ANNUAL
REPORT
2018
LUXOTTICA

## CORPORATE BODIES

## BOARD OF DIRECTORS

*In office until the approval of the financial statements as of and for the year ending December 31, 2018*

| | |
|---|---|
| **Executive Chairman** | Leonardo Del Vecchio |
| **Deputy Chairman** | Luigi Francavilla |
| **Deputy Chairman and CEO** | Francesco Milleri |
| **Directors** | Stefano Grassi*<br>Marco Giorgino**<br>Elisabetta Magistretti**<br>Maria Pierdicchi**<br>Sabrina Pucci**<br>Karl Heinz Salzburger**<br>Luciano Santel**<br>Cristina Scocchia**<br>Andrea Zappia** |

** Executive director*
*** Independent director*

## HUMAN RESOURCES COMMITTEE

Andrea Zappia (Chairman)
Sabrina Pucci
Marco Giorgino

## CONTROL AND RISK 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, 2020*

| | |
|---|---|
| **Statutory Auditors** | Giovanni Fiori (Chairman)<br>Dario Righetti<br>Barbara Tadolini |
| **Alternate Auditors** | Francesca Di Donato<br>Maria Venturini |

## MANAGER CHARGED WITH PREPARING THE COMPANY’S FINANCIAL REPORTS

Stefano Grassi

## INDEPENDENT AUDITORS

Until approval of the financial statements as of and for the year ending December 31, 2020

PricewaterhouseCoopers S.p.A.

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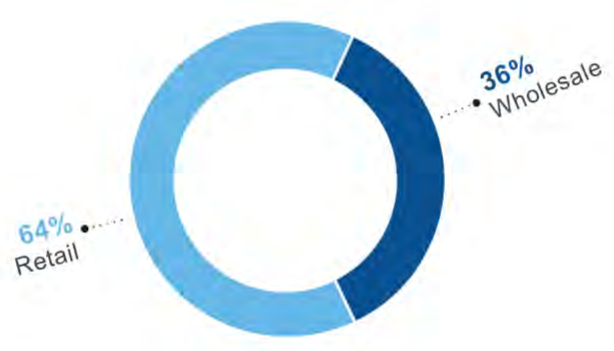
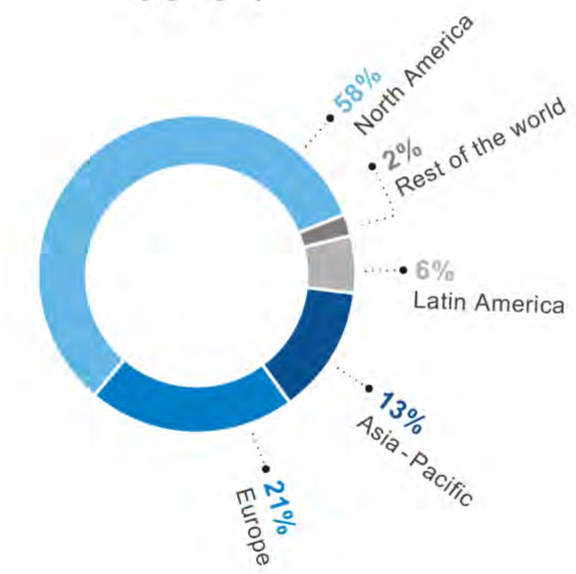
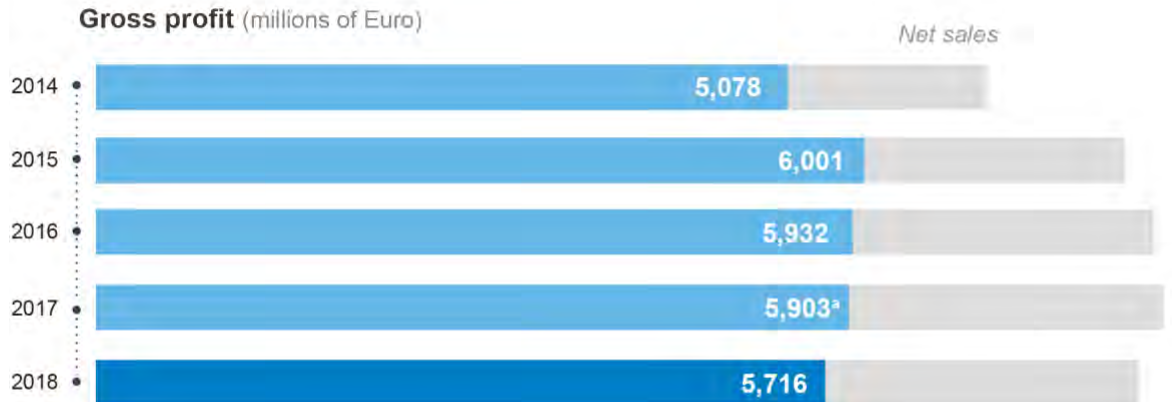
# 1. Management Report

## 1. Luxottica Group at a glance

### Financial highlights





* Net income attributable to Luxottica Group Stockholders at December 31, 2016 was restated to include Euro 2,4 millions from the Salmoiraghi & Viganò's acquisition required by IFRS 3- Business Combinations.

(a) Balances as of December 31, 2017 have been restated to reflect the application of the new accounting standard IFRS 15. For additional details please refer to the Notes to the consolidated financial statements, Note 2 – New accounting standards

(b) Balances as of December 31, 2017 have been restated to reflect the finalization of Oticas Carol purchase price allocation application. For additional details please refer to the Notes to the consolidated financial, Note 4 – 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 2018 financial performance confirms the Company's ability to continuously pursue growth while achieving key strategic and organizational goals.

The Company's total net sales were approximately Euro 9 billion, net income was 900 million and headcount as of year-end was approximately 82,000 employees. Founded in 1961 by Leonardo Del Vecchio, 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, one facility in the United States devoted to sports and performance eyewear and two small plants in Japan and India, the latter serving the local market.

In 2018, the Group's worldwide production of frames reached approximately 87 million units. Luxottica has also produced sun and ophthalmic lenses for more than 20 years. The Company has increased its lens 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, Ferrari, Michael Kors, Miu Miu, 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 9,100 corporate and franchising stores worldwide as of December 31, 2018.

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 Singapore with Spectacle Hut, 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 Target Optical and Sears 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 and worldwide, 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, OliverPeoples.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 and the communities in which the Group operates.

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.

Manufactoring

Distribution
Wholesale
Retail
E-commerce

Costumers

### *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.

**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), Dolce&Gabbana (2006), Burberry (2006), Ralph Lauren (2007), Tiffany & Co. (2008), Tory Burch (2009), Coach (2012), Starck Eyes (2013), Giorgio Armani (2013), Michael Kors (2015) and Valentino (2017).

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. 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. Eventually, in 2018 the Group extended its retail footprint in Southeast Asia acquiring the Spectacle Hut brand.

**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. Since 2016, the Company has taken further steps into the lens business, developing 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.

### *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. Luxottica currently maintains over 1,000 utility, technology and design patents across the world.

#### 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 still 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.

#### Digital transformation

Luxottica heavily invests in the digitization of the Group and today controls millions of information to make decisions in real time and to plan and execute its strategies. Technology is the backbone of every business functions: production, distribution and sales, on all markets and on all channels, wholesale, retail and online. Luxottica has changed the way it speaks with its millions of consumers around the world, being today one of the largest private digital broadcasters globally, with over fifteen thousand digital showcases installed in its stores and optical customers.

#### 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 earlier and monitor real-time production data, improve work and personal safety and allow teams to solve problems faster and more proactively than ever before.

## Group innovation around the world

### North and South America

**R&D Center**
Foothill Ranch

**Trend, Design & Creative Lab**
Campinas
Foothill Ranch
Los Angeles
New York

**Innovation Center**
Columbus (color enhancement)

### Europe

**R&D Center**
Agordo
Lauriano

**Trend, Design & Creative Lab**
Agordo
Milano

**Innovation Center**
Agordo (3D printing & automation)
Milano (digitalization)
Sedico (materials)

### Asia-Pacific

**Trend, Design & Creative Lab**
Dongguan
Shanghai
Tokyo
Hong Kong

**Innovation Center**
Dongguan (automation)

**International scientific collaborations**

- Stanford University
- Georgia Tech
- Università degli Studi di Padova
- Istituto Italiano di Tecnologia
- Politecnico di Milano

### 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.

## Over 50 years of excellence

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

| Year | Event |
|---|---|
| 1961 | Producer of frame components |
| 1971 | Launch of first collection of prescription eyewear |
| 1974 | Entry into wholesale distribution |
| 1988 | Entry into agreements with the fashion industry |
| 1990 | Acquisition of Vogue Eyewear |
| | Listing on NYSE |
| 1995 | Acquisition of Persol |
| | Entry into optical retail: LensCrafters |
| 1998 | Entry into the managed vision care business in the United States |
| 1999 | Acquisition of Ray-Ban |
| 2000 | Listing on Borsa Italiana |
| 2001 | Entry into sun retail: Acquisition of Sunglass Hut |
| 2003 | Acquisition of OPSM leading retailer in Australia and New Zealand |
| 2004 | Acquisition of Cole National |
| 2005 | Starting optical retail expansion in China |
| 2007 | Acquisition of Oakley |
| 2009 | First step into retail in Latin America: GMO |
| 2011 | Strengthening Latin America retail |
| 2012 | Sunglass Hut expansion in Spain and Portugal |
| | Acquisition of Tecnol in Brasile: starting the "made in Brazil" journey |
| 2013 | Acquisition of Alain Mikli |
| 2014 | Acquisition of Glasses.com |
| 2015 | Sunglass Hut expansion in Mainland China and Southeast Asia |
| 2016 | Acquisition of Salmoiraghi & Viganò in Italy |
| | Announcement of the proposed combination between Essilor and Luxottica |
| 2017 | Acquisition of Oticàs Carol in Brazil |
| | Delisting from NYSE |
| 2018 | Acquisition of Fukui Megane in Japan: starting the "made in Japan" journey |
| | Creation of EssilorLuxottica |

## Product: 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.

### *Design*

Emphasis on product design and the continuous development of new styles are key to Luxottica's success. During 2018, Luxottica introduced approximately 1,800 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 2018, Luxottica's manufacturing facilities located in Italy, China, the United States, Brazil, India and Japan produced a combined total of approximately 87 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*

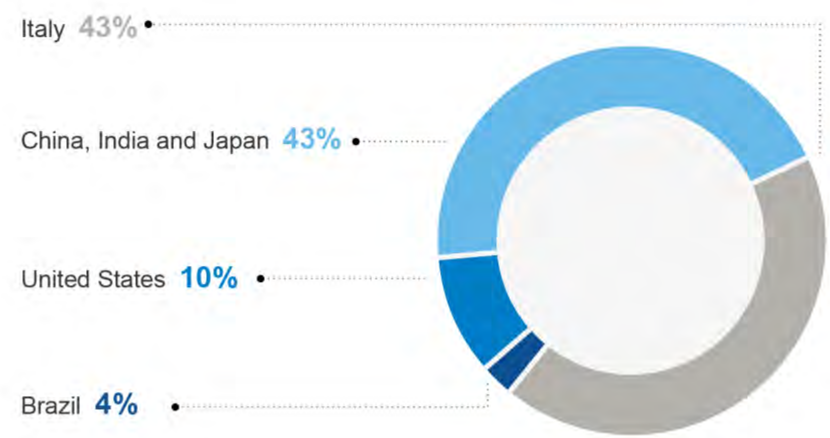
Luxottica's manufacturing footprint includes six facilities located in Italy, the center of Luxottica's luxury eyewear production, all of which combine the tradition of Italian craftsmanship with the speed and efficiency of modern automation. These factories represent 43% of global production output. 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 two small plants in India and Japan collectively represent another 43% 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 10% 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 2018, the Campinas plant produced the remaining 4% of total production output approximately 60% of the eyewear sold by Luxottica in the Brazilian market.

### *Group production output*



## *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.

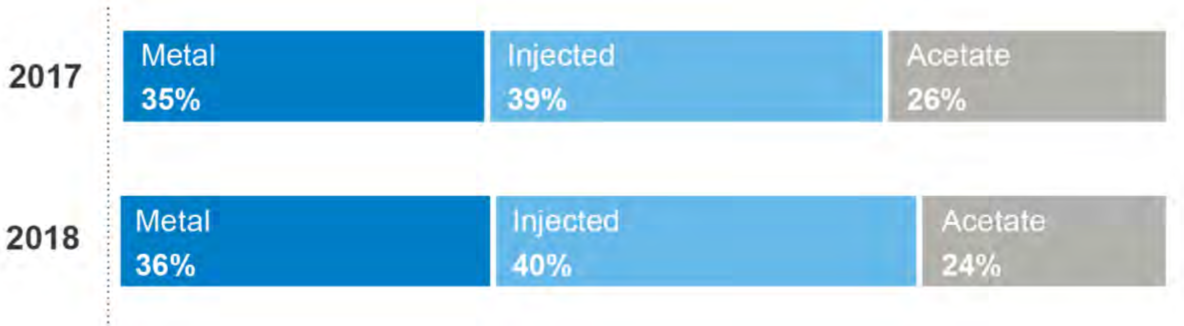
### Lenses

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 two other central labs in North America and two labs in Latin America.

## *Technology breakdown*



### *Logistics*

The Group's distribution system serves both the retail and wholesale businesses and links them to the production facilities. In order to optimally serve customers and improve operational efficiency, Luxottica continued the process of simplifying the distribution network, concentrating its activities in the four main service centers and gradually closing the local structures.

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.

The Sedico hub was opened in 2001 and is one of the most technically advanced in the industry. In 2018, it managed approximately 26,000 orders per day, including eyeglasses and spare parts. The Sedico facility ships an average of approximately 245,000 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 205,000 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 180,000 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 25,000 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.

### *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 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

***Luxottica Operations: main facilities***

**United States**
Atlanta
Foothill Ranch

**China**
Dongguan

**Brazil**
Campinas (São Paolo)
Jundiaí

**Italy**
Agordo
Cencenighe
Lauriano
Pederobba
Rovereto
Sedico

**Japan**
Fukui

**India**
Bhiwadi

Manufacturing
Ophthalmic Lens Laboratory
Primary service center

## 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.

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 2018, proprietary brands accounted for approximately 69% 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 2018 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.

Born in California in 1992 and acquired by Luxottica in 1999, Arnette is an easy-going eyewear brand that talks to young consumers. Moving away from the original surf & skate positioning, the mission of Arnette today is to become a global streetstyle brand for Young Millennials and Gen Zs, looking for an individual style at an affordable price. Arnette's core values are authenticity and inclusivity, aiming to become the voice of youth culture.

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.

OLIVER PEOPLES

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.

alain mikli
paris

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

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 12% of net sales of the related collection.

Prada is the most significant license in Luxottica's portfolio as measured by total sales. In 2018, 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.

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.

BURBERRY

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 fashion brand 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.

## 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 sophisticated and elegant shapes, prestigious materials and refined details.

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

**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.

Representing Ralph Lauren's iconic style, Polo Ralph Lauren celebrates classic, American spirit 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.

Ralph Eyewear is the youthful expression of the Ralph Lauren spirit. It features modern looks and trends, timeless icons, and vibrant colors that evoke a feminine, carefree sense of style.

## STARCK

BIOTECH
PARIS

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.

In 1837, Charles Lewis Tiffany founded his company in New York City where his store was soon acclaimed as the palace of jewels for its exceptional gemstones. Since then, Tiffany & Co. has become synonymous with elegance, innovative design, fine craftsmanship and creative excellence. In 2008, Luxottica became Tiffany’s first eyewear licensee and has produced optical styles and sunglasses for the jeweler. Much like the collections they draw inspiration from, Tiffany eyewear celebrates beautiful design and expert craftsmanship.

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. Proudly Italian, 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.

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 50 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 2018, STARS served over 10,300 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 even the more sophisticated consumers with 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, 2018, Luxottica's retail business consisted of 7,164 stores and 1,962 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 2018, Luxottica's proprietary and licensed brands represented approximately 90% of the total net sales of frames by the Retail division.

## Retail Brands

### LENSCRAFTERS®

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, 2018, the Group operated a retail network of 1,158 LensCrafters stores, of which 1,050 are in North America and the other 108 stores are in China and Hong Kong.

### EST. 1961 PEARLE VISION

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, 2018, Pearle Vision operated 110 corporate stores and had 419 franchises throughout North America.

With the acquisition of Cole National in 2004, Target Optical and Sears 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, 2018, Luxottica operated 512 Target Optical locations and 199 Sears Optical 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, 2018, Luxottica operated 330 corporate stores and 41 franchises.

Laubman&Pank
Optometrists

For over 110 years, Laubman & Pank Optometrists have been the local eye health experts for communities in South Australia, Western Australia and Queensland. Renowned for its high level of professional care and personalized service, Laubman & Pank Optometrists are the eye health experts for the whole family. As of December 31, 2018, Luxottica managed 28 corporate owned stores and 11 franchised locations.

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, 2018, Luxottica operated 404 Ópticas GMO stores and 80 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, 2018, Luxottica managed 15 corporate owned stores and 1,187 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, 2018, David Clulow operated 46 locations and 78 sun concessions.

salmoiraghi & viganò

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, 2018, Salmoiraghi & Viganò had 376 corporate owned stores and 35 franchises spread throughout Italy.

SPECTACLE HUT

Spectacle Hut is one of Singapore's more important optical retail chains. The retail brand joined the Group in 2018 and its mission is to become the point of reference for fashionable eyewear. Spectacle Hut aims to meet the demands from a growing group of sophisticated customers who have come to expect quality and exceptional service. As of December 31, 2018, Luxottica operated 36 Spectacle Hut stores in Singapore.

EyeMed Vision Care is the second largest vision benefits company in the United States, serving approximately 52 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.

In 2018, Sunglass Hut signed an agreement with Bass Pro to open Sunglass Hut shop-in-shops within Bass Pro and Cabela's 170 locations across North America.

As of December 31, 2018, Sunglass Hut operated a retail network of 3,429 stores worldwide, including 3,250 corporate stores and 179 franchised locations mainly in the Middle East, Latin America and India. In North America alone, the Company operated 1,812 Sunglass Hut core stores (including 170 Bass Pro and Cabela's).

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 worldwide. 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, 2018, Luxottica operated 213 locations, mainly in China.

As of December 31, 2018, the Group operated 361 Oakley "O" stores worldwide (including 81 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.

OLIVER PEOPLES

As of December 31, 2018, Luxottica operated 37 luxury retail stores under the Oliver Peoples name, which sell Oliver Peoples branded products exclusively. Six Oliver Peoples retail locations are operated under license.

alain mikli
paris

As of December 31, 2018, Luxottica operated 10 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, 2018, Luxottica operated two stores in upscale and exclusive locations in the American west.

Ilori Optical is Luxottica's luxury retail brand, with 7 stores in North America as of December 31, 2018, 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.

***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 26 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 in the U.S. a search-by-image capability, which allows fans to upload a picture of any pair of Ray-Ban frames and then search for them on the extensive Ray-Ban. com catalogue.

Oakley.com is the digital window of 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 unique 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 seamlessly. Moreover, it is a destination for exclusive online offers and collaborations.

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, China, Spain, France and Germany joined the United States, Canada and Australia in offering online shopping on their local Sunglass Hut websites. Additionally, Sunglass Hut is developing 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 omni-channel experiences, like click and collect and

shipments from store, that allow the Company to seamlessly engage consumers across more than 3,000 Sunglass Hut stores and the website. Sunglass Hut is also covering markets through shop-in-shops and marketplaces online, partnering with many key players in the e-commerce arena.

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, followed by the U.S. and Canada in 2018. Oliver Peoples is also operating in these same countries.

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

Approximately
**50 Wholesale subdiaries**
ALL OVER THE WORLD

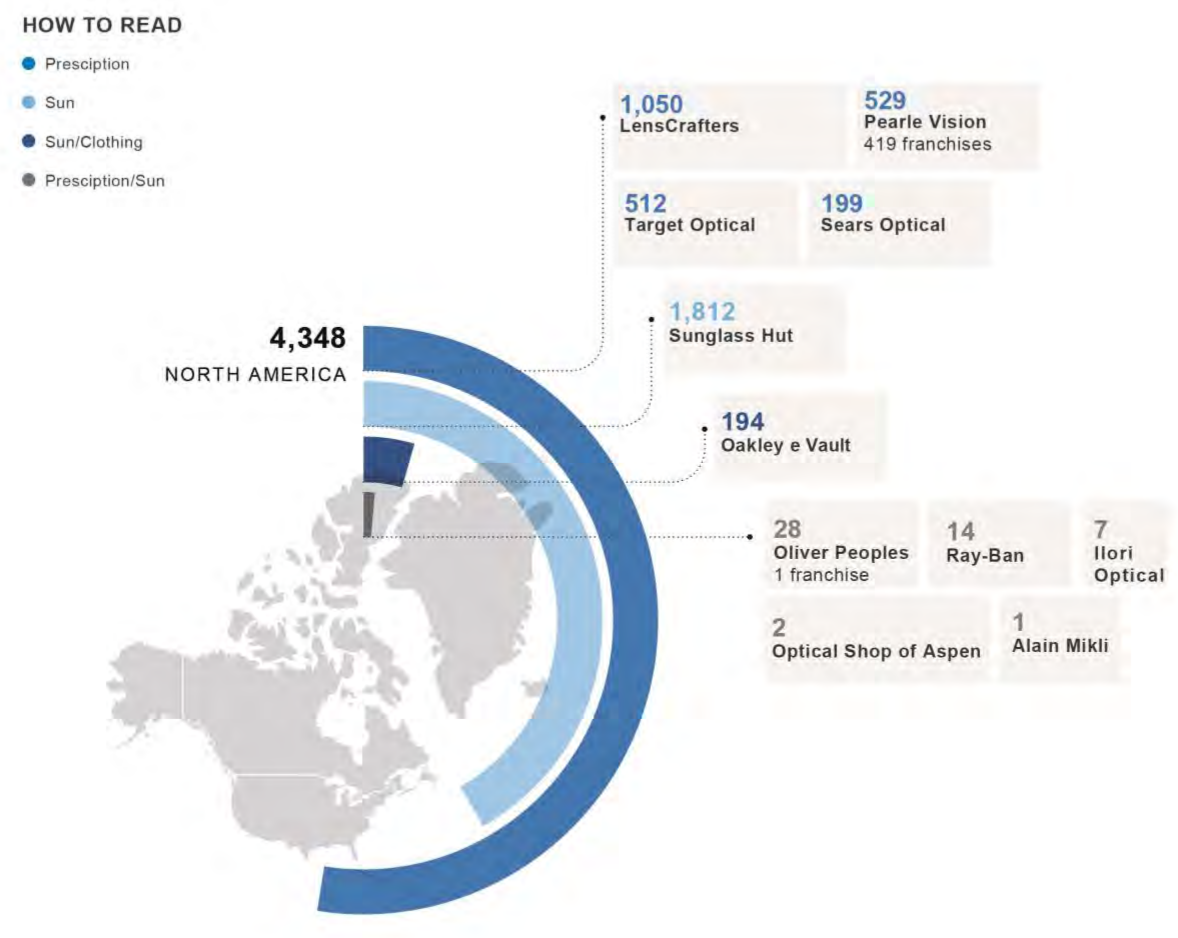
**Africa & Middle East**
- Israel
- South Africa
- United Arab Emirates

**Americas**
- Argentina
- Brazil
- Canada
- Mexico
- United States

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

**Europe**
- Austria
- Belgium
- Bulgaria
- Croatia
- Czech Republic
- Finland
- France
- Germany
- Greece
- Hungary
- Ireland
- Italy
- Latvia
- Netherlands
- Norway
- Poland
- Portugal
- Romania
- Russia
- Slovakia
- Spain
- Sweden
- Switzerland
- Turkey
- U.K.

**9,126 Retail stores**
of which 1,962 franchises
ALL OVER THE WORLD



**2,220**
CENTRAL AND SOUTH AMERICA

- **1,202** Óticas Carol — 1,187 franchised
- **484** GMO — including Econópticas
- **482** Sunglass Hut — 34 franchises
- **32** Oakley e Vault — 17 franchises
- **20** Ray-Ban

**1,072**
EUROPE

- **411** Salmoiraghi & Viganò — 35 franchises
- **46** David Clulow
- **485** Sunglass Hut
- **78** David Clulow
- **18** Oakley e Vault — 8 franchises
- **27** Ray-Ban
- **4** Oliver Peoples
- **3** Alain Mikli — 2 franchises

**988**
ASIA - PACIFIC

- **371** OPSM — 41 franchises
- **39** Laubman & Pank — 11 franchises
- **36** Spectacle Hut
- **409** Sunglass Hut — 94 franchises
- **108** Oakley e Vault — 49 franchises
- **14** Ray-Ban
- **6** Alain Mikli
- **5** Oliver Peoples — all franchises

**305**
CHINA

- **108** LensCrafters
- **58** Sunglass Hut
- **2** Oakley e Vault
- **136** Ray-Ban
- **1** Oliver Peoples

**193**
AFRICA AND MIDDLE EAST

- **184** Sunglass Hut — 52 franchises
- **7** Oakley e Vault — all franchises
- **2** Ray-Ban

## 2. OPERATING PERFORMANCE FOR THE YEAR ENDED DECEMBER 31, 2018

Despite the generally more challenging global macroeconomic context, net sales decreased by 2.8% (+1.5% at constant exchange rates[1]) reaching Euro 8,928.9 million, compared to Euro 9,184.2 million in the same period of 2017.

The trend of the main performance indicators is summarized below.

EBITDA[2] decreased by 2.4% to Euro 1,799.0 million, down from Euro 1,842.4 million in 2017. Adjusted EBITDA[2] decreased by Euro 124.4 million, equal to 6.3%, from Euro 1,984.2 million to Euro 1,859.8 million in 2018.

Income from operations decreased by 1.3%, reaching Euro 1,284.0 million, down from Euro 1,301.4 million in the previous year, while the operating margin for 2018 was equal to 14.4%, up from 14.2% in the previous year. The adjusted income[3] from operations decreased by 6.8% to Euro 1,344.7 million compared to Euro 1,443.2 million in 2017, while the adjusted operating margin[4] fell to 15.1% as compared to 15.7% in 2017.

Net income attributable to Luxottica Group stockholders decreased by 13.5% to Euro 900.2 million from Euro 1,040.4 million in 2017. Adjusted net income[5] attributable to the Group was down 2% from Euro 970.6 million to Euro 950.9 million.

