at the same time, takes new inspiration from it and exports the best values, innovation and creativity from all over the world.

"MADE IN": CREATIVITY, GLOBAL QUALITY AND LOCAL CULTURE

As a global company, Luxottica interprets and values different cultures and the particular features of diverse markets.

The common denominators are its standards and "made in Italy" quality, an absolute and distinctive value shared by all of its sites in Italy, China, the US, Brazil and India. The facilities, that are all ISO 9001 certified, employ local staff and each one has its own specific features, connected with the manufacturing requirements of the Group and the host country. What is common to all plants are the technology, manufacturing processes and quality culture, identical from Italy to China and Brazil, where the same working methods are used with the same sense of belonging to the Group, which can be found over the world: a common language bringing the Group closer together over borders and across oceans.

Boasting over 50 years of manufacturing experience in Italy, in 2017 Luxottica also celebrated 20 years of activity in China. Having first set foot in China in 1997 by purchasing a stake in a plant in Dongguan in the province of Guangdong, wholly-owned since 2001, in subsequent years it has gradually expanded its presence in the country, significantly increasing its production capacity and developing the wholesale and retail businesses in the country.

With a total surface area of around 250,000 square meters, around 11,800 employees, three plants and a new logistics hub with integrated lens laboratory, the Chinese production and distribution hub is second in importance only to the Italian one, being responsible for around 46% of the Group's production, and is equipped with cutting-edge technologies and processes that make it a model of innovation and sustainability. Innovation and sustainability are also the distinctive features of the building that hosts the new logistics hub which, constructed in 2016, has obtained the LEED Gold certification.

The approach of Luxottica was successful because it was gradual and respectful of diversity, while at the same time exemplifying the Group's values of excellence and enterprise. The desire to truly understand Chinese culture, constant and valuable interaction with institutions and the community enabled the Company to integrate perfectly and become a local manufacturer, while contributing to the social and economic development in the region. In accordance with its vertical integration model, Luxottica has maintained control of all production phases in China, guaranteeing high levels of quality and efficiency and working conditions in line with the Group's international standards. Dongguan is a perfect replication of Luxottica's Italian factories model while respecting the specific dimensions of the local culture.

Another model of integration is Brazil, where, in over 20 years, the Group has developed a top-class integrated platform driving the growth of the eyewear category. The Campinas production plant, which manufactures 100% "made in Brazil" eyewear collections for some proprietary brands (Ray-Ban, Vogue Eyewear, Arnette and Oakley) and under license for A|X Armani Exchange, is complemented by an extensive wholesale network and Sunglass Hut, Oakley and Óticas Carol branded stores.

A WIDE RANGE OF DIVERSIFIED PRODUCTS

Every brand in the portfolio has its own strong, individual identity cultivated by Luxottica thanks to the creation of unique, original collections that improve the comfort and allow the wearers to express themselves. Besides, direct relationships with consumers and constant interaction with local communities provide ideal opportunities to improve production and introduce innovation and the diversification of products based on the specifics of each country. One example is the "Asian fit" models, available for the majority of Luxottica's eyewear collections, designed specifically for the unique characteristics of Asian faces with perfect fit and wearability. The pioneer was Ray-Ban, which launched its first "Asian fit" collection in 2009, and in a few short years it was followed by Oakley, Vogue Eyewear, Oliver Peoples and various brands under license. In 2017 most of the brands in the portfolio had "Asian fit" models. In addition, many of them also propose "Asian design" collections, which are designed and manufactured to meet the aesthetic tastes and needs of Asian consumers.

RISK MANAGEMENT & COMPLIANCE

Continuous research into excellence and the ability to reinvent and innovate are part of the history of Luxottica and characterize its operations. A central role is played by the Code of Ethics, which sets out the principles and fundamental values that inspire its conduct, and the ethical and responsible enterprise culture of Luxottica. The Code of Ethics is available in the major languages spoken by its employees and applies to all companies, geographies and functions in the Group.

The Code of Ethics, originally approved by the Board of Directors in 2004, has been updated over the years and its new version was approved by the Group Board of Directors, the principal guarantor of the Code, on January 29, 2016. The text has been amended and updated not only, in compliance with the law, to uphold safety, freedom and human dignity, but also to encourage Group employees to strive for continuous improvement and responsible action at all times.

Compliance with the Code of Ethics is the fundamental prerequisite for the long-term reputation, reliability and success of the Group and is promoted at all levels and in all countries through communication, training, prevention and control. An example is the communications campaign for the new Code of Ethics involving Luxottica employees from around the world: the faces of some were chosen to accompany the campaign slogan "Code of Ethics Luxottica Group: to see better who we want to become", to remind each employee of how important it is for the success of the Group to have a solid base and shared principles.

In 2016, all Group geographies were involved in a global effort to spread the Luxottica Code of Ethics. Training initiatives ranged from face-to-face trainings to online courses and they were all completed by a final learning questionnaire. Approximately 80% of employees, equal to approximately 64,800 people, successfully completed the training. In 2017, training on the Code of Ethics was included in the courses for new hires, ensuring the awareness about its contents and principles.

In Italy, the Code of Ethics is an integral part of the Organization, Management and Control Model adopted by Luxottica in compliance with italian Legislative Decree 231/2001, to prevent and manage the risks associated with criminal activity committed by directors, executives or employees of the Company.

A key tool for protecting the Code is the procedure for the management of violation reports: the Board of Directors has ruled that any reports of alleged violations of the Code be communicated, through the relevant channels, to the Internal Audit Manager and the Chairman of the Supervisory Board of Luxottica Group S.p.A. More specifically, the Internal Audit Manager informs the Supervisory Board of the complaints received and their status at least once every six months.

› For more information on the Organization, Management and Control Model pursuant to Italian Legislative Decree 231/2001 and the Luxottica Group Code of Ethics go to the "Report on corporate governance and ownership structure" section of this document.

RISK MANAGEMENT

Risk is an integral part of doing business and can be defined as any uncertain event that could threaten the achievement of business objectives and strategies or the Group's tangible and intangible assets.

Luxottica is risk adverse towards events that could:

- negatively affect the safety or well-being of employees, consumers and other stakeholders;
- lead to breaches of local laws or regulations;
- endanger the environment;
- negatively affect the Group's reputation.

Identifying and understanding risks allows for informed decision making when actively managing events that could potentially have a negative effect on:

- cash flow and profitability;
- strategic business objectives;
- tangible and intangible assets.

Within this context, the Group's Risk Management department supports the organization to:

- manage risks in terms of prevention and mitigation;
- proactively seize opportunities;
- disseminate a culture of risk evaluation across the Group decision making process, in particular, in the strategic planning process and significant business decisions;
- ensure that the Group's risk exposure is consistent with the Board of Director's risk appetite and does not exceed its financial and economic capacities given the objective of achieving long-term sustainable performances;
- assure transparency and adequate information on Luxottica's risk profile and risk management strategies to top managers, the Board of Directors and other relevant stakeholders.

The universe of risks potentially applicable to Luxottica

	Risk management objectives
External risks	
External factors, which are completely beyond the control of the Group and might have a negative effect on its business and assets	- Monitor risk factors - Measure Group resilience - Mitigate the impact in case the risk occurs
Strategic risks	
Characteristic of the eyewear industry and/or strictly driven by Luxottica strategic decisions	- Create awareness during the decision making process - Have a risk-reward analysis - Consider the cost for risk mitigation and the impact of risks on the Group's economic and financial targets
Operational risks	
Generated by ineffective organizational structure, internal processes and systems	- Reduce risks impact and probability through: • Continuous improvement of internal control systems • Adequate allocation of resources in strategic plan and budget

To meet these goals, in 2011 the Risk Management department launched a proactive, structured and coordinated Enterprise Risk Management (ERM) approach to identify, manage and monitor risks with potential negative impact on the future growth of the Group and its tangible and intangible assets. The approach is integrated in the Company processes, supports strategic and operating decisions and permeates the entire organization. It is also supplemented with specific policies, internal regulations and projects that seek to improve the level of preparation with regard to the identified risk events.

Luxottica's Enterprise Risk Management is made up of five correlated phases

Risk framework	The Group Risk Model defines the risks potentially applicable to Luxottica and the methodology used by the Risk Management department
Risk assessment	Carried out on a yearly basis, the Risk assessment makes it possible to identify the potential risks to which the Group is exposed, assess their impact and, on the basis of the probability of them occurring, establish action plans
Risk reporting	This consists of defining a risk mitigation action plan together with the relevant Company representatives and establishing priority action areas with reference to the risks identified during the Risk assessment. A number of Key Risk Indicators (KRI) to monitor can also be established in this phase
Risk treatment	Implementation of the approved action plans and risk management strategies
Monitoring	The progress of the action plans and the KRIs are periodically monitored in order to guarantee correct and prompt risk mitigation

In line with the principles of the Group's Corporate Governance, the Board of Directors plays a central role in governing the risk management process. The Board, acting upon the recommendation of the Control and Risk Committee, is responsible for the definition of risk management system guidelines in order to identify, measure, manage and monitor the principal risks impacting the Group and defining risk levels that are compatible with the strategic objectives of the Company.

› For more information on the internal control system and risk management, including the attention focused on financial risk management, go to the "Report on corporate governance and shareholdings" section of this document.

› For more information go to the "Risk factors" section of this document.

MANAGEMENT AND MITIGATION OF SOCIAL AND ENVIRONMENTAL RISKS

Luxottica is actively committed to mitigating ESG (Environmental, Social, Governance) risk events, particularly with regards to social and environmental risks in the areas of health, workplace safety and the environment. The Group is continuously improving its internal control system and equipping itself with policies, procedures and controls aimed at preventing potentially damaging events for the Group's stakeholders and reputation. As a result, in the 2017 fiscal year, the risks connected with these issues were once again not deemed to be significant.

The Group also structured the Luxottica Responsible Sourcing and Manufacturing program, described further ahead, which involves various Company departments in the ongoing monitoring of social and environmental risks along its supply chain.

COMPLIANCE RISK MANAGEMENT

Luxottica's global dimension requires the constant alignment of the Company's processes, procedures, conduct and activities with the reference regulatory frameworks and the Group Code of Ethics.

In terms of anti-corruption, the Compliance department oversees the definition of rules to prevent, identify and manage risks connected with corruption in the Group's businesses, in accordance with the law as well as applicable local and international regulations.

With specific reference to Italy, on October 27, 2005 the Luxottica Board of Directors adopted the Organization, Management and Control Model, pursuant to Italian Legislative Decree 231/2001, which is designed to prevent the risk of illegal activities being carried out by the Company's employees and collaborators. Subsequently amended over the years, the Model takes the form of a series of principles and rules of conduct, operating procedures and disciplinary systems designed to prevent the committing of illegal acts and to guarantee the ethical behavior of those that work on the Group's behalf, with respect for the principles of legitimacy, honesty and transparency. Over the years, the main Italian subsidiaries have also adopted their own Organization, Management and Control Model pursuant to Italian Legislative Decree 231/2001.

This commitment is also outlined in the Code of Ethics which affirms that "Luxottica openly opposes any corruptive practice designed to obtain undue advantages, with regard both to relations with public authorities and public entities in general, and to relations with private parties". This declaration is further strengthened by the adoption of company policies and procedures that regulate the areas that could be exposed to corruption crimes.

In 2017 Luxottica launched the "Be transparent and keep it transparent" compliance program dedicated to combating corruption. This program is applied at global level and presents specific rules for the prevention, identification and management of corruption risks in the Group's sphere of activities. It integrates initiatives already in progress and pre-existing company documents, such as the Code of Ethics, and is based on eight rules that all Group employees must adhere to in their daily activities:

- conduct transparent business relations with third parties;
- conduct transparent relations with public authorities;
- conduct yourself transparently when giving or receiving gifts, hospitality or other benefits;
- conduct yourself transparently when granting sponsorships or participating in charitable initiatives;
- conduct yourself transparently with political parties, trade unions and associations;
- be transparent when declaring small expenses;
- avoid behavior that involves the payment of sweeteners;
- be transparent in recruitment decisions.

The Group also encourages its employees to take part in training courses on specific regulatory compliance issues which are defined year by year according to the needs of participants. In 2017 Luxottica focused on two main areas: privacy and anti-laundering.

› For more information on the Group's "Be transparent and keep it transparent" program see the document on the Group website www.luxottica.com.

The prevention of corruption

Luxottica is part of the network of Transparency International, the biggest global organization for the prevention and combating of corruption, and actively participates in conferences and meetings where it shares best practices in this area. In 2017, the Compliance department presented its anti-corruption program at the OECD in Paris and the American Embassy in Washington DC.

Given the size of the Group in the US, in 2016 and 2017 Luxottica guaranteed training on the "Foreign Corrupt Practices Act (FCPA)[25] " to over 700 employees and third parties (agents, distributors, customers, consultants).

Luxottica has activated a global whistleblowing process for the prompt communication of actual or presumed violations of the current "Anti-bribery & corruption" program or any other related illegal behavior. The internal whistleblowing system utilizes various communication channels, from a dedicated telephone number to specific email and postal addresses.

In addition, Luxottica provides all of its employees in Luxottica Group S.p.A. and in the subsidiaries having an Organization Model pursuant to Italian Legislative Decree 231/2001 with specific training. In 2017 the main international subsidiaries were asked to fill out an Anti-bribery & Corruption questionnaire in order to understand and improve their internal level of organization against corruption. In 2018 the survey will be extended to all other subsidiaries and a global training activity will be launched. In addition, the second edition of the antitrust training program, aimed at around 1,100 new hires and employees from the Wholesale and Retail divisions regarded as relevant for antitrust issues in EMEA and the US, will be organized (the previous edition, held in 2015 and 2016, saw over 1,100 people exclusively from the Wholesale division in the EMEA area take part in an e-learning course).

Privacy

With around 9,000 stores in the world, approximately 80% of which are directly operated, and a growing presence in the e-commerce sphere, Luxottica is aware of just how much its customers value their privacy and is committed to guaranteeing maximum levels of transparency in the way it collects, uses, communicates, transfers and memorizes information relating to them.

In 2017, it dedicated five seminars to the corporate functions on the new European General Data Protection Regulation (GDPR) which was adopted on May 25, 2016 and will be implemented on May 25, 2018. Taking part were the parties that will be affected by the application of the regulation (i.e. the main representatives of the HR, Customer Relationship Management, Retail and E-Commerce departments) in terms of both specific aspects and the most important critical issues.

Awareness raising and information activities for around 5,000 employees are planned for 2018 while targeted training programs will continue for the most exposed functions.

25. The Foreign Corrupt Practices Act (FCPA) aims to prevent the corruption of foreign public officials by American companies for the purposes of obtaining or maintaining business relations

Anti-money laundering prevention

Luxottica has developed and disseminated at global level a specific policy, the "Anti-money laundering and terrorist financing policy", which draws inspiration from the FATF (Financial Action Task Force) recommendations and the four EU directives[26] issued so far on this topic. The aim is to guarantee respect for all laws and regulations, actively prohibiting and preventing any activity that may be considered or which could facilitate money laundering and/or the financing of terrorist or criminal activities. In 2017 training activities were organized for all of the Group's wholesale subsidiaries, involving the administrative and/or country managers.

THE RESPONSIBLE MANAGEMENT OF THE SUPPLY CHAIN

For Luxottica, the supply chain is fundamental for guaranteeing the high quality of its products and services and contributes to maintaining and enhancing the reputation of the Group.

With particular regard to Operations, the Group works with around 1,200 suppliers with approximately 130 of these representing 80% of its purchases. Raw materials and components together are known as direct materials.

The supply chain by supplier type in 2017	
Raw materials	7%
Components	30%
Finished products (e.g. Oakley's Apparel, Footwear and Accessories - AFA)	12%
Third parties' brands sold in the Group retail network	17%
Logistics	12%
Other	22%

In particular, suppliers of direct materials and finished products represent around 50% of purchases and are mostly located in Europe and China, areas where the Group produces over 80% of its eyewear collections.

Geographical distribution of suppliers of direct materials and finished products in 2017	
Europe	45%
China	39%
Asia-Pacific	8%
Unites States	5%
Latin America	3%

When selecting these suppliers, Luxottica prioritizes developing linked industry in the areas in which it has manufacturing facilities, working with numerous local supplier companies.

26. Directives 91/308/EEC, 2001/97/EC, 2005/60/EC and 2015/849/EU of the European Parliament and of the Council

Purchases of direct materials and finished products from suppliers		
Country (% Group's production)	Incidence of local suppliers (2017)	Incidence of local suppliers (2016)
Italy (41%)	75%	75%
China (46%)	83%	84%
Brazil (4%)	97%	85%
Unites States (9%)	40%	51%

LUXOTTICA RESPONSIBLE SOURCING AND MANUFACTURING PROGRAM

Suppliers of direct materials and finished products represent an important link in the Group's supply chain. The monitoring of the reliability and quality of the products and services acquired represents the core of the Luxottica Responsible Sourcing and Manufacturing (LRSM) program. Launched in 2013 at global level, its aim is to achieve full alignment with Luxottica's principles and international standards in the areas of ethics, labor, health, safety and the environment.

It applies to the Group's sites and its suppliers and must:

- guarantee respect for the Code of Ethics, which must be adopted by all suppliers;
- respect global commercial laws;
- guarantee the compliance of its suppliers with local laws and regulations;
- avoid the risk of serious cases of non-compliance with the application of a "zero tolerance" mechanism[27] in the evaluation of aspects of key relevance (e.g.: the use of child labor) both when selecting and monitoring suppliers. As part of this mechanism those who do not comply with the Group's procurement system are excluded from it;
- mitigating business continuity risks.

Given its inter-departmental nature, the program brings together representatives of the Operations Sourcing, Internal Audit, Manufacturing, Quality, Risk Management, Compliance & Asset Protection departments in a steering committee tasked with:

- periodically assessing the state of progress of the program and the results of the checks carried out on-site by Luxottica and the licenses;
- approving risk mitigation plans for suppliers identified as critical;
- discussing the adoption of new measures to guarantee the achievement of the program's goals;
- promoting dedicated training activities at manufacturing facilities and at supplier premises.

27. The Group's "zero tolerance" criteria relates to: 1) the use of child labor (under 16 years of age); 2) conditions that seriously endanger health and safety; 3) particularly harmful environmental impact; 4) use of forced or undeclared labor or imprisonment; 5) access to sites denied to auditors for the second time; 6) acts of corruption, money laundering and illicit trade; 7) persistence of non-compliance or failure to meet requests to take immediate action to comply with rules

RESPECT FOR HUMAN RIGHTS IN THE SUPPLY CHAIN

The principles of Luxottica Responsible Sourcing and Manufacturing which define the standards to which suppliers must adhere include respect for human rights in the workplace, which takes the form of:

- the banning of child labor. No worker must be of compulsory school age or under the legal working age. In no case may workers of under 16 years of age be employed;
- the right of workers to organize themselves and join associations of their choosing and to collective bargaining must be acknowledged and respected;
- the banning of enforced labor;
- the banning of discrimination in the process of recruiting, training, and awarding bonuses and promotions, or the interruption of employment relationships on the basis of factors such as race, nationality, caste, gender, religion, age, disability, family status, membership of associations, sexual orientation, family responsibilities, trade union memberships and political opinions.

THE AUDITING OF SUPPLIERS

The Luxottica Responsible Sourcing and Manufacturing program mainly regards the suppliers of direct materials and finished products which have higher risk profiles according to the risk assessment.

The monitoring of respect for ethical principles and environmental and social responsibilities takes place through an audit system managed by a qualified third party and comprises two phases:

- self-assessment in terms of respect for human rights in the workplace, health and safety and environmental protection (HS&E);
- on-site audits aimed at verifying the consistency of the declarations made and the compliance with Luxottica standards.

The program includes a “zero tolerance” mechanism that pays particular attention to human rights, health and safety in the workplace, and environmental protection. In 2017, additional ethical criteria (presence of a code of ethics and a whistleblowing system) and anti-corruption criteria were added during both the supplier selection and monitoring phases.

In the event of non-compliance with the Group Code of Ethics and/or local regulations, Luxottica requests its suppliers to implement corrective actions. If the supplier is unwilling to implement corrective actions or in the event of particularly serious findings, Luxottica has the right to interrupt the relationship.

In 2016 and 2017, all Luxottica’s new suppliers were selected according to their compliance with job protection, human rights and socio-environmental regulations.

On the basis of the risk profile analysis carried out at the start of the year and the results of the audits of previous years, 28 suppliers of direct materials for the eyewear business located in Asia-Pacific, and in particular China, Japan and Cambodia, were subject to audits in 2017.

For six suppliers these represented follow-up audits following the identification of a number of serious problems the previous year that went above the minimum threshold defined by the LRSM steering committee. The outcome of the audits showed that improvements had been made with regard to critical issues.

For ten suppliers, meanwhile, incidences of non-compliance were identified with regards to social requirements in terms of total number of working hours and of consecutive working days. For these suppliers a follow-up audit will be performed in 2018.

No cases of environmental non-compliance were identified.

Number of suppliers audited for their social and environmental impacts

	2017	2016	2015
Number of suppliers subject to auditing	28	20	20
Incidence versus total purchases for the eyewear business covered by the LRSM program	39%	22%	21%

For the first time audits were also carried out on 14 suppliers from the Apparel, Footwear & Accessories (AFA) business. This was a result of the procurement centralization process following the integration of Oakley's activities in the Group.

Finally, in 2017 a number of preventive audits were launched in order to qualify Group suppliers. These were carried out in order to establish a number of alternative suppliers in the event of particularly critical situations.

› For further information see the "Luxottica Responsible Sourcing & Manufacturing principles" document available on the Group website www.luxottica.com.

Visual well-being

Luxottica promotes well-being and eye health through the excellence of its products: frames and lenses of the highest quality, the result of continuous innovation in design, materials and technologies. These products are indispensable in protecting and improving vision and enhancing the beauty of the eyes. Respecting and promoting these two aspects, which reflect people's needs and desires, is one of Luxottica's strengths, and translates into a complete approach targeted at the well-being of the consumer.

EYECARE

Eyesight is a precious resource. Eyecare is a key element in Luxottica's mission which it pursues through its products and services. Each pair of eyewear is the result of an ongoing research & development process in which stylistic innovation is solidly linked to the need for functionality and comfort. Ensuring that people see well and express their personality is a commitment Luxottica has been renewing daily for over 50 years with the same passion and devotion.

The Group is a founding sponsor of the "Think About Your Eyes" campaign in the United States, promoted by The Vision Council and the American Optometric Association, which has resulted in an increase in eye exams in the US. And here Luxottica plays a key role in eyecare having acquired optical retail chains LensCrafters and Pearle Vision in 1995 and 2004 respectively. The former contributed what was a revolutionary eyecare concept at the time: eye exams, choice of frames and the lens processing all inside the store.

In subsequent years Luxottica invested heavily to be able to offer cutting-edge eye exams as well as frames and sunglasses from leading brands in its over 5,100 optical stores across the world. Virtuous

examples include LensCrafters stores in North America, OPSM stores in Australia and New Zealand and Ray-Ban stores in China, that offer consumers advanced eye exam technology such as Clarifye, which makes it possible to identify serious eye diseases and perform the early diagnosis of other conditions. Luxottica has revolutionized the in-store experience with digital windows and iPads that customers can use to view an endless aisle of brands, models and colors and to simulate the lens treatments available. And the journey continues with ophtalmic lenses customized according to the needs of the consumer. This latest development is the result of important investments in the central lens labs in the US, China and Italy.

The Group's commitment to eyecare extends to the Wholesale division, which offers training and education courses to its customers. The courses, available in person and online, cover topics ranging from the in-store purchasing experience and advising consumers on the most suitable frames to the design and innovation of the frames and lenses and the importance of quality testing at Luxottica.

A CULTURE OF QUALITY: AT THE SERVICE OF CUSTOMERS, EMPLOYEES AND THE COMMUNITY

Luxottica's culture of quality is one of its most distinctive values and can be seen in the manufacturing of every pair of glasses and in the way the Company looks after its customers, its employees and the community.

The Group applies the same "made in Luxottica" quality control system to every phase of the process, from product development to procurement, from distribution to analysis and monitoring of product performance. This meticulous quality control system encompasses four laboratories in Italy, China, Brazil and the United States. Each is responsible for the quality in its region and conducts the same tests, using the equipment and procedures developed and approved by the Italian central laboratory.

The laboratories are organized in three distinct verification areas:

- mechanical: over 100 tests are conducted to evaluate the functionality and durability of the materials, lenses, frames, and other parts, such as the temples, cores, and hinges;
- chemical: the safety and strength of materials and coatings are checked by raising the different environmental conditions eyewear normally encounters to extreme levels: massive quantities of solar UV radiation, heat, humidity, corrosive substances, sweat, and more;
- optical: both ophtalmic and sun lenses are put to strict testing that evaluates their physical properties and structural characteristics. The tests carried out here verify lens performance under extreme weather conditions or incorrect use in order for consumers to be ensured the maximum protection safety and optimum vision every moment of the day.

The products designed and produced by Luxottica are equal to or exceed the sector's highest standards in terms of safety, performance and durability. During the development process, the products undergo strict acceptance testing to the standards established specifically for eyewear by ANSI (Z.80.3), ASTM, Standards Australia Limited (AS 1067) and the EU (ISO EN 12312 and ISO EN 12870). These standards refer to the safety and performance of the products and establish optical quality indexes, anti-UV protection, the degree of light transmission and impact resistance.

The quality laboratories in Italy, China and the United States obtained certification from the American Association for Laboratory Accreditation (A2LA) in 2014 for the execution of the ISO 8624 and ISO 12870 tests on eyewear products. The A2LA accreditation program results in the official recognition of technical skills and quality management.

Every year, Luxottica improves the performance criteria used for its quality tests and introduces new requirements that are more severe than international regulations. Thanks to the efficiency of its quality control system, the percent of returns remained at around 1% in 2017.

SUSTAINABLE PRODUCT DEVELOPMENT

The Group has developed a culture of greatest attention and responsibility in regard to the environment and human beings starting in the product development and supplier selection stages. In terms of production, this approach is expressed in the careful selection of materials in order to avoid the inclusion of harmful substances that may cause damage to the environment and the health of consumers, collaborators and employees.

All the materials are subjected to rigorous control operations on their chemical composition, physical and mechanical characteristics in order to ensure the respect of the quality standards and safety requirements prescribed by national and international certifications and Luxottica specifications.

The Group also selects and monitors with careful attention its supply chain, obliging all its suppliers of both raw materials and finished products to comply with the European REACH Regulation and international legislation on the restriction of harmful or potentially harmful chemicals. The compliance of these materials with the safety requisites guaranteed by the supplier is thoroughly checked, in some cases through additional laboratory tests conducted by specialized third parties.

PROTECTING INTELLECTUAL PROPERTY AND THE STRUGGLE AGAINST COUNTERFEITING

Intellectual property is one of Luxottica's most important assets, and ensures the excellence, uniqueness, and incomparability of its products. It is based on the registration and maintenance of the Group's trademarks and patents across the world (over 950 utility, technology and design patents protected by policies, procedures and IT tools designed to identify any eventual anomalies in sensitive data flows).

Over the years, Luxottica has developed an intellectual property protection system that involves the entire Group in synergic actions in various areas in order to safeguard and enhance the work of employees and suppliers, and to protect the health and safety of consumers. Luxottica is also careful to avoid infringing on the know-how or intellectual property of other players in the market. In order to prevent risk, it benefits from a sophisticated internal control system and support from specialized external companies.

The protection of intellectual property rights also involves combating counterfeiting. The worldwide proliferation of counterfeiting not only threatens official sales channels and company reputations, it also poses risks to the health and safety of consumers. Counterfeit products do not ensure the same elevated quality standards as the originals, which in Luxottica's case are certified by the strictest quality tests, the use of the finest materials, craftsmanship, and the constant innovation of manufacturing processes.

Iconic products like Ray-Ban sunglasses, which are always in fashion, are ideal targets for counterfeiters. Luxottica responds to this threat with constant research for new solutions that guarantee elevated comfort and functionality and make the battle against counterfeiting more effective, such as the launching of products in materials like carbon fiber, the flexibility of which is hard to replicate, and the introduction of high-performance sun lenses like Prizm and Chromance.

For greater effectiveness in the battle against counterfeiting and the expansion of parallel markets that divert goods into unauthorized sales channels, Luxottica has developed GLOW (Guaranteed Luxottica Origin Worldwide), an innovative system capable of guaranteeing the traceability of its products. Based on RFID technology, it verifies the authenticity of its products and the legitimacy of its sales channels by means of a sensor (RFID TAG) built into the iconic Ray-Ban and Oakley models. This device contains the essential information required to unequivocally identify every pair of glasses from its production site to the wholesale client where it has been sold. Furthermore, it emits no radio signals, and as such is completely safe for health, and does not record personal data.

Luxottica is also very active in international cooperation in the battle against pirating. In addition to being a member of the leading anti-counterfeiting organizations, including the INTA (International Trademark Association) and the QBPC (Quality Brands Protection Committee), Luxottica collaborates all over the world with local institutions and authorities in intercepting counterfeit products and combating the entire illegal production chain as best permitted by law. Once the main information on the flow of illegitimate products has been collected, it is possible to carry out targeted repression actions, including the intervention of law enforcement officials. Working together with the police in China, for example, Luxottica has been able to identify and take legal action against major producers of counterfeit goods. The principal objective of these actions is the possibility to retrace the supply chain in order to identify the sources of production and interrupt the flows at their origin. Over 20 million counterfeit eyewear, cases and accessories, primarily Ray-Ban and Oakley, have been seized since 2015. In 2017 alone, the Group carried out controls on products sold in 55 countries.

Lastly, the Group expends considerable effort in monitoring the online trafficking of counterfeit goods and is actively involved in removing these offers from some of the best known platforms of online auctions and reporting the websites that sell counterfeit products or violate intellectual property rights. From 2014 to 2017, the Group has succeeded in closing around 107,500 websites. In addition, on Luxottica's website it has created a special section that informs consumers of the ways it monitors products, also enabling them to report counterfeit Ray-Ban and Oakley branded products by filling out an online form.

› For more information on counterfeiting and the possibility for consumers to report false websites or products, visit the "Brand protection" section at www.luxottica.com.

Social impact

A company of people, for people. This is Luxottica, where value creation and long-term sustainable growth go hand in hand with a virtuous system for developing people and social relations in order to guarantee the well-being of employees and the communities in which the Group operates. The Group's activities are founded on a series of key values such as its focus on people, the development of skills and expertise and the creation of a working environment that offers everybody the same opportunities on the basis of merit and without discrimination.

CREATION AND DISTRIBUTION OF ECONOMIC VALUE

The information on "Directly generated and distributed economic value" permits a different interpretation of the economic figures and demonstrates Luxottica's ability to generate wealth and distribute it to its stakeholders, representing the link between economic and financial data and non-financial information. The table below outlines the overall economic value generated by the Group's ordinary operations during the year and its breakdown in terms of the economic value distributed to its various stakeholders and the economic value retained within the organization[28].

(Euro/000)	2017	2016
Net sales	9,157,291	9,085,706
Interest income	18,199	15,468
Economic value generated	**9,175,490**	**9,101,174**
Operating expenses	4,601,806	4,555,686
Employee wages and benefits	2,701,229	2,661,098
Shareholders and providers of capital	547,441	509,249
Public authorities	344,577	460,160
Community investments (support for social, cultural and sports projects and partnerships with universities)	13,240	10,813
Economic value distributed	**8,208,293**	**8,197,006**
Economic value retained	**967,197**	**904,168**

In 2017, the economic value generated, represented by net sales and financial income, came to Euro 9,175.5 million, an increase of 0.8%. The value generated was distributed to the Group's various internal and external stakeholders in the following ways:

- operating expenses towards suppliers of goods and services;
- employee wages and benefits;
- distribution of dividends to shareholders and interest payments on loans;
- income tax, distributed to the public authorities;
- support for social, cultural and sports projects and partnerships with universities in the reference communities.

In 2017, the overall economic value distributed by the Group came to Euro 8,208.3 million, as compared with Euro 8,197.0 million in 2016.

28. The calculation method suggested by Disclosure 201-1 of the GRI Standards was used

In 2017, the resources retained for the long-term development and growth of the Group came to Euro 967.2 million, as compared with Euro 904.2 million in 2016, and are mainly represented by the items related to amortization expenses, the net income not distributed through dividends and the effect of deferred taxation.

ECONOMIC VALUE DISTRIBUTED: THE EXCLUSIVE RELATIONSHIP WITH THE COMMUNITIES

An analysis of the individual items that make up the economic value distributed makes it possible to quantify Luxottica's contribution to the well-being of its employees, to the economic and social progress of the communities in which it operates and to the promotion of the territory.

The growth in the economic value distributed to suppliers, which amounted to Euro 4,601.8 million in 2017, and to employees, which came to Euro 2,701.2 million, can be attributed, on one hand, to higher operating expenses in support of the growth of the business. This is counterbalanced by the organizational streamlining initiatives that the Group pursued in 2016-2017 to speed up decision making and the implementation of strategies, as well as to improve the efficiency and integration of the various business areas. These included:

- the simplification of the entire organization, with the centralization of key functions and activities at Group headquarters in Milan, such as defining pricing, management of assortments, visual merchandising and real estate activities involving the Group's stores around the world;
- the radical review of the distribution model in the Chinese market, increasingly oriented towards sales to the end consumer through the retail and e-commerce channels;
- the integration of various business areas, including the Oakley business in the sports channel, and the creation, in the Milan headquarters, of a team of around 70 people dedicated to the Group's e-commerce platforms.

The economic value distributed by means of wages and benefits to its employees came to 33% of the economic value distributed, in line with the previous year.

The economic value distributed to shareholders and providers of capital came to Euro 547.4 million, as compared with Euro 509.2 million in 2016, mainly due to the higher dividends distributed in 2017. The economic value distributed to the public authorities in the form of taxes came to Euro 344.6 million in 2017, as compared with Euro 460.2 million in 2016, a 25% reduction also due to the effects of the fiscal benefit deriving from the Patent Box mainly attributable, for Euro 102.8 million, to the parent company Luxottica Group S.p.A.

Over the years, Luxottica has built valuable relationships with local communities where it operates, driven by a strong sense of responsibility and corporate citizenship. This commitment is expressed in its support of economic, social and cultural development and the creation of new opportunities for the territory.

The year 2017, therefore, represented an opportunity to introduce a process for organizing and measuring these initiatives and this led to the quantification of the investments made to support the local communities. These amounted to Euro 13.2 million in 2017, an increase of 22% compared with 2016. The most significant initiatives are outlined below:

- the Luxottica welfare system, which since 2009 has involved not only employees but also their families and the community with initiatives ranging from educational support and healthcare to sustainable transport and a series of other services that meet people's needs in an innovative and tangible way;

- initiatives designed to offer access to quality eyecare and eyewear for less developed communities in the world. Examples include the over 90 Sustainable Vision Centers opened since 2013 in Africa, China, India, South-East Asia and the US by OneSight, an independent non-profit organization of which Luxottica is the founding sponsor, and the two weeks of free eye exams at a number of important accommodation facilities in Milan in parallel with World Sight Day;

- initiatives to promote and protect cultural, social and environmental heritage that embodies "made in Italy", the Group's most distinctive value and evident in all "made in Luxottica" products and services. "Made in Italy" encompasses the same values of awareness and passion for aesthetics and culture that Luxottica undertakes to support through:

  - the promotion of some of Italy's finest landmarks, such as the Teatro alla Scala in Milan, which it has supported since 2016, and the Ponte dell'Accademia in Venice, whose restoration it is financing;

  - the organization, through the Alain Mikli brand, of tactile exhibitions at the Quai Branly - Jacques Chirac museum in Paris, which has made art accessible to people with visual disabilities since 2010;

  - the Persol brand's partnership with the world's most important film festivals, including the Venice Film Festival, the Nastri d'Argento film award in Taormina and the Cannes Festival, the last edition of which, in 2017, saw the celebration of the 100th anniversary of the brand together with amfAR, one of the most important non-profit organizations involved in supporting AIDS research. Together with Rai Cinema, Luxottica is also a partner in the "Giorgio Armani Films of City Frames" initiative, the third edition of which was held in 2017;

- projects with universities in Italy and optometry schools in the US, including:

  - Bocconi University in Milan, which it has partnered with since 2014 to provide economic support to the most deserving students, for example by supporting three international study programs;

  - the creation and award, in 2017, of 20 "Luxottica Eye Care Optometric" study grants of USD 5,000 each to contribute to the university expenses of 20 optometry students identified in collaboration with the American Optometry Student Association in the US and Canada;

  - the "eyeFWD" training initiative, five days of training at the Luxottica premises in Cincinnati dedicated to 30 select optometry students in North America;

  - the opportunity for 25 optometry students to accompany optometrists and Group volunteers to the #VisionEmpowers eye clinic organized by OneSight in Tanzania;

- support for Valore D, the association of Italian businesses that Luxottica helped to create in 2009 to promote diversity, female talent and leadership;

- economic support for emergency situations such as the earthquakes that struck Central Italy in 2016 and the hurricanes in the US in 2017, detailed below:

  - contribution to the "Action in favor of the people of central Italy affected by the earthquake" fund launched by Confindustria and the trade unions through the donation of one or more hours of work by employees from the Group Italian offices, which Luxottica then doubled for a total donation of over Euro 102,000;

  - the creation of a "Guardian Angel" fund by the Retail division to assist employees located in the areas affected by the hurricanes in the US;

- other initiatives aimed at local communities, from awareness campaigns on eyecare to collaboration with foundations active in developing countries:

  - Luxottica is one of the main supporters of "Think About Your Eyes", an advertising campaign on the importance of getting a comprehensive eye exam, which launched in the US in 2010 together with The Vision Council, The American Optometrist Association and other partners;

  - support, through the Indian subsidiary, for the projects of Sightsavers, an international non-profit organization that seeks to prevent and eliminate blindness in developing countries, in rural areas of India;

  - participation, through Oakley, in the #BicyclesChangeLives initiative promoted in 2017 by Qhubeka, the foundation of South African cycling team Dimension Data, with the aim of giving as many bicycles as possible to adults and children that live in rural areas of South Africa.

› For more information on the social, cultural and sporting initiatives promoted and supported by Luxottica and its brands visit www.luxottica.com

PEOPLE, THE REAL DRIVING FORCE OF LUXOTTICA

More than a duty and a right, at Luxottica employees view their work as an opportunity to fulfill needs and realize dreams, professional ambitions and personal aspirations. For this reason, and driven by its ability to invest in the future in an attentive and far-sighted way, the Group has developed an innovative welfare system that promotes the well-being and satisfaction of its employees. Employees are thus even more motivated to do their best in terms of creativity, passion and team spirit.

Community with purpose. Those who work at Luxottica are not just part of a company but a genuine community where they are able to fulfill their professional and personal ambitions. Community is much more than just a value for the Group. Over time, Luxottica has strengthened its company welfare system and made an effort to listen to people in order to improve their lives at work and at home.

This is because the Company recognizes that every employee is, first and foremost, a person that needs to feel a sense of satisfaction and accomplishment. The aim is therefore to make them feel part of a strong community and company that protects their interests, passions, dreams and needs in the most concrete way possible.

Being part of a true community also means feeling rewarded and appreciated for the value each employee brings to the table as part of a meritocracy. This concept is the base of the wage policy and performance assessment system and around it three organizational levers have been developed:

- organization and integration of support functions for the various businesses;

- a common company language that enables the various businesses to work in synergy;

- quality of the recruitment process, quality of the training process to improve existing company expertise and strong focus on talent development.

Talent management. Working at Luxottica means growing in a company that nurtures talent and develops new skills and expansive ways of thinking. A company that believes in training and that gives every opportunity to those who want to grow and completely fulfill their potential.

In fact, talent development is a key element and comprises three areas:

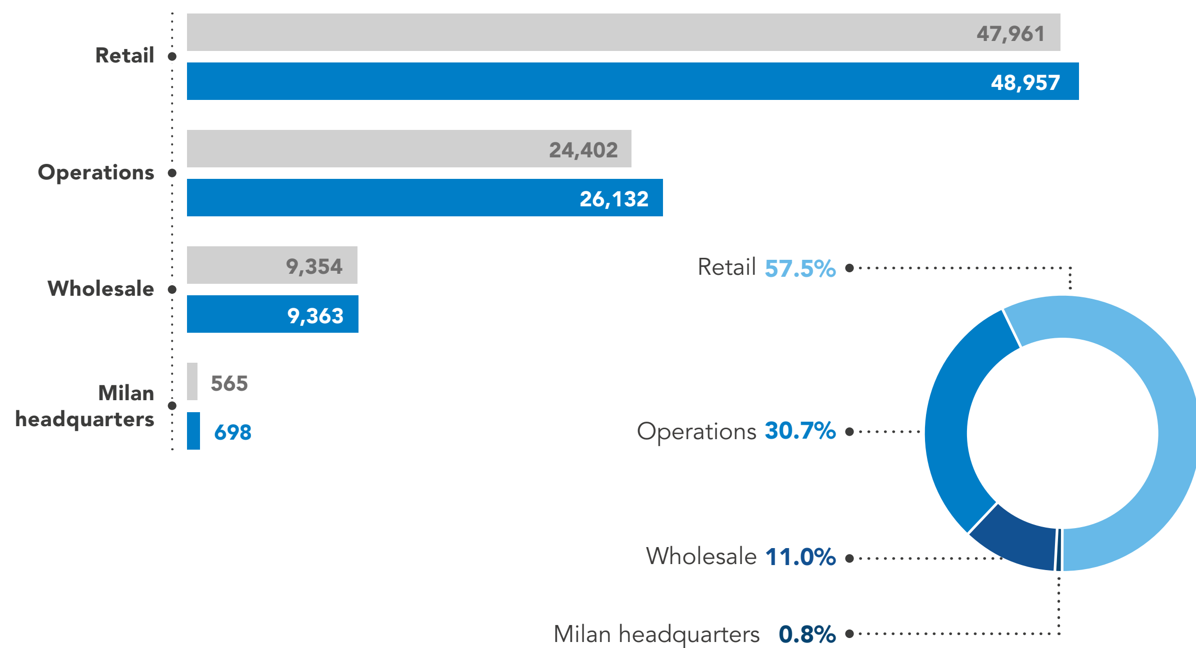
- the process of reviewing resources to give employees the necessary margin for growth and fulfillment;
- talent development, with the possibility of participating in training and advanced courses that provide all of the tools necessary to face a fast-changing world;
- performance monitoring of every individual.

The Group also continues to invest in emerging talents and expertise. Having qualified, motivated and engaged employees is crucial for its long-term success.

GROUP EMPLOYEES

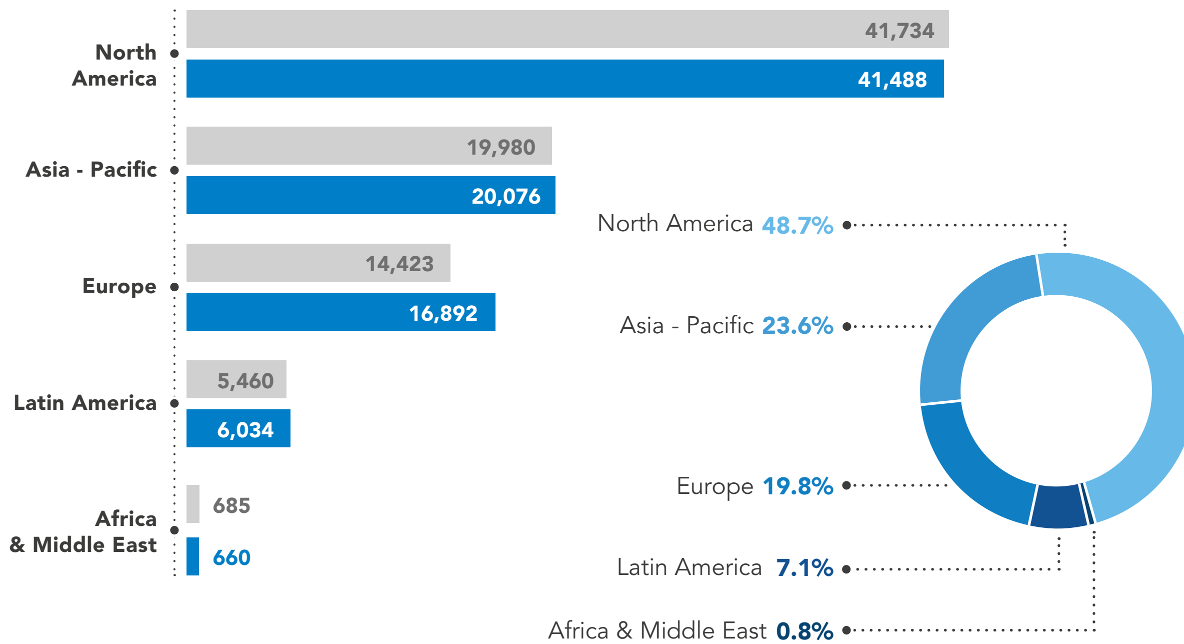
As to December 31, 2017 Luxottica Group has 85,150 employees, 57.5% of whom are in the Retail business, 11.0% in the Wholesale business and 30.7% in production and logistic activities. The Milan headquarters employs 0.8% of the Group's total workforce.

Distribution of employees by business area



Over the years Luxottica has continued to grow, with the number of the Group's employees increasing by 3.5% from 2016 to 2017. This increase took place primarily in Europe (+17%) and Latin America (+10.5%).

Distribution of employees by geographical area



Women represent 63% of the overall headcount and cover almost 50% of the managerial roles in the world. Luxottica aims to foster their development with initiatives that promote their talent and leadership. The solid and active participation of the female Italian managers in the training initiatives and seminars organized by Valore D is well established. In September 2017, the Company further underlined its commitment in this area by signing the "Manifesto for female employment", a document that defines actions and concrete tools to ensure greater gender diversity and inclusion in Italian companies.

Around 64% of contracts are permanent (54,382 employees). The remaining 36% are fixed-term contracts and connected with the seasonal nature of the retail business and Operations.

As regards the type of contract, 66% of employees have full-time contracts.

Group employees in 2017

	Total	Women %	Men %
Professional category			
Blue-collars	50,545	68%	32%
White-collars	28,593	59%	41%
Middle management	5,095	50%	50%
Senior management	917	31%	69%
Employment contract			
Permanent	54,382	61%	39%
Fixed-term	30,768	67%	33%
Full-time/Part-time[a]			
Full-time	56,622	62%	38%
Part-time	28,528	66%	34%
Total	**81,150**	**63%**	**37%**

(a) Full-time: employee whose weekly, monthly or annual working hours are defined by the law and national legislation in the area of working hours
Part-time: employee who works fewer weekly, monthly or annual working hours than a Full-time employee

Luxottica is a company with over 50 years of history and an incredible youth employment rate. In fact, youth employment is a key focus for the Company, so much so that it was the first in Italy to introduce the idea of the "generational pact or handover". This initiative makes it possible for around 100 Italian employees three years from retirement age to take a part-time role between 2015 and 2018 without any impact on their pension, and for the same number of youth workers, selected on merit, to be hired on a permanent basis.

The Group's cutting-edge and far-sighted approach is also reflected by other important initiatives, such as the creation of the e-commerce team. Developed in 2016 and 2017 in the Milan headquarters, this new department dedicated exclusively to the Group's e-commerce business involves around 70 people, 60% of whom are women, with an average age of 31 and a variety of wide-ranging expertise, the result of job rotation opportunities within the Group or know-how acquired externally.

Considering the entire Company population, approximately 45% of Luxottica's employees are below 30, and they are followed by employees aged between 30 and 50. The majority of managers and senior managers belong to this latter age range: on average, 3 managerial roles in 4 are covered by people of between 30 and 50. Employees over 50 years of age are equally distributed among the various different roles in the Group.

Group employees by professional category and age group

	Blue-collars	White-collars	Middle management	Senior management	Total
<30 years old	54%	35%	10%	1%	37,956
30-50 years old	37%	50%	73%	82%	37,372
>50 years old	9%	15%	17%	17%	9,822
Total	**50,545**	**28,593**	**5,095**	**917**	**85,150**

COMMITMENT TO EMPLOYEES

There is no sustainable development if the Group's growth is not accompanied by an improvement in the lives of those that work there and their families. This is why, since 2009, Luxottica has implemented a welfare system which has quickly become a benchmark model in Italy. The system involves economic, health, educational and social initiatives for the Company's over 10,000 Italian employees and their families.

Developed as a means of supporting the needs and well-being of employees and their families, since its launch Luxottica's welfare system has generated important results in terms of company well-being, such as:

- reduction in turnover and absenteeism with an improvement in employee attendance rates at the Group's production plants, also on working Saturdays;
- increase in the sense of belonging and loyalty to the Company;
- improvement in quality of life with an increase in the real value of the wages and purchasing power of employees, also thanks to the use of basic goods and services.

The main action areas are youth and education, income support, health and well-being, sustainable transport, personal and family services and the work-life balance.

The Group's approach to company welfare represents an innovative model also in terms of industrial relations. The trade union agreements at the basis of Italian welfare have contributed to the spread of a welfare culture in all geographical areas in which Luxottica is present, ensuring that welfare is not regarded in an isolated issue but rather integrated with the Company's productivity systems. Proof of this can be seen in the constant monitoring of the hourly cost of work including all welfare initiatives in the Italian, Chinese, US and Brazilian sites (where similar welfare models are active, aimed at supporting income and well-being). This makes it possible to highlight and control efficiencies and to sustainably redistribute income to employees.

For Luxottica, welfare is a system that is capable of financing itself. Part of the benefits, mainly the result of the increase in efficiency and productivity that derives from greater company well-being, are in fact invested in welfare initiatives, fostering a genuine virtuous cycle.

› To learn about the Group's main welfare initiatives visit www.luxottica.com

THE SAFETY CULTURE

Adapting work to the worker is the principle that underpins the health and safety protection afforded to all of the Group's employees. In fact, safety leads to well-being, prevention and collaboration. To encourage safe behavior and facilitate the management and prevention of risky situations, over the years the Company has developed a workplace health and safety culture. More specifically, Luxottica has introduced an organizational model at its production and logistics sites that focuses on prevention and protection with the aim of maintaining a safe working environment.

The guidelines for the Group's health and safety activities and initiatives go beyond fulfilling the training and information obligations set forth by local regulations and include:

- designing and maintaining an appropriate and safe workplace, guaranteeing full respect for ergonomic principles in the design of workspaces and relative equipment;

- continuous updating of the accident prevention management procedures and constant monitoring of industrial hygiene, taking into account physiological and behavioral aspects that may affect the occurrence of accidents and occupational diseases;

- training, through appropriate training programs.

THE "ZERO ACCIDENTS" PROGRAM

Social and moral responsibility towards workers: this is the path towards reducing accidents in the workplace. In order to guarantee higher safety levels and develop a genuine company culture in the area of accident prevention, in 2007 the Group launched its "Zero accidents" program in Italian sites, subsequently introducing it at its facility in Campinas (Brazil) in 2013.

All Italian production sites, beginning with Rovereto in 2012, have obtained OHSAS 18001:2007 certification for their occupational health and safety management systems, and this is currently being extended to the sites in Dongguan (China) and Campinas (Brazil).

The following indicators show how all of the initiatives have made it possible to contain employee health and safety risks, and this despite the increasing number of Operations employees.

KPI[(a)]	2017	2016	2015
Frequency rate[(b)]	1.4	1.7	1.8
Severity index[(c)]	0.02	0.03	0.04
Number of accidents	66	80	79
Number of first aid cases and close call accidents[(d)]	367	421	399
Number of reports of unsafe situations and SMAT audits[(e)]	27,190	23,025	4,725

(a) The GRI 403-2 disclosure was not followed when reporting the data as it does not coincide with the Company's internal classification and reporting methodologies. The indicators were developed in accordance with the "Workplace accident statistics" UNI 7249/2007 regulation and then integrated with additional Company-specific KPIs. The figures do not include the Atlanta logistics hub, which became fully operational in 2017 and for which the process of collating health and safety data was carried out only according to the American OSHA (Occupational Safety and Health Administration) standard. The data is therefore not homogeneous with respect to the Group's other production and logistics sites where a single method was used to determine the accidents and the days of work lost. The Group methodology is currently being applied to the Atlanta hub. The data relative to the "number of first aid cases and close call accidents" and the "number of reports of unsafe situations and SMAT audits" does not include the Foothill Ranch site either, for which investments are being made to adapt the mechanisms and processes to those of the rest of the Group.

(b) Frequency rate: number of events every 1,000,000 hours worked. This is the main indicator of accident trends because it takes account of the hours worked and not just the absolute number of accidents. It was calculated in accordance with the UNI 7249/2007 regulation, "Workplace accident statistics"

(c) Severity index: days of temporary inability to work due to injuries (calendar days from the first day of absence, excluding the day of the accident) per 1,000 hours worked. The indicator was calculated in accordance with the UNI 7249/2007 regulation, "Workplace accident statistics"

(d) First aid: an internal indicator that monitors events involving minor injuries that are generally handled by first aid operators.
Close call accident: an internal indicator that monitors events which may potentially lead to an accident/first aid event that might have caused an injury which, by pure chance, did not materialize.

(e) SMAT Audit (Safety Management Audit Training) is an auditing activity carried out at different levels of the organization to verify a series of environmental, health and safety aspects (working environment, Personal Protecting Equipment - PPE, training, machines etc.)

It is a program that requires investment, the continuous adjustment of infrastructure and the training of employees, and which has naturally led to significant improvements in safety at plants. The accident frequency rate fell by 22% between 2015 and 2017. In Italy alone, where the indicator has been monitored for longer, there was a 52% reduction between 2010 and 2017 and a 10% reduction in 2017.

To raise the awareness of employees in terms of recognizing and identifying hazardous situations, in 2015 the Group launched an audit process at various levels of the organization which led to the instal-

lation of the first Safety Corners in some production departments in Italy. Here, operators have the opportunity to report situations that are considered to be unsafe or potentially hazardous. The initiative was an instant success, as highlighted by the exponential growth in reports since 2015, and is indicative of an increasingly proactive approach in safety management by employees. Safety Corners continued to be installed in Italy in 2017 and are currently being extended to the Chinese and American facilities.

SAFETY INFORMATION AND TRAINING INITIATIVES

Safety Days on the themes of safety and prevention were held at the Italian and Brazilian plants in 2017. 23 training sessions were held in Italy alone, involving 432 people for a total of 1,704 hours of training provided. The precursor to the initiative was the Safety Day organized in 2013 in Dongguan with training activities and evacuation drills. The following year saw the first edition of Safety Week held at all Italian facilities: five days dedicated to training, education and prevention involving around 8,000 employees. The second edition of Safety Week was held at the Chinese sites in 2015.

In addition, since 2017 there has been a new section dedicated to health, safety and the environment on the OneLuxottica company intranet in Italy, China and Brazil.

A NEW WAY OF INTERPRETING SAFETY IN ITALY: BEHAVIOR-BASED SAFETY (BBS)

A number of studies have shown that more than 80% of workplace accidents are caused by at risk behavior. Inspired by the "Behavior-Based Safety (BBS)" concept, the Group has adopted a safety management methodology at its Italian plants that consists of reducing or eliminating unsafe behavior and actions through the involvement of its employees. Beginning at Cencenighe in 2014 and due to conclude at Agordo in 2018, the adoption of the BSS process has been gradual and will make it possible to:

- develop a culture of fully shared security, encouraging the active and voluntary participation of workers, above all through positive backup and feedback;
- build better relationships between employees, even outside the safety context, increasing the sense of belonging to the Company;
- ensure an even more "active participation by workers" as set forth by the Safety Consolidation Law (Legislative Decree 81/2008 et sequitur).

Protecting the environment

The responsible management of environmental issues is a strategic issue for the Group. The technological innovations and constant investments aimed at improving activities and processes have made the entire value chain increasingly more sustainable, in terms of water and energy consumption, CO_2 emissions, management and recycling of discards and waste. From the definition and implementation of policies and initiatives aimed at reducing the main environmental impacts to investments in industrial technologies with a low environmental impact, from the use of clean energy to a responsible and efficient use of resources, to the reduction and recovery of waste materials, everything is about sustainability.

The first major projects, mainly aimed at reducing atmospheric emissions, were launched in the early 2000s while in 2010[29] Luxottica adopted a Health, Safety, Environmental and Energy policy founded on four primary objectives:

- protecting the environment, preventing and reducing accidents and injuries;
- developing a culture centered on health, safety and environmental management;
- respecting the requirements of applicable laws;
- continuously improving the management system.

This policy is applicable to all Group employees and workers and accessible to the public at www.luxottica.com.

Since 2011 a structured system has been in place for monitoring environmental impacts. Based on the monitoring of four environmental macro-issues (energy consumption, water consumption, emissions and waste), it is developed according to a process comprising the following phases:

- measurement of the environmental impacts generated by the Group's processes and activities through the installation of meters that make it possible to view energy consumption in real time;
- analysis of such impacts through the use of specific indicators and the standardization of internal reporting tools;
- identification of priority action areas and definition of new initiatives, projects and improvement plans;
- implementation of technical improvement projects (e.g., energy efficiency initiatives) and innovative macro projects (e.g., photovoltaic facility and biomass plants).

In fact, Luxottica's respect for the environment involves investments in the best low environmental impact technologies and increasingly effective production processes, guaranteeing a more efficient use of energy and natural resources and the responsible use of water resources. The 2015-2016 period in particular stood out for the substantial investments made in improving energy efficiency, treating water and, in Italy, the gradual introduction of energy from renewable sources, also self-produced. In 2016, the Group invested over Euro 2.7 million in projects for energy efficiency, the treatment of atmospheric emissions and the treatment and disposal of waste. Being long-term projects, 2017 saw the consolidation of the previous year's investments and evidence of the first benefits for the environment and the health and safety of employees. In fact, these investments resulted in virtuous behavior among employees, contributing to the efforts made to optimize energy and water consumption.

29. Last updated in June 2017

In 2017, the environmental investments made, which came to around Euro 2.3 million, focused on technical improvement projects and the monitoring of consumption at the plants and logistics sites across the world and the activities necessary to obtain ISO 14001 environmental management system certification in Brazil (November 2017) and China (March 2018).

Main environmental investments	Geographical area	Environmental benefits
Energy efficiency		
Gradual replacement of traditional lighting systems with low environmental impact LED bulbs and simultaneous replacement of lighting systems with automatic lighting control technologies	China, Italy	Reduction of electricity consumption compared with traditional technology
Change to water heating systems in the galvanizing tank lines in order to replace electrical resistance with water heat exchangers	Italy	Replacement of electricity with thermal energy from biomass plants to heat the tanks on the galvanizing lines
Optimization of the production and use of compressed air	Italy, US	Reduction in the energy cost of producing compressed air and optimization of the compressed air used at individual workstations
Water		
Installation of time delay valves in the washing plant to limit water consumption to the moments in which it is actually used in the process	Italy	Reduction and optimization of water consumption
Treatment and recovery of discharged industrial water for reuse in workplace air conditioning systems	Italy	Reduction of water consumption
Waste		
Facility for the treatment of waste water	Italy	Reduction in the amount of waste produced and reduction in the number of lorry journeys made externally to dispose of waste

In 2018, Luxottica will continue to invest in projects aimed at further improving energy efficiency and increasing renewable energy production, in management solutions, plants and techniques for reducing water consumption through its recycling and reuse, and in process activities that generate as little waste as possible. These initiatives will also be instrumental for obtaining the environmental certification for the Foothill Ranch facility and the Atlanta service center.

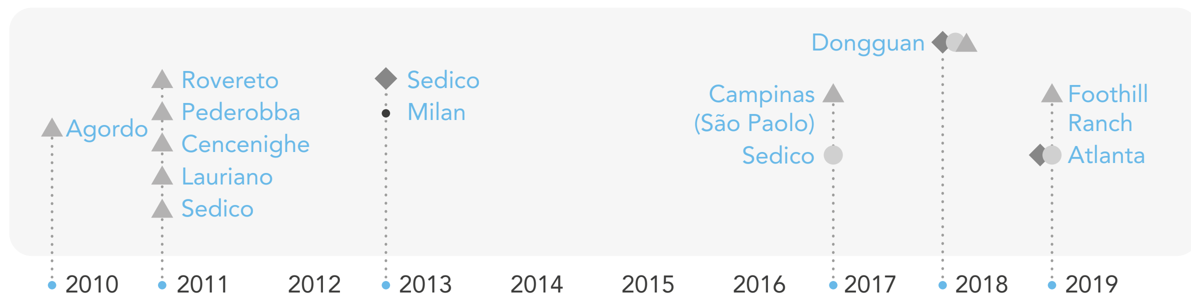
CERTIFICATIONS

A key part of Luxottica's environmental policy is the environmental management, energy, and health and safety system certifications that Luxottica has strived to adopt in all of its sites and offices across the world since 2011.

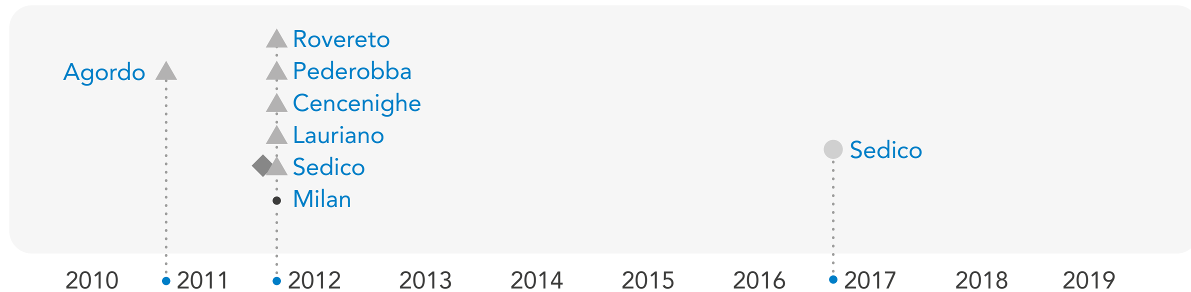
In 2011 the Company adopted the ISO 14001 Environmental Management System in all its facilities and offices in Italy. The process of obtaining the certification at the other Group sites continued in 2017 with the one in Campinas (Brazil). In March 2018 the facility in Dongguan (China) also obtained the ISO 14001 certification.

Luxottica was the first Italian Company to obtain the ISO 50001 certification (the international standard for energy management issued in June 2011), for its energy management system for the Agordo factory, the Group's operational core. This was followed in 2012 by the other five Italian manufacturing facilities and the Milan headquarters.

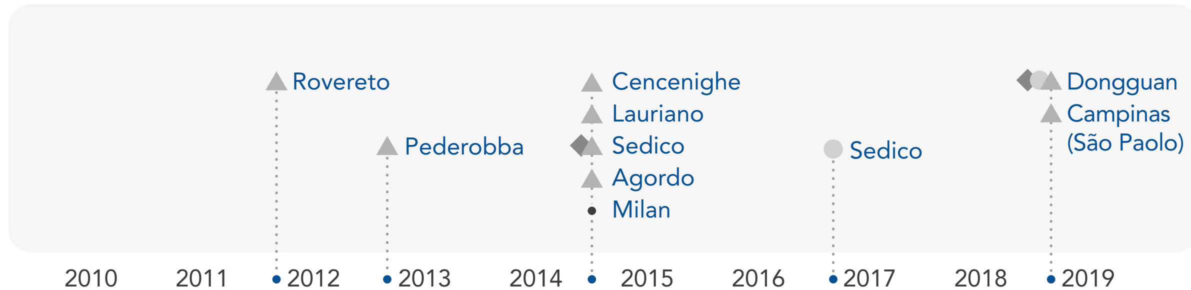
ENVIROMENT ISO 14001



ENERGY ISO 50001



H&S OHSAS 18001



Manufacturing   Lens laboratory   Primary service center   Milan headquarters

The Group's sustainability-based approach is also evident in its request for LEED[30] , the most prominent energy and sustainability certification standard in the world, presented by the Group for the new logistics hubs of Sedico, Dongguan and Atlanta constructed between 2016 and 2017. Dongguan was the first to receive it, rated at "Gold" level, while the certification process is ongoing for Atlanta and Sedico.

In fact, the buildings were designed and constructed with respect for the local communities and surrounding ecosystems, beginning with the choice of construction materials used. The monitoring of water and energy consumption, discharges, waste and atmospheric greenhouse gas emissions abides by the Luxottica standards, which are more stringent than local regulations.

MEASUREMENT OF ENVIRONMENTAL IMPACTS

The scope of the environmental impacts reported in this Statement coincides with the initial phases of the Group's value chain[31]: the manufacturing and supply chain of frames and sunglasses, focal point of the Operations area. The starting point was Italy with its six production sites, the subject of a 2016 analysis published in the Sustainability section of the Company website in April 2017. In line with the gradual inclusion approach adopted, the scope of this Statement includes the production and logistics sites in Italy, China, Brazil and the US, which represent almost all of the Group's Operations. The Bhiwadi site in India and the logistics hub of Jundiaì[32] in Brazil were excluded as they are exclusively dedicated to their respective local markets and are therefore less relevant.

The laboratories used to produce ophtalmic lenses were also excluded.

In 2016 and 2017 Luxottica invested significantly in strengthening its technology and logistics infrastructure in order to take advantage of new business opportunities in the lens world: three labs equipped with the most advanced machinery for the production of corrective lenses were set up in the new logistics hubs of Sedico, Atlanta and Dongguan. This makes it possible to integrate lenses and frames at source, giving rise to the complete pair, and to optimize the service levels in all of the Group's optical stores. In particular, in the US the Group is testing the closure of in-store lens laboratories in LensCrafters and the transfer of related lens treatment and finishing activities to the central laboratories in Dallas, Columbus and Atlanta, with important benefits in terms of the supply of increasingly digital lenses tailored to the needs of each customer.

30. LEED (Leadership in Energy and Environmental Design) is a voluntary certification program relating to the sustainability of buildings from an environmental, social, economic and health perspective. The aspects assessed include energy and water savings, the reduction of CO_2 emissions, materials used, choice of site and construction project. Gold level equates to a score of between 60 and 79 points. Platinum is the highest level of certification.
31. For more information on the Group's business model see "Luxottica Group at a glance"
32. The Jundiaì logistics hub is included in the project to measure the CO_2 emissions deriving from the transportation of finished products (glasses) between the primary distribution centers described in "Monitoring the Carbon footprint"

2017 environmental reporting scope		
Country	**Facilities**	**Incidence on Group total production**
Italy	Agordo, Sedico, Rovereto, Pederobba, Cencenighe and Lauriano	41%
China	Dongguan	46%
United States	Foothill Ranch	9%
Brazil	Campinas	4%

Country	Primary distribution centers	Average volumes managed per day
Italy	Sedico	240,000
China	Dongguan	220,000
United States	Atlanta	185,000
Brazil	-	

The extension of the non-financial reporting scope to the lens laboratories, thus completing the coverage of the Operations area, as well as to the Retail and Wholesale divisions in the main geographical areas, is currently ongoing.

THE USE OF ENERGY RESOURCES IN THE GROUP'S OPERATIONS

The total consumption of energy deriving from non-renewable resources can mainly be attributed to the consumption of grid electricity and, to a lesser extent, the consumption of natural gas and diesel used to heat the production and logistics sites within the reporting scope. Meanwhile, the total consumption of renewable energy is connected with hot water from biomass and electricity from photovoltaic energy and refers exclusively to the Italian sites.

Total energy consumption[(a)]			
	2017	**2016**	**2015**
Total consumption (millions kWh) of which:	**380.5**	**349.3**	**322.8**
- from non-renewable sources (millions kWh)	375.3	346.5	321.6
- from renewable sources (millions kWh)	5.2	2.8	1.2
Energy intensity (kWh/frame)	**4.45**	**3.98**	**3.73**

(a) Energy consumption refers to Luxottica manufacturing facilities in Italy, China, United States, Brazil and the main distribution centers in Italy, China and the United States. Data exclude electricity consumption from the grid by Data Centers, whereas the energy consumption by the US primary distribution center has been estimated. The conversion factor used to calculate energy consumption in GigaJoules is 1 kWh = 0.0036 GJ (source: International Energy Agency, www.iea.org). The consumption in TeraJoules was 1,162 TJ in 2015, 1,257 TJ in 2016 and 1,370 TJ in 2017

The general increase in energy consumption between 2015 and 2017 is due to a series of factors, such as:

- the increase in the product complexity and the different production mix, which resulted in an increase in the production of metal eyewear collections, whose processing involves around 70 different phases and the use of more energy-intensive technologies compared to other production technologies;

- the decision to carry out some production processes in Italy, China and the United States internally, with a consequent increase in installed capacity and the amount of fixed energy consumption;
- the construction, in 2016 and 2017, of the new logistics hubs in Sedico, Atlanta and Dongguan;
- the impact of the climate on electricity consumption (e.g. very cold winter in Italy and particularly hot summer in China).

Electricity and methane gas are the Group's two main sources of energy and account for almost all of the energy consumption of the production sites and distribution centers in the reporting scope. Diesel is used in the event of problems with the supply of electricity to the Chinese production site, and to supplement the thermal energy produced by the biomass plant in the Cencenighe site during the coldest periods of the year, typically January and December.

Total energy consumption from non-renewable sources

	2017	2016	2015
Total consumption (millions kWh) of which:	**375.3**	**346.5**	**321.6**
- Electricity from the grid (millions kWh)	265.4	242.0	226.4
- Methane gas[a] (millions kWh)	109.4	102.2	93.7
- Diesel for heating[b] (millions kWh)	0.5	2.3	1.5

(a) The conversion factor used to calculate methane gas energy consumption in Kilowatt hours is 1 sm3 = 10.944 kWh (Source: Stogit measures converter)

(b) The conversion factor used to calculate diesel energy consumption for heating in Kilowatt hours is 1 l = 10.005 kWh (Source:Italian Greenhouse Gas Inventory 1990 – 2014 – National Inventory Report 2016 Annex 6 National Emission Factors – Istituto Superiore per la Protezione e la Ricerca Ambientale - ISPRA)

THE GENERATION OF ENERGY FROM RENEWABLE SOURCES

Since 2013, Luxottica has been investing in manufacturing plants that run on renewable energy, with the objective of reducing its Carbon footprint across the value chain.

The first one was the solar panel system in the Lauriano factory. Between 2014 and 2017, approximately 2,000 sqm of solar panels enabled the Company to reduce emissions by approximately 80 t/ CO_2 per year.

In 2014, the first biomass heating system was built in the Cencenighe factory, which is used for heating the premises. In July 2016, the solid biomass fueled trigeneration system next to the Agordo factory was started. The system became fully operational during 2017. Built by Enel Energia, it has an electrical output of 199 kW and a thermal output of 1,220 kW, which is able to satisfy 40% of the heating requirements and 60% of cooling requirements within the factory.

The gradual roll-out of these plants has enabled Luxottica to replace part of the energy from non-renewable sources consumed in its sites with a growing quota of clean energy which, in the case of the photovoltaic power plant in Sedico and the biomass plant in Cencenighe, is self-generated. More specifically, the continuous increase in thermal energy from renewable sources has gone hand in hand with the gradual implementation and roll-out of the biomass plants in Cencenighe and Agordo between 2015 and 2017. In 2017, renewable energy accounted for around 4% of total energy consumption at Italian manufacturing sites.

Consumption of renewable energy in Italy			
	2017	2016	2015
Total consumption (millions kWh) of which:	**5.2**	**2.8**	**1.2**
- from photovoltaic (millions kWh)	0.2	0.2	0.2
- from biomass (millions kWh)	5.0	2.6	1.0
Incidence on total energy consumption (Italian manufacturing sites)	**3.8%**	**2.1%**	**0.9%**

MONITORING THE CARBON FOOTPRINT

One of the cornerstones of the environmental impact monitoring system is greenhouse gas emissions (GHG), which are reported on the basis of the international classification proposed by the GHG Protocol standard and used by the Global Reporting Initiative.

With reference to Scope 1 (direct greenhouse gas emissions from proprietary installations or installations controlled by the organization), the greenhouse gas emissions (in CO_2eq) are calculated on the basis of the emission factors applied to methane gas and heating fuel taken from the dedicated "GHG Protocol tool for stationary combustion"[33] made available by GHG Protocol. As for Scope 2 (indirect greenhouse gas emissions deriving from electricity generation, heating, cooling and steam energy, imported and consumed within the organization), the emissions deriving from electricity consumption are calculated using the emission factor corresponding to the energy mix of each of the countries in which Luxottica operates. The emission factors applied here come from the dedicated "GHG Protocol tool for purchased electricity[34]", also made available by GHG Protocol.

In 2017 Luxottica extended and consolidated the monitoring and reporting scope of energy data and therefore of direct and indirect greenhouse gas emissions, laying the foundations for the monitoring and management of its carbon footprint at global level. CO_2eq emissions deriving solely from the Group's manufacturing activities and logistics hubs (Scope 1 and Scope 2) came to 153,205 tons in 2017, an increase of around 11% compared with 2016 due to the same factors that led to the increase in energy consumption previously discussed.

Greenhouse gas emissions			
	2017	2016	2015
Overall emissions (tCO_2eq) of which:	**153,205**	**138,376**	**127,762**
- Scope 1[(a)] (% of total emissions)	12.8%	13.7%	13.1%
- Scope 2 (% of total emissions)	87.2%	86.3%	86.9%
Intensity of emissions per frame (KgCO_2eq/frame)	**1.79**	**1.58**	**1.48**

(a) Company car fuel is excluded from the calculation as this information is only partially available in the reporting scope. F-Gas emissions are included.

33. Version 4.1, World Resources Institute (WRI), 2015
34. Version 4.8, World Resources Institute (WRI), 2017

PROGRESS IN ITALY

The Italian manufacturing facilities were the first to be subject to non-financial reporting in 2016. In fact, this is where the Group's energy efficiency and environmental sustainability path began, a path that reached the important milestone of a 15% reduction in CO_2 emissions per unit between 2012 and 2015[35].

In 2017 emissions rose to 1.05 kg CO_2eq per unit from 1.02 kg CO_2eq in 2016. On a like-for-like basis with 2016, i.e. excluding variations in the production mix, the impact of the lower product volumes and the growth in production capacity that negatively influenced environmental performances, the indicator would have fallen below 1.0 kg CO_2eq, underlining the validity of the initiatives undertaken.

MEASUREMENT OF THE CARBON FOOTPRINT IN THE GROUP'S DISTRIBUTION SYSTEM

In recent years efforts have been made to simplify the logistics chain. The review of delivery flows has been based on the close evaluation of the specific needs of the markets in order to better configure the transport service in terms of procurement times and frequencies, and the streamlining of delivered volumes. The effectiveness of the logistics process is even more crucial given the initiatives to optimize the levels of product stock along the supply chain, which require the operating model for the entire system to be increasingly synchronized. The main changes regard:

- the ongoing streamlining of the logistics network. In the last 10 years the number of distribution centers has gradually fallen to a total of 10 in 2017. The subsequent centralization of logistics activities, with volumes taken from secondary distribution centers and concentrated more heavily in primary distribution centers, has led to improved efficiency, speed and the quality of customer services;

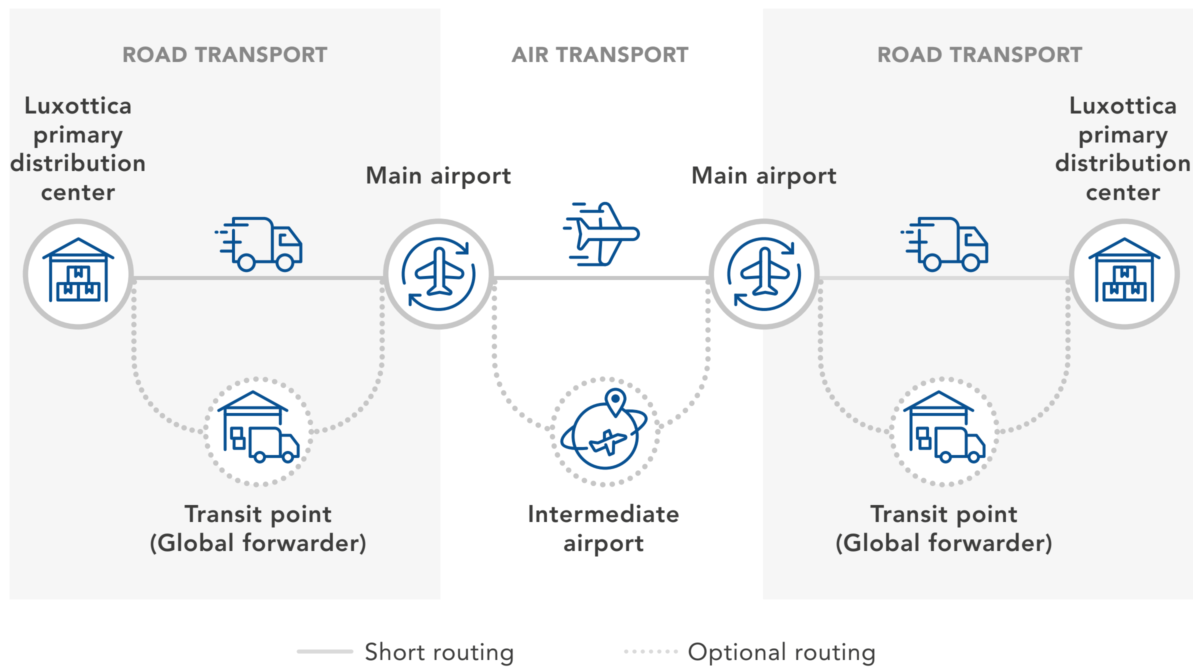
- the construction of three logistics-production hubs in Sedico, Atlanta and Dongguan in 2016 and 2017, genuine service centers, including a laboratory for the production of ophtalmic lenses, making it possible to truly integrate logistics, lens production and the creation of complete pairs. The resulting extension of their scope of activity also includes services for the personalization of logistics or the finished product (e.g. Ray-Ban Remix), confirming their evolution from distribution centers to service centers. This is joined by the gradual centralization of the Oakley-branded apparel, footwear and accessories (AFA) business and, in some cases, of advertising material.

MONITORING SERVICE LEVELS: THE LAUNCH OF CO_2 CALCULATIONS

The entire distribution chain is managed and controlled through a system of indicators that measure service levels globally. As part of its initiatives to improve the monitoring and control of logistics, in 2017 Luxottica launched a project to measure CO_2 emissions stemming from the transportation of its products in order to monitor their environmental impact.

The first phase of the project, carried out in 2017 and reported in this Statement, quantified the emissions deriving from the transportation of finished products (eyewear) between the primary distribution centers of Sedico, Atlanta, Dongguan and Jundiaì (mapping of reorder flows). For such deliveries the service is provided by international transport suppliers known as "global forwarders" and takes place exclusively by air. The scope of analysis covers the entire flow, from the original distribution center to the destination distribution center, including emissions generated both through air transport and road transport between the distribution center and the airport. In fact, the transport service involves the transfer of the goods along a roughly defined route, as illustrated in the figure.

35. This figure refers to Italia Manufacturing, which includes all production sites and excludes the logistics site and headquarters in Milan



The calculation process has made it possible to estimate the energy consumption and relative CO_2 emissions deriving from deliveries of eyewear (reorder flows): during the year 70,716 tons of CO_2eq were consumed.

Route	Volumes transported (% on 2017 total)	Total distance covered (Km)	Distance covered (% on 2017 total)	Total emissions (tCO_2eq)	Total emissions (% on 2017 total)[(a)]
China - Italy	30%	16,805,495	15%	21,374	30%
China - United States	23%	49,780,716	45%	18,698	26%
Italy - United States	23%	9,294,463	9%	12,377	18%
Italy - China	8%	7,552,263	7%	5,419	8%
United States - Italy	8%	2,820,080	3%	2,811	4%
Italy - Brazil	3%	11,378,511	10%	2,159	3%
Other routes	5%	12,564,933	11%	7,878	11%
Total		**110,196,461**	**100%**	**70,716**	**100%**

(a) "Tank-to-wheel" emissions, i.e. emissions generated through the use of vehicles

Being the first measurements, the appropriateness of introducing alternative solutions for reducing environmental impact is currently undergoing assessment.

Projects aimed at improving the saturation of delivered volumes continue as do activities to redesign shipping flows in order to continue to streamline deliveries. The second phase of the project, already launched, involves the extension of the scope to quantify the emissions deriving from the deliveries and the transport services between the distribution centers and the final customer.

CONSUMPTION AND RESPONSIBLE MANAGEMENT OF WATER RESOURCES

The consumption of well and network water is monitored promptly, on a monthly basis, thanks to the presence of meters installed in all production sites and logistics hubs.

Water consumption			
	2017	2016	2015
Total water consumption (millions of m^3) of which:	**3.07**	**3.22**	**3.38**
- Network water (% of total)	58.3%	54.2%	54.2%
- Well water (% of total)	41.7%	45.8%	45.8%
Water intensity (liters of water/frame)	**35.89**	**36.63**	**39.05**

Over the years Luxottica has invested in the management and optimization of the use of water resources, consumption of which has fallen year on year, from 3.4 million m^3 in 2015 to 3.1 million m^3 in 2017. This fall is the result of the gradual redevelopment of the main galvanizing plants with the aim of reducing consumption and flows of discharge water, beginning with the plants in Dongguan (2014) and Agordo (2016).

The new eco-sustainable galvanization technique, researched and adapted by Luxottica for the specifics of eyewear production, is an integrated water treatment and recycling system used to turn all three phases - washing, nickel-plating and finishing – into a continuous linear flow. This system fitted with a purification plant that allows the water to be reused in the process and in the heating of the tanks by cogeneration. The result was a reduction in the industrial consumption of water of around 80-90% on average in the first year of implementation. This has been joined by a reduction in CO_2 emissions with the tanks having been equipped with a thermal energy heating system that uses the energy produced by an integrated cogeneration plant.

In 2017, the Group focused on improving the process for the continuous monitoring of consumption, undertaking specific management and technical actions to promote the correct use of water in the Italian sites and logistics hub, where around 50% of the Group's overall water consumption takes place.

The introduction of closed circuit water systems in the galvanizing plants and in painting processes inside the other Group sites dedicated to the processing of metal in Italy is planned for 2018.

WASTE TREATMENT

In line with the Group's policy concerning the overall reduction of the environmental impact along the value chain, Luxottica has implemented policies to manage and recover waste materials from the production activities, as well as initiatives to recycle and reuse materials. The stations for the separate collection of waste in the distribution hubs for recycling packaging materials and the use of plastic instead of wooden pallets are just another example of these efforts.

Disposed and recovered waste[a]	2017	2016	2015[b]
Total waste (tons) of which:	**33,637**	**35,544**	**26,366**
- Waste disposed (%)	78%	81%	81%
- Waste recovered/recycled (%)	22%	19%	19%

(a) The breakdown between disposed and recovered/recycled waste is not available for the Foothill Ranch site
(b) 2015 waste data were not available for the Dongguan site, as their monitoring activity started in 2016

In 2017 the amount of waste generated by the Group's activities fell by 5.4% compared with the previous year. In addition, the quantity of waste recovered or recycled rose to 21.5% of all waste, proof of the effectiveness of the actions adopted by the Group.

More specifically, in 2016 and 2017 a waste water treatment system was installed at the Agordo site in order to reduce the quantity of waste produced. This led to a reduction in the total quantity of waste produced in 2017 and, as a result, a fall in the impact of its transportation for disposal. The number of lorry journeys fell by over 50% compared with the previous year, corresponding to a total of 33,000 km.

Waste by type[a]	2017	2016	2015[b]
Total waste (tons) of which:	**33,637**	**35,544**	**26,366**
- Non-hazardous waste	38.6%	40.7%	42.6%
- Hazardous waste	61.4%	59.3%	57.4%

(a) This figure was estimated for some types of waste and some geographies, such as China and the US, where the legislation in this area is different. For the Chinese sites the figure was estimated on the basis of the average volume of waste transported and the number of journeys made by waste transportation vehicles. Both information have been available since 2016. As regards the US, no information is available for the Atlanta logistics hub.
(b) 2015 waste data were not available for the Dongguan site, as their monitoring activity started in 2016

Hazardous waste represents around 61% of the total. Its increase in 2017 is mainly due to the gradual internalization of some production processes in China and to legislative changes in the classification of waste made by individual legislations.

No significant accidental leaks took place in the Group's facilities in 2017.

Index of GRI-referenced content

As indicated in the introduction to the Consolidated non-financial statement, the first phase of the project to report and communicate the environmental sustainability and social responsibility of the Luxottica Group involved - for issues relating to the environment (energy and water consumption, waste treatment, monitoring of the Carbon footprint), the health and safety of employees and supply chain management - the companies that carry out manufacturing and logistics activities for the Group (Operations).

The gradual extension of reporting to the companies in the Wholesale division, and more specifically commercial subsidiaries, and to the Retail division in the Group's main geographical areas represents the second phase of the project, currently ongoing, with the aim being to progressively communicate these data starting from the year that closes on December 31, 2018.

Italian Legislative Decree 254/2016	Key elements of Luxottica's sustainability strategy (material topics)	Chapter of the non-financial statement	Reference to other document or content of the Management report
Art. 3 c.1 letter a A brief description of the business model			Refer to "Luxottica Group at a glance" inside the Management report
Art. 3 c.1 letter b A description of the policies pursued by the Company, the outcomes of those policies and related non-financial key performance indicators Art. 3 c.1 letter c The principal risks Art. 3 c.1 Respect for human rights, anti-corruption and bribery matters Art. 3 c.2 letters e, f Information relating to: - respect for human rights - right against corruption	The central importance of the system of values represented by the Group's Code of Ethics The responsible management of the supply chain	**Commitment to excellence**	
Art. 3 c.1 letter b A description of the policies pursued by the Company, the outcomes of those policies and related non-financial key performance indicators Art. 3 c.1 letter c The principal risks Art. 3 c.1 Social matters Art. 3 c.2 letter d Information relating to social matters	The culture of quality and consumer satisfaction	**Visual well-being** **Commitment to excellence**	

	GRI Standards and disclosures	Notes on methodology	Reporting years	Omissions / Notes on scope
	GRI 103 (2016) "Management approach disclosure" for GRI 204 (2016) "Procurement practices"			
	Disclosure 204-1 "Proportion of spending on local suppliers"	204-1 b. "Local" refers to purchases made in the geographical area in which the manufacturing facility is located 204-1 c. The "most significant operating sites" are the Group's manufacturing facilities in Italy, China, the United States and Brazil	2016, 2017	The data refers to the auditing of suppliers of direct materials and finished products that Luxottica conducts through its Responsible Sourcing and Manufacturing (LRSM) program. Suppliers of direct materials and finished products represent around 50% of purchases within the Group Operations and are mostly located in Europe and China, areas where the Group produces over 80% of its eyewear collections.
	GRI 103 (2016) "Management approach disclosure" for GRI 205 (2016) "Anti-corruption"			
	GRI 103 (2016) "Management approach disclosure" for GRI 308 (2016) "Supplier environmental assessment"			
	Disclosure 308-2 "Negative environmental impacts in the supply chain and actions taken"		2015, 2016, 2017	The data refers to the auditing of suppliers of direct materials and finished products that Luxottica conducts through its Responsible Sourcing and Manufacturing (LRSM) program. Suppliers of direct materials and finished products represent around 50% of purchases within the Group Operations and are mostly located in Europe and China, areas where the Group produces over 80% of its eyewear collections.
	GRI 103 (2016) "Management approach disclosure" for GRI 414 (2016) "Supplier social assessment"			
	Disclosure 414-2 "Negative social impacts in the supply chain and actions taken"		2015, 2016, 2017	The data refers to the auditing of suppliers of direct materials and finished products that Luxottica conducts through its Responsible Sourcing and Manufacturing (LRSM) program. Suppliers of direct materials and finished products represent around 50% of purchases within the Group Operations and are mostly located in Europe and China, areas where the Group produces over 80% of its eyewear collections.
				With reference to the reporting scope (Operations) qualitative information and specific measures, such as the percent of returns, are presented.

Italian Legislative Decree 254/2016	Key elements of Luxottica's sustainability strategy (material topics)	Chapter of the non-financial statement	Reference to other document or content of the Management report
Art. 3 c.1 letter b A description of the policies pursued by the Company, the outcomes of those policies and related non-financial key performance indicators Art. 3 c.1 letter c The principal risks Art. 3 c.1 Social and employee matters Art. 3 c.2 letters c, d Information relating to: - impacts on health and safety - social and employee-related matters, including the actions taken to ensure gender equality	The welfare system, the management of talent and diversity, the protection of employee health and safety The initiatives in the areas and local communities in which the Group operates	**Social impact** **Commitment to excellence**	

GRI Standards and disclosures	Notes on methodology	Reporting years	Omissions / Notes on scope
Disclosure 102-7 a. i. "Total number of employees"		2016, 2017	
Disclosure 102-8 "Information on employees and other workers"		2017	It was not possible to report the breakdown by geographical area of employees according to contract type (permanent or fixed-term) in this Statement. This information will gradually be provided from the 2018 Non-financial statement onwards.
GRI 103 (2016) "Management approach disclosure" for GRI 201 (2016) "Economic performance"			
Disclosure 201-1 "Direct economic value generated and distributed"		2016, 2017	
GRI 103 (2016) "Management approach disclosure" for GRI 403 (2016) "Occupational health and safety"	The GRI 403-2 disclosure was not followed when reporting the data as it does not coincide with the Company's internal classification and reporting methodologies. The indicators were developed in accordance with the "Workplace accident statistics" UNI 7249/2007 regulation and then integrated with additional Company-specific KPIs.	2015, 2016, 2017	The scope of the health & safety matters reported in this Statement coincides with the Group's manufacturing and supply chain activities (Operations). The indicators presented do not include the Atlanta logistics hub which became fully operational in 2017 and for which the process of collating health and safety data was carried out only according to the American OSHA (Occupational Safety and Health Administration) standard. The data is therefore not homogeneous with respect to the Group's other manufacturing and logistics sites where a single method was used to determine the accidents and the days of work lost. The Group methodology is currently being applied to the Atlanta hub. The data relative to the "number of first aid cases and close call accidents" and the "number of reports of unsafe situations and SMAT audits" does not include the Foothill Ranch site either, for which investments are being made to adapt the mechanisms and processes to those of the rest of the Group.
GRI 103 (2016) "Management approach disclosure" for GRI 405 (2016) "Diversity and equal opportunity"			
Disclosure 405-1 b. "Diversity of employees: percentage of employees per employee category by gender and age group"		2017	

Italian Legislative Decree 254/2016	Key elements of Luxottica's sustainability strategy (material topics)	Chapter of the non-financial statement	Reference to other document or content of the Management report
Art. 3 c.1 letter b A description of the policies pursued by the Company, the outcomes of those policies and related non-financial key performance indicators Art. 3 c.1 letter c The principal risks Art. 3 c.1 Environmental matters Art. 3 c.2 letters a, b, c Information relating to: - the use of renewable and/or non-renewable energy - greenhouse gas emissions and air pollution - the impact on the environment	The responsible management of energy resources, water and waste, and the use of alternative energy sources	**Protecting the environment** **Commitment to excellence**	

GRI Standards and disclosures	Notes on methodology	Reporting years	Omissions / Notes on scope
GRI 103 (2016) "Management approach disclosure" for GRI 302 (2016) "Energy"			The scope of analysis corresponds to the Group's manufacturing and logistics activities (Operations). In this Statement it was not possible to report energy and water consumption, emissions and waste by type and method of disposal in accordance with the GRI Standards for companies in the Retail division, which comprises approximately 9,000 stores across the world, of which around 1,800 are franchises and over 7,000 are directly managed, and for the companies in the Wholesale division that do not carry out production and logistics activities. With reference to Retail, the introduction of additional formats (free standing stores, shop-in-shops, concessions), the presence of stores in different types of channels (including department stores, shopping malls and travel retail locations), and the use, in most cases, of full service rental contracts in which the details required to summarize energy consumption and other useful items are not available, result in an extremely fragmented overview. As such, it was not possible to adequately identify and collect the necessary information to give a representation of the relative environmental performances. This information will gradually be provided for the Group's main geographical areas from the 2018 Non-financial statement onwards.
Disclosure 302-1 "Energy consumption within the organization"		2015, 2016, 2017	
GRI 103 (2016) "Management approach disclosure" for GRI 303 (2016) "Water"			
Disclosure 303-1 "Water withdrawal by source"		2015, 2016, 2017	
GRI 103 (2016) "Management approach disclosure" for GRI 305 (2016) "Emissions"			
Disclosure 305-1 "Direct (Scope 1) GHG emissions"	The source of GWP emission factors that have been applied is the "GHG Protocol tool for stationary combustion" (Version 4.1, World Resources Institute (WRI), 2015) made available by GHG Protocol. The Gases included in the calculation, as specified inside the "GHG Protocol tool for stationary combustion", are CO2, CH4, N2O. With reference to Fluorinated greenhouse gases (F-Gas), the GWP source is the "GHG Protocol - Global Warming Potential Values" (Fourth Assessment Report (AR4)). The Gases included in the calculation, as specified inside the "GHG Protocol - Global Warming Potential Values", are HFCs, PFCs, SF6, NF3. The F-Gas emissions of the Chinese plants are available and reported only for 2016 and 2017.	2015, 2016, 2017	
Disclosure 305-2 "Energy indirect (Scope 2) GHG emissions"	The source of GWP emission factors that have been applied is the "GHG Protocol tool from purchased electricity" (Version 4.8, World Resources Institute (WRI), 2017) made available by GHG Protocol. The Gases included in the calculation, as specified inside the "GHG Protocol tool from purchased electricity", are CO2, CH4, N2O. The GHG Protocol emission factors have been used as a proxy to quantify the Scope 2 GHG emissions under the market-base method. The calculation of Scope 2 emissions under the location-based method is consistent with the market-based method.	2015, 2016, 2017	
GRI 103 (2016) "Management approach disclosure" for GRI 306 "Effluents and waste"			

Italian Legislative Decree 254/2016	Key elements of Luxottica's sustainability strategy (material topics)	Chapter of the non-financial statement	Reference to other document or content of the Management report
Art. 3 c.1 letter b A description of the policies pursued by the Company, the outcomes of those policies and related non-financial key performance indicators Art. 3 c.1 letter c The principal risks Art. 3 c.1 Environmental matters Art. 3 c.2 letters a, b, c Information relating to: - the use of renewable and/or non-renewable energy - greenhouse gas emissions and air pollution - the impact on the environment	The responsible management of energy resources, water and waste, and the use of alternative energy sources	**Protecting the environment** **Commitment to excellence**	
Art. 3 c.3 Information are compared with those disclosed in the previous fiscal years			
Art. 10 c.1 letter a Diversity policy applied in relation to the Company's Board of Directors			Report on Corporate Governance and ownership structure

	GRI Standards and disclosures	Notes on methodology	Reporting years	Omissions / Notes on scope
	Disclosure 306-2 "Waste by type and disposal method"	The disposal method has been added where applicable. The data was estimated for some types of waste and some geographies, such as China and the US, where the legislation in this area is different. For the Chinese sites the figure was estimated on the basis of the average volume of waste transported and the number of journeys made by waste transportation vehicles. Both information have been available since 2016. As regards the US, no information is available for the Atlanta logistics hub nor is the breakdown between disposed and recovered/ recycled waste for the Foothill Ranch site.	2015, 2016, 2017	The scope of analysis corresponds to the Group's manufacturing and logistics activities (Operations). In this Statement it was not possible to report energy and water consumption, emissions and waste by type and method of disposal in accordance with the GRI Standards for companies in the Retail division, which comprises approximately 9,000 stores across the world, of which around 1,800 are franchises and over 7,000 are directly managed, and for the companies in the Wholesale division that do not carry out production and logistics activities. With reference to Retail, the introduction of additional formats (free standing stores, shop-in-shops, concessions), the presence of stores in different types of channels (including department stores, shopping malls and travel retail locations), and the use, in most cases, of full service rental contracts in which the details required to summarize energy consumption and other useful items are not available, result in an extremely fragmented overview. As such, it was not possible to adequately identify and collect the necessary information to give a representation of the relative environmental performances. This information will gradually be provided for the Group's main geographical areas from the 2018 Non-financial statement onwards.
		The reported historical series is shown under the "Reporting years" column		
	Disclosure 405-1 a. "Diversity of governance bodies"			

10. 2018 Outlook

The Group operates in an industry with significant opportunity for growth. Over the past few years, the adoption of specific measures aimed at strengthening our portfolio brands, a strong digitalization in all business areas and a more direct relationship with the consumer thanks to a multi-channel distribution approach, lay the foundations for long-term sustainable growth. The Group expects to benefit from continued development across its various businesses in both mature and emerging markets, with notable contributions from its main proprietary brands like Ray-Ban, Oakley and Sunglass Hut. Looking forward, the Group will continue to drive innovation and develop new competencies. Long-term drivers include vertical integration, Luxottica's strong brand portfolio, innovation, global expansion of new sales channels and the Group's presence in emerging markets.

11. Subsequent events

For a description of significant events after December 31, 2017 please refer to Note 39 of the Notes to the Consolidated Financial Statements as of December 31, 2017.

12. Adaptation to the CONSOB market regulation

CONSOB Market Regulation applies to 33 entities based on the Consolidated Financial Statements as of December 31, 2017.

In particular the Group:

- applies to all the Extra European Union subsidiaries, internal procedures under which it is requested that all Group companies release a quarterly representation letter that contains a self-certification of the completeness of the accounting information and controls in place, necessary for the preparation of the consolidated financial statements of the parent;
- ensures that subsidiaries outside of Europe also declare in these representation letters their commitment to provide auditors of the Group with the information necessary to conduct their monitoring of the parent's annual and interim financial statements;
- as set out in Part III, Title II, Chapter II, Section V of Regulation No. 11971/1999 and subsequent amendments, makes available the statement of financial position and the statement of income of the aforementioned subsidiaries established in states outside the European Union, used to prepare the consolidated financial statements.

13. Other information

As required by Section 2428 of the Italian Civil Code, it is reported that:

- The Group carries out research and development activities in relation to production processes in order to improve their quality and increase their efficiency. The costs incurred for research and development are immaterial.

- No atypical and/or unusual transactions, as defined by CONSOB Communication 6064293 dated July 28, 2006, were undertaken during 2017.

- The information required by Section 123-bis par.1 of Italian Legislative Decree 58 dated February 29, 1998, is disclosed in the corporate governance report forming an integral part of the annual financial report.

- The Company is not subject to direction and coordination by others, as discussed in more detail in the corporate governance report.

- The Company is subject to the national tax consolidation scheme (sections 117-129 of the Italian Tax Code). Under this tax regime, Luxottica Group S.p.A., as the consolidating entity for the Group's principal Italian companies, calculates a single taxable base by offsetting taxable income against tax losses reported by participating companies in the same year.

On January 29, 2013 the Company elected to avail itself of the options provided by Section 70, par. 8, and Section 71, par. 1bis, of CONSOB Issuers' Regulations and, consequently, will no longer comply with the obligation to make available to the public an information memorandum in connection with transactions involving significant mergers, spinoffs, increases in capital through contributions in kind, acquisitions and disposals.

Appendix

RECONCILIATION BETWEEN PARENT COMPANY NET INCOME AND STOCKHOLDERS' EQUITY AND CONSOLIDATED NET INCOME AND STOCKHOLDERS' EQUITY

	December 31, 2017		December 31, 2016	
(Euro/000)	Net income	Stockholders' Equity	Net income	Stockholders' Equity
Parent company financial statements	**631,271**	**2,862,474**	**454,386**	**2,652,272**
Elimination of intragroup dividends	(83,124)	-	(100,221)	-
Trademarks and other intangible assets[(a)]	(48,021)	(1,120,183)	(41,319)	(1,177,375)
Elimination of internal profits on inventories[(a)]	(62,802)	(323,062)	(43,450)	(304,781)
Difference between value of investments in consolidated companies and related share of stockholders' equity	-	4,387,318	-	4,611,875
Net income of consolidated companies	603,081	-	580,538	-
Non-controlling interests	(1,960)	(5,463)	(1,797)	(5,954)
Total	**1,038,445**	**5,801,085**	**848,137**	**5,776,036**

(a) Net of tax effect

NON-IFRS MEASURES

ADJUSTED MEASURES

In this Management Report, we use certain performance indicators that are not envisioned by the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board, and endorsed by the European Union. Such measures are not meant to be considered in isolation or as a substitute for items appearing in our financial statements prepared in accordance with IFRS. Rather, these non-IFRS measures should be used as a supplement to IFRS results to assist the reader in better understanding the operating performance of the Group.

Such measures are not defined terms under IFRS and their definitions should be carefully reviewed and understood by investors. Such non-IFRS measures are explained in detail and reconciled to their most comparable IFRS measures below.

In order to provide additional comparative information on the results for the period under review compared to previous periods, some measures have been adjusted ("adjusted measures"). In particular, in 2017, we made adjustments to the following measures: cost of sales, operating expenses, income from operations, EBITDA, other income/(expenses), income before taxes, income taxes, net income and earnings per share.

Adjusted measures exclude: (i) restructuring and reorganization expenses for Euro 115.7 million (Euro 87.3 million net of taxes), (ii) non-recurring expenses for Euro 55.6 million (Euro 36.6 million net of taxes) regarding the early repayment of loans equal to Euro 29.5 million (Euro 18.2 million net of taxes) and costs relating to the integration plan with Essilor for Euro 18.5 million (Euro 13.0 million net of taxes) and Euro 7.6 million (Euro 5.3 million net of taxes) mainly related to the departure of Massimo Vian as CEO for Product and Operations; (iii) non-recurring income for Euro 48.7 million (Euro 192.3 million net of taxes) related to capital gains on the sale of a property owned by the Group for Euro 48.7 million (Euro 34.9 million net of taxes) and tax benefits from the Patent Box and the US tax reform for Euro 157.4 million.

In 2016, we made adjustments to the following measures: cost of sales, operating expenses, EBITDA, income from operations, income taxes, net income and earnings per share. Adjusted measures exclude (i) restructuring and reorganization expenses for Euro 69.5 million (Euro 55.0 million net of taxes), (ii) non-recurring expenses for Euro 17.4 million (Euro 12.0 million net of taxes) related to the termination of Adil Mehboob-Khan as Market CEO and to the Oakley integration; (iii) non-recurring income for Euro 33.4 million related to the Salmoiraghi & Viganò acquisition.

The adjusted measures referenced above are not required by International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board and endorsed by the European Union. The Group believes that these adjusted measures: (i) are useful for management and investors to assess the operating performance of the Group and to compare it to other companies operating in the same sector, and (ii) provide an additional view of the results, excluding the effect of elements that are unusual, infrequent or unrelated to normal operations.

Non-IFRS measures such as EBITDA, EBITDA margin, free cash flows and the ratio of net debt to EBITDA are included in this Management Report in order to:

- improve transparency for investors;
- assist investors in their assessment of the Group's operating performance and its ability to refinance its debt as it matures and incur additional indebtedness to invest in new business opportunities;

- assist investors in their assessment of the Group's cost of debt;
- ensure that these measures are fully understood in light of how the Group evaluates its operating results and leverage;
- properly define the metrics used and confirm their calculation; and
- share these measures with all investors at the same time.

See the tables below for a reconciliation of the adjusted measures discussed above to their most directly comparable IFRS financial measures, in the case of adjusted EBITDA to adjusted EBITDA margin, in the case of EBITDA to EBITDA margin, which are also non-IFRS measures. For a reconciliation of EBITDA to its most directly comparable IFRS measures, see the pages following the tables below:

2017 Adjusted Measures (Euro/000)	Cost of sales	Operating expenses	EBITDA	Income from operations	Other income/ (expenses)	Net income	EPS
Reported	**(3,282.1)**	**(4,574.6)**	**1,841.0**	**1,300.6**	**(44.1)**	**1,038.4**	**2.17**
Restructuring and Reorganization Expenses	57.7	58.0	115.7	115.7	-	87.3	0.18
Non-recurring Expenses	-	26.1	26.1	26.1	29.5	36.6	0.08
Non-recurring Income	-	-	-	-	(48.7)	(192.3)	(0.40)
Adjusted	**(3,224.4)**	**(4,490.5)**	**1,982.8**	**1,442.4**	**(63.2)**	**970.1**	**2.03**

2016 Adjusted Measures (Euro/000)	Cost of sales	Operating expenses	EBITDA	Income from operations	Other income/ (expenses)	Net income	EPS
Reported	**(3,153.3)**	**(4,587.2)**	**1,858.1**	**1,345.3**	**(29.0)**	**848.1**	**1.77**
Restructuring and Reorganization Expenses	18.6	50.9	69.5	69.5	-	55.0	0.11
Non-recurring Expenses	0.1	17.3	17.4	17.4	-	12.0	0.02
Non-recurring Income	-	-	-	-	(33.4)	(33.4)	(0.07)
Adjusted	**(3,134.6)**	**(4,519.0)**	**1,945.0**	**1,432.1**	**(62.3)**	**881.7**	**1.84**

EBITDA AND EBITDA MARGIN

EBITDA represents net income attributable to Luxottica Group stockholders, before non-controlling interests, income taxes, other non-opertaing income/expenses, depreciation and amortization. EBITDA margin means EBITDA divided by net sales. We believe that EBITDA is useful to both management and investors in evaluating our operating performance compared to that of other companies in our industry. Our calculation of EBITDA allows us to compare our operating results with those of other companies excluding any effects related to financing, taxes and depreciation and amortization, because said items may vary for different companies for reasons unrelated to the overall operating performance of a company's business.

EBITDA and EBITDA margin are not meant to be considered in isolation or as a substitute for items appearing in our consolidated financial statements prepared in accordance with IFRS. Rather, these non-IFRS measures should be used as a supplement to IFRS results to assist the reader in better understanding the operating performance of the Group. For additional information on the Group's non-IFRS measures used in this report, see "NON-IFRS MEASURES – Adjusted Measures" set forth above.

Investors should be aware that our method of calculating EBITDA may differ from methods used by other companies. We recognize that the usefulness of EBITDA has certain limitations, including:

- EBITDA does not include financial expenses. Because we have borrowed money in order to finance our operations, interest expense is a necessary element to determine our costs and ability to generate profits and cash flows. Therefore, any measure that excludes financial expenses may have material limitations;

- EBITDA does not include depreciation and amortization. Because we use fixed assets, depreciation and amortization are a necessary element to determine our costs and ability to generate profits. Therefore, any measure that excludes depreciation and amortization may have material limitations;

- EBITDA does not include income taxes. Because income taxes are a necessary element of our costs, any measure that excludes income taxes may have material limitations;

- EBITDA does not reflect cash expenditures or future requirements for capital expenditures or contractual commitments;

- EBITDA does not reflect changes in, or cash requirements for, working capital needs;

- EBITDA does not allow us to analyze the effect of certain recurring and non-recurring items that materially affect our net income or loss.

We compensate for the foregoing limitations by using EBITDA as a comparative tool, together with IAS/IFRS measurements, to assist in the evaluation of our operating performance and leverage.

The following table provides a reconciliation of EBITDA to net income attributable to Luxottica Group stockholders, which is the most directly comparable IFRS financial measure, as well as the calculation of EBITDA margin on net sales:

EBITDA and EBITDA margin (Euro mn)	2017	2016
Net Income attributable to Luxottica Group stockholders (+)	**1,038.4**	**848.1**
Net income attributable to non-controlling interests (+)	2.0	1.8
Income taxes (+)	216.1	466.4
Other (income)/expenses (+)	44.1	29.0
Depreciation and amortization (+)	540.4	512.8
EBITDA (=)	**1,841.0**	**1,858.1**
Net Sales (/)	9,157.3	9,085.7
EBITDA margin (=)	**20.1%**	**20.5%**

The following table provides a reconciliation of Adjusted EBITDA to Adjusted net income attributable to Luxottica Group stockholder, as well as the calculation of Adjusted EBITDA margin:

Adjusted EBITDA and Adjusted EBITDA margin (Euro mn)	December 31, 2017[(a)(b)(c)]	December 31, 2016[(d)(e)(f)]
Net Income attributable to Luxottica Group stockholder (+)	**970.1**	**881.7**
Net income attributable to non-controlling interests (+)	2.0	1.8
Income taxes (+)	407.1	486.3
Other (income)/expenses (+)	63.2	62.3
Depreciation and amortization (+)	540.4	512.8
Adjusted EBITDA (=)	**1,982.8**	**1,945.0**
Net Sales (/)	9,157.3	9,085.7
Adjusted EBITDA margin (=)	**21.7%**	**21.4%**

Adjusted figures exclude:
(a) Restructuring and reorganization expenses for Euro 115.7 million
(b) Non-recurring expenses of Euro 55.6 million relating to: early repayment of loans of Euro 29.5 million, costs related to integration merger plan with Essilor of Euro 18.5 million and Euro 7.6 million (Euro 5.3 million net of taxes) mainly related to the departure of Massimo Vian, CEO for Product and Operations
(c) Non-recurring income related to capital gains on the sale of a property owned by the Group of Euro 48.7 million and to the tax benefits deriving from the Patent Box and the US tax reform of Euro 157.4 million
(d) Restructuring and reorganization expenses for Euro 69.5 million
(e) Non-recurring expenses for Euro 17.4 million related to the departure of Adil Mehboob-Khan as Market CEO and to the Oakley integration
(f) Non-recurring income for Euro 33.4 million related to the Salmoiraghi & Viganò acquisition

FREE CASH FLOW

Free cash flow represents EBITDA, as defined above, plus or minus the decrease/(increase) in working capital over the period, less capital expenditures, plus or minus financial income/(expenses) and extraordinary items, minus taxes paid. The Group believes that free cash flow is useful to both management and investors in evaluating the Group's operating performance compared with that of other companies in its industry. Our calculation of free cash flow provides a clearer picture of our ability to generate net cash from operations, which is used for mandatory debt service requirements, to fund discretionary investments, pay dividends or pursue other strategic opportunities.

Free cash flow is not meant to be considered in isolation or as a substitute for items appearing in our financial statements prepared in accordance with IFRS. Rather, this non-IFRS measure should be used as a supplement to IFRS results to assist the reader in better understanding the operating performance of the Group. For additional information on Group's non-IFRS measures used in this report, see ''Non-IFRS Measures – Adjusted Measures'' set forth above.

The Group cautions that this measure is not a defined term under IFRS and its definition should be carefully reviewed and understood by investors.

Investors should be aware that our method of calculation of free cash flow may differ from methods used by other companies. We recognize that the usefulness of free cash flow as an evaluative tool may have certain limitations, including:

- The manner in which we calculate free cash flow may differ from that of other companies, which limits its usefulness as a comparative measure;

- Free cash flow does not represent the total increase or decrease in the net debt balance for the period since it excludes, among other things, cash used for funding discretionary investments and to pursue strategic opportunities during the period and any impact of the exchange rate changes; and

- Free cash flow can be subject to adjustment at our discretion if we take steps or adopt policies that increase or diminish our current liabilities and/or changes to working capital.

We compensate for the foregoing limitations by using free cash flow as one of several comparative tools, together with IFRS measurements, to assist in the evaluation of the operating performance of the Group.

The following table provides a reconciliation of Adjusted free cash flow to Adjusted EBITDA. For a reconciliation between EBITDA and adjusted EBITDA and between EBITDA and net income, please see the tables above.

Free cash flow	
(Euro mn)	2017
Adjusted EBITDA[a]	**1,982.8**
Δ Working capital	73.3
Capital expenditures	**(663.0)**
Operating cash flow	1,393.1
Financial charges[b]	(89.5)
Income taxes	(319.9)
Other net income/(expenses)[c]	44.4
Adjusted free cash flow	**1,028.0**

(a) Adjusted EBITDA is not an IFRS measure; please see the table on the earlier page for a reconciliation of Adjusted EBITDA to EBITDA and EBITDA to net income; Financial income less financial expenses
(b) Financial income less financial expenses
(c) Extraordinary income less extraordinary expenses

NET DEBT TO EBITDA RATIO

Net debt represents the sum of bank overdrafts, the current portion of long-term debt and long-term debt, less cash and cash equivalents. The ratio of net debt to EBITDA is a measure used by management to assess the Group's level of leverage, which affects our ability to refinance our debt as it matures and incur additional indebtedness to invest in new business opportunities.

EBITDA and the ratio of net debt to EBITDA are not meant to be considered in isolation or as a substitute for items appearing in our financial statements prepared in accordance with IFRS. Rather, these non-IFRS measures should be used as a supplement to IFRS results to assist the reader in better understanding the operating performance of the Group. For additional information on Group's non-IFRS measures used in this report, see "Non-IFRS measures – Adjusted Measures" set forth above.

Investors should be aware that Luxottica Group's method of calculating EBITDA and the ratio of net debt to EBITDA may differ from methods used by other companies.

The Group recognizes that the usefulness of the ratio of net debt to EBITDA as evaluative tools may have certain limitations. In addition to the aforementioned EBITDA limitations, the ratio of net debt to EBITDA is net of cash and cash equivalents, restricted cash and short-term investments, thereby reducing our debt position.

Because we may not be able to use our cash to reduce our debt, this measure may have material limitations.

We compensate for the foregoing limitations by using EBITDA and the ratio of net debt to EBITDA as two of several comparative tools, together with IFRS measurements, to assist in the evaluation of our operating performance and leverage.

See the table below for a reconciliation of net debt to long-term debt, which is the most directly comparable IFRS financial measure, as well as the calculation of the ratio of net debt to EBITDA. For a reconciliation of EBITDA to its most directly comparable IFRS measure, see the tables on the earlier pages.

Net debt to EBITDA ratio (Euro mn)	December 31, 2017	December 31, 2016
Long-term financial debt (+)	1,671.3	1,681.0
Current portion of medium-/long-term debt (+)	150.4	154.1
Borrowings (+)	77.5	208.8
Cash and cash equivalents (-)	(1,159.3)	(866.9)
Net debt (=)	739.9	1,177.0
EBITDA	1,841.0	1,858.1
Net Debt / EBITDA	**0.4x**	**0.6x**
Net debt at avg. exchange rates	718.9	1,172.2
Net debt at avg. exchange rates / EBITDA	**0.4x**	**0.6x**

See the table below for a reconciliation of net debt to long-term debt, which is the most directly comparable IFRS financial measure, as well as the calculation of the ratio of net debt to Adjusted EBITDA. For a reconciliation of EBITDA to Adjusted EBITDA, see the tables on the previous pages.

Net debt to Adjusted EBITDA ratio (Euro mn)	December 31, 2017[b][c]	December 31, 2016[d][e]
Long-term financial debt (+)	1,671.3	1,681.0
Current portion of medium-/long-term debt (+)	150.4	154.1
Borrowings (+)	77.5	208.8
Cash and cash equivalents (-)	(1,159.3)	(866.9)
Net debt (=)	739.9	1,177.0
Adjusted EBITDA	1,982.8	1,945.0
Net Debt / Adjusted EBITDA	**0.4x**	**0.6x**
Net debt at avg. exchange rates[a]	718.9	1,172.2
Net Debt at avg. exchange rates / Adjusted EBITDA	**0.4x**	**0.6x**

(a) Net debt figures are calculated using the average exchange rates used to calculate the EBITDA figures
Adjusted figures exclude:
(b) Restructuring and reorganization expenses for Euro 115.7 million
(c) Non-recurring expenses for Euro 26,1 million
(d) Restructuring and reorganization expenses for Euro 69.5 million
(e) Non-recurring expenses for Euro 17.4 million related to the departure of Adil Mehboob-Khan as CEO for Market and to the Oakley integration

FORWARD-LOOKING INFORMATION

This Management Report contains statements regarding future events, including forward-looking statements as defined by the US Private Securities Litigation Reform Act of 1995. These include, but are not limited to, statements on the proposed integration of Essilor and Luxottica (including the benefits, results, effects and timing of the transaction), statements on the expected future financial position, operating results, cash flows, dividends, financial plans, business strategies, budgets, investments, competitive positioning, growth opportunities, management plans and targets, by Essilor (and by Essilor and Luxottica on a combined basis), as well as statements that contain terms such as "predict", "approximately", "consider", "plan", "estimate", "expect", "might", "could", "should", "will", "intend", "can", "potentially", "benefits" and other similar expressions. The statements contained herein on the expected operating performance or future economic results, forecasted profits, revenue, expenses, dividends or other financial items and the growth of Luxottica product lines or services (and of combined Essilor and Luxottica businesses), together with other statements that do not concern past events, are to be considered forward-looking statements which are estimates made according to Luxottica's best evaluations based on the information currently available.

These forward-looking statements are uncertain by nature and the stockholders and other potential investors must acknowledge that the effective results may differ significantly from Luxottica's expectations for a number of reasons. Forward-looking statements are based on current management expectations and are subject to significant risks, uncertainties and possibilities as regards business performance, the economy and the competitive environment, many of which are unknown or that, in any case, cannot be predicted or controlled by Luxottica. As a result of these factors, the effective results, performance and operating plans of Luxottica, as well as of the group resulting from the integration of Essilor and Luxottica, may differ significantly from the results, performance and operating plans expressed or inferred by the forward-looking statements above. These risks and uncertainties include, inter alia, the risk factors discussed or identified in the public documents that have been or will be filed or submitted by Essilor or Luxottica from time to time. Luxottica advises its stockholders to consider that none of its forward-looking statements are a guarantee of future performance. Luxottica does not undertake to update any of these factors or to publicly announce the results of any review or amendment of forward-looking statements aimed at reflecting future events or developments.

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Milan, February 26, 2018
Luxottica Group S.p.A.

On behalf of the Board of Directors

Francesco Milleri
(Deputy Chairman & Chief Executive Officer)

2. Report on corporate governance and ownership structure

Pursuant to art.123-bis of the italian consolidated financial law

Year 2017
Approved by the Board of Directors on February 26, 2018
Traditional administration and control system

Luxottica Group S.p.A.
Registered Office: Piazzale Luigi Cadorna, 3 – 20123 Milano
Website: www.luxottica.com

Set out below are the corporate governance rules and procedures of the management and control system of the group of companies controlled by Luxottica Group S.p.A. (hereinafter, "Luxottica" or the "Company").

*Luxottica complies, as illustrated below, with the Code of Conduct prepared by the Committee for Corporate Governance of listed companies promoted by Borsa Italiana S.p.A. (hereinafter the "***Code of Conduct***", the text of which was updated in July 2015 and is available on the website of the Committee for Corporate Governance at http://www.borsaitaliana.it/comitato-corporate-governance/codice/codice.htm). The Report refers to the fiscal year which ended on December 31, 2017 and has been updated with the most relevant subsequent events up to the date of its approval.*

Section I – General information and ownership structure

I. Introduction

The group of companies controlled by Luxottica Group S.p.A. (hereinafter "Luxottica Group" or the "Group"), one of the major global companies in the eyewear sector, implements its business strategies through the presence of subsidiary companies in the various countries in which it operates. The Group is a leader in the design, manufacture and distribution of fashion, luxury, sports and performance eyewear. Its global wholesale organization covers more than 150 countries and is complemented by an extensive retail network of approximately 9,000 stores mostly located in North America, Latin America and AsiaPacific. Product design, development and manufacturing take place in six production facilities in Italy, three in the People's Republic of China, one in India, one in Brazil and one in the United States devoted to sports and performance eyewear.

Luxottica is listed on the Telematic Stock Exchange, organized and managed by Borsa Italiana ("MTA"). In 2017, the Company initiated and concluded the delisting procedure from the New York Stock Exchange (NYSE), on which it was listed until June 16, 2017. Since this date, Luxottica has no longer been required to comply with the reporting obligations imposed on publicly registered companies under U.S. law. The Company also requested its voluntary deregistration from the U.S. Securities and Exchange Commission (SEC), which became effective on September 14, 2017. Since this date Luxottica Group S.p.A. has no longer been formally subject to the provisions of the Sarbanes-Oaxley Act (SOX). In any event, the Company has considered it appropriate to voluntarily maintain the internal control system for financial reporting that had been initially implemented for the purposes of SOX compliance.

Detailed information on the delisting and deregistration process can be found on the Company website www.luxottica.com in the Investors/FAQ section on delisting from the NYSE.

Luxottica, the parent company of the Group, manages and coordinates its subsidiary companies, acting in the interest of the Luxottica Group as a whole.

Unified management of the subsidiary companies is achieved by:

- preparation of Group industrial and commercial plans;
- preparation of budgets and the assignment of objectives and projects;
- forecasting of adequate information flows for management and control;
- review and approval of extraordinary or significant operations;
- preparation of certain financial policies (for example, the definition of indebtedness and cash investment or cash equivalent investment criteria);
- establishment of centralized operational structures to provide professional services and support to all the companies belonging to the Group;
- adoption of codes of conduct and procedures binding on the entire Group;
- adoption of common organizational models; and
- formulation of guidelines on the composition, operation and role of the board of directors of the subsidiary companies as well as on the assignment of management responsibilities in the subsidiary companies, consistent with those adopted by the parent company.

The Italian subsidiary companies have acknowledged Luxottica as the company that exercises the activities of management and coordination pursuant to art. 2497 *et seq.* of the Italian Civil Code.

The principles on which the corporate governance system of the parent company is founded are also applicable to all the companies belonging to the entire Luxottica Group, namely:

1. defined, acknowledged and shared values, which are set out in the Code of Ethics;
2. the central role of the Board of Directors;
3. the effectiveness and transparency of management decisions;
4. the adoption of an adequate internal control system;
5. the adoption of proper and transparent rules regarding transactions carried out by related parties and the processing of confidential information;
6. a proactive risk management system;
7. and a remuneration and incentive system for managers linked to the creation of sustainable value over time.

The values established in the Code of Ethics of Luxottica Group bind all employees to ensure that the activities of the Group are performed in compliance with applicable law, in the context of fair competition, with honesty, integrity and fairness, respecting the legitimate interests of stockholders, employees, clients, suppliers, business and financial partners, as well as respecting the customs of the countries in which the Luxottica Group operates.

II. Structure of Luxottica and information on the ownership structure pursuant to art. 123-bis of italian consolidated financial law

The Luxottica governance system – based on a traditional management and control system – is characterized by the presence of:

- a board of directors ("Board of Directors" or "Board"), responsible for the management of the Company;

- a board of statutory auditors ("Board of Statutory Auditors"), responsible for supervising: (i) compliance with applicable law and with the Company's by-laws; (ii) compliance with the principles of administration; (iii) the adequacy of the organizational structure, the internal control system and the accounting management system, as well as its reliability to correctly report the Company results; (iv) the procedures to implement corporate governance rules provided for by the codes of conduct compiled by organizations managing regulated markets or by trade associations, with which the Company publicly declares to comply; (v) the adequacy of the regulations imposed by the Company on subsidiary companies pursuant to art. 114, paragraph 2 of the Italian Legislative Decree no. 58/1998 (hereinafter also the "Italian Consolidated Financial Law"); and, according to the provisions of Italian Legislative Decree no. 39/2010; and (vi) with respect to statutory audits, the process of collecting financial information, the effectiveness of the internal auditing and management risk system, the auditing of accounts and the independence of the statutory auditor. The Luxottica Group Board of Statutory Auditors also acted as the Audit Committee pursuant to SOX until September 14, 2017;

- the meeting of stockholders ("Meeting of Stockholders"), at which stockholders have the power to vote – both in ordinary and extraordinary meetings – among other things, upon (i) the appointment and removal of the members of the Board of Directors and of the Board of Statutory Auditors and upon their respective remuneration; (ii) the approval of the annual financial statements and the allocation of profits; (iii) amendments to the Company's by-laws; (iv) the appointment of the function responsible for the statutory auditing of accounts, upon the recommendation of the Board of Statutory Auditors; and (v) adoption of equity incentive plans.

The task of auditing is assigned to an audit firm ("Audit Firm") listed on the special CONSOB register and appointed by the Meeting of Stockholders.

The powers and responsibilities of the Board of Directors, the Board of Statutory Auditors, the Meeting of Stockholders and of the Audit Committee are described in detail later in the Report.

The Company's share capital is made up exclusively of ordinary, fully paid-up voting shares, entitled to voting rights both at the ordinary and extraordinary meeting of stockholders. As at January 31, 2018 the share capital was Euro 29,102,461.98 made up of 485,041,033 shares each with a nominal value of Euro 0.06.

There are no restrictions on the transfer of shares. No shares have special controlling rights. There is no employee shareholding scheme.

The Company's stockholders with an equity holding greater than 3% of Luxottica's share capital are stated below, and it is specified that, in the absence of a more recent direct announcement to the Company, the percentage communicated to CONSOB, pursuant to article 120 of the Italian Consolidated Financial Law, is given.

Delfin S.à r.l., with 62.437% of the share capital as at January 31, 2018.

Giorgio Armani, with 4.644% of the share capital, according to the notification made to the Company and to CONSOB on July 13, 2017, equivalent to 4.644% of the share capital as at January 31, 2017, assuming that the number of shares held is unchanged.

The Chairman Leonardo Del Vecchio controls Delfin S.à r.l.

The Company is not subject to management and control as defined in the Italian Civil Code. The Board of Directors made its last assessment in this regard on January 29, 2018 and confirmed that the presumption indicated in article 2497-*sexies* of the Italian Civil Code was also overcome this year, similar to previous years. This is because Delfin S.à r.l. ("the parent holding company") acts as a holding company and from an operational and business perspective there is no common managing interest with Luxottica nor with the other affiliates of Luxottica. In particular, in the aforesaid Board meeting it was determined that no management and coordination activities on the part of the parent holding company existed as: (a) the parent holding company does not prepare and approve industrial, financial and strategic plans nor does it approve the budgets that are to be implemented by Luxottica; (b) the parent holding company is not involved in the definition of business or market strategies aimed at any subsidiary company; (c) no directives or instructions on financial or credit matters are issued to Luxottica, or regarding the choice of contracting parties or extraordinary transactions; (d) the parent holding company is not required to approve investment transactions of the subsidiary company Luxottica in advance; or (e) there are no policies or regulations that are "imposed" on any subsidiary by the parent holding company.

Information on the stock option plans, the share capital increases approved by stockholders and reserved to stock option plans, and the performance share plans assigned to employees is available in the annual financial report, in the documents prepared pursuant to article 84-bis of the Regulations for Issuers, available on the Company's website in the Governance/Compensation section and in the Report on Remuneration prepared in accordance with 123-*ter* of Italian Consolidated Financial Law.

The Company is aware of the provisions of the agreement (the "Agreement") between Essilor International S.A. (*Compagnie Générale d'Optique*) ("Essilor") and Delfin S.à.r.l. ("Delfin") concerning the combination of Essilor and Luxottica Group S.p.A. ("Luxottica")(the "Combination") that may be relevant under art.122 of the Italian Consolidated Financial Law on shareholders agreements, according to the information provided to Luxottica and to the general public in compliance with legal and regulatory provisions.

This Agreement contains, *inter alia*, clauses that can be attributed to relevant shareholders' agreements under art.122, paragraph 1 and paragraph 5, letter d) of the Italian Consolidated Financial Law, as they concern the exercising of voting rights and several governance rules regarding Luxottica and Essilor for a period of approximately three years from the conclusion closing of the contribution, on the part of Delfin, of its controlling shareholding in Luxottica. The Agreement also contains standard interim management clauses (which also include the distribution of dividends on the part of Essilor and Luxottica) aimed at preserving the fixed values, used as a basis by the parties to agree upon the exchange ratio for the aforesaid contribution.

For further details, please refer to the announcement made to CONSOB under art.122 of the Italian Consolidated Financial Law, which can be viewed on the CONSOB website www.consob.it, as well as the material information referred to in article 130 of the Regulations for Issuers, published on the Luxottica website www.luxottica.com and available on the authorized eMarket Storage platform (www.emarketstorage.com).

With the exception of the following, Luxottica and its subsidiary companies are not party to any significant agreement which is amended or terminated in the event of a change in control and that can be disclosed without causing damages to the Company.

On June 30, 2008 the subsidiary company Luxottica U.S. Holdings Corp. made a private placement of notes in the U.S. market for a total amount of USD 275 million with the following expiry dates: USD 20 million which expired on July 1, 2013; USD 127 million, which expired on July 1, 2015; and USD 128 million, which will expire on July 1, 2018. The agreement with institutional investors provides for the advance repayment of the notes in the event that a third party not linked to the Del Vecchio family gains control of at least 50% of the Company's shares.

On January 29, 2010 the subsidiary company Luxottica U.S. Holdings Corp. made a private placement of notes in the U.S. market for a total amount of USD 175 million with the following expiry dates: USD 50 million on January 29, 2017; USD 75 million on January 29, 2019; and USD 50 million on January 29, 2020. The Note Purchase Agreement provides for the advance repayment of the notes in the event that a third party not linked to the Del Vecchio family gains control of at least 50% of the Company shares.

On September 30, 2010 Luxottica Group S.p.A. made a private placement of notes in the U.S. market for a total amount of Euro 100 million with the following expiry dates: Euro 50 million on September 15, 2017; and Euro 50 million on September 15, 2020. The Note Purchase Agreement provides for the advance payment of the notes in the event that a third party not linked to the Del Vecchio family gains control of at least 50% of the Company shares.

On December 15, 2011 the subsidiary Luxottica U.S. Holdings Corp. made a private placement of notes in the U.S. market for a total amount of USD 350 million, expiring on December 15, 2021. The Note Purchase Agreement provides for the advance repayment of the notes in the event that a third party not linked to the Del Vecchio family gains control of at least 50% of the Company shares. On January 30, 2017 the Board of Directors approved its early repayment.

On March 19, 2012 the Company issued a bond listed on the Luxembourg Stock Exchange (ISIN XS0758640279) for a total amount of Euro 500 million, expiring on March 19, 2019. The offering prospectus contains a clause concerning the change of control, which provides for the possibility of the holders of the bonds to exercise a redemption option of 100% of the value of the notes in the event that a third party not linked to the Del Vecchio family gains control of the Company. This clause is not applied in the event that the bonds have an investment grade credit rating. On January 20, 2014 the Standard & Poor's rating agency awarded the Long-Term Credit Rating "A-" to the Company and the bonds.

On February 10, 2014 the Company issued a bond listed on the Luxembourg Stock Exchange (code ISIN XS1030851791) for a total amount of Euro 500 million, expiring on February 10, 2024. The transaction was issued using the EMTN Program established on May 10, 2013, whose prospectus contains a clause concerning the change of control, which provides for the possibility of the holders of the bonds to exercise a redemption option of 100% of the value of the notes in the event that a third party not linked to the Del Vecchio family gains control of the Company. This clause is not applied in the event that the bonds have an investment grade credit rating. The Standard & Poor's rating agency awarded the Long Term Credit Rating "A-" to the Company and the bonds.

Upon the closing of the Combination with Essilor, for the purpose of the above mentioned Private Placement agreements, the change of control will be triggered. Luxottica shall notify the change of control to the Note holders and offer prepayment of the notes, with a variable cash out depending on the acceptance of the prepayment offer by the Note holders.

With regard to the agreements between the Company and the Directors on the indemnity to be paid in the event of resignation or termination of employment without just cause or in the event of termination of the employment relationship following a take-over bid, and in general for all the information on the remuneration of Directors and managers with strategic responsibilities and the implementation of the recommendations of the Code of Conduct with regard to remuneration, please refer to the Report on Remuneration prepared in accordance with article 123-*ter* of the Italian Consolidated Financial Law.

The appointment and the removal of Directors and Auditors are respectively governed by article 17 and by article 27 of the Company's by-laws, which are available for review on the Company website www.luxottica.com in the Governance/By-laws section. With regard to any matters not expressly provided for by the by-laws, the current legal and regulatory provisions shall apply.

The Company's by-laws can be modified by an extraordinary Meeting of Stockholders, which convenes and passes resolutions based on a majority vote according to the provisions of law and, as provided for by article 23 of the by-laws, by the Board of Directors within certain limits in modifying the by-laws to adapt to legal provisions.

Pursuant to article 12 of the Company's by-laws, the stockholders for whom the Company has received notice from the relevant intermediaries pursuant to the centralized management system of financial instruments, in accordance with the law and regulations in force at that time, are entitled to participate and vote in the Meeting.

Each share carries the right to one vote.

The Meeting of Stockholders is held on single call. Pursuant to article 14 of the Company's by-laws, the validity of the composition of the meetings of stockholders and of the related resolutions shall be determined in accordance with the provisions of the law. The Ordinary Meeting of Stockholders is properly constituted irrespective of the percentage of capital represented and resolutions are passed with the absolute majority of capital represented. The Extraordinary Meeting of Stockholders is properly constituted with the presence of the number of stockholders that represent at least one-fifth of the share capital and passes resolutions with the vote in favor of at least two-thirds of the capital represented.

The Board of Directors has not been granted a proxy to increase the share capital pursuant to article 2443 of the Italian Civil Code.

The Meeting of Stockholders held on June 14, 2006 approved the further increase in capital by a maximum of Euro 1,200,000 (one million two hundred thousand) in one or several tranches by June 30, 2021 through the issue of new ordinary shares to be offered exclusively by subscription to employees of the Company and/or its subsidiaries.

The Meeting of Stockholders held on April 29, 2016 authorized the purchase and subsequent utilization of a maximum number of 10 million Luxottica Group shares. The Company will be able to purchase treasury shares, in one or several tranches, until the next meeting of stockholders called to approve the financial statements, but no later than eighteen months after the date of adoption of the applicable resolution. A similar authorization to purchase and dispose of treasury shares was granted pursuant to the Meeting held on Stockholders of April 24, 2015.

Further details regarding the transactions made are available under the Investors/Shareholding section of the Company's website www.luxottica.com.

As of January 31, 2018, Luxottica directly holds 6,158,689 treasury shares.

Please note that the information concerning the characteristics of the risk management and internal control system referred to in article 123-bis, paragraph 2, letter b) of the Italian Consolidated Financial Law, are listed below in Section II of this Report, which describes the Risk Management and Internal Control System.

Due to the proposed combination with Essilor, the Board of Directors resolved not to adopt a diversity policy on the composition of the administration, management and control bodies in terms of age, gender composition and professional experience and training and to refer all decisions in this regard to the Board of Directors of EssilorLuxottica subsequent to the Implementation Date as defined in the Agreement governing this transaction. The composition of the Board of Directors and of the Board of Statutory Auditors is compliant with the provisions of law in terms of balance between genders.

Section II – Information on the implementation of the provisions of the code of conduct

I. Board of directors

ROLE AND DUTIES

The Board of Directors plays a central role in Luxottica's corporate governance.

It is responsible for the management of the Company, with the objective of maximizing value for stockholders in the medium to long-term.

To this end, the Board passes resolutions on actions necessary to achieve the Company's business purpose, except for those matters which, under applicable law or the Company by-laws, are expressly reserved for the Meeting of Stockholders.

Pursuant to art. 23, paragraph 5, of the Company by-laws, the Board of Directors is solely responsible for passing resolutions on the following matters:

1. the definition of general development and investment programs and of the Company and Group objectives;

2. the preparation of the budget;

3. the definition of the financial plans and the approval of indebtedness transactions exceeding 18 months' duration; and

4. the approval of strategic agreements.

With reference to the last item above, the Board of Directors resolved that in any case the following are to be deemed to be of a strategic nature:

- the agreements and decisions with a value exceeding 30 (thirty) million euros, intended as a unit amount (or aggregate amount in the case of transactions of the same nature or with a similar subject), concluded within the same context, also by other companies of the Group and/or with different counterparties, with the exception of the following transactions, even if they exceed the threshold of 30 million euros (so-called "Over-Threshold Transactions"): intra-group transactions; the purchase of raw materials, semi-finished products and manufacturing components; supply and distribution agreements for glasses; the payment of overdue debts for tax, salaries, dividends or interim dividends allocated for distribution, bonds and other loans;

- the agreements and decisions concerning the acquisition or disposal, temporary or permanent, or the availability of trademark rights, be they owned or licensed, exclusive or non-exclusive, regardless of the value of the transaction (and therefore even if less than the limit referred to in the previous point), with the exception of inter-group transactions, merchandising agreements and agreements for the manufacture of goods and services directly used by the Company and/or its subsidiaries;

- the agreements and decisions concerning the employment, promotion, transfer or termination of employment or collaboration relationships, of any kind and for any amount, even if with companies of the Group, related to the following managerial positions with strategic roles ("Strategic Managers"): Chief Financial Officer; Group Human Resources Officer; Group Investor Relations and Corporate Communications Officer; Chief Operating Officer; Group Design Officer; Corporate Business Services Officer; President Wholesale; President Retail Optical; President Retail Luxury and Sun.

Subject to the concurrent competence of the extraordinary meeting of stockholders, the Board of Directors shall also have authority over resolutions in connection with mergers and demergers in accordance with Articles 2505 and *2505-bis* and *2506-ter* of the Civil Code, the establishment or termination of branches, the determination of which directors shall be entrusted with the power of representing the Company, the reduction of the outstanding capital stock in the event of withdrawal of a stockholder, the amendment of the by-laws to comply with legal requirements, and the transfer of the principal place of business within Italian territory.

The Board of Directors approves the strategic plan of the Group, monitoring its implementation, as well as the budget.

The Board of Directors annually assesses the adequacy of the organizational, administrative and accounting structure of Luxottica and of the strategically relevant subsidiary companies through the examination of a report prepared each fiscal year, as well as the adequacy of the internal control and risk management system. The Board of Directors reviews and approves the Company's governance system also in connection with the Group structure.

The Board, upon the review of the Control and Risk Committee, is responsible for the definition of the guidelines for the internal control and risk management system in order to identify, measure, manage and monitor the main risks concerning the Company and its subsidiaries, defining the risk level that is compatible with the strategic objectives of the Company.

The Board of Directors grants and revokes managing powers, defining their limits and conditions of exercise. For a more detailed description of the existing managing powers as well as the frequency with which the executive bodies must report to the Board on the activities performed in exercising such powers, please refer to the sub-section entitled Executive Directors of this Section II.

The Board of Directors evaluates the general performance of the Company, paying particular attention to the information received from the executive bodies and by the Control and Risk Committee, periodically comparing the results achieved with the forecast data within their area of responsibility.

In particular, the Board carries out its assessments taking into account the information supplied by the executive bodies, which, on the basis of the guidelines issued by the Board, supervise all business structures and formulate proposals to be submitted to the Board with regard to the organizational structure of the Company and of the Group, the general development and investment plans, the financial plans and provisional financial statements as well as any other matter submitted to them by the Board itself.

The Directors report to the full Board and to the Board of Statutory Auditors on the transactions in which they hold an interest on their own behalf or on behalf of third parties. Each Director is responsible for reporting to the Board and to the Board of Statutory Auditors any such interest in a transaction.

For detailed information on the procedure for the approval of transactions with related parties, please refer to the relevant paragraph of this section.

The members of the Board of Directors are called to carry out an annual evaluation on the composition, role and performance of the Board and the Committees by filling out a special questionnaire. For the assessment conducted for the 2017 fiscal year and similar to the last two years, the Company made use of the support of an independent expert, Prof. Alessandro Minichilli, associate professor in the Management and Technology faculty of the Università Bocconi, with whom Luxottica has not previously had any professional or business dealings.

The questionnaire, reviewed by all the Directors, is made up of specific questions that concern, among others: the adequacy of the number of its members and of the composition of the Board and of its Committees, the type of professionals represented in the Board and its Committees, the planning, organization, duration and number of meetings, the adequacy of documents sent before the meetings, the information provided to the non-executive directors during the meetings, the efficiency and effectiveness of the decision-making processes, and the role and contribution of the Board committees. In order to render the self-assessment process useful for the overall improvement of the efficiency of the Board, ample space was also left this year to the qualitative assessments and suggestions of the individual Directors.

The results of the self-assessment, which were substantially in line with the previous year, were presented to the Board of Directors in the meeting held on January 29, 2018 by the Lead Independent Director, who anonymously reported on the opinions put forward by the Directors and the suggestions made to improve the running of the management bodies of the Company, distinguishing the assessments of Executive Directors from the assessments of Non-Executive Directors.

During fiscal year 2017, the Board of Directors of Luxottica met eight times. The record of attendance of the individual Directors is listed in the table at the end of this Report and the average length of the meetings was approximately two hours.

Where the Chairman deemed it appropriate to deal in greater depth with certain items on the agenda, senior managers of the Company were invited to participate in the Board meetings to discuss these items. In particular, during the fiscal year, the Chief Financial Officer, the Group Internal Audit Director, the M&A Director, the EMEA Head of Legal Affairs, the Corporate Communication and IR Director, and the Chairman of the Supervisory Board were invited to attend the meetings for the subjects regarding their respective areas of competence.

The Board of Directors is convened with a notice period of at least three days; in an emergency this time may be reduced to one day.

The Board of Directors formally determined that the suitable notice period for sending supporting information documents is two days before each meeting.

Throughout 2017 the relevant documents and information enabling the Board to make informed decisions were provided by the Directors with an average of two and a half days' advance notice of the meetings.

In October 2017, one induction session was held attended by Directors, Statutory Auditors and several top management representatives, aimed at updating directors on the activities carried out in the field of corporate social responsibility and non-financial reporting.

In January 2018, the Company issued the calendar of corporate events for the 2018 fiscal year, which is available on the website: www.luxottica.com. During the period from January 1 through February 26, 2018 inclusive the Board of Directors met twice.

COMPOSITION

In accordance with its by-laws, the Company is managed by a Board of Directors composed of no less than five and no more than fifteen members, appointed by the Meeting of Stockholders, once the number of directors has been decided.

The Board of Directors currently in office was appointed by the Ordinary Meeting of Stockholders held on April 24, 2015, and shall remain in office until the Meeting of Stockholders approves the financial statements for the fiscal year ending on December 31, 2017.

The Board of Directors is composed of fourteen Directors.

On December 15, 2017 Mr. Massimo Vian, CEO of Product and Operations handed in his resignation. Mr. Francesco Milleri, already Deputy Chairman, was appointed CEO, and Mr. Stefano Grassi, Chief Financial officer of the Group, was co-opted by the Board, having been approved by the Board of Statutory Auditors.

Detailed information on the powers assigned to the Board can be found below in the section on "Executive Directors".

The composition of the Board of Directors on the date of approval of this Report is provided below, including specifics on the office held and committee membership.

Leonardo Del Vecchio	Executive Chairman
Luigi Francavilla	Deputy Chairman
Francesco Milleri	Deputy Chairman – Chief Executive Officer
Stefano Grassi	-
Marina Brogi*	Member of the Human Resources Committee and Lead Independent Director
Luigi Feola*	-
Elisabetta Magistretti*	Chairperson of the Control and Risk Committee
Mario Notari	Member of the Human Resources Committee
Maria Pierdicchi*	-
Karl Heinz Salzburger*	-
Luciano Santel*	Member of the Control and Risk Committee
Cristina Scocchia*	Member of the Control and Risk Committee
Sandro Veronesi*	-
Andrea Zappia*	Chairman of the Human Resources Committee

* Director satisfying the requirement of independence set forth in the Italian Consolidated Financial Law and in the Code of Conduct

Francesco Milleri and Stefano Grassi are employees of the Company.

Set out below is a brief profile of each member of the Board of Directors in office. Information is provided regarding the initial year each director was appointed to the Board and the offices held in other listed companies, in financial, banking and insurance companies as well as in those companies of significant size, identified through the criteria implemented by the Company with regard to the accumulation of positions and detailed below. For Luxottica Group, only the most significant subsidiaries or those companies having strategic relevance are listed.

LEONARDO DEL VECCHIO

The Company founder, Mr. Del Vecchio has been Chairman of the Board of Directors since its incorporation. In 1986, the President of Italy conferred on him the badge of honor Cavaliere dell'Ordine al "Merito del Lavoro". In May 1995 he was awarded an honorary business administration degree by the University Cà Foscari in Venice. In 1999, he was awarded an honorary Master's degree in International Business by MIB, Management School in Trieste and in 2002 he was awarded an honorary management engineering degree by the University in Udine. In March 2006, he received an honorary degree in materials engineering by the Politecnico in Milan. In December 2012 the Fondazione CUOA awarded him an honorary master's degree in business administration.

He is Chairman of Delfin S.à r.l., Deputy-Chairman of the Board of Directors of Foncière des Régions S.A., and a member of the Board of Directors of Beni Stabili S.p.A. SIIQ.

LUIGI FRANCAVILLA

Mr. Francavilla joined Luxottica Group in 1968. He has been a Director since 1985 and Deputy Chairman since 1991. During his long career with the Group he was the Group's Chief Quality Officer, the Group's Product & Design Director and Technical General Manager. He is the Chairman of Luxottica S.r.l. and Luxottica Tristar (Dongguan) Optical Co Ltd, which are among the major production subsidiary companies of the Group.

In April 2000, he was awarded an honorary business administration degree by the Constantinian University, Cranston, Rhode Island, U.S.A. In 2011 he was appointed 'Grande Ufficiale' of the Republic of Italy and in 2012 the President of Italy conferred on him the badge of honor Cavaliere dell'Ordine al "Merito del Lavoro".

FRANCESCO MILLERI

The Board of Directors co-opted Mr. Milleri on March 1, 2016; he was then confirmed by the Meeting of Stockholders on April 29, 2016; and on the same date the Board of Directors appointed him Deputy Chairman. He has been CEO since December 15, 2017.

Mr. Milleri graduated with a degree in Law from the University of Florence in 1983 where he worked as an Assistant Professor of Political Economy from 1984 to 1986. In 1987, he earned an MBA in Business Administration, with high merit, from the school of management at the Bocconi University in Milan, followed by a specialization in Corporate Finance at New York University's Stern School of Business as the recipient of Banca d'Italia's "Donato Menichella" scholarship. Mr. Milleri began his career in 1988 as a business consultant for Italian companies and multinational corporations. For more than 20 years he gained international experience working in a variety of industries, including mechanics, consumer goods, financial institutions and pharmaceuticals. Alongside his business consulting activities, in 2000 Mr. Milleri founded and currently leads a group of companies focused on technology and digital innovation. In the Luxottica Group Mr. Milleri is Chairman of Salmoiraghi & Viganò S.p.A.

STEFANO GRASSI

Mr. Grassi, Chief Financial Officer of the Group, was co-opted by the Board of Directors on December 15, 2017. He graduated with a degree in Business Administration from La Sapienza University of Rome. He embarked upon his professional career in 1998 in General Electric in Italy, participating in the Financial Management Program. He was then transferred to the Headquarters of GE in Fairfield,

Connecticut and worked for the prestigious organization's Corporate Audit Staff and then for GE Energy as Finance Manager – Business Development, based in Atlanta.

In 2005, Mr. Grassi became Finance Director of General Electric Capital Commercial Finance Italy. He joined Luxottica Group in 2007 as Finance Manager of Luxottica Retail North America based in Mason, Ohio and, from 2008 to 2012, was Group Retail Financial Controller, setting up the corporate management control department for the Retail division. In 2012, he was appointed Group Controlling & Forecasting Director and since October 29, 2014 he has been Chief Financial Officer of the Group. He recently extended his responsibilities leading the Risk Management, Compliance and Asset Protection department as well as of the Legal and Corporate Affairs department of the Group.

In the Luxottica Group, Mr. Grassi is a member of the Board of Directors of various companies, including Luxottica S.r.l., Salmoiraghi & Viganò S.p.A., Oakley Inc. and Luxottica Retail North America Inc.

MARINA BROGI

Ms. Brogi has been a member of the Board of Directors of Luxottica Group S.p.A. since April 24, 2015. She graduated with a degree in Economics from Luigi Bocconi University and has over twenty years of experience in research and training in banking and finance at many universities and business schools. From 1993 to 1998 she was a Researcher of Financial Intermediaries at Bocconi University and from 1998 to 2007 she was Associate Professor of Capital and Financial Markets at La Sapienza University in Rome. Since 2007 she has been a full professor of "Disclosure, Governance and Control in banks and insurance companies" and of "International banking and capital markets" at La Sapienza University in Rome. Ms. Brogi is a member of the Board of Directors of Salini Impregilo S.p.A., Banco di Desio e della Brianza S.p.A. and Chairperson of the board of statutory auditors of Clessidra SGR.

LUIGI FEOLA

Mr. Feola has been a member of the Board of Directors of Luxottica Group S.p.A. since April 24, 2015. He graduated with a degree in Business and Economics from Messina University in 1990. Thereafter he completed an MBA at Luigi Bocconi University in 1991 and an MBA through the International Exchange Program at the University of California, Berkeley, in 1992. In 1992 he also became a certified Chartered Public Accountant. Mr. Feola started his career in 1993 at Procter & Gamble Italy as a financial analyst, where he held positions of increasing responsibility. In 2009 he was appointed Chief Financial Officer, Global Prestige Products and lastly in 2014 Vice President and General Manager of Global Luxury Brands.

He was then appointed President of Value Retail Management Ltd, a company that develops and manages luxury shopping villages in Europe and China until March 2016, when he took on the role of Senior Managing Director Europe at the investment fund Singapore Temasek.

Mr. Feola is also a director of Ruffini Partecipazioni S.r.l.

ELISABETTA MAGISTRETTI

Ms. Magistretti has been a Director of Luxottica Group S.p.A. since April 27, 2012. She graduated with a degree in economics and business from the Università Bocconi of Milan and is registered in the Association of Certified Accountants in Italy. She worked for Arthur Andersen from 1972 to 2001, becoming a partner in 1984. In 2001 she took up the position of Senior Executive which is responsible for the Administrative Governance Management department of Unicredit. From 2006 to 2009, while still at Unicredit, she became the Manager of the Internal Audit Department of the Group. She was a member of the Audit Committee of Unicredit Bulbank, Bulgaria, and the Supervisory Board of Zao

Unicredit, Russia, from 2010 to 2012, as well as of the Board of Directors of Gefran S.p.A. from 2011 to 2012. She was a member of the Board of Directors of Pirelli & c.S.p.A. from 2011 until its delisting in 2016. Ms. Magistretti was also a member of the Italian Accounting Body, a member of the Board of Directors of the Interbank Deposit Protection Fund and the Supervisory Board of Efrag. She is also a member of the Board of Directors of Mediobanca S.p.A.