Earnings per share (EPS) came in at Euro 1.88 and Euro 2.18 in 2018 and 2017, respectively. EPS expressed in USD was USD 2.22 in 2018 and USD 2.46 in 2017. Adjusted EPS[6] was equal to Euro 1.99 and Euro 2.03 in 2018 and 2017, respectively. Adjusted EPS[6] expressed in USD was USD 2.34 in 2018 and USD 2.29 in 2017 (at an average rate of Euro/USD of 1.1810 in 2018 and 1.1297 in 2017).

In 2018 as well, careful control of our working capital created strong free cash flow[7] equal to Euro 923.4 million. Net debt as at December 31, 2018 was Euro 428.3 million (Euro 739.9 million at the end of 2017), with a ratio of net debt to EBITDA[8] of 0.2x (0.4x as at December 31, 2017).

## 3. SIGNIFICANT EVENTS IN 2018

### Combination with Essilor

On October 1, 2018, Delfin S.à.r.l. ("Delfin"), the majority shareholder of Luxottica Group S.p.A. ("Luxottica"), and Essilor International (Compagnie Générale d'Optique) ("Essilor"), announced the completion of the combination of Essilor and Luxottica. All the conditions precedent to the transaction were met, including the approval by Essilor's shareholders in May 2017, the transfer of almost all of Essilor's assets to Essilor International SAS (a wholly owned subsidiary of Essilor) in November 2017 and the approval by the antitrust authorities.

Following the transfer by Delfin, Luxottica's majority shareholder, of its entire equity investment in Luxottica (62.42%) to Essilor on October 1, 2018, Essilor became Luxottica's parent company and was renamed EssilorLuxottica.

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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 2017. 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.

As a consideration for Delfin's transfer of its equity investment in Luxottica to Essilor, Essilor issued 139,703,301 new ordinary shares through a capital increase excluding the right of option, as approved by Essilor's shareholders in May 2017.

Following the transfer, EssilorLuxottica had a share capital of 358,840,853 shares. Its main shareholders were Delfin (38.93% of the capital, with voting rights limited to 31%) and the employees of EssilorLuxottica (4.9%), with the remaining 56.8% of the shares held by the public.

As from October 2, 2018, EssilorLuxottica shares are listed on Euronext Paris, under the acronym EL and the same ISIN code FR0000121667, and are included in the CAC 40 and Euro Stoxx 50 indices.

On October 11, 2018, EssilorLuxottica launched a public exchange offer ("MTO") for the remainder of Luxottica's outstanding shares (176,276,154 Luxottica ordinary shares, with a par value of Euro 0.06 per share). During the bidding and subsequent sell-out and squeeze-out procedures: (i) 176,276,154 Luxottica ordinary shares were exchanged (or acquired by EssilorLuxottica following the exercise of the right to purchase the remaining shares through the squeeze-out procedure), and (ii) a total of 75,588,772 new shares in EssilorLuxottica were issued and admitted to trading at Euronext Paris. As a result, Delfin's stake in EssilorLuxottica's share capital fell from the initial 38,93% to 32,05% of EssilorLuxottica's share capital on March 5, 2019, it should be noted that voting rights are capped at 31% for each shareholder in accordance with the formula laid down in Article 23 of EssilorLuxottica's articles of association.

Considering Article 2.5.1, paragraph 6, of the Market Regulations of Borsa Italiana S.p.A., Borsa Italiana revoked the listing of the shares of Luxottica Group (IT0001479374) on the electronic stock exchange (MTA, Mercato Telematico Azionario) effective as from March 5, 2019.

### February

On February 26, 2018, Luxottica Group S.p.A. entered into an agreement to acquire 67% of Fukui Megane Co. Ltd, a leading Japanese manufacturer based in the eyewear industrial cluster of Fukui that specializes in the production of luxury eyewear frames made of titanium and solid gold. The transaction closed on May 18, 2018.

### April

At the Meeting on April 19, 2018, stockholders approved the Luxottica Group's Statutory Financial Statements as at December 31, 2017 as proposed by the Board of Directors and the distribution of a cash dividend of Euro 1.01 per share. The aggregate dividend amount of Euro 483.8 million was fully paid in April 2018.

### May

On May 11, 2018, Luxottica Group and Bass Pro Outdoor World, L.L.C., a US outdoor retailer, entered into an agreement to open approximately 160 Sunglass Hut shop-in-shops inside Bass Pro Shops and Cabela's stores in the United States. The agreement is expected to generate nearly 100 million US dollars in annual revenues once it becomes fully operational.

### June

On June 22, 2018, Luxottica Group S.p.A. announced the acquisition of Barberini S.p.A., the world's largest manufacturer of optical glass sun lenses.

The approximately Euro 140 million acquisition is expected to close in 2019 and is subject to the customary closing conditions.

## August

On August 1, 2018, Luxottica Group S.p.A. announced that it had been included in the FTSE4Good index, created by FTSE Russell to measure the performance of companies that comply with globally recognised environmental, social and governance standards.

## October

On October 5, 2018, Luxottica Group completed the acquisition of 60% of Spectacle Hut, one of Singapore's leading optical chains, and its mission is to become the benchmark for the most sought-after eyewear. As at December 31, 2018, Luxottica managed 36 Spectacle Hut stores in Singapore.

# 4. FINANCIAL RESULTS

Luxottica Group is a market leader in the design, manufacture and distribution of high-end luxury and sports eyewear, with net sales reaching about Euro 8.9 billion in 2018, approximately 82 thousand employees and a strong global presence. The Group operates in two segments: (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 at December 31, 2018 for additional disclosures about our operating segments.

Through our wholesale distribution segment, we are a global leader in the design, manufacturing, distribution and marketing of mid- to premium-priced prescription frames and sunglasses, with both own brands and licensed brands. We operate in the retail segment, mainly 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, and Salmoiraghi & Viganò—as well as in the licensed brands segment (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 1.1810 in 2018 from USD 1.1297 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 Australian subsidiary OPSM group. 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 on the demand for our products or our consolidated profitability.

## Results of operations

| **Results of operations** (Euro/000) | **2018** | **% net sales** | **Financial Year 2017 *Restated*** | **% net sales** | **% Change** |
|---|---|---|---|---|---|
| Net Sales[(a)] | 8,928,889 | 100.0% | 9,184,175 | 100.0% | (2.8%) |
| Cost of sales[(a)] | 3,212,780 | 36.0% | 3,281,664 | 35.7% | (2.1%) |
| **Gross Profit** | **5,716,109** | **64.0%** | **5,902,512** | **64.3%** | **(3.2%)** |
| Selling expenses[(a)] | 2,939,771 | 32.9% | 3,024,434 | 32.9% | (2.8%) |
| Royalties | 154,753 | 1.7% | 164,043 | 1.8% | (5.7%) |
| Advertising expenses[(a)] | 481,185 | 5.4% | 529,079 | 5.8% | (9.1%) |
| General and administrative expenses[(b)] | 856,449 | 9.6% | 883,562 | 9.6% | (3.1%) |
| **Total operating expenses** | **4,432,158** | **49.6%** | **4,601,119** | **50.1%** | **(3.7%)** |
| **Income from operations** | **1,283,951** | **14.4%** | **1,301,392** | **14.2%** | **(1.3%)** |
| Financial income | 18,344 | 0.2% | 18,199 | 0.2% | 0.8% |
| Financial expenses | (69,463) | (0.8%) | (107,746) | (1.2%) | (35.5%) |
| Other net income/(expenses) | (4,359) | (0.0%) | 45,441 | 0.5% | (100%) |
| **Total other income/(expenses)** | **(55,478)** | **(0.6%)** | **(44,106)** | **(0.5%)** | **25.8%** |
| **Income before taxes** | **1,228,473** | **13.8%** | **1,257,286** | **13.7%** | **(2.3%)** |
| Income taxes[(a) (b)] | (328,108) | (3.7%) | (214,970) | (2.3%) | 52.6% |
| **Net income** | **900,365** | **10.1%** | **1,042,316** | **11.3%** | **(13.6%)** |
| *Of which attributable to* | | | | | |
| *Luxottica Group Stockholders*[(a) (b)] | 900,202 | 10.1% | 1,040,356 | 11.3% | (13.5%) |
| *Non-controlling interests* | 163 | 0.0% | 1,960 | 0.0% | (91.7%) |

(a) The amounts as at December 31, 2017 have been restated to reflect the impact of the application of IFRS 15. For additional details, please refer to Note 2—New accounting standards.

(b) The amounts as at December 31, 2017 have been restated to reflect the impact of the events described in Note 4—Business combinations, 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:

As at December 31, 2018, the Group recognised:

- Euro 49.8 million (Euro 39.4 million net of taxes) in restructuring and reorganization expenses;
- non-recurring expenses of Euro 15.7 million, (Euro 11.3 million net of taxes) regarding: (i) the early repayment of Euro 4.7 million worth of loans (Euro 3.6 million net of taxes), and (ii) Euro 10.9 million (Euro 7.7 million net of taxes) in costs related to the merger with Essilor

As at December 31, 2017, the Group recognised:

- Euro 115.7 million (Euro 87.3 million net of taxes) in restructuring and reorganisation expenses;
- 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 merger 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 income of Euro 48.7 million, (Euro 193.7 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 158.8 million.

The balances of the main items of the consolidated income statement, EBITDA and earnings per share, net of the Adjustments indicated above, would have been as follows:

| (Euro mn) | **2018** | **% net sales** | **2017 *restated*** | **% net sales** | **% Change** |
|---|---|---|---|---|---|
| Net Sales[(a)] | 8,928.9 | 100.0% | 9,184.2 | 100.0% | (2.8%) |
| Adjusted cost of sales[(a)] | 3,186.2 | 35.7% | 3,224.0 | 35.1% | (1.2%) |
| Adjusted gross profit[(a)] | 5,742.7 | 64.3% | 5,960.2 | 64.9% | (3.6%) |
| Adjusted operating expenses[(a) (b)] | 4,398.0 | 49.3% | 4,517.0 | 49.2% | (2.6%) |
| Adjusted income from operations[(a) (b)] | 1,344.7 | 15.1% | 1,443.2 | 15.7% | (6.8%) |
| Adjusted EBITDA[(a) (b)] | 1,859.8 | 20.8% | 1,984.2 | 21.6% | (6.3%) |
| Adjusted other income/(expenses) | (50.7) | -0.6% | (63.2) | -0.7% | (19.8%) |
| Adjusted net income attributable to Luxottica Group stockholders[(a) (b)] | 950.9 | 10.6% | 970.6 | 10.6% | (2.0%) |
| Adjusted EPS[(a) (b)] | 1.99 | | 2.03 | | (2.2%) |

(a) The amounts as at December 31, 2017 have been restated to reflect the impact of the application of IFRS 15. For additional details, please refer to Note 2—New accounting standards.

(b) The amounts as at December 31, 2017 have been restated to reflect the impact of the events described in Note 4—Business combinations, to which reference should be made for further details.

**Net Sales** - Net sales decreased by Euro 255.3 million, or 2.8%, to Euro 8,928.9 million in 2018 from Euro 9,184.2 million in 2017. This net decrease represents decreased sales of Euro 78.7 million in the retail distribution segment and of Euro 176.6 million in the wholesale distribution segment.

Net sales for the retail distribution segment decreased by Euro 78.7 million, or 1.4%, to Euro 5,734.7 million in 2018 from Euro 5,813.4 million in 2017. 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 254.7 million.

Net sales in the wholesale distribution segment decreased by Euro 176.6 million, or 5.2%, to Euro 3,194.2 million in 2018 from Euro 3,370.8 million in 2017. 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 138.8 million.

In 2018, net sales in the Retail distribution segment accounted for approximately 64.2% of total net sales, as compared to approximately 63.3% of total net sales in 2017. This increase in net sales for the retail distribution segment during 2018 as a percentage of Group total net sales was attributable to a 1.4% decrease in net sales for the retail distribution segment and to a 5.2% decrease in the wholesale distribution segment compared to 2017.

In 2018, net sales in our retail distribution segment in the United States and Canada was approximately 73% of our total net sales in this segment from 74.2% in 2017. In US dollars, retail net sales in the United States and Canada increased by 1.5% to USD 4,943.9 million in 2018 from USD 4,871.8 million in 2017. Net sales in the retail distribution segment in the rest of the world (excluding the United States and Canada) were 27% and 25.8% of total net sales in the retail distribution segment in 2018 and 2017, respectively. During 2018, net sales increased by 3.2% to Euro 1,548.1 million from Euro 1,500.8 million in 2017.

In 2018, net sales in our manufacturing and wholesale distribution segment in Europe were Euro 1,339.9 million, comprising 42% of our total net sales in this segment, compared to Euro 1,417.3 million, or 42.0% of total net sales in this segment, in 2017, decreasing by Euro 77.3 million or 5.5% as compared to 2017. Net sales to third parties in our manufacturing and wholesale distribution segment in the United States and Canada were Euro 951.5 million and comprised 29.8% of our total net sales in this segment in 2018, compared to Euro 963.4 million, or 28.6% of total net sales in this segment, in 2017. In 2018, net sales to third parties in our manufacturing and wholesale distribution segment in the rest of the world were Euro 902.6 million, comprising 28.3% of our total net sales in this segment, compared to Euro 990.1 million, or 29.4% of our net sales in this segment, in 2017.

**Cost of Sales** - Cost of sales decreased by Euro 68.9 million, or 2.1%, to Euro 3,212.8 million in 2018 from Euro 3,281.7 million in 2017. As a percentage of net sales, cost of sales stood at 36.0% in 2018 from 35.7% in 2017.

The average number of frames manufactured daily in our facilities in 2018 was approximately 337,419 and 347,979 in 2017, respectively.

The adjusted cost of sales[9] declined by Euro 37.8 million, from Euro 3,224.0 million (35.1% of net sales) to Euro 3,186.2 million (35.7% of net sales). A reconciliation of adjusted cost of sales[9] to cost of sales is presented in the table below.

| (Euro mn) | 2018 | 2017 *Restated* |
|---|---|---|
| **Cost of sales** | **3,212.8** | **3,281.7** |
| Restructuring and reorganization expenses | (26.6) | (57.7) |
| Non-recurring expenses | - | - |
| **Adjusted cost of sales** | **3,186.2** | **3,224.0** |

**Gross Profit**. Our gross profit decreased by Euro 186.4 million, or 3.2%, to Euro 5,716.1 million in 2018 from Euro 5,902.5 million in 2017. As a percentage of net sales, gross profit decreased to 64.0% in 2018 from 64.3% in 2017.

Adjusted gross profit [10]decreased by Euro 217.4 million, going down from Euro 5,960.2 million (64.9% of net sales) to Euro 5,742.7 million (64.3% of net sales). Please find the reconciliation between adjusted gross profit[10] and gross profit in the following table:

| (Euro mn) | 2018 | 2017 *Restated* |
|---|---|---|
| **Gross Profit** | **5,716.1** | **5,902.5** |
| Restructuring and reorganization expenses | 26.6 | 57.7 |
| Non-recurring expenses | - | - |
| **Adjusted gross profit** | **5,742.7** | **5,960.2** |

**Operating Expenses** - Total operating expenses decreased by Euro 169.0 million, or 3.7%, to Euro 4,432.2 million in 2018 from Euro 4,601.1 million in 2017. As a percentage of net sales, operating expenses were 49.6% in 2018 compared to 50.1% in 2017. The reduction is primarily driven by general and administrative expenses which decreased by Euro 27.1 million and by sales expenses, which decreased by Euro 84.7 million, as a result of the initiatives aimed at improving the Group's efficiency undertaken in 2018.

Adjusted operating expenses[11] decreased by Euro 119.0 million, going down from Euro 4,517.0 million (49.2% of net sales) to Euro 4,398.0 million (49.3% of net sales). A reconciliation of adjusted operating expenses[11] to operating expenses is shown in the table below.

9. For a further discussion of adjusted cost of sales, see the "Non-IFRS Measures" section of the Appendix to this Report.
10. For a further discussion of adjusted gross profit, see the "Non-IFRS Measures" section of the Appendix to this Report.
11. For a further discussion of adjusted operating expenses, see the "Non-IFRS Measures" section of the Appendix to this Report.

| (Euro mn) | 2018 | 2017 *Restated* |
|---|---|---|
| **Operating expenses** | **4,432.2** | **4,601.1** |
| Restructuring and reorganization expenses | (23.2) | (58.0) |
| Non-recurring expenses | (10.9) | (26.1) |
| **Adjusted operating expenses** | **4,398.0** | **4,517.0** |

**Selling expenses -** Selling and advertising expenses (including royalty expenses) decreased by Euro 141.8 million, or 3.8%, to Euro 3,575.7 million in 2018 from Euro 3,717.6 million in 2017 due to the combined effect of the following factors: (i) decrease of selling expenses by Euro 84.7 million (2.8%); (ii) decrease of advertising expenses by Euro 47.9 million (9.1%) and; (iii) decrease of royalties by Euro 9.2 million (5.7%). As a percentage of net sales, selling and advertising expenses (including royalty expenses) went from 40.0% in 2018 to 40.5% in 2017.

Adjusted selling expenses[12] decreased by Euro 41.8 million, going up from Euro 2,986.3 million (32.5% of net sales) to Euro 2,944.5 million (33.0% of net sales). A reconciliation of adjusted selling expenses[12] to selling expenses is shown in the table below.

| (Euro mn) | 2018 | 2017 *Restated* |
|---|---|---|
| **Selling expenses** | **2,939.8** | **3,024.4** |
| Restructuring and reorganization expenses | 4.8 | (38.1) |
| Non-recurring expenses | - | |
| **Adjusted selling expenses** | **2,944.5** | **2,986.3** |

**General and administrative expenses** - General and administrative expenses, including intangible asset amortization, decreased by Euro 27.1 million, or 3.1%, to Euro 856.4 million in 2018, as compared to Euro 883.6 million in 2017. As a percentage of net sales, general and administrative expenses stood at 9.6%, in line with 2017. This decrease was mainly due to continuous initiatives aimed at improving the Group's efficiency.

Adjusted general and administrative expenses[13] decreased by Euro 20.0 million from Euro 837.5 million (9.1% of net sales) to Euro 817.6 million (9.2% of net sales). A reconciliation of adjusted general and administrative expenses[13] to general and administrative expenses is shown in the table below.

| (Euro mn) | 2018 | 2017 *Restated* |
|---|---|---|
| **General and administrative expenses** | **856.4** | **883.6** |
| Restructuring and reorganization expenses | (27.9) | (19.9) |
| Non-recurring expenses | (10.9) | (26.1) |
| **Adjusted general and administrative expenses** | **817.6** | **837.5** |

**Income from Operations** - For the reasons described above, income from operations decreased by Euro 17.4 million, or 1.3%, to Euro 1,284.0 million in 2018 from Euro 1,301.4 million in 2017. As a percentage of net sales, income from operations stood at 14.4% in 2018 from 14.2% in 2017.

Adjusted income from operations[14] was down 98.5 million from Euro 1,443.2 million (15.7% of net sales) to Euro 1,344.7 million (15.1% of net sales). A reconciliation of adjusted income from operations[14] to income from operations is shown in the table below.

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12. For a further discussion of adjusted selling expenses, see the “Non-IFRS Measures” section of the Appendix to this Report.
13. For a further discussion of adjusted general and administrative expenses, see the “Non-IFRS Measures” section of the Appendix to this Report.
14. For a further discussion of adjusted income from operations, see the “Non-IFRS Measures” section of the Appendix to this Report.

| (Euro mn) | 2018 | 2017 *Restated* |
|---|---|---|
| **Income from operations** | **1,284.0** | **1,301.4** |
| Restructuring and reorganization expenses | 49.8 | 115.7 |
| Non-recurring expenses | 10.9 | 26.1 |
| **Adjusted income from operations** | **1,344.7** | **1,443.2** |

**Other Income/(Expenses)** - Other income/(expenses) were Euro (55.5) million in 2018 as compared to Euro (44.1) million in 2017. Net interest expense was Euro (51.1) million in 2018 as compared to Euro (89.5) million in 2017. This decrease was mainly due to non-recurring expenses recorded in 2017 and relating to the early repayment of the Regulation I private placement signed by Luxottica U.S. Holding on December 15, 2011, and the repayment of the Regulation C private placement signed by Luxottica US Holding on July 1, 2008 falling due.

Other net income/(expenses) amounted to Euro (4.4) in 2018. The decrease compared to the value of the item in the previous year (Euro 45.4 million) is mainly due to the non-recurring income in 2017 on the sale of a property owned by the Group.

Adjusted other income/(expenses)[15] increased by Euro 12.5 million, from Euro (63.2) million (0.7% of net sales) to Euro (50.7) million (0.6% of net sales). Reconciliation between other income/(expenses) and adjusted other income/(expenses)[15] is shown in the table below:

| (Euro mn) | 2018 | 2017 *Restated* |
|---|---|---|
| **Other income/(expenses)** | **(55.5)** | **(44.1)** |
| Non-recurring expenses | 4.7 | 29.5 |
| Non-recurring income | - | (48.7) |
| **Adjusted other income/(expenses)** | **(50.7)** | **(63.2)** |

**Income before taxes** - Income before taxes decreased by Euro 28.8 million, or 2.3%, to Euro 1,228.5 million in 2018 from Euro 1,257.3 million in 2017. As a percentage of net sales, income before taxes increased to 13.8% in 2018 from 13.7% in 2017.

Adjusted income before taxes[16] decreased by Euro 86.0 million, from Euro 1,379.9 million (15.0% of net sales) to Euro 1,294.0 million (14.5% of net sales). A reconciliation of adjusted income before taxes[16] to net income before taxes is shown in the table below.

| (Euro mn) | 2018 | 2017 *Restated* |
|---|---|---|
| **Income before taxes** | **1,228.5** | **1,257.3** |
| Restructuring and reorganization expenses | 49.8 | 115.7 |
| Non-recurring expenses | 15.7 | 55.6 |
| Non-recurring income | - | (48.7) |
| **Adjusted income before taxes** | **1,294.0** | **1,379.9** |

**Tax rate** - Our effective tax rate was 26.7% in 2018, up compared to 17.1% in 2017. The increase is mainly due to the tax benefits recorded in 2017 deriving from the US tax reform (Euro 98.8 million) and the Patent Box of Luxottica Group S.p.A. in relation to the period from 2015 to 2016.

Adjusted tax rate[17] was 26.5% in 2018, down compared to 29.5% in 2017. A reconciliation of the adjusted tax rate[17] to the tax rate is shown in the tables below:

15. For a further discussion of adjusted other income/(expenses), see the “Non-IFRS Measures” section of the Appendix to this Report.
16. For a further discussion of adjusted income before taxes see the “Non-IFRS Measures” section of the Appendix to this Report.
17 For a further discussion of adjusted tax rate, see the “Non-IFRS Measures” section of the Appendix to this Report.

| 2018 (Euro mn) | Income before taxes | Taxes | Net Income | Tax Rate | Reconciliation adjusted tax rate* |
|---|---|---|---|---|---|
| **Reported** | **1,228.5** | **(328.1)** | **900.4** | **26.7%** | **25.4%** |
| Restructuring and Reorganization Expenses | 49.8 | (10.4) | 39.4 | 20.9% | 0.8% |
| Non-recurring expenses | 15.7 | (4.4) | 11.3 | 27.9% | 0.3% |
| Non-recurring income | - | - | - | - | 0.0% |
| **Adjusted data** | **1,294.0** | **(342.9)** | **951.1** | **26.5%** | **26.5%** |

* Represents the percentage of reported taxes and tax adjustments on adjusted income before taxes

| **2017** ***restated*** (Euro mn) | Income before taxes | Taxes | Net Income | Tax Rate | Reconciliation adjusted tax rate* |
|---|---|---|---|---|---|
| **Reported** | **1,257.3** | **(215.0)** | **1,042.3** | **17.1%** | **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) | (145.0) | (193.7) | 297.7% | 10.4% |
| **Adjusted data** | **1,379.9** | **(407.4)** | **972.5** | **29.5%** | **29.5%** |

* Amount of reported taxes and taxes related to adjustment on income before taxes in percentage terms

**Net income** - Net income attributable to the Group decreased by Euro 140.1 million, or 13.5%, to Euro 900.2 million compared to Euro 1,040.4 million in 2017. Net income attributable to Luxottica Group stockholders as a percentage of net sales decreased to 10.1% in 2018 from 11.3% in 2017.

Adjusted net income attributable to the Group[18] decreased by Euro 19.7 million, from Euro 970.6 million (10.6% of net sales) to Euro 950.9 million (10.6% of net sales). A reconciliation of adjusted net income[18] and net income is shown in the table below:

| (Euro mn) | 2018 | 2017 *Restated* |
|---|---|---|
| **Net income attributable to the Group** | **900.2** | **1,040.4** |
| Restructuring and reorganization expenses | 49.8 | 115.7 |
| *of which tax effect* | (10.4) | (28.4) |
| Non-recurring expenses | 15.7 | 55.6 |
| *of which tax effect* | (4.4) | (19.0) |
| Non-recurring income | - | (48.7) |
| *of which tax effect* | - | (145.0) |
| **Adjusted net income attributable to the Group** | **950.9** | **970.6** |

Basic earnings per share were Euro 1.88 in 2018 and Euro 2.18 in 2017. Diluted earnings per share were Euro 1.88 in 2018 and Euro 2.17 in 2017.

Adjusted basic earnings per share[19] and adjusted diluted earnings per share[19] were Euro 1.99 and Euro 1.99 in 2018, respectively. Adjusted basic earnings per share[19] and adjusted diluted earnings per share[19] were Euro 2.03 and Euro 2.03 in 2017, respectively.

Net income attributable to non-controlling interests was equal to Euro 0.2 million and Euro 2.0 million in 2018 and 2017, respectively.

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[18] 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.

[19] 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. The following commentary is provided together with a summary version:

| | **Consolidated statement of cash flows** (Euro/000) | **December 31, 2018** | **December 31, 2017** ***Restated*** |
|---|---|---|---|
| **A)** | **Cash and cash equivalents, beginning of the period** | **1,159,320** | **866,864** |
| B) | Cash provided by/(used in) operating activities | 1,441,520 | 1,603,240 |
| C) | Cash provided by/(used in) investing activities | (610,791) | (700,204) |
| D) | Cash provided by/(used in) financing activities | (697,184) | (530,694) |
| E) | Exchange differences | 5,228 | (79,886) |
| F) | Net change in cash and cash equivalents | 138,773 | 292,456 |
| **G)** | **Cash and cash equivalent, end of the period** | **1,298,093** | **1,159,320** |

**Operating Activities** - Net cash provided by operating activities in 2018 and 2017 was Euro 1,441.5 million and Euro 1,603.2 million, respectively.

Depreciation and amortisation amounted to Euro 515.1 million in 2018 and were in line with the value recorded in 2017 of Euro 541.0 million given the trend in investments.

Stock-based compensation expense was equal to Euro 27.4 million in 2018 as compared to Euro 0.8 million in 2017. The increase was mainly due to the long-term monetary incentive plan (LTI) approved by the Board of Directors in December 2017.

Net cash used for accounts receivable was equal to Euro 5.0 million in 2018 as compared to Euro 80.4 million in 2017. The change is mainly due to the increase in receivables from the North American insurance business during 2017.

Net cash provided by inventories was Euro 22.5 million in 2018 in line with the figure for the compared year (Euro 24.3 million).

Net cash provided by accounts payable was equal to Euro 63.0 million in 2018 compared to generated net cash of 31.9 million in 2017 and is mainly due payments made.

The Cash used from other assets and liabilities was equal to Euro 157.2 million compared to generated cash of Euro 164.9 million respectively for 2018 and 2017. The change in 2018 was mainly due to the upfront payment recorded in Luxottica Retail North America on the basis of the Bass Pro agreement for USD 100 million.

Tax expenses were equal to Euro 290.8 million in 2018 and Euro 319.9 million in 2017.

Interest expense was equal to 77.1 million and 100.9 million, for 2018 and 2017, respectively.

**Investing Activities** - Net cash used in investing activities was Euro 610.8 million and Euro 700.2 million in 2018 and 2017, respectively. Investments in 2018 were mainly related to (i) the acquisition of property, plant and equipment of Euro 504.1 million; (ii) the purchase of intangible assets of Euro 88.8 million; (iii) purchases of business net of the cash acquired of Euro 18.7 million concerning mainly Fukui Megane of Euro 2.7 million, Spectacle Hut of Euro 14.0 million; for further information on the business combinations for the period, reference should be made to *Note 4 – Business combinations* of the Notes to the Condensed Consolidated Financial Statements.

The investment activities in 2017 were related primarily to (i) the acquisition of property, plant and equipment for Euro 601.8 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 Carol 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.

**Financing Activities** - Net cash used in financing activities was Euro 697.2 million in 2018 (Euro 530.7 million in 2017). Cash used by financing activities in 2018 consisted primarily of (i) the payment of dividends to the stockholders of the Company for Euro 483.8 million; (ii) the repayment of loans for Euro 190.9 million; (iii) the decrease in short-term financial debt of Euro 24.6 million. These effects were offset by the exercise of stock options amounting to Euro 4.5 million.

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.

## Consolidated statement of financial position

| **Assets**<br>(euro/000) | **December 31, 2018** | **December 31, 2017**<br>***Restated*** | **% change** |
|---|---|---|---|
| CURRENT ASSETS: | | | |
| Cash and cash equivalents | 1,298,093 | 1,159,320 | 12% |
| Accounts receivable | 951,672 | 943,778 | 1% |
| Inventories | 823,458 | 831,549 | -1% |
| Tax receivables | 49,094 | 66,105 | -26% |
| Other current assets[(a)] | 206,317 | 173,947 | 19% |
| **Total current assets** | **3,328,633** | **3,174,698** | **5%** |
| NON-CURRENT ASSETS: | | | |
| Property, plant and equipment | 2,015,256 | 1,808,834 | 11% |
| Goodwill[(b)] | 3,697,430 | 3,608,225 | 2% |
| Intangible assets[(b)] | 1,126,295 | 1,246,409 | -10% |
| Investments | 15,991 | 14,488 | 10% |
| Other non-current assets[(a)] | 176,959 | 80,911 | 100% |
| Deferred tax assets | 103,672 | 130,454 | -21% |
| **Total non-current assets** | **7,135,603** | **6,889,322** | **4%** |
| **Total assets** | **10,464,237** | **10,064,020** | **4%** |

| **Liabilities and stockholders' equity**<br>(eur/000) | **December 31, 2018** | **December 31, 2017**<br>***Restated**** | **% change** |
|---|---|---|---|
| CURRENT LIABILITIES: | | | |
| Short-term borrowings from banks | 49,378 | 77,486 | -36% |
| Current portion of medium-/long-term debt | 602,580 | 150,411 | 100% |
| Accounts payable | 961,850 | 906,749 | 6% |
| Current taxes payable | 22,055 | 22,299 | -1% |
| Short-term provisions for risks[(a)] | 158,665 | 171,015 | -7% |
| Other current liabilities[(a)] | 783,800 | 764,920 | 2% |
| **Total current liabilities** | **2,578,328** | **2,092,878** | **23%** |
| NON-CURRENT LIABILITIES: | | | |
| Long-term financial debt | 1,074,452 | 1,671,281 | -1% |
| Employee benefits | 154,534 | 121,555 | -24% |
| Deferred tax liabilities[(a)(b)] | 147,366 | 157,601 | -42% |
| Long-term provisions for risks | 127,147 | 130,453 | 7% |
| Other liabilities[(a)] | 75,902 | 76,516 | -6% |
| **Total non-current liabilities** | **1,579,401** | **2,157,407** | **-7%** |
| STOCKHOLDERS' EQUITY: | | | |
| Luxottica Group stockholders' equity[(a)(b)] | 6,299,574 | 5,808,271 | 8% |
| Non-controlling interests | 6,933 | 5,463 | 27% |
| **Total stockholders' equity** | **6,306,508** | **5,813,734** | **8%** |
| **Total liabilities and stockholders' equity** | **10,464,237** | **10,064,020** | **4%** |

(a) The amounts as at December 31, 2017 have been restated to reflect the impact of the application of IFRS 15. For additional details, please refer to Note 2—New accounting standards.

(b) The amounts as at December 31, 2017 have been restated to reflect the impact of the events described in Note 4—Business combinations, to which reference should be made for further details.

As at December 31, 2018, total assets increased by Euro 400.2 million to Euro 10,464.2 million, compared to Euro 10,064.0 million as at December 31, 2017 as a result of an increase in non-current assets of Euro 246.3 million, and an increase in current assets of Euro 153.9 million.

The increase in current assets of Euro 153.9 million compared to the same period of the previous year was due to: (i) an increase in cash and cash equivalents of Euro 138.8 million due to the effect of what is described in the paragraph on the net financial position, (ii) an increase in other current assets (Euro 32.4 million) mainly due to the short-term portion of the upfront payment recognised in Luxottica Retail North America under the Bass Pro agreement, (iii) a decrease in tax receivables (Euro 17.0 million). The balances of accounts receivable and inventories were substantially in line with the previous period.

The increase in non-current assets of Euro 246.3 million compared to December 31, 2017 was mainly due to the increase in property, plant and equipment (Euro 206.4 million) and goodwill (Euro 89.2 million). These increases were partially offset by the decrease in intangible assets (Euro 120.1). The following factors must be added to these changes: (i) an increase in other non-current assets mainly due to the short-term portion of the upfront payment recognised in Luxottica Retail North America under the Bass Pro agreement; (ii) an increase in equity investments (Euro 1.5 million) mainly due to the measurement of the equity investment in Eyebiz using the equity method; (iii) a decrease in deferred tax assets (Euro 26.8 million) which, together with the change in deferred tax liabilities (Euro 10.2 million), resulted in a net decrease in deferred tax liabilities of Euro 37.0 million. The increase in net property, plant and equipment was attributable to capital additions for the period of Euro 498.0 million, change in exchange rates at 31 December 2018 compared to 31 December 2017 (Euro 31.0 million) and business combinations for the period of Euro 6.5 million. These increases were partially offset by depreciations for the period of Euro 301.6 million and decreases for Euro 27.4 million. The decrease in intangible assets was due to amortisation for the period of Euro 213.5 million and decreases for the period of Euro 14.4 million. These effects were partially offset by capital additions (Euro 85.0 million) and by the effect of the change in exchange rates of Euro 22.1 million. The increase in goodwill was due to the positive effect of the currency rate changes of Euro 69.6 million and the Salmoiraghi & Viganò business combination equal to Euro 19.6 million.

The increase of Euro 400.2 million in liabilities as at December 31, 2018 was attributable to the increase in current liabilities (Euro 485.4 million) and equity (Euro 492.8 million). These changes were offset by the decrease in non-current liabilities (Euro 578.0 million).

The increase in current liabilities was mainly due to: (i): an increase in short-term financial payables (Euro 424.1 million) as a result of the events described in the following paragraph relating to the net financial position; (ii) an increase in trade payables (Euro 55.1 million) mainly due to the trend in payments; (iii) an increase in other current liabilities (Euro 18.9 million). These effects were partially offset by the decrease in short-term provisions for risks.

The decrease in non-current liabilities was mainly due to the following factors: (i) a decrease in long-term financial payables (Euro 596.8 million) as a result of the events described in the following paragraph relating to the net financial position, (ii) a decrease in deferred tax liabilities of Euro 10.2 million; (iii) a decrease in long-term provisions for risks of Euro 3.3 million. These decreases were partially offset by an increase of Euro 33.0 million in provisions for employee benefits as a result of net changes during the period.

The following tables shows the net financial position as at December 31, 2018 and December 31, 2017:

| **Net financial position** (Euro/000) | **December 31, 2018** | **December 31, 2017** |
|---|---|---|
| Cash on hand and at bank | 1,298,093 | 1,159,320 |
| Current bank borrowings | (49,378) | (77,486) |
| Current portion of medium-/long-term debt | (602,580) | (150,411) |
| Long-term financial debt | (1,074,452) | (1,671,281) |
| **Net financial position** | **(428,317)** | **(739,858)** |

Short-term borrowings largely 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 at December 31, 2018, these credit lines were not utilized.

As at December 31, 2018, the subsidiary U.S. Holdings maintained short-term credit lines of Euro 110.3 million (USD 126.3 million converted at the applicable exchange rate of December 31, 2018). The interest rate is a floating rate and is agreed with banks upon use of credit lines. As at December 31, 2018, these credit lines were not utilized. In addition, there were outstanding stand-by credit letters for a total of € 58.2 million.

Long-term financial debt, including the portion repayable within 12 months, decreased by Euro 144.7 million compared to December 31, 2017, mainly due to the repayment of the Private Placement at maturity and the early repayment of the Regulation H Private Placement of Euro 50 million.

## Commentary on the results of the parent company Luxottica Group S.p.A.

The trends of the parent company Luxottica Group S.p.A. are summarised below: *(i)* Revenues decreased by 1,6 % to Euro 2,996.8 million as compared to Euro 3,045.6 million in the same period of 2017; *(ii)* income from operations decreased by 10.4 % to Euro 626.4 million as compared to Euro 699.1 million in the same period of 2017; and (*iii*) net income decreased by 24.7 % to Euro 475.1 million as compared to Euro 631.3 million in the same period of 2017. The decrease in net profit was mainly due to the fact that the net profit of the previous year was affected by the tax benefits deriving from the Patent Box for the period from 2015 to 2016 and by the capital gains on the sale of a property owned by the Group and sold in March 2017 (approximately Euro 48.7 million).

The net financial position as at 31 December 2018 increased to Euro 1,246.8 million from Euro 1,104.4 million as at 31 December 2017. The increase was mainly due to the increase in current financial debt of Euro 687.7 million. This increase was partially offset by the decrease in non-current financial debt of Euro 545.2 million. The following tables shows the net financial position as at December 31, 2018 and December 31, 2017:

| | (Euro/000) | December 31, 2018 | December 31, 2017 | Change |
|---|---|---|---|---|
| A | Cash | 0 | 0 | (0) |
| B | Other cash equivalents | 380,993 | 405,767 | (24,774) |
| C | Foreign and interest exchange rate hedges | 3,469 | 5,429 | (1,959) |
| **D** | **Availabilities (A) + (B) + (C)** | **384,464** | **411,196** | **(26,732)** |
| | | | | |
| **E** | **Current financial receivables** | **330,316** | **379,866** | **(49,549)** |
| | | | | |
| F | Current bank borrowings | 0 | 0 | 0 |
| G | Current portion of long-term debt | 760 | 922 | (162) |
| H | Notes issued | 526,357 | 26,559 | 499,798 |
| I | Other current debt | 432,480 | 319,756 | 112,724 |
| J | Notes issued | 2,430 | 3,346 | (916) |
| **K** | **Current Liabilities (F) + (G) + (H) +(I)** | **962,027** | **350,583** | **611,444** |
| | | | | |
| **L** | **Net current financial debt (J) - (E) - (D)** | **247,247** | **(440,478)** | **687.725** |
| | | | | |
| M | Non-current bank borrowings | 499,315 | 499,035 | 280 |
| N | Notes issued | 496,784 | 1,045,048 | (548,264) |
| O | Other non-current debt | - | 760 | (760) |
| P | Notes issued | 3,510 | - | 3,510 |
| **Q** | **Total Non Current Liabilities (L) + (M) + (N)** | **999,609** | **1,544,843** | **(545,234)** |
| | | | | |
| **R** | **Net Financial Position (K) + (O)** | **1,246,855** | **1,104,364** | **142,491** |

## 5. INVESTMENTS

Investments amounted to Euro 582.9 million in 2018 and Euro 663.0 million in 2017, broken down as follows (in millions of Euro):

| (Euro mn) | December 31, 2018 | December 31, 2017 (a) |
|---|---|---|
| Manufacturing and wholesale distribution and Corporate | 343.5 | 413.4 |
| Retail | 239.4 | 249.6 |
| **Group Total** | **582.9** | **663.0** |

(a) The 2017 investments have been restated to reflect the inclusion of the Group's e-commerce platforms' results in the Retail division

Capital expenditures in the manufacturing and wholesale distribution segment were primarily in Italy (Euro 187.9 million in 2018 and Euro 290.0 million in 2017), in North America (Euro 84.1 million in 2018 and Euro 47.8 million in 2017 and, in China (Euro 41.1 million in 2018 and Euro 55.7 million in 2017). The overall increase in investments in 2018 as compared to 2017 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 131.4 million in 2018 and Euro 165.4 million in 2017), Italy (Euro 30.8 million in 2018 and Euro 9.8 million in 2017) and Australia (Euro 23.8 million in 2018 and Euro 19 million in 2017) and related, for both 2018 and 2017, to the opening of new stores, the remodeling of older stores, and to projects for upgrading the IT system.

Intangible assets of Euro 4,823.7 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 515.1 million in 2018 as compared to Euro 541 million in 2017.

## 6. RELATED PARTY TRANSACTIONS

Related party transactions are neither atypical nor unusual and occur in the ordinary course of business of the Group's companies. These transactions are at arm's length, taking into account the characteristics of the goods and services provided.

For further details regarding related party transactions carried out in 2018, please refer to Note 30 of the Notes to the Consolidated Financial Statements as at December 31, 2018 and to Note 45 of the notes to the separate financial statements as at December 31, 2018, where information is also provided on transactions with subsidiaries, associated companies and parent companies.

## 7. 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 unfavourable economic conditions. If this occurs or if unfavourable 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 unfavourable 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 unfavourable 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 anti-corruption regulations (Italian Law 231, Loi Sapin II, Foreign Corrupt Practices Act)
- 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 started negotiation of the future business relationship with the European Union. Failure to reach an agreement could lead to import and export restrictions between the UK and EU countries and increase regulatory complexity. These changes may adversely affect our operations and financial results.

In the United States of America, the new government expressed and partly implemented its intention to reassess and amend existing trade agreements with key trading partners, including the EU, China and Mexico. 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.

## Risks relating to the merger with Essilor

***e) The international presence and the size of the new EssilorLuxottica group could expose the company to inspections and sanctions by the Antitrust Authority.***

The combination of two major players in their respective sectors - Luxottica for the production of eyeglasses and sunglasses, and Essilor in ophthalmic lens technology - could expose the new Group to greater attention from the Antitrust authorities, limiting potential future M&A transactions. Moreover, some joint offers by Essilor and Luxottica, which could potentially harm competition, could activate competitors to file complaints against Local authorities, with possible financial or disqualification consequences.

***f) 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 envisaged 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.

***g) The integration may trigger change of control provisions in certain of Luxottica’s operating agreements.***

As a consequence of the change of control in favour of EssilorLuxottica, some change of control clauses that could lead to unfavourable conclusions such as revisions or early contractual terminations could be activated.

***h) Uncertainties and changes related to integration may cause difficulties in attracting and/or retaining key people in the company.***

The uncertainty and complexity of the combination between Essilor and Luxottica could make it difficult to attract and retain key people in the organisation with an impact on the ability to implement the most effective management or governance structure. The above could have a negative impact on the Group's operations and on the achievement of its operating and financial results.

## Risks relating to our Business and Operations

***i) 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.

***j) Over the next few years, Luxottica may continue to be exposed to disputes by holders of shares issued on the NY and Italian Stock Exchange despite the delisting.***

Despite the delisting from both the NY Stock Exchange and the Italian Stock Exchange, Luxottica and its directors may continue to be subject to legal actions by the previous shareholders, within the statute of limitations established by local laws.

***k) 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.

Should Luxottica Group fail to timely recognize or address these matters or to devote adequate resources to them, it 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.

***l) 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.

***m) 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.

***n) If we do not continue to negotiate and maintain favourable 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 favourable 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, 2018 and 2017, no single license agreement accounted for more than 5% of total sales.

***o) 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.

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.

***p) In May 2018, the new regulations on Personal Data Protection came into force, the indications of which have not yet been fully set down in the guidelines of the Supervisory Authorities. If there are inspections by the competent authorities (for each of the European states in which it carries out relevant processing) even in the absence of a violation of personal data (intended as loss, amendment, unauthorised disclosure or access to personal data transmitted, stored or otherwise processed pursuant to Article 4.12 GDPR), the company may be subject to sanctions or prescriptive measures.***

During 2018, Luxottica continued to implement the activities required to comply with the new Privacy Policy (General Data Protection Regulation – GDPR, effective as from May 25, 2018). However, it is not excluded that Luxottica may be exposed to inspections by the competent authorities during 2019. Such inspections could lead - due to the complexity of the personal data managed in the Luxottica group's systems and the lack of historical data on the implementation of the reference standards – to (i) penalties of up to 4% of the total annual turnover of the group; (ii) reputational damage; and (iii) further negative financial impacts caused by the blocking of processing activities carried out in violation of the law.

***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. We believe all of these aspects 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, 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, such as Sears Optical and Target Optica land other host relationships, including Macy's, Cabelas, Bass Pro which allow for the Group so-called "retail licensed brand" to function. If our relationship with these chains 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 with disastrous or unexpected losses linked to non-insured events, in our critical manufacturing plants or distribution network in highly competitive markets, our business, results of operations and financial condition could suffer.***

Luxottica operates in countries exposed to natural events and catastrophes, such as earthquakes, floods, hurricanes, which could interrupt production and/or distribution with negative impacts on profitability and customer/employee relations. Luxottica launched activities to mitigate these risks, such as loss prevention and a global Business Continuity programme at its most critical production sites. In addition, 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. 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 or may 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. By way of example but not by way of limitation, court orders relating to the protection of the open market and competition, the protection of personal data and the like are relevant.

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 adopted 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 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 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) Equity Risk***

Following the combination of the two companies Essilor and Luxottica on October 1, 2018, Luxottica is now under the management and control of the parent company EssilorLuxottica, based in Paris. Leonardo Del Vecchio, through Delfin, owns 31% of the voting rights of the combined company, making it the largest shareholder.

## 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:

1. 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
2. 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 non-trade 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.

## 8. LUXOTTICA 2018 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.**

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.

The eyewear created by Luxottica has an intrinsic social purpose: that of helping people to see. Making the best eyewear in the world, innovative in design and excellent in quality, represents the intersection between the Group's Sustainability vision, "To see the beauty of life", and its mission: the health and well-being of the eyes. Thanks to "made in Luxottica" eyewear people can enjoy the beauty of life in every aspect and 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.

The Group's distinctive, vertically integrated business model enables Luxottica to oversee the entire value chain. This guaranteed control of all phases - from design to distribution - also enables it to closely oversee environmental issues, health and safety and human rights along the value chain and, ultimately, to adopt socially responsible practices. Luxottica's business approach and the quality and excellence of its products and services are strongly linked to the promotion of sustainable development, with particular reference to environmental protection and its connection with the social contexts in which it operates.

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 a direct relationship with Luxottica, including employees, partners and suppliers. With particular regard to its suppliers, the Luxottica Responsible Sourcing and Manufacturing program was launched in 2013 and requests that they meet specific standards in the areas of ethics, employment, health, safety and the environment. Their compliance is monitored through a dedicated auditing process.

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 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 communities in which the Group operates as well as the protection of the environment in those territories.

Luxottica's vision of sustainability is founded on four pillars that correspond to specific commitments and concrete initiatives and make up the chapters of this Statement: Commitment to excellence, Visual well-being, Social impact and Protecting the environment.

### Luxottica's strategic approach to the Sustainable Development Goals

When defining its Sustainability pillars the Group took much of its inspiration from the international context, including the United Nations 2030 Agenda, which established the Sustainable Development Goals (SDGs) 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 2ºC. 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, aware of the fundamental contribution every company can make in the global transition towards sustainability.

| Pillar | SDG |
|---|---|

## Commitment to excellence

Luxottica's continuous quest for excellence, its ability to reinvent itself and innovate are part of the company's story and characteristic of its 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.

TOPICS

"Made in": a common language in a company open to the world
Risk management & compliance

## 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.

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

## Social impact

Since the outset, Luxottica has stood out for being a socially responsible company, ready to respond with innovative solutions to the emergence of new standards and requirements and the interests of its 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.

TOPICS

Creation and distribution of economic value
People, the real driving force of Luxottica
Commitment to employees
The responsible management of the supply chain

## Protecting the environment

Luxottica's desire to preserve and protect natural resources and landscape, reducing the impact of its activities on the environment, is rooted in the company's bond with the communities where it operates. Since the construction of its first building in Agordo among the Belluno Dolomites, now a National Park, Luxottica has made preservation an important responsibility that involves the entire organization and guides sustainable actions and decisions throughout the year.

TOPICS

Environmental performance in the Operations
Environmental performance in the Retail division
Luxottica's environmental performance in 2018

## The sustainability reporting process

### *Materiality analysis: introducing stakeholder consultation into the risk assessment process*

This Consolidated non-financial statement was made in follow-up to the 2017 disclosure, the first year this document was published.

Its content was identified and chosen by way of a materiality analysis that helped establish the priority environmental and social issues for the Group and its stakeholders.

The first materiality analysis, carried out between 2016 and 2017, was internal. The involvement of the top management in a direct discussion on the socio-environmental impact of the Group's activities proved to be very important in defining the sustainability strategy, never before communicated externally up to that point, and in identifying its key aspects for the purposes of non-financial reporting. 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 the conversations.

In 2018, Luxottica introduced two new elements: the identification of risks with potential environmental, health and safety, social and reputational impact during the Risk assessment process carried out by the Risk Management & Compliance department, and the direct consultation of the Group's internal and external stakeholders with an online questionnaire.

**Risk assessment**

The 90 interviews with the heads of departments and business areas around the world confirmed the strategic importance of sustainability. In addition to the biggest potential risks faced by the Group, the risk assessment process made it possible to identify and evaluate the risks to environmental sustainability and social responsibility values (so-called CSR – Corporate Social Responsibility risks).

**Stakeholder engagement**

The engagement of the main internal and external stakeholders made it possible to assess the degree to which sustainability issues can influence their evaluations and decisions, as well as to include their expectations in the materiality analysis process.

Sustainability questionnaire for external stakeholders

The questionnaire was designed to be answered by as many stakeholders as possible, so as to provide a clear understanding of the level of importance and interest they attribute to sustainability issues.

Beginning with the Group stakeholder map, 192 recipients representing the following categories were identified: financial community, licenses, main wholesale clients, suppliers, universities, non-profit organizations and institutions. The questionnaire was made available both online and in paper form in five languages (English, Spanish, French, Italian and German), ensuring a high level of international participation: the 98 questionnaires completed, a response rate of 51%, came from the main geographical areas in which the Group operates, i.e. North America, Latin America, Europe and the Asia-Pacific area, and substantially covered all categories of stakeholders.

Sustainability questionnaire for internal stakeholders

245 employees representing different company departments were involved with the aim of examining the organization's impact on the economy, the environment and society when carrying out its business activities. 178 questionnaires were filled out successfully, making for an overall response rate of 73%.

The combination of the risk assessment process and the direct consultation of stakeholders made it possible to verify the validity of the material issues previously identified and discussed in the 2017 Non-financial statement[1]. This also allowed the Company to focus the sustainability strategy and the reporting of relative

1 The six macro-areas of interest: 1) the central importance of the system of values represented by the Group's Code of Ethics; 2) the responsible management of energy resources, water and waste, and the use of alternative energy sources; 3) the responsible management of the supply chain; 4) the culture of quality and consumer satisfaction; 5) the welfare system, the management of talent

performances on the topics that Luxottica's main stakeholders deemed to be the most relevant (the "material topics").

These topics were also assessed and evaluated through a structured process of analyzing internal and external information sources[2], such as:

- description of the Group business model and the goals and strategies stated in economic-financial documentation;
- the questionnaires sent by socially responsible investors, Sustainalytics and providers of indexes such as FTSE Russell;
- the main sectoral risks as identified by benchmark analyses and the "Global risks report 2018"[3]
- The Group's Code of Ethics and policies in the areas of the environment, health and safety, and the responsible management of the supply chain;
- press reviews, social listening reports and investigations carried out by the Reputation Institute on the Group's behalf;
- the main sectoral trends as identified by benchmark analyses and the "Social megatrends and business" report published by the World Business Council for Sustainable Development in 2018;
- public policies, regulations and international standards, including European Parliament Directive 2014/95/EU, Italian Legislative Decree 254/2016, French Legislative Decree 2017-1265, GRI Standards and Sustainable Development Goals of the United Nations.

**The materiality matrix: the priority areas for Luxottica and its stakeholders**

The results of the materiality analysis are summarized in the matrix below, which reports the topics regarded as material, and therefore of priority importance for Luxottica and its stakeholders.

The vertical axis denotes the level of priority that external stakeholders give to the various topics, i.e. the issues that significantly influence their evaluations and decisions. The horizontal axis represents the degree of importance that internal stakeholders attribute to these topics as regards the Group's ability to create value over time.