MARIO NOTARI

Mr. Notari has been a member of the Board of Directors of Luxottica Group S.p.A. since April 24, 2015. He is a Full Professor of Company and Business Law at Università Bocconi in Milan, Director of the Phd Board in Company Law at Università di Brescia and member of the Phd Board in Business Law at Università Bocconi. He is also a member of the Editorial Board of the journals "Osservatorio del diritto civile e commerciale" and "Contratto e impresa", as well as member of the Editorial Board and/or Scientific Board of "Rivista delle società", "Rivista del diritto commerciale", "Rivista dei dottori commercialisti", "Strumenti finanziari e fiscalità" (Egea). He is a member and advisor of several academic and institutional boards. Mr. Notari is the founder and partner of the "Zabban – Notari – Rampolla & Associati" firm in Milan, practicing as a public notary and legal advisor of industrial and financial companies, listed companies and financial institutions and as an arbitrator in the areas of civil, corporate and financial markets law.

He is also a member of the Board of Directors of Delfin S. à r.l.

MARIA PIERDICCHI

Ms. Pierdicchi has been a member of the Board of Directors of Luxottica Group S.p.A. since April 24, 2015. She graduated with a degree in Economics from Luigi Bocconi University in 1982. Thereafter she obtained an MBA in Finance cum laude, at New York University, Stern Graduate School of Business Administration in 1998. From 1981 to 1985 she was a Research Assistant in Banking and International Financial Intermediaries at Luigi Bocconi University and Assistant Professor of International Banking for the SDA Business School. From 1985 to 1986 she served as a consultant at The World Bank in Washington D.C. From 1988 to 1991 she worked at Citibank N.A. as Senior Financial Analyst. In 1991 she joined Premafin S.p.A. where she became General Manager and she stayed with the company until 1998 when she joined Borsa Italiana S.p.A, as Senior Director in charge of the "Nuovo Mercato". In 2003 she joined Standard & Poor's, McGraw Hill Financial Group, where she was appointed Chief Executive Officer of S&P CMSI, Managing Director, Head of Southern Europe, until March 2015. Ms. Pierdicchi is a member of the Board of Directors of Nuova Cassa di Risparmio di Chieti S.p.A. and Autogrill S.p.A.

KARL HEINZ SALZBURGER

Mr. Salzburger has been a member of the Board of Directors of Luxottica Group S.p.A. since April 24, 2015. He graduated from the University of Verona in 1981 with a degree in Economics. In 1983 he obtained a Master's degree in International Marketing from CUOA in Vicenza. He began his professional career at Accumulatori Alto Adige and thereafter he moved to Austria for Salvagnini Transferica S.p.A, where he became General Manager. From 1990 to 1997 he worked for Benetton Sportsystem S.p.A. where he held several positions until he became responsible for the Benetton Sportsystem subsidiaries. In 1997 he was appointed Chief Executive Officer of The North Face Europe and thereafter he was appointed Chief Executive Officer of The North Face Inc. in San Francisco, where he remained until the end of 2000. After May 2000, when The North Face Inc. was acquired by the VF Corporation, he was appointed President for the International Outdoor Coalition and thereafter in

2006, President of VF International, which includes the responsibility for all VF brands in Europe, Middle East and Asia. From 2010 to 2017 he was the Group President of VF Corporation International, a group leader in apparel, sportswear, outdoor products, and which owns among others the following brands Lee, Wrangler, Jansport, Eastpak, The North Face, Vans, Napapijri and 7 For All Mankind.

LUCIANO SANTEL

Mr. Santel has been a member of the Board of Directors of Luxottica Group S.p.A. since April 24, 2015. After graduating with a degree in Business and Economics from Ca Foscari University of Venice, he began his career in independent international auditing firms (Reconta Ernst & Young and Arthur Andersen). He also served as Finance Director in IVG and in Rossignol Group. In 1996 he was appointed as Chief Operating Officer of Retail Brand Alliance (f/k/a Casual Corner Group Inc.) where he remained until 1999 when he joined Luxottica as V.P. Group International Development. In 2001, he joined Geox S.p.A. as Chief Corporate Officer until 2009, when he was appointed Chief Executive Officer of Stefanel S.p.A. Since September 2013 he has been Chief Corporate Officer of Moncler S.p.A., of which he is also a member of the Board of Directors.

CRISTINA SCOCCHIA

Ms. Scocchia has been a member of the Board of Directors of Luxottica Group S.p.A. since April 24, 2015. After graduating in Management of International Firms from Luigi Bocconi University, she completed a PhD in Business Administration at the University of Torino.

She started her career at Procter & Gamble, where from 1997 she held positions of increasing responsibility working on mature and emerging markets until she was appointed in September 2012 as Cosmetics International Operations Division leader, with the responsibility of supervising the brands in her portfolio in over 70 countries around the world. In July 2013 she joined L'Oréal Italia S.p.A. and was its Chief Executive Office from 2014 until March 2017. Since July 2017 she has been CEO of Kiko S.p.A. Ms. Scocchia is also a member of the Board of Directors of Pirelli S.p.A. and of Elica S.p.A.

SANDRO VERONESI

Mr. Veronesi has been a member of the Board of Directors of Luxottica Group S.p.A. since April 24, 2015. He graduated in Business and Economics at University of Verona and began his career at Golden Lady S.p.A., where he held key positions until 1993. Since 1993 he has been exclusively dedicated to Calzedonia S.p.A., a company he founded in 1986 and that currently counts more than 3,800 shopping locations in more than 35 countries, owning several brands, among others Intimissimi, Falconeri, Signorvino and Atelier Emé. In 1999, Mr. Veronesi established Fondazione San Zeno, a foundation allocating part of Calzedonia revenues to help disadvantaged people. In 2009, the President of the Republic of Italy conferred on Mr. Veronesi the honor of "Cavaliere dell'Ordine al Merito del Lavoro". He is Chairman of Calzedonia S.p.A.

ANDREA ZAPPIA

Mr. Zappia has been a member of the Board of Directors of Luxottica Group S.p.A. since April 24, 2015. He holds a degree in Business and Economics and began his career at Procter & Gamble, where he served as European Group Marketing Manager. From 1996 to 2001 he held the position of Global Sales and Marketing Director respectively for Ferrari and Maserati and thereafter, he was Vice President of Marketing and Product Development worldwide at Fila. In 2003 he joined Sky Italia as Vice President, Marketing, Promotion and Business Development and other several increasingly senior positions leading to his appointment as Chief Executive Officer in 2011. He is currently a member of

the "Giunta, Comitato di Presidenza and Consiglio Direttivo" for Assolombarda's project on Media and Communication.

LIMITATIONS TO THE ACCUMULATION OF POSITIONS

To assess the maximum number of positions a Director may hold as a director or an auditor in other companies listed on regulated markets, in financial companies, banks, insurance companies or other companies of a significant size that is compatible with the office of Director at Luxottica, the Board of Directors confirmed the following criteria at the Board meeting held on April 24, 2015:

Listed companies, financial companies, banks, insurance companies or companies of a significant size	Maximum number of appointments as director or auditor in other companies
Executive role	3 + LUXOTTICA
Non-executive role	9 + LUXOTTICA

For the purpose of multiple appointments, (i) the only positions to be taken into consideration are those as member of the board of directors or auditor for companies listed on regulated markets (domestic and foreign), in banks, insurance companies, or companies of a significant size, which are defined as companies with a total value of business or revenues exceeding Euro 1,000 million (hereinafter, "Large Companies"), (ii) the appointments by one or more Large Companies belonging to the same group, including Luxottica Group, are counted as one, whereby the appointment requiring the most significant commitment (i.e. the executive role) shall be considered the prevailing one.

The appointments held by the members of the Board of Directors in other companies, in compliance with the criteria indicated above, are compatible with the appointment at Luxottica Group S.p.A.

The members of the Board of Directors possess the required professionalism and experience to perform their roles effectively and efficiently. In particular, it is guaranteed that they possess adequate experience in the business sector in which the Company operates, as well as specific managerial, financial, legal and internal control skills.

Neither the Company by-laws, nor any board resolutions, have authorized, generally or conditionally, any derogations from the non-competition clause.

COMMITTEES

The Board of Directors has set up the Human Resources Committee and the Control and Risk Committee within the Board. Special regulations approved by the Board of Directors regulate their operations and respective tasks. In the performance of their respective functions, these Committees are entitled to access the information and Company functions necessary for the performance of their respective tasks, and may work with external consultants at the expense of the Company, within the limits of the budget approved by the Board for each committee. In this regard, it is to be noted that if the Human Resources Committee intends to make use of the services of a consultant in order to obtain information on market practices regarding remuneration policies, it must check beforehand that the aforesaid consultant is not in any position that may clearly compromise its independent judgment.

Further information can be found in this Report, and with respect to the Human Resources Committee, in the Remuneration Report published pursuant to article 123-*ter* of the Italian Consolidated Financial Law.

The Board of Directors did not deem it necessary to set up an "Appointments Committee" which is recommended by the Code of Conduct. This is due to the composition of the ownership structure of the Company. Moreover, responsibilities regarding succession plans, which would be the responsibility of the Appointments Committee, if set up, are assigned to the Human Resources Committee of Luxottica, which, *inter alia*, evaluates the organizational requirements of the Group and the action taken for the effective assignment of key positions.

EXECUTIVE DIRECTORS

On December 15, 2017 the Board of Directors resolved to simplify the adopted governance model. With the resignation on the same date of the CEO for Product and Operations, Mr. Massimo Vian, powers were focused on the Executive Chairman Mr. Leonardo Del Vecchio and the Deputy Chairman, Mr. Massimo Milleri, who also took on the office of CEO.

The Executive Chairman was granted the powers of management and representation for all the agreements and decisions in the Markets Division that do not fall within the Reserved Decisions and for Over-Threshold Transactions, as defined above, as well as the strategic supervision of the activities of the Company and the Group.

The Deputy Chairman - CEO was assigned powers of management and representation for agreements and decisions with a Transaction Value of no more than 15 million euros, as well as for Over-Threshold Transactions.

The Deputy Chairman – CEO is required to provide adequate information on the exercising of his powers to the Executive Chairman and in particular, he is obliged to coordinate and adequately inform the Executive Chairman of all the agreements and decisions of an extraordinary or non-recurrent nature, even if the value does not exceed 15 million euros, as well as of the agreements and decisions regarding the taking on, promotion, transfer or termination of employment or collaborative relationships, of any kind and for any value, even if with companies of the Group, together with amendments to the structure and the establishment of new roles, concerning top directors.

Mr. Luigi Francavilla, Deputy Chairman, and Mr. Stefano Grassi, Director, are granted the powers, by virtue of the proxies assigned to them, to perform transactions with a value not exceeding 10 million euros.

In compliance with the provisions of the Company's by-laws, the executive bodies report to the Board of Directors and to the Board of Statutory Auditors promptly and regularly and, in any case, at least quarterly, on the general performance of the business and on the procedures to exercise the managing powers granted to them, as well as on the most relevant economic, financial and asset transactions performed by the Company and by its subsidiaries.

In light of the above, the Board has four Executive Directors: Leonardo Del Vecchio, Francesco Milleri, Luigi Francavilla and Stefano Grassi.

For all information on the governance system in place prior to December 15, 2017, based on the distinction between the Markets Area and the Product and Operations Area, please refer to the 2016 Report on Corporate Governance.

NON-EXECUTIVE DIRECTORS

Ms. Marina Brogi, Mr. Luigi Feola, Ms. Elisabetta Magistretti, Mr. Mario Notari, Ms. Maria Pierdicchi, Mr. Karl Heinz Salzburger, Mr. Luciano Santel, Ms. Cristina Scocchia, Mr. Sandro Veronesi and Mr. Andrea Zappia are non-executive Directors.

At the time of their candidacy, the following members of the Board of Directors Ms. Marina Brogi, Mr. Luigi Feola, Ms. Elisabetta Magistretti, Ms. Maria Pierdicchi, Mr. Karl Heinz Salzburger, Mr. Luciano Santel, Ms. Cristina Scocchia, Mr. Sandro Veronesi and Mr. Andrea Zappia, declared that they satisfy the requirement of independence set forth by art.148, paragraph 3 of the Consolidated Financial Law, as quoted in art.147-ter of the latter and in art. 3 of the Code of Conduct for Listed Companies.

On April 24, 2015, following its appointment by the Meeting of Stockholders, the Board of Directors verified that the independence requirements of Directors Brogi, Feola, Magistretti, Pierdicchi, Salzburger, Santel, Scocchia, Veronesi and Zappia were met and notified the market of this conclusion. On January 29, 2018 the Board of Directors verified the independence requirements continue to be met on the basis of the information available and information provided by the parties involved, acknowledging that these Directors can continue to be qualified as independent.

The Board of Statutory Auditors verified the correctness of the evaluation carried out by the Board of Directors on the independence of the Directors based on the criteria set forth in the Code of Conduct.

Therefore, in accordance with the provisions of the Italian Consolidated Financial Law and the Code of Conduct, nine out of fourteen Directors are independent, i.e. more than one-third in accordance with the recommendations of the Regulations for issuers such as Luxottica that belong to the FTSE Mib index.

On April 24, 2015, the Board of Directors appointed Ms. Marina Brogi as the Lead Independent Director as a point of reference and coordinator of the requests and contributions of the non-executive and, in particular, independent directors. On her initiative, the independent Directors met a total of nine times in 2017. In eight of these meetings the directors made preparations, *inter alia*, for the issuance of a reasoned opinion required by article 39 of the CONSOB Regulations for Issuers, containing an assessment of the exchange offer for the ordinary shares of Luxottica Group that EssilorLuxottica will be required to launch assuming it will become the controlling stockholder of Luxottica Group S.p.A.

APPOINTMENT OF DIRECTORS

Directors are appointed by the Meeting of Stockholders pursuant to lists submitted by the stockholders. The Board of Directors in office was appointed by the Meeting of Stockholders held on April 24, 2015. The minimum percentage of share capital required to present a list, as established by CONSOB resolution no.19109 dated January 28, 2015, was equal to 0.5%. As stated in the Company by-laws, any list which has not reached a percentage of votes at least equal to half of that requested for the presentation of a list shall not be considered.

Eleven of the fourteen Directors currently in office were selected from the list submitted by the majority stockholder Delfin S.à r.l. Ms. Marina Brogi was drawn from the minority list submitted by a group of international and national institutional investors (Anima Sgr S.p.A., APG Asset Management NV, Arca SGR S.p.A., Etica SGR S.p.A., Eurizon Capital S.G.R. S.p.A., Eurizon Capital SA, Fideuram Investimenti S.G.R. S.p.A., Fideuram Asset Management (Ireland) Limited, Interfund SICAV, Generali Investments Europe S.p.A. SGR, Legal & General Investment Management Limited, Mediolanum Gestione Fondi SGR S.p.A., Mediolanum International Funds Limited, Pioneer Asset Management S.A., Pioneer Investment Management SGRpA, Ubi Pramerica SGR). Mr. Francesco Milleri was co-opted by the

Board of Directors on March 1, 2016, with a favorable opinion from the Board of Statutory Auditors and subsequently confirmed by the Meeting of Stockholders on April 29, 2016. Mr. Stefano Grassi was co-opted by the Board of Directors on December 15, 2017, following the approval of the Board of Statutory Auditors.

The lists and supporting documentation, filed and published within the deadlines prescribed by law at the time of their appointment, are available for review on the Company's website under the Governance/General Meeting/Archive section.

The appointment of Directors is regulated by article 17 of the Company by-laws (please refer to the by-laws for additional information). The by-laws ensure the balance between genders in the composition of the Board of Directors as provided for by article 147 ter, paragraph 1 of the Italian Consolidated Financial Law.

Due to the Company's ownership structure, in 2015, on the occasion of the Meeting of Stockholders called to renew the Company's governing bodies, the Board of Directors did not express its recommendation on the professional qualifications considered appropriate to be represented in the Board.

It is also to be noted that during the annual self-assessment, the Board of Directors expressed its satisfaction with regard to the skills represented, highlighting that it was not necessary to add other professional figures.

HUMAN RESOURCES COMMITTEE

On April 24, 2015 the Board of Directors appointed the independent Directors Mr. Andrea Zappia, Chairman and Ms. Marina Brogi, as well as the non-executive Director Mr. Mario Notari to be members of the Human Resources Committee, all of whom are in possession of the knowledge and experience of financial matters or remuneration policies required by the Code of Conduct.

The Committee is responsible for offering consultations and submitting proposals to the Board of Directors, mainly with regard to the remuneration of executive directors and managers with strategic responsibilities.

The Chairman of the Committee reports to the Board of Directors at the first meeting on the most relevant subjects examined by the Committee. The Committee presents a report on the activities carried out at least twice a year prior to the approval of the financial statements and the six-month report.

In 2017, the Committee met 6 times for an average of approximately two hours per meeting. In the first two months of 2018 the Committee met twice.

For further information on the responsibilities and activities of the Committee, as well as the remuneration of Directors, Statutory Auditors and managers with strategic responsibilities, please refer to the Remuneration Report published in accordance with article 123-*ter* of Italian Consolidated Financial Law.

SUCCESSION PLANS

In 2017, the Human Resources Committee reviewed the Company's processes aimed at identifying talented and qualified individuals who could assume managerial positions from one generation to the next. It identified succession plans for managers with strategic responsibilities; in February 2018, following the amendment of the governance model dated December 15, 2017, the Human Resources

Committee examined and discussed the succession plan for the Executive Chairman and the Deputy Chairman - CEO and the plan was then shared with the Board of Directors.

II. Internal Control and Risk Management System

Information on the internal control and risk management system of the Group is provided below and also pursuant to art. *123-bis,* paragraph 2, letter b, of Italian Consolidated Financial Law.

DEFINITIONS AND OBJECTIVES

Luxottica believes in the importance of developing an internal control culture and management of risk that promotes the undertaking of informed decisions and contributes to the safeguarding of company assets, the efficiency and effectiveness of company processes, the reliability of financial reporting and compliance with laws and regulations, as well as with company by-laws and internal procedures.

The internal control system over financial reporting and risk management ("**ICFR System**") consists of tools, organizational structures and procedures for each area of activity, which are set forth in the manuals updated and distributed within the Group and which are aimed at contributing to the fair management of the Company in line with predetermined objectives.

The ICFR system, which is integrated into more general organizational structures and the corporate governance of the Company and the Group, is aimed at enabling the Group's primary risks to be identified, measured, managed and monitored, as well as ensuring that financial reporting is reliable, accurate and disclosure is made promptly. Luxottica is aware that the efforts made to define an efficient internal control system, capable of ensuring complete, accurate and correct financial reporting, do not represent a one-off activity but rather a dynamic process that must be renewed and adapted to the evolution of the business, the socioeconomic environment and the regulatory framework.

According to the provisions of the Code of Ethics of Luxottica, each recipient of internal control procedures must cooperate fully with the internal functions and the external bodies appointed to check the efficiency of the ICFR System.

BEST PRACTICE PRINCIPLES OF THE GROUP

The structure of the ICFR System of Luxottica Group, which monitors the preparation and disclosure of financial reporting, is consistent with national best practices, such as the guidelines of Confindustria and the principles of the Code of Conduct for Listed Companies, and international best practices, such as *COSO (Committee Of Sponsoring Organizations of the Treadway Commission) Internal Control – Integrated Framework* and the *COBIT (Control Objectives for Information and Related Technology) of ISACA (Information Systems Audit and Control Association).*

SOX AND ITALIAN LAW NO.262/2005

Adjustment to the provisions of SOX was compulsory for Luxottica Group over the years since it was listed on the NYSE, and therefore it represented a significant motivation for the Group to continually improve its ICFR System.

In particular, in the process of adjusting to SOX, Luxottica intended not only to comply with a regulation but has also taken a real opportunity to improve its administrative and financial governance and the quality of its internal control system in order to make it more systematic, consistently monitored and methodologically better defined and documented.

Even though in September 2017, with its deregistration from the SEC, Luxottica no longer was obligated to comply with SOX regulations, it decided to maintain the current system and several internal control procedures implemented for SOX purposes. These procedures, in addition to guaranteeing high standards of Corporate Governance and transparency in economic-financial reporting, also provides the basis for the Company's compliance with the obligations required under Italian law for companies listed in Italy and, in particular, with Italian law no.262/2005 on the Protection of Savings and Corporate Governance and art.154-bis of the Italian Consolidated Financial Law.

MAIN FEATURES OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM IN RELATION TO THE FINANCIAL REPORTING PROCESS

SYSTEM STRUCTURE AND PHASES

(I) Structure and Phases

As mentioned above, the structure of the ICFR System was defined consistently with the model provided by the *COSO Internal Control - Integrated Framework* (the so-called "**COSO Report**"), which establishes 5 components:

a. control environment inside the organization *(Internal Environment);*

b. assessment of the risks that could compromise the achievement of corporate goals *(Risk Assessment);*

c. control activities for the reduction of risks *(Control Activities);*

d. the information system represented by the exchange of information between top management and operating staff *(Information and Communication);*

e. monitoring activities over time of the quality and results of internal controls *(Monitoring Activities).*

Following its revision in 2013, the COSO Report introduced a total of 17 principles that make up the fundamental elements of each of the 5 components of the model with the aim of creating an efficient internal control system.

In particular, in compliance with the ICFR System:

(i) for the most important companies of the Group (so-called *Material Control Units)* controls were designed and their effectiveness was assessed both at general/cross level (entity level controls) and at the level of each operational/administrative process;

(ii) for the smaller companies, which were however still significant, especially when considered in the aggregate (so-called *Material When Aggregated*), the assessment was performed on the general effectiveness level of the control system.

ANTI FRAUD PROGRAMS & CONTROLS

Among the cross level controls, the controls to reduce the risk of fraud are particularly important. To this end, Luxottica has developed *Anti-Fraud Programs & Controls* derived from an in-depth risk assessment which, after mapping the possible ways in which fraud could be committed, defined the necessary controls to reduce the risk of fraud and/or allowing its identification. This *"anti-fraud"* system is constantly updated and improved.

ENTERPRISE RISK MANAGEMENT

With regard corporate risk management, since 2011 an Enterprise Risk Management process has been implemented based on the following features and in line with the models and best practices recognized internationally:

(i) the definition of a Risk Model for the Group, which classifies in 3 risk factors, those that may compromise the attainment of corporate objectives and/or affect the value of the tangible or intangible assets of the Group (strategic, contextual, external and operative);

(ii) the development of a *risk assessment* and *risk analysis* methodology to measure exposures in terms of impact and probability of occurrence; and

(iii) the collection, analysis and aggregation of data and information necessary for processing a Risk Report for the Group directed to the top management of the company.

In 2017, the analysis of the risk factors and opportunities that could significantly influence the achievement of the financial targets of the Group continued, working in concert with the main business areas.

With reference to operating risk, activities aimed at the mitigation of the latter continue, with the aim of reducing and/or transferring the risks identified. These activities, depending on the circumstances, are the direct responsibility of the *Risk Management* department and/or the Managers of the various *businesses.*

The Control and Risk Committee is regularly updated on developments in Enterprise Risk Management matters as well as on the results of analysis and actions taken.

COMPLIANCE

With reference to compliance, in 2011 a specific program aimed at the mapping of all of the most relevant areas for the Group and gaining an understanding of the level of maturity and protection of processes was set up. On the basis of this program, specific Compliance Programs focused on Corporate Criminal Liability/Anti-Corruption, Privacy Data Management, Responsible Sourcing/Supply Chain Compliance and Antitrust & Competition Compliance have been scoped, defined and developed over the years.

In 2017, special attention was focused on the design of the processes necessary to guarantee compliance with privacy issues taking into consideration the new European regulations on Data Protection.

(II) Control, management and analysis of financial risk

Within the context of the risk factors mentioned in the previous paragraph, the Enterprise Risk Management process paid particular attention to financial risk.

In order to deal with the developments in operating conditions and the legal framework, the Company implemented a policy that defines the rules and principles to (i) identify; (ii) monitor; and (iii) analyze financial risk.

FINANCIAL RISK MANAGEMENT POLICY:

Introduced in 2006, the Financial Risk Management Policy, was most recently updated by the Board of Directors in January 2018 to include several amendments in view of improvements to the process and the ICFR System.

The policy sets forth the principles and rules for the management and monitoring of financial risk and pays particular attention to the activities carried out by the Luxottica Group to minimize the risks deriving from the fluctuations of interest rates, exchange rates and the solvency of financial counterparties.

The policy clarifies that the instrument used for "***interest rate risk***" hedging is *"interest rate swaps*", whereas for "*exchange risk*" "*non-speculative*" derivative instruments, such as "*spot and forward exchange contracts*" are used. In certain circumstances and subject to the specific authorization of the CFO, more flexible instruments that replicate the effect of the forward exchange contract or "*zero cost collar*", "*accumulator forward*" and "*average strike forward*" can be used.

The use of derivative instruments is aimed only at the actual hedging of exchange risk and interest rates that the group is exposed to, therefore the use of these instruments for speculative purposes is not permitted. In addition to the goal of reducing counterparty risk, the policy specifies the minimum criteria to be met in order to be able to transact with the Group. This guideline includes:

(i) the obligation to operate with qualified banking counterparties through standard agreements (ISDA Master Agreement);

(ii) a limit on exposure per individual counterparty;

(iii) minimum credit credential requirements for the counterparties authorized to engage in derivative transactions.

A quarterly reporting system has also been implemented for the Control and Risk Committee since 2007 to highlight the debt exposure and the hedging transactions implemented to minimize "*interest rate*" risk, "*exchange rate*" risk and, since 2011, "*counterparty risk*".

ANTI-MONEY-LAUNDERING POLICY

Luxottica has developed an anti-money-laundering policy, which has been distributed worldwide. Its goal is to guarantee that all applicable laws and regulations are respected, acting proactively and prohibiting any activity that could be considered at risk of money-laundering and/or as the financing of terrorist or criminal activities. Following the issue of the policy, specific training activities were set up for all the employees potentially involved in the activities envisaged in the Policy.

CREDIT POLICY

This is another operational and control policy that has been implemented for some time and is applicable to all the wholesale companies of Luxottica Group. It was recently updated in February 2015.

This policy defines the rules and responsibilities for the management and control of credit in order to prevent financial risk, optimize credit controls, monitor developments and reduce losses on credit exposure. In particular, this policy sets the guidelines for the following activities:

- apportionment, control and authorization of credit lines;
- monitoring of credit trends;
- soliciting unpaid/expired credits;
- management and monitoring of legal actions;
- management and monitoring of the appropriations and losses on credits;
- determination and monitoring of terms of payment in the various markets; and
- monitoring over warranty terms.

(III) Objectives of the system

The objectives of the ICFR system have been defined consistently with the obligations laid down in SOX regulations, to which the Group was subject until September 14, 2017, and Italian Law no. 262/2005 on the Protection of Savings and Corporate Governance. The main components of the ICFR System are:

(i) controls and procedures to comply with reporting obligations regarding financial statements, other accounting documents and all other financial documents.

  - These controls and procedures are designed to ensure that the financial information is adequately collected and communicated to the Group's Executive Chairman, Chief Executive Officer ("CEO")/ or to the Deputy Chairman – CEO from the time of his appointment, and to the Chief Financial Officer (CFO), so that they may make appropriate and timely decisions about the information to be disclosed to the market.
  - In particular, Italian Law no.262/2005 provides for the appointment of a manager responsible for the preparation of the Company's financial reports, identified by the Company as the CFO, who is responsible for the internal control system for financial reporting.

(ii) an internal control system that supervises the preparation of the financial statements.

  - The internal control system that supervises the preparation of the financial statements has the objective of ensuring the reliability of the financial information in accordance with relevant accounting principles.
  - In addition to defining and testing the internal ICFR system in compliance with SOX requirements, as they were applicable for a part of 2017, and Italian Law no. 262/2005, Luxottica has also identified the necessary actions to ensure its optimal functioning over time.

(IV) ICFR Monitoring and Updates

The entire ICFR System must, in turn, be monitored at two levels:

(i) by line management, supervising the significant processes; and

(ii) by the Internal Audit department, which independently and according to an approved intervention plan must check the effectiveness of the controls and report on them to the relevant functions and bodies.

The designed control system is subject to continuous improvements. Since 2007, on the basis of experience gained internally, independent evaluations by Group's external auditors and the introduction of audit standard no. 5 adopted by the PCAOB (Public Company Accounting Oversight Board), a process for the evaluation and rationalization of the controls is in place, which allows the Company, on the one hand, to eliminate any redundant controls that burden operations without offering a real benefit in terms of strengthening the ICFR System and, on the other hand, to define and better protect the key controls and monitoring controls. This process is performed for all of the most important companies of the Group.

ROLES AND FUNCTIONS INVOLVED

In compliance with the provisions of art. 2381 of the Italian Civil Code, on the basis of the information received by the executive bodies responsible for ensuring that the organizational, administrative and accounting structure is suitable to the nature and size of the business, the Board of Directors establishes guidelines for the ICFR System and assesses their adequacy so that the major risks for the Group may be correctly identified and monitored, checking that they are also in line with the strategic objectives of Luxottica.

To this end, the Board consults with the Control and Risk Committee, personnel within the Risk Management and Compliance organization, the Manager of the Internal Audit department and the Supervisory Board on the Organizational Model provided for by Italian Legislative Decree no. 231/2001.

The foregoing is without prejudice to the supervisory and control duties, which are by law reserved to the Board of Statutory Auditors, while auditing duties are assigned to an external auditing firm, in accordance with Italian regulations.

In 2010, the Chief Risk & Compliance function of the Group was established, and was responsible for:

(i) guaranteeing an efficient system to control against the risks linked to the business in which the Group operates;

(ii) the monitoring of the correct performance of corporate transactions in compliance with the values of the Code of Ethics and the regulatory restrictions, ensuring the supervision and management of compliance-related operations.

This role was entrusted to Mr. Stefano Orsini, Group Risk Compliance & Asset Protection Director, on January 1, 2014, with the implementation of the new governance model. Since December 2017 the function has reported directly to the CFO of the Group.

In line with the directives of the Code of Conduct of Borsa Italiana, and so that the coherence between risk and strategic objectives can be assessed, the Function provides the Board of Directors with the necessary information for these purposes.

The Risk, Compliance & Asset Protection function has continued to consolidate its organizational structure and has adopted the appropriate tools and working methods in line with the best practices recognized at international levels.

In brief, the ICFR System, as a whole, currently involves the corporate roles, described below:

- Directors in charge of the Internal Control and Risk Management System
- Control and Risk Committee
- Internal Audit Manager
- Organizational System pursuant to Italian Legislative Decree no. 231 dated June 8, 2001
- Board of Statutory Auditors
- External Audit Firm
- Manager responsible for the preparation of the Company's financial reports

DIRECTORS IN CHARGE OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

On January 29, 2016, the Board of Directors had appointed Mr. Leonardo Del Vecchio as Executive Chairman and confirmed Mr. Massimo Vian as CEO for Product and Operations, heads respectively of the Markets Division and the Product and Operations Division, identifying each of them as Directors in charge of the Internal Control and Risk Management System of their respective areas of competence, with the roles and tasks indicated in principle 7.C.4. of the Code of Conduct for Listed Companies.

Subsequently, on December 15, 2017 the Board of Directors, following the resignation of Mr. Massimo Vian from his office as CEO for Product and Operations, appointed the Chairman, Mr. Leonardo Del Vecchio, as Executive Chairman and the Deputy Chairman, Mr. Francesco Milleri, as Deputy Chairman – Chief Executive Officer, identifying both of them as Managers of the Internal Control and Risk Management System with the tasks and functions stated in standard 7.C.4. of the Self-Governance Code for Listed Companies.

THE CONTROL AND RISK COMMITTEE

On April 24, 2015, the Board of Directors appointed the Control and Risk Committee, composed by independent directors Ms. Elisabetta Magistretti, Chairperson, Mr. Luciano Santel and Ms. Cristina Scocchia, all with experience in accounting, finance or risk management required by the Code of Conduct for Listed Companies.

According to the provisions of its charter, last updated in January 2018, the Committee is responsible for performing investigations, offering consultations and submitting proposals to the Board of Directors.

In particular, the Committee performs the following activities:

- assists the Board of Directors in the execution of its tasks regarding internal controls;
- evaluates the preparation of the accounting and company records, together with the manager appointed to carry out this task, having obtained the opinion of the independent auditor and the Board of Statutory Auditors; also reviews the application of accounting principles and their consistency of application for the purposes of preparation of the Group's consolidated financial statements;
- reviews the regular reports on the evaluation of the ICFR System and any particularly significant reports prepared by the Internal Audit department; furthermore, the Committee receives updates from the Board of Statutory Auditors on any auditing activities in progress;
- expresses opinions on specific aspects concerning the identification of corporate risks as well as the planning, implementation and management of the ICFR System.
- reviews the work plan prepared by the Manager of the Internal Audit Department.

On January 29, 2016, in compliance with the comment referred to in article 4 of the Code of Conduct for Listed Companies, which was introduced in July 2015, the Board of Directors resolved to entrust the Control and Risk Committee with supervision of sustainability issues linked to Company activities.

Specific expertise on auditing is assigned to the Audit Committee, described later on in this Report, in accordance with the U.S. laws to which the Luxottica Group was subject until September 14, 2017. Moreover, the Financial Expert was identified within the Audit Committee by the Board of Directors.

The Control and Risk Committee meets whenever the Chairman deems it appropriate, usually prior to the Board meetings for the approval of the annual, six-month report and quarterly financial update, or whenever a meeting is requested to be called by him by another member.

When the Committee deemed it necessary, the management of the Company and the Luxottica Group were invited to participate in meetings to discuss specific items on the agenda and to review the topics within their competence.

During the 2017 fiscal year, the Committee met 13 times, two of which were exclusively as the Committee for Transactions with Related Parties. On five occasions the Internal Control Committee during its meetings examined transactions with related parties, according to the relevant Procedure. The average meeting time was approximately two hours and forty minutes. The Committee among other activities: (i) evaluated the financial risks for the Company; (ii) examined reports of the Supervisory Board and reports regarding complaints of alleged violations of the Code of Ethics (twice a year); (iii) reviewed the reports of the Internal Audit Manager on the activities carried out; (iv) assessed the development of activities aimed at compliance with the SOX, to which the Luxottica Group was subject until September 14, 2017, as well as with Italian Law no. 262/2005; (v) evaluated the audit plan and the integration of same submitted over the year; (vi) reviewed the activities carried out to identify, monitor and manage risks; (vii) evaluated the activities carried out for the Group sustainability project and the status of the activities aimed to the non-financial statement; and (viii) met with representatives of various departments to review in detail the progress of specific projects or the management of several specific risk areas.

The Committee met twice in the first two months of 2018.

The meetings, attended by the Chairman of the Board of Statutory Auditors, or by an Auditor appointed by same, are regularly reported in the meeting minutes. Furthermore, certain meetings are joint meetings between the Committee and the Board of Statutory Auditors.

The Chairman of the Committee reports to the Board of Directors at the earliest opportunity on the most relevant issues examined by the Committee. The Committee presents a report on the activities carried out at least twice a year, prior to the approval of the financial statements and the six-monthly report.

Once a year the Committee, along with the Statutory Auditors, meets the Supervisory Body and the Manager for the preparation of the Company's financial reports.

The Committee has access to the information and the Company functions necessary for the performance of its task as well as to work with external consultants. The Board of Directors approved the allocation of funds totaling Euro 50,000 to the Committee for the 2017 fiscal year in order to provide it with the adequate financial resources to perform its tasks independently.

INTERNAL AUDIT MANAGER

The Manager of the Internal Audit department is responsible for ensuring the effectiveness and suitability of the ICFR System.

Starting from October 1, 2016, on the proposal of the Directors in charge of the Internal Control and Risk Management System, having obtained the favorable opinion of the Control and Risk Committee and having consulted the Board of Statutory Auditors, the Board of Directors appointed Mr. Stefano Russo as Internal Audit Manager on July 25, 2016.

The Internal Audit Manager is not responsible for any operational area and has access to any information useful for the performance of his duties. He is provided with a budget, which is allocated consistently with the activities performed, to reach the objectives set forth in the plan approved by the competent bodies.

During the course of the fiscal year, the Internal Audit Manager performed his role through the implementation of an activities and verification plan which is related to Luxottica Group S.p.A. and its main subsidiaries. Such actions, which the Executive Chairman, the Chief Executive Officer and the Board of Directors were informed of, through the Control and Risk Committee and the Board of Statutory Auditors, have allowed the Company to identify areas for improvement of the ICFR System, for which specific plans have been implemented to further strengthen the foundation of the system itself.

The remuneration of the Internal Audit Manager, which is consistent with Company policies, has been discussed and shared by the Control and Risk Committee and approved by the Board of Directors.

With its resolution of January 29, 2016 the Board of Directors, in consideration of the choice to adopt a simplified governance model entrusted to the Executive Chairman for the Markets Division and to the Chief Executive Officer for the Product and Operations Division, had granted the Executive Chairman, within his role of providing strategic supervision and as the organizational point of contact, the power to supervise the Internal Audit department, with it being clearly understood that the latter was to report hierarchically to the Board of Directors, functionally to the Control and Risk Committee, and to the Chief Executive Officer of the different areas of competence, as well as to the Board of Statutory Auditors in its capacity as Audit Committee under U.S. SOX law, to which the Luxottica Group was subject until September 14, 2017.

Subsequently, on December 15, 2017 the Board of Directors appointed the Chairman, Mr. Leonardo Del Vecchio, as Executive Chairman and the Deputy Chairman, Mr. Francesco Milleri, as Deputy Chairman - Chief executive Officer. The power of the Executive Chairman, within the context of his strategic supervision duties, to supervise the Internal Audit Department, as the person in charge of

organization, was approved, where it is clearly understood that he is also to report hierarchically to the Board of Directors, functionally to the Control and Risk Committee, to the Deputy Chairman – Chief Executive Officer, and to the Board of Statutory Auditors.

The main activities performed by the Internal Audit Manager include, among others, the activities set out in the annual Audit Plan approved by the Board of Directors, the special projects required by the top management, compliance activities under Italian Legislative Decree no. 231/2001 and compliance activities required by SOX, to which the Luxottica Group was subject until September 14, 2017, and by Italian Law no.262/2005 on the Protection of Savings and Corporate Governance.

ORGANIZATIONAL SYSTEM PURSUANT TO ITALIAN LEGISLATIVE DECREE NO. 231/2001

On October 27, 2005, the Board of Directors implemented the Organization, Management and Control System, as established by former Italian Legislative Decree no. 231/2001 in order to prevent the risk of employees and consultants of the Company carrying out illegal acts, with the consequent administrative liability as provided for by Italian Legislative Decree no. 231/2001 (hereinafter the "**Model**"). The Model, which was subsequently modified throughout the years, was last updated by the resolution of the Board of Directors on October 23, 2017.

Particular importance is given to the "point persons" of the Supervisory Board (the Operational Unit Supervisors), or to the persons that perform functions considered to be the most "sensitive" activities pursuant to former Italian Legislative Decree no. 231/2001, who constantly monitor the implementation of the Model, within their area of responsibility, and report to the Supervisory Board every six months.

In continuation of the training programs implemented over the past few years, training methods for personnel have been put in place, especially for departments that operate in "sensitive" areas pursuant to former Italian Legislative Decree no. 231/2001.

The purpose of the Model is the establishment of a structured and organized system of procedures and control activities carried out mainly for prevention, such that the system cannot be overridden unless by fraudulently failing to comply with its provisions.

To this end, the Model serves the following purposes:

- to make all those working in the name of and on behalf of Luxottica aware of the need to accurately comply with the Model, and that the violation thereof shall result in severe disciplinary measures;
- to support the condemnation by the Company of any behavior which, due to a misunderstanding of corporate interest, is in conflict with the law, rules or more generally with the principles of fairness and transparency upon which the activity of the Company is based;
- to provide information about the serious consequences which the Company may suffer (and therefore also its employees, managers and top managers) from the enforcement of pecuniary and prohibitory fines provided for in Italian Legislative Decree no. 231/2001 and the possibility that such measures may be ordered as an interim measure; and
- to enable the Company to exercise constant control and careful supervision of its activities, in order to be able to react promptly in the event that risks arise and possibly enforce disciplinary measures provided for by the Model itself.

The general part of the Model is available on the website www.luxottica.com in the Governance/Model 231 section.

The Supervisory Board appointed on April 24, 2015, and in office for three years, until approval of the financial statements as at December 31, 2017, is composed of two external professionals, Mr. Ugo Lecis (Chairman) and Mr. Enrico Maria Bignami and the Internal Audit Manager (Mr. Stefano Russo since October 1, 2016). The Board of Directors, at the time of its appointment on April 24, 2015, considered it appropriate to maintain a Supervisory Board made up of the Internal Audit Manager and two external, independent professionals, instead of entrusting the Board of Statutory Auditors with the task, as permitted by recent amendments introduced by Italian Legislative Decree 231/2001. This choice was deemed appropriate for combining the requirements of independence and expertise, both of which are fundamental for being able to guarantee authoritativeness and effectiveness to the work carried out by the Supervisory Board.

The Board reports every six months to the Board of Directors, the Control and Risk Committee and the Board of Statutory Auditors on the activities performed.

During the 2017 fiscal year, the Board of Directors allocated specific funds, totaling Euro 50,000, in order to provide the Supervisory Board with adequate financial resources to perform its duties.

On the basis of the guidelines provided by Luxottica Group S.p.A. and of the risk assessment performed, the subsidiary companies Luxottica S.r.l., Luxottica Italia S.r.l., Oakley Sport International S.r.l. and Luxottica International Distribution S.r.l. adopted and have updated their own Organization Model pursuant to Italian Legislative Decree no. 231/2001, appointing the respective Supervisory Bodies over the years, in order to implement specific control measures relating to the different risk profile of each company.

During the 2017 fiscal year, the subsidiary Salmoiraghi & Viganò S.p.A. also adopted its own Organizational Model under Italian Legislative Decree no.231/2001 and appointed a Supervisory Body.

BOARD OF STATUTORY AUDITORS

The Board of Statutory Auditors currently in office for the duration of three fiscal years, until the approval of the financial statements as at December 31, 2017 was appointed at the Stockholders Meeting held on April 24, 2015, and is composed of Francesco Vella, Chairman, Alberto Giussani and Barbara Tadolini. The alternate Auditors are Maria Venturini and Roberto Miccù. The appointment of the Board of Statutory Auditors currently in office took place through the list-based voting system: Alberto Giussani, Barbara Tadolini and Maria Venturini were appointed from the list submitted by the principal stockholder Delfin S.à.r.l.; Francesco Vella and Roberto Miccù were appointed from the minority list submitted by various Italian and foreign institutional investors (see the 'Appointment of Directors' paragraph).

The minimum percentage of share capital required to present a list, as established by CONSOB resolution no. 19109 dated January 28, 2015, was equal to 0.5% of share capital.

The lists and their supporting documentation, which were filed and published within the deadlines prescribed by law at the time of the presentation of the candidacies, are available for review on the Company's website under the Governance/General Meeting/Archive section.

The procedures for the appointment of Auditors are governed by art. no. 27 of the Company by-laws; for more information, please refer to the Company's by-laws. The appointment of one regular statutory Auditor, as Chairman, and of one alternate statutory Auditor shall be reserved for the minority

— which is not part, even indirectly, of the relationship to be considered pursuant to article 148, sub-paragraph 2 of legislative decree no 58/1998 and the related regulations. With reference to the composition of the board of Statutory Auditors, the By - Laws ensure the balance between genders, according to article 148, paragraph 1 bis of the Italian Consolidated Financial Law.

The Board of Statutory Auditors supervises (i) compliance with the law and Company by-laws; (ii) compliance with proper management principles; (iii) the appropriateness of the instructions given by the Company to the subsidiary companies; (iv) the appropriateness of the Company structure with respect to the areas of responsibility; (v) the ICFR System and the administrative accounting system; (vi) the reliability of the latter in the correct reporting of the management-related issues; (vii) the financial information process pursuant to the provisions of Italian Legislative Decree no.39/2010; (viii) the efficiency of the internal auditing system; (ix) the auditing of accounts; and (x) the independence of the legal auditor.

Furthermore, the Board of Statutory Auditors (xi) verifies the procedures for the implementation of the corporate governance rules provided for by the Code of Conduct for Listed Companies; (xii) offers its opinion, pursuant to article 2389 of the Italian Civil Code, on the remuneration assigned to Directors with special roles; and (xiii) monitors the implementation of the remuneration policy.

Each Auditor reports to the other Auditors and to the Board of Directors on Company transactions in which they have an interest personally or on the account of a third-party.

The Board of Statutory Auditors presents its duly formed proposal to the Ordinary Meeting of Stockholders on the appointment of the external auditors.

In the performance of its duties, the Board of Statutory Auditors coordinates with the Internal Audit department, the Control and Risk Committee, the Risk Management department and Compliance.

The Board of Statutory Auditors verified the correct application of the criteria used by the Board of Directors to assess the independence of the Directors.

Following its appointment the Board of Statutory Auditors assessed the compliance of its members with the requirements of independence in accordance with the laws in force and the Code of Conduct for Listed Companies and also verified that these requirements were met during the 2017 fiscal year.

The Board of Statutory Auditors acted as the Audit Committee as provided for by SOX until September 14, 2017, the date on which the deregistration process from the U.S. Securities and Exchange Commission was completed. Under U.S. law, Mr. Alberto Giussani had been identified as its Financial Expert.

Furthermore, in accordance with Italian law, the Board of Statutory Auditors acts as a Committee for Internal Control and Auditing.

Consequently, the Board of Statutory Auditors:

- examined and discussed all the declarations required by SOX sections 302 and 906 with management;
- examined the management reports on the ICFR System and the declaration of the auditing company on the conclusions of the management in compliance with SOX section 404;
- examines the reports of the delegated bodies and CFO on any significant point of weakness in the planning or in the performance of internal controls which is reasonably capable of negatively affecting the capacity to record, process, summarize and disclose financial information and the shortcomings identified through the internal controls;

- examines the reports by the delegated bodies and Chief Financial Officer on any fraud involving management or related officers in the context of the ICFR System;

- evaluates the proposals of the auditing companies for the appointment as external auditor and submits its proposal on the appointment or revocation of the auditing company to the Meeting of Stockholders;

- supervises the activities of the external auditors and their supply of consulting services, other auditing services or certificates;

- reviews periodic reports of the external auditors on: (i) the critical accounting criteria and practices to be used; (ii) the alternative accounting processes generally accepted, once they have been analyzed together with management, the consequences of the use of such alternative processes and the related information, as well as the processes which are considered preferable by the external auditors; and (iii) any other relevant written communication between the external auditors and management;

- makes recommendations to the Board of Directors on the settlement of disputes between management and the external auditors regarding financial reporting;

- approves the procedures concerning: (i) the receipt, the archiving and the treatment of reports received by the Company on accounting matters, ICFR System matters related to the accounts and audit-related matters; (ii) the confidential and anonymous reporting on questionable accounting or auditing matters;

- assesses the requests to make use of the auditing company appointed to perform the auditing of the balance sheet for permitted non-audit services and expresses their opinion on the matter to the Board of Directors;

- approves the procedures prepared by the Company for the pre-emptive authorization of the permitted non-audit services, analytically identified, and examines the reports on the supply of the authorized services.

With particular reference to Form 20-F, namely the Annual Report drawn up in compliance with U.S. law (the Company having been listed on the NYSE until June 16, 2017), the Board of Statutory Auditors, in its capacity as Audit Committee, also carried out the following tasks:

- reviewed the financial information to be disclosed in the Form 20-F, including the audited financial statements, the management report, selected financial information and the information on market risk, together with the company management and auditing firm;

- reviewed the assessment of the quality and acceptability of accounting principles, the reasonableness of significant evaluations, the clarity of the disclosure of financial information, the management report, the selected financial information and information on market risk, together with the CFO and audit firm; and

- assessed the results of the regular and annual auditing of accounts and any other matters that must be communicated to the Board of Statutory Auditors by the auditing firm in accordance with the auditing principles in force in Italy and the U.S. and other applicable regulations.

The Board of Statutory Auditors has the appropriate skills and resources to perform the above-mentioned duties. The Board of Directors allocated the Board of Statutory Auditors acting as Audit Committee a budget of 100,000 euros for the year 2017.

In 2017 the Board met 13 times – also jointly with Control and Risk Committee - for an average meeting of more than two and a half hours. In the first two months of 2018 the Board met 5 times. During the year, the Statutory Auditors attended the meetings of the Control and Risk Committee, in addition to the Meeting of Stockholders and the meetings of the Board of Directors.

Furthermore, the Chairman of the Board of Statutory Auditors or an Auditor appointed by the latter is invited to attend the meetings of the Human Resources Committee. In 2017, the Chairman of the Board or one Auditor appointed by the latter attended all of the meetings of the Human Resources Committee.

Background information on the members of the Board of Statutory Auditors currently in office is provided below, with an indication of the year of their first appointment to the Board and the primary offices held in other companies as at December 31, 2016.

FRANCESCO VELLA, CHAIRMAN

An attorney at law, Mr. Vella is a full professor of commercial law at the University of Bologna, Italy, where he currently teaches in the Master's program. He has been Chairman of the Board of Statutory Auditors of the Company since April 2009.

He has written three essays and several publications for miscellaneous journals and magazines specialized in banking, financial and corporate matters. Mr. Vella is a member of the editorial board of the following magazines: "Banca Borsa, Titoli di Credito", "Mercato Concorrenza e Regole", "Il Mulino", "Banca, impresa e società", "Giurisprudenza Commerciale" and "Analisi giuridica dell'economia", which he helped to set up, as well as the website "lavoce.info".

He is Chairman of UnipolSai Assicurazioni S.p.A. and UnipolBanca S.p.A, Chairman of the Supervisory Body of Camst Soc. Coop. a.r.l., Hera S.p.A., Enomondo S.p.A. and Bologna Fiere S.p.A.

ALBERTO GIUSSANI – STATUTORY AUDITOR

Mr. Giussani received a degree in Business and Economics from the Università Cattolica in Milan, Italy, and he has been an Auditor of the Company since April 2009.

He is registered in the Register of Accountants and Tax Advisers since 1979 and in the Register of Chartered Accountants since 1995, when the Register was set up.

Between 1981 and 2000, he was a member of the Accounting Principles Commission of the Accountants and Tax Advisers and he serves currently as a member of the Management Board of the Italian Accounting Body. Between 2001 and 2008, he was a member of the Standard Advisory Council of the IASC Foundation for the provision of international accounting principles. He was a partner in the auditing company PricewaterhouseCoopers between 1981 and 2007.

He is also an auditor of Falck Renewables S.p.A. and Carlo Tassara S.p.A., member of the Board of Directors of Fastweb S.p.A. and Chairman of the Board of Directors of EI Towers S.p.A.

BARBARA TADOLINI – STATUTORY AUDITOR

Ms. Tadolini graduated with a degree in Economics and Business from the Università degli Studi in Genoa in 1985 and she has been an Auditor of Luxottica Group S.p.A. since April 2012.

She has been registered in the Association of Certified Accountants since 1986 and has been a registered statutory auditor since 1995. She has worked at the tax consultancy firm Arthur Andersen and leading professional firms in Genoa. She currently works independently in her own firm in Genoa. Barbara Tadolini was a member of the Board of Certified Accountants in Genoa, as well as member of the National Assembly of Delegates of the "Cassa Nazionale di Previdenza e Assistenza dei dottori Commercialisti". She is also an Auditor of Parmalat S.p.A., Burke & Novi S.r.l., Francesco Baretto S.p.A. and member of the Board of Directors of UnipolSai Assicurazioni S.p.A.

All the Auditors comply with the legal requirements of such office and in particular with the requirements set forth in article no. 148, paragraph 3, of Italian Consolidated Financial Law, and are independent in accordance with the assessment criteria set forth in article 3 of the Code of Conduct for Listed Companies.

AUDIT FIRM

The auditing activity is entrusted to an auditing company registered in the Register of Auditors, whose appointment is approved at the Ordinary Meeting of Stockholders.

The audit firm serving until the approval of the financial statements for the year 2020 is PricewaterhouseCoopers S.p.A., in accordance with the resolution of the Ordinary Meeting of Stockholders of April 28, 2011.

MANAGER RESPONSIBLE FOR THE PREPARATION OF THE COMPANY'S FINANCIAL REPORTS

On April 24, 2015, the Board of Directors confirmed the Chief Financial Officer Mr. Stefano Grassi's position as the manager responsible for the preparation of the Company's financial reports given that he possesses the adequate accounting and financial skills for the role.

The appointed manager remains in office until: (a) termination of the entire Board of Directors that appointed him; (b) dismissal from the office; or (c) revocation of the office by the Board itself.

The appointed manager has been granted all the powers and resources necessary to perform his duties according to the applicable regulations of the Italian Consolidated Financial Law and of the related performance regulations. In particular, the appointed manager has been granted wide powers connected to: (i) the preparation of adequate administrative and accounting procedures for the preparation of both the separate and consolidated financial statements as well as of any notice of a financial nature; (ii) the issue of certifications pursuant to art. 154-*bis* paragraph 2, of the Italian Consolidated Financial Law with reference to the acts and the communications of the Company disclosed to the market and relating to the accounting report, including half-year reports, of the Company; and (iii) the issue, together with the Executive Chairman and the CEO of Product and Operations, of certificates pursuant to art. 154-*bis* paragraph 5, of the Italian Consolidated Financial Law, with reference to the separate financial statements, the consolidated financial statements and the half-year financial statements. More generally, the appointed manager has been granted the power to perform any activity necessary or useful for the appropriate performance of the above-mentioned task including power to expend Company funds within the limits of the powers already granted to him in a separate

power of attorney, with exception of the possibility to spend amounts in excess of the above-mentioned limits, where necessary and upon specific and justified request by the appointed manager, subject to prior approval by the Board of Directors.

III. By-laws, Code of Conduct and Procedures

BY-LAWS

The current Company by-laws were most recently amended on April 29, 2016 following the resolution adopted at the extraordinary meeting of stockholders, which revised articles 12, 19 and 30.

The text of the by-laws is available on the website www.luxottica.com in the Governance/By-laws section.

CODE OF ETHICS AND PROCEDURE FOR HANDLING REPORTS AND COMPLAINTS REGARDING VIOLATIONS OF PRINCIPLES AND RULES DEFINED AND/OR ACKNOWLEDGED BY LUXOTTICA GROUP

The Code of Ethics of Luxottica Group ("Code of Ethics") represents the values underlying all of the Group's business activities and is subject to constant verification and updating to reflect the proposals derived in particular from U.S. regulations.

The Code of Ethics, originally approved by the Board of Directors on March 4, 2004, has been adapted over the years and was updated by the Board in the resolution passed on January 29, 2016.

In addition to the Code of Ethics, there is a Procedure for the Handling of Reports and Complaints of Violations of principles and rules defined and/or acknowledged by Luxottica Group.

The procedure covers reports, complaints and notifications of alleged fraud, violation of ethical and behavioral principles set forth in the Code of Ethics of the Group and of irregularities or negligence in accounting, internal controls and auditing.

Complaints received from both internal and external subjects by the Group are taken into consideration: the Group undertakes to safeguard the anonymity of the informant and to ensure that the employee reporting the violation is not subject to any form of retaliation.

The reports of violations of principles and rules defined or recognized by the Group are submitted to the Internal Audit Manager, who in turn submits them to the Chairman of the Board of Statutory Auditors.

The Code of Ethics is available on www.luxottica.com, in the About us/Unique Approach/Responsible Business Practices section.

PROCEDURE FOR TRANSACTIONS WITH RELATED PARTIES

On October 25, 2010 the Board of Directors voted unanimously to adopt a new procedure to regulate transactions with related parties pursuant to the provisions of CONSOB regulation 17221/2010.

The procedure, which was approved by the former Internal Control Committee (composed exclusively of independent Directors), became applicable as of January 1, 2011.

On January 30, 2017, the Board of Directors, in compliance with the recommendation of CONSOB (see Communication no. 10078683 dated September 24, 2010), carried out an assessment on the possibility of revising the procedure, consistent with that done in 2014. In this regard, the Board, having achieved the favorable opinion of the Control and Risk Committee (composed solely of Independent Directors), resolved to make amendments to the Procedure, in line with the best practices on this subject.

The procedure regulates the execution of major and minor transactions. Transactions with and among subsidiary companies, associated companies, ordinary transactions, transactions of an inferior amount (of an amount less than Euro 1 million or, with regard to the remuneration of a member of a management or control body or managers with strategic responsibilities, of an amount less than Euro 250,000) are excluded from the application of the procedure.

The Board of Directors also reached the following decisions, among others, with regard to the interested parties involved in each individual transaction, where possible each time that: (i) the Human Resources Committee was to be involved and consulted regarding transactions for the remuneration and economic benefits of the members of the management and control bodies and managers in strategic roles and (ii) the Control and Risk Committee was to be involved in and consulted about other transactions with related parties.

Further information on the application of the procedure with regard to remuneration and assignment of benefits to the members of the management and control bodies and managers in strategic roles are stated in the Remuneration Report drawn up in accordance with art.123-ter of the Italian Consolidated Financial Law.

The Procedure is available on the website www.luxottica.com, in the Governance/Documents and Procedures section.

INTERNAL DEALING AND INSIDE INFORMATION MANAGEMENT PROCEDURES

On July 3, 2016, the Company adopted new internal dealing and inside information management procedures with the aim of incorporating the new European provisions on the subject of market abuse and in particular EU Regulation 596/2014 and its implementation measures into the Company's procedures.

The Internal Dealing Procedure, last updated on January 24, 2018 regulates in detail the behavioral and disclosure obligations relating to transactions in shares, ADRs, credit instruments issued by Luxottica or derivatives or other financial instruments related to the latter, completed by so-called "relevant parties", namely Directors, Auditors of the Company and Managers with strategic responsibilities, as well as the people closely connected to these parties.

The reporting obligation is applicable to all subsequent transactions, once an equivalent value of 5000 euros has been exceeded.

The procedure for the management of inside information, which was last updated on July 25, 2016, in compliance with the applicable legal and regulatory provisions, regulates: the internal management and external communication of information on Luxottica and the companies of the Group, with particular reference to inside information; the establishment, keeping and updating of the register of people that have access to privileged information; the black-out periods that members of the Board of Directors, members of the Board of Statutory Auditors of the Company and managers with strategic responsibilities are obliged to respect in the trading of Luxottica securities. Both procedures are available on the website www.luxottica.com, in the Governance/Documents and Procedures section.

APPOINTMENT OF EXTERNAL AUDITORS

The Board of Directors approved the 'Group Procedure for the Appointment of External Auditors' back in 2005, in order to protect the independence of the external auditor, which is the fundamental guarantee of the reliability of the accounting information regarding the appointing companies. This policy was last updated on January 24, 2018 with the aim of incorporating the provisions of the Italian Legislative Decree n. 135/2016, applicable since January 1, 2017.

The parent company's external auditor is the main auditor for the entire Luxottica Group.

The policy is available on the website www.luxottica.com, in the Governance/Documents and Procedures section.

IV. Meeting of Stockholders

The Board of Directors determines the venue, date and time of each Meeting of Stockholders in order to facilitate the participation of stockholders.

The Luxottica Directors and Auditors endeavor to attend the meetings, in particular the Directors who, by virtue of their position, may contribute significantly to the discussion and report on the activities performed.

The Ordinary Meeting of Stockholders is called through a notice published by the thirtieth day prior to the date fixed for the Meeting (or by the fortieth day, in the case of the appointment of company committees), on the Company website and using the other methods prescribed by CONSOB in its Regulations. The notice of call, in compliance with legal provisions, states the necessary instructions on how to participate in the General Meeting of Stockholders, including information on the methods for finding the proxy forms, which can also be accessed through the Company website.

The Governance/General Meeting section of the Company's website contains the relevant information on Meetings of Stockholders held during the most recent fiscal years, including the resolutions passed, the notices of call, as well as the documentation concerning the items on the agenda.

Pursuant to article 12 of the by-laws, those stockholders for whom the Company has received notice by the relevant intermediary pursuant to the centralized management system of the financial instruments, pursuant to the regulations and legal provisions in force at that time, shall be entitled to attend the Meeting and to vote.

All persons entitled to attend the Meeting may be represented by written proxy in accordance with the provisions of law.

The proxy may also be granted to the representative appointed by the Company with voting instructions on all or some of the proposals on the agenda in accordance with art.135-undecies of the Italian Consolidated Financial Law.

The Company by-laws do not provide for voting by mail.

Pursuant to article 14 of the by-laws, the provisions of the law are applied in relation to the validity of the composition of the meeting and the related resolutions.

Meetings of Stockholders may be either ordinary meetings or extraordinary meetings, depending on the subject matters to be dealt with. Different quorum requirements apply to ordinary and extraordi-

nary meetings. Ordinary Stockholders' Meetings must be convened at least once a year to approve the annual financial statements of Luxottica Group S.p.A. At ordinary Stockholders' Meetings, stockholders vote upon dividend distributions, if any, appoint the directors, statutory auditors and external auditors, determine their remuneration and vote on business any matters submitted by the directors to the Stockholders' Meeting.

Ordinary stockholders' meetings of Luxottica can be convened only in one call and there are no minimum quorum requirements. Resolutions may be adopted by a simple majority of ordinary shares represented at such meeting.

Extraordinary meetings of stockholders may be called to vote upon, among other things, proposed amendments to the Bylaws, capital increases, mergers, spinoffs, issuance of convertible debentures, and similar extraordinary actions. Extraordinary stockholders' meetings are properly convened when at least onefifth of the share capital is represented at the meeting and resolutions are adopted with the affirmative vote of at least twothirds of the share capital represented at the meeting.

In 2017, the Ordinary Meeting of Stockholders was held on April 28 to pass resolutions on the following items on the agenda:

1. The approval of the Statutory Financial Statements for the year ended December 31, 2016.

2. The allocation of net income and distribution of dividends.

3. An advisory vote on the first section of the remuneration report in accordance with article 123-ter, paragraph 6 of Italian Legislative Decree no. 58/1998;

Luxottica has adopted Regulations for Meetings of Stockholders to ensure the regular and functional management of the Meeting of Stockholders and to ensure that each stockholder is allowed to express an opinion on the items being discussed. The Regulations are available at the Company's registered office and at the venues in which the Meetings of Stockholders are held; the Regulation is also available to the public on the website www.luxottica.com, in the Governance/Documents and Procedures section.

V. Investor Relations

An investor relations team, which reports to the Executive Chairman, is dedicated to relations with the national and international financial community.

The website www.luxottica.com includes a dedicated "Investors" section which provides information that may be of interest to the financial community. In order to facilitate knowledge of Luxottica's business strategies and development, information on senior management and other relevant matters, Investor Relations also utilizes financial communications tools, such as roadshows, conference calls and meetings with investors.

Documents on corporate governance are also available on the website www.luxottica.com in the Governance section and may be requested via e-mail directed to the following address: investorrelations@luxottica.com.

Section III – Summary of the most relevant corporate events subsequent to the closing of fiscal year 2017

Below is a summary of the most significant events that occurred after the closing of fiscal year 2017 up to the date of this Report. The most significant events have been described in the paragraphs above.

After December 31, 2017 the Board of Directors of the Company:

a. examined the annual report concerning the organizational and accounting corporate structure of Luxottica Group, in accordance with paragraph 3 of art. 2381 of the Civil Code and Principle 1.c.1. of the Code of Conduct, confirming the adequacy of the internal control and risk management system;

b. on the basis of the answers to a specific questionnaire, assessed the size, composition and performance of the Board itself and of the Committees;

c. evaluated whether the requirements for independence existed, based on the information available and the information provided by the non-executive Directors by virtue of the provisions of the Italian Consolidated Financial Law and of the Code of Conduct, determining the Directors Brogi, Feola, Magistretti, Pierdicchi, Salzburger, Santel, Scocchia, Veronesi and Zappia to be independent;

d. verified that the composition of the Board of Directors is compliant with the criteria established with respect to the maximum number of positions to be held in other companies;

e. decided to allocate specific funds to be made available to the Committees and to the Supervisory Board in order to provide them with adequate financial resources to perform their respective tasks;

f. evaluated the adequacy of the internal control and risk management system as described in the report in point (a) above and by the report of the Control and Risk Committee and Internal Audit Reports;

g. reviewed the results of the Auditing activities carried out in 2017 and approved the audit plan for 2018, which had already been shared by the Control and Risk Committee;

h. on the proposal of the Human Resources Committee, approved the remuneration policy to be submitted to the Meeting of Stockholders to be held on April 19, 2018, for an advisory vote.

In accordance with the provisions of the Code of Conduct, the Board of Statutory Auditors assessed the evaluation made by the Directors on their independence and has verified compliance with the requirements for each individual Auditor as outlined by the Code of Conduct.

The recommendations included in the letter of December 13, 2017 from the Chairman of the Corporate Governance Committee were brought to the attention of the Chairman of the Board of Directors, the Deputy Chairman- CEO, the Chairman of the Board of Statutory Auditors. The letter has been examined and discussed by the Control and Risk Committee and by the Human Resources Committee whose respective Chairpersons reported to the Board of Directors during the meeting held on February 26, 2018.

Milan, February 26, 2018

COMPOSITION OF THE BOARD OF DIRECTORS AND THE COMMITTEES

Board of Directors										Control and Risk Committee		Human Resources Committee	
Position	Members/Year of birth	Date of first appointment	In charge from	In charge until	Executive	Non-executive	Independent Pursuant to Civil Code and Consolidated Financial Law	*	Other positions in office held **	***	*	***	*
Executive Chairman	Leonardo Del Vecchio (1935)	1961	24/04/2015	Approval of 2017 Financial Statements	X			100%	3				
Deputy Chairman	Luigi Francavilla (1937)	1985	24/04/2015	Approval of 2017 Financial Statements	X			87.5%	0				
Deputy Chairman - CEO	Francesco Milleri (1959)	2016	1/03/2016	Approval of 2017 Financial Statements	X			100%	0				
Director	Stefano Grassi (1973)	2017	15/12/2017	Approval of 2017 Financial Statements	X			100%	0				
Director	Marina Brogi (1967)	2015	24/04/2015	Approval of 2017 Financial Statements			X	87.5%	3			X	100%
Director	Luigi Feola (1967)	2015	24/04/2015	Approval of 2017 Financial Statements			X	100%	1				
Director	Elisabetta Magistretti (1947)	2012	24/04/2015	Approval of 2017 Financial Statements			X	100%	1	X	100%		
Director	Mario Notari (1964)	2015	24/04/2015	Approval of 2017 Financial Statements		X		100%	1			X	100%
Director	Maria Pierdicchi (1957)	2015	24/04/2015	Approval of 2017 Financial Statements			X	100%	2				
Director	Karl Heinz Salzburger (1957)	2015	24/04/2015	Approval of 2017 Financial Statements			X	100%	0				
Director	Luciano Santel (1956)	2015	24/04/2015	Approval of 2017 Financial Statements			X	100%	1	X	100%		
Director	Cristina Scocchia (1973)	2015	24/04/2015	Approval of 2017 Financial Statements			X	75%	2	X	100%		
Director	Sandro Veronesi (1959)	2015	24/04/2015	Approval of 2017 Financial Statements			X	62.5%	1				
Director	Andrea Zappia (1963)	2015	24/04/2015	Approval of 2017 Financial Statements			X	100%	1			X	100%
Number of meetings of the Board: 8				Meetings of the Control and Risk Committee: 13						Meetings of the Human Resources Committee: 6			

* Indicates the percentage of participation of the Directors in the meetings of the Board of Directors and of the Committees.

** Lists the number of offices as director or auditor performed by the directors in office in other listed companies, banks, financial, insurance companies or companies of a significant size, in compliance with the criteria implemented by the Company and described in section II of this Report..

*** An "X" indicates that the member of the Board of Directors is also a member of the Committee.

DIRECTORS LEAVING OFFICE DURING THE YEAR

Name/Year of birth	Office	Date of first appointment	In office since	Date of leaving office	*	Eexecutive	Non-executive	Independent Pursuant to Code and Italian Consolidated Financial Law
Massimo Vian (1973)	CEO for Product and Operations	2014	24/04/2015	15/12/2017	100%	X	-	-

* Indicates the percentage of participation of the Directors in the meetings of the Board of Directors and of the Committees.

BOARD OF STATUTORY AUDITORS IN OFFICE AS AT DECEMBER 31, 2017

Board of Statutory Auditors	Members	Year of birth	Date of first appointment	In charge from	In charge until	Percentage of attendance at the Board meetings	Number of other positions in office held *
Chairman, taken from the minority list	Francesco Vella	1958	2009	24/04/2015	Approval of 2017 Financial Statements	92%	2 – 1 of which listed
Statutory Auditor, taken from the majority list	Alberto Giussani	1946	2009	24/04/2015	Approval of 2017 Financial Statements	77%	4 - 2 of which listed
Statutory Auditor, taken from the majority list	Barbara Tadolini	1960	2012	24/04/2015	Approval of 2017 Financial Statements	100%	4 – 2 of which listed
Substitute Auditor, taken from the minority list	Roberto Miccu'	1965	2015	24/04/2015	Approval of 2017 Financial Statements	-	-
Substitute Auditor, taken from the majority list	Maria Venturini	1954	2015	24/04/2015	Approval of 2017 Financial Statements	-	-
Number of meetings during the 2017 fiscal year: 13							

* Indicates the number of offices as director or auditor performed by the interested party in other listed companies indicated in book V, title V, paragraphs V, VI and VII of the Italian Civil Code, with the number of offices held in listed companies.