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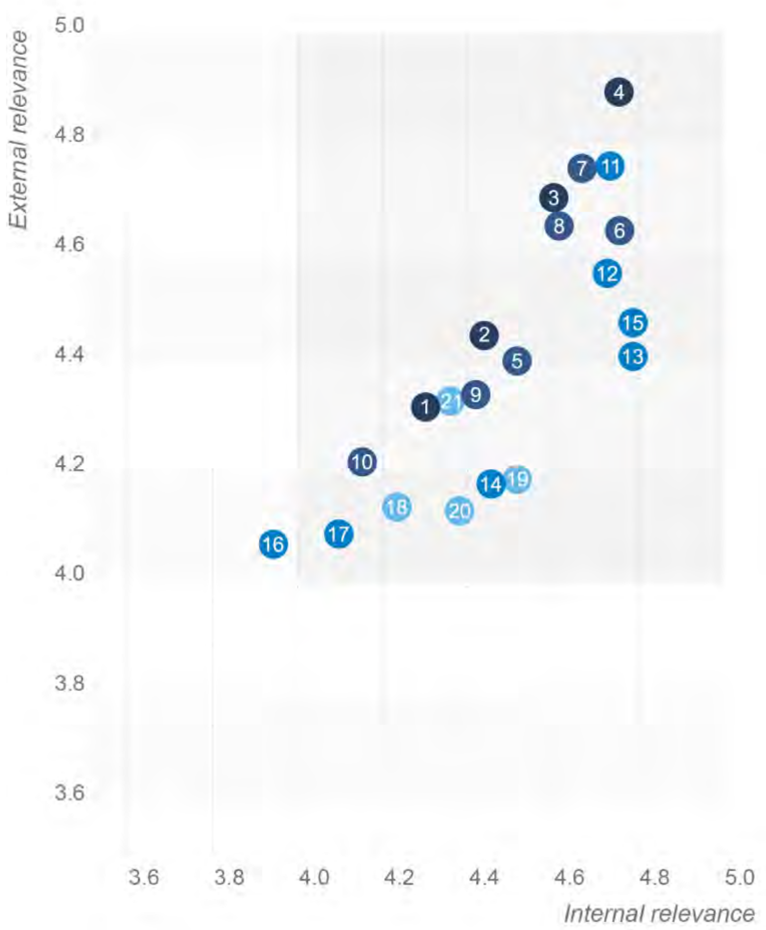
and diversity, the protection of employee health and safety; 6) the initiatives in the areas and local communities in which the Group operates

2 The analysis was based on the indications of the European Commission as outlined in the "Guidelines on non-financial reporting" (2017/C 215/01)

3 The "Global Risks Report 2018" is a World Economic Forum publication now in its 13th year


External relevance
5.0
4.8
4.6
4.4
4.2
4.0
3.8
3.6
3.6
3.8
4.0
4.2
4.4
4.6
4.8
5.0
Internal relevance
4
7
11
3
8
6
12
15
2
5
13
1
21
9
10
14
19
18
20
17
16

Material topics
1 Corporate governance
2 Risk management
3 Business ethics
4 Compliance & anti-corruption
5 Eyecare & visual well-being
6 Product quality & safety
7 Consumer satisfaction
8 Innovation and R&D
9 Protection of intellectual property
10 Responsible marketing
11 Responsible sourcing
12 Employee well-being
13 Talent management
14 Diversity and inclusion
15 Employee health and safety
17 Relationship with the communities
18 Energy efficiency
19 Climate change
20 Water consumption
21 Packaging and waste management
16 Industrial relations

The materiality matrix therefore defines the key and necessary information of this non-financial disclosure and confirms the Sustainable Development Goals (SDGs), which the Group believes it can help achieve through its way of doing business.

| Sustainability pillar | Material topics | Sustainable Development Goals (SDGs) |
|---|---|---|
| Commitment to excellence | - Corporate Governance<br>- Risk management<br>- Business ethics<br>- Compliance & anti-corruption | 16 Peace, justice and strong institutions |
| Visual well-being | - Eyecare & visual well-being<br>- Product quality & safety<br>- Consumer satisfaction<br>- Innovation and R&D<br>- Protection of intellectual property<br>- Responsible marketing[a] | 8 Decent work and economic growth<br>9 Industry, innovation and infrastructure<br>12 Responsible consumption and production |
| Social impact | - Responsible sourcing<br>- Employee well-being<br>- Talent management<br>- Diversity and inclusion<br>- Employee health and safety<br>- Relationship with the communities | 3 Good health and well-being<br>4 Quality education<br>5 Gender equality<br>8 Decent work and economic growth<br>10 Reduced inequalities |
| Protecting the environment | - Energy efficiency<br>- Climate change<br>- Water consumption<br>- Packaging and waste management[b] | 6 Clean water and sanitation<br>7 Affordable and clean energy<br>8 Decent work and economic growth<br>9 Industry, innovation and infrastructure<br>12 Responsible consumption and production |

(a) The topics relating to responsible marketing are addressed under the "Eyecare" and "A culture of quality: at the service of customers, employees and the community" sections

(b) Packaging relates to manufacturing and logistics activities and is classified as non-hazardous waste as reported in the "Waste management" section

### *Non-financial reporting scope*

Luxottica began its non-financial reporting process in 2016, with the dual goal of beginning to communicate its sustainability initiatives and their results in a transparent and systematic way, and of laying the foundations for its compliance with the legal obligations outlined in Italian Legislative Decree 254/2016 through the launch of the Sustainability section on www.Luxottica.com in April 2017.

With regard to economic and social performance, the information in this Statement refers to the companies consolidated on a line-by-line basis in the Group consolidated financial statements as of 31 December 2018; any exclusions from the reporting scope are specified in the relevant paragraphs in this document.

In follow up to the process it launched during the 2017 financial year regarding the reporting of health and safety, environmental and supply chain management issues, in 2018 Luxottica extended the scope of its production and logistics (Operations) analysis to include the central laboratories dedicated to the production of ophthalmic lenses. Consistent with this gradual inclusion approach, the company also extended its environmental performance review to the Retail division, including 60% of directly-managed stores around the world. Finally, Luxottica undertook to report the information omitted from the previous Statement concerning health and safety and training initiatives.

On the basis of the coverage of the indicators associated with material topics, the Group's level of adherence to the GRI Standards in 2018 was "referenced".

The information on health and safety matters within the Operations 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 Correspondence table at the end of this Statement for the list of GRI Standard topics and relative indicators used.

## Commitment to excellence

Excellence is the distinctive trait of Luxottica and can be seen in its creation of top-quality products and its respect for the people and areas where the Group is present. Its eyewear collections are 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.

Excellence begins with qualified, specialized people who are committed every day to giving their best and to providing products of high technical and stylistic quality together with unparalleled levels of service.

Excellence is a constant quest: 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 goals and success globally. 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 more than 82,000 people of different cultures and nationalities.

Excellence is an ethical driving force: 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.

### “Made in”: a common language in a company open to the world

This focus on excellence can be seen in the strategies undertaken to expand the business in new countries. As a global company, Luxottica interprets and values different cultures and the particular features of diverse markets and consumers. 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.

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, India and Japan. What is common to all plants are the technology, manufacturing processes and the same sense of belonging to the Group: a common language bringing the Group closer together over borders and across oceans.

Luxottica’s presence in China, which dates back over 20 years, is an example of this. 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. The production and distribution site in Dongguan is a perfect replication of Luxottica’s Italian factories model while respecting the specific dimensions of the local culture. With a total surface area of around 250,000 square meters, approximately 11,600 employees, three plants and a logistics hub with integrated lens laboratory, the Chinese production and distribution hub is responsible for over 40% of the Group’s production and is equipped with cutting-edge technologies and processes that make it a model of innovation and sustainability. These investments have proved successful because they are based on respect for diversity and the Group’s values of excellence and enterprise, and over the years have made it possible to supplement the gradual expansion of its production capacity with the development of the retail and wholesale businesses.

Another model of integration is Brazil, where, in over 20 years, the Group has developed a world-class integrated platform driving the growth of the sector. 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 as well as Sunglass Hut, Oakley and Óticas Carol branded stores.

## Risk management & compliance

Luxottica’s investment in excellence and its ability to reinvent and innovate are part of the company’s history and characterize its operations. A central role in its excellence is played by the Code of Ethics, which sets out the principles and fundamental values that inspire its conduct, and the ethical and responsible 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 three times over the years and its current version was approved by the 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 employee communications campaign for the new Code of Ethics featured Luxottica employees from around the world alongside 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.

To guarantee compliance with the Code of Ethics, in 2016 a global classroom and e-learning training program was launched for all Group employees, including new hires.

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 other 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 SpA. More specifically, the Internal Audit Manager informs the Supervisory Board of the complaints received and their status at least once every six months.

### *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's 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 performance;
- 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.

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.

| The risk categories potentially applicable to Luxottica | Risk management objectives |
| --- | --- |
| **External risks**<br>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<br>Measure Group resilience<br>Mitigate the impact in case the risk occurs |
| **Strategic risks**<br>Characteristic of the eyewear industry and/or strictly driven by Luxottica strategic decisions | Create awareness during the decision-making process<br>Have a risk-reward analysis<br>Consider the cost for risk mitigation and the impact of risks on the Group's economic and financial targets |
| **Operational risks**<br>Generated by ineffective organizational structure, internal processes and systems | Reduce the impact and probability of risk through:<br>- Continuous improvement of internal control systems<br>- 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 into the Company's processes, supports its strategic and operating decisions and permeates the entire organization.

| The five correlated phases of Luxottica's Enterprise Risk Management | |
| --- | --- |
| 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 | It consists of activities to share the mapping of risks and related mitigation plans with the management and Control and Risk Committee |
| Risk treatment | Implementation of the approved action plans and risk management strategies |
| Monitoring | The progress of the action plans and the Key Risk Indicators (KRIs) are periodically monitored in order to guarantee correct and prompt risk mitigation |

For some risk categories, like protecting the environment and workplace safety, in terms of labor regulations (with particular reference to external stakeholders such as the supply chain), Risk Management may be tasked with carrying out an assurance function which ranges from the identification of the biggest potential exposure situations to the performance or coordination of auditing and inspections activities to ensure that protection measures comply with local regulations and, where these are less stringent, with international best practices.

**Identification and evaluation of CSR risks within Risk assessment**

Given their intrinsic goal of creating and protecting value for all its stakeholders, Luxottica believes that risk management activities are an integral part of sustainability strategies. The structured and proactive management of company risks makes it possible to reduce the volatility of the company's results over time and to protect its tangible and intangible assets, key elements for the Group's mid- to long-term sustainability.

In 2018, the Risk assessment process was duly carried out to identify priority risk areas for the Group. For the first time, environmental, social and governance risks (known as CSR risks) were defined in the risk model in order to facilitate their identification and evaluation during the 90 interviews conducted with managers in the company's main geographic locations (42 individuals in EMEA, 23 in North America, 10 in South America, 11 in China and 4 in Australia).

This process made it possible to identify, assess and compare the main CSR risk categories with the relative risks identified as priorities during the interviews:

1. Human rights: the risk that the Group is subject to theft or consumer or employee personal data being compromised, with a consequent impact on the reputation of the Group or the application of penalties pursuant to the GDPR or other local privacy laws;

2. Professional ethics: risks linked with employee/supplier/customer actions that do not conform with the Code of Ethics in terms of corruption, business policies and/or industry regulations, with a consequent impact on the reputation of the Group or the application of penalties;

3. Business disruption: the risk that critical processes in the Group's value chain are disrupted due to natural events, also brought about by climate change, the unavailability of systems and/or individuals to carry out activities, with the consequent inability to serve target markets in the correct manner and time frames;

4. Responsible management of the supply chain: the risk that the supply chain used by Luxottica does not completely comply with the local regulations and/or international standards that the Company requests be applied in the area of employment, health and safety and the environment. As well as having consequences for the Group's reputation, this risk could also result in a breach of contract with some licenses;

5. Intellectual property: reputational and economic risks due to the presence of counterfeit products on the market (mainly the Ray-Ban and Oakley brands);

6. Talent management: the risk that the Group is not always competitive, in all geographical locations in which it operates, when attracting and retaining talent, with a resulting potential impact on growth and development strategies.

It is also worth mentioning that in its sites and offices, Luxottica has always actively sought to mitigate social and environmental risks in the areas of health, workplace safety and the environment. While these were not evaluated as significant risks in 2018, the Group continued to improve its internal control system and to adopt policies, procedures and controls aimed at preventing potentially harmful events for stakeholders and the reputation of the Group.

With reference to the aforementioned risks, please consult:

- The “Compliance risk management” section to find out about the current programs designed to guarantee the mitigation of risk in the areas of privacy, corruption and antitrust
- The “Responsible management of the supply chain” section for a description of the measures taken with regard to the supply chain
- The “Main risks and uncertainties to which the Group is exposed” section of the Management report for a description of the activities to mitigate the risk of business disruption
- The “Protecting intellectual property and the struggle against counterfeiting” section for a description of current programs for the protection of intellectual property
- The Social impact chapter for a description of talent management activities

The following table lists the CSR risks and corresponding mitigation activities.

| Sustainability pillar | CSR risks | Mitigation activities | Sustainable Development Goals (SDGs) |
|---|---|---|---|
| **Commitment to excellence**<br>Material topics<br>• Corporate Governance<br>• Risk management<br>• Business ethics<br>• Compliance & anti-corruption | **Risk of non-compliance with the GDPR and failure to protect personal data**<br>Risk of potential privacy-related issues caused by leak or inappropriate use of personal data of consumers / employees with consequent reputational impact or sanctions as per the GDPR<br><br>**Risk of non-compliance with antitrust regulations**<br>Risk of increasing exposure to antitrust assessments | Global privacy data program:<br>• Policies and procedures design<br>• Data mapping<br>• Third parties management (data protection clauses and appointment of data processors)<br>• Security and response measures<br>• Classroom and online training<br><br>Global antitrust program:<br>• Rules and operational guidelines<br>• Risk assessment<br>• Online training | 16 |
| **Visual well-being**<br>Material topics<br>• Eyecare & visual well-being<br>• Product quality & safety<br>• Consumer satisfaction<br>• Innovation and R&D<br>• Protection of intellectual property<br>• Responsible marketing | **Risk linked to intellectual property protection**<br>Reputational and economic risks due to the continuous increase of the presence of fake products on the market (mainly referred to Ray-Ban & Oakley) | • GLOW (Guaranteed Luxottica Origin Worldwide), a traceability system based on RFID technology which allows to verify the authenticity of the products as well as suitability of resellers<br>• Online IP protection<br>• Customs seizures, market raids, criminal or civil proceedings against stores, trademark litigation to obtain cancellation of registered TM, deep-dive investigations, factory raids | 8, 9, 12 |
| **Social impact**<br>Material topics<br>• Responsible sourcing<br>• Employee well-being<br>• Talent management<br>• Diversity and inclusion<br>• Employee health and safety<br>• Relationship with the communities | **Risk linked to supply chain sustainability**<br>Risk that suppliers are not compliant with laws, international standards and Luxottica requirements on labor, health and safety, environmental and ethical matters with potential impact on the Company's reputation. This risk could also cause a breach of contract with licensors.<br><br>**Key people attraction and retention**<br>Risk of the Group's inability to attract and retain, in all geographical locations in which it operates, the best professionals on the market, with a resulting potential impact on its growth and development strategies | Luxottica Responsible Sourcing and Manufacturing (LRSM) program:<br>• Independent external audits and follow up on suppliers<br>• Classroom training to suppliers<br>• Suppliers self-assessment<br><br>Talent management:<br>• Talent & performance management<br>• Long-term incentives<br>• Non-competition agreements | 3, 4, 5, 8, 10 |
| **Protecting the environment**<br>Material topics<br>• Energy efficiency<br>• Climate change<br>• Water consumption<br>• Packaging and waste management | **Business interruption**<br>Risk of business interruption of one of Luxottica main facilities, both production or logistics, due to natural disasters, man-made hazard or IT Failures, that could lead to the inability for the Group to serve the market in the proper way, losing market share, credibility among customers, sales, etc. | • Launch of the Business Continuity program, which includes awareness initiatives, governance definition, definition of roles and responsibilities, critical process mapping, risk assessment and continuity plan<br>• Loss prevention activities | 6, 7, 8, 9, 12 |

### *Compliance risk management*

Luxottica's global dimension requires the constant alignment of the Company's processes, procedures, conduct and activities with the regulatory frameworks and the Group Code of Ethics. Below are the main compliance programs that Luxottica has been working on for some time.

**The prevention of corruption**

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.

This commitment is outlined in the Code of Ethics and is further strengthened by the adoption of company policies and procedures that regulate the areas that could be exposed to corruption crimes.

In 2018, the Compliance department, in collaboration with the Internal Audit department, developed and distributed a new version of the procedure for reporting and managing accidents to all local internal representatives. This procedure complements the existing content of the Code of Ethics and the Organization, Management and Control Model adopted in 2005 in accordance with Italian Legislative Decree 231/2001 as amended, which addresses the issue of reporting corruption. 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.

Luxottica is part 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 2018, the Compliance department presented its anti-corruption programs at Transparency International's Business Integrity Forum and at the Italian Business Integrity Day held at the Embassy of Italy in Washington. Among these programs is the "Be transparent and keep it transparent" compliance program which Luxottica launched in 2017 and is dedicated to combating corruption. This program is applied at the 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 specific rules that all Group employees must adhere to in their daily activities.

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

In addition, in 2018 Luxottica performed a risk assessment involving all of the Group's legal entities around the world aimed at evaluating its exposure to the risk of corruption. Compliant with the provisions of the French Sapin II law, this process made it possible to assess and prioritize the risks considering both the legal entity and the potential scenario. A specific classroom training activity was organized for the legal entities most at risk, beginning in China in October 2018, with Brazil to follow in the first quarter of 2019.

At an international level, an online training activity was organized which involved around 4,500 participants, 1,300 of them from the countries most at risk according to the assessment.

**Privacy**

With over 7,100 directly operated stores around the world and a growing presence in the e-commerce sphere, Luxottica is aware of just how much its customers value their privacy. The company is committed to guaranteeing maximum levels of transparency in the way it collects, uses, communicates, transfers and retains information relating to them.

In 2018, Luxottica continued to implement the measures required to guarantee compliance with the General Data Protection Regulation (GDPR), effective across Europe since 25 May 2018:

- Creation of an organizational structure specifically dedicated to privacy. A Data Protection Officer (DPO) was appointed for the European companies of the Group that process significant quantities of personal data, and Privacy Data Owners (PDO) were identified within the various Company departments. They were assigned precise responsibilities connected with the processing of personal data within their respective departments (HR, IT, Marketing, Procurement);
- Continuation of activities relating to (i) the mapping of personal data processing (for the purposes of keeping records pursuant to Article 30 of the GDPR), (ii) the analysis of system conformities, (iii) the identification of critical third parties for privacy purposes. Regarding the third parties identified, with the support of the procurement office, a contractual review process was launched to define the relations between the parties as per Article 28 of the GDPR;
- Provision of an online training course on the basic concepts of the regulation to all Group employees in Europe.

A global approach to privacy protection is being studied which, in addition to the GDPR, also takes account of the personal data protection laws being transposed in non-European countries including Brazil, China and Australia.

**Anti-money laundering**

In 2017, Luxottica developed and disseminated at global level the "Anti-money laundering and terrorist financing policy", whose 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. The policy was subsequently reviewed in 2018 to better define the responsibilities surrounding prevention and monitoring activities at a local level. Building on the existing policy, the Compliance department organized specific training activities on the content of the policy and provided support for the implementation of the controls established by the document.

**Antitrust compliance**

In line with the Code of Ethics, Luxottica has had an Antitrust program since 2015 which defines principles of conduct in the management of business practices.

Implementation policies and programs are available to all Group employees and, as in previous years, a training activity involving around 700 people exposed to this type of risk was held in 2018.

## Visual well-being

Eyesight is a precious resource. Caring for it is a key element in Luxottica's mission which it pursues through frames and lenses of the highest quality, the result of continuous innovation in design, materials and manufacturing technologies, as well as through cutting edge services inside its retail network.

### Eyecare

Each pair of eyewear is the result of an ongoing research & development process where stylistic innovation is solidly linked to the need for functionality and comfort. Ensuring that people see clearly and can express their identity is a commitment Luxottica has been renewing daily for over 50 years with the same passion and devotion.

The customer can experience this commitment firsthand inside over 5,100 of the Group's optical stores worldwide, all equipped with advanced eye exam technologies such as Clarifye at LensCrafters in North America. These technologies make it easier for optometrists to detect health problems like high blood pressure, diabetes and other serious conditions early.

Outside of the exam room, Luxottica has revolutionized the in-store experience with digital windows and iPads that customers can use at its retail stores to view an endless aisle of brands, models and colors and to simulate the treatments available for sun and ophthalmic lenses. The complete, personalized pair purchased by the customer is the result of the integration between a brand-new frame and ophthalmic lenses customized according to the consumer's prescription. Luxottica's Service Centers in Atlanta (US), Sedico

(Italy) and Dongguan (China), which assemble ophthalmic lenses and frames under the same roof, guarantee the highest level of service and quality in every eyewear component. These hubs then send the complete pairs to the Group's retail stores or directly to consumers through the Group's e-commerce platforms.

Luxottica has taken a leading role in the industry’s efforts to raise awareness around the need for quality eyecare. In the United States, the Group is a founding sponsor of the “Think About Your Eyes” media campaign, promoted by The Vision Council and the American Optometric Association, which educates consumers on the benefits of vision health and the importance of an annual exam with an optometrist. Since its launch in 2010, the campaign has resulted in an increase in eye exams in the US and in 2018 it has contributed to driving 1.4 million eye exams. In Australia and New Zealand, the Group has a strong collaborative relationship with Optometry Australia (a non-profit organization representing about 90% of Australian optometrists) and is a keen supporter of its “Good Vison For Life” media campaign, which educates consumers on the benefits of maintaining good eye health and the importance of an annual eye exam. The campaign was launched in October 2018 and a major media launch is planned for early 2020.

The Group’s commitment to eyecare extends to training initiatives specifically designed for optometry students in the US and for optometry graduates in Australia. Luxottica also makes available to its optical retail employees and wholesale clients continuous training and education courses through Luxottica University. The courses, available in person and online, cover topics ranging from the customer experience to frame and lens design innovation to the importance of quality and service.

Luxottica’s eyeFWD program, launched in the US in 2017, is designed to give optometry students the tools they need to build and grow a successful practice when they graduate. This program is complemented by “Luxottica EyeCare scholarships” awarded to accomplished and community-focused optometry students. Similarly, in Australia and New Zealand Luxottica introduced EYE Launch, which is the two-year graduate induction program for all new optometrists joining OPSM and Laubman & Pank.

In 2018, Luxottica also selected 34 optometry students to travel on two separate OneSight clinics to Oaxaca (Mexico) in May in partnership with the American Optometric Student Association and 12 optometry students to participate in OneSight regional indigenous clinics in remote parts of Australia. On the OneSight clinics, optometry students worked under the supervision of Luxottica Retail affiliated doctors performing comprehensive eye exams and also helped a core team of Luxottica volunteers in the frame fitting, manufacturing and dispensing of new eyewear.

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

Luxottica’s outstanding culture of quality 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 quality laboratories*

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 has been developed by the Italian quality laboratory and is replicated, using the same equipment and procedures, in the rest of the world. As a result, the manufacturing sites in China, the United States and Brazil each have a quality laboratory that is able to monitor and maintain the quality that defines all of the Group’s products.

All these 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 ophthalmic 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.

Thanks to this quality control system 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, such as anti-UV protection, the degree of light transmission and impact resistance.

To guarantee its customers maximum product safety, Luxottica performs tests to check compliance with the main international regulations concerning chemical substances in medical and consumer products, using both in-house laboratories and expert external facilities.

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 eyeglasses. In 2016, this certification was also extended to the ISO 12312 tests on sunglasses. This certification is testament to the high level of technical and managerial expertise possessed by all employees at Luxottica laboratories.

Following its work in the area of safety and Behavior-Based Safety in Italy, in 2018 Luxottica sought to underline the importance of quality based on the correct conduct of individuals. Beginning with production processes, audits were introduced at all Italian sites to check their compliance with quality procedures. These assessments are carried out directly by department heads and are added to the existing assessments.

Every year, cutting-edge technology and the internal development of new tests, with more stringent criteria than international regulations, enable Luxottica to improve the quality of its products. In 2018, new tests were introduced to guarantee enhanced performance in terms of both the durability of products and their resistance to mechanical strain and environmental stress, laying the basis for the automation of laboratory tests. This will allow to free operators from performing repetitive tests, while at the same time enabling them to quickly fine-tune the newly designed tests.

The quality control system has evolved in step with the complexity and richness of collections and models, ensuring that the percentage of defective returns remained below 1% in 2018 as well.

### *Customer relations*

For Luxottica, promoting a culture of quality also means recognizing the needs of customers and end consumers, assisting them in all phases of the purchasing process, both offline and online, and supporting them via dedicated after-sales services.

In 2016, the Group's retail business launched a program to track the journey of every consumer, understanding their needs, anticipating their wishes and strengthening the relationship with them along the way. The goal of this effort is to continuously tweak and improve both the in-store and online purchasing experience. In 2018, this strategy encompassed the Group's main e-commerce websites as well as Sunglass Hut, LensCrafters, Target Optical, Sears Optical, OPSM, Laubman & Pank and David Clulow for a total of over 5,000 stores across the world.

Luxottica's Customer Service department, which includes the Contact Center and After Sales, manages technical and commercial assistance requests from the wholesale, retail and e-commerce channels.

The Contact Center is made up of over 800 qualified multilingual Group employees who respond to phone, email, social media and instant messaging requests from North America, Brazil, Europe and China. The Center provides a contact for customers and consumers in both the pre-sale phase (dealing with requests for information on specific eyewear styles, for example) and the after-sales phase, forwarding requests to the After Sales team if necessary.

The After Sales team supports customers and consumers that have purchased products made or marketed by Luxottica, from managing returns to warranty policies for eyewear collections, corrective lenses and Oakley’s apparel, footwear and accessories (AFA), purchased by wholesale customers and end consumers in the Group’s stores or e-commerce sites. To guarantee the prompt management of requests, After Sales is present at each logistics hub, providing customers in their respective geographical areas with the assistance they need: Sedico for EMEA, Atlanta for North America, Dongguan for Asia-Pacific and Jundiaí for Brazil.

At the beginning of 2019, a dedicated portal was launched to provide assistance to owners of Ray-Ban eyewear who needed to purchase spare parts, whether under warranty or not. Currently only available in the United States, it will soon be launched in the Group’s other geographies.

### Sustainable product development

For Luxottica respecting the environment and people means, first and foremost, carefully selecting the materials it uses for its manufacturing processes. 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’s unwavering focus on excellence and commitment to research has led to the introduction of innovative materials - defined as Biobased by international standards and regulations (such as ASTM D6866, ISO 16620 and EN 16640) - into its portfolio of raw materials. These materials also include the acetates M49, Biocell and ECA UV and the injection molding material BTR600, 56% of which is produced from renewable sources (castor oil).

The Biobased acetates are biodegradable thanks to their chemical composition, which is different from the acetate normally used in the Group’s products. On the basis of the ISO 14855 certification, these materials are 97% biodegradable thanks to the presence of plasticizers completely free of phthalates in their composition, and for this reason are easily broken down by microorganisms found naturally, guaranteeing their biodegradability.

Additionally, during 2018 research projects have been launched to examine the possibility of recovering and regenerating obsolete polymeric materials deriving from warehouse stocks. The aim is to create a circular process that makes it possible to reintroduce waste materials into the production cycle, either in percentages that do not compromise the quality of the finished product, or by identifying possible new application areas.

### 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 suppliers and protect the rights of third parties at the same time. The Company is, in fact, 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, whose excellence, in Luxottica’s case, is certified by the most stringent quality tests, by the use of highly innovative materials, impossible to process or replicate without the necessary know-how, by the ongoing innovation in its production processes, and by the introduction of high-performance sunglasses lenses such as 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. Around 24 million counterfeit eyewear, cases and accessories, primarily Ray-Ban and Oakley, have been seized since 2015. In 2018, the Group carried out controls on products sold in 47 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 2018, the Group succeeded in closing around 122,000 websites. In addition, on Luxottica’s website it 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. Every day the Group strives to construct a business in which value creation and sustainable growth go hand in hand with a virtuous system of developing people and social relations right in all stages of its vertically integrated business model.

These actions are founded on essential values based on the fundamental human and employment rights[4] contained in the Group's Code of Ethics, such as the focus on people, the creation of a safe working environment that offers everyone the same opportunities, rewarding merit and prohibiting discrimination. Respecting the regulations in the individual countries in which it operates, Luxottica promotes the protection of workers' rights and freedom of association. In the Code of Ethics, Luxottica outlines its rejection of all forms of labor exploitation, particularly child labor.

Alongside respecting existing regulations, the Group seeks to raise awareness of all human rights issues with specific training activities designed to both protect and inform workers.

4 Luxottica operates within the framework of the Universal Declaration of Human Rights and the fundamental ILO (International Labour Organisation) Conventions, and has committed to contribute to reaching the 10 SDGs identified.

## Creation and distribution of economic value

The information on "Directly generated and distributed economic value" in the table below permits a different interpretation of the economic figures[5] and 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.

| (Euro/000) | 2018 | 2017 restated[6] |
| --- | --- | --- |
| Net sales | 8,928,889 | 9,184,175 |
| Interest income | 18,344 | 18,199 |
| **Economic value generated** | **8,947,233** | **9,202,374** |
| Operating expenses | 4,464,162 | 4,627,893 |
| Employee wages and benefits | 2,651,486 | 2,701,229 |
| Shareholders and providers of capital | 553,246 | 547,441 |
| Public authorities | 305,523 | 344,577 |
| Community investments (support for social, cultural and sports projects and partnerships with universities) | 14,224 | 13,240 |
| **Economic value distributed** | **7,988,641** | **8,234,381** |
| **Economic value retained** | **958,593** | **967,992** |

In 2018, the economic value generated, represented by net sales and financial income, came to Euro 8,947.2 million (-2.8% from 2017). Of these, Euro 7,988.6 million were 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.

The resources retained for the long-term development and growth of the Group came to Euro 958.6 million in 2018 (Euro 968 million in 2017) 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 economic value distributed to suppliers went from Euro 4,627.9 million in 2017 to Euro 4,464,2 million in 2018 following the organizational streamlining initiatives that the Group pursued during the year 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:

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

6 2017 Net sales and operating expenses have been restated to reflect the application of the new accounting standard IFRS 15, as explained in the Notes to Luxottica's 2018 consolidated financial statements

- the simplification of the entire organization, with the centralization of key functions and activities at Group headquarters in Milan, such as e-commerce, management of assortments, visual merchandising and real estate activities involving the Group's stores around the world;
- the strategy of internalizing some production processes in Italy, China and the United States;
- the gradual centralization of lens processing and finishing, moving from LensCrafters in-store labs and dedicated Oakley lens lab in Foothill Ranch to state-of-the-art central lens laboratories in Atlanta, Dallas and Columbus in the United States;
- 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 economic value distributed by means of wages and benefits to its employees was equal to 33% of the economic value distributed (Euro 2,651.5 million) in 2018, in line with the previous year.

The economic value distributed to shareholders and providers of capital came to Euro 553.2 million, as compared with Euro 547.4 million in 2017, mainly due to the higher dividends distributed. The economic value distributed to the public authorities in the form of taxes came to Euro 305.5 million in 2018 from Euro 344.6 million in 2017, benefiting from the effects of the Italian Patent Box and from American tax reform.

In 2018 Luxottica, driven by a strong sense of responsibility and corporate citizenship, pursued its commitment towards the local communities and territories where it operates, supporting social, sport and cultural initiatives for a total of Euro 14.2 million (Euro 13.2 million in 2017). 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 131 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, in 2018, the second edition of 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 financed;
    - the organization, through the Alain Mikli brand, of initiatives that make art accessible to people with visual disabilities, such as the tactile exhibitions at the Quai Branly - Jacques Chirac museum in Paris (since 2010) and the creation of the audio descriptions of the plays performed at the Odéon theatre in Paris and the tactile models that faithfully reproduce the sets (since 2017)
- projects with universities in Italy and optometry schools in the US and Australia, 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 second edition in 2018 of 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 34 American optometry students to accompany optometrists and Group volunteers to two eye clinics organized by OneSight in Mexico and the opportunity for 12 Australian optometry students to participate in OneSight regional indigenous clinics in remote parts of Australia;
- support for Valore D, the association of Italian businesses that Luxottica helped to create in 2009 to promote diversity, female talent and leadership;
- economic assistance for emergency situations, such as the supplementing of the salaries of all of the over 8,000 employees on the temporary lay-off scheme at the Agordo, Cencenighe, Sedico and Pederobba sites, forced to stay at home due to the closure of the plants following the bad weather that affected the area in late October;
- 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 Optometric 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;
- support, through Oakley, for 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

Developing people is the focus of the Group’s growth strategies. In this context, diversity in thinking is a source of cultural enrichment and is therefore promoted and rewarded. Having qualified, motivated and engaged employees is crucial for its long-term success. Whatever the geographical region, site or subsidiary, employment at Luxottica is regarded first and foremost as an opportunity for professional and personal fulfillment, rather than a duty or right.

**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 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 remuneration 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.

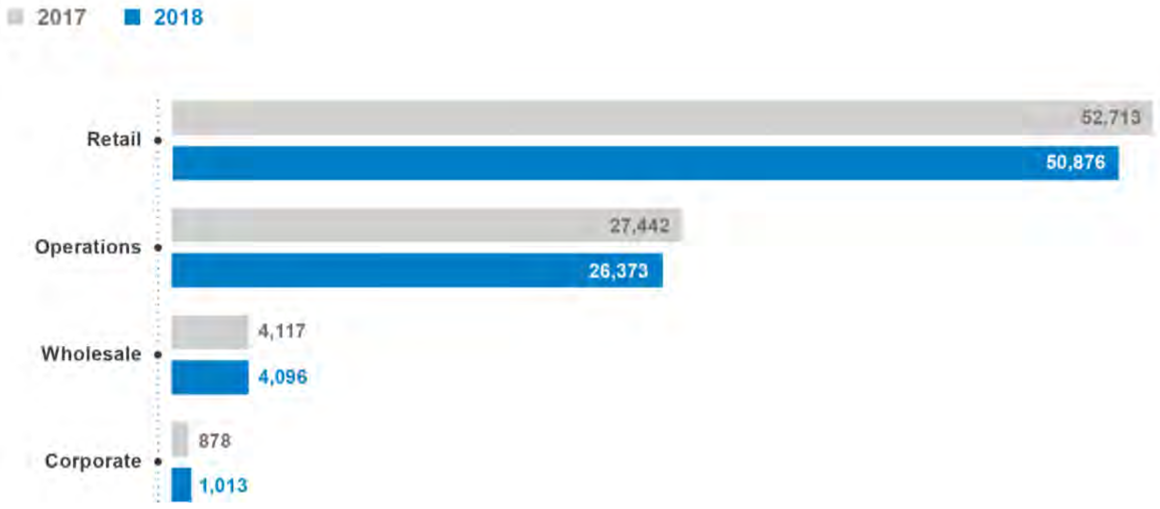
**Talent management.** Working at Luxottica means growing in a company that does not admit any discrimination or favoritism and invests in the future in an attentive and far-sighted way, introducing or developing new skills and expansive ways of thinking. In fact, talent development is a key element 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 and evaluation of every individual, based on criteria of merit, professionalism and competence.

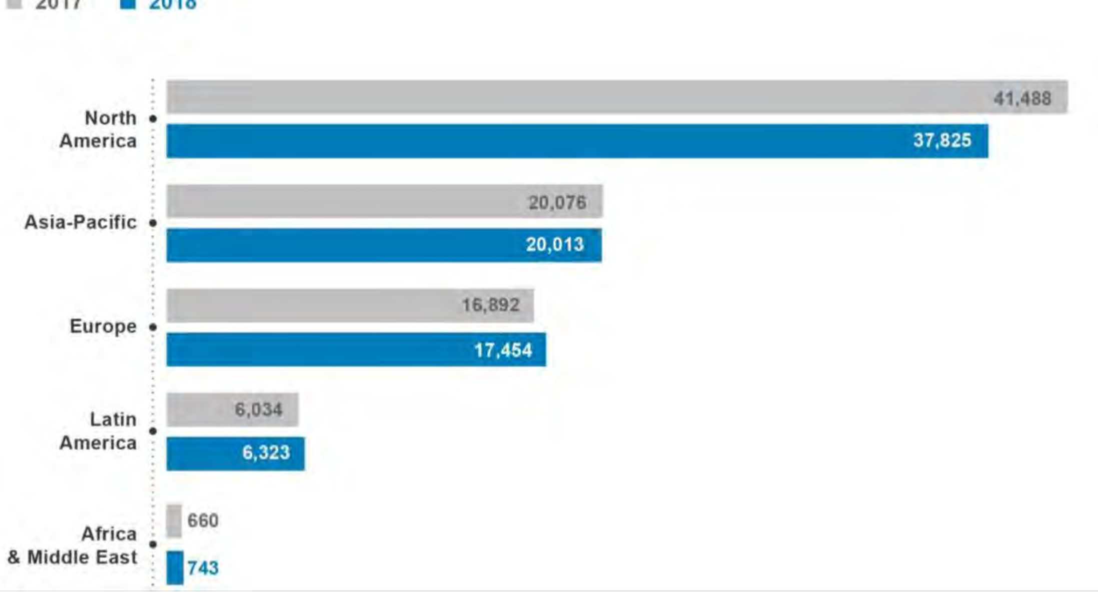
### *The Group's employees*

As to December 31, 2018 Luxottica Group has 82,358 employees, 62% of whom are in the retail business, 5% in the wholesale business and 32% in production and logistic activities. The Milan and US corporate offices employ the remaining 1% of the Group’s total workforce.

**Distribution of employees by business area**[7]




**Distribution of employees by geographical area**




In 2018 the total number of employees has decreased by 3%. This must be read in the context of the organizational simplification and strategic, operational, technological and managerial renewal started in 2015. The centralization of global business and product strategies has allowed Luxottica to think more centrally and perform rigorously at the regional and country level.

One example in North America is the gradual centralization of lens processing and finishing, moving from LensCrafters in-store labs and dedicated Oakley lens lab in Foothill Ranch to state-of-the-art central lens laboratories in Atlanta, Dallas and Columbus in 2018. Luxottica invested heavily in the Atlanta facility, which quadrupled in size with four buildings dedicated to logistics, the production and processing of ophthalmic lenses and the assembly of eyeglasses (the "complete pair"). Hiring or moving skilled employees, the Atlanta facility completely optimized operations in the region, improving productivity and flexibility. Today Atlanta is a

7 The breakdown of employees by business areas as to December 31, 2017 was reviewed in accordance with the methodological criteria adopted in 2018, which is more precise in dividing employees between the wholesale, retail, operations and corporate areas.

beacon of innovation and service excellence in support of the Group's wholesale, retail and e-commerce activities in North America.

Similarly, a talent reorganization in LensCrafters and Oakley stores in North America helped to give part-time employees a chance to increase the number of hours they work, allowing the business to reply less upon seasonal and on-call contracts. While the closure of over 200 Sears Optical locations (due to the closing of those host stores by Sears Holdings) resulted in job losses, this was partly offset by the hiring of personnel to run the 170 new Sunglass Hut shop-in-shops opened in Bass Pro Shops and Cabela's stores in 2018. Staff were also hired for the new Ray-Ban and Sunglass Hut stores in China, South-East Asia, Europe and Latin America. This year, many of these new employees as well as existing ones, were given access to training and education courses on the new Luxottica University platform, boosting motivation and creating a sense of belonging to the Group.

On the Operations side, investments in automation and new production technologies did not impact employment levels in Italy, the Group's production and logistics nerve center. Italy is also the location of Luxottica's headquarters, home to the company's global business and product strategies, such as the real estate activities for the Retail division, digital marketing and e-commerce activities, which were further expanded in 2018. For instance, the e-commerce department grew from around 70 people at the end of 2017 to 100 at the end of 2018, further establishing itself as both the fastest growing and youngest department in the Group with an average age of 31. Women make up 60% of the team, which also stands out for its broad array of expertise.

### *A company with over 50 years of history and an incredible youth employment rate*

Looking at the company population there is a clear dichotomy between employees under 35 years of age, who account for almost 60% of the workforce, and employees of over 50 who represent around 11% and are equally distributed across all professional levels in the Group. This examination of the data as to December 31, 2018, suitably compared with the data used in 2017 in accordance with GRI Standard 405-1 "Diversity of employee", confirms that employees between 30 and 35 years of age are appointed to managerial positions.

**Group employees by professional category and age group**

| 2018 | | | | | | |
|---|---|---|---|---|---|---|
| | Blue-collars | White-collars | Middle management | Senior management | Total | Total % |
| <35 years old | 66% | 43% | 29% | 8% | 47,155 | 57% |
| 35-50 years old | 25% | 41% | 55% | 77% | 25,953 | 32% |
| >50 years old | 9% | 16% | 16% | 15% | 9,250 | 11% |
| **Total** | **55,237** | **22,091** | **4,073** | **957** | **82,358** | **100%** |

| 2018 | | | | | | |
|---|---|---|---|---|---|---|
| | **Blue-collars** | **White-collars** | **Middle management** | **Senior management** | **Total** | **Total %** |
| <30 years old | 53% | 26% | 8% | 1% | 35,328 | 43% |
| 30-50 years old | 38% | 57% | 76% | 84% | 37,780 | 46% |
| >50 years old | 9% | 17% | 16% | 15% | 9,250 | 11% |
| **Total** | **55,237** | **22,091** | **4,073** | **957** | **82,358** | **100%** |

| 2017 | | | | | | |
|---|---|---|---|---|---|---|
| | **Blue-collars** | **White-collars** | **Middle management** | **Senior management** | **Total** | **Total %** |
| <30 years old | 54% | 35% | 10% | 1% | 37,956 | 45% |
| 30-50 years old | 37% | 50% | 73% | 82% | 37,372 | 44% |
| > years old | 9% | 15% | 17% | 17% | 9,822 | 11% |
| **Total** | **50,545** | **28,593** | **5,095** | **917** | **85,150** | **100%** |

### *Type of contract*

As to December 31, 2018, 65% of employees have permanent contracts (64% in 2017). The remaining 35% have fixed-term contracts, which are connected with the seasonal nature of the retail business and Operations.

As regards the type of contract, approximately 67% of employees have full-time contracts (66% in 2017).

| 2018 | | | | |
|---|---|---|---|---|
| | **Total** | **Total %** | **Women %** | **Men %** |
| **Employement contract** | | | | |
| Permanent | 53,816 | 65% | 62% | 38% |
| Fixed-term | 28,542 | 35% | 66% | 34% |
| **Full-time / Part-time**[8] | | | | |
| Full-time | 55,035 | 67% | 60% | 40% |
| Part-time | 27,323 | 33% | 68% | 32% |
| **Total** | **82,358** | | **63%** | **37%** |

8 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

| 2017 | | | | |
|---|---|---|---|---|
| | **Total** | **Total %** | **Women %** | **Men %** |
| **Employement contract** | | | | |
| Permanent | 54,382 | 64% | 61% | 39% |
| Fixed-term | 30,768 | 36% | 67% | 33% |
| **Full-time / Part-time** | | | | |
| Full-time | 56,622 | 66% | 62% | 38% |
| Part-time | 28,528 | 34% | 66% | 34% |
| **Totale** | **85,150** | | **63%** | **37%** |

### Diversity across the board

For a global group like Luxottica, diversity is not merely a concept to safeguard, but a distinguishing trait of the entire organization, that is extremely varied in terms of culture and identity and, as such, is able to meet the needs and expectations of equally diverse and global consumers. Within the company, everybody has the same employment and professional growth opportunities. No individual characteristic - whether it be gender, age, religion, origin, marital status, disability or sexual or political orientation - will ever be used to discriminate against somebody during their career within the company. Luxottica has a clear policy of paying employees equally for the same or equivalent work, regardless of their sex (or any other characteristic set out above). Professional roles and promotions are evaluated and assigned in order to guarantee a fair and meritocratic modus operandi.

Women represent 63% of the overall headcount and cover over 40% of the managerial roles in the world. Luxottica aims to foster their development with initiatives that promote their talent and leadership, as evidenced by the growing number of women in top positions within the Group, up 7% in 2018, proof that their career development process is faster than that of their male colleagues. In Italy, the solid and active participation of the female Italian managers in the training initiatives and seminars organized by Valore D in Milan is well established. In North America, Luxottica is a supporter of the Optical Women's Association (OWA), a non-profit organization that connects women from the optical industry across North America. The OWA provides networking, including events with outside speakers, monthly newsletters and member events at trade shows. Nearly 100 women across Luxottica are members of the OWA and several female leaders from the Company have been honored over the years for their support of the organization and their mentorship of other women.

**Group employees in 2018**

| Professional category | Total | Women % | Men % |
|---|---|---|---|
| Blue-collars | 55,237<br>(67% of total) | 67% | 33% |
| White-collars | 22,091<br>(27% of total) | 58% | 42% |
| Middle management | 4,073<br>(5% of total) | 47% | 53% |
| Senior management | 957<br>(1% of total) | 32% | 68% |
| **Total** | **82,358** | **63%** | **37%** |

## Commitment to employees

There is no sustainable development if the Group's growth is not accompanied by an improvement in the lives of employees and their families and the safeguarding of health and safety in the workplace.

### *The welfare system*

Since 2009, Luxottica has implemented an innovative 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 12,700 Italian employees and their families.

The main action areas are youth and education, income support, health and well-being, sustainable transport, personal and family services in this way favoring the work-life balance. Proof of this can be seen in the important results the program has achieved since its inception as regards:

- 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.

Over the years, Luxottica's welfare has proved to be 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 which supports the well-being of employees, that are even more motivated to do their best in terms of creativity, passion and team spirit.

**Luxottica's welfare system in Italy: main initiatives**

| Action area | Initiative |
|---|---|
| **Income support** | - The shopping cart, which provides a basket of foods worth Euro 120<br>- Solidarity micro-credit: a form of easy-term loans (up to Euro 5,000), guaranteed by the company, for employees who are experiencing financial difficulty<br>- Life bonus: a financial support of Euro 30,000 to the family in the case of death of an employee. In the case of families with underage children family members with a disability or a mortgage on the first home, even in the case of a joint name registration, the amount may be more than doubled |
| **Personal and family services** | - My welfare – flexible benefits schemes: the opportunity for employees to convert the annual performance-related bonus into a broad list of services and goods as allowed by the Italian legislation<br>- Corporate agreements<br>- Easy Do, the "company butler" available four days a week to employees in Milan for a range of services<br>- Newborn and family care services such as babysitting on demand<br>- Baby week: in addition to the five days of paid paternity leave on the birth of their child, employees are given an extra week of paid leave when their children go to nursery school the first time |
| **Sustainable transport** | - ZeroCar: a sustainable mobility initiative to encourage car sharing among employees, with dedicated parking space inside the Italian factory grounds<br>- Community transport and contribution to the annual subscription to local public transport<br>- Parking lots inside the Italian factory grounds |
| **Health and well-being** | - Corporate agreements providing access to over 1,800 sporting facilities in Italy<br>- Health insurance coverage for permanent employees and fixed-term employees with at least 150 days of length of services and their family members<br>- Free health check-up for employees over 40 in Milan and for employees over 50 in Luxottica's factories<br>- Listening and counseling: a telephone listening service and psychological support, completely free and confidential, available 24/7 |
| **Youth and education** | - Scholarships and full reimbursement of fees up to university graduation for the most deserving students (employees' children) and employees (working students)<br>- English Summer camps in well-known Italian tourist locations for employees' children and opportunity of stays abroad at Luxottica employees' families during the summer<br>- Summer internships within the Group for students (employees' children) who attend the third or fourth year of high school<br>- Reimbursement of middle, high-school and university text books<br>- Intensive preparation courses for university admission tests |

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.

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

### *Enhancing knowledge and expertise*

Luxottica believes that the ongoing training of its employees is critical, not only for developing individual skills, but for cultivating leaders who will contribute to the development and future growth of the Group. Each

new employee is recruited with their values, knowledge and know-how in mind, ensuring the long-term strength of every function at the company.

**Training programs**

The progressive centralization of training strategies and tools led to the creation of Luxottica University as a single incubator for all Luxottica's training initiatives online, in a classroom setting and in-store for retail associates (so-called "coaching on the job").

In 2018, approximately 700,000 hours of training[9] were provided around the world, of which more than 300,000 hours were online. Luxottica University expanded into a digital platform last year, progressively rolling-out to all Retail division's stores and associates in all geographies, as well as employees in the offices. The platform offers content in around 20 different languages and is accessible anytime, anywhere.

Luxottica University's training model takes advantage of the digital channel by providing knowledge, information and mandatory health & safety training anytime and anywhere. It also provides classroom settings and on-the-job training for specific retail competences, from selling techniques to soft skills on how to better serve the customer. Over 60% of the training hours have benefited store associates specifically.

Training activities on the Group's Code of Ethics, specific areas of compliance such as the prevention of corruption and the GDPR regulation, also accounted for a significant number of training hours.

**Learning & Development initiatives**

Luxottica invests in global and local training programs, so that both individuals and teams can realize their potential and contribute to achieving the company's goals. Topics range from company values to product knowledge to cross-functional skills. In the planning and promoting these courses, the company takes into account the needs of the organization, which are then transformed into learning needs and, in turn, take the form of training initiatives. Below is a summary of some of the most interesting training initiatives launched in 2018 around the world.

Luxottica @Firstsight

Luxottica @Firstsight, at its tenth edition in 2018, is the four-day program that offers all new hires (middle managers and above) the opportunity to get a strategic overview of the Group, directly experience Luxottica's culture and visit key locations in the history of the company. The 2018 attendees, including 38 colleagues from all over the world, met with senior leaders within the Group and experienced Luxottica Days in Cernobbio and toured the Lauriano factory.

Luxottica North America's field leader development program

Designed for employees that work for the Group's retail brands in the field, this program - launched in 2016 - prepares store managers to manage multiple stores within a larger area (Region) and Regional managers to oversee larger areas. Over a period of five months, the 25 participants in the 2018 attended classroom lessons and received mentorship to help them prepare for their next level of responsibility in the best possible way.

China Fresh talent program

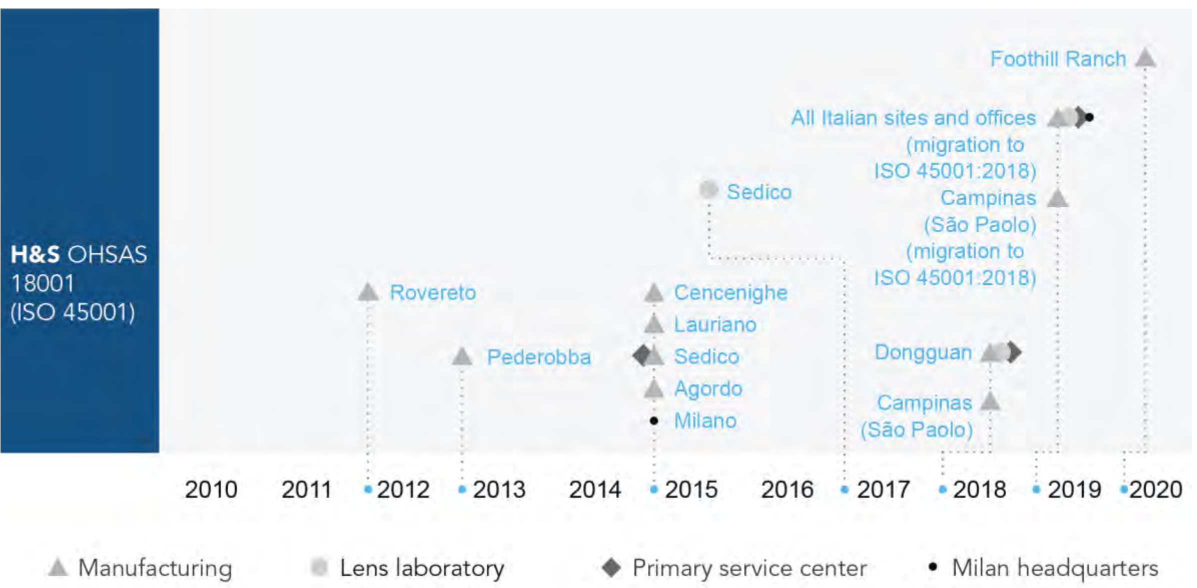
Launched in China in 2009, this 3-year program for young graduates that have recently joined the Company aims to create a professional development path consisting of training soft skills and capabilities, teamwork, tutoring and informal interactions. In 2018, 46 employees participated in the program.

[9] The training hours reporting scope covers around 95% of the workforce. In 2018, a structured process for reporting on training activities and initiatives was launched at all Luxottica sites. The necessary information was collected via the Luxottica University e-learning platform, and the specific data collection spreadsheets were shared with the local representatives of the Human Resources department.

### 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.

All Italian production sites, beginning with Rovereto in 2012, have obtained OHSAS 18001:2007 certification for their occupational health and safety management systems. The certification was extended to the sites in Campinas (Brazil) and Dongguan (China) in 2018, the latter in compliance with the ISO 45001:2018 standard.




### *The "Zero accidents programs" and the initiatives for the promotion of workplace safety*

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.