VOGUE

3. Consolidated financial statement

3.1 Consolidated statement of financial position

3.2 Consolidated statement of income

3.3 Consolidated statement of comprehensive income

3.4 Consolidated statement of changes in equity

3.5 Consolidated statement of cash flows

3.6 Notes to the Consolidated Financial Statements as of December 31, 2017

3.7 Certification of the consolidated financial statements pursuant to Article 154-bis of Legislative Decree 58/98

3.8 Independent Auditor's Report

3.9 Independent Auditor’s Report on the Consolidated Non-Financial Statement pursuant to Article 3 of the Italian Legislative Decree 254 of 30 December 2016 and Article 5 of CONSOB Regulation n. 20267

3.1 Consolidated statement of financial position

Assets (Euro/000)	Note	December 31, 2017	Of which related parties (note 30)	December 31, 2016 restated[(a)]	Of which related parties (note 30)
Current assets:					
Cash and cash equivalents	6	1,159,320	-	866,864	-
Accounts receivable	7	943,778	349	932,340	1,687
Inventories	8	831,549	-	893,472	-
Other current assets	9	232,821	5,879	287,759	5,301
Assets held for sale	10	-	-	51,284	-
Total current assets		**3,167,467**	**6,228**	**3,031,719**	**6,988**
Non-current assets:					
Property, plant and equipment	11	1,808,834	117,750	1,672,554	-
Goodwill	12	3,622,396	-	3,864,955	-
Intangible assets	12	1,225,475	29,576	1,477,316	10,296
Equity investments	13	14,488	3,622	20,186	7,720
Other non-current assets	14	73,756	-	97,300	-
Deferred tax assets	15	130,454	-	133,369	-
Total non-current assets		**6,875,403**	**150,948**	**7,265,680**	**18,016**
Total assets		**10,042,870**	**157,176**	**10,297,400**	**25,005**

(a) The balances of goodwill, stockholders' equity and other current assets as of December 31, 2016 were restated by Euro 6.5 million, Euro 2.4 million and Euro 4.1 million, respectively, to reflect the effects described in Note 4 – Business Combinations of the Notes, to which reference should be made for further details

Liabilities and stockholders' equity (Euro/000)	Note	December 31, 2017	Of which related parties (note 30)	December 31, 2016 restated[(a)]	Of which related parties (note 30)
Current liabilities:					
Short-term borrowings	16	77,486	-	208,813	-
Current portion of medium/long-term debt	17	150,411	-	154,094	-
Accounts payable	18	906,749	24,194	944,402	21,159
Tax payable	19	22,299	-	17,238	-
Short-term provisions for risks	20	169,226	-	145,701	-
Other current liabilities	21	764,394	6	745,921	-
Total current liabilities		**2,090,564**	**24,199**	**2,216,168**	**21,159**
Non-current liabilities:					
Long-term debt	22	1,671,281	-	1,680,951	-
Employee benefits	23	121,555	-	159,364	-
Deferred tax liabilities	15	147,843	-	257,036	-
Long-term provisions for risks	24	130,453	-	122,107	-
Other non-current liabilities	25	74,626	-	79,783	-
Total non-current liabilities		**2,145,758**	**-**	**2,299,241**	**-**
Stockholders' equity:					
Capital Stock	26	29,101	-	29,051	-
Legal reserve	26	5,811	-	5,805	-
Other reserves	26	4,984,405	-	5,162,798	-
Treasury shares	26	(256,678)	-	(269,755)	-
Net income attributable to Luxottica Group stockholders	26	1,038,445	-	848,137	-
Luxottica Group stockholders' equity	**26**	**5,801,085**	**-**	**5,776,036**	**-**
Non-controlling interests	27	5,463	-	5,954	-
Total stockholders' equity		**5,806,548**	**-**	**5,781,990**	**-**
Total liabilities and stockholders' equity		**10,042,870**	**24,199**	**10,297,400**	**21,159**

(a) The balances of goodwill, stockholders' equity and other current assets as of December 31, 2016 were restated by Euro 6.5 million, Euro 2.4 million and Euro 4.1 million, respectively, to reflect the effects described in Note 4 – Business Combinations of the Notes, to which to which reference should be made for further details

3.2 Consolidated statement of income

Consolidated statement of income		Financial year			
(Euro/000)[(a)]	Note	2017	Of which related parties (note 30)	2016 restated[(b)]	Of which related parties (note 30)
Net Sales	**28**	**9,157,291**	**644**	**9,085,707**	**23,491**
Cost of sales	28	3,282,098	42,975	3,153,264	44,716
of which non-recurring expenses	*34*	-	-	*95*	-
Gross Profit		**5,875,194**	**(42,332)**	**5,932,443**	**(21,225)**
Selling expenses	28	3,025,835	138	2,889,177	2
of which non-recurring expenses	*34*	-	-	*420*	-
Royalties	28	164,043	664	169,890	707
Advertising expenses	28	501,748	241	567,895	138
General and Administrative expenses	28	882,971	12,389	960,214	8,870
of which non-recurring expenses	*34*	*26,105*	-	*16,861*	-
Total operating expenses		**4,574,597**	**13,432**	**4,587,176**	**9,718**
Income from operations		**1,300,596**	**(55,764)**	**1,345,267**	**(30,943)**
Financial income	28	18,199	-	15,469	-
Financial expenses	28	(107,746)	-	(81,528)	-
of which non-recurring expenses		(29,540)	-	-	-
Other net income/(expenses)	28	45,441	-	37,099	(40)
of which non-recurring income/(expenses)	34	48,675	-	33,358	-
Total other income/(Expenses)		**(44,106)**	**-**	**(28,960)**	**(40)**
Income before taxes		**1,256,490**	**(55,764)**	**1,316,307**	**(30,983)**
Income taxes	28	(216,085)	-	(466,373)	-
of which non-recurring income/(expenses)	34	162,600	-	5,421	-
Net income		**1,040,405**		**849,934**	
Of which attributable to					
- Luxottica Group stockholders		*1,038,445*	-	*848,137*	-
- Non-controlling interests		*1,960*	-	*1,797*	-
Weighted average number of shares outstanding					
Basic	31	478,068,696	-	479,225,730	-
Diluted	31	478,348,377	-	480,025,531	-
EPS					
Basic	31	2.17	-	1.77	-
Diluted	31	2.17	-	1.77	-

(a) Except earnings per share data, in Euro
(b) IThe balance of other net income/(expenses) as of December 31, 2016 was retrospectively restated by Euro 2.4 million to reflect the effects described in Note 4 – Business Combinations, which is referred to for further details

3.3 Consolidated statement of comprehensive income

Consolidated statement of comprehensive income		Financial year	
(Euro/000)	Note	2017	2016 restated[(a)]
Net income for the period		**1,040,405**	**849,934**
Items that will be subsequently reclassified to profit or loss			
Fair value of hedging derivative contracts (IRS)		425	-
Related tax effect		(126)	-
Currency translation differences	26	(588,541)	154,628
Total items that may be subsequently reclassified to profit or loss		**(588,241)**	**154,628**
Items that will not be subsequently reclassified to profit or loss			
Actuarial gains/(losses) on pension funds	23	55,188	(19,889)
Related tax effect	23	(48,755)	4,735
of which non-recurring income/(expenses)		(29,524)	-
Total items that will not be subsequently reclassified to profit or loss		**6,432**	**(15,154)**
Total other comprehensive income/(loss) – net of taxes		**(581,809)**	**139,473**
Total comprehensive income for the period		**458,569**	**989,407**
Of which attributable to			
- Luxottica Group stockholders		*456,589*	*986,385*
- Non-controlling interests		*2,007*	*3,022*

(a) The balance of net income for the period and total comprehensive income as of December 31, 2016 was retrospectively restated by Euro 2.4 million to reflect the effects described in Note 4 – Business Combinations, to which reference should be made for further details

3.4 Consolidated statement of changes in equity

Consolidated Stockholders' Equity	Share Capital									
	Number of Shares	Amount	Legal Reserve	Share Premium Reserve	Retained Earnings	Stock Option Reserve	Translation of foreign operations and other	Treasury Shares	Stockholders' Equity	Non-Controlling interests
Euro/000)[a]					Note 26					Note 27
Balance as of January 1, 2016	**483,653,333**	**29,019**	**5,784**	**549,950**	**4,334,745**	**350,351**	**211,311**	**(68,636)**	**5,412,524**	**5,196**
Total Comprehensive Income as of December 31, 2016	-	-	-	-	**835,370**	-	**153,403**	-	**988,772**	**3,022**
S&V price adjustment[b]	-	-	-	-	*(2,387)*	-	-	-	*(2,387)*	-
Total Comprehensive Income as of December 31, 2016 - restated	-	-	-	-	**832,983**	-	**153,403**	-	**986,385**	**3,022**
Exercise of stock options	522,750	31	-	10,090	-	-	-	-	10,121	-
Stock option notional value	-	-	-	-	-	9,577	-	-	9,577	-
Tax benefit on stock options	-	-	-	2,971	-	-	-	-	2,971	-
Increase in treasury shares	-	-	-	-	-	-	-	(217,822)	(217,822)	-
Assignment of treasury shares to employees	-	-	-	-	(16,703)	-	-	16,703	-	-
Dividends (Euro 0.89 per ordinary share)	-	-	-	-	(427,722)	-	-	-	(427,722)	(2,264)
Allocation of profits to the legal reserve	-	-	20	-	(20)	-	-	-	-	-
Balance as of December 31, 2016 - restated	**484,176,083**	**29,051**	**5,805**	**563,011**	**4,723,283**	**359,928**	**364,714**	**(269,755)**	**5,776,036**	**5,954**

(a) Except for the number of shares

(b) The balance of other net income/(expenses) as of December 31, 2016 was retrospectively restated by Euro 2.4 million to reflect the effects described in Note 4 – Business Combinations, to which reference should be made for further details

Consolidated Stockholders' Equity	Share Capital									
	Number of Shares	Amount	Legal Reserve	Share Premium Reserve	Retained Earnings	Stock Option Reserve	Translation of foreign operations and other	Treasury Shares	Stockholders' Equity	Non-Controlling interests
Euro/000)[a]					Note 26					Note 27
Balance as of January 1, 2017 - restated	**484,176,083**	**29,051**	**5,805**	**563,011**	**4,723,283**	**359,928**	**364,714**	**(269,755)**	**5,776,036**	**5,954**
Total Comprehensive Income as of December 31, 2017	**-**	**-**	**-**	**-**	**1,045,177**	**-**	**(588,588)**	**-**	**456,589**	**2,007**
Exercise of stock options	839,950	50	-	17,436	-	-	-	-	17,486	-
Stock option notional value	-	-	-	-	-	790	-	-	790	-
Tax benefit on stock options	-	-	-	(10,122)	-	-	-	-	(10,122)	-
Increase in treasury shares	-	-	-	-	-	-	-	-	-	-
Assignment of treasury shares to employees	-	-	-	-	(13,077)	-	-	13,077	-	-
Dividends (Euro 0.92 per ordinary share)	-	-	-	-	(439,695)	-	-	-	(439,695)	(2,498)
Allocation of profits to the legal reserve	-	-	6	-	(6)	-	-	-	-	-
Balance as of December 31, 2017	**485,016,033**	**29,101**	**5,811**	**570,325**	**5,315,681**	**360,718**	**(223,874)**	**(256,678)**	**5,801,085**	**5,463**

(a) Except for the number of shares

3.5 Consolidated statement of cash flows

Consolidated Statement of Cash Flows (Euro/000)	Note	December 31, 2017	December 31, 2016 restated[(a)]
Income before taxes		**1,256,490**	**1,316,307**
Stock option notional value		790	9,577
Depreciation and amortization	11/12	540,420	512,842
Write-down of property, plant and equipment and intangible assets	11/12	26,375	23,037
Financial expenses	28	107,746	81,528
Other non-cash items[(b)]		(1,086)	(42,064)
Gains from the disposal of assets	28	(48,675)	-
Changes in accounts receivable		(80,379)	(28,812)
Changes in inventories		24,316	(7,236)
Changes in accounts payable		31,879	(28,776)
Changes in other assets/liabilities/provisions for risks/employee benefits		166,247	29,984
Total adjustments		**767,632**	**550,081**
Cash provided by operating activities		**2,024,122**	**1,866,387**
Interest expense		(100,948)	(79,720)
Tax expenses		(319,934)	(475,398)
Net cash provided by operating activities		**1,603,240**	**1,311,269**
Of which to related parties	*30*	*(45,214)*	*(14,820)*
Purchase of property, plant and equipment	11	(601,770)	(546,214)
Disposal of property plant and equipment	11	100,000	19,258
(Purchase)/sale of businesses – net of cash acquired[(c)]	4	(136,302)	(127,516)
Changes in equity investments	13	1,689	2,588
Purchase of intangible assets	12	(63,821)	(111,827)
Cash used in investing activities		**(700,204)**	**(763,711)**
Of which to related parties	*30*	*(139,681)*	*(6,329)*

(a) The balance of other non-cash items as of December 31, 2016 was retrospectively restated by Euro 2.4 million to reflect the effects described in Note 4 – Business Combinations, to which reference should be made for further details

(b) Other non-cash items in 2016 included the measurement at its fair value of the previous interests in Salmoiraghi & Viganò SpA following acquisition of the remaining majority stake

(c) In 2017, the purchase of business net of cash acquired relates to the purchase of (i) Óticas Caros for approximately Euro 98 million; (ii) Exciton for approximately Euro 11 million; (iii) Buyback of franchised stores for approximately Euro 8 million; (iv) adjustment of the price paid for the purchase of 63.2% of Salmoiraghi & Viganò for approximately Euro 4 million. For additional details please refer to note 4 – Business Combinations.

Consolidated Statement of Cash Flows (Euro/000)	Note	December 31, 2017	December 31, 2016 restated[a]
Long-term debt			
- Contracted	22	500,000	901
- Repaid	22	(469,302)	(12,696)
Short-term debt			
- Contracted		-	92,439
- Repaid		(136,716)	-
Exercise of stock options	35	17,518	10,121
Purchase of non-controlling interests[b]		-	(13,456)
(Purchase)/Sale of treasury shares		-	(219,748)
Dividends paid	36	(442,193)	(429,985)
Cash provided by (used in) financing activities		**(530,694)**	**(572,415)**
Increase/(decrease) in cash and cash equivalents		**372,342**	**(24,857)**
Cash and cash equivalents, beginning of the period		866,864	864,852
Effect of exchange rate changes on cash and cash equivalents[c]		(79,886)	26,869
Cash and cash equivalents, end of the period		**1.159.320**	**866.864**

(a) The balance of other non-cash items as of December 31, 2016 was retrospectively restated by Euro 2.4 million to reflect the effects described in Note 4 – Business Combinations, to which reference should be made for further details

(b) Purchase of non-controlling interests in 2016 relates to the acquisition of the portion of Sunglass Hut de Mexico from Opticas Devlyn

(c) The effect of exchange rate changes on cash and cash equivalents related to financing activities is equal to Euro 62.3 million as of December 31, 2017 and Euro 27.2 million as of December 31, 2016

***

Milan, February 26, 2018
Luxottica Group S.p.A.

On behalf of the Board of Directors

Francesco Milleri
(Deputy Chairman & Chief Executive Officer)

3.6 Notes to the Consolidated Financial Statements as of December 31, 2017

General information

Luxottica Group S.p.A. (hereinafter the ''Company'' or, together with its consolidated subsidiaries, the ''Group'') is a company listed on the Borsa Italiana with its registered office located in Milan, Italy, Piazzale Luigi Cadorna 3, organized under the laws of the Republic of Italy.

The Group operates in two segments: (i) manufacturing and wholesale distribution (hereinafter also "Manufacturing & Wholesale" or "Wholesale") and (ii) retail distribution (hereinafter also "Retail"). In manufacturing and wholesale, the Group is a leader in the design, production and distribution of high-end luxury and sports eyewear, with a strong and well-balanced brand portfolio both of its own and in licensed.

The Company is controlled by Delfin S.à r.l., a company subject to Luxembourg law, through an equity investment of approximately 62.44%. The Executive Chairman of the Board of Directors Leonardo Del Vecchio is also the controlling shareholder of Delfin S.à r.l.

These consolidated financial statements were authorized to be issued by the Board of Directors of Luxottica Group S.p.A. at its meeting on February 26, 2018 and were audited by the Company's independent registered public accounting firm.

Basis of preparation

Pursuant to the Legislative Decree no. 38 issued on February 28, 2005, the consolidated financial statements as of December 31, 2017 have been prepared in accordance with the International Financial Reporting Standards (hereinafter also "IFRS") as issued by the International Accounting Standards Board ("IASB") and endorsed by the European Union as of the date of approval of these consolidated financial statements by the Board of Directors of the Company.

IFRS are all the international accounting standards ("IAS") and all the interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), previously named the Standing Interpretations Committee ("SIC").

The consolidated financial statements as of December 31, 2017 have been prepared in accordance with: (i) CONSOB resolution no. 15519 issued on July 27, 2006, (ii) the CONSOB notice no. 6064293 issued on July 28, 2006; (iii) CONSOB notice no. 0003907 issued on January 19, 2015, (iv) CONSOB notice no. 0007780/16 issued on January 28, 2016; (v) paper 2 and 4 issued by CONSOB, Banca d'Italia and ISVAP in 2009 and 2010; and (vi) paper 5 issued by CONSOB, Banca d'Italia and ISVAP in 2012.

The principles and standards utilized in preparing these consolidated financial statements have been consistently applied through all periods presented, with the exception of the new standards and interpretations that are effective for reporting periods beginning on January 1, 2017 as disclosed in Note 2.

These consolidated financial statements are composed of a consolidated statement of income, a consolidated statement of comprehensive income, a consolidated statement of financial position, a consolidated statement of cash flows, a consolidated statement of changes in equity and related notes to the Consolidated Financial Statements.

The Group's reporting currency for the presentation of the consolidated financial statements is the Euro. Unless otherwise specified, the figures in the statements and within these Notes to the Consolidated Financial Statements are expressed in thousands of Euro.

The Group presents its consolidated statement of income using the function of expense method. The Group presents current and non-current assets and current and non-current liabilities as separate classifications in its consolidated statements of financial position. This presentation of the consolidated statement of income and of the consolidated statement of financial position is believed to provide the most relevant information. The consolidated statement of cash flows was prepared and presented utilizing the indirect method.

The financial statements were prepared using the historical cost convention, with the exception of certain financial assets and liabilities for which measurement at fair value is required.

The consolidated financial statements have been prepared on a going concern basis. Management believes that there are no financial or other indicators presenting material uncertainties that may cast significant doubt upon the Group's ability to meet its obligations in the foreseeable future and in particular in the next 12 months.

1. Consolidation principles, composition of the group and significant accounting policies

CONSOLIDATION PRINCIPLES

Subsidiaries

Subsidiaries are any entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Power is generally presumed with an ownership of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations.

The consideration transferred for the acquisition of a subsidiary is measured as the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree at either fair value or the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity investment in the acquiree over the fair value of the Group's share of the identifiable assets acquired and liabilities and contingent liabilities

assumed is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the Group makes a new assessment of the identifiable assets and liabilities and contingent liabilities assumed and any residual difference is recognized directly in the consolidated statement of income.

In business combinations achieved in stages, the Group remeasures its previously held equity investment in the acquiree at its acquisition date fair value and recognizes the resulting gain or loss in the consolidated statement of income as Other net income/(expenses).

Intercompany transactions, balances and unrealized gains and losses on transactions between Group companies are derecognized.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The individual financial statements used in the preparation of the consolidated financial statements are prepared and approved by the administrative bodies of the individual companies.

Transactions with equity owners

Transactions such as contributions from equity owners are recorded in equity.

Transactions with non-controlling interests, related to the selling or acquisition in subsidiaries, are treated as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognized in the consolidated statement of income.

Associates

Associates are any entities over which the Group has significant influence, generally with ownership of between 20% and 50% of the voting rights. Equity investments in associates are accounted for using the equity method of accounting and are initially recognized at cost.

The Group's share of its associates' post-acquisition profits or losses is recognized in the consolidated statement of income, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income.

The cumulative post-acquisition movements are adjusted against the carrying amount of the equity investment. When the Group's share of losses in an associate equals or exceeds its equity investment in the associate, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Group and its associates are derecognized to the extent of the Group's equity investment in the associates. Unrealized losses are also derecognized unless the transaction provides evidence of an impairment of the asset transferred.

Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Other companies

Equity investments in entities in which the Group does not have either control or significant influence, generally with ownership of less than 20%, are originally recorded at cost and subsequently measured at fair value. Changes in fair value are recorded in the consolidated statement of comprehensive income.

Translation of the financial statements of foreign companies

The Group records transactions denominated in foreign currency in accordance with IAS 21—The Effect of Changes in Foreign Exchange Rates.

The results and financial position of all the Group entities (none of which have the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each consolidated statement of financial position presented are translated at the closing rate at the date of that consolidated statement of financial position;
- income and expenses for each consolidated statement of income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognized in equity.

Goodwill and fair value adjustments arising from the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

The exchange rates used in translating the results of foreign operations are reported in the Exchange Rates Attachment to the Notes to the Consolidated Financial Statements.

COMPOSITION OF THE GROUP

Please refer to Note 4 "Business Combinations," and Note 12 "Goodwill and Intangible Assets" for a description of the primary changes to the composition of the Group.

SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalent

Cash comprises cash on hand and demand deposits, carried at nominal amount, equal to fair value. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Investments qualify as cash equivalents only when they have a maturity of three months or less from the date of the acquisition.

Accounts receivable and other receivables

Accounts receivable and other receivables are carried at amortized cost. Losses on receivables are measured as the difference between the receivables' carrying amount and the present value of estimated future cash flows discounted at the receivables' original effective interest rate computed at the time of initial recognition.

The carrying amount of receivables is reduced through a bad debt provision. The amount of the losses on accounts is recorded in the consolidated statement of income within "Selling expenses", net of income from written-off accounts.

Assets held for sale

Assets held for sale are carried at the lower of historical cost and fair value less costs to sell the assets.

Inventories

Inventories are stated at the lower of the cost, determined by using the average annual cost method by product line, which approximates the weighted-average cost, and the net realizable value. The net realizable value represents the estimated sales price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Provisions for write-downs for raw materials, work in process and finished goods which are considered obsolete or slow moving are computed taking into account their expected future utilization and their net realizable value. The Group also considers other reasons that the cost of inventories may not be recoverable such as damage, obsolescence, declines in selling price. The cost of inventories may not be recoverable if the estimated costs of completion or the estimated costs incurred to make the sale would be greater than the estimated cost.

In addition, when the Group performs its assessment of the net realizable value at the end of each reporting period, it considers whether the circumstances that previously caused inventories to be written down no longer exist or whether there is clear evidence of an increase in net realizable value because of changed economic circumstances and, if necessary, reverses the amount of the write-down so that the new carrying amount is the lower of the cost and the revised net realizable value.

Property, plant and equipment

Property, plant and equipment are measured at historical cost. Historical cost includes expenditures that are directly attributable to the acquisition of the items. After initial recognition, property, plant and equipment is carried at cost less accumulated depreciation, calculated from the date the asset is available for use, and any accumulated impairment loss. The depreciable amount of the items of property, plant and equipment, measured as the difference between their historical cost and their residual value, is allocated on a straight-line basis over their estimated useful lives as follows:

Category	Useful life
Buildings	From 10 to 40 years
Machinery and equipment	From 3 to 20 years
Aircraft	20 years
Other equipment	From 2 to 10 years
Leasehold Improvements	The lower of useful life and the residual duration of the lease contract

Land is not subject to depreciation. Depreciation ceases when property, plant and equipment is classified as held for sale, in compliance with IFRS 5—Non-Current Assets Held for Sale and Discontinued Operations.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. Repair and maintenance costs are charged to the consolidated statement of income during the financial period in which they are incurred.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying item of property, plant and equipment are capitalized as part of the cost of that asset.

The net carrying amount of the qualifying items of property, plant and equipment is assessed, in the case of impairment indicators, at each reporting date. The Group would record a write-down of the net carrying amount if it is higher than the recoverable amount.

Assets' useful lives are assessed at each reporting date.

Upon disposal or when no future economic benefits are expected from the use of an item of property, plant and equipment, its carrying amount is derecognized. The gain or loss arising from derecognition is included in the consolidated statement of income.

Finance and operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of income on a straight-line basis over the lease term.

Leases where lessees bear substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each finance lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included, split by current and non-current liabilities, in the consolidated statement of financial position. The interest element of the finance cost is charged to the consolidated statement of income over the lease period.

Fixed assets acquired under finance leases are depreciated over the asset's useful life. The assets acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

Intangible assets

a. *Goodwill*

   Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is tested at least annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity or a cash-generating unit include the carrying amount of goodwill relating to the entity sold.

b. *Trademarks and other intangible assets*

Separately acquired trademarks and licenses are shown at historical cost. Trademarks, licenses and other intangible assets, including distribution networks and franchise agreements acquired in a business combination are recognized at fair value at the acquisition date. Trademarks and licenses have a finite useful life and are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is calculated using the straight-line method to allocate the cost of trademarks and licenses over their estimated useful lives.

Contractual customer relationships acquired in a business combination are recognized at fair value at the acquisition date. The contractual customer relations have a finite useful life and are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized over the expected life of the customer relationship.

All intangible assets are subject to impairment tests, as required by IAS 36—Impairment of Assets, if there are indications that the assets may be impaired, with the exception of intangible assets in progress that are tested for impairment at least once a year.

Trademarks are amortized on a straight-line basis over periods ranging between 15 and 25 years. Distributor network, contractual customer relationships and franchise agreements are amortized on a straight-line basis or on an accelerated basis (projecting diminishing cash flows) over periods ranging between 20 and 23 years. Other intangible assets are amortized on a straight-line basis over periods ranging between 3 and 7 years.

Impairment of assets

Goodwill is not subject to amortization, but is tested at least annually for impairment. All other assets within the scope of IAS 36 are tested for impairment whenever there are indicators that those assets may be impaired. If such indicators exist, the assets' net carrying amount is compared to their estimated recoverable amount. An impairment loss is recognized if the carrying amount is higher than the recoverable amount.

Property, plant and equipment and intangible assets with a definite useful life are subject to amortization and depreciation and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purposes of assessing impairment, property, plant and equipment and intangible assets are grouped at the lowest levels for which there are separately identifiable cash flows (Cash-Generating Unit or CGU). Intangible assets with a definite useful life are reviewed at each reporting date to assess whether there is an indication that an impairment loss recognized in prior periods may no longer exist or has decreased. If such an indication exists, the loss is reversed and the carrying amount of the asset is increased to its recoverable amount, which may not exceed the carrying amount that would have been determined if no impairment loss had been recorded.

The reversal of an impairment loss is recorded in the consolidated statement of income.

Financial assets

The financial assets of the Group fall into the following categories:

a. *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorized as held for trading unless they are designated as hedges.

Assets in this category are classified as current or non-current assets based on their maturity and are initially recognized at fair value. Transaction costs are immediately recognized in the consolidated statement of income.

After initial recognition, financial assets at fair value through profit or loss are measured at their fair value each reporting period. Gains and losses deriving from changes in fair value are recorded in the consolidated statement of income in the period in which they occur. Dividend income from financial assets at fair value through profit or loss is recognized in the consolidated statement of income as part of other income when the Group's right to receive payments is established.

b. *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months or which are not expected to be repaid within 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables are comprised of trade and other receivables. Loans and receivables are initially measured at their fair value plus transaction costs. After initial recognition, loans and receivables are measured at amortized cost, using the effective interest method.

c. *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period. Available-for-sale financial assets are initially measured at their fair value plus transaction costs. After initial recognition, available-for-sale financial assets are carried at fair value. Any changes in the fair value are recognized in other comprehensive income. They are recognized in the consolidated statement of income when the financial asset is actually sold.

Dividend income from available-for-sale financial assets is recognized in the consolidated statement of income as part of other income when the Group's right to receive payments is established.

Purchases or sales of financial assets are recognized using the settlement date.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

The fair value of listed financial instruments is based on the quoted price on an active market. If the market for a financial asset is not active (or if it refers to non-listed securities), the Group defines the fair value by utilizing valuation techniques. These techniques include using recent arms' length market transactions between knowledgeable willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flows analysis, and pricing mod-

els based on observable market inputs, which are consistent with the instruments under valuation.

The valuation techniques are primarily based on observable market data as opposed to internal sources of information.

At each reporting date, the Group assesses whether there is objective evidence that a financial asset is impaired. In the case of equity investments classified as financial assets held for sale, a prolonged or significant decline in the fair value of the equity investment below its cost is also considered an indicator that the asset is impaired. If any such evidence exists for an available-for-sale financial asset, the cumulative loss, measured as the difference between the cost of acquisition and the current fair value, net any impairment loss previously recognized in the consolidated statement of income, is removed from equity and recognized in the consolidated statement of income.

Any impairment loss recognized on an equity investment classified as an available-for-sale financial asset is not reversed.

Derivative financial instruments

Derivative financial instruments are accounted for in accordance with IAS 39—Financial Instruments: Recognition and Measurement.

At the date the derivative contract is entered into, derivative instruments are accounted for at their fair value and, if they are not designated as hedging instruments, any changes in fair value after initial recognition are recognized as components of net income for the year. If, on the other hand, derivative instruments meet the requirements for being classified as hedging instruments, any subsequent changes in fair value are recognized according to the following criteria, as illustrated below.

The Group designates certain derivatives as instruments for hedging specific risks associated with highly probable transactions (hedge accounting).

For each derivative financial instrument designated as a hedging instrument, the Group documents the relationship between the hedging instrument and the hedged item, as well as the risk management objectives, the hedging strategy and the methodology to measure the hedging effectiveness. The hedging effectiveness of the instruments is assessed both at the hedge inception date and on an ongoing basis. A hedging instrument is considered highly effective when both at the inception date and during the life of the instrument, any changes in fair value of the derivative instrument offset the changes in fair value or cash flows attributable to the hedged items.

If the derivative instruments are eligible for hedge accounting, the following accounting criteria are applicable:

- *Fair value hedge* — when a derivative financial instrument is designated as a hedge of the exposure to changes in fair value of a recognized asset or liability ("hedged item"), both the changes in fair value of the derivative instrument as well as changes in the hedged item are recorded in the consolidated statement of income. The gain or loss related to the ineffective portion of the derivative instrument is recognized as financial income/expense.

- *Cash flow hedge* — when a derivative financial instrument is designated as a hedge of the exposure to variability in future cash flows of recognized assets or liabilities or highly probable forecasted transactions ("cash flow hedge"), the effective portion of any gain or loss on the derivative financial instrument is recognized directly in other comprehensive income ("OCI"). The cumulative gain or loss is removed from OCI and recognized in the consolidated statement of income at the same time as the economic effect arising from the hedged item affects income.

The gain or loss related to the ineffective portion of the derivative instrument is recognized in the consolidated statement of income. When a forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the consolidated statement of income. When a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in OCI at that time remains in equity, and is recognized when the economic effect arising from the hedged item affects income. The Group utilizes derivative financial instruments, primarily Interest Rate Swap and Currency Swap contracts, as part of its risk management policy in order to reduce its exposure to interest rate and exchange rate fluctuations. Despite the fact that certain currency swap contracts are used as an economic hedge of the exchange rate risk, these instruments do not fully meet the criteria for hedge accounting pursuant to IAS 39 and are marked to market at the end of each reporting period, with changes in fair value recognized in the consolidated statement of income.

Accounts payable and other payables

Accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less from the reporting date. If not, they are presented as non-current liabilities.

Accounts payable are initially recognized at fair value and subsequently measured at amortized cost

Borrowings from banks and other financial institutions

Borrowings from banks and other financial institutions are initially recorded at fair value, less directly attributable transaction costs, and subsequently measured at their amortized cost by applying the effective interest method. If there is a change in expected cash flows, the carrying amount of the liability is recalculated by computing the present value of estimated future cash flows at the financial instrument's original effective interest rate. Borrowings from banks and other financial institutions are classified among current liabilities, unless the Group has an unconditional right to defer their payment for at least 12 months after the reporting date. Cash and cash equivalents are offset when the Group has a legal right to offset the recognized amounts and intends to do so.

Borrowings from banks and other financial institutions are removed from the statement of financial position when they are extinguished, i.e. when the obligation specified in the contract is discharged, canceled or expires.

Current and deferred taxes

Tax expenses for the period comprise current and deferred tax.

Tax expenses are recognized in the consolidated statement of income, except to the extent that they relate to items recognized in OCI or directly in equity. In this case, taxes are also recognized in OCI or directly in equity, respectively.

Current taxes are calculated on the basis of the tax laws enacted or substantially enacted at the reporting date in the countries where the Group operates and generates taxable income. Current tax receivables and payables are measured at the amount expected to be recovered or paid to the tax authorities.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on

the basis of amounts expected to be paid to the tax authorities. Interest and penalties associated with these positions are included in "income taxes" within the consolidated statement of income.

Deferred taxes are recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill. Deferred tax liabilities are not accounted for if they arise from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred taxes are provided on temporary differences arising on equity investments in subsidiaries and associates, except for deferred taxes where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

No provision was made for deferred taxes on tax-suspended reserves subject to taxation in the event of distribution and/or use, where distribution or use is not envisioned.

Deferred taxes are determined using tax rates (and laws) that have been enacted or substantially enacted as of the reporting date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Employee benefits

The Group has both defined benefit and defined contribution plans. A defined benefit plan is a pension plan that is not a defined contribution plan.

Typically, defined benefit plans define an amount of pension benefit that an employee will receive upon retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognized past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the "projected unit credit method". The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension obligation. Actuarial gains and losses due to changes in actuarial assumptions or to changes in the plan's conditions are recognized as incurred in other comprehensive income. Prior period's service costs are immediately recognized in the consolidated statement of income.

The Group also has long-term incentive plans (LTI) in place with its employees, which, depending on their characteristics, are included in the category of other long-term benefits.

Defined benefit incentive plans typically define the amount of the incentive that employees will receive when the plan expires. The present value of the liability recognized in the statement of financial position for defined benefit incentive plans and the related cost are measured by applying actuarial and financial valuation techniques and allocating the cost over the duration of the plan.

The cost charged to the consolidated statement of income is determined by applying actuarial and financial assumptions. The liability recognized in the statement of financial position in respect of defined benefit incentive plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognized past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension obligation. Actuarial gains and losses due to changes in actuarial assumptions or to changes in the plan's conditions are recognized as incurred in other comprehensive income. Prior period's service costs are immediately recognized in the consolidated statement of income.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefits expenses when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

Provisions for risks

Provisions for risks are recognized when:

- the Group has a present obligation, legal or constructive, as a result of a past event;
- it is probable that the outflow of resources will be required; and
- the amount of the obligation can be reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as a financial expense. Risks that are possible are disclosed in the notes. Risks that are remote are not disclosed or provided for.

Restructuring costs are recorded when the general criteria for recording a provision are met. The Group has a constructive obligation when (i) a detailed formal plan identifies at least the business or part of the business impacted, the location, function and number of employees involved in the restructuring, a detailed cost estimate as well as appropriate timing, and (ii) a valid expectation that the restructuring that will be carried out has been raised by the Group with those parties affected by the restructuring.

Assignment of stock options to employees

The Company operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for stock options or stock grants (units).

The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the options or units granted.

The total expense is recognized over the vesting period, which is the period over which all of the specified service and performance conditions are to be satisfied. At the end of each reporting period, the Company revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognizes the impact of the revision to original estimates, if any, in the consolidated statement of income, with a corresponding adjustment to equity.

Recognition of revenue

Revenue is recognized in accordance with IAS 18—Revenue. Revenue includes: (i) sales of goods (both wholesale and retail); (ii) rendering of services such as insurance and administrative fees associated with the Group's managed vision care business, eye exams and related professional services; and (iii) sales of goods to franchisees along with other revenue from franchisees such as royalties based on sales and initial franchise fee revenue.

- Revenue from the sale of goods is recognized when all of the following conditions have been satisfied:
- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership of the goods;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue from rendering of services is recognized by reference to the stage of completion of the transaction involving the rendering of services at the reporting date and when the outcome of the transaction can be estimated reliably. In particular, when all of the following conditions have been satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group;
- the stage of completion of the transaction at the end of the reporting period can be measured reliably; and
- the costs incurred for the transaction and the costs to compete the transaction can be measured reliably.

Wholesale division revenue is recognized at the time goods are delivered to the customer. The Group records an accrual for the estimated amounts to be returned against revenue. This estimate is based on the Group's right of return policies and practices along with historical data and sales trends. There are no other post-shipment obligations than the product warranty, if required by the law. Revenue

received for the shipping and handling of goods is included in sales and the costs associated with shipments to customers are included in operating expenses.

Retail division revenue is recognized upon receipt of the goods by the customer at the retail location. In some countries, the Group allows retail customers to return goods for a period of time and, as such, the Group records an accrual for the estimated amounts to be returned against revenue. This accrual is based on the historical return rate as a percentage of net sales and the timing of the returns from the original transaction date, and is periodically reassessed. There are no other post-shipment obligations than the product warranty, if required by the law. Additionally, the retail division enters into discount programs and similar relationships with third parties that have terms of twelve or more months. Customers who present a valid membership card typically receive a fixed percentage discount off the retail prices for a specified range of products and/or services. Revenue under these arrangements is recognized upon receipt of the products or services by the customer at the retail location. Advance payments and deposits from customers are not recorded as revenue until the product is delivered. The retail division also includes managed vision care revenue consisting of both fixed fee and fee for service managed vision care plans. For fixed fee plans, the plan sponsor pays the Company a monthly premium for each enrolled subscriber. Premium revenue is recognized as earned during the benefit coverage period. Premiums are generally billed in the month of benefit coverage. Any unearned premium revenue is deferred and recorded within other current liabilities on the consolidated statement of financial position. For fee for service plans, the plan sponsor pays the Group a fee to process its claims. Revenue is recognized as the services are rendered. For these programs, the plan sponsor is responsible for funding the cost of claims. Accruals are established for amounts due under these relationships estimated to be uncollectible.

Franchise revenue based on sales by unconsolidated franchisees (such as royalties) is accrued and recognized as earned. Initial franchise fees are recorded as revenue when all material services or conditions relating to the sale of the franchise have been substantially performed or satisfied by the Group and when the related store begins operations. Accruals are established for amounts due under these relationships when they are determined to be uncollectible.

The Group licenses to third parties the rights to certain intellectual property and other proprietary information and recognizes royalty revenue when earned.

Free frames given to customers as part of a promotional offer are recorded in cost of sales at the time they are delivered to the customer. Trade discounts and coupons tendered by customers are recorded as a reduction of revenue at the date of sale.

Use of accounting estimates

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and assumptions which influence the value of assets and liabilities as well as revenue and costs reported in the consolidated statement of financial position and in the consolidated statement of income, respectively or the disclosures included in the notes to the consolidated financial statements in relation to potential assets and liabilities existing as of the date the consolidated financial statements were authorized for issue.

Estimates are based on historical experience and other factors. The resulting accounting estimates could differ from the related actual results. Estimates are periodically reviewed and the effects of each change are reflected in the consolidated statement of income in the period in which the change occurs.

The most significant accounting principles which require a higher degree of judgment from management are illustrated below.

a. *Valuation of receivables*. Receivables from customers are adjusted by the related bad debt provision in order to take into account their recoverable amount. The determination of the amount of write-downs requires judgment from management based on available documentation and information, as well as the solvency of the customer, and based on past experience and historical trends;

b. *Valuation of inventories*. Inventories which are obsolete are periodically evaluated and written down in the case that their net realizable value is lower than their carrying amount. Write-downs are calculated on the basis of management assumptions and estimates which are derived from experience and historical results;

c. *Valuation of prepaid taxes.* The valuation of prepaid taxes is based on forecasted results which depend upon factors that could vary over time and could have significant effects on the valuation of deferred tax assets;

d. *Effects of the US tax reform*. On December 22, 2017, the US tax reform (the "Reform") that introduced important changes in the taxation of US-resident companies was approved. The calculation of deferred tax assets and liabilities was revised in order to take into account the effects deriving from the application of the Reform on the basis of a process of making estimates regarding the implementation of the new provisions introduced; this process, among other things, led to the adjustment of the value of the assets and liabilities relating to the deferred taxation of the US subsidiaries in the light of the change in tax rates that will come into force when these deferred tax assets and liabilities will be reversed;

e. *Income taxes*. The Group is subject to different tax jurisdictions. The determination of tax liabilities for the Group requires the use of assumptions with respect to transactions whose fiscal consequences are not yet certain at the end of the reporting period. The Group recognizes liabilities which could result from future inspections by the tax authorities on the basis of an estimate of the amounts expected to be paid. If the result of the above-mentioned inspections differs from that estimated by Group management, there could be significant effects on both current and deferred taxes;

f. *Effects of the Patent Box tax benefit on the calculation of current taxes.* The calculation of taxes for the year includes the estimated tax benefit deriving from the agreement signed with the Italian Revenue Agency for the Patent Box. The benefit recognized in 2017 is related to the three-year period from 2015 to 2017 and is determined through the identification, collection and processing of financial data directly attributable to certain brands that are part of the Company's portfolio;

g. *Valuation of goodwill*. Goodwill is subject to an annual impairment test, which requires management's judgment based on information available within the Group and the market, as well as on past experience. These estimates are mainly related to: (i) calculation methodology and the model to be employed for the calculation of the recoverable amount; and (ii) calculation of the discount rate (Weighted Average Cost of Capital or "WACC") and growth rate ("g-rate").

h. *Valuation of intangible assets with a definite useful life (trademarks and other intangibles)*. The useful lives and the amortization method of these intangible assets are assessed for appropriateness on an annual basis;

i. *Pension plans*. The Group participates in pension plans in various countries. The present value of pension liabilities is determined using actuarial techniques and certain assumptions. These assumptions include the discount rate, the expected return on plan assets, the rates of future

compensation increases and rates relative to mortality and resignations. Any change in the above-mentioned assumptions could result in significant effects on the employee benefit liabilities; and

j. *Valuation of provision for risks.* The determination of the amount of the accruals requires judgment by management based on available documentation and information on potential liabilities.

Earnings per share

The Company determines basic earnings per share and diluted earnings per share in accordance with IAS 33—Earnings per Share. Basic earnings per share are calculated by dividing profit or loss attributable to ordinary equity holders of the parent entity by the weighted average number of shares outstanding during the period excluding treasury shares. Diluted earnings per share are calculated by dividing profit or loss attributable to ordinary equity holders of the parent entity by the weighted average number of shares outstanding during the period, increased assuming that convertibles (options) are converted and excluding treasury shares.

Treasury Shares

Treasury shares are recorded as a reduction of stockholders' equity. The original cost of treasury shares, as well as gains or losses on the purchase, sale or cancellation of treasury shares, are recorded in the consolidated statement of changes in equity.

2. New accounting standards

New and amended accounting standards and interpretations, if not early adopted, must be adopted in the financial statements issued after the first application.

NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS THAT ARE EFFECTIVE FOR REPORTING PERIODS BEGINNING ON JANUARY 1, 2017

There are no new standards, amendments to existing standards or interpretations effective for periods beginning on January 1, 2017 such as to require changes to accounting policies or retrospective adjustments following first application.

In any case, for the sake of completeness of information, the following amendments to current accounting standards valid for the 2017 financial year should be noted:

- *Amendments to IAS 12* — Recognition of Deferred Tax Assets on Unrealized Losses. The amendments provide clarifications on the recognition of deferred tax assets on debt instruments measured at fair value.

- *Amendments to IAS 7* — Disclosure Initiatives. The amendments will require entities to provide disclosures that enable investors to evaluate changes in liabilities arising from financing activities.

- *Annual Improvements to IFRSs 2014–2016 Cycle* — The provisions amended IFRS 12 and clarify that the disclosure requirements in the standard also apply to investments in entities that are classified as held for sale.

NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS THAT ARE EFFECTIVE FOR REPORTING PERIODS BEGINNING AFTER JANUARY 1, 2017 AND NOT YET ADOPTED BY THE GROUP.

IFRS 15 — Revenue from Contracts with Customers

IFRS 15, issued in May 2014 and amended in April 2016, introduces a new five-step model to be applied to all contracts with customers. IFRS 15 envisiones the recognition of revenue for an amount that reflects the consideration to which the entity expects to be entitled in exchange for the transfer of goods or services to a customer. The new standard supersedes all current requirements envisioned in IFRSs on revenue recognition. The standard is mandatory for financial years beginning on or after January 1, 2018 and the Group intends to adopt, for the purposes of transition, retrospective application that will entail the restatement, in 2018, of comparative balances for 2017. Although permitted by the standard, the Group decided not to opt for the early application of IFRS 15.

In 2017, the Group substantially completed the assessment of the effects deriving from the application of IFRS 15, which led to the identification of the following areas of interest:

- Recognition of advertising fees paid by franchisees – the franchise agreements entered into by the Group, with a special reference to the Pearle and OPSM chains, envision the charging of a fee for the management and carrying-out of advertising and marketing initiatives to the franchisees. Following the analysis carried out for the implementation of IFRS 15, this service was considered to be a separate performance obligation over which the Group exercises control before transferring it to the customer; therefore, the Group operates as principal in these transactions. With the adoption of IFRS 15, the Group will reclassify as revenue the fees deriving from this service, for a total amount ranging approximately from Euro 25 to 30 million, which are classified as a reduction in advertising costs according to current accounting policies. This reclassification will not entail any changes in the Group's stockholders' equity and income from operations.

- Recognition of certain costs incurred for the acquisition and performance of contracts – as part of the provision of administrative services related to the vision care business, the Group bears costs for the acquisition and performance of long-term contracts, typically four years. These costs, which can be specifically referred to new individually identifiable contracts, generate resources used to comply with the contract and will be recovered by means of revenue deriving from the contracts. For this reason, these costs, mainly commissions, are capitalized in accordance with IFRS 15 and will be recognized as a contractual asset when first applying the standard. The estimated impact on the Group's stockholders' equity as of the retrospective application date, January 1, 2017, is approximately Euro 10 million; before taxes, the expected positive impact on the Group's income from operations and net income is immaterial.

- Presentation of contractual assets and liabilities in the financial statements - IFRS 15 requires a separate presentation of contractual assets and liabilities in the financial statements. This will result in some reclassifications mainly in relation to the returns provision that is currently included in another financial statement item (short-term provisions for risks).

The above quantitative disclosure could be updated, albeit not significantly, after completion of the above-mentioned measurement.

IFRS 9 — Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9—Financial instruments that replaces IAS 39—Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects relating to the project for the recognition of financial instruments: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for financial years beginning on or after January 1, 2018. Early application is permitted, but the Group has not made use of this option. With the exception of hedge accounting, the standard will be applied retrospectively, although the supply of comparative information is not mandatory. As regards hedge accounting, the standard generally applies prospectively, with some limited exceptions.

The Group will adopt the new standard as from the effective date and will not restate comparative information. During 2017, the Group carried out an analysis of the impacts of all the aspects covered by IFRS 9. This analysis was based on the information currently available and may be subject to changes as a result of further information that will become available to the Group in 2018. In principle, the Group does not expect any of the areas covered by IFRS 9 to have an impact on its statement of financial position and stockholders' equity.

With specific reference to hedge accounting, the new rules will more closely align the accounting of hedging instruments with the Group's risk management practices. However, the analyses carried out confirmed that the current coverage ratios will also qualify as such following the adoption of IFRS 9.

The new impairment model requires the recognition of provisions for impairment losses against expected losses on receivables rather than only losses on receivables incurred in accordance with IAS 39. It applies to financial assets classified at amortized cost, debt instruments measured at FVOCI, contractual assets under IFRS 15 Revenues from contracts with customers, lease receivables, loan commitments and some financial guarantee contracts. Based on the measurements carried out to date and the characteristics of the accounting policies currently in place, the Group does not expect any significant impact on the measurement of the bad debt provision of accounts receivable.

IFRS 16 — Leases

IFRS 16 was published in January 2016 and replaces IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC 15 Operating Leases—Incentives and SIC 27—Evaluating the Substance of Transactions in the Legal Form of a Lease. IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize assets and liabilities for all leases based on a single lessee accounting model similar to that used to recognize financial leases pursuant to IAS 17. The standard envisions two recognition exemptions for the lessee – leases where the underlying asset has a "low value" and short-term leases. Upon lease commencement, a lessee recognizes a lease liability for lease payments and a right-of-use asset for the duration of the contract. The lessees will have to recognize separately interest expenses on a lease liability and the amortization of a right-of-use asset.

The lessees will also have to remeasure the lease liability when certain events occur (e.g.: change in the lease term, change in future lease payments resulting from a change in an index or a rate used to determine those payments). The lessee will generally recognize the remeasurements of the lease liability as adjustments to the right-of-use asset.

IFRS 16 is effective for financial years beginning on or after January 1, 2019. The standard also allows the choice of whether to apply the new provisions with full retrospective effect or modified retrospective effect.

In 2018, the assessment of the types of lease contracts entered into by the Group will continue, with particular reference to store leases in the retail segment, an area subject to detailed analysis aimed at

quantifying the possible effects of IFRS 16 on the consolidated financial statements which, although not yet determined, we expect to be significant.

Clarifications to IFRS 15. The objective of the document is to clarify the guidance in IFRS 15 in respect of issues arising from the discussions of the Transition Resource Group for Revenue Recognition (TRG). The clarifications are applicable to periods beginning on or after January 1, 2018.

Amendments to IFRS 2 — Clarification and Measurement of Shared-based Payment Transaction. The amendments define the accounting treatments in relation to share-based payment transactions. The amendments are applicable to periods beginning on or after January 1, 2018 unless changed after the European Union endorsement, which has not yet occurred as of the reporting date.

Amendments to IFRS 4 — Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts. These amendments clarify the accounting treatment in relation to insurance contracts applying IFRS 9. The amendments are applicable to periods beginning on or after January 1, 2018.

Annual Improvements to IFRSs — 2014-2016 Cycle. The amendment will modify: (i) IFRS 1, eliminating short-term exemptions for first-time adopters; (ii) IAS 28 concerning the accounting of investments in associates and joint ventures. The amendments are applicable to periods beginning on or after January 1, 2018 unless changed after the European Union endorsement, which has not yet occurred as of the reporting date.

Transfer of Investment Property — Amendments to IAS 40—The amendments clarify that changes that lead to qualifying an asset that was not an investment property as such or vice versa should be made when, and only when, there is a change in use and are adequately supported.

IFRIC Interpretation 22 — Foreign Currency Transactions and Advance Consideration. These amendments clarify the accounting treatment in relation to profits or losses arising from foreign currency transactions. The standard is not applicable until January 1, 2018, unless changed after the European Union endorsement, which has not yet occurred as of the reporting date.

IFRIC 23 — Uncertainty over Income Tax Treatments. The new international accounting standard will provide guidance on how to account for uncertainties over determined income tax treatments. IFRC 23 is applicable to periods beginning on or after January 1, 2019, unless changed after the European Union endorsement, which has not yet occurred as of the reporting date.

IFRS 17 — Insurance contracts. The new international accounting standard for the accounting of insurance contracts will replace IFRS 4. IFRS 17 is applicable to periods beginning on or after January 1, 2021, unless changed after the European Union endorsement, which has not yet occurred as of the reporting date.

IAS 28 — "Long-term Interests in Associates and Joint Ventures". New international accounting standard for the accounting of financial transactions in associates and joint ventures. IAS 28 will be effective as from January 1, 2019.

Annual Improvements to IFRS Standards — 2015-2017 Cycle. The amendment will modify: (i) IFRS 3 and IFRS 11; (ii) IAS 12; (iii) IAS 23. The amendments are applicable to periods beginning on or after January 1, 2019 unless changed after the European Union endorsement, which has not yet occurred as of the reporting date.

3. Financial risks

The assets of the Group are exposed to different types of financial risk: market risk (which includes exchange rate risks, interest rate risk relative to fair value variability and cash flow uncertainty), credit risk and liquidity risk. The risk management strategy of the Group aims to stabilize the results of the Group by minimizing the potential effects due to volatility in financial markets. The Group uses derivative financial instruments to mitigate exchange rate and interest rate risks.

Risk management is centralized within the Treasury department which identifies, evaluates and implements financial risk hedging activities, in compliance with the Financial Risk Management Policy approved by the Board of Directors. The Policy defines the guidelines for any kind of risk, such as exchange rate risk, interest rate risk, credit risk and the utilization of derivative and non-derivative instruments. The Policy also specifies the management activities, the permitted instruments, the limits and proxies.

EXCHANGE RATE RISK

The Group operates internationally and is therefore exposed to exchange rate risk related to the various currencies with which the Group operates. The Group only manages transaction risk. The transaction exchange rate risk derives from commercial and financial transactions in currencies other than the functional currency of the Group, i.e., the Euro.

The primary exchange rate to which the Group is exposed is the Euro/USD exchange rate.

The exchange rate risk management policy defined by the Group's management states that transaction exchange rate risk must be hedged for a percentage between 50% and 100% by trading forward currency contracts or permitted option structures with third parties.

This exchange rate risk management policy is applied to all subsidiaries, including companies which have been recently acquired (12 months from acquisition).

If the Euro/USD exchange rate increases by 10% as compared to the 2017 and 2016 actual average exchange rates and all other variables remain constant, the impact on income before taxes would have been a decrease of Euro (91.1) million and Euro (104.0) million in 2017 and 2016, respectively. If the Euro/USD exchange rate decreases by 10% as compared to the actual 2017 and 2016 average exchange rates and all other variables remain constant, the impact on income before taxes would have been an increase of Euro 91.1 million and Euro 104.0 million in 2017 and 2016, respectively.

The Group does not engage in long-term hedging activities to mitigate translation risk.

Even if exchange rate derivative contracts are stipulated to hedge future commercial transactions as well as assets and liabilities previously recorded in the financial statements in foreign currency, these contracts, for accounting purposes, may not be accounted for as hedging instruments.

PRICE RISK

The Group is generally exposed to price risk associated with investments in bond securities which are classified as assets at fair value through profit or loss. As of December 31, 2017 and 2016, the Group investment portfolio was fully divested. As a result, there was no exposure to price risk on such dates.

CREDIT RISK

Credit risk exists in relation to accounts receivable, cash, financial instruments and deposits in banks and other financial institutions.

Credit risk related to commercial counterparties

The credit risk related to commercial counterparties is locally managed and monitored by a group credit control department for all entities included in the Wholesale distribution segment. Credit risk which originates within the retail segment is directly managed by the companies included in the Retail segment.

Losses on receivables are recorded in the financial statements if there are indicators that a specific risk exists or as soon as risks of potential insolvency arise, by determining an adequate accrual for doubtful accounts.

The bad debt provision, used for the Wholesale segment and in accordance with the credit policy of the Group, is determined by assigning a rating to customers according to the following categories:

- "GOOD" (active customers), for which no accrual for doubtful accounts is recorded for accounts receivable overdue for less than 90 days. Beyond 90 days overdue, a specific accrual is made in accordance with the customer's credit worthiness (customers "GOOD UNDER CONTROL"); and
- "RISK" (no longer active customers), for which the outstanding accounts receivable are fully provided. The following are examples of events that may fall into the definition of "RISK":

    a. Significant financial difficulties of the customers;
    b. A material contract violation, such as a general breach or default in paying interest or principal;
    c. The customer declares bankruptcy or is subject to other insolvency proceedings; and
    d. All cases in which there is documented proof certifying the non-recoverability of the receivables (i.e., the inability to trace the debtor, seizures).

Furthermore, the assessment of the losses incurred in previous years is taken into consideration in order to determine the balance of the bad debt provision.

The Group does not have significant concentrations of credit risk. In any case, there are proper procedures in place to ensure that the sales of products and services are made to reliable customers on the basis of their financial position as well as past experience. Credit limits are defined according to the thresholds approved by the Board of Directors and internal and external evaluations of the customer's reliability. The utilization of credit limits is regularly monitored through automated controls.

Credit risk related to the management of financial and cash resources

Credit risk related to the management of financial and cash resources is managed and monitored by the Group Treasury department through financial guidelines to ensure that all the Group subsidiaries maintain relations with primary bank counterparties. Credit limits with respect to the primary financial counterparties are based on evaluations and analyses that are implemented by the Group Treasury department.

Within the Group there are various shared guidelines governing the relations with bank counterparties, and all the companies of the Group comply with the "Financial Risk Policy" directives.

Usually, the bank counterparties are selected by the Group Treasury department and cash can be deposited, over a certain limit, only with counterparties with high credit ratings, as defined in the Financial Risk Policy.

Operations with derivatives are limited to counterparties with solid and proven experience in the trading and execution of derivatives and with high credit ratings, as defined in the Policy, in addition to being subordinate to the undersigning of an ISDA (International Swaps and Derivatives Association) Master Agreement. In particular, counterparty risk on derivatives is mitigated through the diversification of the counterparty banks with which the Group deals. In this way, the exposure with respect to each bank is never greater than 25% of the total notional amount of the derivatives portfolio of the Group.

During the course of the year, there were no situations in which credit limits were exceeded. Based on the information available to the Group, there were no potential losses deriving from the inability of the above-mentioned counterparties to meet their contractual obligations.

LIQUIDITY RISK

The management of the liquidity risk which originates from the normal operations of the Group involves the maintenance of an adequate level of cash and cash equivalents as well as financial resources through an adequate amount of credit lines.

With regards to the policies and actions that are used to mitigate liquidity risks, the Group takes adequate actions in order to meet its obligations. In particular, the Group:

- utilizes debt instruments or other credit lines in order to meet liquidity requirements;
- utilizes different sources of financing and, as of December 31, 2017, had unused credit lines of approximately Euro 897.3 million;
- is not subject to significant concentrations of liquidity risk, both from the perspective of financial assets as well as in terms of financing sources;
- utilizes different sources of bank financing, but also a liquidity reserve, in order to promptly meet any cash requirements;
- implements systems to concentrate and manage the cash liquidity (cash pooling) in order to more efficiently manage the Group financial flows, thereby avoiding the dispersal of cash and cash equivalents and minimizing financial charges; and
- monitors, through the Treasury department, forecasts on the utilization of liquidity reserves of the Group based on expected cash flows.

The following tables include a summary, by maturity date, of assets and liabilities as of December 31, 2017 and December 31, 2016. The reported balances are contractual and undiscounted figures. With regards to forward foreign currency contracts, the tables relating to assets report the flows relative to receivables only. These amounts will be counterbalanced by payables, as reported in the tables relating to liabilities.

(Euro/000)	Less than 1 year	From 1 to 3 years	From 3 to 5 years	Beyond 5 years
As of December 31, 2017				
Cash and cash equivalents	1,159,320	-	-	-
Exchange rate derivatives	5,260	-	-	-
Interest rate derivatives	487	-	-	-
Accounts receivable	943,778	-	-	-
Other current assets	97,746	-	-	-

(Euro/000)	Less than 1 year	From 1 to 3 years	From 3 to 5 years	Beyond 5 years
As of December 31, 2016				
Cash and cash equivalents	866,864	-	-	-
Exchange rate derivatives	6,428	-	-	-
Accounts receivable	932,340	-	-	-
Other current assets	162,412	-	-	-

(Euro/000)	Less than 1 year	From 1 to 3 years	From 3 to 5 years	Beyond 5 years
As of December 31, 2017				
Borrowings from banks and other financial institutions	163,931	708,548	537,695	514,547
Derivatives	3,408	-	-	-
Accounts payable	906,749	-	-	-
Other current liabilities	694,633	-	-	-

(Euro/000)	Less than 1 year	From 1 to 3 years	From 3 to 5 years	Beyond 5 years
As of December 31, 2016				
Borrowings from banks and other financial institutions[a]	185,410	821,528	508,388	543,918
Derivatives	2,856	-	-	-
Accounts payable	944,402	-	-	-
Other current liabilities	672,814	-	-	-

(a) Borrowings from banks and other financial institutions as of December 31, 2016 have been modified to include the effect of interest portion on future flows, in order to make them comparable with the figures as of December 31, 2017

INTEREST RATE RISK

The interest rate risk to which the Group is exposed primarily originates from long-term financial debt. Such debt accrues interest at both fixed and floating rates.

With regard to the risk arising from fixed-rate debt, the Group does not apply specific hedging policies since it does not deem the risk to be material.

Floating-rate debt exposes the Group to a risk from the volatility of the interest rates (cash flow risk). In relation to this risk, and for the purposes of the related hedging, the Group utilized derivate contracts, specifically Interest Rate Swap (IRS) agreements, which exchange the floating rate for a fixed rate, thereby reducing the risk from interest rate volatility.

On the basis of various scenarios, the Group calculates the impact of rate changes on the consolidated statement of income. For each scenario, the same interest rate change is utilized for all currencies. The various scenarios only include those liabilities at floating rates that are not hedged with fixed interest rate swaps.

On March 10, 2017, the Luxottica Group signed two term facility agreements with a value of Euro 250 million each. The final maturity of each term facility is on March 10, 2022. In execution of the agreements, on March 10, 2017, Euro 500 million was financed at the EURIBOR interest rate plus a spread of 0.70% and 0.62%. In relation to these loans, we entered into two interest rate swap transactions with an aggregate notional amount of Euro 500 million with Intesa Sanpaolo S.p.A. and Natixis S.A. – Milan Branch. The swaps exchanged the floating rate of EURIBOR for an average fixed rate of 0.1185% per annum.

As of December 31, 2017, there were no floating rate debts not hedged against interest rate risk. The impact on net income as of December 31, 2016, net of taxes of an increase of 100 basis points, in a situation with all other variables unchanged, would have been a maximum increase/decrease of Euro 1.6 million (Euro 1.1 million net of taxes).

For the purposes of fully disclosing information about financial risks, a reconciliation between classes of financial assets and liabilities and the types of financial assets and liabilities identified on the basis of IFRS 7 requirements is reported below (in thousands of Euro):

(Euro/000)	Financial assets at fair value through profit or loss	Loans and receivables	Investment held until maturity	Financial liabilities at fair value through profit or loss	Hedging derivatives	Total	Note[(a)]
As of December 31, 2017							
Cash and cash equivalents	-	1,159,320	-	-	-	1,159,320	6
Accounts receivable	-	943,778	-	-	-	943,778	7
Other current assets	5,260	92,486	-	-	-	97,746	9
Other non-current assets	-	63,019	-	-	487	63,506	14
Short-term borrowings from banks	-	77,486	-	-	-	77,486	16
Current portion of medium/ long-term debt	-	150,411	-	-	-	150,411	17
Accounts payable	-	906,749	-	-	-	906,749	18
Other current liabilities	-	691,224	-	3,408	-	694,632	21
Long-term financial debt	-	1,671,281	-	-	-	1,671,281	22
Other non-current liabilities	-	74,626	-	-	-	74,626	25

(a) The notes reported above refer to the paragraphs within these notes to the consolidated financial statements in which the financial assets and liabilities are further explained.

(Euro/000)	Financial assets at fair value through profit or loss	Loans and receivables	Investment held until maturity	Financial liabilities at fair value through profit or loss	Hedging derivatives	Total	Note[(a)]
As of December 31, 2016							
Cash and cash equivalents	-	866,864	-	-	-	866,864	6
Accounts receivable	-	932,340	-	-	-	932,340	7
Other current assets	6,428	115,228	-	-	-	121,656	9
Other non-current assets	-	84,689	-	-	-	84,689	14
Short-term borrowings from banks	-	208,813	-	-	-	208,813	16
Current portion of medium-/long-term debt	-	154,094	-	-	-	154,094	17
Accounts payable	-	944,402	-	-	-	944,402	18
Other current liabilities	-	672,814	-	2,856	-	675,670	21
Long-term financial debt	-	1,680,951	-	-	-	1,680,951	22
Other non-current liabilities	-	79,783	-	-	-	79,783	25

(a) The notes reported above refer to the paragraphs within these notes to the consolidated financial statements in which the financial assets and liabilities are further explained

DEFAULT RISK: NEGATIVE PLEDGES AND FINANCIAL COVENANTS

The financing agreements of the Group (see Note 22) require compliance with negative pledges and financial covenants, as set forth in the respective agreements, with the exception of the Group's bond issues dated March 19, 2012 and February 10, 2014, which require compliance only with negative pledges.

With regards to negative pledges, in general, the clauses prohibit the Company and other Group companies from granting any guarantees or security interests on any of their assets in favor of third parties without the consent of the lenders over a threshold equal to 20% of the Group consolidated stockholders' equity. In addition, the sale of assets of the Group companies is limited to a maximum threshold of 10% of consolidated assets.

Default with respect to the above-mentioned clauses, following a grace period during which the default can be remedied, would be considered a material breach of the contractual obligations pursuant to the financing agreements of the Group, which may be called upon to pay the outstanding debt.

Financial covenants require the Group to comply with specific levels of financial ratios. The most significant covenants establish a threshold for the ratio of net debt of the Group to EBITDA (Earnings before interest, taxes, depreciation and amortization) as well as EBITDA to financial expenses and priority debt to stockholders' equity.

The covenants are reported in the following table:

Covenants	%
Net Financial Position/Pro forma EBITDA	< 3.5
EBITDA/ Pro forma financial expenses	> 5
Priority Debt/Stockholders' Equity	< 20%

An explanation of the covenants referenced above is provided as follows:

- "Net Financial Position/Pro forma EBITDA" is an indicator of the prospective sustainability of debt repayments; the lower the absolute value, the greater a company's ability to repay the debt (as indicated by the Net Financial Position) through the generation of gross cash flows from ordinary operations (as indicated by the amount of EBITDA);
- "EBITDA/Pro forma Financial Expenses" is an indicator of financial leverage; the higher the value, the greater a company's ability to produce adequate resources to cover financial expenses; and
- "Priority Debt/Stockholders' Equity" is an indicator of the ability to achieve financial balance between internal and third-party sources of funding; the lower the ratio, the greater a company's ability to fund itself.

In the case of a failure to comply with the above-mentioned ratios, the Group may be called upon to pay the outstanding debt if it does not correct such default within the period indicated in the applicable agreement.

Compliance with these covenants is monitored by the Group at the end of each quarter and, as of December 31, 2017, the Group was fully in compliance with these covenants. The Company also analyzes the trend of these covenants in order to monitor its compliance and, as of today, the analysis indicates that the ratios of the Group are below the thresholds which would result in default.

Fair value

In order to determine the fair value of financial instruments, the Group utilizes valuation techniques which are based on observable market prices (Mark to Model). These techniques therefore fall within Level 2 of the hierarchy of Fair Values identified by IFRS 13.

IFRS 13 refers to valuation hierarchy techniques that are based on three levels:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities at the measurement date;
- Level 2 inputs are inputs other than the quoted prices included within Level 1 that are observable for each financial asset or liability, both directly (prices) and indirectly (derived from prices); and
- Level 3 inputs are unobservable inputs used to measure fair value to the extent that relevant observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

It should be noted that: (i) order to select the appropriate valuation techniques to utilize, the Group uses the above valuation hierarchy; (ii) as of December 31, 2017, the Company did not use, for fair value measurement purposes, inputs which caused the relative financial instrument to be included in level 3.

The Company determined the fair value of the derivatives existing as of December 31, 2017 through valuation techniques which are commonly used for instruments similar to those traded by the Group. The inputs used in these models are based on observable market prices (the Euro and USD interest rate curves as well as official exchange rates on the measurement date) obtained from Bloomberg.

The following table summarizes the financial assets and liabilities of the Group measured at fair value:

Description			Fair Value Measurements at Reporting Date Using		
(Euro/000)	Classification	December 31, 2017	Level 1	Level 2	Level 3
Forward contracts on exchange rates	Other short-term assets	5,260	-	5,260	-
Interest rate derivative contracts	Other long-term assets	487	-	487	-
Forward contracts on exchange rates	Other short-term liabilities	3,408	-	3,408	-

Description			Fair Value Measurements at Reporting Date Using		
(Euro/000)	Classification	December 31, 2016	Level 1	Level 2	Level 3
Forward contracts on exchange rates	Other short-term assets	6,428	-	6,428	-
Forward contracts on exchange rates	Other short-term liabilities	2,856	-	2,856	-

The Group adopted policies and procedures with the aim of measuring the fair value of assets and liabilities using valuation techniques based on observable market data.

The Group portfolio of exchange rate derivatives includes only forward exchange rate contracts on the most traded currency pairs with maturity less than one year. The fair value of the portfolio is valued using internal models that use observable market inputs including Yield Curves and Spot and Forward prices.

4. Business combinations

ÓTICAS CAROL

On July 6, 2017, the Luxottica Group completed the acquisition of 100% of the Óticas Carol optics franchise chain in Brazil. In particular, the subsidiary Luxottica Brasil Produtos Óticos e Esportivos Ltda acquired 100% of the share capital of the Brazilian company Orange County Participaçoes S.A., owner of the Óticas Carol chain. The newly acquired Brazilian company also controls six companies based in Brazil. Consequently, as from July 6, 2017, Orange County Participaçoes S.A. and its subsidiaries became part of the scope of consolidation and were consolidated on a line-by-line basis in accordance with IFRS 10 — *Consolidated financial statements*.

Following the acquisition, Luxottica Group S.p.A. promptly made the necessary communications to CONSOB pursuant to Consob Market Regulation. Following the investigations carried out, Orange County Participaçoes S.A. and its subsidiaries do not fall within the scope of these provisions.

The acquisition of Óticas Carol represents a business combination transaction recognized in accordance with IFRS 3—Business combinations. To this end, at the date of acquisition of control, the individual identifiable assets and liabilities were recorded at their fair value.

In accordance with IFRS 3—Business Combinations, the fair values of identifiable assets and liabilities have been determined on a provisional basis because the valuation has not yet been completed. These fair values could be modified within 12 months from the acquisition date.

The consideration paid for the acquisition was BRL 368.7 million (Euro 98.0 million) and was determined with the application of recognized business valuation methods.

The completion of the transaction entailed acquisition costs to third parties of approximately Euro 2.7 million.

The accounting effects of this business combination, in accordance with IFRS 3—Business Combinations, are as follows:

(Euro/000)	Óticas Carol
Acquisition value 100% (A)	97,947
Total net identifiable assets (B)	13,297
Goodwill (C=A-B)	**84,650**
Cash paid (D)	97,947
Acquiree net cash (E)	(658)
Cash flow absorbed by the acquisition (F=E-D)	**97,289**

The fair values on a provisional basis are as follows:

(Euro/000)	Fair value
Cash and cash equivalents (E)	658
Accounts receivable[a]	11,249
Inventories	2,476
Other current assets	2,149
Property, plant and equipment	6,239
Intangible assets	18,887
Financial assets	-
Deferred tax assets	1,007
Other non-current assets	1,492
Total identifiable assets (G)	**44,158**
Short-term borrowings from banks	3,588
Accounts payable	2,796
Short-term provisions for risks	-
Other current liabilities	5,560
Long-term financial debt	3,909
Long-term provisions for risks	8,604
Deferred tax liabilities (net)	6,357
Employee benefits	48
Total identifiable liabilities (H)	**30,861**
Total net identifiable assets (B=G-H)	**13,297**

(a) Euro 12.2 million net of Euro 1 million of bad debt fund

The goodwill is not tax deductible and primarily reflects the synergies that the Group estimates it will derive from the acquisition.

Óticas Carol net sales and net income/(loss), contributed to the consolidated financial statements, are respectively equal to Euro 16.8 million and Euro (1.9) million. On an unaudited pro forma basis, had the acquisition occurred at the beginning of the year, net sales and net income/(loss) contributed by Óticas Carol to the consolidated financial statements would have been Euro 32.7 million and Euro (3.1) million, respectively.

SALMOIRAGHI & VIGANÒ

Pursuant to the agreement signed in 2012 (the "Contract") with Fenix S.r.l., formerly Salmoiraghi & Viganò Holding, in 2016, the Group exercised the call option to acquire the remaining 63.2% in Salmoiraghi & Viganò S.p.A. (hereinafter also "Salmoiraghi & Viganò" or "S&V"), gaining control of the company. Therefore, the Luxottica Group's equity investment in Salmoiraghi & Viganò, classified in previous years as an investment in an associate and valued using the equity method, was fully consolidated pursuant to the provisions of IFRS 10—Consolidated Financial Statements.

The acquisition of the control of Salmoiraghi & Viganò represented a business combination achieved in stages, as stated in IFRS 3—Business Combinations.

For the purposes of the consolidated financial statements as of December 31, 2016, in accordance with the provisions of IFRS 3, the fair value of identifiable assets and liabilities, as well as the consideration for the acquisition, were determined on a provisional basis, since certain valuation processes had not yet been finalized at the reporting date. This valuation resulted in the provisional determination of goodwill equal to Euro 190 million.

As of December 31, 2017, the valuation processes relating to the acquisition of Salmoiraghi & Viganò S.p.A. had been completed and, consequently, the comparative figures for the financial information as of December 31, 2016 were restated on the basis of the definitive figures. Reconciliation of the figures estimated on a provisional basis and those determined definitively is shown below.

(Euro/000)	December 31, 2016	Price adjustment	December 31, 2017
Acquisition value 100% (A)	237,830	(6,487)	231,343
Total net identifiable assets (B)	47,850		47,850
Goodwill (C=A-B)	**189,980**	**(6,487)**	**183,493**
Cash paid for the acquisition of 63.2% in S&V (D)	150,308	(4,100)	146,208
Acquiree cash (E)	(22,792)	-	(22,792)
Cash flow absorbed by the acquisition (F=E-D)	**127,516**	**(4,100)**	**123,416**

The redetermination of the transaction on the basis of the above information resulted in: (i) a Euro 4.1 million reduction in the value of the shareholding held by Luxottica Group S.p.A. in Salmoiraghi e Viganò S.p.A.; (ii) a Euro 2.4 million reduction in the adjustment between the value of the shareholding (equal to 36.8%) held prior to the year of the above transaction and its fair value; and (iii) a Euro 6.5 million reduction in the goodwill generated by the acquisition.

Consequently, in accordance with the provisions of IFRS 3, the comparative information as of December 31, 2016 was retrospectively modified to reflect the above changes. In particular, stockholders' equity and other income/(expenses) were reduced by Euro 2.4 million, goodwill was reduced by Euro 6.5 million and other receivables were increased by Euro 4.1 million.

EXCITON

On January 27, 2017, the Group acquired the assets of the company Exciton, an American specialty manufacturing company with expertise in the development and integration of high performance dyes in the medical, electronic and optical industries, for a consideration of USD 13.0 million (approx. Euro 12.2 million). This acquisition is considered a business combination in accordance with the provisions of IFRS 3. The difference between the acquisition price and the fair value of identifiable assets at such date was accounted for as goodwill of Euro 9.6 million. The goodwill arises mainly from the synergies the Group expects to obtain as a result of the acquisition.

The completion of the aforementioned transaction did not incur any third-party acquisition costs.

The detailed allocation of the consideration paid is shown below:

(Euro/000)	Exciton
Consideration for the acquisition (A)	**12,171**
Identifiable assets	
Inventories	927
Property, plant and equipment	47
Intangible assets	1,571
Total identifiable assets (B)	**2,545**
Goodwill (C=A-B)	9,626

The goodwill value is tax deductible.

BUYBACK OF FRANCHISED STORES

In the second half of 2017, the Group, as part of the development of the Australian retail business, acquired a total of 20 stores in Australia, previously franchised, for a total value of AUD 18.0 million (approximately Euro 11.7 million). This acquisition is considered a business combination in accordance with the provisions of IFRS 3. The difference between the acquisition price and the fair value of identifiable assets at such date was accounted for as goodwill of AUD 13.0 million (Euro 8.6 million). The goodwill arises mainly from the synergies the Group expects to obtain as a result of the acquisitions.

The completion of the aforementioned transaction did not incur any third-party acquisition costs.

The detailed allocation of the consideration paid is shown below:

(Euro/000)	
Consideration for the acquisition (A)	**11,711**
Identifiable assets	
Inventories	659
Property, plant and equipment	2,600
Intangible assets	-
Total identifiable assets (B)	**3,259**
Goodwill (C=A-B)	8,452

The goodwill value is not tax deductible.

5. Segment information

in accordance with IFRS 8—Operating Segments, the Group operates in two operating segments:

- *Wholesale*: manufacturing and wholesale distribution;
- *Retail:* retail distribution.

The criteria applied to identify the operating segments are consistent with the way the Group is managed. In particular, the disclosures are consistent with the information regularly reviewed by the Executive Chairman Leonardo Del Vecchio and the CEO Francesco Milleri, in their role of Chief Operating Decision Makers, to make decisions about resources to be allocated to the segments and assess their performance.

This approach, based on the coexistence of two CODMs, stems from Luxottica Group's decision, taken by the Board of Directors on December 15, 2017, to streamline its governance system with the departure of Massimo Vian, CEO for Product and Operations, three months before the expiry of his mandate, and concentrating the powers in the hands of Leonardo Del Vecchio, Executive Chairman, and Francesco Milleri, Deputy Chairman, who also took the office of CEO. This change did not impact the operating segments as the information provided and reviewed by the CODM has not changed.

The operating segments subject to disclosure are consistent with the organization model adopted by the Group during the financial year ended December 31, 2017.

Segment information (Euro/000)	Manufacturing & Wholesale Distribution	Retail Distribution	Inter-segment transactions and other adjustments[a]	Consolidated
December 31, 2017				
Net Sales[b]	3,504,852	5,652,439	-	9,157,291
Income from operations[c]	781,970	745,706	(227,080)	1,300,596
Financial income	-	-	-	18,199
Financial expenses	-	-	-	(107,746)
Other net income/(expenses)	-	-	-	45,441
Income before taxes	-	-	-	1,256,490
Income taxes	-	-	-	(216,085)
Net income	**-**	**-**	**-**	**1,040,405**
Of which attributable to:				
- Luxottica stockholders	-	-	-	*1,038,445*
- Non-controlling interests	-	-	-	*1,960*
Investments	426,246	236,730	-	662,976
Total depreciation and amortization	178,257	273,331	88,831	540,420
December 31, 2016				
Net Sales[b]	3,527,662	5,558,045	-	9,085,707
Income from operations[c]	806,133	729,569	(190,436)	1,345,267
Financial income	-	-	-	15,469
Financial expenses	-	-	-	(81,528)
Other net income/(expenses)[d]	-	-	-	37,099
Income before taxes	-	-	-	1,316,307
Income taxes	-	-	-	(466,373)
Net income	**-**	**-**	**-**	**849,934**
Of which attributable to:				
- Luxottica stockholders	-	-	-	*848,137*
- Non-controlling interests	-	-	-	*1,797*
Investments	310,066	341,493	-	651,559
Total depreciation and amortization	167,115	260,019	85,708	512,842

(a) Inter-segment transactions and other adjustments include corporate costs not allocated to a specific segment and amortization of acquired intangible assets not allocated to a specific segment, as well as elimination of transactions between those segments.

(b) Net sales of both the Manufacturing & Wholesale Distribution segment and the Retail Distribution segment include sales to third-party customers only.

(c) Income from operations of the Manufacturing & Wholesale Distribution segment is related to net sales to third-party customers only, excluding the "manufacturing profit" generated on the intercompany sales to the Retail Distribution segment. Income from operations of the Retail Distribution segment is related to retail sales, considering the cost of goods acquired from the Manufacturing & Wholesale Distribution segment at manufacturing cost, thus including the relevant "manufacturing profit" attributable to those sales.

(d) The balance of other net income/(expenses) as of December 31, 2016 was retrospectively restated by Euro 2.4 million to reflect the effects described in Note 4–Business Combinations, which is referred to for further details

INFORMATION BY GEOGRAPHIC AREA

The geographic segments include Europe, North America (which includes the United States of America, Canada and Caribbean islands), Asia-Pacific (which includes Australia, New Zealand, China, Hong Kong, Singapore and Japan), Latam (which includes South and Central America) and Other (which includes all other geographic locations, including the Middle East). Sales are attributed to geographic segments based on the customer's location, whereas property, plant and equipment (net) based on the geographic area where legal entities are located.

Sales and property, plant and equipment (Euro/000)	Europe[(a)]	North America[(b)]	Asia Pacific[(c)]	Latin America	Other	Consolidated
2017						
Net Sales	1,966,476	5,252,456	1,155,767	616,249	166,450	9,157,291
Property, plant and equipment	583,236	824,527	318,755	76,724	5,592	1,808,834
2016						
Net sales[(d)]	1,760,787	5,381,305	1,189,734	567,514	186,361	9,085,707
Property, plant and equipment	374,312	916,743	315,460	60,039	5,998	1,672,553

(a) Property, plant and equipment located in Italy represented 30% and 20% of the Group's total property, plant and equipment as of December 31, 2017 and 2016, respectively. Net sales recorded in Italy were Euro 0.5 billion and Euro 0.3 billion in 2017 and 2016, respectively.
(b) Property, plant and equipment located in the United States represented 46% and 55% of the Group's total property, plant and equipment as of December 31, 2017 and 2016, respectively. Net sales recorded in the United States were Euro 5.3 billion and Euro 5.4 billion in 2017 and 2016, respectively.
(c) Property, plant and equipment located in China represented 14% and 14% of the Group's total property, plant and equipment as of December 31, 2017 and 2016, respectively
(d) Net sales for the year ended December 31, 2016 for Manufacturing & Wholesale Distribution have been revised to reflect a reclassification of certain geographic markets, which the Group considers immaterial

Information on the consolidated statement of financial position

Current assets

6. Cash and cash equivalents

Cash and cash equivalents are comprised of the following items:

Cash and cash equivalent (Euro/000)	December 31, 2017	December 31, 2016
Cash at bank	1,144,382	856,948
Checks	11,188	7,355
Cash and cash equivalents on hand	3,749	2,561
Total	**1,159,320**	**866,864**

See Note 22 and the consolidated statements of cash flows for further details.