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. 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. Though the accident rate in the factories remained unchanged between 2016 and 2018, on a like-for-like scope, it was only in Italy, where this rate has been monitored for longer, that a 40% decrease was observed between 2010 and 2018. The fact that occupational health and safety risks have been contained is proven also by other indicators monitored by Luxottica, which are shown

in the table. In 2018, the accident rates worsened compared to the preceding years, mostly on account of accidental collisions and falls. The number of unsafe situation reports increased from 27,190 to 32,567 in 2018. They reached 33,759, including the reports received by the Foothill Ranch plant and the central laboratories for the production of ophthalmic lenses in the United States, in their first year of implementing the system for reporting unsafe situations, which had already been adopted at the Group's other production sites, except Atlanta where it will be unrolled in 2019.

The installation of the Safety Corners, i.e. designated locations for posting information on health and safety matters and for reporting unsafe or risky situations for workers, is envisaged in Atlanta and the other North America sites in 2019. Safety Corners were first introduced in several manufacturing plants in Italy in 2015. They were progressively extended to all Italian facilities and to the Chinese facilities in 2018. The initiative was an instant success, as highlighted by the exponential growth in reports as shown above, and is indicative of an increasingly proactive approach in safety management by employees.

| **KPIs[(a)]** | **2018** | **2017** | **2016** |
|---|---|---|---|
| Frequency rate[(b)] | | | |
| - like-for-like perimeter | 1.7 | 1.4 | 1.7 |
| - 2018 new perimeter[(a)] | 2.3 | | |
| Severity index[(c)] | | | |
| - like-for-like perimeter | 0.04 | 0.02 | 0.03 |
| - 2018 new perimeter[(a)] | 0.10 | | |
| Number of accidents | | | |
| - like-for-like perimeter | 79 | 66 | 80 |
| - 2018 new perimeter[(a)] | 119 | | |
| Number of first aid cases and close call accidents [(d)] | | | |
| - like-for-like perimeter | 450 | 367 | 421 |
| - 2018 new perimeter[(a)] | 884 | | |
| Number of reports of unsafe situations and SMAT audits [(e)] | | | |
| - like-for-like perimeter | 32,567 | 27,190 | 23,025 |
| - 2018 new perimeter[(a)] | 33,759 | | |

(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 analysis does not include the Bhiwadi site in India and the logistics hub of Jundiaì in Brazil as they are exclusively dedicated to their respective local markets, and Fukui Megane, the Japanese eyewear manufacturer of which Luxottica acquired a 67% stake in 2018. The figures on a like-for-like perimeter do not include the Atlanta logistics hub and the central lens laboratories in Atlanta, Columbus and Dallas, 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 new 2018 perimeter includes the Atlanta, Columbus and Dallas lens laboratories in the United States, which have adopted the same method of determining accidents and the relative processes already adopted in the Group's production units in Italy, China and Brazil. The data relative to the "number of reports of unsafe situations and SMAT audits" does not include the Atlanta site, 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.)

In addition to the days dedicated to safety and prevention training (the “Safety days”) within its facilities worldwide and the constant update of the section dedicated to health, safety and the environment on the OneLuxottica company intranet in Italy, China and Brazil, in 2018, on the occasion of the World Day for Safety and Health at Work (April 28), Luxottica launched the “I promise” campaign to raise awareness within its facilities around the world. Employees were invited to write their own promise, in terms of a good safety-related proposal, making a public commitment to uphold it. Over 3,700 promises were collected from employees at the facilities in Italy, China, the United States and Brazil. The most interesting and inspiring of these promises, regarding the conduct to follow to ensure one’s personal safety and that of others, at work as well as at home, were posted on bulletin boards in the relative facilities.

### *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 decided to adopt a safety management methodology at its Italian plants that consists of reducing or eliminating unsafe behavior and actions through the involvement of its employees 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).

Adoption of the BSS process is gradual: it was introduced in 2014 at the Cencenighe facility and subsequently extended to the other Italian facilities. Agordo’s turn came in 2018 and implementation of the new method is currently underway.

## 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 2,000 suppliers. Of these, suppliers of direct materials and finished products are an important link in the Group’s supply chain and represent around 50% of purchases. They are mostly located in Europe and China, areas where the Group produces over 80% of its eyewear collections. When selecting these suppliers, Luxottica indeed prioritizes developing linked industry in the areas in which it has manufacturing facilities, working with numerous local supplier companies.

**The supply chain by supplier type**

| | 2018 | 2017 |
|---|---|---|
| Raw materials and components (direct materials) | 36% | 37% |
| Finished products (e.g. Oakley’s Apparel, Footwear and Accessories - AFA) | 12% | 12% |
| Third parties’ brands sold in the Group retail network including contact lenses | 22% | 17% |
| Logistics | 12% | 12% |
| Other | 18% | 22% |

**Geographical distribution of suppliers of direct materials and finished products**

| | 2018 | 2017 |
|---|---|---|
| Europe | 48% | 45% |
| China | 40% | 39% |
| Asia-Pacific (excluding China) | 7% | 8% |
| United States | 4% | 5% |
| Latin America | 1% | 3% |

## Luxottica Responsible Sourcing and Manufacturing program

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[10] 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.

### *The auditing of suppliers*

Luxottica engages a qualified third party to monitor the suppliers' compliance with ethical principles and environmental and social responsibilities, as well as to implement corrective actions in the event of non-compliance with the Group Code of Ethics and/or local regulations.

In line with its commitment to sustainability, the Luxottica Responsible Sourcing and Manufacturing program focuses on the suppliers of direct materials and finished products and has progressively extended its geographic coverage to Europe, in addition to Asia-Pacific and Latin America.

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[10] The Group's "zero tolerance" criteria relate 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

The number of current and potential suppliers of direct materials for the eyewear business that were subject to audits increased from 28 in 2017 to 45 in 2018 as follows:

- 10 follow-up audits due to the unsatisfactory results of the audits of the previous year;
- 9 preventive audits, in order to establish a number of alternative suppliers in the event of particularly critical situations;
- 26 maintenance audits, in order to continue to be qualified as Group suppliers.

For ten suppliers, incidences of non-compliance with LRSM requirements were identified in terms of total number of working hours and of consecutive working days. For eight of these suppliers a follow-up audit has been deemed necessary (three performed at the end of 2018 and five planned in 2019). For two suppliers Luxottica decided to discontinue the relationship.

No cases of environmental non-compliance were identified.

**Number of suppliers audited for their social and environmental impacts**

| | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|
| Number of suppliers subject to auditing | 45 | 28 | 20 | 20 |
| Incidence versus total purchases for the eyewear business covered by the LRSM program | 55% | 39% | 22% | 21% |

The audit process on AFA suppliers, which was introduced in 2017, continued in 2018, as a result of the procurement centralization process following the integration of Oakley's activities in the Group. In 2018, 21 audits were carried out on production plants of suppliers located in Asia-Pacific, Latin America and Europe.

Finally, in 2018 Luxottica assessed the opportunity to extend the LRSM program to suppliers of indirect materials (materials used in the production process) and maintenance services inside the Operations. A pilot test was conducted in China in order to verify the immediate application of LRSM audit system to this type of suppliers.

### *Training of suppliers*

In 2018, Luxottica launched a training workshop on responsible sourcing for strategic suppliers. China was the first geographic area to be involved due to its high-risk profile and the amount of purchases made by the Group, which in China produces over 40% of its frames and sunglasses.

The workshop involved the Company's 50 strategic suppliers in China, for a total of 100 people in three days, and covered topics that are usually verified during the on-site audits: labor and human rights, business ethics, health and safety and the environment, in addition to LRMS principles and Luxottica's Code of Ethics. Luxottica used a third party to perform the training in the local language, assuring that all attendees could actively participate and understand the topics.

Other training initiatives for suppliers are planned for 2019.

-> For further information see the “Luxottica Responsible Sourcing & Manufacturing Principles” document available on the Group website www.luxottica.com

## 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.

Consistently with the approach of gradual inclusion typical of its non-financial reporting, during 2018 Luxottica has extended the scope of the environmental performance analysis to the central laboratories for the production of ophthalmic lenses in North America, Italy and China, including in this way almost all Operations[11] of the Group, and to the retail business[12]. The so resulting general view, consolidated at a Group level in 2018, is shown at the end of this chapter. In what follows, trends are preferably compared and assessed on the basis of homogeneous analysis. In order to allow a correct and consistent comparison with the previous years, the 2018 data are in fact presented in a distinct manner in relation to Operations and Retail. For the same reason, environmental performance results in Operations are presented in 2018 using the same scope of analysis used in the years 2016 and 2017, therefore excluding the central laboratories for the production of ophthalmic lenses.

### The environmental performance in the Operations

The first major projects, mainly aimed at reducing atmospheric emissions, were launched in the early 2000s while in 2010[13] 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. 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.

Continuing along the same path followed in 2017, the environmental investments made in 2018, equal to Euro 1.5 million, focused on technical improvement projects, aimed at further minimizing the environmental

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[11] The Bhiwadi site in India and the logistics hub of Jundiaì in Brazil were excluded also in 2018 as they are exclusively dedicated to their respective local markets and are therefore less relevant. Fukui Megane, the Japanese eyewear manufacturer of which Luxottica acquired a 67% stake in 2018, was also excluded.

[12] The data refer to 4,274 stores, equal to 60% of the stores directly operated by the Group as to December 31, 2018. For more information see "The environmental performance in the Retail division" section.

[13] Last updated in June 2017

impact of the existing manufacturing sites. These do not include investments in new technologies, machineries, materials and production processes, which already are inclusive of sustainability criteria.

| Main environmental investments | Geographical area | Environmental benefits |
|---|---|---|
| **Energy efficiency** | | |
| Optimized and centralized management of cooling and heating systems | Italy, China | Reduction of electricity consumption |
| Change to water heating systems in the galvanizing and degreasing tank lines in order to replace electrical resistance with water heat exchangers (Agordo) | Italy | Replacement of electricity with thermal energy from the biomass plant to heat the tanks on the galvanizing lines in Agordo |
| Installation of new compressed air plants and equipment | Italy, China | 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 and meters to control and limit water consumption | Italy, China | Reduction and optimization of water consumption |
| Installation of closed-circuit systems to minimize the water impact of galvanization and painting processes | Italy | Reduction of water consumption |
| **Waste** | | |
| Installation of the evaporator system | China | Reduction of waste disposed |
| Specific analysis aimed at improving identification and management of recoverable waste | Italy, China | Improved distinction of waste by type and consequent increase of recoverable waste |

In 2019, 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.

### Certifications, a key part of Luxottica's environmental policy

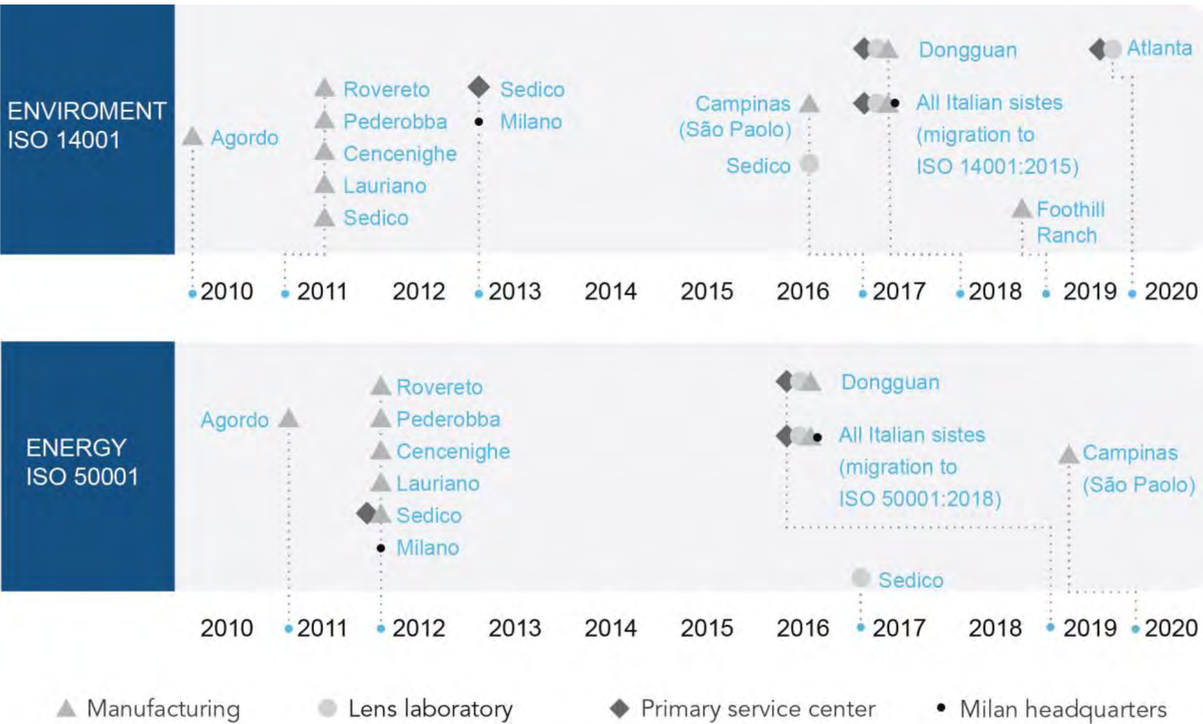
Luxottica's commitment to reducing energy and water consumption, waste and $CO_2$ emissions is coupled with the obtainment of the environmental management, energy, and health and safety system certifications that Luxottica has strived to adopt in all of its sites and offices across the world since 2011.

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.

Following a review of the standards, the Group immediately started the migration to the new ISO 14001:2015 and ISO 50001:2018 standards at all production sites and offices worldwide, so that they will all be certified

according to the same versions of the reference standards by the end of year 2019. The Italian sites and offices were the first to migrate from ISO 14001:2004 to the new ISO 14001:2015 standards.




The Group's sustainability-based approach is also evident in its request for LEED® certification, presented by the Group for the new logistics hubs of Sedico, Dongguan and Atlanta constructed between 2016 and 2017.

LEED® (Leadership in Energy and Environmental Design) is the most prominent energy and sustainability certification standard in the world relating to the sustainability of buildings from an environmental, social, economic and health perspective, whereby the fulfillment of more stringent criteria than those currently implemented by the national legislation is required. This rating system promotes a whole-building approach to sustainability by recognizing performance in key aspects such as energy and water savings, the reduction of $CO_2$ emissions, indoor environmental quality, materials and resources used, construction project and choice of site.

Dongguan and Sedico were first to receive it. The certification process is ongoing for Atlanta, where it is planned for 2019. The obtainment of this certificate attests therefore that the premises in which the new logistic hubs of the Group are situated have been designed and built respecting the surrounding ecosystem, starting with the selection of building materials. Also in this case, just like the other production and logistic sites of the Group, monitoring water and energy consumption, discharges, waste and the emission of green-house gases into the atmosphere follows Loxottica's standards, which are more stringent than those required under local regulations.

### The use of energy resources

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] | | | |
|---|---|---|---|
| | **2018** | **2017** | **2016** |
| **Total consumption (millions kWh) of which:** | **389.1** | **380.5** | **349.3** |
| - from non-renewable sources (millions kWh) | 383.7 | 375.3 | 346.5 |
| - from renewable sources (millions kWh) | 5.4 | 5.2 | 2.8 |
| **Energy intensity (kWh/frame)** | **4.61** | **4.45** | **3.98** |

(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 1,257 TJ in 2016, 1,370 TJ in 2017 and 1,401 TJ in 2018

Similarly to the trends recorded in previous years, also in 2018 the general increase in energy consumption in the Operations (+2.3% to 389.1 kWh at constant scope) is due to a series of factors, such as:

- the continuation of the strategy of internalizing some production processes in Italy, China and the United States, with a consequent increase in installed capacity and the amount of fixed energy consumption;
- increase of the installed power and therefore of the energy consumption in the new logistic hubs rolled out in Sedico, Atlanta and Dongguan during 2018;
- the continue increase in the product complexity and the different production mix between metal, injected plastic and acetate eyewear, where metal processing involves around 70 different phases and the use of more energy-intensive technologies compared to other production technologies.

In 2018 energy intensity increased by 3.6% from 2017. Excluding the impacts deriving from insourcing some production processes and from the increased logistic capacity, energy intensity improves to 4.43 kWh/frame from 4.45 kWh/frame in 2017.

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 | | | |
|---|---|---|---|
| | **2018** | **2017** | **2016** |
| **Total consumption (millions kWh) of which:** | **383.7** | **375.3** | **346.5** |
| - Electricity from the grid (millions kWh) | 275.6 | 265.4 | 242.0 |
| - Methane gas[a] (millions kWh) | 107.6 | 109.4 | 102.2 |
| - Diesel for heating[b] (millions kWh) | 0.5 | 0.5 | 2.3 |

(a) The conversion factor used to calculate methane gas energy consumption in Kilowatt hours is 1 $sm^3$ = 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 2018, 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 quadruple between 2015[14] and 2018 the quota of clean energy which, in the case of the photovoltaic power plant in Sedico and the biomass plant in Cencenighe, is self-generated.

| Consumption of renewable energy in Italy | | | |
|---|---|---|---|
| | **2018** | **2017** | **2016** |
| **Total consumption (millions kWh) of which:** | **5.4** | **5.2** | **2.8** |
| - from photovoltaic (millions kWh) | 0.2 | 0.2 | 0.2 |
| - from biomass (millions kWh) | 5.2 | 5.0 | 2.6 |
| **Incidence on total energy consumption (Italian manufacturing sites)** | **4.0%** | **3.8%** | **2.1%** |

In 2018 Luxottica activated a solar thermal plant for the production of hot water at the Chinese production site.

## 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 $CO_2$eq) 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"[15] 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[16]", also made available by GHG Protocol.

14 In 2015 the quota of renewable energy used in the Italian manufacturing sites was 0.9% on total energy consumption (source: 2017 Consolidated non-financial statement)

15 Version 4.1, World Resources Institute (WRI), 2015

16 Version 4.8, World Resources Institute (WRI), 2017

| Greenhouse gas emissions | | | |
|---|---|---|---|
| | **2018** | **2017** | **2016** |
| **Overall emissions ($tCO_2eq$) of which:** | **160,872** | **153,205** | **138,376** |
| - Scope 1[(a)] (% of total emissions) | 12.3% | 12.8% | 13.7% |
| - Scope 2 (% of total emissions) | 87.7% | 87.2% | 86.3% |
| **Intensity of emissions per frame ($KgCO_2eq$/frame)** | **1.90** | **1.79** | **1.58** |

(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.

$CO_2eq$ emissions deriving solely from the Group's manufacturing activities and logistics hubs (Scope 1 and Scope 2) came to 160,872 tons in 2018, an increase of around 5% compared with 2017 due to the same factors that led to the increase in energy consumption previously discussed. However, the breakdown shows improved trends in terms of direct emissions (Scope 1), which dropped by more than one percentage point between 2016 and 2018, and by half a percentage point from 2017 to 2018, thus further confirming the efficacy of the actions taken to support better energy consumption management at the plants. The greater quantities of indirect emissions (Scope 2) are instead due to increased energy consumption deriving from the internalization of production processes and the increased logistic capacity above-described. Therefore, excluding these last impacts, the overall emissions per frame have dropped to 1.73 $kgCO_2eq$/pz (-3% from 2017).

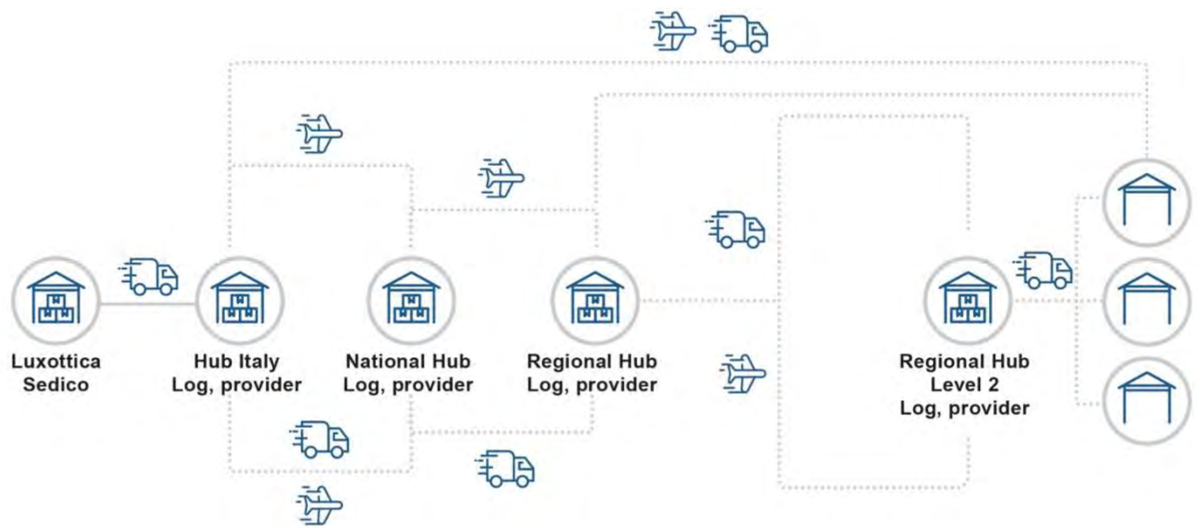
### *Carbon Footprint measurement across distribution*

The entire distribution chain is managed and controlled through a system of indicators that measure the service level on a global scale. Among the initiatives to improve the sustainability of logistics, in 2017 Luxottica launched a project to measure $CO_2$ emissions deriving from the transport of its products to monitor their environmental impact.

The first phase of the project, carried out in 2017 and updated in 2018, quantified the emissions deriving from the transport of finished products (eyewear) among the primary distribution centers of Sedico, Atlanta, Dongguan and Jundiaì (mapping the replenishment flows), thus considering both air transport and road transport between the distribution center and the airport. In 2018, the analysis showed an increase in $CO_2$ emissions deriving from the replenishment flows of 8.3% from 2017, to 76,591 tons of $CO_2eq$ (70,715 tons of $CO_2eq$ in 2017), which reflects the increase in the volumes of eyewear shipped.

| Route | Transported volumes (% on the total) | | Total distance traveled (km) | | Distance traveled (% on the total) | | Overall emissions ($tCO_2e$) | | Overall emissions[17] (% on the total) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 |
| China – Italy | 30% | 26% | 16,805,495 | 19,819,963 | 15% | 18% | 21,374 | 18,298 | 30% | 24% |
| China – US | 23% | 22% | 49,780,716 | 35,658,940 | 45% | 31% | 18,698 | 17,515 | 26% | 23% |
| Italy – US | 23% | 23% | 9,294,463 | 12,981,537 | 9% | 12% | 12,377 | 17,310 | 18% | 23% |
| Italy – China | 8% | 8% | 7,552,263 | 9,419,386 | 7% | 8% | 5,419 | 5,727 | 8% | 7% |
| US – Italy | 8% | 6% | 2,820,080 | 7,154,476 | 3% | 6% | 2,811 | 3,895 | 4% | 5% |
| Italy – Brazil | 3% | 3% | 11,378,511 | 9,603,234 | 10% | 8% | 2,159 | 1,919 | 3% | 2% |
| Other lanes | 5% | 12% | 12,564,933 | 18,819,765 | 11% | 17% | 7,878 | 11,927 | 11% | 16% |
| **Total** | **100%** | **100%** | **110,196,461** | **113,457,301** | **100%** | **100%** | **70,716** | **76,591** | **100%** | **100%** |

As part of the progressive broadening of the analysis scope, the second phase of the project to quantify $CO_2$ emissions deriving from the transport of finished products (eyewear) considers all the distribution channels used to reach the end consumers (wholesale, retail, e-commerce). For these shipping and transport services the Group involves suppliers that deal with national transport (typically by land) and international transport (typically by air) depending on the geographic location of the recipient.




As a consequence, the scope of the analysis covers the entire flow, from the distribution hub of origin to the customer's destination, including the emissions generated by all the means of transport used along route. The first map of these shipments was launched in 2018, starting from the Sedico hub, as this is the main

[17] They are "tank-to-wheel" emissions, i.e. emissions generated by using the vehicle

logistics center of Luxottica's distribution chain in terms of overall volume of shipped finished products. In addition to the direct replenishment flows to the other distribution hubs of the Group in the world, eyewear shipments leave Sedico every day to reach customers in Europe, the Middle East, Africa, Mexico and Turkey, as well as some select destinations in the US and in the rest of the world. Furthermore, the Sedico hub manages customized services, such as Ray-Ban Remix, ensuring direct shipment throughout the world. By analyzing these shipments, Luxottica was able to estimate the consumption of energy and the related $CO_2$ emissions, quantified at about 14,770 tons of $CO_2$eq along more than 6 billion kilometers traveled.

| Country of destination | Transported volumes (% on the 2018 total) | Total distance traveled (km) | Distance traveled (% on the 2018 total) | Overall emissions ($tCO_2e$) | Overall emissions[18] (% on the 2018 total) |
|---|---|---|---|---|---|
| Italy | 16% | 408,343,365 | 6% | 282 | 2% |
| France | 13% | 928,940,757 | 15% | 179 | 1% |
| Germany | 7% | 322,432,588 | 5% | 109 | 1% |
| United States | 8% | 1,962,486,169 | 31% | 4,694 | 32% |
| Great Britain | 7% | 454,468,415 | 7% | 397 | 3% |
| Spain | 7% | 701,896,110 | 11% | 194 | 1% |
| Other countries | 42% | 1,608,418,562 | 25% | 8,914 | 60% |
| **Total** | **100%** | **6,386,985,966** | **100%** | **14,770** | **100%** |

The scope of the mapping and analysis is currently being extended to calculate the emissions deriving from the shipments and transportation from the other distribution hubs of the Group to the end customers.

### Consumption and responsible management of water resources

Over the years Luxottica has invested in the management and optimization of the use of water resources, starting from the monitoring, on a monthly basis, of the consumption of well and network water, thanks to the presence of meters installed in all production sites and logistics hubs.

| Water consumption | | | |
|---|---|---|---|
| | **2018** | **2017** | **2016** |
| **Total water consumption (millions of $m^3$) of which:** | **2.86** | **3.07** | **3.22** |
| - Network water (% of total) | 58.8% | 58.3% | 54.2% |
| - Well water (% of total) | 41.2% | 41.7% | 45.8% |
| **Water intensity (liters of water/frame)** | **33.87** | **35.89** | **36.63** |

17 They are "tank-to-wheel" emissions, i.e. emissions generated by using the vehicle

The consumption of water in the Operations has further fallen during 2018, from 3.07 million $m^3$ in 2017 to 2.86 million $m^3$, showing a reduction of over 11% from 3.22 million $m^3$ in 2016 and also additional reduction of discharge water. This result is particularly important as it epitomizes the benefits deriving from the continuous improvement of the consumption monitoring process and of the activities implemented in the previous years to promote the correct use of water in the manufacturing sites and logistics hub, such as:

- the introduction of the new eco-sustainable galvanization technique in Luxottica’s manufacturing sites in Dongguan (2014) and Agordo (2016), researched and adapted by Luxottica for the specifics of eyewear production. It 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;
- installation, started in Italy at the end of 2018, 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;
- installation and continuous improvement of the consumption measurement system and valves to optimize consumption based on processes.

In 2019 Luxottica will further pursue water consumption optimization and improvement actions, and the roll-out of closed-circuit water systems inside the other Group sites dedicated to the processing of metal in Italy.

## Waste treatment

In line with the Group’s policy concerning the overall reduction of the environmental impact along the value chain, in 2016 and 2017 a waste water treatment system was installed at the Agordo site in order to reduce the quantity of waste produced, which led to a reduction in the total quantity of waste produced in 2017.

| **Waste by type and disposal method (a) (b) (c)** | | | |
|---|---|---|---|
| | **2018** | **2017** | **2016** |
| **Total waste (tons) of which:** | **38,266** | **33,637** | **35,544** |
| **Non-hazardous waste** | **17,694** | **13,160** | **14,171** |
| - Waste disposed (% on total) | 52.1% | 47.4% | 54.4% |
| - Waste recovered/recycled (% on total) | 47.9% | 52.6% | 45.6% |
| **Hazardous waste** | **20,572** | **20,477** | **21,373** |
| - Waste disposed (% on total) | 96.7% | 98.5% | 98.3% |
| - Waste recovered/recycled (% on total) | 3.3% | 1.5% | 1.7% |
| **Total waste recovered (tons)** | **9,159** | **7,243** | **6,816** |

(a) The representation of the waste generated by the Group's activities has been updated during 2018 to ensure the full compliance with the requirements of the GRI Standards (GRI 306-2). Waste also referred to the years 2017 and 2016 have been reclassified to show the disposal method of hazardous waste and non-hazardous waste.

(b) In 2016 and 2017 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. From the end of 2017, Luxottica has chosen to apply methods of punctual collection and weighing even where local legislation does not require to monitor and declare the weight of non-hazardous waste.

(c) With reference to the Atlanta Service Center, as the information is not available for the years 2016 and 2017, but only for the year 2018, it was decided not to include the data in the table, thus ensuring the right temporal comparison. The information on the waste generated in 2018 by the activities of the hub in Atlanta is contained instead in the table on 2018 consolidated environmental data, at the end of the chapter. The waste generated by the logistics hub and the laboratory for the production of ophthalmic lenses in Atlanta are not objectively divisible and since the waste is mainly produced by the laboratory, they are imputed in their entirety to the latter.

In 2018 Luxottica applied the same methods of punctual collection and weighing even where local legislation does not require to monitor and declare the weight of non-hazardous waste, starting from the Dongguan site.

This decision is part of the implementation of the environmental management system required to receive the ISO 14001 certification for the sites in Dongguan, Foothill Ranch and Atlanta.

The application of this new methodology, instead of the estimate made in relation to the previous years 2016 and 2017, allowed to:

- measure with greater precision the quantity of waste generated in the course of 2018 and to correctly define the quantity of hazardous waste and non-hazardous waste according to the classifications indicated in the laws of the countries in which the Group operates. Hazardous waste represents around 54% of the total in 2018 compared to 61% in 2017;
- identify a higher number of waste types, which may have a different destination other than disposal. The quantity of waste recovered or recycled rose by approximately 2,000 tons (+26% from 2017) and represents 23.9% of the total waste generated by the Group's activities.

The increase in the total amount of waste generated by the Group's activities (+13.8% from 2017) is mainly due to the higher quantity of non-hazardous waste that have been identified in Luxottica's facilities in Dongguan as an effect of the new method applied in 2018.

The waste per frame generated by Luxottica's manufacturing and logistics sites in Italy improved by 2%.

No significant accidental leaks took place in the Group's facilities in 2018.

### The environmental performance in the Retail division

In 2018 Luxottica expanded the scope of its environmental impact analysis to the Retail division with the objective of presenting it in this Statement.

The introduction of additional formats (free standing stores, shop-in-shops, kiosks and outlets), 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.

An accurate analysis has been carried out therefore to verify the availability and traceability of information in order to identify a set of considerable and meaningful data relating to this business. The 1,836 points of sale in franchising (equal to 20% of Luxottica's retail network) and the stores whose data are difficult to retrieve mainly because they are placed inside larger shopping hubs (e.g., temporary stores, shop-in-shops and kiosks, stores inside department stores and travel retail locations) have been excluded from the existing 9,126 stores as to 31 December 2018.

This report considers the 4,274 stores, equal to 60% of those directly operated by the Group, whose energy consumption (electricity and heating consumptions), direct and indirect greenhouse gas emissions (Scope 1 and Scope 2) and water consumption have been analyzed.

Information on waste generation were not available.

The information as to December 31, 2018 for each environmental dimension analyzed is given below.

| Total energy consumption | |
|---|---|
| | **2018** |
| **Total consumption (millions kWh) of which:** | **213.8** |
| - Electricity from the grid[a] (millions kWh) | 187.4 |
| - Methane gas[b] (millions kWh) | 26.4 |

(a) The electricity data for the retail network are based on consumption data in 65% of cases and on extrapolations or estimates in the remaining 35% of cases. Estimates are based on the segmentation of the main characteristics of the store, including the presence of internal laboratories, location, type of store and square footage.

(b) The methane gas data for heating are based on consumption data in 78% of cases and extrapolations or estimates in the remaining 18% of cases. Estimates are based on square footage and geographic area. 4% of stores are not included in the calculation due to the absence of stores within the same geographical area to be used as a basis for estimating consumption. The conversion factor used for the calculation of methane gas energy consumption in Kilowatt hours is 1 $sm^3$ = 10.944 kWh (source: Stogit converter)

| Greenhouse gas emissions | |
|---|---|
| | **2018** |
| **Overall emissions ($tCO_2eq$) of which:** | **94,035** |
| - Scope 1 (% of total emissions)[a] | 4.8% |
| - Scope 2 (% of total emissions)[b] | 95.2% |

(a) The source of the emission factors and for the global warming potential (GWP) is the “GHG Protocol's tool for stationary combustion” (Version 4.1, World Resources Institute (WRI), 2015), made available by the GHG Protocol. With regard to emissions from refrigerant gases (F-Gas), the source of global warming potential (GWP) is the "GHG Protocol - Global Warming Potential Values" (Fifth Assessment Report (AR5)).

(b) The source of the emission factors and for the global warming potential (GWP) is the “GHG Protocol tool from purchased electricity” (Version 4.8, World Resources Institute (WRI), 2017), made available by the GHG Protocol.

| Water consumption | |
|---|---|
| | **2018** |
| **Total water consumption (millions of $m^3$)[a]** | **0.12** |

(a) Water consumption is based only on the punctual consumption data measured in 11% of the stores included in the sample. Against a not particularly high percentage, it is necessary to consider the absence of restrooms in about 1,800 stores.

## Luxottica’s environmental performance in 2018

In order to provide a complete and consistent overview of the environmental impact generated by Luxottica in 2018, the aggregated data on a consolidated basis for each environmental dimension are given below.

This information includes therefore the data resulting from the inclusion of the central laboratories for the production of ophthalmic lenses, thus including almost all the Operations[19] of the Group, and the data resulting from the enlargement of the reporting scope to the Retail division.

[19] The Bhiwadi site in India and the logistics hub of Jundiaì in Brazil were excluded also in 2018 as they are exclusively dedicated to their respective local markets and are therefore less relevant. Fukui Megane, the Japanese eyewear manufacturer of which Luxottica acquired a 67% stake in 2018, was also excluded.

| Total energy consumption (Operations and Retail) | |
|---|---|
| | **2018** |
| **Total consumption (millions kWh) of which:** | **643.7** |
| - from non-renewable sources (millions kWh) | 638.3 |
| - from renewable sources (millions kWh) | 5.4 |

| Total energy consumption from non-renewable sources (Operations and Retail) | |
|---|---|
| | **2018** |
| **Total consumption (millions kWh) of which:** | **638.3** |
| - Electricity from the grid (millions kWh) | 501.4 |
| - Methane gas (millions kWh) | 136.4 |
| - Diesel for heating (millions kWh) | 0.5 |

| Greenhouse gas emissions (Operations and Retail) | |
|---|---|
| | **2018** |
| **Overall emissions ($tCO_2eq$) of which:** | **279,324** |
| - Scope 1 (% of total emissions) | 8.9% |
| - Scope 2 (% of total emissions) | 91.1% |

| Water consumption (Operations and Retail) | |
|---|---|
| | **2018** |
| **Total water consumption (millions of $m^3$)** | **3.1** |

| Waste by type and disposal method (Operations) | |
|---|---|
| | **2018** |
| **Total waste (tons) of which:** | **50,060** |
| **Non-hazardous waste** | **29,247** |
| - Waste disposed (% on total) | 68.2% |
| - Waste recovered/recycled (% on total) | 31.8% |
| **Hazardous waste** | **20,813** |
| - Waste disposed (% on total) | 96.8% |
| - Waste recovered/recycled (% on total) | 3.2% |

| Correspondence table with Italian Legislative Decree 254/2016 and GRI Standards | | | | | | |
|---|---|---|---|---|---|---|
| **Italian Legislative Decree 254/2016** | **Material topics** | **Reference to the non-financial statement or other document** | **GRI Standard and disclosure** | **Notes on methodology** | **Reporting years** | **Omissions / Notes on scope** |
| **Art. 3 c.1 letter a**<br>A brief description of the business model | | Refer to “Luxottica Group at a glance” inside the Management report | | | | |
| **Art. 3 c.1 letter b**<br>A description of the policies pursued by the Company, the outcomes of those policies and related non-financial key performance indicators<br>**Art. 3 c.1 letter c**<br>The principal risks<br>**Art. 3 c.1**<br>Anti-corruption and bribery matters<br>**Art. 3 c.2 letter f**<br>Information relating to:<br>- fight against corruption | Corporate Governance<br>Risk management<br>Business ethics<br>Compliance & anti-corruption | **Commitment to excellence** | GRI 103 (2016) "Management approach disclosure" for GRI 205 (2016) "Anti-corruption"<br>102-15 "Key impacts, risks, and opportunities<br>102-16 "Values, principles, standards, and norms of behavior" | | | |
| **Art. 3 c.1 letter b**<br>A description of the policies pursued by the Company, the outcomes of those policies and related non-financial key performance indicators<br>**Art. 3 c.1 letter c**<br>The principal risks<br>**Art. 3 c.1**<br>Social matters<br>**Art. 3 c.2 letter d**<br>Information relating to social matters | Eyecare & visual well-being<br>Product quality & safety<br>Consumer satisfaction<br>Innovation and R&D<br>Protection of intellectual property<br>Responsible marketing | **Visual well-being**<br>**Commitment to excellence** | | | | Luxottica reported qualitative information and specific measures, such as the percent of returns, the number of patents filed, the controls on products sold in different countries, the number of counterfeit glasses that have been seized thanks to Group's contribution and the efforts in monitoring the traffic of counterfeit goods via the internet.<br>The topics relating to responsible marketing are addressed under the “Eyecare” and “A culture of quality: at the service of customers, emplyees and the community” sections. |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Art. 3 c.1 letter b**<br>A description of the policies pursued by the Company, the outcomes of those policies and related non-financial key performance indicators<br>**Art. 3 c.1 letter c**<br>The principal risks<br>**Art. 3 c.1**<br>Social matters<br>**Art. 3 c.1**<br>Employee matters<br>**Art. 3 c.1**<br>Respect for human rights matters<br>**Art. 3 c.2 letters c, d, e**<br>Information relating to:<br>- impacts on health and safety<br>- social and employee-related matters, including the actions taken to ensure gender equality<br>- respect of human rights | Responsible sourcing<br>Employees well-being<br>Talent management<br>Diversity and inclusion<br>Employee health and safety<br>Relationship with the communities | **Social impact**<br>**Commitment to excellence** | 102-8 "Information on employees and other workers" | In 2018, Luxottica analyzed the breakdown of the employees by type of contract (permanent and fixed-term) by geographical area, as follows:<br>- Employees with permanent contracts (53,816), of which: North America 23,990; Asia-Pacific 8,541; Europe 14,675; Latin America 5,970; Africa and Middle East 640<br>- Employees with fixed-term contract (28,542), of which: North America 13,835; Asia-Pacific 11,472; Europe 2,779; Latin America 353; Africa and Middle East 103 | 2017, 2018 | |
| | | | GRI 103 (2016) "Management approach disclosure" for GRI 201 (2016) "Economic performance" | | | |
| | | | 201-1 "Direct economic value generated and distributed" | | 2017<br>2018 | |
| | | | 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. | 2016<br>2017<br>2018 | The analysis does not include the Bhiwadi site in India and the logistics hub of Jundiaì in Brazil as they are exclusively dedicated to their respective local markets, and Fukui Megane, the Japanese eyewear manufacturer of which Luxottica acquired a 67% stake in 2018. The figures on a like-for-like perimeter do not include the Atlanta logistics hub and the central lens laboratories in Atlanta, Columbus and Dallas, 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 new 2018 perimeter includes the Atlanta, Columbus and Dallas lens laboratories in the United States, which have adopted |

| | | | | |
|---|---|---|---|---|
| | | | | the same method of determining accidents and the relative processes already adopted in the Group's production units in Italy, China and Brazil. The data relative to the "number of reports of unsafe situations and SMAT audits" does not include the Atlanta site, 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 404 (2016) "Training and Education" | | | |
| | 404-1 "Average hours of training per year per employee" | | 2018 | The training hours reporting scope covers around 95% of the workforce. In 2018, a structured process for reporting on training activities and initiatives was launched at all Luxottica sites. The data collected through this process allowed to quantify the total hours and average hours of training per employee, but not by gender or professional category. |
| | GRI 103 (2016) "Management approach disclosure" for GRI 405 (2016) "Diversity and equal opportunity" | | | |
| | 405-1 b. "Diversity of employees: percentage of employees per employee category by gender and age group" | | 2017<br>2018 | |
| | GRI 103 (2016) "Management approach disclosure" for GRI 308 (2016) "Supplier environmental assessment" | | | |
| | 308-2 "Negative environmental impacts in the supply chain and actions taken" | | 2015<br>2016<br>2017<br>2018 | 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" | | | |
| | | | 414-2 "Negative social impacts in the supply chain and actions taken" | | 2015<br>2016<br>2017<br>2018 | 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. |
| **Art. 3 c.1 letter b**<br>A description of the policies pursued by the Company, the outcomes of those policies and related non-financial key performance indicators<br>**Art. 3 c.1 letter c**<br>The principal risks<br>**Art. 3 c.1**<br>Environmental matters<br>**Art. 3 c.2 letters a, b, c**<br>Information relating to:<br>- the use of renewable and/or non-renewable energy<br>- greenhouse gas emissions and air pollution<br>- the impact on the environment | Energy efficiency<br>Climate change<br>Water consumption<br>Packaging and waste management | **Protecting the environment**<br>**Commitment to excellence** | GRI 103 (2016) "Management approach disclosure" for GRI 302 (2016) "Energy" | | | Consistently with the approach of gradual inclusion typical of its non-financial reporting, during 2018 Luxottica has extended the scope of the environmental performance analysis to the central laboratories for the production of ophthalmic lenses in North America, Italy and China, including in this way almost all Operations of the Group, and to the retail business.<br>The Bhiwadi site in India and the logistics hub of Jundiaì in Brazil were excluded also in 2018 as they are exclusively dedicated to their respective local markets and are therefore less relevant. Fukui Megane, the Japanese eyewear manufacturer of which Luxottica acquired a 67% stake in 2018, was also excluded.<br>With regard to the Retail division, this report considers the 4,274 stores, equal to 60% of the those directly operated by the Group, whose energy consumption (electricity and heating consumptions), direct and indirect greenhouse gas emissions (Scope 1 and 2) and water |
| | | | 302-1 "Energy consumption within the organization" | | 2016<br>2017<br>2018 | |
| | | | GRI 103 (2016) "Management approach disclosure" for GRI 303 (2016) "Water" | | | |
| | | | 303-1 "Water withdrawal by source" | | 2016<br>2017<br>2018 | |
| | | | GRI 103 (2016) "Management approach disclosure" for GRI 305 (2016) "Emissions" | | | |
| | | | 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) | 2016<br>2017<br>2018 | |

| | | | | |
|---|---|---|---|---|
| | | 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. | | consumption have been analyzed.<br>The selection of stores analyzed was due to the variety of characteristics of the stores, such as:<br>• different formats (free standing stores, shop-in-shops, kiosks and outlets);<br>• stores in different types of channels (department stores, shopping malls and travel retail locations);<br>• full service rental contracts which do not provide the level of expense data that is required to summarize energy consumption and other related information.<br>No information is available on the waste generated by the activities of the Retail division.<br><br>Packaging relates to manufacturing and logistics activities and is classified as non-hazardous waste as reported in the “Waste management” section. |
| | 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. | 2016<br>2017<br>2018 | |
| | GRI 103 (2016) "Management approach disclosure" for GRI 306 "Effluents and waste" | | | |
| | 306-2 "Waste by type and disposal method | | 2016<br>2017<br>2018 | |
| **Art. 3 c.3**<br>Information are compared with those disclosed in the previous fiscal years | | | | |
| **Art. 10 c.1 letter a**<br>Diversity policy applied in relation to the Company's Board of Directors | 405-1 a. “Diversity of governance bodies” | | | On January 30, 2019 the Board of Directors of Luxottica Group S.p.A. met before the company delisting from Borsa Italiana’s MTA (Mercato Telematico Azionario) on March 5, 2019. As a matter |

of interest, 33% of the Board members are women (4 out of 12), 25% of the members are aged between 30 and 50 years old and the remaining 75% aged over 50 years old.

## CORPORATE GOVERNANCE AND SHAREHOLDING STRUCTURE

Please note that, after the Luxottica Group's shares were delisted from the Mercato Telematico Azionario (MTA) effective March 5, 2019 ("Delisting"), Luxottica Group S.p.A. is no longer listed on the MTA organized and operated by Borsa Italiana. Therefore, this annual financial report does not include the report on corporate governance and shareholding structure as per Art. 123-bis of Italian Legislative Decree no. 58 of February 24, 1998 (the Italian Financial Act).

Following the Delisting, Luxottica Group S.p.A. remains a Public-Interest Entity, therefore the paragraphs 9 and 10 below include the applicable information required by Art. 123-bis paragraph 2, letter b), of the Italian Financial Act on the key characteristics of the existing risk management and internal control system in relation to the financial reporting process—including at the consolidated level.

## 9. INTERNAL CONTROL SYSTEM

Information on the internal control and risk management system of the Group is provided below.

### 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 socio-economic 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 practices 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).

### Law no. 262/2005

Adjustment to the provisions of the Sarbanes Oxley Act (hereinafter "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, which the Group complied with in 2018.

## Main features of the internal control and risk management system in relation to the financial reporting system

### 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*).

The COSO Report introduced the 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:

- for the most important companies of the Group (so-called *Material Control Units*), and for the smaller companies, which were however still significant, especially when considered as an aggregate (so-called *Material When Aggregated*), controls were designed and their effectiveness was assessed both at general/cross level (through a *self-assessment questionnaire* on *entity level controls*) and at the level of each operational/administrative process (through special control matrices);
- all the companies of the Group were also obliged to fill out a Director's Attestation on the preparation of the reporting package in line with international accounting principles and the guidelines of the Group.

***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.

***Risk Management***

In 2010 a Risk & Compliance department was set up for the Group, and with regard to corporate risk management, an Enterprise Risk Management process was implemented based on the following features and in line with the models and best practices recognized internationally:

- the definition of a Risk Model for the Group, which classifies in 3 categories (strategic, external and operational) the risk factors, that may compromise the attainment of corporate objectives and/or affect the value of the tangible or intangible assets of the Group;
- the development of a risk assessment and risk analysis methodology to measure exposures in terms of impact and probability of occurrence;
- 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 2018, the risk assessment process to identify the priority risk areas for the Group continued. Ninety risk assessment interviews were held with the key managers responsible for the different corporate areas in the main geographical areas of the Group, including all the C-Levels at corporate level (42 people in EMEA, 23 in North America, 10 in LATAM, 11 in China and 4 in Australia).

With reference to operating risk already identified in previous years, 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. With reference to insurance, the development of international and local insurance programs continued (e.g. catastrophic damage, D&O, Liability, etc.).

The Control and Risk Committee is regularly updated, and through it the Board of Directors, on developments in 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 the most relevant areas for the Group and gaining an understanding of the level of maturity and protection of processes was set up. Based on this program, specific Compliance Programs focused on Privacy, Anti-corruption and Anti-Money-Laundering, Antitrust, Responsible Sourcing and Manufacturing, and Conflict Minerals have been defined and developed over the years, also in collaboration with other company departments.

In 2018 special attention was focused on: (i) the continuous improvement of the processes necessary to guarantee compliance with privacy issues, also in light of the new European Regulation on Data Protection; and (ii) the adjustment of the Anti-corruption program to the requirements of French law.

***Information Security***

In order to guarantee the adequate monitoring of the risk related to the availability, confidentiality and integrity of data, in 2018 the Information Security department reinforced its role as supervisor and monitor of the information systems of the Group. In particular, the Security Operation Center was set up, all the relevant Group policies were issued and numerous activities aimed at guaranteeing compliance with the GDPR and the rules of the Segregation of Duties were launched.

***Market Compliance***

In 2018, the reinforcement of activities against the violation of our intellectual property rights, as well as those aimed at guaranteeing compliance with the distribution agreements of our main trademarks, continued.

***Asset Protection***

During the year the ordinary activities of preventing and fighting all acts that could potentially be damaging to people within the company and company assets, including acts of infidelity, fraud, etc., continued in all areas of the company (head offices, wholesale and retail).

### *(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 risks.

In order to deal with the developments in operating conditions and the legal framework, the Company implemented a set policies that define the rules and principles to (i) identify; (ii) monitor; and (iii) analyze financial risks.

#### *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 risks with 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.

These guidelines include:

- the obligation to operate with qualified banking counterparties through standard agreements (ISDA Master Agreement);
- a limit on exposure per individual counterparty and the limited total exposure of the Group;
- 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*

In 2017 Luxottica 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, in 2018 specific training activities were set up for all the employees potentially involved in the activities envisaged in the Policy.

The Policy was lastly updated in October 2018.

#### *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 last updated in February 2015.

This policy defines the rules and responsibilities for the management and control of credit in order to prevent financial risks, optimize credit controls, monitor developments and reduce losses on credit exposure. In particular, this policy sets the guidelines for the following activities:

- assignment, control and authorization of credit lines;
- monitoring of credit trends;
- soliciting unpaid/expired credits;
- management and monitoring of legal action undertaken;
- 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 Italian Law no.262/2005 on the Protection of Savings and Corporate Governance, which the Group complied with in 2018. The main components of the ICFR System are:

- 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, to the Deputy Chairman - Chief Executive Officer ("CEO"), 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.
- 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 the requirements of 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:

- by line management, supervising the significant processes; and
- 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. In fact, 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 Company By-laws, the Company is managed by no less than five and no more than fifteen directors, appointed by the Meeting of Stockholders, after the exact number of members has been

determined. The Board of Directors in office was appointed by the Meeting of Stockholders of April 19, 2018, and will remain in office until the approval of the financial statements for the fiscal year closing on December 31, 2018.

The Board of Directors is made up of twelve Directors:

- Leonardo Del Vecchio (Executive Chairman)
- Luigi Francavilla (Deputy Chairman)
- Francesco Milleri (Deputy Chairman – Chief Executive Officer)
- Stefano Grassi (Executive Director)
- Marco Giorgino (Independent Director)
- Elisabetta Magistretti (Independent Director)
- Maria Pierdicchi (Independent Director)
- Sabrina Pucci (Independent Director)
- Karl Heinz Salzburger (Independent Director)
- Luciano Santel (Independent Director)
- Cristina Scocchia (Independent Director)
- Andrea Zappia (Independent Director)

The Board of Directors annually assesses the adequacy of the internal control and risk management system.

The Board of Directors evaluates general performance, taking in to consideration, in particular, the information provided by the executive bodies and the Internal Control and Risk Committee, each to the extent of their responsibilities, regularly comparing the results with provisional data.

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 Compliance & Asset Protection* 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 Group Risk Management & Compliance function 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, including the assessment and stipulation of suitable insurance cover;
(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 on January 1, 2014, with the union of the Risk Management, Compliance, Asset Protection, Information Security and Market Compliance departments. 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 level.

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. 231/2001
- 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 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, 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.

## Control and Risk Committee

On April 19, 2018, the Board of Directors confirmed the Control and Risk Committee previously in office, composed of Ms. Elisabetta Magistretti, Chairwoman, Mr. Luciano Santel and Ms. Cristina Scocchia, all non-executive and independent directors, with experience in the accounting, finance or risk management required by the Code of Conduct for Listed Companies.

According to the provisions of its regulations, last updated in January 2018, the Committee is responsible for performing investigations, offering consultations and submitting proposals to the Board of Directors. The Committee carried out the following activities in particular:

- assisted the Board of Directors in the execution of its tasks regarding internal controls;
- together with the manager appointed to prepare the accounting and company records, and having obtained the opinion of the independent auditor and of the Board of Statutory Auditors, evaluated the application of accounting principles and their consistency of application for the purposes of preparation of the Group's consolidated financial statements;;
- reviewed the regular reports on the evaluation of the ICFR System and any particularly significant reports prepared by the Internal Audit department; furthermore, the Committee received updates from the Board of Statutory Auditors on any auditing activities in progress;
- expressed opinions on specific aspects concerning the identification of corporate risks as well as the planning, implementation and management of the ICFR System.
- reviewed 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 and to its interaction with all stakeholders.

According to the provisions of its regulations, the Committee meets whenever the Chairman considers it appropriate or whenever a meeting is requested to be called by him or by another member, usually prior to the Board meetings for the approval of the annual, six-month report and quarterly financial update.

When the Committee considered 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 2018 fiscal year the Committee, among other actvities: (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 Italian Law no. 262/2005; (v) evaluated the audit plan and the proposed changes submitted over the year; (vi) reviewed the activities carried out to identify, monitor and manage risks; (vii) evaluated the status of the sustainability initiatives carried out for the Group; 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.