There is no restricted cash.

7. Accounts receivable

Accounts receivable consist exclusively of trade receivables and are recognized net of allowances to adjust their carrying amount to the estimated realizable value. Accounts receivable are due within 12 months.

Accounts receivable (Euro/000)	December 31, 2017	December 31, 2016
Accounts receivable	1,018,177	983,348
Bad debt provision	(74,399)	(51,008)
Total net accounts receivable	**943,778**	**932,340**

The increase in accounts receivable is mainly due to the growth of net sales in 2017 and the increase of receivables in the US insurance business. This figure is partially offset by the increase in the bad debt provision.

The following table shows the changes in bad debt provision :

Bad debt provision (Euro/000)	December 31, 2017	December 31, 2016
Balance as of January 1	**51,008**	**37,501**
Provision	32,335	13,591
Utilization	(5,518)	(8,069)
Translation difference and other	(3,426)	7,984
Balance as of December 31	**74,399**	**51,008**

The net carrying amount of the accounts receivable approximates their fair value.

As of December 31, 2017, the gross amount of accounts receivable assessed for inclusion in the bad debt provision was equal to Euro 1,018 million (Euro 983.3 million as of December 31, 2016). The bad debt provision as of December 31, 2017 amounted to Euro 74.4 million (Euro 51.0 million as of December 31, 2016).

Allocation of accounts receivable is determined in accordance with the Group credit policy described in Note 3 – Financial Risks.

Accruals and reversals of the bad debt provision are recorded within Selling expenses in the consolidated statement of income.

The maximum exposure to credit risk as of the reporting date was represented by the fair value of accounts receivable and approximates the amount of gross receivables less the bad debt provision.

The Group believes that its exposure to credit risk does not call for other guarantees or credit enhancements.

The table below summarizes the quantitative information required by IFRS 7 based on the categories of receivables pursuant to Group policies:

(Euro/000)	Gross receivables	Bad debt provision	Maximum exposure to credit risk	Overdue accounts receivable not included in the bad debt provision	0-30 days overdue accounts receivable not included in the bad debt provision	>30 days overdue accounts receivable not included in the bad debt provision
As of December 31, 2017						
Receivables of the Wholesale segment classified as GOOD	630,695	(9,437)	621,259	57,739	19,124	38,615
Receivable of the Wholesale segment classified as RISK	53,743	(51,612)	2,131	1,222	152	1,070
Receivables of the Retail segment	333,739	(13,350)	320,389	24,475	12,207	9,079
Total	**1,018,177**	**(74,399)**	**943,778**	**83,436**	**31,482**	**48,764**

(Euro/000)	Gross receivables	Bad debt provision	Maximum exposure to credit risk	Overdue accounts receivable not included in the bad debt provision	0-30 days overdue accounts receivable not included in the bad debt provision	>30 days overdue accounts receivable not included in the bad debt provision
As of December 31, 2016						
Receivables of the Wholesale segment classified as GOOD	670,049	(7,608)	662,445	54,750	32,227	22,523
Receivable of the Wholesale segment classified as RISK	36,773	(33,170)	3,603	1,366	167	1,199
Receivables of the Retail segment	276,526	(10,230)	266,292	44,091	35,915	9,272
Total	**983,348**	**(51,008)**	**932,340**	**100,207**	**68,309**	**32,994**

The accounts receivable of the retail segment are mainly related to the insurance business of the Group.

As of December 31, 2017, the amount of overdue receivables which were not included in the bad debt provision was equal to 8.2% of gross receivables (10.2% as of December 31, 2016) and 8.8% of receivables net of the bad debt provision (10.7% as of December 31, 2016). The Group does not expect any additional losses over amounts already provided for.

8. Inventories

Inventories are comprised of the following items:

Inventories (Euro/000)	December 31, 2017	December 31, 2016
Raw materials	181,618	198,038
Work in progress	33,710	38,054
Finished goods	782,263	798,413
Inventory obsolescence reserve	(166,042)	(141,032)
Total	**831,549**	**893,472**

The decrease in inventories (Euro 61.9 million) is mainly due to a strict and efficient inventory management, which has made it possible to neutralize the negative impact of extraordinary initiatives related to the change in the distribution model. The increase in the inventory obsolescence reserve of Euro 25.0 million is added to this figure.

The movements in the inventory obsolescence reserve are as follows:

Inventory obsolescence reserve (Euro/000)	December 31, 2017	December 31, 2016
Balance as of January 1	**141,032**	**129,901**
Provision	104,145	67,965
Utilization	(70,557)	(64,004)
Translation difference and other	(8,578)	7,170
As of December 31	**166,042**	**141,032**

9. Other current assets

Other current assets comprise the following items:

Other current assets (Euro/000)	December 31, 2017	December 31, 2016
Sales tax receivables	47,422	59,514
Accrued income	1,044	461
Other current financial assets	49,280	61,681
Total financial assets	**97,746**	**121,656**
Income tax receivables	66,105	79,591
Advances to suppliers	13,636	14,194
Prepaid expenses	52,973	65,654
Other non-financial assets	2,361	6,664
Total other assets	**135,075**	**166,102**
Total other current assets	**232,821**	**287,759**

The decrease in current financial assets, equal to Euro 23.9 million, was mainly due to: (i) net decrease in sales tax receivables of Euro 12.1 million; (ii) decrease in other current financial assets of Euro 12.4 million, mainly attributable to the American and Australian divisions. The opening balance of other current financial assets was restated for an amount of Euro 4.1 million in order to reflect the effects of note 4—Business combinations.

The item "Other current financial assets" as of December 31, 2017 consisted mainly of: (i) receivables arising from forward contracts on exchange rates for Euro 5.3 million (Euro 6.4 million as of December 31, 2016); (ii) other financial assets for Euro 39.8 millon (Euro 47.0 as of December 31, 2016) mainly related to the North AmericanRetail and Australian segments for Euro 8.5 million (Euro 17.0 million as of December 31, 2016) and Euro 8.1 million (Euro 5.8 million as of December 31, 2016) respectively.

The decrease in "Other assets" is mainly driven by the decrease in income tax receivables of Euro 13.5 million, mostly related to the North America subsidiaries of the Group and the decrease in prepaid expenses of Euro 12.7 million related to rent prepayments in North America, to the payment of royalties and advertising expenses.

"Other non-financial assets" include the short-term portion of advance payments made to certain designers for future contracted minimum royalties totaling Euro 2.4 million as of December 31, 2017 (Euro 6.7 million as of December 31, 2016).

The net carrying amount of financial assets is approximately equal to their fair value and this value also corresponds to the maximum exposure to credit risk. The Group has no guarantees or other instruments to manage credit risk.

10. Assets held for sale

the item "Assets held for sale" as of December 31, 2016 showed a balance of Euro 51.3 million and contained the value of a property owned by the Group and sold in March 2017. With this sale, the Group realized non-recurring capital gains of Euro 48.7 million.

For further details see Note 34.

Non-current assets

11. Property, plant and equipment

Changes in items of property, plant and equipment are reported below:

Property, plant and equipment (Euro/000)	Land and buildings, including leasehold improvements	Machinery and equipment	Aircraft	Other equipment	Total
Historical cost	1,160,057	1,456,077	11,362	825,695	3,453,190
Accumulated depreciation	(617,283)	(941,482)	(865)	(458,033)	(2,017,664)
Total as of January 1, 2016	**542,774**	**514,595**	**10,496**	**367,662**	**1,435,524**
Increases	145,841	118,820	-	283,988	548,649
Decreases/write-downs	(4,209)	(3,373)	-	(13,905)	(21,487)
Business combinations	3,847	15,703	-	643	20,192
Translation difference and other	(19,442)	58,023	-	(60,006)	(21,425)
Depreciation	(80,637)	(127,609)	(568)	(80,088)	(288,902)
Total as of December 31, 2016	**588,175**	**576,156**	**9,928**	**498,293**	**1,672,552**
Of which					
Historical cost	*1,270,763*	*1,677,540*	*11,361*	*1,014,331*	*3,973,995*
Accumulated depreciation	*(682,588)*	*(1,101,384)*	*(1,433)*	*(516,038)*	*(2,031,443)*
Total as of December 31, 2016	**588,175**	**576,156**	**9,928**	**498,293**	**1,672,552**
Increases	231,930	107,809	-	238,164	577,903
Decreases/write-downs	(7,235)	(7,438)	-	(9,824)	(24,497)
Business combinations	-	4,646	-	26,239	30,885
Translation difference and other	(26,702)	30,931	-	(143,069)	(138,840)
Depreciation	(81,931)	(139,695)	(568)	(86,975)	(309,169)
Total as of December 31, 2017	**704,237**	**572,409**	**9,360**	**522,828**	**1,808,834**
Of which					
- Historical cost	*1,363,884*	*1,637,483*	*11,362*	*1,055,613*	*4,068,342*
- Accumulated depreciation	*(659,647)*	*(1,065,074)*	*(2,002)*	*(532,785)*	*(2,259,508)*
Total as of December 31, 2017	**704,237**	**572,409**	**9,360**	**522,828**	**1,808,834**

Of the total depreciation expense of Euro 309.2 million (Euro 288.9 million in 2016), Euro 107.9 million (Euro 99.4 million in 2016) is included in cost of sales, Euro 151.3 million (Euro 142.6 million in 2016) in selling expenses, Euro 14.1 million (Euro 14.1 million in 2016) in advertising expenses, and Euro 35.8 million (Euro 32.8 million in 2016) in general and administrative expenses.

Investments in 2016 and 2017 mainly relate to routine technology upgrades to the manufacturing infrastructure, opening of new stores and the remodeling of older stores, whose lease contracts were renewed in 2016 and 2017. In 2017, the Group purchased land and buildings for a consideration of Euro 231.9 million, mainly in relation to the acquisition of the building hosting the corporate offices in Milan and the area where the Brazilian manufacturing site is located.

Other equipment includes Euro 267.4 million for assets under construction as of December 31, 2017 (Euro 233.3 million as of December 31, 2016). Leasehold improvements totaled Euro 213.2 million and Euro 252.5 million as of December 31, 2017 and December 31, 2016, respectively.

The value included in business combinations mainly represents the value of a property currently undergoing renovations, acquired by the Group in 2017 through a corporate vehicle. The purchase of 100% of this vehicle allowed the Luxottica Group to gain control of the company which, in turn, became part of the scope of consolidation.

Given the substance of the transaction, which consisted of the purchase of a property, the same was recorded, in accordance with IFRS 3 – Business Combinations, as the acquisition of an asset and not the acquisition of a business. This accounting model involves the allocation of the consideration paid for the acquisition, including any ancillary costs incurred for the completion of the transaction, to identifiable assets. Consequently, the consideration paid for the acquisition was entirely allocated to the property purchased.

No adjustments to the value of tangible assets were performed in 2017 since no impairment indicators were brought to management's attention.

12. Goodwill and intangible assets

Changes in goodwill and intangible assets for the years ended December 31, 2016 and 2017, were as follows:

Goodwill and intangible assets (Euro/000)	Goodwill	Trade names and trademarks	Customer relations and contracts	Franchise agreements	Other	Total
Historical cost	3,596,983	1,745,004	277,266	26,362	1,020,028	6,665,643
Accumulated amortization	-	(981,138)	(144,202)	(14,175)	(486,997)	(1,626,512)
Total as of January 1, 2016	**3,596,983**	**763,866**	**133,064**	**12,187**	**533,031**	**5,039,131**
Increases	-	-	-	-	103,006	103,006
Decreases/write-downs	-	(676)	-	-	(669)	(1,345)
Business combinations	189,980	93,505	16,252	-	13,861	313,599
Translation difference and other	84,478	17,828	4,924	335	10,761	118,309
Amortization	-	(69,444)	(14,832)	(1,296)	(138,385)	(223,940)
Total as of December 31, 2016	**3,871,442**	**805,078**	**139,408**	**11,226**	**521,605**	**5,348,759**
Of which						
- Historical cost	*3,871,442*	*1,883,690*	*302,957*	*27,227*	*1,164,267*	*7,249,583*
- Accumulated amortization	*-*	*(1,078,612)*	*(163,549)*	*(16,001)*	*(642,662)*	*(1,900,824)*
Total as of December 31, 2016	**3,871,442**	**805,078**	**139,408**	**11,226**	**521,605**	**5,348,759**
S&V price adjustment	*(6,487)*	*-*	*-*	*-*	*-*	*(6,487)*
Balance as of December 31, 2016 restated	**3,864,955**	**805,078**	**139,408**	**11,226**	**521,605**	**5,342,272**
Increases	-	-	-	-	85,073	85,073
Decreases/write-downs	-	-	-	-	(1,485)	(1,485)
Business combinations	102,728	16,852	194	-	3,412	123,186
Translation difference and other	(345,287)	(68,059)	(13,924)	(1,286)	(41,367)	(469,923)
Amortization	-	(72,266)	(14,117)	(1,270)	(143,598)	(231,251)
Total as of December 31, 2017	**3,622,396**	**681,605**	**111,561**	**8,670**	**423,640**	**4,847,872**
Of which						
- Historical cost	*3,622,396*	*1,743,751*	*268,013*	*23,931*	*1,126,194*	*6,784,285*
- Accumulated amortization	*-*	*(1,062,146)*	*(156,452)*	*(15,261)*	*(702,554)*	*(1,936,413)*
Total as of December 31, 2017	**3,622,396**	**681,605**	**111,561**	**8,670**	**423,640**	**4,847,872**

Most significant brands are related to Oakley and Sunglass Hut, which carrying amount as of December 31, 2017 amount to Euro 257.8 million and 83.1 million (Euro 313.4 million and 106.0 million as of December 31, 2016). The residual usuful life of aforementioned brands as of December 31, 2017 is equal to 15 and 8 years respectively.

In 2017, the increase in intangible assets deriving from business combinations is mainly due to the goodwill deriving from the acquisition of Óticas Carol, as described in paragraph 4 "Business combinations". In 2016, the increase in the item is derived from the acquisition of Salmoiraghi & Viganò, as described in paragraph 4 "Business combinations".

Of the total amortization expense of Euro 231.3 million in 2016 (Euro 223.9 million in 2016), Euro 185.8 million (Euro 182.8 million 2016) is included in general and administrative expenses, Euro 29.5 million (Euro 26.1 million in 2016) is included in selling expenses and Euro 15.9 million (Euro 15.0 million in 2016) is included in cost of sales.

The increase in other intangible assets is mainly related to the development of IT infrastructures, with particular reference to SAP.

IMPAIRMENT OF GOODWILL

As of December 31, 2017 and 2016, goodwill totaled Euro 3,622.4 million and Euro 3,865.0 million, respectively. The change is mainly due to the acquisition of Óticas Carol for Euro 84.7 million, offset by the weakening of the main currencies in which the Group operates compared to the Euro (Euro 345.3 million).

The Cash Generating Units ("CGU") are unchanged compared to December 31, 2016; the value of goodwill allocated to each CGU is shown in the table below:

(Euro/000)	December 31, 2017	December 31, 2016
Manufacturing and Wholesale Distribution	1,385,619	1,435,106
Retail Optical	1,124,782	1,200,123
Retail Sun & Luxury	946,826	1,041,805
Retail Oakley	165,169	187,921
Total	**3,622,396**	**3,864,955**

The recoverable amount of each CGU has been verified by comparing its net assets carrying amount to its value in use.

The main assumptions for determining the value in use are reported below:

Rates used by CGU	WACC post-tax	G-Rate
Manufacturing and Wholesale Distribution	6.46%	2.01%
Retail Optical	5.92%	2.27%
Retail Sun & Luxury	6.14%	2.25%
Retail Oakely	5.89%	2.04%

The discount rate has been determined on the basis of market information on the cost of money and the specific risk of the industry (Weighted Average Cost of Capital, WACC). In particular, the Group used a methodology to determine the discount rate which was in line with that utilized in the previous year, considering the rates of return on long-term government bonds and the average capital structure of a group of comparable companies.

Pre-tax WACC that, applied to the pre-tax Free Cash Flow of the CGUs, guarantee the same recoverable amount, differ of approximately +2% with reference to the related post-tax WACC.

The growth rate use to determine the terminal value is in line with the long-term expected inflation in the counties where the Group operates.

The recoverable amount of CGUs has been determined by utilizing cash flow forecasts based on the Group's 2018-2020 three-year plan approved by management, on the basis of the results attained in previous years as well as management expectations—split by geographical area—regarding future trends in the eyewear market for both the Wholesale and Retail distribution segments. At the end of the three-year projected cash flow period, a terminal value was estimated in order to reflect the value of the CGU in future years. The terminal values were calculated as a perpetuity at the same growth rate and represent the present value, in the last year of the forecast, of all future cash flows. The impairment test performed as of the reporting date resulted in a recoverable value greater than the net carrying amount of the above-mentioned CGUs. In percentage terms, the surplus of the recoverable amount was equal to 551%, 81%, 81% and 50% of the net carrying amount of the Wholesale, Retail Optical, Retail Sun & Luxury and Retail Oakley CGUs, respectively. Please note that, holding all else constant: (i) the discount rate that makes the recoverable amount of the cash generating units in question equal to their carrying amount is approximately 30.1% for the Wholesale CGU, approximately 8.9% for Retail Optical, approximately 9.3% for Retail Sun & Luxury and approximately 7.8% for Retail Oakley, (ii) the growth rate that makes the recoverable amount of the CGUs in question equal to their carrying amount should be negative for all the CGUs.

In addition, in view of the significant surplus described above, potential reasonable changes to the above-mentioned assumptions used to determine the recoverable amount (i.e., growth rate changes of +/−0.5% and discount rate changes of +/−0.5%) would not significantly affect the impairment test results.

13. Equity investments

Equity investments amounted to Euro 14.5 million (Euro 20.2 million as of December 31, 2016). The balance mainly related to the equity investment in Eyebiz Laboratories Pty Limited (a joint venture formed in 2010 between Luxottica and Essilor International SA that provides most of the Australian lab requirements) for Euro 3.6 million (Euro 6.7 million as of December 31, 2016). The change in this item between December 31, 2017 and December 31, 2016 is mainly due to the effects of applying the equity method to the measurement of equity investments. We highlight that Eyebiz Laboratories pty Limited net income attributable to the Group is equal to Euro 1.0 million for the period 2017 and Euro 1.7 million for the period 2016.

14. Other non-current assets

Other non-current assets		
(Euro/000)	December 31, 2017	December 31, 2016
Other non-current financial assets	63,506	84,689
Other non-financial assets	10,250	12,611
Total other long-term assets	**73,756**	**97,300**

Other long-term financial assets primarily include security deposits totaling Euro 36.5 million (Euro 39.0 million as of December 31, 2016).

Other long-term non-financial assets primarily include advance payments made to certain licensees for future contractual minimum royalties totaling Euro 10.2 million (Euro 12.6 million as of December 31, 2016). The decrease is due to the effects of reclassification among other short-term assets related to the share of royalties pertaining to 2018.

15. Deferred tax assets and deferred tax liabilities

the balance of deferred tax assets and liabilities as of December 31, 2017 and December 31, 2016 is as follows:

Deferred taxes (Euro/000)	December 31, 2017	December 31, 2016
Deferred tax assets	130,453	133,369
Deferred tax liabilities	147,842	257,036
Deferred tax liabilities (net)	**17,389**	**123,667**

The analysis of deferred tax assets and deferred tax liabilities, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

(Euro/000)	December 31, 2017	December 31, 2016
Deferred tax assets		
Within 12 months	214,521	290,958
After 12 months	163,098	181,616
Total	**377,619**	**472,573**
Deferred tax liabilities		
Within 12 months	31,210	14,459
After 12 months	363,798	581,781
Total	**395,008**	**596,240**
Deferred tax liabilities (net)	**17,389**	**123,667**

The changes in deferred tax liabilities (net), during 2017 and 2016 are as follows:

Deferred tax liabilities (net) (Euro/000)	Financial Year 2017	Financial Year 2016
As of January 1	**123,667**	**102,894**
Exchange rate difference and other movements	(16,919)	7,229
Business combinations	5,350	30,923
Tax charged/(credited) to the income statement	(145,583)	(16,007)
Tax charged/(credited) to equity	50,873	(1,372)
As of December 31	**17,389**	**123,667**

The movement of deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred tax assets (Euro/000)	As of January 1, 2017	Exchange rate difference and other movements	Business combinations	Tax charged/ (credited) to the income statement	Tax charged/ (credited) to equity	As of December 31, 2017
Inventories	169,367	(18,317)	-	(12,988)	-	138,062
Self-insurance reserves	13,453	(5,860)	-	1,263	-	8,856
Net operating loss carry-forwards	37,761	(3,546)	-	(5,402)	-	28,813
Rights of return	19,059	(1,695)	-	(2,462)	-	14,902
Employee-related reserves (including pension funds)	81,130	(7,142)	-	(19,814)	(19,421)	34,753
Occupancy reserves	23,324	(6,347)	-	(3,138)	-	13,839
Trade names	56,974	3,396	-	(3,294)	-	57,076
Property, plant and equipment	9,450	(1,065)	-	974	-	9,359
Other	62,055	(2,995)	1,007	11,892	-	71,959
Total	**472,573**	**(43,571)**	**1,007**	**(32,969)**	**(19,421)**	**377,619**

Deferred tax liabilities (Euro/000)	As of January 1, 2017	Exchange rate difference and other movements	Business combinations	Tax charged/ (credited) to the income statement	Tax charged/ (credited) to equity	As of December 31, 2017
Dividends	13,763	(1)	-	1,922	-	15,684
Trade names	234,507	(20,285)	5,689	(49,054)	-	170,857
Property, plant and equipment	87,538	33,020	347	(65,323)	-	55,582
Other intangible assets	241,920	(61,942)	321	(34,099)	-	146,200
Other	18,512	(11,281)	-	(31,998)	31,452	6,685
Total	**596,240**	**(60,489)**	**6,357**	**(178,552)**	**31,452**	**395,008**

Deferred tax assets (Euro/000)	As of January 1, 2016	Exchange rate difference and other movements	Business combinations	Tax charged/ (credited) to the income statement	Tax charged/ (credited) to equity	As of December 31, 2016
Inventories	141,977	8,996	564	17,830	-	169,367
Self-insurance reserves	13,936	329	-	(812)	-	13,453
Net operating loss carry-forwards	32,926	(1,166)	9,162	(3,161)	-	37,761
Rights of return	19,769	558	1,328	(2,596)	-	19,059
Employee-related reserves	91,090	(6,140)	457	(5,646)	1,369	81,130
Occupancy reserves	22,824	(124)	-	624	-	23,324
Trade names	72,071	(10,093)	1,395	(6,399)	-	56,974
Property, plant and equipment	9,811	(860)	927	(428)	-	9,450
Other	50,984	4,366	923	5,778	3	62,054
Total	**455,388**	**(4,134)**	**14,756**	**5,190**	**1,372**	**472,573**

Deferred tax liabilities (Euro/000)	As of January 1, 2016	Exchange rate difference and other movements	Business combinations	Tax charged/ (credited) to the income statement	Tax charged/ (credited) to equity	As of December 31, 2016
Dividends	7,827	-	-	5,936	-	13,763
Trade names	218,955	1,584	32,374	(18,406)	-	234,507
Property, plant and equipment	79,257	7,785	-	496	-	87,538
Other intangibles	231,640	(520)	12,733	(1,933)	-	241,920
Other	20,604	(5,754)	572	3,090	-	18,512
Total	**558,283**	**3,095**	**45,679**	**(10,817)**	**-**	**596,240**

Deferred tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future profit is probable. The Group did not recognize deferred tax assets of Euro 33.2 million in respect of losses amounting to Euro 125.4 million, that can be carried forward against future taxable income. These losses are indefinite for Euro 72.3 million whereas for Euro 53.1 million there is a breakdown of the net operating losses by expiration date as follows:

(Euro/000)	Amount
As of December 31	
2018	14,644
2019	19,473
2020	8,974
2021	3,873
2022	2,160
Subsequent years	3,973
Total	**53,097**

The Group does not recognize deferred tax liabilities on undistributed earnings of its non-Italian operations to the related Italian parent company of Euro 3.7 billion and Euro 3.8 billion in 2017 and 2016, respectively, that are intended to be permanently invested.

In connection with the 2017 earnings of certain subsidiaries, the Group has recognized deferred tax liabilities related to dividends to be paid in 2018.

No provision was made for theoretical deferred taxes for an amount equal to Euro 26.9 million in 2017 (Euro 26.9 million in 2016) on tax-suspended reserves subject to taxationsince distribution or use is not envisioned.

On December 22, 2017, the President of the United States signed law H.R.1. The new law signed represents the most important tax reform in the United States over the past 30 years. The law includes substantial changes in corporate taxation; more specifically, the law provides for a permanent reduction in the rate applied to companies to 21%. This reduction in the tax rate led to an overall net decrease in the Group's deferred taxes of Euro 78.2 million, determined by the following factors of opposite sign: (i) Euro 108.6 million: adjustment of income statement taxes; (ii) Euro 30.4 million: adjustment of the tax effect of comprehensive income.

The adjustment of the value of deferred tax assets and liabilities followed a backward tracing approach where the effects of the change in tax rates have been reflected in the statement of income or other comprehensive income, respectively, consistent with the way in which they originated.

Current liabilities

16. Short-term borrowings from banks

Short-term borrowings from banks as of December 31, 2017 and 2016, reflect current account overdrafts as well as uncommitted credit lines with different financial institutions. The interest rates on these credit lines are floating. The credit lines may be used, if necessary, to obtain letters of credit.

As of December 31, 2017 and 2016, the Group had unused short-term credit lines of Euro 897.3 million and Euro 651.0 million, respectively.

The Company and its Italian subsidiaries Luxottica S.r.l. and Luxottica Italia S.r.l. maintain unsecured credit lines with primary banks for an aggregate maximum credit of Euro 540.1 million. These credit lines are renewable annually, can be canceled at short notice and have no commitment fees. As of December 31, 2017, these credit lines were not utilized.

Luxottica U.S. Holdings Corp. ("US Holdings") maintains unsecured credit lines with two separate banks for an aggregate maximum credit of Euro 104.7 million (USD 125.6 million). These credit lines are renewable annually, can be canceled at short notice and have no commitment fees. As of December 31, 2017, these credit lines were not utilized. There was Euro 44.4 million of standby letters of credit outstanding.

Average interest on the aforementioned credit lines is negotiated with the banking counterparties at the time of use.

The book value of short-term borrowings from banks is approximately equal to their fair value.

17. Current portion of medium-/long-term debt

This item consists of the current portion of loans granted to the Group as further described below as "Long-term debt." For further details see Note 22—Long-term financial debt.

18. Accounts payable

Accounts payable are Euro 906.7 million (Euro 944.4 million as of December 31, 2016). The decrease is primarily due to timing of the payment made by the Group and the weakening of the main currencies in which the Group operates against the Euro.

The book value of accounts payable is approximately equal to their fair value.

19. Tax payable

The balance is detailed below:

Current taxes (Euro/000)	December 31, 2017	December 31, 2016
Income tax payable	49,291	45,584
Income tax advance payments	(26,992)	(28,346)
Total	**22,299**	**17,238**

20. Short-term provisions for risks

The balance as of December 31, 2017 and December 31, 2016 is detailed below:

Short-term provisions for risks (Euro/000)	December 31, 2017	December 31, 2016
Legal Risk	1,929	3,243
Self-Insurance	6,532	8,540
Tax Provision	54,106	42,421
Returns	62,078	55,761
Other Risks	44,581	35,735
Total	**169,226**	**145,701**

Changes in short-term provisions for risks between December 31, 2016 and December 31, 2017 were as follows:

Short-term provisions for risks (Euro/000)	Legal Risk	Self-Insurance	Tax provision	Other risks	Returns	Total
Balance as of December 31, 2016	**3,243**	**8,540**	**42,421**	**35,735**	**55,761**	**145,701**
Increases	1,255	4,545	11,643	33,626	27,174	78,242
Utilization	(2,616)	(5,639)	(728)	(23,277)	(15,804)	(48,064)
Reclassified translation difference and other movements	47	(914)	770	(1,503)	(5,053)	(6,654)
Balance as of December 31, 2017	**1,929**	**6,532**	**54,106**	**44,581**	**62,078**	**169,226**

Legal risk includes provisions for various legal disputes that have occurred in the ordinary course of business of the Group.

The item Self-insurance includes provisions made since the Company insures itself against certain risks. The Company is self-insured for certain losses relating to workers' compensation, general liability, own risk, and employee medical benefits for claims incurred but not reported. The Company's liability is estimated using historical claims experience and industry averages; however, the final cost of the claims may not be known for over five years.

21. Other current liabilities

Other current liabilities		
(Euro/000)	December 31, 2017	December 31, 2016
Salaries payable	347,209	340,754
Due to social security authorities	48,812	49,493
Sales tax payables	68,956	70,180
Leasing rental	26,926	26,398
Insurance	10,637	12,164
Sales commissions payable	7,975	7,064
Premiums and discounts	7,672	4,322
Royalties payable	2,426	3,034
Derivative financial instruments	3,408	2,856
Other financial liabilities	170,611	159,406
Total financial liabilities	**694,632**	**675,670**
Deferred income	69,762	69,596
Other liabilities	-	655
Total liabilities	**69,762**	**70,251**
Total other current liabilities	**764,394**	**745,921**

All the items that make up other current liabilities have a balance substantially in line with the previous period, except for the following.

The change in salaries payable is mainly due to the timing of remuneration payments in the main countries in which the group operates.

Non-current liabilities

22. Long-term debt

Long-term financial debt was Euro 1,821.7 million (including Euro 150.4 million due in 2017) and Euro 1,835.0 million (Euro 154.1 million due in 2016) as of December 31, 2017 and 2016, respectively.

The changes in long-term debt as of December 31, 2017 and 2016, are as follows:

Long-term financial debt (Euro/000)	Luxottica Group S.p.A. credit agreement with various financial institutions	Senior unsecured guaranteed notes	Other loans with banks and other third parties	Total
Balance as of January 1, 2017	**-**	**1,747,832**	**87,210**	**1,835,045**
Contracted	500,000	-	11,548	511,548
Repaid	(1,139)	(404,082)	(64,082)	(469,303)
Loans contracted as a result of business combinations	-	-	3,909	3,909
Amortization of fees and interests	206	115	-	321
Translation reserve	-	(55,342)	(4,483)	(59,825)
Balance as of December 31, 2017	**499,068**	**1,288,522**	**34,102**	**1,821,692**

Long-term financial debt (Euro/000)	Luxottica Group S.p.A. credit agreement with various financial institutions	Senior unsecured guaranteed notes	Other loans with banks and other third parties	Total
Balance as of January 1, 2016	**-**	**1,725,967**	**34,019**	**1,759,986**
Contracted	-	-	18,081	18,081
Repaid	-	-	(12,696)	(12,696)
Loans contracted as a result of business combinations	-	-	46,674	46,674
Amortization of fees and interests	-	1,924	-	1,924
Translation reserve	-	19,941	1,132	21,076
Balance as of December 31, 2016	**-**	**1,747,832**	**87,210**	**1,835,045**

The Group uses debt financing to raise financial resources for medium-/long-term business operations and to finance acquisitions. The Group carries out debt restructuring transactions, such as the placement of unsecured guaranteed notes with qualified investors in order to take advantage of favorable market conditions. The Group's debt agreements contain certain covenants (for more details see Note 3 — Default risk: negative pledges and financial covenants). As of December 31, 2017, the Company was in compliance with these financial covenants.

The table below summarizes the Group's long-term financial debt as of December 31, 2017:

Type	Series	Issuer/ borrower	Issue date	Currency	Initial Debt	Debt to be repaid as of December 31, 2017	Fair value (€/ml)	Coupon/ Pricing	Interest rate as of December 31, 2017	Maturity
Private Placement	C	Luxottica US Holdings	01/07/2008	USD	128,000,000	128,000,000	112.9	6.770%	6.770%	7/1/2018
Private Placement	F	Luxottica US Holdings	29/01/2010	USD	75,000,000	75,000,000	66.2	5.390%	5.390%	1/29/2019
Bond (Listed on Luxembourg Stock Exchange)		Luxottica Group S.p.A.	19/03/2012	EUR	500,000,000	500,000,000	536.7	3.625%	3.625%	3/19/2019
Private Placement	E	Luxottica US Holdings	29/01/2010	USD	50,000,000	50,000,000	45.7	5.750%	5.750%	1/29/2020
Private Placement	H	Luxottica Group S.p.A.	30/09/2010	EUR	50,000,000	50,000,000	56.2	4.250%	4.250%	9/15/2020
Facility agreement Intesa		Luxottica Group S.p.A.	10/03/2017	EUR	250,000,000	250,000,000	255.4	0.70% + Euribor	0.371%	3/10/2022
Facility agreement Natixis		Luxottica Group S.p.A.	10/03/2017	EUR	250,000,000	250,000,000	254.6	0.62% + Euribor	0.291%	3/10/2022
Bond (Listed on Luxembourg Stock Exchange)		Luxottica Group S.p.A.	10/02/2014	EUR	500,000,000	500,000,000	573.2	2.625%	2.625%	2/10/2024

On March 19, 2012, the Company completed the placement with institutional investors of Euro 500 million of senior unsecured guaranteed notes due March 19, 2019 (Eurobond 19/03/2019). Interest on the Notes accrues at 3.625% per annum. The Notes are guaranteed on a senior unsecured basis by US Holdings Corp. and Luxottica S.r.l. The Notes are listed on the Luxembourg Stock Exchange under ISIN XS0758640279. On January 20, 2014, the Notes were assigned an "A-" credit rating.

On April 29, 2013, the Company's Board of Directors authorized a Euro 2 billion "Euro Medium Term Note Programme" pursuant to which Luxottica Group S.p.A. may from time to time offer notes to investors in certain jurisdictions (excluding the United States, Canada, Japan and Australia). The Notes issued under this Program are listed on the Luxembourg Stock Exchange.

On February 10, 2014, the Company completed to the placement with institutional investors of Euro 500 million of senior unsecured guaranteed notes due February 10, 2024 (Eurobond 10/02/2024) under the Euro Medium Term Note Program. Interest on the Notes accrues at 2.625% per annum. The Notes are listed on the Luxembourg Stock Exchange under ISIN XS1030851791. The Notes were assigned an "A-" credit rating.

In 2017, the Group carried out the following transactions:

- On January 29, 2017, Luxottica US Holdings repaid the Series D private placement contracted on January 29, 2010 for a total of USD 50 million (Euro 46.8 million).
- On February 9, 2017, Salmoiraghi & Viganò repaid in advance both Line A and Line B of the banking loan contracted on December 23, 2015 for a total of Euro 45.5 million.
- On March 10, 2017, the Luxottica Group signed two term facility agreements worth a total of Euro 250 million each, guaranteed by the subsidiary Luxottica U.S. Holdings Corp. The agreements were signed with Banca IMI S.p.A./Intesa San Paolo, in the role of mandated lead arranger and original lender, respectively ("IMI/Intesa facility") and with Natixis S.A. – Milan Branch in the role of both mandated lead arranger and original lender. The final maturity of each term facility is on March 10, 2022. In execution of the agreements, on March 10, 2017, Euro 500 million was

financed at the EURIBOR interest rate plus a spread of 0.70% and 0.62% for the IMI/Intesa facility and the Natixis Facility, respectively. Related to these loans, we entered into two interest rate swap transactions with an aggregate notional amount of Euro 500 million with Intesa Sanpaolo S.p.A. and Natixis S.A. – Milan Branch. The swaps exchanged the floating rate of EURIBOR for an average fixed rate of 0,1185% per annum.

- On April 10, 2017, Luxottica US Holdings repaid in advance the Series I private placement contracted on December 15, 2011 for a total of USD 350 million (Euro 330.9 million).

- On September 15, 2017, Luxottica Group repaid the Series G private placement contracted on September 30, 2010 for a total of Euro 50 million.

See note 28 - Information on the consolidated statement of income for details on the economic effect of the early repayments described above.

The fair value of long-term debt as of December 31, 2017 was equal to Euro 1,901.0 million (Euro 1,982.2 million as of December 31, 2016). The fair value of the debt equals the present value of future cash flows, calculated by utilizing the market rate currently available for similar debt and adjusted in order to take into account the Company's current credit rating. The above fair value does not include capital lease obligations of Euro 33.9 million. The level of the hierarchy referred to in paragraph 3 above used for determining fair value is Level 2.

Long-term debt matures as follows:

(Euro/000)	Amount
As of December 31	
2017	150,411
2018	571,628
2019	96,896
2020	5,056
Subsequent years	1,003,653
Effect deriving from the adoption of the amortized cost method	(5,952)
Total	**1,821,692**

The net financial position and disclosure required by the CONSOB communication no. DEM/6064293 dated July 28, 2006 and by the CESR recommendation dated February 10, 2005 "Recommendation for the consistent implementation of the European Commission's Regulation on Prospectus" is as follows:

Net Financial Position			
(Euro/000)	Note	December 31, 2017	December 31, 2016
A. Cash	6	1,159,320	866,864
B. Other cash equivalents		-	-
C. Hedging instruments on foreign exchange rates	9	5,260	6,428
D. Hedging instruments on interest rates		487	-
E. Cash and cash equivalents (A) + (B) + (C)		**1,165,067**	**873,292**
F. Current financial investments		**-**	**-**
G. Current borrowings from banks	16	77,486	208,813
H. Current portion of long-term debt	17	150,411	154,094
I. Hedging instruments on foreign exchange rates	22	3,408	2,856
J. Hedging instruments on interest rates		-	-
K. Current financial liabilities (G) + (H) + (I) + (J)		**231,305**	**365,762**
L. Net cash and cash equivalents (K) - (E) - (F)		**(933,762)**	**(507,530)**
M. Non-current borrowings from banks	22	500,000	36,135
N. Notes payables	22	1,148,275	1,614,519
O. Hedging instruments on interest rates		-	-
P. Other non-current debt	22	23,006	30,297
Q. Non-current financial debt (M) + (N) + (O) + (P)		**1,671,281**	**1,680,951**
R. Net financial debt (L) + (Q)		**737,519**	**1,173,421**

A reconciliation between the net financial position above and the net financial position presented in the Management Report is as follows:

Net Financial Position		
(Euro/000)	December 31, 2017	December 31, 2016
Net Financial Position	**737,519**	**1,173,421**
Hedging instruments on foreign exchange rates - assets	5,260	6,428
Hedging instruments on foreign exchange rates - liabilities	(3,408)	(2,856)
Hedging instruments on interest rates	487	-
Net Financial Position, as presented in the management report	**739,858**	**1,176,993**

The Company determined the fair value of the derivatives existing as of December 31, 2017 through valuation techniques which are commonly used for instruments similar to those traded by the Group. The input data used in these models are based on observable market prices (the Euro and USD interest rate curves as well as official exchange rates on the date of valuation). The Company implemented procedures to determine the fair value of assets and liabilities using the best data available.

Interest accrued and not yet paid of Euro 32.6 million (Euro 35.8 million as of December 31, 2016) is classified under current liabilities in the item Borrowings from banks and other financial institutions.

Our net financial position with respect to related parties is not material.

Long-term financial debt includes finance lease liabilities of Euro 33.9 million (Euro 42.4 million as of December 31, 2016) and is broken down as follows based on maturities:

Finance leases (Euro/000)	December 31, 2017	December 31, 2016
Finance lease liabilities:		
- no later than 1 year	12,791	13,734
- later than 1 year and no later than 5 years	23,681	31,869
- later than 5 years	-	58
Finance lease liabilities	**36,472**	**45,661**
Future finance charges on finance lease liabilities	2,555	3,264
Present value of finance lease liabilities	**33,916**	**42,397**

The present value of finance lease liabilities is broken down as follows based on maturities:

Finance leases (Euro/000)	December 31, 2017	December 31, 2016
no later than 1 year	11,070	12,100
later than 1 year and no later than 5 years	22,846	30,242
later than 5 years	-	55
Present value of finance lease liabilities	**33,916**	**42,397**

23. Employee benefits

The balance of employee benefits is Euro 121.6 million (Euro 159.4 million as of December 31, 2016) and mainly includes: (i) liabilities for severance indemnity for Euro 54.2 million (Euro 56.3 million as of December 31, 2016); (ii) liabilities for the employee benefits of American subsidiaries for Euro 39.0 million (Euro 98.5 million as of December 31, 2016); and (iii) liabilities for the long-term incentive (LTI) plans approved by the Board of Directors of Luxottica Group S.p.A. in October 2016 and December 2017 for Euro 28.4 million (Euro 4.6 million as of December 31, 2016). The disbursement of the monetary incentive to the beneficiaries will take place at the end of a period of approximately three years, if the conditions precedent to which the plans are subject do not occur (e.g.: departure of the beneficiary from the company workforce during the reference period).

The decrease as at December 31, 2017 compared to December 31, 2016 is mainly due to actuarial trends in provisions for employee benefits of the American subsidiaries and the LTI.

Actuarial gains/(losses) recorded in the statement of other comprehensive income which will not be recognized through profit or loss in future years amounts to Euro 55.2 million (Euro 6.4 million post-tax) in the period 2017 and to Euro (19.9) million (Euro (15.2) million post-tax) in the period 2016.

LIABILITIES FOR EMPLOYEE BENEFITS OF ITALIAN COMPANIES

Liabilities for termination indemnities mainly include post-employment benefits of the Italian companies' employees (hereinafter also "TFR") which, as of December 31, 2017, amounted to Euro 43.1 million (Euro 44.7 million as of December 31, 2016).

Effective January 1, 2007, the TFR system was reformed, and under the new law, employees are given the ability to choose whether the TFR compensation is invested, or otherwise is directed to the National Social Security Institute for Pension Funds. As a result, contributions under the reformed TFR system are accounted for as a defined contribution plan. The liability accrued until December 31, 2006 continues to be considered a defined benefit plan.

This liability as of December 31, 2017 represents the estimated future payments required to settle the obligation resulting from employee service, excluding the component related to the future salary increases.

Contribution expense to pension funds was Euro 23.9 million and Euro 25.0 million for the years 2017 and 2016, respectively.

In application of IAS 19, the valuation of TFR liability accrued as of December 31, 2006 was based on the Projected Unit Credit Cost method. The main assumptions utilized are reported below:

Economic Assumptions	Financial Year 2017	Financial Year 2016
Discount rate	1.30%	1.31%
Annual TFR increase rate	2.63%	2.63%
Mortality tables:	Those determined by the General Accounting Department of the Italian Government, named RG48	Those determined by the General Accounting Department of the Italian Government, named RG48
Retirement probability:	Assuming the attainment of the first of the retirement requirements applicable for the Assicurazione Generale Obbligatoria (General Mandatory Insurance)	Assuming the attainment of the first of the retirement requirements applicable for the Assicurazione Generale Obbligatoria (General Mandatory Insurance)

Movements in liabilities during the course of the year are detailed in the following table:

TFR liability (Euro/000)	December 31, 2017	December 31, 2016
Liabilities at the beginning of the period	**44,729**	**38,019**
Interest expense	570	746
Change in the revaluation rate	-	-
Actuarial loss (gain)	7	1,617
Benefit payment	(2,168)	(1,484)
Business combinations	-	5,832
Liabilities at the end of the period	**43,138**	**44,729**

The following table shows the sensitivity of liabilities for employee benefits to changes in the significant assumptions:

(Euro/000)	Actuarial valuation rate		Annual inflation rate		Annual turnover rate	
Sensitivity	*+0.5%*	*-0.50%*	*+0.25%*	*-0.25%*	*+2.00%*	*-2.00%*
Past-Service Liability	**41,354**	**45,053**	**43,681**	**42,606**	**42,724**	**43,613**

The sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur. When calculating the sensitivity of liabilities for employee benefits to changes in significant assumptions, the same method has been applied as when calculating the liabilities recognized in the statements of financial position.

POST-EMPLOYMENT EMPLOYEE BENEFITS

Qualified Pension Plans — US Holdings sponsors a qualified non-contributory defined benefit pension plan, the Luxottica Group Pension Plan ("Lux Pension Plan"), which provides for the payment of benefits to eligible past and present employees of US Holdings upon retirement. Pension benefits are gradually accrued based on length of service and annual compensation under a cash balance formula. Participants become vested in the Lux Pension Plan after three years of vesting service as defined by the Lux Pension Plan. In 2013, the Lux Pension Plan was amended so that employees hired on or after January 1, 2014 would not be eligible to participate.

Non-qualified Pension Plans and other Agreements — US Holdings also maintains a non-qualified, unfunded supplemental executive retirement plan ("Lux SERP") for participants of its qualified pension plan to provide benefits in excess of amounts permitted under the provisions of prevailing US tax law. This plan's liability mirrors the actuarial methods and assumptions used for the Lux Pension Plan.

US Holdings also sponsors the Cole National Group, Inc. (hereinafter "Cole") Supplemental Pension Plan. This plan is a non-qualified unfunded SERP for certain employees of the above-mentioned US companies who were designated by the Board of Directors of Cole on the recommendation of Cole's chief executive officer at such time. This plan provides benefits in excess of amounts permitted under the provisions of the prevailing tax law. This plan's liability mirrors the actuarial methods and assumptions used for the Lux Pension Plan.

All plans operate under the US regulatory framework. The plans are subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). The Luxottica Group ERISA Plans Compliance and Investment Committee controls and manages the operation and administration of the plans. The plans expose the Group to actuarial risks, such as longevity risk, exchange rate risk, and interest rate risk.

The following tables provide the reconciliation between the opening and closing balance of liabilities for employee benefits and plan assets (amounts in thousands of Euro):

Lux Pension Plan (Euro/000)	Liabilities for employee benefits	Plan Assets	Total
As of January 1, 2016	**753,083**	**(678,133)**	**74,950**
Service Cost	27,099	2,927	30,026
Interest expense	27,781	(25,380)	2,401
Total amount recognised through the statement of income	**54,880**	**(22,453)**	**32,427**
Return on plan assets	-	(28,999)	(28,999)
(Gain)/loss from financial assumption changes	23,812	-	23,812
(Gain)/loss from demographic assumption changes	(3,321)	-	(3,321)
Experience (gains)/losses	20,914	-	20,914
Total amount recognised through the statement of comprehensive income	**41,405**	**(28,999)**	**12,406**
Employer contributions	-	(43,409)	(43,409)
Benefit payment	(24,142)	24,142	-
Translation difference	28,414	(25,876)	2,539
As of December 31, 2016	**853,640**	**(774,729)**	**78,912**

Lux Pension Plan (Euro/000)	Liabilities for employee benefits	Plan Assets	Total
As of January 1, 2017	**853,640**	**(774,729)**	**78,912**
Service Cost	24,537	2,906	27,443
Interest expense	28,284	(25,865)	2,419
Total amount recognised through the statement of income	**52,821**	**(22,959)**	**29,862**
Return on plan assets	-	(106,606)	(106,606)
(Gain)/loss from financial assumption changes	54,554	-	54,554
(Gain)/loss from demographic assumption changes	(11,162)	-	(11,162)
Experience (gains)/losses	18,163	-	18,163
Total amount recognised through the statement of comprehensive income	**61,555**	**(106,606)**	**(45,051)**
Employer contributions	-	(29,831)	(29,831)
Benefit payment	(31,096)	31,096	-
Translation difference	(108,175)	101,310	(6,946)
As of December 31, 2017	**828,664**	**(801,720)**	**26,944**

Lux SERP (Euro/000)	Liabilities for employee benefits	Plan Assets	Total
As of January 1, 2016	**9,918**	**-**	**9,918**
Service Cost	790	-	790
Interest expense	407	-	407
Total amount recognised through the statement of income	**1,197**		**1,197**
Return on plan assets	-		
(Gain)/loss from financial assumption changes	207	-	207
(Gain)/loss from demographic assumption changes	(25)	-	(25)
Experience (gains)/losses	2,226	-	2,226
Total amount recognised through the statement of comprehensive income	**2,408**	**-**	**2,408**
Employer contributions	-	(469)	(469)
Benefit payment	(32)	32	-
Settlements	(437)	437	-
Translation difference	484	(1)	483
As of December 31, 2016	**13,539**	**-**	**13,539**

Lux SERP (Euro/000)	Liabilities for employee benefits	Plan Assets	Total
As of January 1, 2017	**13,539**	**-**	**13,539**
Service Cost	597	-	597
Interest expense	376	-	376
Total amount recognised through the statement of income	**973**	**-**	**973**
Return on plan assets	-	-	0
(Gain)/loss from financial assumption changes	214	-	214
(Gain)/loss from demographic assumption changes	(316)	-	(316)
Experience (gains)/losses	(604)	-	(604)
Total amount recognised through the statement of comprehensive income	**(706)**	**-**	**(706)**
Employer contributions	-	(1,590)	(1,590)
Benefit payment	(141)	141	-
Settlements	(1,449)	1,449	-
Translation difference	(1,562)	0	(1,562)
As of December 31, 2017	**10,652**	**-**	**10,652**

During 2017 and 2016, the Lux SERP settled a portion of its benefit obligations through lump-sum cash payments to certain plan participants.

The following tables show the main assumptions used to determine the liabilities for employee benefits for the periods indicated below:

	Lux Pension Plan		SERPs	
(Euro/000)	FY 2017	FY 2016	FY 2017	FY 2016
Weighted-average assumptions used to determine the liabilities for employee benefits				
Discount rate	3.72%	4.28%	3.43/3.57%	3.87/3.98%
Rate of compensation increase	7.5%/4%/3%	7%/4%/3%	7.5%/4%/3%	7%/4%/3%
Mortality Table	Static 2017	Static 2016	Static 2017	Static 2016

US Holdings' discount rate is calculated using a third-party yield curve derived from non-callable bonds of at least an Aa rating by Moody's Investor Services or at least an AA rating by Standard & Poor's. Each bond issued is required to have at least USD 250 million outstanding. The yield curve compares the future expected benefit payments of the Lux Pension Plan to these bond yields to determine an equivalent discount rate. US Holdings uses an assumption for compensation increases based on a graduated approach of historical experience. US Holdings' experience shows salary increases that typically vary by age.

The sensitivity of liabilities for employee benefits to changes in the significant assumptions is:

	Impact on liabilities for employee benefits				
		Increase in assumption		Decrease in assumption	
(Euro/000)	Change in assumption	Pension Plan	SERP	Pension Plan	SERP
Discount rate	1.0%	(92,156)	(569,641)	112,406	552,373
Rate of compensation increase	1% for each age group	7,345	581	(6,656)	(429)

The sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur. When calculating the sensitivity of liabilities for employee benefits to significant assumptions, the same method has been applied as when calculating the liabilities recognized in the statement of financial position.

Plan Assets — Plan assets are invested in accordance with an Investment Policy that describes the guidelines and principles that the Luxottica Group ERISA Plans Compliance and Investment Committee intends to follow when making decisions on the management and investment of Plan assets. The Plan's long-term investment objectives are to generate investment returns that provide adequate assets to meet the Plan's benefit obligations and to maintain sufficient liquidity to pay benefits and administrative expenses.

In 2014, a new investment policy was implemented which applies a dynamic asset allocation strategy. A dynamic asset allocation strategy invests in both return-seeking assets and liability-hedging assets and the allocation between these asset classes varies based upon the Plan's funded ratio. Return-seeking assets consist of funds focused on US equity, global equity, non-US equity and global REITs. Liability-hedging assets are fixed income investments. As the funded ratio of the Plan increases, the weight of liability-hedging assets increases.

As of December 31, 2017, the Plan's asset allocation was within the guidelines described in the investment policy. The table below shows the asset classes as a percentage of total assets:

Asset Category	Asset Class as a Percentage of Total Assets
Fixed income Funds	33%
US Equity Funds	23%
International and Global Equity Funds	38%
Global real estate funds	6%
Money market funds	0%
Cash and Equivalents	1%

Plan assets are invested in diversified portfolios across various asset classes based on the targets envisioned for the allocation of resources, using a mix of active management strategies, for which various consultants have been employed. Risk management is ensured by investment diversification across various asset classes, managers, strategies, market capitalizations (equity investments) and individual securities. Certain transactions and securities are not authorized to be conducted or held in the pension funds, such as purchase or sale of commodity contracts, real estate investments, excluding in trust funds, and American Depositary Receipts (ADR) or treasury shares of the Company. Risk is further controlled both at the asset class and manager level by assigning benchmarks and performance objectives. The investment managers are monitored on an ongoing basis to evaluate performance against these benchmarks and performance objectives.

Contributions — US Holdings expects to contribute Euro 31.6 million to its pension plan and Euro 2.7 million to the SERP in 2018.

Duration — The weighted average duration of the Lux Pension Plan is 12.2 years while the weighted average duration of the Lux SERP is 7.2 years. The following table provides the undiscounted estimated future benefit payments:

Estimated Future Benefit Payments		
(Euro/000)	Lux Pension Plan	Lux SERP
2018	35,385	2,722
2019	37,793	1,509
2020	40,415	478
2021	42,318	561
2022	45,542	639
Subsequent years	264,407	3,801

Other Benefits — US Holdings provides certain post-employment medical, disability and life insurance benefits. The accrued liability related to this obligation as of December 31, 2017 and 2016 was Euro 1.1 million and Euro 1 million, respectively.

US Holdings sponsors the following additional benefit plans, which cover certain present and past employees of some of its US subsidiaries:

a. US Holdings provides, under individual agreements, post-employment benefits for continuation of health care benefits and life insurance coverage to former employees after employment. As of December 31, 2017 and 2016, the accrued liability related to these benefits was Euro 0.6 million and Euro 0.7 million, respectively.

b. US Holdings maintains the Cole National Group, Inc. Supplemental Retirement Benefit Plan, which provides supplemental retirement benefits for certain highly compensated and management employees who were previously designated by the Board of Directors of Cole as participants. This is an unfunded non-contributory plan. Each participant's account is credited with interest earned on the average balance during the year. This plan was frozen as to future salary credits on the effective date of the Cole acquisition in 2004. The plan liability was Euro 0.3 million and Euro 0.4 million as of December 31, 2017 and 2016, respectively.

US Holdings sponsors certain defined contribution plans for its United States and Puerto Rico employees. The cost of contributions incurred in 2017 and 2016 was Euro 16.2 million and Euro 14.9 million, respectively, and was recorded in general and administrative expenses in the consolidated statement of income.

In Australia and Hong Kong, the Group makes mandatory contributions to superannuation retirement funds. The plans provide benefits on a defined contribution basis for employees upon retirement, resignation, injury or death. Contributions to defined contribution superannuation plans are recognized as an expense as the contributions are paid or become payable to the fund. Contributions are accrued based on legal rates and annual compensation. The cost of contributions incurred in 2017 and 2016 was Euro 8.7 million and Euro 8.6 million, respectively.

Health Benefit Plans—US Holdings partially subsidizes health care benefits for eligible retirees. Employees generally become eligible for retiree health care benefits when they retire from active service between the ages of 55 and 65. Benefits are discontinued at age 65. During 2009, US Holdings provided for a onetime special election of early retirement to certain employees age 50 or older with 5 or more years of service. Benefits for this group are also discontinued at age 65 and the resulting special termination benefit is immaterial.

The plan liability of Euro 1.0 million and Euro 1.1 million as of December 31, 2017 and 2016 is included in other non-current liabilities on the consolidated statement of financial position. The cost of this plan in 2017 and 2016 as well as the 2018 expected contributions are immaterial.

For 2018, a 7.7% (6.8% for 2017) cost of covered health care benefits was assumed. This rate was assumed to decrease gradually to 4.5% by 2024 and remain at that level thereafter. The health care cost trend rate assumption could have a significant effect on the amounts reported. A 1.0% increase or decrease in the health care trend rate would not have a material impact on the consolidated financial statements. The weighted-average discount rate used in determining the accumulated post-retirement benefit obligation was 3.7% as of December 31, 2017 and 4.3% as of December 31, 2016. A 1.0% increase or decrease in the discount rate would not have a material impact on the liability.

24. Long-term provisions for risks

The balance in 2016 and 2017 is detailed below:

Long-term provisions for risks (Euro/000)	December 31, 2017	December 31, 2016
Legal Risk	19,140	13,069
Self-Insurance	23,855	25,735
Tax Provision	47,005	40,945
Warranty	7,755	7,059
Other Risks	32,697	35,299
Total	**130,453**	**122,107**

Changes in long-term provisions for risks between December 31, 2016 and December 31, 2017 were as follows:

Long-term provisions for risks (Euro/000)	Legal Risk	Self-insurance	Tax Provision	Warranty	Other Risks	Total
Balance as of December 31, 2016	**13,069**	**25,735**	**40,946**	**7,059**	**35,299**	**122,107**
Increases	10,583	9,603	5,880	3,124	9,845	39,035
Decreases	(5,464)	(8,291)	(119)	(2,800)	(12,052)	(28,726)
Translation difference and other movements	952	(3,192)	299	373	(394)	(1,963)
Balance as of December 31, 2017	**19,140**	**23,856**	**47,005**	**7,755**	**32,697**	**130,453**

Other risks include (i) accruals for provision fo supplementary customer indemnity("fondo indennità suplettiva di clientela") related to sales agents of certain Italian companies of Euro 5.5 million (Euro 6.0 million as of December 31, 2016) and (ii) accruals for contingent liabilities related to companies subject to purchase price allocation of Euro 11.5 million (Euro 10.0 million as of December 31, 2016).

Please refer to Note 20 for additional details related to self-insurance risk funds.

25. Other non-current liabilities

The balance of other non-current liabilities was Euro 74.6 million and Euro 79.8 million as of December 31, 2017 and December 31, 2016, respectively.

The balance mainly includes 'Other liabilities' of the North American Retail segment of Euro 33.5 million and Euro 43.4 million as of December 31, 2017 and December 31, 2016, respectively.

26. Luxottica group stockholders' equity

CAPITAL STOCK

The share capital of Luxottica Group S.p.A. as of December 31, 2017 amounted to Euro 29,100,961.98 and was comprised of 485,016,033 ordinary shares with a par value of Euro 0.06 each.

The share capital of Luxottica Group S.p.A. as of January 1, 2017 amounted to Euro 29,050,564.98 and was comprised of 484,176,083 ordinary shares with a par value of Euro 0.06 each.

Following the exercise of 839,950 options to purchase ordinary shares granted to employees under existing stock option plans, the share capital increased by Euro 50,397 during 2017.

The total options exercised in 2017 were 839,950, of which 39,700 refer to the 2008 Plan, 239,000 refer to the 2009 Extraordinary Plan (reassignment of the 2006 Performance Plan), 38,000 refer to the 2009 ordinary Plan (reassignment of the 2006 and 2007 ordinary Plans), 28,000 refer to the 2009 ordinary Plan, 95,000 refer to the 2010 Plan, 108,500 refer to the 2011 ordinary Plan and 291,750 refer to the 2012 Plan.

LEGAL RESERVE

This reserve represents the portion of Luxottica Group S.p.A.'s profits that are not distributable as dividends, in accordance with Article 2430 of the Italian Civil Code.

SHARE PREMIUM RESERVE

This reserve increases with the expensing of options or excess tax benefits from the exercise of options.

RETAINED EARNINGS

These include subsidiaries' earnings that have not been distributed as dividends and the amount of consolidated companies' equities in excess of the corresponding carrying amounts of equity investments.

TRANSLATION RESERVE

Translation differences are generated by the translation into Euro of financial statements prepared in currencies other than Euro.

TREASURY SHARES

Treasury shares are equal to Euro 256.7 million (Euro 269.8 million as of December 31, 2016). The Euro 13.1 million decrease is due to the grants to certain employees of 680,449 treasury shares in the amount of Euro 13.1 million as a result of the Group having achieved the financial targets identified by the Board of Directors under the 2014 Performance Share Plan ("PSP").

27. Equity attributable to non-controlling interests

Equity attributable to non-controlling interests was Euro 5.5 million and Euro 5.9 million as of December 31, 2017 and December 31, 2016, respectively. The reduction was mainly due to the dividends paid in the period of Euro 2.5 million less the net income as of December 31, 2017 of Euro 2.0 million.

28. Information on the consolidated statement of income

REVENUE BY CATEGORY

The breakdown of revenue by category is as follows:

Revenue by category (Euro/000)	Financial Year 2017	Financial Year 2016
Sales of products	8,263,882	8,279,644
Vision care business	744,897	664,641
Eye-exam and related professional fees	115,245	113,017
Income from franchisee royalties	33,267	28,405
Total net sales	**9,157,291**	**9,085,707**

ANALYSIS OF EXPENSES BY NATURE

The reconciliation of the expenses by function to the expenses by nature is as follows:

Analysis of expenses by nature (Euro/000)	Financial Year 2017	Financial Year 2016
Cost of sales	3,282,098	3,153,264
Selling and advertising	3,691,626	3,626,962
General and administrative	882,971	960,214
Total expenses by function	**7,856,695**	**7,740,439**
Employee benefits expenses	2,701,440	2,661,303
Consumption	1,407,030	1,483,179
Production costs	761,567	628,412
Lease expenses	743,891	713,383
Depreciation, amortization and write-downs	540,420	512,842
Advertising expenses	295,617	331,782
Logistics costs	213,531	188,829
Trade marketing	157,647	180,976
Royalties	164,043	169,890
Share-based payments	791	9,577
Other	870,718	860,267
Total expenses by nature	**7,856,695**	**7,740,439**

It should be noted that, as from January 1, 2017, certain research and development costs directly related to the product and amounting to Euro 20.2 million (Euro 25.7 million as of December 31, 2016) were reclassified from operating expenses to cost of sales to better reflect their breakdown into the various income statement items.

The table below summarises the workforce split by business and geographical area as of December 31, 2017 and December 31, 2016:

	2017	2016
Business area		
Retail	48,957	47,961
Operations	26,132	24,402
Wholesale	9,363	9,354
Corporate	698	565
Group Total	**85,150**	**82,282**
Geographical area		
North America	41,488	41,734
Asia Pacific	20,076	19,980
Europe	16,892	14,423
Latin America	6,034	5,460
Middle East & South Africa	660	685
Group total	**85,150**	**82,282**

OTHER INCOME/(EXPENSES)

The composition of other income/(expenses) is as follows:

Financial expenses (Euro/000)	Financial Year 2017	Financial Year 2016
Interest expense on bank overdrafts	(821)	(1,131)
Interest expense on loans	(60,153)	(68,042)
Financial expenses on derivatives	(10,583)	(7,841)
Other financial expenses	(36,190)	(4,514)
Total financial expenses	**(107,746)**	**(81,528)**

Financial income (Euro/000)	Financial Year 2017	Financial Year 2016
Interest income on bank accounts	10,889	8,969
Financial income on derivatives	3,507	3,205
Other financial income	3,803	3,296
Total financial income	**18,199**	**15,469**
Net income/(expenses) from derivative financial instruments and translation differences	(956)	1,261
Other income/(expenses)	46,397	35,838
Total other income/(expenses)	**45,441**	**37,099**

The item Other financial expenses includes non-recurring expenses for Euro 29.5 million relating to the early repayment of the Series I private placement contracted by Luxottica U.S. Holdings on December 15, 2011 and the early repayment of the bank loans contracted by Salmoiraghi & Viganò on December 23, 2015.

The item Other income/(expenses) includes non-recurring income for Euro 48.7 million relating to the capital gains on the sale of a property owned by the Group and sold in March 2017.

INCOME TAXES

Income taxes are as follows:

Income taxes (Euro/000)	Financial Year 2017	Financial Year 2016
Current taxes	(361,668)	(482,379)
Deferred taxes	145,583	16,007
Total income taxes	**(216,085)**	**(466,373)**

On November 24, 2017, Luxottica Group S.p.A. signed a prior agreement with the Italian Revenue Agency for access to the tax benefit of the Patent Box for certain trademarks in its portfolio. In the case of trademark applications, the legislation provides for a five-year benefit, from 2015 to 2019, calculated by excluding from the taxable base an increasing portion of the income attributable to the use of the relevant intangible assets, equal to 30% and 40% in 2015 and 2016, respectively, and 50% in the following three financial years. The tax benefit related to the Company for the three-year period from 2015 to 2017, amounting to Euro 102.8 million, was recognized in 2017. Part of this amount is recorded under non-recurring income, for details see note 34—non-recurring transactions.

On December 22, 2017, the President of the United States signed law H.R.1. The new law signed represents the most important tax reform in the United States over the past 30 years. The law includes substantial changes in corporate taxation; more specifically, the law provides for a permanent reduction in the rate applied to companies to 21%. This reduction in the tax rate led to a Euro 97.4 million decrease in income taxes in 2017.

The reconciliation between the Italian statutory tax rate and the effective rate is shown below:

Effective rate (Euro/000)	Financial Year 2017	Financial Year 2016
Italian statutory tax rate	27.9%	31.4%
of which IRAP rate	3.9%	3.9%
US tax reform	(7.8)%	-
Patent Box tax benefit of the Company	(8.2)%	-
Aggregate effect of different tax rates in foreign jurisdictions	5.3%	4.1%
Tax effect of restructuring and reorganization expenses and non-recurring income/expenses	(0.0)%	(0.1)%
Effective rate	**17.2%**	**35.4%**

For an analysis of the principal changes in 2017 as compared to 2016 please refer paragraph 4 "Financial Results" of the Management Report.

29. Commitments and risks

LICENSE AGREEMENTS

Luxottica Group S.p.A. has entered into license agreements with certain designers for the production, design and distribution of sunglasses and prescription frames.

Under these license agreements, which typically have terms ranging from 4 to 10 years, Luxottica is required to pay a royalty generally ranging from 3% to 14% of net sales of the related collection. Certain agreements also provide for the payment of minimum annual guaranteed amounts and a mandatory marketing contribution (the latter typically amounts to between 5% and 12% of net sales of the related collection). These agreements can typically be terminated early by either party for several reasons, including but not limited to non-payment of royalties, failure to reach minimum sales thresholds, unauthorized changes to products and, under certain conditions, a change in control of Luxottica Group S.p.A.

Minimum payments required in each of the years subsequent to December 31, 2017 are detailed as follows:

(Euro/000)	Importo
As of December 31	
2018	145,794
2019	140,291
2020	135,795
2021	112,239
2022	112,553
Subsequent years	249,438
Total	**896,111**

RENTALS, LEASES AND LICENSES

The Group leases through its worldwide subsidiaries various retail stores, plants, warehouses and office facilities as well as certain of its data processing and automotive equipment under operating lease arrangements. These agreements expire between 2018 and 2028 and provide for renewal options under various conditions. The lease arrangements for the Group's US retail locations often include escalation clauses and provisions requiring the payment of incremental rentals, in addition to any established minimum contingent upon the achievement of specified levels of sales volume. The Group also operates departments in various host stores, paying occupancy costs solely as a percentage of sales. Certain agreements which provide for operations of departments in a major retail chain in the United States contain short term cancellation clauses.

Total operating lease expenses for the years ended December 31, 2017 and 2016 is as follows:

Operating lease expenses (Euro/000)	Financial Year 2017	Financial Year 2016
Minimum lease payments	463,466	452,000
Additional lease payments	148,663	158,883
Sublease payments received	(35,848)	(32,692)
Total	**576,281**	**578,190**

Future minimum operating lease commitments are as follows:

(Euro/000)	Amount
As of December 31	
2018	368,664
2019	298,370
2020	238,913
2021	183,917
2022	146,783
Subsequent years	264,983
Total	**1,501,631**

OTHER COMMITMENTS

The Group is committed to pay amounts in future periods for endorsement contracts, supplier purchase and other long-term commitments. Endorsement contracts are entered into with selected athletes and others who endorse Oakley products. Supplier commitments have been entered into with various suppliers in the normal course of business. Other commitments mainly include auto, machinery and equipment lease commitments.

Future minimum amounts to be paid for endorsement contracts and supplier purchase commitments are as follows:

(Euro/000)	Endorsement Contracts	Supplier purchase Commitments	Other commitments
As of December 31			
2018	5,183	33,469	99,526
2019	2,314	14,312	53,796
2020	877	7,587	36,860
2021	-	6,834	16,401
2022	-	598	8,892
Subsequent years	-	16	1,267
Total	**8,374**	**62,816**	**216,742**

WARRANTY

A wholly-owned US subsidiary guaranteed future minimum lease payments for lease agreements on certain stores. The lease agreements were signed directly by the franchisees as part of certain franchise agreements. Total minimum guaranteed payments under this warranty were Euro 1.1 million (USD 1.3 million) as of December 31, 2017 and Euro 3.8 million as of December 31, 2016. The commitments provided for by the warranty arise if the franchisee cannot honor its financial commitments under the lease agreements. A liability has been accrued using an expected fair value calculation. Such amount is immaterial to the consolidated financial statements as of December 31, 2017. The liability expires at various dates by October 23, 2025.

LITIGATION

French Competition Authority Investigation

Luxottica's French subsidiaries, Luxottica France S.A.S.U., Alain Mikli International S.A.S.U. and Mikli Diffusion France S.A.S.U. (the "French Subsidiaries"), together with other major competitors in the French eyewear industry, have been the subject of an investigation conducted by the French Competition Authority ("FCA") relating to pricing and sales practices in the industry. In May 2015, the Company and the French Subsidiaries received a Statement of Objections from the FCA. This statement outlined the preliminary position of the FCA in relation to the alleged anti-competitive practices and did not anticipate any content of the final decision.

In August 2015, the Company and the French Subsidiaries filed detailed responses to the Statement of Objections. During 2016, the FCA requested additional information, as it is typical in this kind of proceeding. In July 2016, the FCA issued a Report responding to the observations submitted by the companies involved in the investigation. In October 2016, Luxottica filed its statement of defense responding to the FCA's Report. Following such filing, a final hearing was held on December 15, 2016. On February 24, 2017, Luxottica was notified of the FCA's decision in connection with the proceeding. The FCA concluded that there was insufficient evidence to confirm the anti-competitive practices alleged in the Report and referred the case back to FCA's investigation services department for further review and possibly the issuance of a supplementary statement of objections. No fines or sanctions were imposed in connection with the FCA's ruling dated February 24, 2017.

Given the current status of this investigation, the Company, together with its external legal advisors, has assessed the risk of the potential liability to be not probable and concluded that it is not possible to estimate or provide a range of potential liability that may be involved in this matter. The outcome of such proceedings is by nature uncertain and it is thus impossible to know, should the proceeding conclude with an unfavorable ruling for Luxottica, whether this will have material repercussions on the economic and financial results.

Other proceedings

The Group is a defendant in various other lawsuits arising in the ordinary course of business. It is the opinion of the management of the Group that it has meritorious defenses against all such outstanding claims, which the Group will vigorously pursue, and that the outcome of such claims, individually or in the aggregate, will not have a material adverse effect on the Group's consolidated financial position or results of operations.

30. Related party transactions

LICENSE AGREEMENTS

The Group executed an exclusive worldwide license for the production and distribution of Brooks Brothers brand eyewear. The brand is held by Brooks Brothers Group, Inc. ("BBG"), which is owned and controlled by Claudio Del Vecchio. The license expired on December 31, 2015 and has been renewed until December 31, 2019. Royalties paid under this agreement to BBG were Euro 0.9 million in 2017 and Euro 0.9 million in 2016. Management believes that the terms of the license agreement are fair.

TECHNOLOGY ADVISORY AGREEMENTS

The Group has IT technology advisory agreements in place with some companies owned and controlled by Francesco Milleri, co-opted on March 1, 2016 as a Director with deputy functions, appointed on April 29, 2016 as Deputy Chairman of Luxottica Group S.p.A. and appointed on December 15, 2017 as Chief Executive Officer of the Group. These contracts refer mainly to the implementation/development of the Group's IT platforms.

Costs incurred in view of services provided by the companies owned by Francesco Milleri amounted to Euro 27.3 million in 2017 and Euro 11.9 million in 2016. Part of these costs was capitalized under intangible assets for an amount of Euro 25.0 million and Euro 10.3 million for the period 2017 and 2016 respectively. The net book value of these fixed assets amounted to Euro 29.6 million as of December 31, 2017, whereas it amounted to Euro 10.3 million as of December 31, 2016.

On April 26, 2016 the Company signed a two-year master agreement with the companies owned or controlled by Mr. Milleri for services related to the Luxottica Group IT platform. On November 13, 2017 the Company signed an addendum which (i) includes digital IT services and (ii) extends the initial duration of the master agreement to three years with expiring date on April 25, 2019. The addendum was approved by the Board of Directors of the Company.

LEASE OF OFFICE BUILDINGS

On April 29, 2014, the Board of Directors authorized the Company to enter into an agreement to lease a building located in Piazzale Luigi Cadorna 3, Milan (hereinafter the “Building”). The lease will be for a period of seven years and 5 months and will be renewable for an additional six years. The building is owned by Beni Stabili SIIQ S.p.A. (hereinafter “Beni Stabili”) which, through Delfin S.à r.l., is ultimately controlled by the Company’s Chairman Leonardo Del Vecchio and therefore the lease agreement is a transaction with related parties. In accordance with the procedure on related parties adopted by the Company (the “Procedure”) and CONSOB regulation no. 17221/2010 (“CONSOB Regulation”) and in light of the contract balance, the agreement qualifies as a minor transaction with related parties. On March 31, 2014, the Risk and Control Committee, which is composed solely of independent directors, unanimously expressed a favorable opinion regarding the Company’s interest in entering into the lease as well as on the convenience and fairness of the related conditions.The Company incurred an expense for the lease of the building of Euro 2.7 million for the period 2017 (Euro 4.7 million in the same period of 2016).

On July 3, 2017, Luxottica Group S.p.A. purchased the Building from Beni Stabili for a consideration of Euro 114.6 million. This transaction also takes the form of a related party transaction and, due to its value; it qualifies as a "minor transaction" in accordance with the Procedure and CONSOB Regulation. On February 24, 2017, the Risk and Control Committee unanimously expressed a favorable opinion regarding the Company’s interest in the transaction as well as on the convenience and fairness of the related conditions.

A summary of related party transactions carried out in 2017 is provided below. For this reason, the amounts shown below in the "Assets" column do not correspond to those shown in the consolidated statement of financial position because the latter shows the net carrying amount as of the reporting date.

Related party	Consolidated statement of income		Impact on consolidated statement of financial position	
(Euro/000)	Revenue	Costs	Assets	Liabilities
December 31, 2017				
Brooks Brothers Group, Inc.	28	743	16	233
Eyebiz Laboratories Pty Limited	445	42,993	8,389	7,210
Milleri's Group	-	2,367	24,977	16,413
Others	170	9,204	120,966	344
Total	**644**	**55,307**	**154,349**	**24,199**

Related party	Consolidated statement of income		Impact on consolidated statement of financial position	
(Euro/000)	Revenue	Costs	Assets	Liabilities
December 31, 2016				
Brooks Brothers Group, Inc.	152	916	4	265
Eyebiz Laboratories Pty Limited	1,127	44,342	11,940	13,362
Milleri's Group	-	1,616	10,296	5,155
Salmoiraghi & Viganò[(a)]	21,876	46	-	-
Others	336	7,554	2,765	2,377
Totale	**23.491**	**54.474**	**25.005**	**21.159**

(a) It shows the business transactions occurring up to the date of acquisition of control

Total remuneration due to key managers amounted to approximately Euro 31.1 million and Euro 24.7 million in 2017 and 2016, respectively.

In 2017 and in 2016, transactions with related parties resulted in a cash outflow of approximately Euro 184.9 million and Euro 21.1 million, respectively.

Total commitments related to the provision of IT services from companies pertaining to Francesco Milleri amount to Euro 5.7 million as of December 31, 2017 (Euro 50 thousand as of December 31, 2016).

31. Earnings per share

Basic and diluted earnings per share were calculated as the ratio of net income attributable to the stockholders of the Company for 2017 and 2016 amounting to Euro 1,038 million and Euro 850.5 million, respectively, to the number of outstanding shares—basic and diluted—of the Company.

Basic earnings per share in 2017 were equal to Euro 2.17 compared to Euro 1.77 in 2016. Diluted earnings per share in 2017 were equal to Euro 2.17 compared to Euro 1.77 in 2016.

The table reported below provides the reconciliation between the average weighted number of shares utilized to calculate basic and diluted earnings per share:

(Euro/000)	Financial Year 2017	Financial Year 2016
Weighted-average shares outstanding - basic	478,068,696	479,225,730
Effect of dilutive stock options	279,681	799,801
Weighted-average shares outstanding - diluted	478,348,377	480,025,531
Options not included in calculation of dilutive shares as the average value was greater than the average price during the respective period or performance measures related to the awards have not yet been met	477,124	1,433,625

32. Atypical and/or unusual operations

the Group did not carry out any atypical and/or unusual transaction, pursuant to Consob communication n. 6064293 of July 28, 2006.

33. Derivative financial instruments

Derivatives are classified as current or non-current assets and liabilities. The fair value of derivatives is classified as a long-term asset or liability for the portion of cash flows expiring after 12 months, and as a current asset or liability for the portion expiring within 12 months.

The table below shows the assets and liabilities related to derivative contracts in effect as of December 31, 2017 and 2016:

Derivative financial instruments	FY 2017		FY 2016	
(Euro/000)	Assets	Liabilities	Assets	Liabilities
Interest rate swaps - cash flow hedge	-	-	-	-
Forward contracts	5,260	3,408	6,428	2,856
Total current portion	**5,260**	**3,408**	**6,428**	**2,856**
Interest rate swaps - cash flow hedge	487	-	-	-
Forward contracts	-	-	-	-
Total non-current portion	**487**	**-**	**-**	**-**
Total derivative financial instruments	**5,747**	**3,408**	**6,428**	**2,856**

INTEREST RATE SWAPS

As of December 31, 2017, there were two interest rate swap transactions with an aggregate notional amount of Euro 500 million with Intesa Sanpaolo S.p.A. and Natixis S.A. – Milan Branch. The swaps exchanged the floating rate of EURIBOR for an average fixed rate of 0.1185% per annum.

34. Non-recurring transactions

During 2017, the Group incurred:

- non-recurring expenses, with an Euro 55.6 million impact on income before taxes and an Euro 36.6 million impact on net income, related to: (i) the early repayment of loans equal to Euro 29.5 million (Euro 18.2 million net of taxes); (ii) costs related to the integration plan with Essilor of Euro 18.5 million (Euro 13.0 million net of taxes); (iii) Euro 7.6 million (Euro 5.3 million net of taxes) relating to the termination of the employment agreement with Massimo Vian, who resigned as CEO for Product and Operations (Euro 6.3 million) and other top managers of the Group (Euro 1.3 million).

- non-recurring income, with an Euro 48.7 million impact on income before taxes and an Euro 192.3 million impact on net income, related to: (i) the capital gain realized on the sale of a property owned by the Group and sold in March 2017 for Euro 48.7 million (Euro 34.9 million net of taxes); (ii) to tax benefits deriving from the Patent Box and the US tax reform of Euro 157.4 million.

During 2016, the Group incurred:

- non-recurring expenses with an Euro 17.4 million impact on income from operations and an Euro 11.9 million impact on net income related to (i) the termination of the employment of Mr. Adil Mehboob-Khan, the former Group CEO for Markets; and (ii) the Oakley integration.

- non-recurring income with an Euro 33.4 million impact on profit from operations and net income related to the capital gain realized as a result of the revaluation at fair value of the 36.8% interest acquired in Salmoiraghi & Viganò. For further details please refer to Note 4 - Business Combination;

Cash flow related to non-recurring transactions led to the generation of cash and cash equivalents equal to Euro 60.7 million in 2017 and to the incorporation of cash and cash equivalents equal to Euro 16.3 million in 2016. The non-recurring income related to the Patent Box fiscal benefit led to lesser tax advance payments for Euro 60.0 million.

35. Share-based payments

Beginning in April 1998, certain officers and other key employees of the Company and its subsidiaries were granted stock options of Luxottica Group S.p.A. under the Company's stock option plans (hereinafter also the "Plans"). In order to strengthen the loyalty of some key employees—with respect to individual targets, and in order to enhance the overall capitalization of the Group—the Company's Stockholders Meeting approved three share capital increases on March 10, 1998, September 20, 2001 and June 14, 2006, respectively, through the issuance of new common shares to be offered for subscription to employees. On the basis of these share capital increases, the authorized share capital was equal to Euro 29,457,295.98. These options become exercisable at the end of a three-year vesting period. Certain options may contain accelerated vesting terms if there is a change in ownership (as defined in the Plans).

The Stockholders' Meeting has delegated the Board of Directors to effectively execute, in one or more installments, the share capital increases and to grant options to employees. The Board can also:

- establish the terms and conditions for the underwriting of the new shares;
- request the full payment of the shares at the time of their underwriting;
- identify the employees to grant the options based on appropriate criteria; and
- regulate the effect of the termination of the employment relationships with the Company or its subsidiaries and the effects of the employee death on the options granted by specific provision included in the agreements entered into with the employees.

Upon execution of the proxy received from the Stockholders' Meeting, the Board of Directors has granted a total of 55,909,800 options of which, as of December 31, 2017, 34,516,033 have been exercised.

In total, the Board of Directors approved the following stock option plans:

Piano	Granted	Exercised
1998	3,380,400	2,716,600
1999	3,679,200	3,036,800
2000	2,142,200	1,852,533
2001	2,079,300	1,849,000
2002	2,348,400	2,059,000
2003	2,397,300	2,199,300
2004	2,035,500	1,988,300
2005	1,512,000	1,332,000
2006[(a)]	1,725,000	70,000
2007[(a)]	1,745,000	20,000
2008	2,020,500	1,664,000
2009	1,050,000	781,000
2009 reassignment of options granted under the Ordinary Plans to non-US beneficiaries	2,060,000	1,830,000
2009 reassignment of options granted under the Ordinary Plans to US beneficiaries	825,000	630,000
2002 Extraordinary Plan	1,170,000	-
2004 Extraordinary Plan	1,000,000	1,000,000
2006 Extraordinary Plan - US beneficiaries[(a)]	3,500,000	-
2006 Extraordinary Plan - non-US beneficiaries[(a)]	9,500,000	1,100,000
2009 reassignment of options granted under the Extraordinary Plans to non-US domiciled beneficiaries	4,250,000	4,250,000
2009 reassignment of options granted under the Extraordinary Plans to US domiciled beneficiaries	1,450,000	1,350,000
2010	1,924,500	1,554,000
2011	2,039,000	1,632,500
2012	2,076,500	1,601,000
Total	**55,909,800**	**34,516,033**

(a) The plan was reassigned in 2009

On April 29, 2013, the 2013/2016 Performance Shares Plan for key managers within the Company as identified by the Board (hereinafter "2013 PSP") was adopted. The beneficiaries of the 2013 PSP are granted the right to receive ordinary shares, without consideration, if consolidated cumulative earnings per share targets are achieved over the specified three-year period.

On April 29, 2014, the Board, through the 2014/2017 Performance Share Plan (hereinafter "2014 PSP"), granted certain of the Group's key employees 1,004,400 rights to receive ordinary shares, without consideration, which may be increased by 20% up to a maximum of 1,205,280 units if certain consolidated cumulative earnings per share targets are achieved over the three-year period from 2014 through 2016. Based on the performance condition, 680,449 options were assigned to key employees on March 4, 2017.

On May 4, 2015, the Board, through the 2015/2018 Performance Share Plan (hereinafter "2015 PSP"), granted certain of the Group's key employees 1,318,300 rights to receive ordinary shares, without consideration, which may be increased by 20% up to a maximum of 1,581,960 units if certain consolidated cumulative earnings per share targets are achieved over the three-year period from 2015 through 2017. Please note that this performance condition was achieved in advance by reducing the rights to receive Luxottica Group shares, without consideration, to 1,100,370 and by changing the 2015 PSP into a retention plan. As of December 31, 2017, 648,041 of the maximum units granted had been forfeited.

The information required by IFRS 2 on stock option plans is reported below.

Movements reported in the various stock option and Performance Share Plans in 2017 are set forth below:

Stock options and Performance Share Plan	Exercise price	Cur-rency	No. of options outstanding as of December 31, 2016	Granted options	Forfeited options	Exercised options/ vested units	Expired options	No. of options outstanding as of December 31, 2017
2008 Plan	18.08	Euro	39,700	-	-	(39,700)	-	-
2009 Ordinary plan for citizens not resident in the U.S.	13.45	Euro	24,000	-	(6,000)	(15,000)	-	3,000
2009 Ordinary plan for citizens resident in the U.S.	14.99	Euro	13,000	-	-	(13,000)	-	-
2009 Plan - reassignment of 2006/2007 plans for citizens not resident in the U.S.	13.45	Euro	43,000	-	-	(33,000)	-	10,000
2009 Plan - reassignment of 2006/2007 plans for citizens resident in the U.S.	15.03	Euro	10,000	-	(5,000)	(5,000)	-	-
2009 Plan - reassignment of 2006 extraordinary plans for citizens not resident in the U.S.	13.45	Euro	214,000	-	-	(214,000)	-	-
2009 Plan - reassignment of 2006 extraordinary plans for citizens resident in the U.S.	15.11	Euro	25,000	-	-	(25,000)	-	-
2010 Plan - for citizens not resident in the U.S.	20.72	Euro	78,000	-	(3,000)	(62,000)	-	13,000
2010 Plan - for citizens resident in the U.S.	21.23	Euro	33,000	-	-	(33,000)	-	-
2011 Plan - for citizens not resident in the U.S.	22.62	Euro	93,500	-	(6,000)	(55,500)	-	32,000
2011 Plan - for citizens resident in the U.S.	23.18	Euro	71,000	-	(15,000)	(53,000)	-	3,000
2012 Plan - for citizens not resident in the U.S.	26.94	Euro	317,000	-	(18,000)	(187,000)	-	112,000
2012 Plan - for citizens resident in the U.S.	28.32	Euro	129,250	-	(18,500)	(104,750)	-	6,000
2014 PSP	-	Euro	1,000,260	-	(319,811)	(680,449)	-	-
2015 PSP (ordinary)	-	Euro	756,240	-	(358,661)	-	-	397,579
2015 PSP (extraordinary)	-	Euro	273,600	-	(218,850)	-	-	54,750
Total			**3,120,550**	**-**	**(968,882)**	**(1,520,399)**	**-**	**631,329**

Options exercisable as of December 31, 2017 are summarized in the following table::

Stock options and Performance Share Plan	Number of options exercisable as of December 31, 2017
2009 Ordinary plan for citizens not resident in the U.S.	3,000
2009 Plan - reassignment of 2006/2007 plans for citizens not resident in the U.S.	10,000
2010 Plan - for citizens not resident in the U.S.	13,000
2011 Plan - for citizens not resident in the U.S.	32,000
2011 Plan - for citizens resident in the U.S.	3,000
2012 Plan - for citizens not resident in the U.S.	112,000
2012 Plan - for citizens resident in the U.S.	6,000
Total	**179,000**

The remaining contractual life of plans in effect as of December 31, 2017 is highlighted in the following table:

Stock option and Performance Share Plan	Remaining contractual life in years
2009 Ordinary plan for citizens not resident in the U.S.	0.35
2009 Plan - reassignment of 2006 extraordinary plans for citizens not resident in the U.S.	0.35
2010 Plan - for citizens not resident in the U.S.	1.33
2011 Plan - for citizens not resident in the U.S.	2.33
2011 Plan - for citizens resident in the U.S.	2.33
2012 Plan - for citizens not resident in the U.S.	3.35
2012 Plan - for citizens resident in the U.S.	3.35

With regards to the options exercised during the course of 2017, the weighted average share price of the shares in 2017 was equal to Euro 50.3.

The Company did not record expenses for the ordinary stock option plans in 2016 and 2017. For the extraordinary plans and the 2014 and 2015 PSPs, the Company recorded expenses of Euro 0.8 million and Euro 9.5 million in 2017 and 2016, respectively.

The plans in place as of December 31, 2017, which envision share-based payments to employees, make the assignment of options conditional upon employees remaining in the Company ("service conditions").

36. Dividends

In May 2017, the Company distributed aggregate dividends to its stockholders of Euro 439.7 million equal to Euro 0.92 per ordinary share. Dividends distributed to non-controlling interests totaled Euro 2.5 million.

In May 2016, the Company distributed aggregate dividends to its stockholders of Euro 427.7 million equal to Euro 0.89 per ordinary share. Dividends distributed to non-controlling interests totaled Euro 2.3 million.

37. Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue, as a going concern, to provide returns to its stockholders and benefit to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group also monitors capital on the basis of a gearing ratio that is calculated as the Net financial position divided by Total capital. For the methods for determining the Net financial position, see Note 22. Total capital is calculated as equity, as shown in the consolidated statement of financial position, plus Net financial position.

The table below provides the Group's gearing ratio for 2017 and 2016 as follows:

Gearing ratio (Euro/000)	Financial Year 2017	Financial Year 2016
Total debt (notes 16, 17 and 22)	1,899.2	2,043.9
Less cash and cash equivalents (note 6)	(1,159.3)	(866.9)
Net financial position (note 22)	**739.9**	**1,177.0**
Total equity (note 26)	5,801.1	5,776.0
Capital	**6,541.0**	**6,953.0**
Gearing ratio	**11.3%**	**16.9%**

38. Information pursuant to article 149-Duodecies of CONSOB issuers regulation

The following table has been prepared in accordance with Art. 2427, no. 16 bis, of the Italian Civil Code and presents the fees for 2017 for audit and other services provided by the external auditors of Luxottica Group S.p.A. and its subsidiaries.

	Entity providing services	Entity receiving services	Fees for 2017	Fees for 2016
Audit services	Pricewaterhouse Coopers S.p.A.	Luxottica Group S.p.A.	900.7	1,333.5
	Pricewaterhouse Coopers S.p.A.	Subsidiaries	1,117.1	1,145.4
	Pricewaterhouse Coopers S.p.A. network	Subsidiaries	5,885.6	6,477.4
Attestation services	Pricewaterhouse Coopers S.p.A.	Luxottica Group S.p.A.	280.7	180.0
	Pricewaterhouse Coopers S.p.A. network	Subsidiaries	430.2	354.9
Other services	Pricewaterhouse Coopers S.p.A.	Luxottica Group S.p.A.	365.2	579.3
	Pricewaterhouse Coopers S.p.A. network	Subsidiaries	166.2	942.5
Total			**9,145.8**	**11,012.9**

39. Subsequent events

On February 26, 2018 Luxottica Group S.p.A signed a share purchase agreement for the acquisition of a 67% stake in Fukui Megane Co. Ltd, one of the leading manufacturers in the eyewear district of Fukui specialized in the production of titanium and solid gold eyewear frames. The transaction is subject to customary closing conditions.

40. Attachment – exchange rates used to translate financial statements prepared in currencies other than euro

EXCHANGE RATES

	Average exchange rate for the year ended December 31, 2017	Final exchange rate as of December 31, 2017	Average exchange rate for the year ended December 31, 2016	Final exchange rate as of December 31, 2016
U.S. Dollar	1.1297	1.1993	1.1069	1.0541
Australian Dollar	1.4732	1.5346	1.4883	1.4596
Chinese Renminbi	7.6290	7.8044	7.3522	7.3202
Argentine Peso	18.7408	22.9310	16.3420	16.7488
Brazilian Real	3.6054	3.9729	3.8561	3.4305
Canadian Dollar	1.4647	1.5039	1.4659	1.4188
Chilean Peso	732.6075	737.2900	748.4766	704.9450
Colombian Peso	3,336.1675	3,580.1900	3,376.9331	3,169.4900
Croatian Kuna	7.4637	7.4400	7.5337	7.5597
Danish Krone	7.4386	7.4449	7.4452	7.4344
United Arab Emirates Dirham	4.1475	4.4044	4.0634	3.8696
Japanese Yen	126.7112	135.0100	120.1967	123.4000
Hong Kong Dollar	8.8045	9.3720	8.5922	8.1751
Indian Rupee	73.5324	76.6055	74.3717	71.5935
British Pound	0.8767	0.8872	0.8195	0.8562
Israeli New Shekel	4.0622	4.1635	4.2489	4.0477
Malaysian Ringgit	4.8527	4.8536	4.5835	4.7287
Mexican Peso	21.3286	23.6612	20.6673	21.7719
Namibian Dollar	15.0490	14.8054	16.2645	14.4570
New Zealand Dollar	1.5897	1.6850	1.5886	1.5158
Norwegian Krone	9.3270	9.8403	9.2906	9.0863
Peruvian Nuevo Sol	3.6833	3.8854	3.7356	3.5402
Polish Zloty	4.2570	4.1770	4.3632	4.4103
Russian Ruble	65.9383	69.3920	74.1446	64.3000
Singapore Dollar	1.5588	1.6024	1.5275	1.5234
South African Rand	15.0490	14.8054	16.2645	14.4570
South Korean Won	1,276.7381	1,279.6100	1,284.1811	1,269.3600
Swedish Krona	9.6351	9.8438	9.4689	9.5525
Swiss Franc	1.1117	1.1702	1.0902	1.0739
Taiwan Dollar	34.3635	35.6555	35.6892	33.9995
Thai Baht	38.2958	39.1210	39.0428	37.7260
New Turkish Lira	4.1206	4.5464	3.3433	3.7072
Hungarian Forint	309.1933	310.3300	311.4379	309.8300
Saudi Riyal	4.2366	4.4974	4.1517	3.9545

***

Milan, February 26, 2018
Luxottica Group S.p.A.

On behalf of the Board of Directors

Francesco Milleri
(Deputy Chairman & Chief Executive Officer)

3.7 Certification of the consolidated financial statements pursuant to Article 154-bis of Legislative Decree 58/98

1. The undersigned Francesco Milleri, as Deputy Chairman and Chief Executive Officer, and Stefano Grassi, as Manager charged with preparing the Company's financial reports of Luxottica Group S.p.A., having also taken into account the provisions of Article 154-bis, paragraphs 3 and 4, of the Italian Legislative Decree 58 of 24 February 1998, hereby certify:

   - the adequacy in relation to the characteristics of the Company and
   - the effective implementation

   of the administrative and accounting procedures for the preparation of the consolidated financial statements over the course of the year 2017.

2. The assessment of the adequacy of the administrative and accounting procedures for the preparation of the consolidated financial statements as of December 31, 2017 was based on a process developed by Luxottica Group S.p.A. in accordance with the model Internal Control – Integrated Framework as issued by the Committee of Sponsoring organizations of the Tradeway Commission (COSO Model), model which includes Control Environment, Risk Assessment, Control Activities, Information and Communication and Monitoring and which is a framework generally accepted internationally.

3. It is also certified that:

   3.1 The consolidated financial statements as of December 31, 2017:

   a. have been drawn up in accordance with the international accounting standards recognized in the European Union under the EC regulation 1606/2002 of the European Parliament and of the Council of 19 July 2002, and the provisions which implement ART. 9 of the legislative decree 38/2005;

   b. is consistent with the entries in the accounting books and records;

   c. is capable of providing a true and fair representation of the assets and liabilities, profits and losses and financial position of the issuer.

   3.2 The management report of the consolidated financial statements includes a reliable analysis of operating trends and the result of the period as well as the situation of the issuer and of the companies included within the scope of consolidation; a description of the primary risks and uncertainties to which the Group is exposed is also included.

***

Milan, February 26, 2018
Luxottica Group S.p.A.

On behalf of the Board of Directors

Francesco Milleri
(Deputy Chairman & Chief Executive Officer)

Stefano Grassi
(Manager charged with preparing the Company's financial reports)

3.8 Independent Auditor's Report

Independent auditor's report

in accordance with article 14 of Legislative Decree 39 of 27 January 2010 and article 10 of Regulation (EU) 537/2014

To the shareholders of Luxottica Group SpA

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Luxottica Group SpA (the "Company") and its subsidiaries ("Luxottica group" or the "group"), which comprise the statement of financial position as of 31 December 2017, the statement of income, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Luxottica 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, and with the regulations issued to implement article 9 of Legislative Decree 38/05.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the section "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" of this report. We are independent of Luxottica Group SpA (the Company) based on ethic and independence regulations and standards 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the reporting period under examination. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon; therefore, we do not provide a separate opinion on these matters.

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

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Key Audit Matter	*How our audit addressed the key audit matter*
Revenue recognition	
Revenue recognition policies are described in section 1 "Consolidation principles, composition of the group and significant accounting policies", paragraph "Significant accounting policies" of the notes to the consolidated financial statements. The recognition of revenues of the Group, given the large number of transactions, carried out on a global basis, through various sales channels, represented a key aspect in the context of the audit of the consolidated financial statements.	We have performed, through specific investigations, an understanding and evaluating of the relevant controls implemented by the Group over the "Net sales" area also to address the risk of fraud in revenue recognition, in order to assess the adequacy of their design. We have verified the operating effectiveness of these controls. We have carried out sample testing procedures with the aim of validating the existence of transactions occurred through the reporting period, collecting documentation supporting the genuinity of revenues. We have performed external confirmation procedures with the aim of obtaining probing evidence to support trade receivables included in the consolidated financial statements.
Recoverability of goodwill and intangible assets with definite lives	
Goodwill and definite lives intangible assets measurement policies are described in section 1 "Consolidation principles, composition of the group and significant accounting policies", paragraphs "Intangible assets", "Impairment of assets" and "Use of accounting estimates", of the notes to the consolidated financial statements. As of 31 December 2017, goodwill and definite lives intangible assets amounted to Euro 3,622 million and Euro 1,225 million, respectively. We have identified an area of focus considering the significance of the above balances and the fact that the valuation process involves a high degree of professional judgement of management in developing estimates of cash flows related to the recoverability of goodwill and definite lives	We have performed, through specific investigations, an understanding and evaluating of the relevant controls implemented by the Group over the "Goodwill" and "Intangible assets" area, in order to assess the adequacy of their design. We have verified the operating effectiveness of these controls. We have performed an understanding of the impairment testing procedures adopted by management, policies applied in measuring goodwill and definite lives intangible assets and of estimates developed by management with the aim of measuring and monitoring their recoverability. We have assessed the adequacy of the groups

Key Audit Matter	*How our audit addressed the key audit matter*
intangible assets and assumptions used in the calculation models. With reference to the year ended 31 December 2017, management carried out an impairment test on goodwill, based on the following approach: • determined the recoverable amount of goodwill by calculating the value in use for each individual group of Cash Generating Units ("CGU") using the discounted cash flow approach; • the model included explicit projections limited to three years, with a terminal value applied to the last explicit year; • the estimated cash flows of each group of CGU were discounted to the present value using the weighted average cost of capital ("WACC"); • the recoverability of the carrying amounts was verified by comparing the carrying amount of the individual groups of CGU to which goodwill was allocated, with their value in use; • in addition, management carried out a sensitivity analysis to assess the impact of changes to significant assumptions on the assets recoverable amount. With regard to definite lives intangible assets, management assessed whether impairment indicators existed and, where necessary, performed an impairment test. The recoverable amount has been determined as the higher of the value in use, calculated consistently with the basis explained above for goodwill, and the fair value less costs to sell.	of CGU used for the allocation of goodwill and their consistency with the Group organizational structure, internal decision-making processes and management reporting. We have examined methodologies applied in developing cash flows projections used to determine the value in use and the approach adopted in applying the discounted cash flow mathematical model, with the support of our valuation specialists. We have also verified the mathematical accuracy of the calculations and consistency of the information used with relevant data source. We have investigated and discussed with management the need for adjusting the cash flows with the aim of isolating elements not attributable to the assets in their present conditions. We have analysed projections used for impairment testing and whether they were consistent with the three-year plan prepared by management. We have also carried out a retrospective analysis comparing estimates developed by management in previous years with the actual results, in order to validate management's ability in developing reliable estimates. With reference to measurement of definitive lives intangible assets, we have reviewed and discussed management's assessment of the existence of impairment indicators and relevant assumptions. In addition, we have verified accuracy and completeness of disclosures included in note 12 "Goodwill and intangible assets" to the consolidated financial statements as of 31 December 2017.
Impact of US tax reform	

Key Audit Matter	*How our audit addressed the key audit matter*
Current and deferred tax policies are described in section 1 "Consolidation principles, composition of the group and significant accounting policies", paragraphs "Current and deferred taxes" and "Use of accounting estimates", of the notes to the consolidated financial statements. *Impact of the US tax reform on income taxes of the period are described in sections 15 "Deferred tax assets and deferred tax liabilities" and 28 "Information on the consolidated statement of income", paragraph "Income taxes", of the notes to the consolidated financial statements.* On 22 December 2017, the US Congress approved the US tax reform (the "Reform"), which introduced significant changes in the taxation of entities operating in the US; the US represent the main market for the Group. The consolidated net profit for the year ended 31 December 2017 includes a benefit of Euro 109 million relating to the effects arising from the re-measurement of deferred taxes recorded in previous years, as a result of the reduction of the US tax rate from 35 percent to 21 percent. In consideration of the complexity and the number of changes introduced, the analysis of the impact of the Reform was a key aspect of the audit of the consolidated financial statements.	We have performed, through specific investigations, an understanding and evaluating of the relevant controls implemented by the Group over the "Income taxes" area, in order to assess the adequacy of their design. We have verified the operating effectiveness of these controls. With the support of the tax specialists of the PwC network, we have analysed the changes introduced by the Reform to assess their implications on transactions carried out through 2017 for entities operating in the US jurisdiction. We have examined the calculation of current and deferred taxes for the 2017 reporting period to verify that the changes introduced by the Reform were reflected appropriately. In addition, we have verified accuracy and completeness of disclosures included in notes 15 "Deferred tax assets and deferred tax liabilities" and 28 "Income taxes" to the consolidated financial statements as of 31 December 2017.

Key Audit Matter	*How our audit addressed the key audit matter*
Effects of the tax benefit of the *Patent Box* on the calculation of current income tax	
Current and deferred tax policies are described in section 1 "Consolidation principles, composition of the group and significant accounting policies", paragraphs "Current and deferred taxes" and "Use of accounting estimates", of the notes to the consolidated financial statements.	We have performed, through specific investigations, an understanding and evaluating of the relevant controls implemented by the Group over the "Income taxes" area, in order to assess the adequacy of their design. We have verified the operating effectiveness of these controls.
Effects of the Patent Box tax benefit on the calculation of current income tax are described in section 28 "Information on the consolidated statement of income", paragraph "Income taxes", of the notes to the consolidated financial statements.	With the support of the tax specialists of the PwC network, we have analysed the consistency of the terms of the agreement with methodologies adopted by management to calculate the tax benefit recorded in the consolidated financial statements as of 31 December 2017.
The consolidated net income for the year ended 31 December 2017 includes a current tax benefit for an amount of Euro 103 million, arising from the effects of the agreement signed between the Company and the Italian Revenue Agency on 24 November 2017 to access the "Patent Box" tax benefit for certain brands of its portfolio.	With the support of the PwC tax specialists, we have examined the calculation of the current tax charge for the 2017 reporting period with the aim of verifying accounting implications of the tax benefit were appropriate.
We identified an area of focus in consideration of the significance of the impact of the tax benefit on the consolidated financial statements as of 31 December 2017 and the fact that the measurement process involved a high level of complexity in identifying and processing financial information directly attributable to the brands held in the portfolio.	We have verified the mathematical accuracy of the calculations and consistency of the information used with relevant data source. In addition, we have verified accuracy and completeness of disclosures included in note 28 "Information on the consolidated statement of income" to the consolidated financial statements as of 31 December 2017.

Responsibilities of the Directors and Those Charged with Governance for the Consolidated Financial Statements

The Directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, and with the regulations issued to implement article 9 of Legislative Decree 38/05 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.

The Directors are responsible for assessing the group's ability to continue as a going concern and, in preparing the consolidated financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the consolidated financial statements, management uses the going concern basis of accounting unless management intends either to liquidate Luxottica Group 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 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.

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the consolidated financial statements of the reporting period under examination and are therefore the key audit matters. We described these matters in our report.

Additional Disclosures required by Article 10 of Regulation (EU) 537/2014

We were appointed by the shareholders of Luxottica Group SpA at the general meeting held on 28 April 2011 to perform the audit of the Company consolidated and separate financial statements for the years ending 31 December 2012 through 31 December 2020.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) 537/2014 and that we remained independent of the Company in conducting the audit.

We confirm that the opinion on the consolidated financial statements expressed in this report is consistent with the additional report to those charged with governance, in their capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree 39/10 and Article 123-bis, paragraph 4, of Legislative Decree 58/98

The Directors of Luxottica Group SpA are responsible for preparing a management report and a report on the corporate governance and ownership structure of the Luxottica group as of 31 December 2017, including their consistency with the relevant consolidated financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) 720B to express an opinion on the consistency of the management report and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree 58/98, with the consolidated financial statements of the Luxottica group as of 31 December 2017 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the management report and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the consolidated financial statements of the Luxottica group as of 31 December 2017 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree 39/10, issued on the basis of our knowledge and understanding of the group obtained in the course of the audit, we have nothing to report.

Statement in accordance with article 4 of Consob Regulation implementing Legislative Decree 254 of 30 December 2016

Management of Luxottica Group SpA is responsible for the preparation of the non-financial disclosure pursuant to Legislative Decree 254 of 30 December 2016. We have verified that the non-financial disclosure was approved by the Board of Directors.

Pursuant to article 3, paragraph 10, of Legislative Decree 254 of 30 December 2016, the non-financial disclosure is subject to separate audit reporting by our firm.

Milan, 27 March 2018

PricewaterhouseCoopers SpA

Signed by

Christian Sartori
(Partner)

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3.9 Independent Auditor's Report on the Consolidated Non-Financial Statement pursuant to Article 3 of the Italian Legislative Decree 254 of 30 December 2016 and Article 5 of CONSOB Regulation n. 20267

Independent auditor's report on the consolidated non-financial statement

pursuant to article 3, paragraph 10, of Legislative Decree No. 254/2016 and article 5 of CONSOB Regulation 20267

To the Board of Directors of Luxottica Group SpA

Pursuant to article 3, paragraph 10 of Legislative Decree 254 of 30 December 2016 (the "Decree") and article 5 of CONSOB Regulation 20267, we have performed a limited assurance engagement on the consolidated non-financial statement of Luxottica Group SpA and its subsidiaries (the "Luxottica Group") as of and for the year ended 31 December 2017 prepared in accordance with article 4 of the Decree and approved by the Board of Directors on 26 February 2018 (the "NFS").

Responsibility of the directors and of the board of statutory auditors for the NFS

The Directors are responsible for the preparation of the NFS in accordance with article 3 and 4 of the Decree and with the "Global Reporting Initiative Sustainability Reporting Standards" defined in 2016 by the GRI - Global Reporting Initiative ("GRI Standards") with reference to a selection of GRI Standards, and with the additional personnel incidents measurement methodology compliant with Regulation UNI 7249/2007, described in paragraph "The sustainability reporting process" of the NFS, identified by them as the reporting standards.

The Directors are responsible, in accordance with the law, for the implementation of internal controls necessary to ensure that the NFS is free from material misstatement, whether due to fraud or unintentional errors.

The Directors are responsible for identifying the content of the NFS, within the matters mentioned in article 3, paragraph 1, of the Decree, considering the activities and the features of the Luxottica Group and to ensure an understanding of the Luxottica Group's activities, its trends, its results and its related impacts.

The Directors are responsible for defining the business and the organisational model of the Luxottica Group and, with reference to the matters identified and reported in the NFS, for the policies adopted by the Luxottica Group and for the identification and management of risks generated or faced.

Those charged with governance are responsible for overseeing, in accordance with the law, the compliance with the Decree.

PricewaterhouseCoopers SpA

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Auditor's Independence and Quality Control

We are independent in accordance with the principles of ethics and independence disclosed in the Code of Ethics for Professional Accountants published by the International Ethics Standards Board for Accountants, which are based on the fundamental principles of integrity, objectivity, competence and professional diligence, confidentiality and professional behaviour. Our audit firm adopts International Standard on Quality Control 1 ("ISQC Italia 1") and, accordingly, maintains an overall quality system which includes processes and procedures for the compliance with ethical and professional principles and with applicable laws and regulations.

Auditor's responsibilities

We are responsible for expressing a conclusion, on the basis of the work performed, regarding the compliance of the NFS with the Decree and with the GRI Standards with reference to a selection of GRI Standards, and with the additional personnel incidents measurement methodology compliant with Regulation UNI 7249/2007. We conducted our engagement in accordance with International Standard on Assurance Engagements 3000 (Revised) - Assurance Engagements Other than Audits or Reviews of Historical Financial Information ("ISAE 3000 Revised"), issued by the International Auditing and Assurance Standards Board ("IAASB"), for limited assurance engagements. The standard requires that we plan and perform procedures to obtain a limited assurance that the NFS is free of material misstatement. The procedures performed in a limited assurance engagement are less in scope than those performed in a reasonable assurance engagement in accordance with ISAE 3000 Revised, and, therefore, do not provide us with a sufficient level of assurance to become aware of all significant facts and circumstances that might be identified in a reasonable assurance engagement.

The procedures performed on the NFS were based on our professional judgement and consisted in interviews, primarily of personnel responsible for the preparation of the information presented in the NFS, in the analyses of documents, recalculations and other procedures aimed at obtaining evidence as appropriate.

In particular, we have performed the following procedures:

1. analysis of the relevant matters reported in the NFS relating to the activities and features of the Luxottica Group, in order to assess the reasonableness of the selection process used, in accordance with article 3 of the Decree and with the reporting standard adopted;
2. analysis and assessment of the criteria used to identify the consolidation area, to assess its compliance with the Decree;
3. comparing the financial information reported in the NFS with the information reported in the Luxottica Group's consolidated financial statements;
4. understanding of the following matters:

- business and organisational model of the Luxottica Group, with reference to the management of the matters specified by article 3 of the Decree;

- policies adopted by the Luxottica Group with reference to the matters specified in article 3 of the Decree, actual results and related key performance indicators;

- main risks, generated or faced, with reference to the matters specified in article 3 of the Decree.

With reference to such matters, we have carried out validation procedures on the information presented in the NFS and we performed the procedures described under point 5 a) below.

5. understanding of the processes underlying the preparation, collection and management of the significant qualitative and quantitative information included in the NFS.
In particular, we have held meetings and interviews with management of Luxottica Group SpA and Luxottica Tristar (Dongguan) Optical Co Ltd. and we have performed limited documentary validation procedures, to gather information about the processes and procedures for the collection, consolidation, processing and submission of the non-financial information to those responsible for the preparation of the NFS.

Moreover, for significant information, considering the activities and the features of the Luxottica Group:

- at a group level,

  a) with reference to the qualitative information included in the NFS, and in particular to the business model, the policies adopted and the main risks, we carried out interviews and acquired supporting documentation to verify its consistency with available evidence;
  b) with reference to quantitative information, we performed analytical procedures and limited testing, in order to assess, on a sample basis, the accuracy of the consolidation process.

- with reference to the plants of Agordo and Sedico (Italy) and Dongguan (China) which were selected on the basis of their activities, their contribution to the performance indicators at a consolidated level and their location, we carried out plant tours and interviews where we discussed with site managers and we gathered documentation supporting the appropriate application of the procedures and of the calculation methods used for key performance indicators.

Conclusions

Based on the work performed, nothing has come to our attention that causes us to believe that the NFS of the Luxottica Group as of 31 December 2017 and for the year then ended has not been prepared, in all material respects, in compliance with articles 3 and 4 of the Decree and with the GRI Standards with reference to a selection of GRI Standards, and with the additional personnel incidents measurement methodology compliant with Regulation UNI 7249/2007, described in paragraph "The sustainability reporting process" of the NFS.

Other aspects

The comparative information presented in the NFS in relation to the financial year ended 31 December 2016 has not been subject to any procedures.

Milan, 27 March 2018

PricewaterhouseCoopers SpA

Signed by

Christian Sartori
(Partner)

Paolo Bersani
(Authorised signatory)

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

4. Separate financial statements

4.1 Statement of financial position

4.2 Statement of income

4.3 Statement of comprehensive income

4.4 Statement of changes in stockholders' equity

4.5 Statement of cash flows

4.6 Notes of the separate financial statements as of December 31, 2017

4.7 Certification of the separate financial statements pursuant to Article 154-bis of Italian Legislative Decree 58/98

4.8 Independent Auditor's Report

4.9 Board of Directors' proposal

4.10 Board of Statutory Auditors' Report on the consolidated and separate financial statements

4.1 Statement of financial position

Statement of financial position	Notes	12/31/2017	of which related parties	12/31/2016	of which related parties
Assets:					
Cash and cash equivalents	4	405,767,173	-	112,291,774	-
Accounts receivable	5	607,504,883	601,301,304	359,059,715	354,432,818
Inventories	6	184,396,747	-	173,552,316	-
Taxes receivable	7	32,657,132	-	28,427,974	-
Derivative financial instruments	8	5,428,629	-	5,477,275	53,230
Other assets	9	458,287,027	444,491,614	453,825,441	437,930,517
Assets held for sale	10	-	-	51,283,908	-
Total current assets		**1,694,041,591**	**1,045,792,918**	**1,183,918,403**	**792,416,565**
Non-current assets:					
Property, plant and equipment	11	218,400,746	117,750,250	72,148,837	-
Intangible assets	12	235,436,100	26,592,463	245,473,467	6,329,700
Investments in subsidiaries	13	3,314,919,198	3,314,919,198	3,080,476,989	3,080,476,989
Investments in associates	13	1,195,566	1,195,566	1,195,566	1,195,566
Deferred tax assets	14	50,483,920	-	57,146,165	-
Other assets	15	10,728,388	-	53,195,328	40,000,500
Total non-current assets		**3,831,163,918**	**3,460,457,477**	**3,509,636,352**	**3,128,002,755**
Total assets		**5,525,205,509**	**4,506,250,395**	**4,693,554,755**	**3,920,419,320**

Liabilities and stockholders' equity	Notes	12/31/2017	of which related parties	12/31/2016	of which related parties
Current liabilities:					
Short-term borrowings	16	79,560,408	52,078,470	233,558,850	55,403,024
Short-term provisions for risks and other charges	17	49,128,809	-	19,866,373	-
Accounts payable	18	609,005,947	367,820,915	534,821,265	299,560,918
Income taxes payable	19	9,526,076	-	12,257,210	-
Derivative financial instruments	20	3,344,737	-	3,215,619	469,469
Other liabilities	21	345,744,555	290,615,509	180,993,628	129,888,000
Total current liabilities		**1,096,310,532**	**710,514,894**	**984,712,945**	**485,321,411**
Non-current liabilities:					
Long-term debt	22	1,544,842,528	-	1,044,913,093	-
Long-term provisions for risks and other charges	23	14,202,842	-	3,417,051	-
Employee benefits	24	7,375,651	-	8,239,578	-
Total non-current liabilities		**1,566,421,021**	**-**	**1,056,569,722**	**-**
Stockholders' equity:					
Capital stock	25	29,100,962	-	29,050,565	-
Legal reserve	25	5,811,283	-	5,804,887	-
Other reserves	25	2,452,968,959	-	2,432,785,433	-
Treasury shares	25	(256,677,949)	-	(269,754,742)	-
Net income	25	631,270,701	-	454,385,945	-
Total stockholders' equity		**2,862,473,956**	**-**	**2,652,272,088**	**-**
Total liabilities and stockholders' equity		**5,525,205,509**	**710,514,894**	**4,693,554,755**	**485,321,411**

4.2 Statement of income

(in euro)	Notes	12/31/2017	of which related parties	12/31/2016	of which related parties
Net sales	26	2,876,555,811	2,852,125,986	2,827,120,297	2,807,766,884
Other revenue and income	27	169,049,326	112,193,239	134,754,625	125,695,416
Changes in inventories	28	12,699,661	-	16,824,686	-
Cost of goods purchased	29	(1,565,006,438)	(1,521,924,530)	(1,408,915,759)	(1,324,354,037)
Service costs	30	(310,144,389)	(57,707,509)	(300,239,857)	(75,671,085)
of which non-recurring costs		*(18,511,670)*	-	-	-
License and lease costs	31	(233,583,345)	(16,133,872)	(240,480,621)	(16,862,730)
Amortization, depreciation and impairment	32	(82,404,563)	-	(213,065,015)	(141,450,126)
Personnel costs	33	(155,523,441)	22,485,413	(148,797,306)	23,312,570
of which non-recurring costs		*(7,593,000)*	-	*(7,060,000)*	-
Other operating expenses	34	(12,561,016)	(1,952,785)	(22,618,163)	(10,723,289)
Income from operations		**699,081,606**	**1,389,085,941**	**644,582,887**	**1,387,713,603**
Income and expense from investments	35	66,934,678	66,934,678	98,333,165	98,333,165
Finance income	36	5,357,775	1,922,565	6,000,515	2,560,375
Finance expense	37	(57,466,818)	(6,659,763)	(49,527,665)	(4,234,551)
Foreign currency hedge and exchange difference gains	38	151,885,130	50,496,589	136,316,620	47,885,968
Foreign currency hedge and exchange difference losses	38	(160,442,290)	(84,629,090)	(135,374,235)	(41,722,554)
Other net income (expense)	39	48,675,343	48,675,343	-	-
of which non-recurring income		*48,675,343*	*48,675,343*	-	-
Total other income and expense		**54,943,818**	**76,740,322**	**55,748,400**	**102,822,403**
Income before provision for income taxes		**754,025,424**	**1,465,826,263**	**700,331,287**	**1,490,536,006**
Provision for income taxes	40	(122,754,723)	-	(245,945,342)	-
of which non-recurring		*55,904,635*	-	*1,941,500*	-
Net income		**631,270,701**	**1,465,826,263**	**454,385,945**	**1,490,536,006**

4.3 Statement of comprehensive income

(in euro)	Notes	12/31/2017	of which related parties	12/31/2016	of which related parties
Net income for the period		**631,270,701**		**454,385,945**	**-**
Items that may be subsequently reclassified to profit or loss					
Fair value of IRS hedging derivatives	25	425,366	-	-	-
Tax effect on fair value of IRS hedging derivatives		(125,781)	-	-	-
Total items that may be subsequently reclassified to profit or loss		**299,585**			
Items that will not be subsequently reclassified to profit or loss					
Actuarial gains/(losses) on defined benefit plans	25	48,764	-	(325,377)	-
Tax effect on actuarial gains/(losses) on defined benefit plans		-	-	-	-
Total items that will not be subsequently reclassified to profit or loss		**48,764**	**-**	**(325,377)**	
Total other comprehensive income, net of tax		**348,349**	**-**	**(325,377)**	**-**
Comprehensive income for the period		**631,619,050**	**-**	**454,060,568**	**-**

4.4 Statement of changes in stockholders' equity

	Capital stock									
	Number of shares	Amount	Additional paid-in capital	Legal reserve	Extraordinary reserve	IAS reserve	Treasury shares	Equity reserve (merger/ demerger)	Net income for the period	Stockholders' equity
										Note 25
Balance at January 1, 2016	**483,653,333**	**29,019,200**	**444,555,695**	**5,785,402**	**1,001,708,454**	**724,102,841**	**(68,636,042)**	**148,324,973**	**541,170,762**	**2,826,031,285**
Net income for the period	-	-	-	-	-	-	-	-	454,385,945	454,385,945
Other comprehensive income for the period:	-	-	-	-	-	-	-	-	-	-
Actuarial gains/losses	-	-	-	-	-	(325,377)	-	-	-	(325,377)
Total comprehensive income at December 31, 2016	**-**	**-**	**-**	**-**	**-**	**(325,377)**	**-**	**-**	**454,385,945**	**454,060,568**
Capital increases	522,750	31,365	9,668,862	-	-	-	-	-	-	9,700,227
Non-cash stock based compensation	-	-	-	-	-	9,528,595	-	-	-	9,528,595
Granting of treasury shares	-	-	-	-	(16,703,287)		16,703,287	-	-	-
Recharge of treasury shares to subsidiaries	-	-	-	-	251,511	-	-	-	-	251,511
Dividends paid (Euro 0.89 per share)	-	-	-	-	-	-	-	-	(427,721,267)	(427,721,267)
Allocation of prior year net income	-	-	-	19,485	113,430,010	-	-	-	(113,449,495)	-
Other changes	-	-	-		(1,756,844)	-	(217,821,987)	-	-	(219,578,831)
Balance at December 31, 2016	**484,176,083**	**29,050,565**	**454,224,557**	**5,804,887**	**1,096,929,844**	**733,306,059**	**(269,754,742)**	**148,324,973**	**454,385,945**	**2,652,272,088**

	Capital stock									
	Number of shares	Amount	Additional paid-in capital	Legal reserve	Extraordinary reserve	IAS reserve	Treasury shares	Equity reserve (merger/ demerger)	Net income for the period	Stockholders' equity
										Note 25
Balance at January 1, 2017	**484,176,083**	**29,050,565**	**454,224,557**	**5,804,887**	**1,096,929,844**	**733,306,059**	**(269,754,742)**	**148,324,973**	**454,385,945**	**2,652,272,088**
Net income for the period	-	-	-	-	-	-	-	-	631,270,701	631,270,701
Other comprehensive income for the period:	-	-	-	-	-	-	-	-	-	-
Actuarial gains/losses	-	-	-	-	-	48,764	-	-	-	48,764
Cash Flow Hedges, net of tax	-	-	-	-	-	299,585	-	-	-	299,585
Total comprehensive income at December 31, 2017	**-**	**-**	**-**	**-**	**-**	**348,349**	**-**	**-**	**631,270,701**	**631.619.050**
Capital increases	839,950	50,397	17,312,529	-	-	-	-	-	-	17,362,926
Non-cash stock based compensation	-	-	-	-	-	791,662	-	-	-	791,662
Granting of treasury shares	-	-	-	-	(13,076,793)	-	13,076,793	-	-	-
Recharge of treasury shares to subsidiaries	-	-	-	-	123,457	-	-	-	-	123,457
Dividends paid (Euro 0.92 per share)	-	-	-	-	-	-	-	-	(439,695,227)	(439,695,227)
Allocation of prior year net income	-	-	-	6,396	14,684,322	-	-	-	(14,690,718)	-
Balance at December 31, 2017	**485,016,033**	**29,100,962**	**471,537,086**	**5,811,283**	**1,098,660,830**	**734,446,070**	**(256,677,949)**	**148,324,973**	**631,270,701**	**2,862,473,956**

4.5 Statement of cash flows

in euro	Notes	12/31/2017	of which related parties	12/31/2016	of which related parties
Income before provision for income taxes, net of dividend income		**670,901,477**	**1,382,702,316**	**600,110,606**	**1,533,652,967**
Stock-based compensation	33	1,090,405	-	3,013,552	-
Amortization, depreciation, impairment and capital gains	32	54,338,701	20,000,000	218,797,705	141,450,127
Finance expense	37	55,039,062	6,659,763	47,407,696	4,081,644
Finance income	36	(5,351,919)	(1,922,565)	(5,879,054)	(2,565,724)
Changes in accounts receivable	5	(233,588,291)	(231,847,625)	(77,534,996)	(75,724,729)
Changes in accounts payable	18	32,628,143	57,418,635	130,779,643	124,654,239
Changes in other assets/liabilities		83,539,375	16,960,247	(197,240,017)	21,579,398
Changes in inventories	6	(10,844,431)	-	(16,824,684)	-
Total non-cash adjustments		**(23,148,954)**	**(132,731,546)**	**102,519,845**	**213,474,956**
Interest paid		(51,124,163)	(2,481,919)	(50,788,703)	(6,997,524)
Interest received		5,593,244	1,999,907	5,542,102	5,248,176
Taxes paid		(140,357,017)	-	(289,347,524)	-
Dividend income	35	83,123,947	83,123,947	86,020,681	86,020,681
Total cash adjustments		**(102,763,989)**	**82,641,935**	**(248,573,443)**	**84,271,334**
A.Cash provided by operating activities		**544,988,533**	**1,332,612,706**	**454,057,007**	**1,831,399,256**
(Purchase)/disposal of property, plant and equipment:					
- Purchase	11	(157,980,257)	(119,179,550)	(35,799,373)	-
- Disposal	11	100,037,518	-	59,674	-
(Purchase)/disposal of intangible assets:					
- Purchase	12	(21,548,749)	(13,798,788)	(44,873,795)	(4,685,407)
- Disposal	12	1,778,692	1,778,692	3,323,147	-
Changes in investments in subsidiaries:					
- Purchase	13	(273,939,201)	(273,939,201)	(244,184,176)	(244,184,176)
- Disposal	13	4,100,047	4,100,047	534,116,447	534,116,447
Dividends paid	25	(439,695,227)	-	(427,721,267)	-

in euro	Notes	12/31/2017	of which related parties	12/31/2016	of which related parties
B. Cash provided by (used in) investing activities		**(787,247,177)**	**(401,038,800)**	**(215,079,343)**	**285,246,864**
Long-term debt:					
- Proceeds	22	500,000,000	-	3,362,712	-
- Repayments	22	(43,493)	-	(1,138,216)	(1,138,216)
Long-term loans given:					
- Disbursements	15	-	-	(40,000,000)	(40,000,000)
- Repayments	15	-	-	311,411	-
Short-term borrowings[(a)]:					
- Proceeds	16	3,535,009	3,535,009	85,477,666	35,477,666
- Repayments	16	(102,377,460)	(1,673,092)	(3,402,250)	(3,402,250)
Short-term loans given:					
- Disbursements	9	(58,281,147)	(58,281,147)	(41,530,601)	(41,530,601)
- Repayments	8	17,598,606	17,598,606	5,317,997	5,317,997
Change in cash pooling payables and receivables	9/21	207,936,194	207,936,194	(417,962,229)	(417,962,229)
Capital increase	25	17,362,926	-	9,700,227	-
C. Cash provided by (used in) financing activities		**585,730,635**	**169,115,570**	**(399,863,283)**	**(463,237,633)**
D. Cash and cash equivalents, beginning of period		**62,294,725**	**-**	**223,180,344**	**-**
E. Total cash flow generated (used) in period (A+B+C)		**343,471,991**	**1,100,689,476**	**(160,885,619)**	**1,653,408,487**
Cash and cash equivalents, end of period (D+E)		**405,766,716**	**-**	**62,294,725**	**-**

(a) The effect of exchange rate changes on cash balances relating to financing activities is equal to Euro 5.2 million at December 31, 2017 and Euro 0.5 million at December 31, 2016

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Milan, February 26, 2018
Luxottica Group S.p.A.

On behalf of the Board of Directors

Francesco Milleri
(Deputy Chairman – Chief Executive Officer)

4.6 Notes of the separate financial statements as of December 31, 2017

GENERAL INFORMATION

Luxottica Group S.p.A. is a corporation listed on the Italian Stock Exchange, with registered office at Piazzale Luigi Cadorna 3, Milan (Italy), and organized under the laws of the Republic of Italy.

The Group operates in two market segments, from which its derives its revenue: (i) manufacturing and wholesale distribution (hereinafter also "Manufacturing & Wholesale" or "Wholesale") and (ii) retail distribution (hereinafter also "Retail"). Its manufacturing and wholesale distribution activities position the Group as a leader in the design, manufacture and distribution of high-end, luxury and sports eyewear, with a strong and well-balanced portfolio of both house and licensed brands.

Luxottica Group S.p.A. is controlled by Delfin S.à.r.l., a Luxembourg-registered company, controlled by Leonardo Del Vecchio, executive chairman of the Board of Directors.

The present separate financial statements were authorized for publication by the Board of Directors of Luxottica Group S.p.A. in its meeting on February 26, 2018 and have been audited.

BASIS OF PREPARATION

In application of Italian Legislative Decree no. 38 of February 28, 2005 ("Exercise of options under Art. 5 of Regulation (EC) no. 1606/2002 regarding international accounting standards"), the Company has prepared its separate financial statements as of December 31, 2017 in conformity with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and endorsed by the European Union at the date of approving the financial statements.

The term "IFRS" is also understood to refer to all the international accounting standards ("IAS") and all the interpretations published by the International Financial Reporting Interpretations Committee ("IFRIC"), previously known as the Standing Interpretations Committee ("SIC").

It is also noted that the Company has applied the provisions of Consob Resolution no. 15519 dated July 27, 2006, Consob Communication no. 6064293 of the same date, Consob Communication no. 0003907 dated January 15, 2015 and Consob Communication no. 0007780/16 dated January 28, 2016. During 2009 and 2010, CONSOB (Italy's securities exchange commission), together with the Bank of Italy and ISVAP (Italy's insurance industry supervisory body), issued two documents: joint statement no. 2 concerning "Disclosures in financial reports about business continuity, financial risks, asset impairment testing and uncertainties in using estimates" and joint statement no. 4 concerning "Disclosures in financial reports about impairment tests, terms of credit agreements, debt restructuring and the fair value hierarchy", both of which have been taken into account in the current financial report. A joint statement no. 5 was issued in 2012 concerning the accounting treatment of deferred tax assets arising from Italian Law 214/2011. All the above-mentioned statements have been taken into account when preparing the current financial report.

The financial statements consist of the statement of financial position, the statement of income, the statement of comprehensive income, the statement of cash flows, the statement of changes in stockholders' equity and the accompanying notes.

The accounting standards and policies used to prepare the current financial statements have been applied consistently to all the periods presented.

Luxottica Group S.p.A., as a Relevant Public Interest Entity (EIPR) and parent company of the Luxottica group, prepares and presents, starting from the 2017 financial year, the "Consolidated non-financial statement", placed within the management report, as foreseen by the art. 5 - Placement of the declaration and advertising regime of Legislative Decree 254/2016 concerning the communication of non-financial information and information on diversity by some companies and certain large groups. Therefore, the same Luxottica Group S.p.A., pursuant to art. 6 - Exemption and cases of equivalence, is not subject to the obligation to prepare the individual declaration of a non-financial nature.

The currency used by the Company for presenting the separate financial statements is the Euro. Unless stated otherwise, the figures in the financial statements and the accompanying notes are presented in whole Euros.

The Company has adopted the following reporting structure for its financial statements:

- statement of financial position: assets and liabilities are classified according to current and non-current criteria;

- statement of income: costs are presented according to the nature of expense, in view of the type of business conducted. It should be noted, however, that the Luxottica Group presents its consolidated statement of income using a function of expense method since this is considered more in line with the way that internal financial reports are prepared and with how the business is run;

- statement of cash flows: this has been prepared using the indirect method.

The financial statements have been prepared under the historical cost convention, with the exception of some financial assets and liabilities which must be measured at fair value.

The present financial statements have been prepared on a going concern basis since the Board of Directors has assessed that there are no financial, operating or other indicators that might point to difficulties in the Company's ability to meet its obligations in the foreseeable future and particularly in the next 12 months.

1. Significant accounting policies

The accounting policies and principles adopted are consistent with those used to prepare the consolidated financial statements, to which reference should be made, except for the policies set out below:

Inventories

Inventories are stated at the lower of cost, determined using the weighted average cost method for each product, and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The reserves to write down obsolete or slow-moving raw materials and finished goods are calculated taking into account their expected future use and their net realizable value.

Investments in subsidiaries and associates

Investments in subsidiaries and associates are stated at cost, less any impairment losses. Any positive difference arising on acquisition, between acquisition cost and the investor's share of the net fair value of the investee's identifiable assets and liabilities, is therefore included in the carrying amount of the investment.

Impairment

An investment incurs an impairment loss when its carrying amount exceeds the recoverable amount. The carrying amount of investments is tested for impairment whenever there is internal or external evidence indicating that this amount might be impaired.

In particular, among the indicators used to assess investment impairment is whether the parent has booked a dividend from the company and there is evidence that:

- the carrying amount of the investment in the separate financial statements exceeds the carrying amount of the investee's net assets, including associated goodwill, reported in the consolidated financial statements;

or

- the dividend exceeds the total comprehensive income of the investee in the period to which the dividend refers.

The recoverable amount is the higher of an asset's fair value, less costs to sell, and value in use, less liabilities.

Fair value is the price that would be received from the sale of an asset or that would be paid to transfer a liability in an arm's length transaction between market participants at the transaction date.

Value in use is the present value of the future cash flows expected to be derived from an asset. In order to determine value in use, estimated future cash flows are discounted to their present value using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the asset is reduced to its recoverable amount with an impairment loss recognized through profit or loss.

When an impairment loss is no longer justified, the carrying amount of the asset is increased to its new estimated recoverable amount, which may not exceed original cost, with the reversal of an impairment loss recognized through profit or loss.

Share-based payments

The Company awards share-based benefits in the form of stock options or incentive stock options to employees as well as directors who habitually provide their services to one or more subsidiaries.

The Company applies IFRS 2 - Share-Based Payment to account for stock options; this requires goods or services acquired in an equity-settled share-based payment transaction to be measured at the fair value of the goods or services received or at the grant date fair value of the equity instruments granted.

This value is recognized in profit or loss on a straight-line basis over the vesting period, with a matching increase recorded in equity; the amount recognized is estimated by management, taking account of any vesting conditions. The fair value of stock options is determined using the binomial model.

Under IFRS 2 - Share-Based Payment, the total grant date fair value of stock options granted to employees of subsidiaries is recognized in the statement of financial position, as an increase in the value of investments in subsidiaries, with the matching entry going to equity. When employees of a

subsidiary exercise their options/shares, Luxottica Group S.p.A. will recharge the related cost to the subsidiary, recognizing a receivable in its regard while reducing the value of the related investment in the subsidiary. If the recharge is greater or less than the increase originally recognized in the value of the investment, the difference is recognized as income or expense through profit or loss in *"Income and expense from investments"*.

Dividends

Dividend income is recognized when the investor's right to receive payment is established, following the declaration of a dividend by the investee's stockholders in the general meeting.

Dividends payable by the Company are reported as movements in stockholders' equity in the period in which they are approved by the stockholders in general meeting and recognized as liabilities when the declaration of such dividends is approved.

2. Risk management

POLICIES ASSOCIATED WITH THE VARIOUS HEDGING ACTIVITIES

The Company's activities are exposed to various types of financial risk: credit risk, liquidity risk and market risk (which includes exchange rate risk and fair value and cash flow related interest rate risks). The Company's risk management strategy aims to stabilize the Group's results by minimizing the potential effects of financial market volatility. Exchange rate and interest rate risk is mitigated using derivative instruments.

Risk management is centralized with the Treasury department which, working in close collaboration with the Group's operating units, identifies, assesses and hedges financial risks in compliance with the directives set out in the financial risk management policy approved by the Board of Directors. The policy sets out the operating procedures for specific areas such as exchange rate risk, interest rate risk, credit risk and the use of derivative and non-derivative instruments. The policy also specifies management methods, authorized tools, limits and responsibilities.

CREDIT RISK

Credit risk exists in relation to accounts receivable from customers outside the Group, cash and cash equivalents, financial instruments and deposits held with banks and other financial institutions.

With reference to credit risk relating to management of financial resources and cash, this is managed and monitored by the Treasury department, which adopts procedures to ensure that the Company operates with prime credit institutions. Credit limits for the principal financial counterparties are based on assessments and analyses conducted by the Treasury department.

Within the Group there are agreed guidelines governing relations with bank counterparties, and all Group companies comply with the directives of the Financial Risk Policy.

In general, bank counterparties are selected by the Treasury department and available cash may be deposited, over a certain limit, only with investment grade counterparties, as defined in the Policy.

As from 2015, all operations in derivatives for the European subsidiaries have been centralized with the Company. This activity continues to be carried out with investment grade counterparties with solid

and proven experience of negotiating and executing derivatives, as defined in the Treasury Policy. This circumstance has led to a significant increase in the Company's use of derivative financial instruments.

In addition, with a view to avoiding the dispersion of liquidity and minimizing borrowing costs, the cash pooling systems used to manage the Group's cash flows were also centralized with the Company in 2015.

No circumstances arose during the year in which credit limits were exceeded. As far as the Company is aware, there are no contingent losses arising from the inability of the above counterparties to meet their contractual obligations.

LIQUIDITY RISK

With reference to the policies and decisions adopted for addressing liquidity risks, the Company takes suitable actions to be able to duly meet its obligations.

In particular, the Company:

- uses debt instruments or other credit lines to meet its liquidity requirements;
- uses different sources of financing and had Euro 450 million in available credit lines at December 31, 2017;
- is not subject to significant concentrations of liquidity risk, either in terms of financial assets or sources of financing;
- uses different sources of bank financing, but also keeps a reserve of liquidity for promptly satisfying cash needs;
- takes part in a cash pooling system which helps manage the Group's cash flows more efficiently, by preventing the dispersion of liquidity and minimizing borrowing costs;
- monitors, through the Treasury department, forecasts as to how liquidity reserves will be used, based on cash flow projections.

ANALYSIS OF THE PRINCIPAL FINANCIAL ASSETS AND FINANCIAL LIABILITIES:

The following tables analyze the maturity of assets and liabilities at December 31, 2017 and December 31, 2016. The figures presented are contractual undiscounted amounts. The various maturity bands are determined according to the period running from the reporting date to the contractual maturity of the receipt or payment obligations. Balances maturing within 12 months approximate the carrying amount of the related liabilities since the effect of present value discounting is immaterial.

MATURITY OF ASSETS

(in thousands of Euro)

(Euro/000)	Within 1 year	From 1 to 3 years	From 3 to 5 years	Beyond 5 years
At December 31, 2017				
Cash and cash equivalents	405,767	-	-	-
Derivative financial instruments	5,429	-	-	-
Accounts receivable	607,505	-	-	-
Other current assets	490,994	-	-	-

(Euro/000)	Within 1 year	From 1 to 3 years	From 3 to 5 years	Beyond 5 years
At December 31, 2016				
Cash and cash equivalents	112,292	-	-	-
Derivative financial instruments	5,477	-	-	-
Accounts receivable	359,060	-	-	-
Other current assets	533,537	-	-	-

MATURITY OF LIABILITIES

(in thousands of Euro)

(Euro/000)	Within 1 year	From 1 to 3 years	From 3 to 5 years	Beyond 5 years
At December 31, 2017				
Long-term and short-term debt	87,335	587,111	528,218	514,547
Finance lease liabilities	979	776	-	-
Derivative financial instruments	3,345	-	-	-
Accounts payable	609,006	-	-	-
Other current liabilities	345,745	-	-	-

(Euro/000)	Within 1 year	From 1 to 3 years	From 3 to 5 years	Beyond 5 years
At December 31, 2016				
Long-term and short-term debt	240,315	552,552	77,749	527,672
Finance lease liabilities	993	1,755	-	-
Derivative financial instruments	3,216	-	-	-
Accounts payable	534,821	-	-	-
Other current liabilities	180,994	-	-	-

MARKET RISK

The Company is exposed to two types of risk:

a) Interest rate risk

The interest rate risk to which the Group is exposed mainly originates from its long-term debt, which carries both fixed and floating interest rates.

The Group does not operate any particular hedging policies with regard to fixed rate debt because it considers the associated risk to be low.

The Group's floating-rate debt exposes it to a rate volatility risk, which poses a cash flow risk. The Group has hedged this risk using interest rate swaps (IRS), which transform the floating rate into a fixed one and hence reduce rate volatility risk.

Based on various scenarios, the Group calculates the impact of a change in rates on the statement of income. Each simulation applies the same rate change to all currencies. The various scenarios are developed for only those floating-rate liabilities not hedged against interest rate risk.

On March 10, 2017, Luxottica Group entered into two Euro 250 million term facility agreements. The final maturity of each term facility is on March 10, 2022. Under these agreements, Euro 500 million was borrowed on March 10, 2017 at a rate of EURIBOR plus average respective spreads of 0.70% and 0.62%. In relation to these loans, two interest rate swaps were entered into with an aggregate notional amount of Euro 500 million, respectively with Intesa Sanpaolo S.p.A. and Natixis S.A, Milan Branch. The swaps qualify as cash flow hedges which fix the EURIBOR rate at an average rate of 0.1185% per annum.

At December 31, 2017, there were no floating-rate liabilities that were not hedged against interest rate risk. At December 31, 2016, the post-tax impact on net income for the year of a 100 basis point increase/decrease in interest rates, assuming all other variables remain equal, would be a maximum increase/decrease of Euro 1.6 million (Euro 1.1 million after tax).

For the purposes of fully disclosing information about financial risks, the following table presents financial assets and financial liabilities in accordance with the classification criteria required by IFRS 7 (in thousands of Euro):

(Euro/000)	Notes	Financial assets/Liabilities at fair value through profit or loss	Loans and receivables/Debt	Hedging derivatives
At December 31, 2017				
Cash and cash equivalents	4	-	405,767	-
Accounts receivable	5	-	607,505	-
Other current assets	9	-	458,287	-
Derivative financial instruments (assets)	8	4,942	-	487
Short-term borrowings	16	-	(79,560)	-
Accounts payable	18	-	(609,006)	-
Other current liabilities	21	-	(345,745)	-
Derivative financial instruments (liabilities)	20	(3,345)	-	-
Long-term debt	22	-	(1,544,843)	-

(Euro/000)	Notes	Financial assets/Liabilities at fair value through profit or loss	Loans and receivables/Debt	Hedging derivatives
At December 31, 2016				
Cash and cash equivalents	4	-	112,292	-
Accounts receivable	5	-	359,060	-
Other current assets	9	-	453,825	-
Derivative financial instruments (assets)	8	5,477	-	-
Short-term borrowings	16	-	(233,559)	-
Accounts payable	18	-	(534,821)	-
Other current liabilities	21	-	(180,994)	-
Derivative financial instruments (liabilities)	20	(3,216)	-	-
Long-term debt	22	-	(1,044,913)	-

b) Exchange rate risk

The main foreign exchange rate to which the Company is exposed is the Euro/Dollar rate.

A +/-10% change in the EUR/USD exchange rate, assuming all other variables remain equal, would have increased net income for 2017 by Euro 9.1 million and decreased it by Euro 7.5 million respectively. The impact of a +/-10% change on net income for 2016, assuming all other variables remain equal, would have increased it by Euro 2.7 million and decreased it by Euro 2.2 million respectively.

DEFAULT AND NEGATIVE PLEDGE RISK

The Company's credit agreements (ING Private Placement 2017-2020) call for compliance with negative pledges and financial covenants; however, the Company's bond issued (Bond maturing on March 19, 2019, Bond maturing on February 10, 2024) do not carry any obligations to comply with financial covenants.

The pledges and covenants contained in the credit agreements aim to restrict the Company's ability to use its assets as collateral without lender consent or by more than the established limit of 20% of Group stockholders' equity. Asset disposals by Group companies are similarly restricted to no more than 10% of consolidated assets.

Failure to comply with the above covenants, followed by failure to comply within the established grace period, could constitute a breach of credit agreement contractual obligations.

The financial covenants require the Company to comply with agreed financial ratios. The main such ratios are the Group's ratio of net debt to consolidated EBITDA and the ratio of consolidated EBITDA to finance expense.

The limits for these main covenants are as follows:

Net Financial Position/Proforma Ebitda	< 3,5
Ebitda/Finance Expense	> 5
Priority Debt/Stockholders' Equity	< 20%

An explanation of the meaning of the above covenants is provided below:

- *"Net Financial Position / Proforma Ebitda":* this is an indicator of the prospective sustainability of debt repayments; the lower the absolute value, the greater the company's ability to repay the debt (as indicated by the Net Financial Position) through the generation of gross cash flows from ordinary operations (as indicated by the amount of Ebitda);

- *"Ebitda / Finance Expense"*: this is an indicator of financial stress; the higher the value, the greater the company's ability to produce adequate resources to cover finance expense;

- *"Priority Debt / Stockholders' Equity"*: this is an indicator of the ability to achieve financial equilibrium between own and third-party sources of funding; the lower the ratio, the greater the company's ability to fund itself.

In the event the Group fails to comply with the above ratios, it could be required to repay the outstanding debt if it does not return within these limits in the period established by the different credit agreements.

The Group monitors the amount of these Covenants at the end of every quarter and was in full compliance with them at December 31, 2017. The Company also forecasts trends in these Covenants in order to monitor future compliance; current forecasts show that the Group's ratios are below the limits that would trigger a breach of contract.

DISCLOSURES RELATING TO THE FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

The Group uses valuation techniques based on observable market data (Mark to Model) to determine the fair value of its financial instruments; such techniques therefore fall into Level 2 of the fair value hierarchy identified by IFRS 13.

IFRS 13 identifies a three-level hierarchy of valuation techniques as follows:

- Level 1: inputs are quoted prices in active markets for identical assets or liabilities;
- Level 2: inputs are those, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3: unobservable inputs, which are used when observable inputs are not available in situations where there is little, if any market activity for the asset or liability.

When selecting valuation techniques, the Group adopts the following order of priority:

- use of prices quoted on markets (even if not active) for identical instruments (Recent Transactions) or similar instruments (Comparable Approach);
- use of valuation techniques based predominantly on observable market data;
- use of valuation techniques based predominantly on unobservable market data.

The Company has determined the value of outstanding derivatives at December 31, 2017 using commonly adopted valuation techniques for the type of derivatives entered into by the Group. The models used for valuing these instruments rely on inputs obtained from the information provider Bloomberg, which mostly consist of observable market data (Euro and USD yield curves and official exchange rates at the valuation date).

The following table reports the Company's at-fair-value financial assets and financial liabilities according to this hierarchy:

Description			Fair Value at the reporting date using:		
(Euro/000)	Classification	December 31, 2017	Level 1	Level 2	Level 3
Forex derivatives	Other current assets	4,942	-	4,942	-
Interest Rate Swaps (cash flow hedges)	Other current assets	487	-	487	-
Forex derivatives	Other current liabilities	3,345	-	3,345	-

Description			Fair Value at the reporting date using:		
(Euro/000)	Classification	December 31, 2016	Level 1	Level 2	Level 3
Commodities	Other current assets	16	-	16	-
Forex derivatives	Other current assets	5,461	-	5,461	-
Commodities	Other current liabilities	4	-	4	-
Forex derivatives	Other current liabilities	3,212	-	3,212	-

At December 31, 2017, none of the Company's financial instruments were valued using Level 3 fair value measurements.

The Company has adopted policies and procedures that aim to measure the fair value of assets and liabilities using the best and most relevant data available.

The Company's portfolio of foreign exchange derivatives includes only forex forward contracts maturing in under one year for the most traded currency pairs. The fair value of the portfolio is calculated using internal models that use market observable inputs including yield curves, and foreign exchange spot and forward prices.

The fair value of the interest rate derivatives portfolio is calculated using internal models that maximize the use of market observable inputs such as interest rates, yield curves and foreign exchange spot prices.

The following table presents a summary by type of derivative:

Description	2017		2016	
(Euro/000)	Assets	Liabilities	Assets	Liabilities
Commodities	-	-	16	(4)
Forex derivatives	4,942	(3,345)	5,461	(3,212)
Interest Rate Swaps	487	-	-	-
Total	**5,429**	**(3,345)**	**5,477**	**(3,216)**

All derivatives are classified as current assets or current liabilities.

3. Influence of estimates

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that influence the value of assets and liabilities reported in the statement of financial position as well as revenues and costs reported in the statement of income, and also the disclosures included in the notes to the financial statements in relation to contingent assets and liabilities at the date the financial statements were authorized for issue.

Estimates are based on past experience and other relevant factors. Actual results could therefore differ from those estimates. Accounting estimates are periodically reviewed and the effects of any change are reflected in profit or loss in the period the change occurs.

The most significant accounting policies requiring greater judgment on the part of management when making estimates are briefly described below.

- **Valuation of investments.** The carrying amount of investments is submitted to impairment testing if evidence of impairment has been identified. The identification of such evidence and the performance of the impairment test requires management to make subjective judgments based on information available within the Group and on the market, and on past experience; the particular areas of subjectivity concern the calculation of value in use, less liabilities, the choice of model, the determination of the weighted average cost of capital ("WACC") and the assumptions used for the calculation.

- **Effects of the Patent Box tax relief on the calculation of current taxes**. The calculation of taxes for the year includes an estimate of the tax benefit arising from the Patent Box agreement signed with the Italian Revenue Service. The benefit recorded in 2017 refers to the three-year period 2015-2017 and has been determined by identifying, compiling and reckoning financial data directly attributable to certain trademarks forming part of the Company's brand portfolio.

- **Valuation of receivables.** Accounts receivable are adjusted by the allowance for doubtful accounts to reflect their recoverable amount. The calculation of the amount of write-down requires management to make subjective judgments based on the available documentation and information relating to customer solvency, and on past trends and experience.

- **Valuation of inventories.** Inventories that are obsolete are regularly reviewed and written down if their net realizable value is lower than their carrying amount. Write-downs are calculated on the basis of management assumptions and estimates, derived from experience and sales forecast.

- **Valuation of deferred tax assets.** The valuation of deferred tax assets is based on expectations about forecast taxable income in future years, which depends on factors that could vary over time and could have significant effects on the valuation of deferred tax assets.

- **Income taxes.** The Company is subject to different income tax laws in many jurisdictions. The determination of the Company's tax liabilities requires management to make judgments about transactions whose tax implications are not certain at the end of the reporting period. The Company recognizes liabilities that may arise from future inspections by the tax authorities, based on an estimate of the taxes expected to be paid. If the outcome of such inspections should differ from that estimated by management, there could be significant effects on both current and deferred taxes.

- **Valuation of finite-life intangible assets (trademarks and other assets).** The useful lives and amortization rates of these assets are reviewed annually.

- **Pension plans.** The present value of pension obligations depends on a number of factors that are determined with actuarial techniques using specific assumptions. These assumptions relate to the discount rate, the expected return on plan assets, the rate of future salary increases, and mortality and resignation rates. Any change in these assumptions could have significant effects on pension obligations.

- **Valuation of provisions for risks:** determination of the amount of these provisions requires management to make subjective judgments based on the documentation and information available about potential liabilities.

New and amended standards, if not adopted early, must be adopted in the first set of financial statements subsequent to the first-time application date.

NEW STANDARDS, AMENDMENTS TO EXISTING STANDARDS AND INTERPRETATIONS EFFECTIVE FOR ANNUAL PERIODS BEGINNING FROM JANUARY 1, 2017

There are no new standards, amendments to existing standards or interpretations that have become effective for periods beginning on or after January 1, 2017 whose first-time application has made it necessary to change the Company's accounting policies or to make any retrospective adjustments.

In any case, for the sake of completeness of disclosure, these are the changes to the accounting standards effective and valid for financial year 2017:

Amendment to IAS 12 - Recognition of Deferred Tax Assets on Unrealised Losses. The amendment provides clarifications on how to recognize deferred tax assets related to debt instruments measured at fair value.

Amendment to IAS 7 - Disclosure Initiative. The amendment concerns the disclosures that reporting entities must provide to enable users of financial statements to evaluate changes in liabilities arising from financing activities.

Annual Improvements to IFRSs 2014–2016 Cycle. The improvements have resulted in amendments to IFRS 12 to clarify that the standard's disclosure requirements also apply to interests in entities that are classified as held for sale.

NEW STANDARDS, AMENDMENTS TO EXISTING STANDARDS AND INTERPRETATIONS EFFECTIVE FOR ANNUAL PERIODS SUBSEQUENT TO JANUARY 1, 2017 AND NOT YET ADOPTED BY THE GROUP

IFRS 15 - Revenue from Contracts with Customers

IFRS 15, issued in May 2014 and amended in April 2016, introduces a new five-step model to be applied to revenue from contracts with customers. IFRS 15 provides for the recognition of revenue in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the transfer of goods or services to customers. The new standard will replace all current IFRS requirements regarding revenue recognition. The standard is mandatory for annual periods beginning on or after January 1, 2018; for the purposes of transition, the Company intends to adopt the standard retrospectively, which will result in a restatement in 2018 of the comparative balances for 2017. Although permitted by the standard, the Company has decided against early adoption of IFRS 15. During 2017 the Company largely completed its evaluation of the effects of applying IFRS 15, without identifying any material impacts.

IFRS 9 - Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 - *Financial Instruments* which replaces IAS 39 - *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 brings together all three aspects addressed by the project on accounting for financial instruments: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted although the Company has not taken up this option. With the exception of hedge accounting, the standard must be applied retrospectively although it is not mandatory to provide comparative information. Regarding hedge accounting, the standard generally applies prospectively, with some limited exceptions.

The Company will adopt the new standard from the effective date and will not restate comparative information. During 2017, the Company analyzed the impact of all the aspects affected by IFRS 9. This analysis was based on the information currently available and may be subject to changes as a result of additional information that will become available to the Company in 2018. In general, the Company does not foresee any impact on its statement of financial position and its equity for any of the areas subject to IFRS 9.

With specific reference to hedge accounting, the new rules will bring the accounting for hedging instruments more closely into line with the Group's risk management practices. The analysis has nonetheless confirmed that the existing hedging relationships will qualify as such also following adoption of IFRS 9.

The new impairment model requires provisions to be recognized for expected credit losses rather than just for incurred credit losses as under IAS 39. It applies to financial assets classified at amortized cost, debt instruments at fair value through OCI, contract assets under IFRS 15 Revenues from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. Based on the evaluations to date and the characteristics of the accounting policies currently in place, the Company does not foresee any material impacts on the amount of its allowance for doubtful accounts.

IFRS 16 - Leases

IFRS 16 was published in January 2016 and replaces IAS 17 *Leases*, IFRIC 4 *Determining Whether an Arrangement Contains a Lease*, SIC 15 *Operating Leases - Incentives* and SIC 27 - *Evaluating the Substance of Transactions involving the Legal Form of a Lease.* IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and introduces a single lessee accounting model similar to that used to account for finance leases under IAS 17. The standard provides lessees with two exemptions from lease accounting in the case of short-term leases and of leases for which the underlying asset is of low value. At the lease commencement date, the lessee shall recognize a liability for lease payments (i.e. the lease liability) and an asset that represents the right of use of the underlying asset for the duration of the lease (i.e. a right-of-use asset). The lessee shall account separately for interest expense on the lease liability and for depreciation of the right-of-use asset.

The lessees must also remeasure the lease liability upon the occurrence of certain events (for example: a change in the lease terms and conditions, a change in future lease payments resulting from the change of an index or rate used to determine those payments). The lessee shall generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

IFRS 16 will apply for annual periods beginning on or after January 1, 2019. The standard allows for the option of applying the new provisions using a fully retrospective approach or a modified retrospective approach.

In 2018, the Company will continue to analyze its existing types of leases in order to quantify the potential effects of IFRS 16 on the financial statements.

Clarifications to IFRS 15. The purpose is to clarify the guidelines of IFRS 15 concerning some of the issues emerging as a result of discussions by the "Transition Resource Group of revenue recognition" (TRG). The new provisions will apply for annual periods beginning on or after January 1, 2018.

Amendments to IFRS 2 - Clarification and Measurement of Share-based Payment Transactions. The amendments intend to clarify the accounting treatment for share-based payments. The new provisions will apply from annual periods beginning on or after January 1, 2018, subject to any subsequent deferral following the standard's endorsement by the European Union, still pending at the date of the present separate financial statements.

Amendments to IFRS 4 - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts. The amendments intend to clarify the accounting treatment of insurance contracts in light of the new provisions that will be introduced by IFRS 9. The new provisions will apply for annual periods beginning on or after January 1, 2018.

Annual Improvements to IFRSs 2014-2016 Cycle. The following standards will be amended for these improvements: (i) IFRS 1 from which short-term exemptions for first-time adopters will be deleted; (ii) IAS 28 with regard to the accounting treatment for associates and joint ventures. The new provisions will apply from annual periods beginning on or after January 1, 2018, subject to any subsequent

deferral following the standard's endorsement by the European Union, still pending at the date of the present separate financial statements.

Transfers of Investment Property (Amendments to IAS 40). The amendments clarify that a property shall be transferred to, or from, investment property when, and only when, there has been an adequately evidenced change in use.

IFRIC 22 - Foreign Currency Transactions and Advance Consideration. This new interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The new provisions will apply from annual periods beginning on or after January 1, 2018, subject to any subsequent deferral following the standard's endorsement by the European Union, still pending at the date of the present separate financial statements.

IFRIC 23 - Uncertainty over Income Tax Treatments. This new interpretation provides guidance on how to reflect the effect of uncertainties regarding particular circumstances when accounting for income taxes. IFRIC 23 will be effective from January 1, 2019, subject to any subsequent deferral following the standard's endorsement by the European Union, still pending at the date of the present separate financial statements.

IFRS 17 - Insurance Contracts. This new international accounting standard establishes the accounting treatment for insurance contracts and will replace IFRS 4. IFRS 17 will be effective from January 1, 2021, subject to any subsequent deferral following the standard's endorsement by the European Union, still pending at the date of the present separate financial statements.

IAS 28 - Long-term Interests in Associates and Joint Ventures. This amendment clarifies how to account for financial transactions and balances in associates and joint ventures. The amendment to IAS 28 is effective for annual periods beginning on or after January 1, 2019.

Annual Improvements to IFRSs 2015-2017 Cycle. The following standards will be amended for these improvements: (i) IFRS 3 and IFRS 11; (ii) IAS 12; (iii) IAS 23. The new provisions will apply from annual periods beginning on or after January 1, 2019, subject to any subsequent deferral following the standard's endorsement by the European Union, still pending at the date of the present separate financial statements.

Information on the statement of financial position

Current assets

4. Cash and cash equivalents

	Balance at December 31, 2017	Balance at December 31, 2016
	405,767,173	112,291,774

This balance represents the cash and cash equivalents held at year end and mostly consists of cash balances on bank accounts.

Description	December 31, 2017	December 31, 2016
Cash at banks and post offices	405,766,751	112,288,105
Cash and cash equivalents on hand	422	3,669
Total	**405,767,173**	**112,291,774**

The value of cash and cash equivalents reflects their fair value at the reporting date.

There are no restrictions on the use of cash, which is available on request.

5. Accounts receivable

Balance at December 31, 2017	Balance at December 31, 2016
607,504,883	359,059,715

The year-end balance mostly comprises Euro 571,649,810 in trade receivables from subsidiaries, Euro 82,157,410 in invoices to be issued to subsidiaries, and Euro 3,771,779 in foreign customer receivables, net of Euro 53,342,543 in credit notes to be issued to subsidiaries.

The Company does not have any receivables for transactions in which substantially all the risks and rewards of ownership are not transferred.

The Company has considered it unnecessary to write down receivables from Group companies since no risks are seen of not recovering them.

6. Inventories

Balance at December 31, 2017	Balance at December 31, 2016
184,396,747	173,552,316

Description	December 31, 2017	December 31, 2016
Finished goods (frames)	165,809,674	158,948,061
Spare parts	10,558,342	9,411,007
Clothing, shoes and accessories	6,287,540	-
Packaging material	1,654,813	2,426,921
Advertising material	86,378	2,766,327
Total	**184,396,747**	**173,552,316**

Inventories are reported net of an obsolescence reserve for Euro 35,629,267.

The inventory obsolescence reserve reported the following movements during the course of the year:

Description	Amount
Inventory obsolescence reserve at December 31, 2015	**32,105,386**
Utilization of reserve for scrapping	(27,343,936)
Increase in reserve during the year	28,847,274
Inventory obsolescence reserve at December 31, 2016	**33,608,724**
Utilization of reserve for scrapping	(29,175,926)
Increase in reserve during the year	31,196,469
Inventory obsolescence reserve at December 31, 2017	**35,629,267**

7. Taxes receivable

Balance at December 31, 2017	Balance at December 31, 2016
32,657,132	28,427,974

"Taxes receivable" mainly consist of Euro 10,500,737 for the transfer to the Company of Luxottica S.r.l.'s credit for IRES (Italian corporate income tax) arising on the deduction of IRAP (Italian regional business tax) paid in previous years in respect of personnel costs (under Art. 2, par. 1-quater, Italian Legislative Decree no. 201 dated December 6, 2011), Euro 12,856,289 for outstanding IRES credits and Euro 6,553,595 for sales tax credits, mainly arising from the transfer to the Company of credits by individual Italian subsidiaries which have elected to settle sales taxes on a group basis through the parent.

8. Derivative financial instruments

Balance at December 31, 2017	Balance at December 31, 2016
5,428,629	5,477,275

The balance at December 31, 2017 consists of Euro 1,396,999 for the fair value of 150 forward contracts with third parties, Euro 3,544,575 for the fair value of 64 swap agreements with third parties and Euro 487,055 for the fair value of 2 interest rate swaps.

The balance at December 31, 2016 consisted of Euro 53,230 for the fair value of 3 forward contracts with the subsidiary Luxottica S.r.l., Euro 1,252,530 for the fair value of 115 forward contracts with third parties and Euro 4,155,365 for the fair value of 64 swap agreements with third parties.

Additional information can be found in section two of these notes entitled "Risk management".

9. Other assets

Balance at December 31, 2017	Balance at December 31, 2016
458,287,027	453,825,441

This balance comprises:

Description	December 31, 2017	December 31, 2016
Cash pooling receivables from Group companies	260,511,549	330,431,356
Loans to Group companies	119,353,958	41,530,601
Tax consolidation receivables from Group companies	48,657,431	33,181,409
Other receivables	18,787,539	17,362,744
Sundry advances	6,177,210	9,687,945
Prepaid expenses	4,799,340	4,522,493
Dividends receivable from subsidiaries	-	14,200,000
Sales tax transferred by Group companies	-	2,908,893
Total	**458,287,027**	**453,825,441**

9.1 CASH POOLING RECEIVABLES FROM GROUP COMPANIES

Cash pooling receivables from Group companies refer to the cash pooling activities managed by Luxottica Group S.p.A..

9.2 LOANS TO GROUP COMPANIES

These comprise Euro 41,000,000 for a loan to the subsidiary Salmoiraghi & Viganò S.p.A., Euro 40,000,000 for a loan to the subsidiary Luxottica Spain Slu, Euro 23,331,605 for a loan to the subsidiary Mirari Japan, Euro 8,000,000 for a loan to the subsidiary Tortona 35 S.r.l., Euro 3,199,266 for a loan to the subsidiary Luxottica Middle East, Euro 3,000,000 for a loan to the subsidiary Nextore S.r.l. and Euro 823,087 for a loan to the associate Sunglass Hut Thailand.

The fair value of short-term loans to subsidiaries is Euro 119.8 million.

9.3 TAX CONSOLIDATION RECEIVABLES FROM GROUP COMPANIES

This is the matching entry to payables for IRES (Italian corporate income tax) calculated on the taxable income transferred by Italian subsidiaries under the national group tax consolidation headed by Luxottica Group S.p.A.. In particular, the amount receivable at year end mainly refers to:

- Luxottica S.r.l. for Euro 35,995,602;
- Luxottica Italia S.r.l. for Euro 9,862,953;
- Luxottica International Distribution S.r.l. for Euro 2,718,507;
- Salmoiraghi & Viganò for Euro 80,369.

9.4 OTHER RECEIVABLES

The largest component of this balance is Euro 14 million in relation to the amount owed by the subsidiary Sunglass Hut Ireland for the capital reduction by Luxottica Trading & Finance, absorbed by the Irish company in December 2016. This receivable is recorded net of an impairment loss of Euro 141 million.

9.5 SUNDRY ADVANCES

Balance at December 31, 2017	Balance at December 31, 2016
6,177,210	9,687,945

At December 31, 2017, sundry advances mostly refer to advances to employees for Euro 2,587,150 (Euro 2,558,114 at December 31, 2016), advance payments for royalties for Euro 2,361,111 (Euro 6,664,256 at December 31, 2016), and advances to suppliers for Euro 1,218,805 (Euro 443,101 at December 31, 2016).

9.6 PREPAID EXPENSES

Balance at December 31, 2017	Balance at December 31, 2016
4,799,340	4,522,493

This represents the portion of expenses common to two or more years, recognized in accordance with the accrual basis of accounting, and whose profit or loss impact is after their actual cash payment. The criteria adopted to account for and translate such balances in foreign currency are described in the earlier part of these notes.

At December 31, 2017, there are no amounts of accrued income or prepaid expenses that will be recovered after more than five years.

The above balances are analyzed as follows:

Description	December 31, 2017	December 31, 2016
Prepaid marketing expenses	2,322,407	869,350
Prepaid royalties	17,023	14,940
Prepaid sponsorships	-	600,000
Other prepaid expenses	2,459,910	3,038,203
Total	**4,799,340**	**4,522,493**

The above "Prepaid expenses" refer to costs that will be accounted for in profit or loss in 2018 and 2019.

9.7 DIVIDENDS RECEIVABLE FROM SUBSIDIARIES

At December 31, 2017 there are no dividends receivable from Group companies.

The balance at December 31, 2016 comprised dividends receivable of Euro 200,000 and Euro 14,000,000 under resolutions adopted to apportion net income for 2015 by OY Luxottica Finland AB and Luxottica Nederland BV respectively.

9.8 SALES TAX TRANSFERRED BY GROUP COMPANIES

This refers to sales taxes payable by subsidiaries that have been transferred to the Company for settlement on a group basis.

The balance reported at December 31, 2016 referred in its entirety to Luxottica S.r.l.

10. Assets held for sale

Balance at December 31, 2017	Balance at December 31, 2016
-	51,283,908

"Assets held for sale", which reported a balance of Euro 51.3 million at December 31, 2016, reflected the value of a property that was sold in the course of 2017, realizing a gain of Euro 48.7 million, as described in Note 39. "Other net income/(expense)".

Non-current assets

11. Property, plant and equipment

Balance at December 31, 2017	Balance at December 31, 2016
218,400,746	72,148,837

Description	Balance at December 31, 2016	Increases	Decreases	Other movements	Transfers from (to) other categories	Depreciation expense	Balance at December 31, 2017
Land and buildings	21,427,189	136,665,900	(87,125)	-	7,897,053	(2,250,101)	163,652,916
Plant and machinery	12,389,643	1,232,824	(29,481)	(492,405)	3,199,770	(2,172,181)	14,128,170
Industrial and commercial equipment	1,293,636	174,065	(5,650)	(114,890)	322,677	(419,619)	1,250,218
Other assets	23,182,119	3,163,990	(11,724)	-	1,632,263	(12,819,434)	15,147,215
Assets under construction and advances	13,856,250	23,227,337	-	53,527	(12,914,887)	-	24,222,227
Total	**72,148,837**	**164,464,117**	**(133,980)**	**(553,768)**	**136,876**	**(17,661,335)**	**218,400,746**

Net transfers from other categories, amounting to Euro 136,876, reflect a reclassification from Intangible assets, of which Euro 90,226 reclassified to "Other assets" and Euro 38,400 to "Generic plant/ installations".

The constituent parts of "Property, plant and equipment" at December 31, 2017 are analyzed in the following tables.

LAND AND BUILDINGS

Description	Amount
Historical cost	87,178,252
Accumulated depreciation	(27,483,457)
Balance at December 31, 2015	**59,694,795**
Additions	13,219,810
Disposals	-
Reversal of accumulated depreciation on disposals	-
Transfers from other categories	116,083
Assets held for sale	(49,261,392)
Depreciation expense	(2,342,107)
Balance at December 31, 2016	**21,427,189**
Additions	136,665,901
Disposals	(87,126)
Reversal of accumulated depreciation on disposals	-
Transfers from other categories	7,897,053
Depreciation expense	(2,250,101)
Balance at December 31, 2017	**163,652,916**

The additions in the year mainly refer to the purchase of land in Via Magenta, Milan for Euro 16,960,831, the purchase of other land for Euro 23,832,627 and the purchase of the Piazzale Cadorna headquarters building for Euro 95,548,427.

"Transfers from other categories" relate to the reclassification of amounts recorded as *"Assets under construction"* at the end of the previous year, of which Euro 1,072,471 upon completing work on the Sedico Ophthalmic Lens plant and Euro 6,600,000 upon purchasing the land in Via Magenta, Milan.

PLANT AND MACHINERY

Description	Amount
Historical cost	27,150,087
Accumulated depreciation	(16,864,617)
Balance at December 31, 2015	**10,285,470**
Additions	3,897,138
Disposals	(126,552)
Reversal of accumulated depreciation on disposals	96,651
Transfers from other categories	2,192,275
Assets held for sale	(1,968,087)
Depreciation expense	(1,987,252)
Balance at December 31, 2016	**12,389,643**
Additions	1,232,824
Disposals	(47,651)
Reversal of accumulated depreciation on disposals	18,170
Transfers from other categories	3,199,770
Other movements	(492,405)
Depreciation expense	(2,172,181)
Balance at December 31, 2017	**14,128,170**

The additions to "Plant and machinery" reflect the expenditures on new plant and machinery and alterations/improvements to existing plant and machinery, allowing the Company to maintain its high qualitative and technological standards.

The additions in the year consist of:

Description	Sedico	Milan	Total
New specific plant/installations	360,000	-	360,000
Improvements to existing specific plant/installations	24,198	-	24,198
New generic plant/installations	384,841	214,709	599,550
Improvements to existing generic plant/installations	3,165	840	4,005
New machinery	228,275	-	228,275
Improvements to existing machinery	16,796	-	16,796
Total	**1,017,275**	**215,549**	**1,232,824**

"Transfers from other categories" relate to the reclassification of amounts recorded as "Assets under construction" at the end of the previous year following completion of work on plant and machinery.

INDUSTRIAL AND COMMERCIAL EQUIPMENT

Description	Amount
Historical cost	5,060,902
Accumulated depreciation	(4,176,054)
Balance at December 31, 2015	**884,848**
Additions	373,360
Disposals	(35,446)
Reversal of accumulated depreciation on disposals	12,548
Transfers from other categories	445,933
Assets held for sale	(622)
Depreciation expense	(386,985)
Balance at December 31, 2016	**1,293,636**
Additions	174,065
Disposals	(5,650)
Reversal of accumulated depreciation on disposals	-
Transfers from other categories	322,677
Other movements	(114,890)
Depreciation expense	(419,619)
Balance at December 31, 2017	**1,250,219**

The additions in the year mainly refer to new equipment purchases in Sedico for Euro 88,509 and in Milan for Euro 83,345.

"Transfers from other categories" relate to the reclassification of amounts recorded as "Assets under construction" at the end of the previous year following completion of work on industrial and commercial equipment.

OTHER ASSETS

Description	Amount
Historical cost	57,617,599
Accumulated depreciation	(36,089,057)
Balance at December 31, 2015	**21,528,542**
Additions	6,896,093
Disposals	(10,276)
Reversal of accumulated depreciation on disposals	3,400
Transfers from other categories	964,307
Assets held for sale	(279)
Depreciation expense	(6,199,668)
Balance at December 31, 2016	**23,182,119**
Additions	3,163,990
Disposals	(3,746,469)
Reversal of accumulated depreciation on disposals	3,734,745
Transfers from other categories	1,632,263
Depreciation expense	(12,819,434)
Balance at December 31, 2017	**15,147,214**

The additions in the year mainly consist of hardware for Euro 1,768,009, leasehold improvements for Euro 113,956 and furniture and fittings for Euro 666,414.

Depreciation for the year relating to "Other assets" includes Euro 5.9 million relating to improvements of the Piazzale Cadorna premises, which, after breaking the previous lease agreement and the Company's concurrent acquisition of the building's ownership, have been depreciated on an accelerated basis.

"Transfers from other categories" relate to the reclassification of amounts recorded in "Assets under construction" at the end of the previous year.

ASSETS UNDER CONSTRUCTION AND ADVANCES

Description	Amount
Balance at December 31, 2015	**4,034,610**
Additions	13,478,282
Transfers to other categories	(3,603,115)
Assets held for sale	(53,527)
Balance at December 31, 2016	**13,856,250**
Additions	23,227,337
Transfers to other categories	(12,914,887)
Other movements	53,527
Balance at December 31, 2017	**24,222,227**

The additions in the year mostly comprise Euro 18,472,383 in advances paid against the purchase of generic and specific plant/installations, machinery, buildings, furniture, fittings and equipment at Sedico and Euro 1,754,125 for hardware, none of which available yet for use.

"Transfers to other categories", gross of the reclassification of Euro 136,876 from intangible assets, refer to reclassifications of assets that became available for use during the year as follows:

Description	Sedico	Milan	Generic	Total
Leasehold improvements	-	503,544	-	503,544
Generic plant/installations	2,819,604	14,824	4,800	2,839,228
Specific plant/installations	296,695	-	-	296,695
Hardware	-	-	735,385	735,385
Machinery	63,847	-	-	63,847
Furniture and fittings	304,655	78,679	-	383,334
Land	80,850	6,600,000	-	6,680,850
Software	-	-	10,000	10,000
Buildings	1,177,500	38,703	-	1,216,203
Equipment	288,586	34,091	-	322,677
Total	**5,031,736**	**7,269,841**	**750,185**	**13,051,763**

Hardware has been classified as generic because it does not refer to a specific site.

No borrowing costs have been capitalized (since none were incurred) and no property, plant and equipment has been provided as collateral.

The depreciation rates applied and representing the useful lives of the related assets are as follows:

Description	Rate
Furniture and fittings	12%
Buildings	3%
Light buildings	10%
Telephone systems	20%
Generic plant/installations	10%
Specific plant/installations	8%
Luminous signs	10%
Machinery	8%
Computer hardware	20%
Hardware PC held by agents	20% - 30%
Motor vehicles	25%
Commercial equipment	12%
Industrial equipment	25%
Non-industrial equipment	6%
Leasehold improvements	from 14% to 16%

The above depreciation rates were once again reviewed in 2017 to confirm their reasonableness.

12. Intangible assets

Balance at December 31, 2017	Balance at December 31, 2016
235,436,100	245,473,467

OVERALL MOVEMENTS IN NET INTANGIBLE ASSETS

Description	Balance at December 31, 2016	Increases	Decreases	Transfers from (to) other categories	Amortization expense	Balance at December 31, 2017
Trademarks	137,980,019	42,595	-	117,956	(22,714,152)	115,426,418
Software	77,575,209	32,186,116	(1,823,036)	16,394,895	(40,024,121)	84,309,063
Assets under development	16,988,480	24,392,718	44,344	(16,649,727)	-	24,775,815
Other	12,929,759	-	-	-	(2,004,955)	10,924,804
Total	**245,473,467**	**56,621,429**	**(1,778,692)**	**(136,876)**	**(64,743,228)**	**235,436,100**

The increases in "Trademarks" entirely refer to costs for their maintenance. The residual value of trademarks at year end mainly comprises:

- Euro 20,709,890 for the Ray-Ban and Arnette trademarks with a remaining useful life of 8 years;
- Euro 86,057,653 for the OPSM trademarks with a remaining useful life of 11 years and 7 months.

Increases in "Software" mainly refer to the following applications:

- SAP, for Euro 9,588,219, amortized over 7 years;
- Oakley Global eCommerce Platform (OO.com), for Euro 3,905,385, amortized over 3 years;
- Ray-Ban Global eCommerce Platform, for Euro 2,217,107, amortized over 5 years;
- SAP licenses 2017, for Euro 2,157,166, amortized over 7 years;
- Business Intelligence 2017, for Euro 1,732,803, amortized over 3 years;
- Software RXO, for Euro 1,256,920, amortized over 5 years;
- RTTF (Road To The Future), for Euro 1,250,000, amortized over 5 years;
- One Click, for Euro 840,000, amortized over 3 years;
- SunglassHut eCommerce Platform (SGH.Com), for Euro 813,605, amortized over 5 years;
- Target Optical, for Euro 653,324, amortized over 5 years;
- LensCrafter eCommerce Platform (LC.Com), for Euro 552,689, amortized over 5 years;
- DAM (Digital Asset Management), for Euro 528,665, amortized over 5 years;

- B2B 2.0 (Business to business), for Euro 499,560, amortized over 3 years;
- PTC Creo software licenses, for Euro 450,000, amortized over 3 years.

"Transfers from other categories" relate to the reclassification of amounts recorded as "Assets under development" at the end of the previous year mainly in connection with software projects that were not yet ready for use at the reporting date.

Net transfers to other categories of Euro 136,876 refer to a reclassification to Property, plant and equipment, of which Euro 90,226 reclassified as "Other assets" and Euro 38,400 as "Generic plant/ installations".

Historical cost at the start of the year is analyzed as follows:

Description	Historical cost	Acc. amortization	Acc. impairment	Net carrying amount
Trademarks	535,166,843	(389,449,433)	(7,737,391)	137,980,019
Other licenses and software	218,637,265	(141,062,056)	-	77,575,209
Assets under development	16,988,480	0	-	16,988,480
Other	20,274,560	(7,344,801)	-	12,929,759
Total	**791,067,148**	**(537,856,290)**	**(7,737,391)**	**245,473,467**

Software is amortized over a period of between three and seven years, while trademarks are amortized on a straight-line basis over their remaining useful lives. In particular, the OPSM trademarks are being amortized over 22 years, while other house brands are being amortized over 20 years.

Assets under development mostly refer to software whose implementation will be completed in 2018 and thereafter.

Lastly, it should be noted that no borrowing costs have been capitalized (since none were incurred) and that there are no intangible assets with indefinite useful lives.

13. Investments

	Balance at December 31, 2017	Balance at December 31, 2016
	3,316,114,764	3,081,672,555

The following disclosures about the investments held are provided in accordance with Art. 2427 point 5) of the Italian Civil Code:

Company name	City or foreign state	Curr-ency	Capital stock (local currency)	Net income (loss)	Stockholders' equity	%	Carrying amount of investment
Alain Mikli International Sasu	Paris	EUR	4,459,786.64	1,796,520.71	5,976,383.00	100.00	86,524,971
Luxottica (Switzerland) Ag	Zurich	CHF	100,000.00	342,321.19	919,332.12	100.00	191,587
Luxottica Argentina Srl	Buenos Aires	ARS	41,837,001.00	925,878.00	3,337,485.29	94.00	2,641,399
Luxottica Austria Gmbh	Vienna	EUR	508,710.00	478,658.24	1,225,827.07	100.00	545,310
Luxottica Belgium Nv	Berchem	EUR	62,000.00	424,383.91	758,320.95	99.00	2,197,195
Luxottica Brasil Produtos Oticos E Esportivos Ltda	San Paolo	BRL	1,043,457,587.00	1,187,744.61	246,783,150.82	57.99	191,881,135
Luxottica Colombia Sas	Bogotà	COP	3,500,000,000.00	472,451.92	1,693,506.33	100.00	1,262,262
Luxottica France Sasu	Valbonne	EUR	534,000.00	6,258,273.89	24,248,983.04	100.00	1,036,074
Luxottica Germany Gmbh	Grasbrunn	EUR	200,000.00	8,018,661.52	7,729,109	100.00	654,537
Luxottica Gozluk Endustri Ve Ticaret Anonim Sirketi	Cigli - Izmir	LTL	10,390,459.89	2,611,298.68	27,395,209.30	64.84	15,165,020
Luxottica Hellas Ae	Pallini	EUR	1,752,900.00	5,027,723.40	7,520,914.72	70.00	2,528,715
Luxottica Holland Bv	Heemstede	EUR	45,000.00	265,072.00	113,619,991.00	100.00	108,915,929
Luxottica Hong Kong Services Limited	Hong-Kong	HKD	548,536,634.67	884,575.31	59,862,952.80	100.00	64,778,524
Luxottica International Distribution Srl	Agordo	EUR	50,000.00	1,925,530.64	2,911,780.70	100.00	50,000
Luxottica Italia Srl	Agordo	EUR	5,000,000.00	13,852,992.24	30,964,043.33	100.00	14,648,968
Luxottica Korea Ltd	Seoul	KRW	120,000,000.00	502,037.25	1,772,089.72	100.00	119,856
Luxottica Mexico Sa De Cv	Mexico City	MXN	342,000,000.00	5,042,848.55	28,987,668.40	96.00	20,856,030
Luxottica Middle East Fze	Dubai	AED	1,000,000.00	1,934,122.30	2,713,035.56	100.00	293,083
Luxottica Nordic Ab	Stockholm	SEK	250,000.00	2,019,137.52	3,932,495.00	100.00	188,525
Luxottica Norge As	Drammen	NOK	100,000.00	1,438,841.85	1,737,924.00	100.00	61,248
Luxottica North Europe Ltd	S. Albans - Hertfordshire	GBP	90,000.00	8,118,581.46	9,692,764.91	100.00	3,504,075
Luxottica Optics Ltd	Tel Aviv	ILS	43.50	751,282.55	3,569,343.36	100.00	3,221,707
Luxottica Poland Sp Zoo	Kracow	PLN	390,000.00	450,082.69	2,251,097.44	25.00	130,316
Luxottica Portugal Sa	Lisbon	EUR	3,043,129.00	1,288,524.68	5,626,904.05	81.54	4,071,284
Luxottica Retail Canada Inc	Saint John, New Brunswick	USD	1.000.000,00	2.346.833,81	38.594.917,06	28,00	478.221
Luxottica Retail Uk Ltd	St Albans - Hertfordshire	GBP	24,410,765.00	8,832,836.00	46,370,983.95	68.00	40,917,076
Luxottica South Africa Pty Ltd	Cape Town - Observatory	ZAR	2,200.02	1,359,461.24	19,495,890.57	100.00	20,168,242
Luxottica South Pacific Holdings Pty Limited	Macquarie Park - Nsw	AUD	322,797,001.00	26,713,821	267,550,156	100.00	208,762,995
Luxottica Spain Slu	Madrid	EUR	8,147,795.20	9,692,343.73	86,426,417.53	100.00	233,374,192
Luxottica Srl	Agordo	EUR	10,100,000.00	108,527,799.13	290,202,357.29	100.00	185,950,934
Luxottica The Netherlands Bv	Heemstede	EUR	18,151.20	2,251,770	29,467,758	100.00	82,503,165
Luxottica Us Holdings Corp	Dover - Delaware	USD	100.00	14,243,996.82	2,751,478,969.88	100.00	1,603,498,656
Luxottica Wholesale (Thailand) Ltd	Bangkok	THB	100,000,000.00	1,541,518.46	5,200,061.14	100.00	2,499,500
Luxottica Wholesale Malaysia Sdn Bhd	Kuala Lumpur	MYR	4,500,000.00	517,273.31	3,882,187.86	100.00	1,020,789
Mirari Japan Co Ltd	Tokyo	JPY	473,700,000.00	4,115,606.74	18,692,306.24	15.83	40,845

Company name	City or foreign state	Curr-ency	Capital stock (local currency)	Net income (loss)	Stockholders' equity	%	Carrying amount of investment
Nextore Srl	Milan	EUR	1,000,000.00	442,785.87	1,292,589.60	60.00	612,327
Oakley Sport International Srl	Agordo	EUR	50,000.00	1,987,497.91	22,229,282.43	100.00	19,955,790
Opticas Gmo Chile Sa	Comuna De Huechuraba	CLP	7,263,089.00	612,936.72	39,978,777.90	0.00	(3,460)
Oy Luxottica Finland Ab	Espoo	EUR	170,000.00	339,484.45	1,170,866.45	100.00	619,206
Rayban Air	Agordo	EUR	13,317,242.62	(268,243.72)	12,446,094.39	67.63	9,196,962
Salmoiraghi & Viganò Spa	Milan	EUR	11,919,861.00	431,003	53,573,815.00	100.00	191,408,793
Sgh Brasil Comercio De Oculos Ltda	San Paolo	BRL	501,720,000.00	(6,337,008.69)	91,982,311.44	99.99	97,245,805
Sunglass Hut (Thailand) Co Ltd	Khet Patumwan, Bangkok	THB	85,000,000.00	75,621.38	1,842,579.25	46.00	1,053,454
Sunglass Hut De Mexico Sapi De Cv	Mexico City	MXN	315,970.00	(1,751,869.02)	33,286,374.92	100.00	46,501,880
Sunglass Hut France Sasu	Paris	EUR	3,600,000.00	474,407.20	4,579,493.98	100.00	3,600,000
Sunglass Hut Ireland Limited	Dublin	EUR	252.50	361,149.87	(151,147,647.77)	100.00	9,484,531
Sunglass Hut Middle East General Trading Llc	Dubai	AED	1,200,000.00	95,975.64	411,161.36	49.00	142,112
Sunglass Hut Turkey Gozluk Ticaret Anonim Sirketi	Cigli - Izmir	LTL	41,000,000.00	385,729.05	4,306,659.58	100.00	8,888,866
Tortona 35 Srl	Milan	EUR	50,000.00	(133,328.38)	9,907,547.45	100.00	22,726,133
Total							**3,316,114,764**

The figures presented refer to amounts reported in the financial statements at December 31, 2017.

The Company reviews the carrying amounts of its investments annually, as described in the earlier note on "Impairment", as laid down by IAS 36.

In view of the 2017 results of Sunglass Hut De Mexico Sapi De CV, it has been necessary to test the related investment for impairment; this has led to the recognition of an impairment loss for Euro 20.0 million, which puts the subsidiary's carrying amount equal to its value in use. Further details can be found in Note 35 "Income and expense from investments".

13.1 INVESTMENTS IN SUBSIDIARIES

Balance at December 31, 2017	Balance at December 31, 2016
3,314,919,198	3,080,476,989

Balance at December 31, 2016	**3,080,476,989**
Increases in year for capitalization/acquisition	273,939,201
Impairment	(20,000,000)
Decreases	(19,198,249)
Other changes	(298,743)
Balance at 12/31/2017	**3,314,919,198**

Investments in subsidiaries represent long-term, strategic investments by the Company and are recognized at purchase or subscription cost, as required by IAS 27 - Consolidated and Separate Financial Statements.

The increase in "Investments in subsidiaries " mainly refers to:

- Euro 140,344,889 in relation to the investment in Luxottica S.r.l., of which Euro 137,000,000 by way of capital payment against a capital increase and Euro 3,344,889 for a capital increase upon transfer of the packaging business;
- Euro 97,245,805 to capitalize Sunglass Hut Brasil Comercio de Oculos Ltda;
- Euro 22,726,133 to acquire and subsequently capitalize Tortona 35 S.r.l.;
- Euro 11,988,682 to capitalize Sunglass Hut Mexico Sa de CV.

Decreases include Euro 4,100,047 for a purchase price adjustment against the acquisition of Salmoiraghi & Viganò S.p.A., while the remainder refers to a reduction against the value of investments in subsidiaries further to the issue of invoices for the Performance Share Plan 2014, recognized in accordance with IFRS 2

13.2 INVESTMENTS IN ASSOCIATES

Balance at December 31, 2017	Balance at December 31, 2016
1,195,566	1,195,566

This balance reflects Euro 1,053,454 for the 46% equity interest held in Sunglass Hut Thailand Co Ltd and Euro 142,112 for the 49% equity interest held in Sunglass Hut Middle East.

14. Deferred tax assets and liabilities

Balance at December 31, 2017	Balance at December 31, 2016
50,483,920	57,146,165

These originate from deductible and taxable temporary differences between the accounting value of assets and liabilities and the corresponding value recognized for tax purposes.

The movements in net deferred tax assets during 2017 are shown in the following tables:

January 1, 2017	**57,146,165**
Taxes recognised in profit or loss	(6,404,394)
Due to company branch transfer to Luxottica Srl	(132,070)
Transfer recognised in equity	(125,781)
December 31, 2017	**50,483,920**

Description	December 31, 2016	Increases	Decreases	December 31, 2017
Net deferred tax assets (IRES)	48,382,328	-	6,657,398	41,724,930
Net deferred tax assets (IRAP)	8,763,837	-	4,847	8,758,990
Total	**57,146,165**	**-**	**6,662,245**	**50,483,920**

The following table presents the composition of deferred tax assets and liabilities, ignoring any off-setting of balances:

	2017		2016	
	Amount of temporary differences	Tax effect (24.00-29.57%)	Amount of temporary differences	Tax effect (24.00-29.57%)
Deferred tax assets:				
Trademark impairment	4,380,634	1,295,353	4,940,094	1,460,786
Inventory write-down	35,629,267	8,551,024	33,608,724	8,066,094
Provisions for risks and other charges	29,029,293	8,582,124	20,081,473	5,924,167
Trademarks	130,952,656	38,722,700	142,654,208	42,182,849
Long-term incentives	10,591,846	2,542,043	1,770,879	425,011
Net exchange differences from accounting measurement	5,065,683	1,215,765	6,975,576	1,674,138
Employee benefits	-	-	1,085,290	260,470
Other	5,902,851	1,504,042	3,172,676	761,443
Total deferred tax assets	**221,552,230**	**62,413,051**	**214,288,920**	**60,754,958**
Deferred tax liabilities:				
Trademarks	8,645,005	2,556,328	10,085,839	2,982,383
Finance leases	1,831,558	439,574	1,831,558	439,574
Multi-year taxed income	37,154,499	8,917,080	-	-
Other	67,292	16,149	778,486	186,836
Total deferred tax liabilities	**47,698,354**	**11,929,131**	**12,695,883**	**3,608,793**
Net deferred tax assets	**173,853,876**	**50,483,920**	**201,593,037**	**57,146,165**

Deferred tax assets and/or liabilities that will reverse from 2018 have been calculated using the tax rates applicable in 2018: 24.00% in the case of IRES and 5.57% in the case of IRAP.

15. Other assets

Balance at December 31, 2017	Balance at December 31, 2016
10,728,388	53,195,328

Description	December 31, 2016	Increases	Decreases	December 31, 2017
Advances on royalties	12,610,866	-	(2,361,111)	10,249,755
Security deposits	273,050	103,261	(36,630)	339,681
Long-term loans to third parties	311,412	-	(172,460)	138,952
Long-term loans to subsidiaries	40,000,000	-	(40,000,000)	-
Total	**53,195,328**	**103,261**	**(42,570,201)**	**10,728,388**

The decrease in "Advances on royalties" mainly refers to the reclassification from non-current to current assets of the amount that will be expensed to income in 2018.

"Long-term loans to subsidiaries" at December 31, 2016 referred to a short-term loan to the subsidiary Sunglass Hut Iberica, reclassified as current in 2017.

Current liabilities

16. Short-term borrowings

Balance at December 31, 2017	Balance at December 31, 2016
79,560,408	233,558,850

Short-term borrowings mainly consist of:

- Euro 26.6 million in accrued but unpaid interest (Euro 27.3 million in 2016);
- loans from other Group companies totaling Euro 52 million (Euro 55.4 million in 2016) of which Euro 28.2 million from Luxottica Retail UK Ltd, Euro 17.6 million from Luxottica France Sasu, Euro 4 million from Luxottica Nordic AB, Euro 1.3 million from Luxottica (Switzerland) AG and Euro 1 million from Luxottica Norge AS.

Loans obtained from other Group companies have a fair value of Euro 52.6 million.

The balance at December 31, 2016 comprised, in addition to the items described above, short-term bank borrowings of Euro 100 million, originating from the drawdown of short-term lines of credit in 2016, and the current portion of long-term loans for Euro 50 million.

17. Short-term provisions for risks and other charges

Balance at December 31, 2017	Balance at December 31, 2016
49,128,809	19,866,373

The above balance includes Euro 25 million for the "Provision for future licensing obligations" in relation to advertising costs accounted for in the current period but that, under existing contractual obligations, will be incurred in future periods.

The remainder consists of a provision recognized during the year for risks related to various types of litigation, for which a monetary outlay is deemed reasonably likely in the near future.

18. Accounts payable

Balance at December 31, 2017	Balance at December 31, 2016
609,005,947	534,821,265

Accounts payable are stated at their nominal value, and analyzed by maturity as follows:

	Within 12 months	Beyond 12 months	Beyond 5 years	Total
At December 31, 2017				
Subsidiaries	351,081,444	-	-	351,081,444
Suppliers	257,924,503	-	-	257,924,503
Total	**609,005,947**	**-**	**-**	**609,005,947**

	Within 12 months	Beyond 12 months	Beyond 5 years	Total
At December 31, 2016				
Subsidiaries	291,714,423	-	-	291,714,423
Suppliers	243,106,842	-	-	243,106,842
Total	**534,821,265**	**-**	**-**	**534,821,265**

"Accounts payable to subsidiaries" mostly comprise amounts owed to:

- Luxottica S.r.l. for Euro 213 million;
- Luxottica Hong Kong Services for Euro 54 million;
- Luxottica USA LLC for Euro 10.2 million;
- Luxottica US Holdings Corp for Euro 10.2 million;

- Sunglass Hut Thailand Co Ltd for Euro 10.1 million;
- Luxottica Spain SLU for Euro 9.8 million;
- Oakley Inc., for Euro 7.5 million.

"Accounts payable to suppliers" are presented net of trade discounts and consist of:

- Euro 122.3 million, owed to Italian suppliers;
- Euro 30.2 million, owed to foreign suppliers;
- Euro 6.3 million in credit notes receivable and
- the remainder in invoices to be received, from Italian and foreign suppliers.

Foreign currency accounts payable are adjusted to year-end exchange rates and the resulting gains and losses are recognized in the statement of income as "Foreign currency hedge and exchange difference gains/losses".

The Company does not have any accounts payable relating to transactions in which substantially all the risks and rewards of ownership are not transferred.

19. Income taxes payable

	Balance at December 31, 2017	Balance at December 31, 2016
	9,526,076	12,257,210

"Income taxes payable" report only specific, known liabilities for tax, mainly the liability of Euro 7,883,049 for tax withheld from employee income.

20. Derivative financial instruments

	Balance at December 31, 2017	Balance at December 31, 2016
	3,344,737	3,215,619

The balance at December 31, 2017 consists of Euro 2,536,231 for the fair value of 68 swap agreements with third parties and Euro 808,507 for the fair value of 109 forward contracts with third parties.

The balance at December 31, 2016 consisted of Euro 1,393,274 for the fair value of 60 swap agreements with third parties, Euro 1,349,239 for the fair value of 132 forward contracts with third parties, Euro 426,404 for the fair value of 1 forward contract with the subsidiary Luxottica Holland BV. and Euro 43,064 for the fair value of 6 forward contracts with the subsidiary Luxottica S.r.l..

Additional information can be found in section two of these notes entitled "Risk management".

21. Other liabilities

	Balance at December 31, 2017	Balance at December 31, 2016
	345,744,555	180,993,628

Other liabilities are stated at their nominal value and analyzed by maturity as follows:

	Within 12 months	Total
At December 31, 2017		
Social security payable	3,943,549	3,943,549
Payables to subsidiaries	290,409,969	290,409,969
Other liabilities	51,391,037	51,391,037
Total	**345,744,555**	**345,744,555**

	Within 12 months	Total
At December 31, 2016		
Social security payable	3,728,719	3,728,719
Payables to subsidiaries	129,887,374	129,887,374
Other liabilities	47,377,535	47,377,535
Total	**180,993,628**	**180,993,628**

"Social security payable" refers to Euro 2,105,340 in amounts due to INPS (Italian social security agency), with the remainder mainly comprising amounts owed to alternative pension funds.

"Payables to subsidiaries" are analyzed as follows:

Description	Nature	December 31, 2017
Luxottica North Europe Ltd	Cash pooling payables	126,618,108
Luxottica France Sasu	Cash pooling payables	41,397,209
Oakley Sport International S.r.l.	Cash pooling payables	18,305,750
Luxottica Italia S.r.l.	Cash pooling payables	15,358,474
Mikli Diffusion France Sasu	Cash pooling payables	15,265,923
Luxottica International Distribution S.r.l.	Cash pooling payables	11,137,962
Luxottica S.r.l.	Sales tax transferred by subsidiaries	9,417,419
Luxottica Germany Gmbh	Cash pooling payables	9,340,868
Oakley Inc	Cash pooling payables	8,984,719
Luxottica S.r.l	Cash pooling payables	7,929,270
Luxottica Poland SP Zoo	Cash pooling payables	4,164,680
Luxottica Belgium BV	Cash pooling payables	3,499,803
Luxottica North America Distribution LLC	Other liabilities	3,000,000
Luxottica South Pacific Holdings PT	Other liabilities	2,854,368
Luxottica Austria Gmbh	Cash pooling payables	2,771,814
Luxottica Hong Kong Wholesale Limited	Altri debiti	2,016,858
OY Luxottica Finland AB	Cash pooling payables	1,449,350
Luxottica Portugal SA	Cash pooling payables	1,115,094
Luxottica US Holdings Corp	Other liabilities	976,797
Luxottica Gozluk Endustri Ve Ticaret Anonim Sirketi	Other liabilities	899,984
Luxottica South East Asia PTE Ltd	Other liabilities	867,465
Mikli Japon KK	Other liabilities	636,492
Luxottica Retail UK Ltd	Other liabilities	565,780
Luxottica Italia S.r.l.	Sales tax transferred by subsidiaries	336,697
Luxottica International Distribution S.r.l.	Sales tax transferred by subsidiaries	322,838
Luxottica The Netherlands BV	Cash pooling payables	304,376
Altri di ammontare non significativo		871,870
Total		**290,409,969**

"Other liabilities" comprise:

Description	December 31, 2017	December 31, 2016
Employee bonuses	25,350,220	27,593,554
Employee wages and salaries	12,769,104	10,839,106
Unused employee holiday entitlement	9,230,126	8,310,677
Other	4,041,587	634,198
Total	**51,391,037**	**47,377,535**

"Other" includes a liability of Euro 3 million for building permits, which will be settled in 2018.

Foreign currency accounts payable are adjusted to year-end exchange rates and the resulting gains and losses are recognized in the statement of income as "Foreign currency hedge and exchange difference gains/losses".

The Company does not have any accounts payable relating to transactions in which substantially all the risks and rewards of ownership are not transferred.

Non-current liabilities

22. Long-term debt

	Balance at December 31, 2017	Balance at December 31, 2016
	1,544,842,528	1,044,913,093

Non-current debt consists entirely of debt with financial institutions.

The fair value of long-term debt was Euro 1,676.23 million at December 31, 2017 (Euro 1,197.1 million at December 31, 2016). The fair value of debt is equal to the present value of future cash flows, calculated using the market rates currently available for similar debt, as modified to take account of the Company's credit standing. This fair value does not include lease liabilities (Euro 1.7 million).

Long-term debt is repayable as follows:

At December 31	Amount
2018	-
2019	500,760,331
2020	50,000,000
2021	-
Subsequent years	1,000,000,000
Effect of applying the amortized cost method	(5,917,803)
Total	**1,544,842,528**

The net financial position (calculated on the basis of Consob communication no. 6064293 dated July 28, 2006) inclusive of intragroup positions, was as follows at December 31, 2017 and December 31, 2016 (in Euro):

	Note	2017	of which related parties	2016	of which related parties	Change
A. Cash on hand	4	422	-	3,669	-	(3,247)
B. Other liquid assets	4	405,766,751	-	112,288,105	-	293,478,646
C. Currency and interest rate hedging instruments	8	5,428,629	-	5,477,275	53,230	(48,646)
D. Liquidity (A) + (B) + (C)		**411,195,802**	**-**	**117,769,049**	**53,230**	**293,426,753**
E. Current financial receivables	**8-9**	**379,865,507**	**379,865,507**	**371,961,957**	**371,961,957**	**7,903,550**
F. Bank overdrafts	16	457	-	49,997,049	-	(49,996,592)
G. Current portion of long-term debt	16	27,481,481	-	28,158,777	-	(677,296)
H. Notes payable	16	-	-	-	-	0
I. Other current financial liabilities	20/21	323,101,112	319,756,375	288,280,161	185,534,011	34,820,951
J. Current financial liabilities (F) + (G) + (H) + (I)		**350,583,050**	**319,756,375**	**366,435,987**	**185,534,011**	**(15,852,937)**
K. Net current financial liabilities (J) - (E) - (D)		**(440,478,259)**	**(60,109,132)**	**(123,295,019)**	**(186,481,176)**	**(317,183,240)**
L. Long-term debt	22	500,000,000	-	-	-	500,000,000
M. Notes payable	22	1,044,082,197	-	1,043,230,456	-	851,741
N. Other non-current payables	22	760,331	-	1,682,637	-	(922,306)
O. Non-current financial liabilities (L) + (M) + (N)		**1,544,842,528**	**-**	**1,044,913,093**	**-**	**499,929,435**
P. Net debt (K) + (O)		**1,104,364,269**	**(60,109,132)**	**921,618,074**	**(186,481,176)**	**182,746,195**

23. Long-term provisions for risks and other charges

Balance at December 31, 2017	Balance at December 31, 2016
14,202,842	3,417,051

The balance at December 31, 2017 mainly consists of provisions for the employee long-term incentive plan approved in 2016 by the Company's Board of Directors.

On December 15, 2017, the Board of Directors of Luxottica Group SpA approved a Long-term Incentive Plan 2018-2020 with a vesting period from January 1, 2018 to December 31, 2020 ("reference period"). The plan's effectiveness is subject to a number of conditions; in particular, beneficiaries will be paid a cash sum at the end of the reference period if they have remained in the Company's service over that three-year period. The provision for risks and charges at December 31, 2017 reflects the costs for this plan maturing in the second half of December 2017.

24. Employee benefits

Balance at December 31, 2017	Balance at December 31, 2016
7,375,651	8,239,578

The change over the year reflects:

Liability at December 31, 2015	**6,877,725**
Interest expense	1,223,199
Actuarial loss (gain)	325,377
Transfers (to)/from other Group companies	126,139
Benefits paid	(312,862)
Liability at December 31, 2016	**8,239,578**
Interest expense	(93,616)
Actuarial loss (gain)	(48,764)
Transfers (to)/from other Group companies	(441,230)
Benefits paid	(280,317)
Liability at December 31, 2017	**7,375,651**

"Employee benefits" at December 31, 2017 reflect termination indemnities accruing up to December 31, 2006 in respect of employees on the payroll at that date, net of any advance payments.

The increase is due to this liability's annual inflation-related adjustment and changes for employees transferred from other Group companies. The decrease reflects payments to employees who left the Company during 2017 and the transfer of indemnities maturing in 2017 to alternative pension funds or to INPS (Italian social security agency).

The liability of Euro 7,375,651 at December 31, 2017 represents the estimated obligation to pay such indemnities to employees upon termination of employment; this obligation has been calculated using actuarial techniques, which exclude, however, any assumptions about future salary growth.

The principal actuarial assumptions used are as follows:

ECONOMIC ASSUMPTIONS	2017	2016
Discount rate	1.50%	1.50%
Annual indexation of employee benefit	2.63%	2.63%
Mortality rate:	RG48 tables determined by Italy's General Accounting Office	RG48 tables determined by Italy's General Accounting Office
Inability rate:	calculated using the age and gender distribution of pensions payable at January 1, 1987 running from 1984, 1985, 1986 for credit sector employees	calculated using the age and gender distribution of pensions payable at January 1, 1987 running from 1984, 1985, 1986 for credit sector employees
Retirement rate:	assumes meeting the first pensionable criteria to qualify for the basic pension, taking into account the probability of employment termination for reasons other than death, based on statistics supplied by the Group (annual frequency of 5.00%). In addition, the probability of early retirement is estimated to be 3.00% per year.	assumes meeting the first pensionable criteria to qualify for the basic pension, taking into account the probability of employment termination for reasons other than death, based on statistics supplied by the Group (annual frequency of 5.00%). In addition, the probability of early retirement is estimated to be 3.00% per year.

In order to take into account the current uncertainty of the financial markets, the Company has decided to use a discount rate for the valuation of liabilities at December 31, 2017, that is based on the iBoxx Eurozone Corporates AA 10+ index at the valuation date.

Please refer to Paragraph “Accounting policies and principles” for additional details related to the accounting.

25. Stockholders' equity

	Balance at December 31, 2017	Balance at December 31,2016
Capital stock	29,100,962	29,050,565
Other reserves	2,202,102,293	2,168,835,578
Net income for the year	631,270,701	454,385,945
Total stockholders' equity	**2,862,473,956**	**2,652,272,088**

25.1 CAPITAL STOCK

	Balance at December 31, 2017	Balance at December 31,2016
	29,100,962	29,050,565

Capital stock is made up as follows:

Shares	Number	Nominal value in Euro
Ordinary	485,016,033	0.06

At December 31, 2017, the capital stock of Luxottica Group S.p.A. amounted to Euro 29,100,962 and comprised 485,016,033 ordinary shares with a nominal value of Euro 0.06 each.

At January 1, 2017, the capital stock had amounted to Euro 29,050,565, divided into 484,176,083 ordinary fully paid-up shares with a nominal value of Euro 0.06 each.

Following the exercise of 839,950 options to purchase ordinary shares granted to employees under existing stock option plans, capital stock increased by Euro 50,397 over the course of 2017.

Of the 839,950 options exercised, 39,700 refer to the 2008 Plan, 28,000 refer to the 2009 Plan, 239,000 refer to the 2009 Extraordinary Plan (reassignment of the 2006 Performance), 38,000 refer to the 2009 Ordinary Plan (reassignment of the 2006 and 2007 Ordinary Plans), 95,000 refer to the 2010 Plan, 108,500 refer to the 2011 Plan and 291,750 refer to the 2012 Plan.

25.2. OTHER RESERVES AND ALLOCATION OF PRIOR YEAR NET INCOME

Balance at December 31, 2017	Balance at December 31,2016
2,202,102,293	2,168,835,578

Allocation of prior year net income

The stockholders' meeting of April 28, 2017 voted:

- to distribute a total of Euro 439,695,227 in dividends;
- to allocate Euro 6,396 to the legal reserve;
- to allocate Euro 14,684,322 to the extraordinary reserve.

Legal reserve

The increase of Euro 6,396 reflects the allocation of a portion of the prior year's net income.

Extraordinary reserve

The increase of Euro 14,684,322 reflects the allocation of a portion of the prior year's net income.

Additional paid-in capital

This reserve increases with the exercise of stock options.

Treasury shares

Treasury shares are recorded as a reduction in stockholders' equity. The original cost of treasury shares and the economic effects of any subsequent disposals are recognized in stockholders' equity.

The treasury shares reserve was equal to Euro 256,677,949 at December 31, 2017 (Euro 269,754,742 at December 31, 2016).

The number of treasury shares went from 7,199,138 at December 31, 2016 to 6,518,689 at December 31, 2017.

Other reserves

The change reflects Euro 791,662 to account for stock options in accordance with IFRS 2, and Euro 48,764 in net actuarial gains/losses recognized in equity in accordance with IAS 19.

The components of stockholders' equity are analyzed below according to their origin, permitted use, amount available for distribution and actual utilization in the previous three years.

Description	Amount	Permitted use	Amount available for distribution	Uses in previous three years	
				to cover losses	other purposes
Capital stock	**29,100,962**	**B**	**-**	**-**	**-**
Capital reserves:					
Capital reserves:[a]	471,537,086	A, B, C	471,528,177	-	-
Treasury shares	(256,677,949)	-	-	-	-
Other reserves	-	A	-	-	-
Earnings reserves:					
Legal reserve	5,811,283	B	-	-	-
Extraordinary reserve	1,098,660,830	A, B, C	1,098,660,830	-	-
IAS reserve - FTA IFRS reserve under Art. 7, par. 7 Italian Leg. Decree 38 2005	604,447	-	-	-	-
IAS reserve - Employee benefits: IAS 19	(730,945)	-	-	-	-
IAS reserve - Stock Options: IFRS 2[b]	12,991,764	-	-	-	-
IAS reserve - FTA IAS 36	396,820,262	A, B, C	396,820,262	-	-
IAS reserve - stock options	324,460,957	-	-	-	-
IAS reserve - Derivative instruments reserve net of tax	299,585	-	-	-	-
Merger/demerger surplus reserve	148,324,973	A, B, C	148,324,973	-	-
Total reserves	**2,202,102,293**		**2,115,334,242**	**-**	**-**
Undistributable amount	-	-	-	-	-
Distributable amount	-	-	2,115,334,242	-	-

(a) The undistributable amount of Euro 8,909 refers to the residual amount required to be allocated to the legal reserve to make it equal to 20% of capital stock

(b) As established by Art. 6, par. 5 of Italian Legislative Decree 38/2005, these reserves are available to cover losses only once distributable earnings reserves and the legal reserve have been used. In this case, these reserves must be reinstated through allocations from net income in subsequent years.

Key:
A: to increase capital B: to cover losses C: distribution to stockholders

Further to the tax audit report dated October 17, 2016 and the subsequent Questionnaire no. Q00308/2016 dated October 31, 2016 (to which the Company replied on December 23, 2016), during 2017 the Company initiated proceedings to agree a settlement with the Italian Revenue Service; in view of the progress in these proceedings, it has been decided to reinstate in the Company's stockholders' equity a suspended tax-related restriction for an amount equal to Euro 171,600,000 pursuant to Art. 1 par. 471 et seq of Italian Law 266/2005 and Euro 294,201,919 pursuant to Art. 109, par. 4b) of Presidential Decree 917/1986.

Theoretical deferred taxes of Euro 26.9 million (2016: Euro 26.9 million) have not been set aside on the suspended tax-related reserves insofar as such reserves are not expected to be used or distributed.

Information on the separate statement of income

26. Net sales

2017	2016	Change
2,876,555,811	2,827,120,297	49,435,514

NET SALES BY PRODUCT CATEGORY

Description	2017	2016	Change
Finished goods	2,849,651,693	2,800,313,611	49,338,082
Spare parts	25,869,543	22,930,507	2,939,036
Direct materials	210,618	3,010,176	(2,799,558)
Accessories	823,957	866,003	(42,046)
Total	**2,876,555,811**	**2,827,120,297**	**49,435,514**

27. Other revenue and income

2017	2016	Change
169,049,326	134,754,625	34,294,701

Description	2017	2016	Change
Recharged marketing expenses	30,123,094	40,588,815	(10,465,721)
Recharged technology and data transmission expenses	77,310,782	52,485,697	24,825,085
Other	61,615,450	41,680,113	19,935,337
Total	**169,049,326**	**134,754,625**	**34,294,701**

"Other" primarily consists of:

- Euro 21,171,228 in royalties, originating from revenue from licensing agreements with subsidiaries for the use of the OPSM, Ray Ban, Arnette, Persol, Vogue, Killer Loop, Luxottica and Sferoflex trademarks;
- Euro 20,427,209 in insurance reimbursements relating to the theft of goods;
- Euro 4,588,141 in administrative services charged to subsidiaries.

28. Changes in inventories

2017	2016	Change
12,699,661	16,824,686	(4,125,025)

Changes in inventories are analyzed as follows:

Description	2017	2016	Change
Finished goods	12,162,578	15,564,141	(3,401,563)
Samples	1,668,803	613,977	1,054,826
Spare parts	1,151,587	397,644	753,943
Accessories	(324,617)	554,250	(878,867)
Packaging material	396,643	(1,064,418)	1,461,061
Advertising material	(2,355,332)	759,092	(3,114,424)
Total	**12,699,661**	**16,824,686**	**(4,125,025)**

29. Cost of goods purchased

2017	2016	Change
1,565,006,438	1,408,915,759	156,090,679

The cost of goods purchased is analyzed by category as follows:

Description	2017	2016	Change
Purchase of finished eyewear (frames)	1,529,182,545	1,315,432,877	213,749,668
Purchase of spare parts	21,512,994	19,256,425	2,256,569
Customs duties	8,102,764	7,576,068	526,696
Purchase of materials	5,621,587	65,221,173	(59,599,586)
Purchase of eyewear accessories	481,977	1,325,684	(843,707)
Packaging costs	104,571	103,532	1,039
Total	**1,565,006,438**	**1,408,915,759**	**156,090,679**

"Purchase of materials" relates to purchases associated with the packaging process.

30. Service costs

2017	2016	Change
310,144,389	300,239,857	9,904,532

The principal types of cost included in this line in both periods are as follows:

Description	2017	2016	Change
Marketing costs	141,276,820	152,376,468	(11,099,648)
Transport and logistics costs	55,306,400	59,592,928	(4,286,528)
Legal and consulting fees	31,492,833	15,525,483	15,967,350
Technology and data transmission costs	29,446,436	20,188,787	9,257,649
Business travel	12,037,405	9,625,647	2,411,758
Software maintenance	4,670,297	18,699,918	(14,029,621)
Directors' fees	4,212,220	4,101,474	110,746
Insurance	2,616,340	2,063,913	552,427
Canteen	2,091,278	2,112,629	(21,351)
Personnel search and training	1,836,491	2,188,447	(351,956)
Vehicle costs	812,947	737,135	75,812
Statutory auditors' fees	258,873	258,801	72
Research and development	207,973	19,186	188,787
Telephone	179,848	234,441	(54,593)
Packaging service	0	7,519,995	(7,519,995)
Other	23,698,228	4,994,605	18,703,623
Total	**310,144,389**	**300,239,857**	**9,904,532**

“Other” primarily consist of Euro 14 million in commercial and general services recharged by subsidiaries, Euro 2.2 million in after-sales services by the subsidiary Luxottica North Europe Ltd and Euro 1.5 million in customs duties.

“Packaging service” costs reported in the prior year related to services performed by the subsidiary Luxottica S.r.l.. On January 1, 2017 this business activity was transferred from Luxottica Group S.p.A. to Luxottica S.r.l. This concluded the project started during 2015 to revert packaging activities to the manufacturing facilities in Rovereto, Agordo and Pederobba, with the aim of optimizing space utilization within the Italian production chain, in particular by freeing up space at the Sedico Logistics site, of minimizing finished product manipulation and also of improving the standard of customer service and speed of response.

31. License and lease costs

2017	2016	Change
233,583,345	240,480,621	(6,897,276)

These costs primarily consist of:

- Euro 168,180,061 for royalties;
- Euro 49,876,095 for advertising expenditure under contractual commitments;
- Euro 6,335,669 for the rental of software licenses;
- Euro 2,057,077 for car and truck rental;
- Euro 1,112,181 for photocopier and printer rental;
- Euro 498,143 for property rental expenses.

32. Amortization, depreciation and impairment

2017	2016	Change
82,404,563	213,065,015	(130,660,452)

The amount recorded for 2017 refers entirely to the amortization of intangible assets and depreciation of property, plant and equipment, which have been calculated on the basis of useful life of the assets concerned, also taking account of how they are used in the business.

Amortization and depreciation amounted to Euro 72 million in 2016, while impairment was Euro 141 million.

Amortization of intangible assets primarily consists of Euro 40 million in software amortization, Euro 8.1 million in amortization of the OPSM trademarks and Euro 14.5 million in amortization of the house brands, detailed as follows:

- Euro 13.1 million for the RayBan - Revo - Arnette trademarks;
- Euro 1.4 million for other trademarks.

Information about the depreciation of property, plant and equipment (Euro 17.6 million) can be found in Note 11.

With regard to the impairment charge of Euro 141 million in 2016, this reflected the write-down of receivables owed by the subsidiary Sunglass Hut Ireland.

33. Personnel costs

2017	2016	Change
155,523,441	148,797,306	6,726,135

Details of these costs are provided below.

"Non-cash stock-based compensation" reflects the cost for the year of stock options granted to the Company's top management.

Description	2017	2016	Change
Wages and salaries	112,206,812	103,647,667	8,559,145
Social security contributions	27,140,967	27,195,635	(54,668)
Employee benefits	7,835,071	9,169,288	(1,334,217)
Other personnel costs	7,250,186	5,771,164	1,479,022
Non-cash stock-based compensation	1,090,405	3,013,552	(1,923,147)
Total	**155,523,441**	**148,797,306**	**6,726,135**

The above expenses include Euro 21.8 million in personnel costs recharged to Group companies.

34. Other operating expenses

2017	2016	Change
12,561,016	22,618,163	(10,057,147)

These expenses consist of consumable materials and other expenses not included in any of the previous categories.

35. Income and expense from investments

2017	2016	Change
66,934,678	98,333,165	(31,398,487)

"Dividend income" is analyzed as follows:

Descption	Dividends 2017	Dividends 2016	Change
Luxottica North Europe Ltd	15,118,667	2,659,574	12,459,093
Luxottica South Pacific Holding PTY limited	13,540,045	8,163,375	5,376,670
Luxottica Retail UK	11,638,521	3,288,201	8,350,320
Luxottica Italia S.r.l.	10,500,000	3,800,000	6,700,000
Luxottica The Netherland BV	6,590,593	-	6,590,593
Luxottica International Distribution S.r.l.	5,000,000	-	5,000,000
Luxottica Fashion Brillen Vertriebs Gmbh	4,700,000	3,000,000	1,700,000
Luxottica Spain Slu	4,500,000	-	4,500,000
Luxottica Hellas A.E.	3,284,308	2,720,119	564,189
Luxottica Middle East Fze	1,826,234	-	1,826,234
Luxottica Belgium N.V.	1,485,000	495,000	990,000
Luxottica Nordic AB	996,068	-	996,068
Luxottica (Switzerland) A.G.	916,506	275,280	641,226
Luxottica Portugal SA	892,185	-	892,185
Oakley Sport International Srl	600,000	600,000	0
Luxottica Norge AS	535,820	-	535,820
Luxottica Vertriebsgesellschaft MBH (Austria)	500,000	600,000	(100,000)
OY Luxottica Finland AB	400,000	200,000	200,000
Salmoiraghi & Viganò	100,000	4,968,000	(4,868,000)
Luxottica S.r.l.	-	36,100,000	(36,100,000)
Sunglasshut Nederland	-	14,000,000	(14,000,000)
Luxottica Iberica S.A.	-	6,000,000	(6,000,000)
Luxottica Korea Ltd	-	5,405,906	(5,405,906)
Luxottica Gozluk Endustri Ve Ticaret Anonim Sirketi	-	2,894,126	(2,894,126)
Luxottica Mexico	-	2,739,179	(2,739,179)
Luxottica Portugal-Comercio de Optica S.A.	-	997,900	(997,900)
Luxottica Optics Israele	-	937,317	(937,317)
Luxottica Wholesale (Thailand) Ltd	-	376,705	(376,705)
Total	**83,123,947**	**100,220,682**	**(17,096,735)**

Income and expense from investments also includes Euro 20 million in impairment losses recognized against the investment in the subsidiary Sunglass Hut De Mexico Sapi De CV. and Euro 3.8 million in income from subsidiaries for recharges in connection with the 2014 Performance Share Plan.

36. Finance income

2017	2016	Change
5,357,775	6,000,515	(642,740)

Description	2017	2016	Change
Derivatives interest income	3,683,011	2,686,922	996,089
Income from other non-current assets	883,160	1,840,309	(957,149)
Income from other current assets	117,872	920,188	(802,316)
Cash pooling finance income	541,126	452,111	89,015
Income other than above	132,606	100,985	31,621
Total	**5,357,775**	**6,000,515**	**(642,740)**

"Income from other non-current assets" includes Euro 768,791 in fee income for the guarantees given to the subsidiary Luxottica U.S Holdings Corp. against bank loans (compared with Euro 1,610,952 at December 31, 2016). Guarantees paid by Luxottica U.S. Holdings Corp. at December 31, 2016 related to the private placement of bonds.

"Income from other current assets" consists of interest earned on bank deposits.

More information about loans given to Group companies by the parent can be found in the notes on "Other non-current assets" and "Other current assets".

37. Finance expense

2017	2016	Change
57,466,818	49,527,665	7,939,153

Description	2017	2016	Change
Bond interest	31,250,000	31,250,000	0
Derivatives interest expense	10,898,909	7,679,206	3,219,703
Negative differential on Interest Rate Swap	1,822,021	-	1,822,021
Finance expense on joint guarantees	5,576,070	3,716,620	1,859,450
Loan interest	3,379,807	1,510,834	1,868,973
Cash pooling finance expense	388,666	268,024	120,642
Interest on loans from subsidiaries	232,202	25,424	206,778
Bank interest	28,835	14,278	14,557
Other finance expense	3,890,308	5,063,279	(1,172,971)
Total	**57,466,818**	**49,527,665**	**7,939,153**

"Cash pooling finance expense" reflects the interest paid to subsidiaries on their cash pooling accounts during the year.

"Finance expense on joint guarantees" refers to guarantees given by Luxottica S.r.l. and Luxottica U.S. Holdings Corp. on the placement of bonds, on long-term loans and on private placements (for additional information, see the note on long-term debt in the Notes to the consolidated financial statements).

"Interest on loans from subsidiaries" relates to loans from the subsidiary Luxottica U.S. Holdings to the parent company.

"Other finance expense" mostly consists of Euro 3,477,917 (Euro 4,000,000 in 2016) in interest expense on corporate bonds.

38. Foreign currency hedge and exchange difference gains/ losses

	2017	2016	Change
Gains	151,885,130	136,316,620	15,568,510
Losses	(160,442,290)	(135,374,235)	(25,068,055)
Total	**(8,557,160)**	**942,385**	**(9,499,545)**

Gains/losses realized from entering into currency hedging derivatives have offset the losses/gains arising from receipt/payment of receivables/payables denominated in foreign currency.

39. Other net income (expense)

Other income/(expenses) includes non-recurring income for Euro 48.7 million relating to the capital gains on the sale of a property owned by the Company and sold in March 2017.

40. Provision for income taxes

2017	2016	Change
(122,754,723)	(245,945,342)	123,190,619

Taxes	2017	2016	Change
Current taxes:	**(178,837,973)**	**(246,126,357)**	**67,288,384**
IRES	(144,797,485)	(201,473,791)	56,676,306
IRAP	(33,053,915)	(42,777,696)	9,723,781
Taxes paid abroad	(986,573)	(1,574,870)	588,297
Taxes on foreign income	-	(300,000)	300,000
Taxes relating to prior years:	**62,487,644**	**807,035**	**61,680,609**
Taxes for prior years	62,487,644	807,035	61,680,609
Deferred tax assets (liabilities)	**(6,404,394)**	**(626,020)**	**(5,778,374)**
IRES	(6,423,241)	(396,154)	(6,027,087)
IRAP	18,847	(229,866)	248,713
Total	**(122,754,723)**	**(245,945,342)**	**123,190,619**

The provision for income taxes reflects the tax charge for the year.

With reference to current IRES (Italian corporate income tax), the Company has recognized a charge of Euro 124,797,485 relating to the income tax transferred to the tax group which it heads

under the national tax consolidation election, permitted by Art. 117 et seq. of the Italian Income Tax Code. This election allows the taxable income and tax losses of participating companies to be offset against one another.

With reference to current IRAP (Italian regional business tax), the charge for the year is Euro 33,053,915, calculated on the value of net production for the year.

A tax benefit of Euro 62,487,644 has been recognized in connection with prior year taxes, most of which reflect the effect of Patent Box tax relief for 2015 and 2016.

In terms of deferred tax, the Company has recognized net charges of Euro (6,423,241) for deferred IRES and net income of Euro 18,847 for deferred IRAP.

TAX RATE RECONCILIATION

	2017	Tax rate	2016	Tax rate
Income before provision for income taxes	754,025,424		700,331,287	
Theoretical income taxes at theoretical rate	**180,966,102**	**24.00%**	**192,591,103**	**27.50%**
IRAP	33,053,915	4.38%	42,777,696	6.12%
Dividends received	(18,963,787)	(2.52%)	(22,455,568)	(3.21%)
Impairment of assets	4,800,000	0.64%	40,475,275	5.78%
Allowance for corporate equity (ACE)	(947,806)	(0.12%)	(5,401,054)	(0.77%)
Taxes for prior years	(62,487,644)	(8.29%)	(807,035)	(0.12%)
Other differences[a]	(13,666,057)	(1.81%)	(1,235,075)	(0.18%)
Effective income taxes	**122,754,723**	**16.28%**	**245,945,342**	**35.12%**

(a) "Other differences" mostly refer to the patent box effect for 2017

On November 24, 2017, Luxottica Group S.p.A. signed a preliminary agreement with the Italian Revenue Service to allow it to obtain Patent Box tax relief for some of the brands in its portfolio. In the case of trademarks, the regime provides for five years of relief, from 2015 to 2019, determined by excluding from the tax base a rising portion of income attributable to the use of the qualifying intangible assets, going from 30% and 40% in 2015 and 2016, to 50% in the following three years. The tax benefit for the three-year period 2015-2017, of Euro 102.8 million, has been recognized in the 2017 financial statements as a reduction in the tax charge. The portion of the benefit attributable to previous years, amounting to Euro 61.9 million, has been classified in "non-recurring" tax income.

41. Commitments, risks, guarantees, contingent liabilities and other proceedings

Description	2017	2016
Risks assumed by the company for guarantees	664,078,418	1,202,237,961
Minimum royalties and advertising contributions	893,921,901	1,018,963,406
Purchase commitments	83,214,075	16,900,000
Total	**1,641,214,394**	**2,238,101,367**

The following table summarizes commitments for minimum royalties according to maturity:

Less than 1 year	From 1 to 5 years	Beyond 5 years
143,605,432	500,878,426	249,438,043

The Company has future commitments under supplier contracts for Euro 83.2 million, spread over the following years:

2018	2019	2020
51,914,075	18,100,000	13,200,000

GUARANTEES

These are intended to guarantee loans used by subsidiaries; most of the remunerated guarantees given, jointly with the subsidiary Luxottica S.r.l., refer to debt obligations of the subsidiary Luxottica U.S. Holdings Corp. relating to the Cole National Group acquisition, to a private bond placement of USD 128 million (about Euro 106.7 million) and to a private bond placement of USD 125 million (about Euro 104.2 million).

MINIMUM ROYALTIES AND ADVERTISING CONTRIBUTIONS

Luxottica Group S.p.A. has entered into licensing agreements with various designers for the manufacture, design and distribution of sunglasses and eyeglasses.

Under these licensing agreements, which typically have a term of between 4 and 10 years, Luxottica is required to pay a royalty of between 3% and 14% of net sales. Certain agreements also provide for the payment of a guaranteed minimum annual royalty and a mandatory marketing contribution (with the latter calculated at between 5% and 12% of net sales). Typically, these agreements may be terminated by either party for a variety of reasons, including but not limited to, non-payment of royalties, failure to achieve minimum sales targets, unauthorized modifications of the products and, under certain conditions, the change in ownership of Luxottica Group S.p.A..

LITIGATION

FRENCH COMPETITION AUTHORITY INVESTIGATION

Luxottica's French subsidiaries, Luxottica France S.A.S.U., Alain Mikli International S.A.S.U. and Mikli Diffusion France S.A.S.U. (collectively, the "French Subsidiaries"), together with other major competitors in the French eyewear industry, have been the subject of an investigation conducted by the French Competition Authority (the "FCA") relating to pricing and sales practices in this industry. In May 2015, the Company and the French Subsidiaries received a statement of objections from the FCA (the "Statement of Objections"). The Statement of Objections contained the FCA's preliminary position on alleged anti-competitive practices and did not prejudge its final decision.

In August 2015, the Company and the French Subsidiaries filed detailed responses to the Statement of Objections. During 2016, the FCA requested additional information, as it is typical in this kind of proceeding. In July 2016, the FCA issued a report (the "Report") responding to the observations submitted by the companies involved in the investigation. In October 2016, Luxottica filed its statement of defense responding to the FCA's Report. Following such filing, a final hearing was held on December 15, 2016. On February 24, 2017, Luxottica was notified of the FCA's decision in connection with the proceeding. The FCA concluded that there was insufficient evidence to confirm the anti-competitive practices alleged in the Report and referred the case back to FCA's investigation services department for further review and possibly the issuance of a supplementary statement of objections. No fines or sanctions were imposed in connection with the FCA's ruling of February 24, 2017.

Given the current status of this investigation, the Company, together with its external legal advisors, has assessed the risk of the potential liability to be improbable and concluded that it is not possible to estimate or provide a range of potential liability that may be involved in this matter. The outcome of any such action is inherently uncertain, and there can be no assurance that such action, if adversely determined, will not have a material adverse effect on the Company's results of operations and financial condition.

Other proceedings

The Company is a defendant in various other legal and tax proceedings arising in the ordinary course of business. It is the opinion of management that the Company has meritorious defenses against all such outstanding disputes, which the Company will pursue vigorously, and that the outcome of such claims, individually or in the aggregate, will not have a material adverse effect on the Company's consolidated financial position or results of operations.

42. Transactions and balances with subsidiaries, associates and parents

Transactions between Luxottica Group companies do not include any transactions falling outside the normal course of business, are basically trade or financial in nature, and are conducted on an arm's length basis.

Such transactions have been governed up to December 31, 2017 by the "Procedure for related party transactions" approved by the Board of Directors on October 25, 2010.

With reference to the transfer prices applied to cross-border transactions during the year between Luxottica Group companies, these are confirmed as complying with the principle of free competition in accordance with Art. 110, par. 7 of Italian Presidential Decree 917/1986 and with the "OECD transfer pricing guidelines for Multinational Enterprises and Tax Administrations".

It is also noted that every year since 2012 the Company has prepared a report in compliance with Art. 26 of Italian Law 122, published on July 30, 2010 and with the Order by the Italian Revenue Service dated September 29, 2010.

The criteria actually used to determine transfer prices, within the meaning of Art. 4, par. 1-bis, Italian Legislative Decree 74 of March 10, 2000, are as follows:

- With reference to the sale of finished goods to wholesale and retail distributors, the transactional net margin method is used;
- With reference to transactions where a Group company supplies logistics services acquiring title to the product, the transactional net margin method is used;
- With reference to the provision of services, transfer price is established using the cost-plus method; however, if the Company acts as a mere intermediary without adding any value, the transfer price is determined as the cost charged by the service provider;
- In the case of licenses or sub-licenses of brands – relating to both point-of-sales signs and product brands – the license fee is established using the method of comparable price on the open market from an internal or external perspective.

The Group's Italian and foreign companies are under direction and coordination by Luxottica Group S.p.A.; such activity has not been detrimental to the profitability of subsidiaries, or to the amount of their net assets; these companies have benefited from membership of the Group as a result of the considerable associated synergies.

Further to a resolution adopted by the Board of Directors on October 29, 2004, Luxottica Group S.p.A. and its Italian subsidiaries made a three-year group tax election under Art. 117 et seq of the Italian Income Tax Code. The "tax consolidation agreement" has been subsequently renewed in accordance with the terms and procedures required by law.

This group tax consolidation basically involves calculating a single taxable base for the participating group of companies and makes the consolidating company at the head of the tax group responsible for determining and settling the tax; adoption of this election gives rise to a series of economic and cash flows for the participating companies. The group tax consolidation only applies to IRES (Italian corporate income tax), while IRAP (Italian regional business tax) continues to be paid separately by each individual company.

The company at the head of the tax group is required to calculate the consolidated taxable income arising from the sum of the income reported by participating companies, taking into account any changes in tax legislation; the tax group head then presents a single consolidated tax return for the group. Except for subjective liability for tax, penalties and interest relating to the overall income of each participating company, the tax group head is responsible for determining its own taxable income, and for all the requirements associated with determining the group taxable income, and is severally liable for any sums owed by each subsidiary.

Related party transactions are neither atypical nor unusual, and are conducted in the ordinary course of the business of Group companies. Such transactions are conducted on an arm's length basis, taking in to account the characteristics of the goods and services supplied.

The total remuneration of key management personnel came to Euro 31.1 million in the year ended December 31, 2017 (Euro 24.7 million in 2016). For more details, please refer to the remuneration report prepared in accordance with Art. 123-ter of Italy's Consolidated Law on Finance.

The amounts of trade and financial transactions with related parties are shown in the table below.

Transactions during the year and balances at year end with related parties, subsidiaries, associates and parents are as follows:

	Impact on separate statement of income		Impact on separate statement of financial position		
Related party	Revenue	Costs[(a)]	Assets[(b)]	Liabilities	Guarantees[(c)]
Abstract S.r.l. a socio unico	-	156,400	1,897,050	1,531,510	-
Alain Mikli International Sasu	-	1,952,392	8,806,876	1,038,006	-
Autant Pour Voir Que Pour Etre' Vues Sarl	-	-	-	34,572	-
Beni Stabili S.P.A.	-	2,730,000	114,550,000	-	-
Brooks Brothers Group Inc.	-	1,271	-	-	-
David Clulow Loughton Limited	182,759	1,293	75,883	-	-
David Clulow Marlow Ltd	224	-	-	-	-
David Clulow Newbury Limited	153,078	1,409	41,249	-	-
Francesco Milleri	-	1,100,000	-	-	-
Guangzhou Ming Long Optical	10,060	3,652,369	7,516	2,357	12,813,285
Luxottica (China) Investment Co.Ltd	65,371	(946,988)	4,306,780	604,872	1,281,328
Luxottica (Shanghai) Trading Co Ltd	7,730,298	8,856,508	8,119,463	875,621	10,000,000
Luxottica (Switzerland) Ag	13,407,130	332,435	3,006,807	1,285,799	-
Luxottica Argentina Srl	3,540,457	232,650	395,172	-	-
Luxottica Austria Gmbh	1,808,925	-	1,134,711	2,772,730	-
Luxottica Belgium Nv	15,700,261	(22,961)	2,072,920	3,504,269	18,953
Luxottica Brasil Produtos Oticos E Esportivos Ltda	67,358,036	3,002,366	7,310,143	885,684	20,136,424
Luxottica Central Europe Kft	9,901,789	10,817	491,240	1,984	-
Luxottica Chile Spa	7,944,104	123,004	1,675,481	1,813	-
Luxottica Colombia Sas	5,762,655	326,779	2,434,499	-	-
Luxottica Commercial Service (Dongguan) Co Ltd	2,672,207	5,945,245	1,159,007	2,523,557	-
Luxottica Fashion Brillen Gmbh[(d)]	106,547,200	(159,986)	-	-	-

	Impact on separate statement of income		Impact on separate statement of financial position		
Related party	Revenue	Costs[(a)]	Assets[(b)]	Liabilities	Guarantees[(c)]
Luxottica France Sasu	209,836,839	314,331	34,182,621	59,239,029	-
Luxottica Germany Gmbh	14,133,893	1,378,641	4,968,053	10,984,916	1,060,147
Luxottica Gozluk Endustri Ve Ticaret Anonim Sirketi	45,647,078	756,581	-	892,057	14,846,912
Luxottica Hellas Ae	21,078,816	(18,951)	1,976,461	458	-
Luxottica Holland Bv	11,958	44,676	68,441,564	50,156	-
Luxottica Hong Kong Services Limited	179,996,299	432,176,101	45,273,704	54,050,656	-
Luxottica Hong Kong Wholesale Limited	5,450,033	65,061	-	2,070,604	-
Luxottica India Eyewear Private Limited	13,969,902	(104,470)	4,130,907	17,091	19,209,582
Luxottica International Distribution Srl	103,099,015	270,770	38,177,852	11,496,039	-
Luxottica Italia Srl	236,803,352	(438,183)	45,689,957	15,762,958	-
Luxottica Korea Ltd	18,411,777	(48,516)	2,159,064	16,385	-
Luxottica Mexico Sa De Cv	78,266,456	2,119,306	6,027,869	348,737	3,381,063
Luxottica Middle East Fze	48,818,090	(557,250)	18,565,401	12,161	-
Luxottica Nordic Ab	1,172,849	40,138	69,068	4,092,475	-
Luxottica Norge As	547,873	16,005	19,770	991,396	-
Luxottica North America Distribution Llc	1,068,328,140	113,080,349	166,655,198	7,987,849	-
Luxottica North Europe Ltd	194,116,718	10,840,046	134,492,082	127,437,365	-
Luxottica Optics Ltd	19,533,881	1,261,872	5,333,683	-	-
Luxottica Poland Sp Zoo	19,386,193	74,381	5,095,114	4,166,244	-
Luxottica Portugal Sa	34,330,036	(3,235)	7,661,221	1,117,690	-
Luxottica Retail Australia Pty Ltd	21,874,292	(2,381,358)	10,483,097	70,370	-
Luxottica Retail Canada Inc	4,380,583	225,911	1,080,082	-	-
Luxottica Retail Hong Kong Ltd	3,276,213	2,259,994	3,551,902	6,834,368	-
Luxottica Retail New Zealand Ltd	942,398	-	934,018	-	-
Luxottica Retail North America Inc	6,717,163	(9,210,608)	5,769,305	1,336	-
Luxottica Retail Uk Ltd	56,846,290	2,442,401	15,826,288	28,970,177	-
Luxottica Rus Llc	14,745,707	188,227	1,003,059	1,526	-
Luxottica South Africa Pty Ltd	9,729,490	36,263	1,009,814	-	-
Luxottica South East Asia Pte Ltd	3,886,102	568,385	-	1,508,690	13,729,406
Luxottica South Eastern Europe Ltd	17,622,912	(91,625)	1,980,289	1,192	-
Luxottica South Pacific Holdings Pt	16,247,926	248,891	-	2,864,215	-
Luxottica Spain Slu	145,773,005	2,361,345	69,882,139	9,783,164	-
Luxottica Srl	36,446,324	970,202,361	104,644,151	230,379,912	-
Luxottica Sun Corporation[(d)]	9,910	120,469	-	-	-
Luxottica The Netherlands Bv	52,412,057	(159,797)	6,022,920	309,908	-
Luxottica Tristar (Dongguan) Optical Co Ltd	6,701,874	505,809	4,419,317	8,113	32,507,296
Luxottica Us Holdings Corp	2,553,338	10,279,014	971,044	11,512,543	319,352,956
Luxottica Usa Llc	12,500,044	4,649,080	2,463,154	10,495,488	-
Luxottica Vertriebsges.M.B.H[(d)]	8,542,614	-	-	-	-

	Impact on separate statement of income		Impact on separate statement of financial position		
Related party	Revenue	Costs[a]	Assets[b]	Liabilities	Guarantees[c]
Luxottica Wholesale (Thailand) Ltd	9,836,255	60,561	-	42,774	-
Luxottica Wholesale Malaysia Sdn Bhd	5,535,177	137,508	2,869,475	7,035	-
MEA Srl a socio unico	-	2,129,950	22,743,100	14,954,850	-
Mikli Asia Limited	-	-	-	95	-
Mikli Diffusion France Sasu	9,369,004	763,330	1,334,469	15,663,430	605,372
Mikli Japon Kk	(214,523)	8,061	0	636,492	-
Mirari Japan Co Ltd	14,668,004	728,473	23,331,605	501,435	-
Nextore Inc.	-	(5,400)	2,882	-	-
Nextore Srl	410,196	311,558	3,315,887	597,589	-
Oakley Edc Inc[d]	100,190	4,331,107	-	-	-
Oakley Inc	33,776,195	61,904,389	20,135,833	24,522,033	-
Oakley Gmbh[d]	427,983	-	-	-	-
Oakley (Schweiz) Gmbh[d]	72,590	1,588	-	-	-
Oakley South Pacific Pty Ltd	71,917	1,635	8,650	-	-
Oakley Sport International Srl	33,580,586	4,733,903	17,798,039	20,018,391	-
Oakley Uk Ltd	411,386	8,705	15,467	-	-
Onesight	1,106	75,000	3,106	5,682	-
OneSight Foundation (and its affiliates):	-	78,000	-	-	-
OneSight Luxottica Group Foundation	1,106	-	3,106	5,682	-
Opticas Gmo Chile Sa	10,086,065	147,167	1,600,992	-	4,800,000
Opticas Gmo Colombia Sas	3,571,471	416,673	4,667,199	-	4,335,863
Opticas Gmo Ecuador Sa	731,448	37,377	32	-	4,800,000
Opticas Gmo Peru Sac	10,800,605	294,782	3,429,250	-	4,169,099
Optika Weston Super Mare Franchise	-	-	3,379	-	-
Oy Luxottica Finland Ab	407,000	275	7,718	1,450,573	-
Ray Ban Sun Optics India Private Limited	406,087	9,000	372,090	9,153	1,750,000
Rayban Air	14,200	1,031,410	22,610	1,494,998	58,275
Retail Brand Alliance Inc.	-	742,016	-	232,948	-
Salmoiraghi & Viganò Spa	9,459,650	(557,852)	55,683,697	204,915	1,470,176
Sgh Brasil Comercio De Oculos Ltda	383,953	(163,455)	86,486	-	8,809,686
Sgh Optics Malaysia Sdn. Bhd.	207	-	266	-	-
Società cinesi	-	-	-	-	148,036,294
Spv Zeta Optical Commercial And Trading Ltd	12,608	4,577,291	4,223	-	10,250,628
Spv Zeta Optical Trading (Beijing) Co Ltd	13,831	2,376,808	51,589	-	11,531,956
Sunglass Hut (South East Asia) Pte	4,552,362	2,241,387	3,815,379	5,565,538	-
Sunglass Hut (Thailand) Co., Ltd	56,455	6	1,958,499	625	-
Sunglass Hut Airports South Africa (Pty) Ltd	1,328,708	86,026	120,365	-	67,543
Sunglass Hut De Mexico Sapi De Cv	1,506,014	20,012,954	273,230	397	8,452,657
Sunglass Hut France Sasu	7,712,836	877,071	3,233,095	1,300,728	470,000

Related party	Impact on separate statement of income		Impact on separate statement of financial position		
	Revenue	Costs[a]	Assets[b]	Liabilities	Guarantees[c]
Sunglass Hut Hong Kong Limited	2,573,296	2,636,425	1,996,142	4,567,361	-
Sunglass Hut Ireland Limited	5,408,039	239,862	30,796,315	-	-
Sunglass Hut Middle East General Trading Llc	658,208	15,153	49,543	-	-
Sunglass Hut Retail Namibia (Pty) Ltd	332,330	4,619	38,095	-	67,543
Sunglass Hut Retail South Africa Ltd	6,936,558	740,858	(38,095)	166,244	540,343
Sunglass Hut Turkey Gozluk Ticaret Anonim Sirketi	417,303	4,439,360	969,013	27,884	-
Tortona 35 Srl	-	-	8,000,000	-	-
Zabban Notari Rampolla & Associati	-	241,138	4,629,549	-	-
Total	**3,152,348,400**	**1,686,522,137**	**1,189,777,245**	**710,514,894**	**658,552,787**

(a) The negative amounts reported in the "Costs" column refer to intercompany recharges of goods/services purchased from third parties
(b) The table above shows the amount of transactions of a commercial nature and of a financial nature put in place with related parties during the 2017 financial year. For this reason, the amounts indicated above in the "Activities" column do not correspond to that which is shown in the schedule of the statement of financial position, as the latter displays the net book value at the balance sheet date
(c) The guarantees relating to the Chinese companies include Euro 29,500,000 in respect of Luxottica Hong Kong Services and Luxottica Retail Hong Kong Ltd; Euro 16,500,000 in respect of: SPV Zeta Optical Trading (Beijing) Co Ltd, SPV Zeta Optical Commercial and Trading (Shanghai) Co. Ltd. and Guangzhou Ming Long Optical; Euro 59,752,454 in respect of: Luxottica Hong Kong Services, Luxottica Hong Kong Wholesale Ltd, Luxottica Retail Hong Kong Ltd and Sunglass Hut Hong Kong Ltd.; Euro 42,283,840 in respect of: GuangZhou Ming Long Optical Technology Co. Ltd., Luxottica (China) Investment Co. Ltd., Luxottica (Shanghai) Trading Co Ltd., Luxottica Commercial Service (Dongguan) Optical co Ltd., Luxottica Tristar (Dongguan) Optical Co Ltd., SPV Zeta Optical Trading (Beijing) Co Ltd and SPV Zeta Optical Commercial and Trading (Shanghai) Co. Ltd.
(d) In the course of the 2017 financial year, these companies were subject to a process of corporate reorganization. In the cases in which the process was not effective retroactively as of January 1, 2017, the table above summarizes the income statement from the beginning of the year through the effective accounting date of the transaction.

LICENSING AGREEMENTS

The Group has an exclusive worldwide license for the production and distribution of Brooks Brothers brand eyewear. This brand is held by Brooks Brothers Group, Inc., a company owned and controlled by Claudio Del Vecchio. The licensing agreement expired on December 31, 2014 and was renewed for another five years until December 31, 2019. Under this agreement, the Group paid Brooks Brothers Group, Inc. Euro 0.9 million in 2017 and Euro 0.9 million in 2016.

TECHNOLOGY ADVISORY ARRANGEMENTS

The Company has a number of contracts for the supply of IT services with companies owned and controlled by Francesco Milleri, co-opted on March 1, 2016 as an executive Director, and Deputy Chairman of Luxottica Group S.p.A. since April 29, 2016 and Group Chief Executive Officer since December 15, 2017. These contracts mainly refer to the implementation/development of the Group's IT platforms.

The costs incurred by the Company in respect of companies owned by Francesco Milleri amounted to Euro 26.9 million in 2017 and Euro 6.7 million in 2016. It is noted that part of these costs have been capitalized within intangible assets. The net carrying amount of such assets was Euro 26.6 million at December 31, 2017 compared with Euro 6.3 million at December 31, 2016.

On April 26, 2016 the Company signed a two-year master agreement with the companies owned or controlled by Mr. Milleri for services related to the Luxottica Group IT platform. On November 13, 2017 the Company signed an addendum which (i) includes digital IT services and (ii) extends the initial

duration of the master agreement to three years with expiring date on April 25, 2019. The addendum was approved by the Board of Directors of the Company.

Total commitments related to the provision of IT services from companies pertaining to Francesco Milleri amount to Euro 5.7 million as of December 31, 2017 (Euro 50 thousand as of December 31, 2016).

LEASE OF CORPORATE OFFICES

On April 29, 2014, the Company's Board of Directors authorized it enter into an agreement to lease a property located in Piazzale Luigi Cadorna 3, Milan, for an initial period of seven years and 5 months, renewable for an additional six years. The property was owned by Beni Stabili SIIQ S.p.A., which, through Delfin S.à.r.l, was ultimately controlled by the Company's majority shareholder Leonardo Del Vecchio, making the lease agreement a related party transaction. In accordance with the Company's Procedure for related party transactions (the "Procedure") and with Consob regulation no. 17221/2010 (the "Consob Regulation") and in light of the lease value, the agreement qualifies as a "minor" related party transaction. On March 31, 2014, the Risk and Control Committee, composed solely of independent directors, unanimously expressed a favorable non-binding opinion, in accordance with the requirements of the above Consob Regulation, regarding the Company's interest in entering into the lease as well as on the convenience and substantive fairness of the related conditions. The Company incurred lease expenses of Euro 2.7 million in the first six months of 2017 (Euro 2.4 million in the same period of 2016).

On July 3, 2017, Luxottica Group S.p.A. purchased the property from Beni Stabili for consideration of Euro 114.6 million. This transaction is also a related party transaction, the value of which qualifies it as a "minor" transaction, as defined by the Procedure and the Consob Regulation. On February 24, 2017, the Risk and Control Committee unanimously expressed a favorable non-binding opinion, in accordance with the requirements of the above Consob Regulation, regarding the Company's interest in entering into the lease as well as on the convenience and substantive fairness of the related conditions.

43. Disclosures required by art. 149-Duodecies of the issuer regulations

The following table has been prepared in accordance with Art. 2427, no. 16 bis, of the Italian Civil Code and presents the fees for 2016 and 2017 for audit and other services provided by the external auditors of Luxottica Group S.p.A.

	Entity providing services	Entity receiving services	Fees for 2017	Fees for 2016
Audit services	Pricewaterhouse Coopers S.p.A.	Luxottica Group S.p.A.	900,730	1,333,548
Attestation services	Pricewaterhouse Coopers S.p.A.	Luxottica Group S.p.A.	280,720	180,000
Other services	Pricewaterhouse Coopers S.p.A.	Luxottica Group S.p.A.	365,200	579,258
Total			**1,546,650**	**2,092,806**

44. Other information

Information about ownership structure and corporate governance is contained in a specific document forming an integral part of the annual financial report.

No atypical and/or unusual transactions, as defined by Consob Communication no. 6064293 dated July 28, 2006, were undertaken during 2017 or 2016.

Disclosures about share-based payments can be found in the note on "Share-based payments" in the notes to the consolidated financial statements.

The year 2010 saw the start of a research, development and innovation project (project number MI00153) called "Industry 2015 New technologies for Made in Italy from industry cluster to supply chain: Eyewear and industrial innovation Target Area B". The project's objective is to create a platform that will integrate the supply chain in technical and operational terms and that will promote the competitive and technological development of the Italian eyewear industry. Such a platform should ensure that events occurring on the commercial front and along the supply chain are quickly communicated to the entire production process and that every critical issue, leading to changes in supply chain planning, is promptly visible to all those involved. The platform should also allow interactive communication between the various parties in the supply chain. Decree no. 00098MI01 issued by Italy's Ministry for Economic Development on December 21, 2012 acknowledged a total cost for the project of Euro 13,747,949 against which a grant of Euro 4,247,627 was recognized. The Luxottica Group's share of the total expenditure is Euro 5,030,748, for which its share of the grant is Euro 1,445,349.

45. Distribution of receivables, payables and revenue by geographical area

The segments identified for the purposes of reporting by geographical area are Europe, North America (covering the United States, Canada and the Caribbean islands), Asia-Pacific (Australia, New Zealand, China, Hong Kong, Singapore and Japan), Latin America (South and Central America) and Rest of world (all other regions including the Middle East).

The geographical breakdown of receivables at December 31, 2017 is as follows:

Description:	Europe	North America	Asia - Pacific	Latin America	Rest of world	Total
Other receivables (current)	429,410,002	429,465	24,778,699	-	3,218,366	457,836,532
Other receivables (non-current)	10,589,436	-	138,952	-	-	10,728,388
Accounts receivable	262,428,524	196,913,162	88,825,931	27,899,910	31,568,701	607,636,228
Taxes receivable	32,657,133	-	-	-	-	32,657,133
Total	**735,085,095**	**197,342,627**	**113,743,582**	**27,899,910**	**34,787,067**	**1,108,858,281**

The geographical breakdown of payables at December 31, 2017 is as follows:

Description:	Europe	North America	Asia - Pacific	Latin America	Rest of world	Total
Long-term debt	1,544,842,528	-	-	-	-	1,544,842,528
Short-term borrowings	79,560,408	-	-	-	-	79,560,408
Accounts payable (current)	452,817,041	68,514,041	84,917,421	1,638,667	1,118,777	609,005,947
Other liabilities (current)	333,388,770	3,976,797	6,826,170	7,094	1,095,229	345,294,060
Current income taxes payable	9,526,075	-	-	-	-	9,526,075
Total	**2,420,134,822**	**72,490,838**	**91,743,591**	**1,645,761**	**2,214,006**	**2,588,229,018**

The geographical breakdown of revenue at December 31, 2017 is as follows:

Description	Europe	North America	Asia - Pacific	Latin America	Rest of world	Total
Net sales	1,254,410,466	1,069,971,281	230,224,058	170,460,469	151,416,377	2,876,482,651
Other revenue and income	71,560,899	41,975,493	30,712,515	15,980,788	8,892,792	169,122,487
Total	**1,325,971,365**	**1,111,946,774**	**260,936,573**	**186,441,257**	**160,309,169**	**3,045,605,138**

46. Non-recurring transactions

In 2017, the Company recorded:

- non-recurring costs, with an impact of Euro 26.1 million on income before provision for income taxes and of Euro 18.3 million on net income, in regard to: (i) costs in connection with the Essilor combination project for Euro 18.5 million (Euro 13.0 million after tax), (ii) Euro 7.6 million (Euro 5.3 million after tax) relating to termination of employment of Massimo Vian, who left the position of CEO Product and Operations (Euro 6.3 million), and other top managers of the Group (Euro 1.3 million).

- non-recurring income, with an impact of Euro 48.7 million on income before provision for income taxes and of Euro 96.9 million on net income, in regard to: (i) the gain realized on the sale of a property owned by the Company in March 2017 for Euro 48.7 million (Euro 34.9 million after tax); (ii) tax benefits deriving from the Patent Box for Euro 61.9 million.

In 2016, the Company had recorded Euro 7.1 million in non-recurring costs impacting income from operations in connection with the agreement to terminate the employment of Adil Mehboob-Khan who left the position of CEO for Markets.

47. Share-based payments

Beginning in April 1998, certain officers and other key employees of the Company and its subsidiaries were granted stock options of Luxottica Group S.p.A. under the Company's stock option plans. In order to strengthen the loyalty of some key employees - not only with respect to individual targets, but also the common goal of enhancing the Company's overall capitalization - the Company's stockholders meetings approved three capital increases on March 10, 1998, September 20, 2001 and June 14, 2006, respectively, through the issuance of new common shares to be offered for subscription to employees. On the basis of these capital increases, authorized capital stock amounts to Euro 29,457,295.98. These options become exercisable in a single solution at the end of a three-year vesting period. Certain options may contain accelerated vesting terms if there is a change in ownership (as defined in the plans).

48. Subsequent events

On February 26, 2018 Luxottica Group S.p.A signed a share purchase agreement for the acquisition of a 67% stake in Fukui Megane Co. Ltd, one of the leading manufacturers in the eyewear district of Fukui specialized in the production of titanium and solid gold eyewear frames. The transaction is subject to customary closing conditions.

49. Appendix

INVESTMENTS HELD BY LUXOTTICA GROUP S.P.A.

In compliance with Consob Communication no. 6064293 dated July 28, 2006, the following table provides the list of Group companies as of December 31, 2017, including each company's name, registered office, capital stock, the equity interests held directly or indirectly by the parent company and each of the subsidiaries, and the method of consolidation. All companies are consolidated on a line-by-line basis, except for those marked (d), which are consolidated using the equity method:

Investee company	City	Investor	% Direct	% Group	Capital stock	Curr-ency	No. shares held
Air Sun	Mason - Ohio	Luxottica Retail North America Inc	70.00	70.00	1.00	USD	70.00
Alain Mikli International Sasu	Paris	Luxottica Group S.p.A.	100.00	100.00	4,459,786.64	EUR	31,972.00
Autant Pour Voir Que Pour Etre' Vues Sarl	Paris	Alain Mikli International Sasu	100.00	100.00	15,245.00	EUR	1,000.00
Campo Visual Participacoes Ltda	Barueri	Oticas Carol Sa	100.00	100.00	58,908,000.00	BRL	58,907,999.00
	Barueri	Orange County Participacoes Sa	0.00	100.00	58,908,000.00	BRL	1.00
Centre Professionnel De Vision Ussc Inc	Mississauga - Ontario	Oakley Inc	100.00	100.00	1.00	CAD	99.00
David Clulow Loughton Limited	London	Luxottica Retail Uk Ltd	50.00	50.00	2.00	GBP	1.00
David Clulow Newbury Limited	London	Luxottica Retail Uk Ltd	50.00	50.00	2.00	GBP	1.00
Eye Safety Systems Inc	Dover-Delaware	Oakley Inc	100.00	100.00	1.00	USD	100.00
Eyebiz Laboratories Pty Limited(d)	Macquarie Park - Nsw	Luxottica Retail Australia Pty Ltd	30.00	30.00	10,000,005.00	AUD	6,000,003.00
Eyemed Insurance Company	Phoenix-Arizona	Luxottica Us Holdings Corp	100.00	100.00	300,000.00	USD	300,000.00
Eyemed Vision Care Hmo Of Texas Inc	Dallas-Texas	Oakley Inc	100.00	100.00	1,000.00	USD	1,000.00
Eyemed Vision Care Ipa Llc	New York - New York	Eyemed Vision Care Llc	100.00	100.00	1.00	USD	1.00
Eyemed Vision Care Llc	Dover - Delaware	Luxottica Retail North America Inc	100.00	100.00	1.00	USD	1.00
Eyexam Of California Inc	Los Angeles - California	Oakley Inc	100.00	100.00	10.00	USD	1,000.00
First American Administrators Inc	Phoenix-Arizona	Eyemed Vision Care Llc	100.00	100.00	1,000.00	USD	1,000.00
Global Lux Do Brasil Distribuidora e Importadora De Relogio, Acessorios e Produtos Opticos Ltda	Sao Paulo	Campo Visual Participacoes Ltda	0.00	100.00	28,103,637.00	BRL	1.00
	Sao Paulo	Oticas Carol Sa	100.00	100.00	28,103,637.00	BRL	28,103,636.00
Guangzhou Ming Long Optical Technology Co Ltd	Guangzhou City	Luxottica (China) Investment Co Ltd	100.00	100.00	645,500,000.00	CNR	645,500,000.00
Lunettes Group Limited	Taipa	Luxottica Hong Kong Wholesale Limited	1.00	100.00	1,000,000.00	MOP	10,000.00
	Taipa	Luxottica Retail Hong Kong Limited	99.00	100.00	1,000,000.00	MOP	990,000.00
Luxottica (China) Investment Co Ltd	Shanghai	Sunglass Hut Ireland Limited	100.00	100.00	1,434,458,960.05	CNR	1,434,458,960.05
Luxottica (Shanghai) Trading Co Ltd	Shanghai	Luxottica Holland Bv	100.00	100.00	109,999,700.00	CNR	109,999,700.00
Luxottica (Switzerland) Ag	Zurigo	Luxottica Group S.p.A.	100.00	100.00	100,000.00	CHF	100.00

Investee company	City	Investor	% Direct	% Group	Capital stock	Curr-ency	No. shares held
Luxottica Argentina Srl	Buenos Aires	Luxottica Group S.p.A.	94.00	100.00	41,837,001.00	ARS	39,326,338.00
	Buenos Aires	Luxottica Srl	6.00	100.00	41,837,001.00	ARS	2,510,663.00
Luxottica Austria Gmbh	Vienna	Luxottica Group Spa	100.00	100.00	508,710.00	EUR	50,871.00
Luxottica Belgium Nv	Berchem	Luxottica Group Spa	99.00	100.00	62,000.00	EUR	99.00
	Berchem	Luxottica Srl	1.00	100.00	62,000.00	EUR	1.00
Luxottica Brasil Produtos Oticos e Esportivos Ltda	San Paolo	Luxottica Retail Canada Inc	42.01	100.00	1,043,457,587.00	BRL	438,383,816.00
Luxottica Brasil Produtos Oticos e Esportivos Ltda	San Paolo	Luxottica Group Spa	57.99	100.00	1,043,457,587.00	BRL	605,070,168.00
Luxottica Brasil Produtos Oticos e Esportivos Ltda	San Paolo	Luxottica Srl	0.00	100.00	1,043,457,587.00	BRL	3,603.00
Luxottica Central Europe Kft	Budapest	Luxottica Holland Bv	100.00	100.00	3,000,000.00	HUF	3,000,000.00
Luxottica Chile Spa	Santiago	Luxottica Spain Slu	100.00	100.00	455,000,000.00	CLP	455,000.00
Luxottica Colombia Sas	Bogotà	Luxottica Group Spa	100.00	100.00	3,500,000,000.00	COP	35,000.00
Luxottica Commercial Service (Dongguan) Co Ltd	Dongguan City, Guangdong	Sunglass Hut Ireland Limited	100.00	100.00	3,000,000.00	CNR	3,000,000.00
Luxottica France Sasu	Valbonne	Luxottica Group Spa	100.00	100.00	534,000.00	EUR	500.00
Luxottica Franchising Australia Pty Limited	Macquarie Park - Nsw	Luxottica Retail Australia Pty Ltd	100.00	100.00	2.00	AUD	2.00
Luxottica Germany Gmbh	Grasbrunn	Luxottica Group Spa	100.00	100.00	200,000.00	EUR	200,000.00
Luxottica Gozluk Endustri Ve Ticaret Anonim Sirketi	Cigli - Izmir	Luxottica The Netherlands Bv	35.16	100.00	10,390,459.89	LTL	365,328,570.00
	Cigli - Izmir	Luxottica Group Spa	64.84	100.00	10,390,459.89	LTL	673,717,419.00
Luxottica Hellas Ae	Pallini	Luxottica Group Spa	70.00	70.00	1,752,900.00	EUR	40,901.00
Luxottica Holland Bv	Heemstede	Luxottica Group Spa	100.00	100.00	45,000.00	EUR	100.00
Luxottica Hong Kong Services Limited	Hong-Kong	Luxottica Group Spa	100.00	100.00	548,536,634.67	HKD	8,700,001.00
Luxottica Hong Kong Wholesale Limited	Kowloon	Luxottica Hong Kong Services Limited	100.00	100.00	10,000,000.00	HKD	10,000,000.00
Luxottica India Eyewear Private Limited	Gurgaon - Haryana	Luxottica Holland Bv	100.00	100.00	1,330,400.00	RUP	133,036.00
	Gurgaon - Haryana	Luxottica International Distribution Srl	0.00	100.00	1,330,400.00	RUP	4.00
Luxottica International Distribution Srl	Agordo	Luxottica Group Spa	100.00	100.00	50,000.00	EUR	50,000.00
Luxottica Italia Srl	Agordo	Luxottica Group Spa	100.00	100.00	5,000,000.00	EUR	5,000,000.00
Luxottica Korea Ltd	Seoul	Luxottica Group Spa	100.00	100.00	120,000,000.00	KRW	12,000.00
Luxottica Mexico Sa De Cv	Città Del Messico	Luxottica Group Spa	96.00	100.00	342,000,000.00	MXN	328,320.00
	Città Del Messico	Luxottica Srl	4.00	100.00	342,000,000.00	MXN	13,680.00
Luxottica Middle East Fze	Dubai	Luxottica Group Spa	100.00	100.00	1,000,000.00	AED	1.00
Luxottica Nordic Ab	Stockholm	Luxottica Group Spa	100.00	100.00	250,000.00	SEK	2,500.00
Luxottica Norge As	Drammen	Luxottica Group Spa	100.00	100.00	100,000.00	NOK	100.00
Luxottica North America Distribution Llc	Dover - Delaware	Luxottica Usa Llc	100.00	100.00	1.00	USD	1.00
Luxottica North Europe Ltd	S. Albans - Hertfordshire	Luxottica Group Spa	100.00	100.00	90,000.00	GBP	90,000.00
Luxottica Optics Ltd	Tel Aviv	Luxottica Group Spa	100.00	100.00	43.50	ILS	435,000.00
Luxottica Poland Sp Zoo	Cracovia	Luxottica Group Spa	25.00	100.00	390,000.00	PLN	195.00
	Cracovia	Luxottica Holland Bv	75.00	100.00	390,000.00	PLN	585.00

Investee company	City	Investor	% Direct	% Group	Capital stock	Curr-ency	No. shares held
Luxottica Portugal Sa	Lisbona	Luxottica Spain Slu	18.32	100.00	3,043,129.00	EUR	13,937,530.00
	Lisbona	Luxottica Group Spa	81.54	100.00	3,043,129.00	EUR	62,034,186.00
	Lisbona	Luxottica Srl	0.14	100.00	3,043,129.00	EUR	106,509.00
Luxottica Retail Australia Pty Ltd	Macquarie Park-Nsw	Luxottica South Pacific Holdings Pty Limited	100.00	100.00	307,796.00	AUD	307,796.00
Luxottica Retail Canada Inc	Saint John, New Brunswick	Luxottica Group Spa	28.00	100.00	1,000,000.00	USD	280,000.00
	Saint John, New Brunswick	Luxottica Retail North America Inc	55.00	100.00	1,000,000.00	USD	550,000.00
	Saint John, New Brunswick	Oakley Inc	17.00	100.00	1,000,000.00	USD	170,000.00
Luxottica Retail Hong Kong Limited	Hong Kong - Hong Kong	Protector Safety Industries Pty Ltd	100.00	100.00	149,127,000.00	HKD	1,491,270.00
Luxottica Retail New Zealand Limited	Auckland	Protector Safety Industries Pty Ltd	100.00	100.00	67,700,100.00	NZD	67,700,100.00
Luxottica Retail North America Inc	Cleveland-Ohio	Oakley Inc	100.00	100.00	1.00	USD	20.00
Luxottica Retail Uk Ltd.	St Albans - Hertfordshire	Luxottica Retail North America Inc	0.86	100.00	24,410,765.00	GBP	209,634.00
	St Albans - Hertfordshire	Luxottica Group Spa	68.00	100.00	24,410,765.00	GBP	16,599,320.00
	St Albans - Hertfordshire	Luxottica Us Holdings Corp	31.14	100.00	24,410,765.00	GBP	7,601,811.00
Luxottica Rus Llc	Moscow	Luxottica The Netherlands Bv	99.69	100.00	393,000,000.00	RUB	391,770,000.00
	Moscow	Luxottica Holland Bv	0.31	100.00	393,000,000.00	RUB	1,230,000.00
Luxottica South Africa Pty Ltd.	Cape Town - Observatory	Luxottica Group Spa	100.00	100.00	2,200.02	ZAR	220,002.00
Luxottica South East Asia Pte Ltd.	Singapore	Luxottica Holland Bv	100.00	100.00	1,360,000.00	SGD	1,360,000.00
Luxottica South Eastern Europe Ltd.	Novigrad	Luxottica Holland Bv	100.00	100.00	1,000,000.00	HRK	1,000,000.00
Luxottica South Pacific Holdings Pty Limited	Macquarie Park - Nsw	Luxottica Group Spa	100.00	100.00	322,797,001.00	AUD	322,797,001.00
Luxottica Spain Slu	Madrid	Luxottica Group Spa	100.00	100.00	8,147,795.20	EUR	10,184,744.00
Luxottica S.r.l.	Agordo	Luxottica Group Spa	100.00	100.00	10,100,000.00	EUR	10,100,000.00
Luxottica The Netherlands Bv	Heemstede	Luxottica Group Spa	100.00	100.00	18,151.20	EUR	40.00
Luxottica Tristar (Dongguan) Optical Co Ltd.	Don Guan City	Luxottica Holland Bv	100.00	100.00	128,719,301.00	USD	128,719,301.00
Luxottica Us Holdings Corp	Dover - Delaware	Luxottica Group Spa	100.00	100.00	100.00	USD	10,000.00
Luxottica Usa Llc	New York	Oakley Inc	100.00	100.00	1.00	USD	1.00
Luxottica Wholesale (Thailand) Ltd.	Bangkok	Luxottica Srl	0.00	100.00	100,000,000.00	THB	1.00
	Bangkok	Luxottica Group Spa	100.00	100.00	100,000,000.00	THB	9,999,998.00
	Bangkok	Luxottica Holland Bv	0.00	100.00	100,000,000.00	THB	1.00
Luxottica Wholesale Malaysia Sdn Bhd	Kuala Lumpur	Luxottica Group Spa	100.00	100.00	4,500,000.00	MYR	4,500,000.00
Mikli Asia Limited	Kowloon, Hong Kong	Alain Mikli International Sasu	100.00	100.00	100.00	HKD	100.00
Mikli Diffusion France Sasu	Paris	Alain Mikli International Sasu	100.00	100.00	1,541,471.20	EUR	220,500.00
Mikli Japon Kk	Tokyo	Alain Mikli International Sasu	100.00	100.00	85,800,000.00	JPY	1,716.00
Mirari Japan Co Ltd	Tokyo	Luxottica Holland Bv	84.17	100.00	473,700,000.00	JPY	7,974.00
	Tokyo	Luxottica Group Spa	15.83	100.00	473,700,000.00	JPY	1,500.00

Investee company	City	Investor	% Direct	% Group	Capital stock	Curr-ency	No. shares held
Nextore Inc	Delaware	Nextore Srl	100.00	100.00	1.00	USD	100.00
Nextore S.r.l.	Milano	Luxottica Group Spa	60.00	60.00	1,000,000.00	EUR	600,000.00
Oakley Air Jv	Chicago - Illinois	Luxottica Usa Llc	70.00	70.00	1.00	USD	70.00
Oakley Inc	Olympia-Washington	Luxottica Us Holdings Corp	100.00	100.00	10.00	USD	1,000.00
Oakley South Pacific Pty Ltd	Victoria - Melbourne	Luxottica South Pacific Holdings Pty Limited	100.00	100.00	12.00	AUD	12.00
Oakley Sport International S.r.l.	Agordo	Luxottica Group Spa	100.00	100.00	50,000.00	EUR	50,000.00
Oakley Uk Ltd.	St Albans - Hertfordshire	Oakley Inc	100.00	100.00	1,000.00	GBP	1,000.00
Optical Procurement Services Llc	Dover	Luxottica Retail North America Inc	100.00	100.00	100.00	USD	100.00
Opticas Gmo Chile Sa	Comuna De Huechuraba	Luxottica Group Spa	0.00	100.00	7,263,089.00	CLP	2.00
	Comuna De Huechuraba	Luxottica Spain Slu	100.00	100.00	7,263,089.00	CLP	7,263,087.00
Opticas Gmo Colombia Sas	Bogotà	Luxottica Spain Slu	100.00	100.00	17,963,033,000.00	COP	17.963.033.000,00
Opticas Gmo Ecuador Sa	Guayaquil	Opticas Gmo Peru Sac	0.00	100.00	19,200,000.00	USD	1.00
	Guayaquil	Luxottica Spain Slu	100.00	100.00	19,200,000.00	USD	19,199,999.00
Opticas Gmo Peru Sac	Lima	Luxottica Spain Slu	100.00	100.00	34,631,139.00	PEN	34,631,138.00
	Lima	Opticas Gmo Ecuador Sa	0.00	100.00	34,631,139.00	PEN	1.00
Optomeyes Holdings Pty Ltd.	Hobart/Tasmania	Luxottica Retail Australia Pty Ltd	29.01	29.01	2,823.00	AUD	819.00
Orange County Participacoes Sa	San Paolo	Luxottica Brasil Produtos Oticos e Esportivos Ltda	100.00	100.00	11,667,500.00	BRL	11,667,500.00
Oticas Carol Sa	San Paolo	Luxottica Brasil Produtos Oticos e Esportivos Ltda	8.73	100.00	90,625,798.00	BRL	7,914,899.00
	San Paolo	Orange County Participacoes Sa	91.27	100.00	90,625,798.00	BRL	82,710,899.00
Oy Luxottica Finland Ab	Espoo	Luxottica Group Spa	100.00	100.00	170,000.00	EUR	1,000.00
Protector Safety Industries Pty Ltd.	Macquarie Park - Nsw	Luxottica South Pacific Holdings Pty Limited	100.00	100.00	2,486,250.00	AUD	4,972,500.00
Ray-Ban Sun Optics India Private Limited	Bhiwadi	Luxottica Us Holdings Corp	100.00	100.00	228,372,710.00	RUP	22,837,270.00
	Bhiwadi	Luxottica Holland Bv	0.00	100.00	228,372,710.00	RUP	1.00
Ray-Ban Air	Agordo	Luxottica Srl	32.37	100.00	13,317,242.62	EUR	4,310,966.81
	Agordo	Luxottica Group Spa	67.63	100.00	13,317,242.62	EUR	9,006,275.81
Rays Houston	Mason - Ohio	Luxottica Retail North America Inc	51.00	51.00	1.00	USD	51.00
Salmoiraghi & Viganò Optika Doo[c]	Rijeka	Salmoiraghi & Viganò Spa	34.43	34.43	3,540,000.00	HRK	1,218,800.00
Salmoiraghi & Viganò S.p.A.	Milano	Luxottica Group Spa	100.00	100.00	11,919,861.00	EUR	11,919,861.00
Sgh Brasil Comercio De Oculos Ltda	San Paolo	Luxottica International Distribution Srl	0.01	100.00	501,720,000.00	BRL	50,172.00
	San Paolo	Luxottica Group Spa	99.99	100.00	501,720,000.00	BRL	501,669,828.00
Sgh Optics Malaysia Sdn Bhd	Kuala Lampur	Luxottica Retail Australia Pty Ltd	100.00	100.00	3,000,002.00	MYR	3,000,002.00
Spv Zeta Optical Commercial And Trading (Shanghai) Co Ltd.	Shanghai	Luxottica (China) Investment Co Ltd	100.00	100.00	209,734,713.00	CNR	209,734,713.00
Spv Zeta Optical Trading (Beijing) Co Ltd	Beijing	Luxottica (China) Investment Co Ltd	100.00	100.00	682,231,000.00	CNR	682,231,000.00

Investee company	City	Investor	% Direct	% Group	Capital stock	Currency	No. shares held
Sunglass Hut (South East Asia) Pte Ltd	Singapore	Luxottica Holland Bv	100.00	100.00	10,100,000.00	SGD	10,100,000.00
Sunglass Hut (Thailand) Co Ltd.[(b)]	Khet Patumwan, Bangkok	Luxottica Group Spa	46.00	49.00	85,000,000.00	THB	39,100.00
	Khet Patumwan, Bangkok	Luxottica Srl	3.00	49.00	85,000,000.00	THB	2,550.00
Sunglass Hut Airports South Africa (Pty) Ltd.[(a)]	Cape Town - Observatory	Sunglass Hut Retail South Africa (Pty) Ltd	45.00	45.00	1,000.00	ZAR	450.00
Sunglass Hut Australia Pty Limited	Macquarie Park-Nsw	Luxottica South Pacific Holdings Pty Limited	100.00	100.00	46,251,012.00	AUD	46,251,012.00
Sunglass Hut De Mexico Sapi De Cv	Città Del Messico	Luxottica Group Spa	100.00	100.00	315,970.00	MXN	315,969.00
	Città Del Messico	Luxottica International Distribution Srl	0.00	100.00	315,970.00	MXN	1.00
Sunglass Hut France Sasu	Parigi	Luxottica Group Spa	100.00	100.00	3,600,000.00	EUR	3,600,000.00
Sunglass Hut Hong Kong Limited	Hong Kong - Hong Kong	Protector Safety Industries Pty Ltd	100.00	100.00	115,000,002.00	HKD	115,000,002.00
Sunglass Hut Ireland Limited	Dublino	Luxottica Group Spa	100.00	100.00	252.50	EUR	202.00
Sunglass Hut Middle East General Trading Llc	Dubai	Luxottica Group Spa	49.00	49.00	1,200,000.00	AED	588.00
Sunglass Hut Retail Namibia (Pty) Ltd	Windhoek	Sunglass Hut Retail South Africa (Pty) Ltd	100.00	100.00	100.00	NAD	100.00
Sunglass Hut Retail South Africa (Pty) Ltd	Cape Town - Observatory	Luxottica South Africa Pty Ltd	100.00	100.00	900.00	ZAR	900.00
Sunglass Hut Turkey Gozluk Ticaret Anonim Sirketi	Cigli - Izmir	Luxottica Group Spa	100.00	100.00	41,000,000.00	LTL	4,100,000.00
Tortona 35 Srl	Milano	Luxottica Group Spa	100.00	100.00	50,000.00	EUR	50,000.00
Visual Holding Participacoes Ltda	Sao Paulo	Orange County Participacoes Sa	100.00	100.00	13,738,900.00	BRL	13,738,890.00
	Sao Paulo	Luxottica Brasil Produtos Oticos e Esportivos Ltda	0.00	100.00	13,738,900.00	BRL	10.00
Visual Rs Comercio De Produtos Opticos Ltda	Sao Paulo	Orange County Participacoes Sa	0.00	100.00	8,587,575.00	BRL	10.00
	Sao Paulo	Visual Holding Participacoes Ltda	100.00	100.00	8,587,575.00	BRL	8,587,565.00

(a) Controlled by a shareholders' agreement
(b) Controlled through a shareholding that allows a dominant influence to be exercised in ordinary shareholders' meetings
(c) Although the shareholding is equal to 34.429%, the voting rights in the shareholders' meeting represent an effective interest of 13%
(d) Investment accounted for using the equity method in the consolidated financial statements

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Milan, February 26, 2018
Luxottica Group S.p.A.

On behalf of the Board of Directors

Francesco Milleri
(Deputy Chairman – Chief Executive Officer)

4.7 Certification of the separate financial statements pursuant to Art. 154-bis of Italian Legislative Decree 58/98

1. The undersigned Francesco Milleri, as Deputy Chairman and Chief Executive Officer, and Stefano Grassi, as Manager charged with preparing the Company's financial reports of Luxottica Group S.p.A., having also taken into account the provisions of Article 154-bis, paragraphs 3 and 4, of the Italian Legislative Decree 58 of 24 February 1998, hereby certify:

   - the adequacy in relation to the characteristics of the Company and
   - the effective implementation

   of the administrative and accounting procedures for the preparation of the statutory financial statements over the course of the year 2017.

2. The assessment of the adequacy of the administrative and accounting procedures for the preparation of the statutory financial statements as of December 31, 2017 was based on a process developed by Luxottica Group S.p.A. in accordance with the model Internal Control – Integrated Framework as issued by the Committee of Sponsoring organizations of the Tradeway Commission (COSO Model), model which includes Control Environment, Risk Assessment, Control Activities, Information and Communication and Monitoring and which is a framework generally accepted internationally.

3. It is also certified that:

   3.1 the statutory financial statements as of December 31, 2017:

   a. have been drawn up in accordance with the international accounting standards recognized in the European Union under the EC regulation 1606/2002 of the European Parliament and of the Council of 19 July 2002, and the provisions which implement ART. 9 of the legislative decree 38/2005;

   b. is consistent with the entries in the accounting books and records;

   c. is capable of providing a true and fair representation of the assets and liabilities, profits and losses and financial position of the issuer

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Milan, February 26, 2018
Luxottica Group S.p.A.

Francesco Milleri
(Deputy Chairman – Chief Executive Officer)

Stefano Grassi
(Manager charged with preparing the Company's financial reports)

4.8 Independent Auditor's Report

Independent auditor's report

in accordance with article 14 of Legislative Decree 39 of 27 January 2010 and article 10 of Regulation (EU) 537/2014

To the shareholders of Luxottica Group SpA

Report on the Audit of the Separate Financial Statements

Opinion

We have audited the separate financial statements of Luxottica Group SpA (the "Company"), which comprise the statement of financial position as of 31 December 2017, the statement of income, the statement of comprehensive income, the statement of changes in stockholders' equity and the statement of cash flows for the year then ended and the notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the separate 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, and with the regulations issued to implement article 9 of Legislative Decree 38/05.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the reporting period under examination. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon; therefore, we do not provide a separate opinion on these matters.

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

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Key Audit Matter	*How our audit addressed the key audit matter*
Revenue recognition	
Revenue recognition policies are described in section 1 "Significant accounting policies" of the notes to the separate financial statements. The recognition of revenues of the Company, given the large number of transactions, operated through a distribution network on a global basis, represented a key aspect in the context of the audit of the separate financial statements.	We have performed, through specific investigations, an understanding and evaluating of the relevant controls implemented by the Company over the "Net sales" area also to address the risk of fraud in revenue recognition, in order to assess the adequacy of their design. We have verified the operating effectiveness of these controls. We have carried out sample testing procedures with the aim of validating the existence of transactions occurred through the reporting period, collecting documentation supporting the genuinity of revenues. We have performed external or intra-group confirmation procedures with the aim of obtaining probing evidence to support trade receivables included in the financial statements.
Recoverability of investments value	
Investment measurement policies are described in section 1 "Significant accounting policies" and section 3 "Influence of estimates" of the notes to the separate financial statements. As of 31 December 2017, investments in subsidiaries amounted to Euro 3,315 million. We have identified an area of focus considering the significance of the above balance and the fact that the valuation process involves a high degree of professional judgement of management in developing estimates of cash flows related to the recoverability of investments and assumptions used in the calculation models. With reference to the year ended 31 December	We have performed, through specific investigations, an understanding and evaluating of the relevant controls implemented by the Company over the "Investments in subsidiaries" area, in order to assess the adequacy of their design. We verified the operating effectiveness of these controls. We have performed an understanding of the impairment testing procedures adopted by management, policies applied in measuring investments and of estimates developed by management with the aim of measuring and monitoring their recoverability.

Key Audit Matter	*How our audit addressed the key audit matter*
2017, management carried out an impairment test on investments, based on the following approach: • they defined the perimeter of investments to be tested for impairment defined based on a number of impairment indicators; • they determined the present value of the future cash flows expected to be derived from the investment ("value in use") using the discounted cash flow approach or fair value less costs to sell as an alternative; • the value in use model included explicit projections limited to three years, with a terminal value applied to the last explicit year; • the estimated cash flows were discounted to present value using the weighted average cost of capital ("WACC"); • the recoverability of the carrying amounts was verified by comparing the carrying amount with the related recoverable amount, calculated as the higher of value in use determined on the basis of future cash flows less net debt and fair value less costs to sell; • in addition, management carried out a sensitivity analysis to assess the impact of changes to significant assumptions on the assets recoverable amount.	We have assessed consistency between cash flows used and investments being tested. We have examined the methodologies applied in developing cash flows projections used to determine the value in use and the approach adopted in applying the discounted cash flow mathematical model, with the support of our valuation specialists. We have assessed the calculation method of fair value less costs to sell where this has been used as an alternative to the value in use.We have also verified the mathematical accuracy of calculations and consistency of the information used with relevant data source. Where value in use has been calculated, we have investigated and discussed with management the need for adjusting the cash flows with the aim of isolating elements not attributable to the assets in their present conditions. We have analysed projections used for impairment testing and whether they were consistent with the three-year plan prepared by management. We have also carried out a retrospective analysis comparing estimates developed by management in previous years with the actual results, in order to validate management's ability in developing reliable estimates. In addition, we have verified accuracy and completeness of disclosures included in note 13.1 "Investments in subsidiaries" to the separate financial statements as of 31 December 2017.

Key Audit Matter	*How our audit addressed the key audit matter*
Effects of the tax benefit of the Patent Box on the calculation of current income tax	
Current and deferred tax policies are described in section 1 "Significant accounting policies" and section 3 "Influence of estimates" of the notes to the separate financial statements. *Effects of the Patent Box tax benefit on the calculation of current income tax are described in section 40 "Provision for Income taxes" of the notes to the separate financial statements.* The net income for the year ended 31 December 2017 includes a current tax benefit for an amount of Euro 103 million, arising from the effects of the agreement signed between the Company and the Italian Revenue Agency on 24 November 2017 to access the *Patent Box* tax benefit for certain brands of its portfolio. We have identified an area of focus in consideration of the significance of the impact of the tax benefit on the separate financial statements as of 31 December 2017 and the fact that the measurement process involved a high level of complexity in identifying and processing financial information directly attributable to the brands held in the portfolio.	We have performed, through specific investigations, an understanding and evaluating of the relevant controls implemented by the Company over the "Provision for income taxes" area, in order to assess the adequacy of their design. We have verified the operating effectiveness of these controls. With the support of the tax specialists of the PwC network, we have analysed the consistency of the terms of the agreement with methodologies adopted by management to calculate the tax benefit recorded in the financial statements as of 31 December 2017. With the support of the PwC tax specialists, we have examined the calculation of the current tax charge for the 2017 reporting period with the aim of verifying accounting implications of the tax benefit were appropriate. We have verified the mathematical accuracy of the calculations and consistency of the information used with relevant data source. In addition, we have verified accuracy and completeness of disclosures included in note 40 "Provision for income taxes" to the separate financial statements as of 31 December 2017.

Responsibilities of the Directors and Those Charged with Governance for the Separate Financial Statements

The Directors are responsible for the preparation of separate financial statements that give a true and fair view in accordance with *International Financial Reporting Standards* as adopted by the European Union, and with the regulations issued to implement article 9 of Legislative Decree 38/05 and, in the terms prescribed by law, for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

The Directors are responsible for assessing the Company's ability to continue as a going concern and, in preparing the separate financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the separate financial statements, management uses the going concern basis of accounting unless management intends either 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 financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the separate 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 separate financial statements.

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

Furthermore:

- we identified and assessed the risks of material misstatement of the separate 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 separate 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 separate financial statements, including the disclosures, and whether the separate 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 identify during our audit.

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the separate financial statements of the reporting period under examination and are therefore the key audit matters. We described these matters in our report.

Additional Disclosures required by Article 10 of Regulation (EU) 537/2014

We were appointed by the shareholders of Luxottica Group SpA at the general meeting held on 28 April 2011 to perform the audit of the Company consolidated and separate financial statements for the years ending 31 December 2012 through 31 December 2020.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) 537/2014 and that we remained independent of the Company in conducting the audit.

We confirm that the opinion on the separate financial statements expressed in this report is consistent with the additional report to those charged with governance, in their capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree 39/10 and Article 123-bis, paragraph 4, of Legislative Decree 58/98

The Directors of Luxottica Group SpA are responsible for preparing a management report and a report on the corporate governance and ownership structure of Luxottica Group SpA as of 31 December 2017, including their consistency with the relevant separate financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) 720B to express an opinion on the consistency of the management report and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree 58/98, with the separate financial statements of the Company as of 31 December 2017 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the management report and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the separate financial statements of the Company as of 31 December 2017 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree 39/10, issued on the basis of our knowledge and understanding of the Company obtained in the course of the audit, we have nothing to report.

Milan, 27 March 2018

PricewaterhouseCoopers SpA

Signed by

Christian Sartori
(Partner)

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

4.9 Board of Directors' proposal

The Board of Directors, in consideration of the prospects for the Group development and its expectations of future income, recommends the distribution of a gross dividend of Euro 1.01 per ordinary share, payable out of the net income of the 2017 fiscal year totalling Euro 631,270,701.

Having taken into account the calendar approved by Borsa Italiana S.p.A., the Board of Directors recommends that the payment date of the dividend is set for April 25, 2018, with its ex-dividend date on April 23, 2018 and record date April 24, 2018.

Having taken into consideration the number of shares that are presently issued, namely 485,041,033 and the shares which are directly owned by the Company on the date of the present report, namely 6,518,689 the total amount to be distributed would be equal to Euro 483.3 million. The distribution would take place after the allocation of Euro 8,909 to the legal reserve and Euro 1,451,519 to the reserve for unrealized profit on exchange fx rates pursuant to Article 2426 8-bis of the Italian Civil Code.

In any case, in the event that all the exercisable stock options are in fact exercised before the ex-dividend date, the maximum amount to be taken from the profit for the year for the distribution of the dividend, assuming that the number of the treasury shares of the company remains unchanged, would amount to approximately Euro 483.9 million.

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Milan, February 26, 2018
Luxottica Group S.p.A.

On behalf of the Board of Directors

Francesco Milleri
(Deputy Chairman – Chief Executive Officer)

4.10 Board of Statutory Auditors' Report on the consolidated and separate financial statements

Board of Statutory Auditors Report of Luxottica Group S.p.A. as of December 31, 2017 pursuant to article 2429 of the Italian Civil Code and article 153 of Italian Legislative Decree 58/1998.

Dear Shareholders,

This Board of Statutory Auditors was nominated on April 24, 2015 and will be in office until the approval of the Statutory financial statements as of December 31, 2017. The members of the Board of Statutory Auditors are Francesco Vella (President), Alberto Giussani and Barbara Tadolini. Maria Venturini and Roberto Miccù are substitute statutory auditors.

During the 2017 fiscal year we performed our supervisory activities required by law and in accordance with the Board of Statutory Auditors Code of Conduct, recommended by the Italian National Board of Chartered Accountants (Consigli Nazionali dei Dottori Commercialisti e degli Esperti contabili).

With regard to the activities performed during the fiscal year, and in compliance with the instructions provided by CONSOB through the communication of April 6, 2001 and subsequent amendments and supplements, we hereby report the following:

a. We verified the respect and compliance with the law, the deed of incorporation and the company bylaws;

b. We obtained punctual information from the Directors on the activities and the most relevant economic and financial transactions decided and undertaken during the fiscal year, also through subsidiary companies. In particular, we mention the following:

   1. On January 16, 2017, Essilor International S.A. ("Essilor") and Delfin S.à r.l. ("Delfin") announced the strategic integration of Essilor and Luxottica (the "Integration") through: (i) the transfer from Delfin to Essilor of its shareholding equal to about 62.44% of the current Luxottica share capital (the "Shareholding") against the assignment of newly issued Essilor shares on the basis of an exchange rate of 0.461 Essilor Shares per 1 Luxottica Share (the "Transfer", upon the execution of which Essilor will be renamed EssilorLuxottica"); and (ii) the subsequent mandatory tender offer by EssilorLuxottica, pursuant to the Italian Law, of all outstanding Luxottica shares at the same exchange rate. As a result of the above and following the hive down of essentially all of its operating assets into the wholly owned subsidiary, completed on November 1, 2017, Essilor will become a holding company with the new name EssilorLuxottica. As a result of the Transfer, Delfin will hold a 31% to 38% stake in EssilorLuxottica, depending on the level of acceptance of the exchange offer;

   2. On January 29, 2017, the Series D private placement contracted by the company Luxottica U.S. Holdings on January 29, 2010 was repaid at maturity;

   3. On January 30, 2017, the Board of Directors of the Luxottica Group authorized the early repayment of the Series I private placement contracted by the company Luxottica U.S. Holdings on December 15, 2011. This repayment took place on April 10, 2017;

4. On February 9, 2017, the loans and credit revolving facilities arising from the acquisition of Salmoiraghi & Viganò were respectively repaid and cancelled in advance, as was the pledge of trademarks;

5. On February 23, 2017, the Luxottica Group consolidated its cooperation with Ferrari S.p.A., announcing the signing of a multi-year license agreement for the development, production and marketing of an eyewear product range featuring the Ferrari and Ray-Ban brands;

6. On March 10, 2017 the Luxottica Group signed two term facility agreements worth a total of Euro 250 million each, guaranteed by the subsidiary Luxottica U.S. Holdings Corp. The agreements were signed with Banca IMI S.p.A./Intesa San Paolo, in the role of mandated lead arranger and original lender, respectively ("IMI/Intesa facility") and with Natixis S.A. – Milan Branch in the role of both mandated lead arranger and original lender. The maturity of both agreements is March 10, 2022. In execution of the agreements, on March 10, 2017, Euro 500 million was financed at the EURIBOR interest rate plus an spread of 0.70% and 0.62% for the IMI/Intesa facility and the Natixis Facility, respectively. In relation to these loans, two derivative contracts for interest rate hedging were signed for an aggregate notional value of Euro 500 million, with Intesa San Paolo S.p.A. and Natixis S.A. – Milan Branch, respectively. These contracts qualify as cash flow hedges that fix the EURIBOR rate at an average value of 0.1185% per year;

7. On May 16, 2017, the Board of Directors of Luxottica Group S.p.A. decided to initiate the delisting procedure for the American Depositary Shares (ADS) represented by American Depositary Receipts (ADR) from the New York Stock Exchange;

8. On the same date, the Board of Directors of Luxottica Group S.p.A., with regard to the planned integration with Essilor and in view of the changed context resulting therefrom, also approved certain changes to the Stock Option and Performance Share Plans. The changes to the Stock Option Plan concern the anticipation of the term within which the options may be exercised, in consideration of the exchange offer. Regarding the Performance Shares Plan, in accordance with the Regulation approved by the Stockholders' Meeting, the Board resolved to recalibrate its performance targets and to anticipate allocation to before the end of the 2015-2017 reference period. Certain changes to the plans are subject to the launch of the exchange offer by Essilor;

9. On July 6, 2017, executing an agreement signed on January 30, 2017, the Luxottica Group completed the acquisition of 100% of Óticas Carol, one of the most important optics franchise chains in Brazil. In particular, the subsidiary Luxottica Brasil Produtos Oticos e Esportivos Ltda acquired 100% of the share capital of the Brazilian company Orange County Participaçoes S.A., owner of the Óticas Carol retail chain;

10. On September 15, 2017 Luxottica Group repaid the Regulation G private placement contracted on September 30, 2010 for a total of Euro 50 million;

11. On November 24, 2017, Luxottica Group S.p.A. announced that it had signed a prior agreement with the Italian Revenue Agency for access to the tax benefit of the Patent Box for certain trademarks in its portfolio. The tax benefit related to the Company for the three-year period from 2015 to 2017, amounting to Euro 102.8 million, has been recognized in the 2017 financial statements;

12. On December 14, 2017, Luxottica Group and Tiffany & Co. announced the renewal of the exclusive license agreement for the design, manufacture and worldwide distribution of Tiffany & Co. frames and sunglasses. The agreement will continue until December 31, 2027, in compliance with the provided terms and conditions;

13. On December 15, 2017, Luxottica Group announced a streamlining of its governance system with the departure of Massimo Vian, CEO for Product and Operations, three months before the expiry of his mandate, and by concentrating the powers in the hands of Leonardo Del Vecchio, Executive Chairman, and Francesco Milleri, Deputy Chairman, who also took the office of Chief Executive Officer. Stefano Grassi, Chief Financial Officer of the Group, was co-opted to the Board of Directors.

Based on the information available to us, we can reasonably assure that the transactions here above described are compliant with law and the company bylaws and were not manifestly imprudent, high risky, in potential conflict of interest or able to compromise the integrity of the company assets. From the information disclosed during the Board of Directors' meetings, it appears that the Directors did not undertake any transactions that create potential conflict of interest with the Company;

c. We investigated and verified, to the extent of our responsibility, that the organizational structure of the company was adequate, that the principles of fair management were respected and that the instructions given by the Company to its subsidiaries were coherent with article 114, paragraph 2 of Italian Legislative Decree 58/1998. The above was accomplished though the collection of information from the competent functional managers and though meetings with the Independent Auditors, according to a reciprocal exchange of the significant facts and figures. No significant issues concerning the main subsidiaries emerged from the assessment of the annual reports, annexed to the financial statements and issued by the Boards of Statutory Auditors (where they exist), and from the information sharing with the latter;

d. We assessed and verified the adequacy of the internal control system and the administration and accounting system as well as the reliability of the latter to fairly represent operating events. This was achieved through:

    i. the review of reports issued by the manager responsible for the preparation of the Company's accounting records according to the provisions stated in article 154-bis of Italian Legislative Decree 58/98;

    ii. the review of the internal audit reports, as well as the disclosures on the outcome of monitoring activities to check the fulfillment of the corrective actions identified by the audit activity;

    iii. ithe review of company documents and discussion of the results of the work done by the Audit Company, related to the identification of material weaknesses, if any, over the internal control system. Starting from September 15, 2017 even if the Company is no longer subject to US Law (Sarbanes Oxley Act), maintains its internal control system updated and in compliance with Sarbanes Oxley Act.

    iv. participating to the Internal Control Committee's activities and, when it was deemed necessary, dealing with the issues together with the Committee;

    v. the meetings with the Chief Risk Compliance Officer.

    Based on the activities we performed, no anomalies arose which indicated that the Internal Control System is significantly inadequate.

e. We looked over and gathered information on the management activities and procedures implemented in accordance with Italian Legislative Decree 231/2001 regarding the administrative responsibilities of Bodies for the violations mentioned in the aforesaid regulations. The Supervisory Body, initially set up by the Board of Directors in the meeting of October 27, 2005, and ultimately renewed in the meeting of April 24, 2015, reported on the activities developed during the 2017 fiscal year;

f. We supervised the actual implementation models of the Code of Conduct promoted by Borsa Italiana S.p.A. and adopted by Luxottica Group S.p.A. in the meeting of July 26, 2007, in accordance with article 149, paragraph 1, letter c-bis of Italian Legislative Decree 58/98, and among other things, but not limited to, we checked that the assessment criteria and procedures used by the Board to evaluate the independence of its members were applied correctly. We also verified that the criteria regarding the independence of the members of this Board of Statutory Auditors were respected, as provided for by the Code of Conduct;

g. Based on the provisions of article 19 of Italian Legislative Decree of January 27, 2010, no. 39, amended by Italian Legislative Decree of July 17, 2016 no. 135, the Board also reviewed: the financial information process; the statutory audit of the annual accounts and consolidated accounts; the independence of the Independent Auditors, paying particular attention to the services provided outside the auditing process;

h. We received from the Independent Auditors the additional opinion based on the above-mentioned law provisions, subsequently submitted to the Board of Directors;

i. Based on the provisions of Italian Legislative Decree of June 30, 2016 we supervised the non-financial information process;

j. We did not find any atypical or unusual transactions that were set with companies of the Group, third parties or related parties. In its Management Report the Board of Directors provided a thorough explanation of the most important transactions of ordinary, economic and financial nature that were undertaken with subsidiary companies and related parties, as well as of the methods for determining the remuneration paid to them. Please refer to this specific report for further information;

k. We also verified that the ordinary operating procedures in force within the Group were arranged in order to assure that the transactions with related parties were concluded according to market conditions; the Board of Statutory Auditors verified the compliance of the procedures followed by the Company with the "Procedure on Transactions with Associated Parties", approved by the Board of Directors on October 25, 2010, in fulfillment of the Regulation approved by CONSOB resolution no.17221 of March 12, 2010 and subsequent amendments ("Procedure").

   Control and Risk Committee of the Company expressed an opinion on related party transactions and the Board of Statutory Auditors verified that the operating procedures were arranged.

   In particular, on February 24, 2017 had to express an opinion on the possible acquisition of the business building in Milan, Via San Nicolao, 16 – Piazzale Cadorna,3 owned by Beni Stabili SIIQ S.p.A. nowadays in leasing to Luxottica Group S.p.A. As this plan was considered a lesser relevant transaction with related parties, the Board of Statutory Auditors verified the correct and strict application of above mentioned procedure.

   Additional related party transactions were analyzed by Control and Risk Committee in accordance with the Procedure and were considered ordinary transactions.

   As the Group's CEO for Product and Operations ceased as his role in 2017, the Committee had to express an opinion on the correct application of the rules regarding Directors' compensation and other benefits and on the correct application of the above-mentioned procedure on transaction with associated parties. In addition, the Committee had to express an opinion on the compliance with the Code of Conduct recommendations and on the compliance with CONSOB communication of June 19, 2014 about their disclosure to markets;

l. We set meetings with the managers of the Audit Company, also in accordance with article 150, paragraph 2 of Italian Legislative Decree 58/98 for the regulations provided for by the Sarbanes Oxley Act, during which no events or situations emerged that must be highlighted in this report;

m. On March 27, 2018 PricewaterhouseCoopers S.p.A. issued the audit reports without remarks in accordance with article 14 of Italian Legislative Decree 39/2010, for the statutory financial statement and the consolidated financial statements of the Group for the fiscal year ending on December 31, 2017 prepared in accordance with the International Financial Reporting Standards (IFRS). From these audit reports it emerges that the financial statements represent a true and fair view, in accordance with their respectively accounting principles, of the statement of financial position, the financial and economic position, the equity movements and the cash flows as of December 31, 2017. Furthermore, in accordance with article 14, paragraph 2.e) of Italian Legislative Decree 39/2010, the Audit firm certified that the Management Report is consistent with the statutory financial statement and the consolidated financial statements as of December 31, 2017 and is in compliance with the applicable law.

n. The Board advised on remuneration in accordance with article 2389, paragraph 3, of the Italian Civil Code;

o. No complaints were sent by stockholders during 2017;

p. The Company provided information, requested by articles 123 bis and 123 ter of the Italian consolidated financial law (Testo Unico della Finanza) both in the remuneration report and in the Corporate Governance Report;

q. With reference to the statement in article 36, paragraph 1 of the Markets regulation (CONSOB resolution no. 16191 of 20 October 2007), we inform that on December 31, 2017 the provisions were applied to the subsidiary companies which the Company indicated as significant with regard to the financial information control system: in this respect it has to be stated that no omissions were noted;

r. the Audit firm PricewaterhouseCoopers S.p.A., appointed by the Shareholders on the Meeting held on April 28, 2011 together with the other companies within its network, in addition to the duties required by the law (audit of the statutory financial statements, the consolidated financial statements, as well as the audit of the half-year financial statement and checks on the regular keeping of company accounts during the fiscal year), were also appointed for the following activities, stated below with their respective remuneration (in thousands of Euro):

(Euro/000)	Entity providing services	Entity receiving services	Fees
Certification Services	Pricewaterhouse Coopers S.p.A	Luxottica Group S.p.A.	280
	Pricewaterhouse Coopers S.p.A network	Subsidiaries	430
Other Audit Services	Pricewaterhouse Coopers S.p.A	Luxottica Group S.p.A.	365
	Pricewaterhouse Coopers S.p.A network	Subsidiaries	166
Total			**1,241**

Taking in consideration the nature of these activities and related fees, that were assigned to PricewaterhouseCoopers S.p.A. and the companies within its network by Luxottica Group S.p.A. and the other companies of the Group, the Board of Statutory Auditors believes PricewaterhouseCoopers S.p.A. remained independent;

s. During 2017 fiscal year the Board of Auditors met 13 times, the Board of Directors met 8 times and the Risk and Control Committee met 13 times.

Finally, we express our assent, within the limits of our responsibility, to the approval of the financial statements together with the Management Report for the 2017 fiscal year as presented by the Board of Directors, and to the consequent proposal, made by the Board itself, for a net income distribution of Euro 483.3 million.

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Milan, March 27, 2018

Francesco Vella (Chairman)
Regular Auditors

Alberto Giussani
Regular Auditors

Barbara Tadolini
Regular Auditors

LUXOTTICA GROUP S.P.A.

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