According to its regulations, the meetings, attended by the Chairman of the Board of Statutory Auditors, or by a Statutory Auditor appointed by the latter, 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 the Board of Directors with 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.

The Committee, along with the Board of Statutory Auditors, usually meets the Supervisory Body and the Manager responsible for the preparation of the Company's financial reports once a year.

The Committee has access to the information and to the Company functions necessary for the performance of its task as well as to work with external consultants.

The Board of Directors decided to allocate funds totaling EUR 50,000 to the Committee for the 2018 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 execution of the audit plan related to Luxottica Group S.p.A. and its main subsidiaries. Such activities, 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.

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. It was approved 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, where it is clearly understood that it 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, *inter alia*, 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 Italian Law no.262/2005 on the Protection of Savings and Corporate Governance.

## Organizational Model under Italian Legislative Decree no.231/2001

On October 27, 2005, the Board of Directors implemented the Organization, Management and Control Model, 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 contact 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 the scope of their 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 the people 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 by 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.

On April 19, 2018, the Board of Directors approved the Supervisory Board previously in office, and namely Mr. Ugo Lecis (Chairman) and Mr. Enrico Maria Bignami, both external professionals, and the Internal Audit Manager (Mr. Stefano Russo). The Board of Directors, at the time of its appointment, 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 considered 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 Supervisory Board will remain in office for three fiscal years, until the approval of the financial statements as for the year closing on 31.12.2020.

The Board reports to the Board of Directors, the Control and Risk Committee and the Board of Statutory Auditors every six months on the activities performed.

During the 2018 fiscal year, the Board of Directors allocated specific funds, totaling EUR 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 Salmoiraghi & Viganò S.p.A. 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 relevant risk/crime profile of each company.

## 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, 2020 was appointed at the Stockholders Meeting held on April 19, 2018, and is composed of Giovanni Fiori, Chairman, Dario Righetti and Barbara Tadolini. The alternate Auditors are Maria Venturini and Francesca Di Donato. The appointment of the Board of Statutory Auditors currently in office took place through the list-based voting system: Dario Righetti, Barbara Tadolini and Maria Venturini were appointed from the list submitted by the principal stockholder Delfin S.à.r.l.; Giovanni Fiori and Francesca Di Donato were appointed from the minority list submitted by various Italian and foreign institutional investors.

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 management-related issues; (vii) the financial information process pursuant to the provisions of Italian Legislative Decree no.39/2010; (viii) the effectiveness of the internal audit and risk management 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 correct 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.

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:

- 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 audit firms for the appointment as external auditor and submits its proposal on the appointment or revocation of the audit firm 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 audit firm appointed to perform the auditing of the financial statements 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.

## 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 accounting documents

On April 19, 2018, 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 accounting documents, 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 bodies, of certificates pursuant to art. 154-*bis* paragraph 5, of the Italian Consolidated Financial Law, with reference to the 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 of spending 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.

## 10. BY LAWS, CODE OF CONDUCT AND PROCEDURES

### By-laws

The current Company by-laws were most recently amended on April 19, 2018 following the resolution adopted at the extraordinary meeting of stockholders, which revised articles 18.

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 management 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 Management 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 acknowledged 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.

## Procedures 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, following 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 EUR 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 EUR 250,000) are excluded from the application of the procedure.

The Board of Directors also reached the following decisions, *inter alia*, 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 can be found 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 July 5, 2017, 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 20,000 euros has been exceeded.

The procedure for the management of inside information, which was last updated on January 24, 2018, 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 inside 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 July 24, 2017, with the aim of incorporating the provisions of the Italian Legislative Decree n. 135/2016, applicable since January 1, 2017.

The external auditor of the parent company 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.

## 11. BUSINESS OUTLOOK

We operate in an industry with significant opportunity for growth. The adoption in recent years of specific measures aimed at promoting the defence of the value of the brands in the portfolio, a strong digitalisation in all areas of business and a more direct relationship with the consumer thanks to the development of an all-round approach to distribution lay the foundations for long-term sustainable growth. The Group expects to benefit from continued development across its various businesses in new and established markets, with notable contributions from, amongst the main brands, Ray-Ban, Oakley and Sunglass Hut. Looking forward, we will continue to drive innovation and develop new competencies. Growth drivers include Luxottica’s vertical integration, quality-brand portfolio, innovation, global expansion of new sales channels and the Group’s further penetration in emerging markets.

## 12. SUBSEQUENT EVENTS

For a description of significant events after December 31, 2018 please refer to Note 40 of the Notes to the Consolidated Financial Statements as at December 31, 2018.

## 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.
- In 2018 there have been no atypical/unusual transactions;
- The applicable information required by Section 123-bis par.1 of Italian Legislative Decree 58 dated February 29, 1998, is disclosed in the previous paragraph 9 and 10.
- 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.
- Following the merger with Essilor, described in paragraph 3 above, Luxottica Group S.p.A. is subject to the control of EssilorLuxottica S.A. as this company holds 92.05% of the company's capital as at December 31, 2018. Therefore, as from October 1, 2018, Luxottica Group S.p.A. is subject to the management and coordination of EssilorLuxottica S.A. Transactions with EssilorLuxottica S.A. and with companies subject to its management and coordination constitute transactions with related parties and are commented on in note 30 - Transactions with related parties of the notes to the consolidated

financial statements, in note 45 - Transactions with related parties and subsidiaries, associated companies and parent companies and in note 53 – direction and coordination of the notes to the separate financial statements.

## APPENDIX

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

| | December 31, 2018 | | December 31, 2017 *Restated* | |
|---|---|---|---|---|
| *(Euro/000)* | Net income | Stockholders' equity | Net income | Stockholders' equity |
| **Parent company financial statements** | **475,073** | **2,857,577** | **631,271** | **2,862,474** |
| Elimination of intra-group dividends | (78,804) | - | (83,124) | - |
| Trademarks and other intangible assets (*) | (55,805) | (1,080,708) | (48,021) | (1,120,183) |
| Elimination of internal profits on inventories (*) | 747 | (323,200) | (62,802) | (323,062) |
| Difference between value of investments in consolidated companies and related share of stockholders' equity[(a) (b)] | - | 4,861,838 | - | 4,394,504 |
| Net income of consolidated companies [(a) (b)] | 559,153 | - | 604,992 | - |
| Non-controlling interests | (163) | (6,933) | (1,960) | (5,463) |
| **Total** | **900,201** | **6,299,574** | **1,040,356** | **5,808,271** |

(*) Net of tax effect

a) The amounts as at December 31, 2017 have been restated to reflect the impact of the application of IFRS 15. For additional details, please refer to the Notes to the Consolidated Financial Statements in Note 2—New accounting standards.

b) The amounts as at December 31, 2017 have been restated to reflect the impact of the events described in the Notes to the Consolidated Financial Statements in Note 4—Business combinations, to which reference should be made for further details.

## NON-IFRS MEASURES

### Adjusted measures

In this Report, we use certain performance indicators that are not envisaged 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 2018, 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)* costs for corporate reorganization and restructuring transactions for Euro 49.8 million (Euro 39.4 million net of taxes), *(ii)* non-recurring expenses for Euro 15.7 million (Euro 11.3 million net of taxes) regarding the early repayment of loans equal to Euro 4.7 million (Euro 3.6 million net of taxes) and costs relating to the merger with Essilor for Euro 10.9 million (Euro 7.7 million net of taxes).

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 merger 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 termination of Massimo Vian as CEO for Product and Operations; (iii) non-recurring income for Euro 48.7 million (Euro 193.7 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 158.8 million.

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:

| **2018 *Adjusted Measures*** (Euro/000) | **Cost of sales** | **Operating expenses** | **EBITDA** | **Income from operations** | **Other income/ (expenses)** | **Net income** | **EPS** |
|---|---|---|---|---|---|---|---|
| **Reported** | **(3,212.8)** | **(4,432.2)** | **1,799.0** | **1,284.0** | **(55.5)** | **900.2** | **1.88** |
| Restructuring and reorganization expenses | 26.6 | 23.2 | 49.8 | 49.8 | | 39.4 | 0.08 |
| - Non-recurring expenses | - | 10.9 | 10.9 | 10.9 | 4.7 | 11.3 | 0.02 |
| - Non-recurring income | - | - | - | - | - | - | - |
| ***Adjusted*** | **(3,186.2)** | **(4,398.0)** | **1,859.8** | **1,344.7** | **(50.7)** | **950.9** | **1.99** |

| **2017 Adjusted Measures restated** (Euro/000) | **Cost of sales** | **Operating expenses** | **EBITDA** | **Income from operations** | **Other income/ (expenses)** | **Net income** | **EPS** |
|---|---|---|---|---|---|---|---|
| **Reported** | **(3,281.7)** | **(4,601.1)** | **1,842.4** | **1,301.4** | **(44.1)** | **1,040.4** | **2.18** |
| 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) | (193.7) | (0.40) |
| ***Adjusted*** | **(3,224.0)** | **(4,517.0)** | **1,984.2** | **1,443.2** | **(63.2)** | **970.6** | **2.03** |

**EBITDA and EBITDA margin**

EBITDA represents net income attributable to Luxottica Group stockholders, before net income attributable non-controlling interests, income taxes, other non-operating income/expenses, and depreciation and amortization. EBITDA margin means the ratio of EBITDA to net sales. The Group believes that EBITDA is useful to both management and investors in evaluating the Group's operating performance compared to that of other companies in the 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, as these factors may vary from one entity to the next 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 the Group's 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 the Group's method of calculating EBITDA may differ from that used by other companies. We recognize that the usefulness of EBITDA has certain limitations, such as:

1. EBITDA does not include financial expenses. Because we have borrowed money in order to finance our operations, interest expense is a necessary element of our costs and ability to generate profits and cash flows. Therefore, any measure that excludes financial expenses may have material limitations;
2. EBITDA does not include depreciation and amortization. Since the Group has fixed assets, depreciation and amortization are necessary to determine its costs and the ability to generate profits. Therefore, any measure that excludes depreciation and amortization may have material limitations;
3. EBITDA does not include income taxes. Since income taxes are necessarily part of the Group's costs, any measure that excludes income taxes may have material limitations;
4. EBITDA does not reflect cash expenditures or future requirements for capital expenditures or contractual commitments;
5. EBITDA does not reflect changes in, or cash requirements for, working capital needs;
6. EBITDA does not allow us to analyse the effect of certain recurring and non-recurring items that materially affect our net income or loss.

The Group compensates for the above limitations by using EBITDA as a comparative tool together with IAS/IFRS measurements, so as to facilitate the evaluation of the Group's 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) | **2018** | **2017 *Restated*** |
|---|---|---|
| **Net income attributable to Luxottica Group stockholders (+)** | **900.2** | **1,040.4** |
| Net income attributable to non-controlling interests (+) | 0.2 | 2.0 |
| Income taxes (+) | 328.1 | 215.0 |
| Other (income)/expenses (+) | 55.5 | 44.1 |
| Depreciation and amortization (+) | 515.1 | 541.0 |
| **EBITDA (=)** | **1,799.0** | **1,842.4** |
| Net sales (/) | 8,928.9 | 9,184.2 |
| **EBITDA margin (=)** | **20.1%** | **20.1%** |

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

| Adjusted EBITDA and Adjusted EBITDA margin (Euro mn) | December 31, 2018[1,2] | December 31, 2017[3,4,5] *Restated* |
|---|---|---|
| **Net income attributable to Luxottica Group stockholders (+)** | **950.9** | **970.6** |
| Net income attributable to non-controlling interests (+) | 0.2 | 2.0 |
| Income taxes (+) | 342.9 | 407.4 |
| Other (income)/expenses (+) | 50.7 | 63.2 |
| Depreciation and amortization (+) | 515.1 | 541.0 |
| **Adjusted EBITDA (=)** | **1,859.8** | **1,984.2** |
| Net sales (/) | 8,928.9 | 9,184.2 |
| **Adjusted EBITDA margin (=)** | **20.8%** | **21.6%** |

Adjusted figures exclude:

1. restructuring and reorganization expenses for Euro 49.8 million;
2. Non-recurring expense of Euro 15.7 million relating to: early repayment of loans of Euro 4.7 million, costs related to the merger with Essilor of Euro 10.9 million;
3. Euro 115.7 million in restructuring and reorganization expenses;
4. Non-recurring expenses of Euro 55.6 million relating to: early repayment of loans of Euro 29.5 million, costs related to the merger 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;
5. 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 158.8 million;

### 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. Specifically, the way the Group calculates free cash flow provides a clearer picture of its ability to generate net cash from operating activities, to be used for the purposes of repaying mandatory debts as well as finance discretionary investments, distribute 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 the 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 the Group's non-IFRS measures used in this report, see ''Non-IFRS Measures – Adjusted Measures'' above.

The Group stresses 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.

The Group compensates for the above limitations by using free cash flow as one of several comparative tools together with IFRS measurements, so as to facilitate the evaluation of the Group's operating performance and leverage.

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**<br>(Euro mn) | **2018** |
|---|---|
| ***Adjusted* EBITDA (1)** | **1,859.8** |
| Δ working capital | (6.1) |
| Capital expenditures | (582.9) |
| **Operating cash flow** | **1,270.7** |
| Financial expenses [(2)] | (51.1) |
| Income taxes | (290.8) |
| Other net income/(expenses)[(3)] | (5.4) |
| **Adjusted free cash flow** | **923.4** |

1. 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.
2. Financial income less financial expenses
3. 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 leverage, which affects its ability to refinance its debt as it reaches maturity as well as obtain additional financing to invest in new business opportunities.

EBITDA, as previously defined, and the ratio of net debt to EBITDA are not meant to be considered in isolation or as a substitute for items appearing in the 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 the Group's method of calculating EBITDA and the ratio of net debt to EBITDA may differ from that used by other companies.

The Group acknowledges that the usefulness of the ratio of net debt to EBITDA as a measurement tool may have certain limitations. In addition to the aforementioned limitations regarding EBITDA, the ratio of net debt to EBITDA is net of cash and cash equivalents, term deposits, and short-term investments, thereby reducing the Group's debt.

Since the Company may not be able to use cash and cash equivalents to reduce its 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 previous pages.

| **Net debt to EBITDA ratio**<br>(Euro mn) | **December 31, 2018** | **December 31, 2017 *Restated*** |
|---|---|---|
| Long-term financial debt (+) | 1,074.5 | 1,671.3 |
| Current portion of medium-/long-term debt (+) | 602.6 | 150.4 |
| Borrowings (+) | 49.4 | 77.5 |
| Cash and cash equivalents (-) | (1,298.1) | (1,159.3) |
| Net debt (=) | 428.3 | 739.9 |

| | | |
|---|---:|---:|
| EBITDA | 1,799.0 | 1,842.4 |
| **Net debt/EBITDA** | **0.2x** | **0.4x** |
| Net debt at avg. exchange rates | 434.6 | 718.9 |
| **Net debt at avg. exchange rates / EBITDA** | **0.2x** | **0.4x** |

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, 2018**(2,3) | **December 31, 2017**(4,5) ***Restated*** |
|---|---:|---:|
| Long-term financial debt (+) | 1,074.5 | 1,671.3 |
| Current portion of medium-/long-term debt (+) | 602.6 | 150.4 |
| Borrowings (+) | 49.4 | 77.5 |
| Cash and cash equivalents (-) | (1,298.1) | (1,159.3) |
| Net debt (=) | 428.3 | 739.9 |
| Adjusted EBITDA | 1,859.8 | 1,984.2 |
| **Net Debt / Adjusted EBITDA** | **0.2x** | **0.4x** |
| Net debt at avg. exchange rates(1) | 434.6 | 718.9 |
| **Net Debt at avg. exchange rates (1) / Adjusted EBITDA** | **0.2x** | **0.4x** |

1. Net debt figures are calculated using the average exchange rates used to calculate the EBITDA figures.
Adjusted figures exclude:
2. Euro 49.8 million in restructuring and reorganization expenses;
3. Euro 10.9 million in non-recurring expenses;
4. Euro 115.7 million in restructuring and reorganization expenses;
5. Euro 26.1 million in non-recurring expenses.

## 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 combination 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 of Essilor (and of 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 stockholders and other potential investors must acknowledge that actual results may significantly differ from Luxottica’s expectations for a number of reasons. Such forward-looking statements are based on management's current 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 actual results, performance and operating plans of Luxottica, as well as of the group resulting from the combination of Essilor and Luxottica may significantly differ from the results, performance and operating plans expressed by or that can be inferred from the above forward-looking statements. These risks and uncertainties include, among other things, 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 cautions its stockholders that none of its forward-looking statements is 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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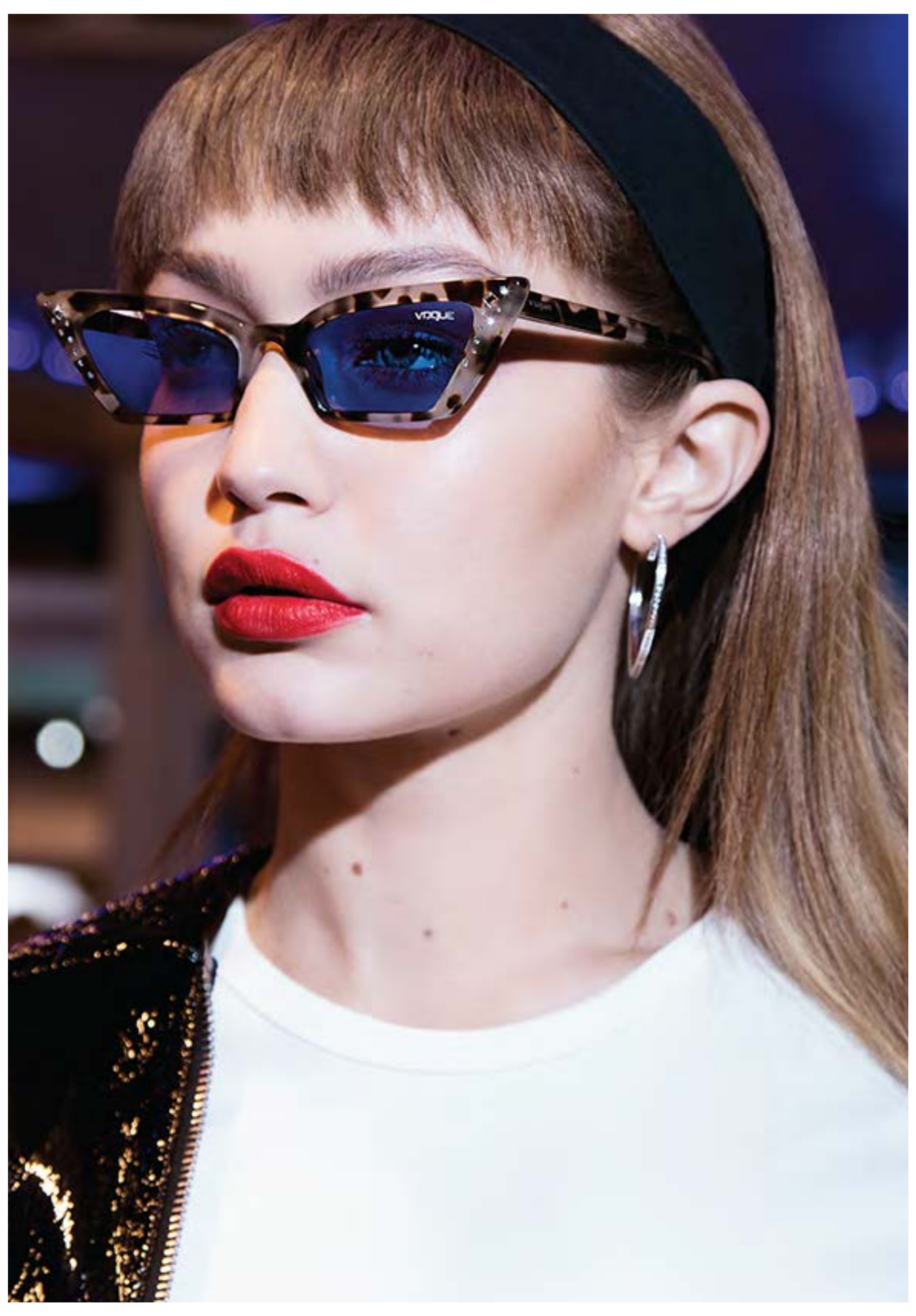
**Milan, March 6, 2019**

**Luxottica Group S.p.A.**

**On behalf of the Board of Directors**

**Francesco Milleri**
*(Deputy Chairman & Chief Executive Officer)*


VOGUE

# 2. Consolidated Financial Statement

2.1 Consolidated statement of financial position
2.2 Consolidated statement of income
2.3 Consolidated statement of comprehensive income
2.4 Consolidated statement of changes in equity
2.5 Consolidated statement of cash flows
2.6 Notes to the Consolidated Financial Statements as of December 31, 2018
2.7 Certification of the consolidated financial statements pursuant to Article 154-bis of Legislative Decree 58/98
2.8 Independent Auditor's Report
2.9 Independent Auditor’s Report on the Consolidated Non-Financial Statement pursuant to Article 3, paragraph 10, of Legislative Decree 254/2016 and Article 5 of CONSOB Regulation n. 20267 of January 2018

2.1-2.5

# Consolidated Financial Statement as of December 31, 2018

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| ASSETS (*EURO/000)* | Note | December 31, 2018 | Of which related parties (note 30) | December 31, 2017 Restated | Of which related parties (note 30) |
|---|---|---|---|---|---|
| CURRENT ASSETS: | | | | | |
| Cash and cash equivalents | 6 | 1,298,093 | - | 1,159,320 | - |
| Accounts receivable | 7 | 951,672 | 8,349 | 943,778 | 349 |
| Inventories | 8 | 823,458 | 18,456 | 831,549 | - |
| Tax receivables | 9 | 49,094 | - | 66,105 | - |
| Other current assets[(a)] | 10 | 206,317 | 1,226 | 173,947 | 5,879 |
| **Total current assets** | | **3,328,633** | **28,031** | **3,174,698** | **6,228** |
| NON-CURRENT ASSETS: | | | | | |
| Property, plant and equipment | 11 | 2,015,256 | 119,135 | 1,808,834 | 117,750 |
| Goodwill[(b)] | 12 | 3,697,430 | - | 3,608,225 | - |
| Intangible assets[(b)] | 12 | 1,126,295 | 30,915 | 1,246,409 | 29,576 |
| Investments | 13 | 15,991 | 3,733 | 14,488 | 3,622 |
| Other non-current assets[(a)] | 14 | 176,959 | - | 80,911 | - |
| Deferred tax assets | 15 | 103,672 | - | 130,454 | - |
| **Total non-current assets** | | **7,135,603** | **153,783** | **6,889,322** | **150,948** |
| **TOTAL ASSETS** | | **10,464,237** | **181,814** | **10,064,020** | **157,176** |

a) The amounts as of December 31, 2017 have been restated to reflect the impact of the application of IFRS 15. For additional details, please refer to Note 2—New accounting standards.

b) The amounts as of December 31, 2017 have been restated to reflect the impact of the events described in Note 4—Business combinations, to which reference should be made for further details.

| LIABILITIES AND STOCKHOLDERS' EQUITY (EUR/000) | Note | December 31, 2018 | Of which related parties (note 30) | December 31, 2017 Restated | Of which related parties (note 30) |
|---|---|---|---|---|---|
| CURRENT LIABILITIES: | | | | | |
| Short-term borrowings from banks | 16 | 49,378 | - | 77,486 | - |
| Current portion of medium-/long-term debt | 17 | 602,580 | - | 150,411 | - |
| Accounts payable | 18 | 961,850 | 59,816 | 906,749 | 24,194 |
| Current taxes payable | 19 | 22,055 | - | 22,299 | - |
| Short-term provisions for risks[(a)] | 20 | 158,665 | - | 171,015 | - |
| Other current liabilities[(a)] | 21 | 783,800 | - | 764,920 | 6 |
| **Total current liabilities** | | **2,578,328** | **59,816** | **2,092,878** | **24,199** |
| | | | | | |
| NON-CURRENT LIABILITIES: | | | | | |
| Long-term financial debt | 22 | 1,074,452 | - | 1,671,281 | - |
| Employee benefits | 23 | 154,534 | - | 121,555 | - |
| Deferred tax liabilities[(a)(b)] | 15 | 147,366 | - | 157,601 | - |
| Long-term provisions for risks | 24 | 127,147 | - | 130,453 | - |
| Other liabilities [(a)] | 25 | 75,902 | - | 76,516 | - |
| **Total non-current liabilities** | | **1,579,401** | **-** | **2,157,407** | **-** |
| | | | | | |
| STOCKHOLDERS' EQUITY: | | | | | |
| Share capital | 26 | 29,112 | - | 29,101 | - |
| Legal reserve | 26 | 5,821 | - | 5,811 | - |
| Other reserves[(a) (b)] | 26 | 5,612,263 | - | 4,989,680 | - |
| Treasury shares | 26 | (247,822) | - | (256,678) | - |
| Net income attributable the Group[(a) (b)] | 26 | 900,201 | - | 1,040,356 | - |
| **Luxottica Group stockholders' equity** | **26** | **6,299,574** | **-** | **5,808,271** | **-** |
| | | | | | |
| Non-controlling interests | 27 | 6,933 | - | 5,463 | |
| | | | | | |
| **Total stockholders' equity** | | **6,306,508** | **-** | **5,813,734** | **-** |
| | | | | | |
| **TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY** | | **10,464,237** | **59,816** | **10,064,020** | **24,199** |

a) The amounts as of December 31, 2017 have been restated to reflect the impact of the application of IFRS 15. For additional details, please refer to Note 2—New accounting standards.

b) The amounts as of December 31, 2017 have been restated to reflect the impact of the events described in Note 4—Business combinations, to which reference should be made for further details.

## CONSOLIDATED INCOME STATEMENT

| Consolidated income statement (Euro/000) | Note | 2018 | Financial Year<br>Of which related parties (note 30) | 2017 Restated | Of which related parties (note 30) |
|---|---|---|---|---|---|
| **Net Sales** [(a)] | **28** | **8,928,889** | **(36,377)** | **9,184,175** | **644** |
| Cost of sales[(a)] | 28 | 3,212,780 | 48,063 | 3,281,664 | 42,975 |
| **Gross Profit** | | **5,716,109** | **(84,440)** | **5,902,512** | **(42,332)** |
| Selling expenses[(a)] | 28 | 2,939,771 | 611 | 3,024,434 | 138 |
| *of which net impairment losses on financial assets* | *7/28* | *9,399* | - | *39,943* | - |
| Royalties | 28 | 154,753 | 851 | 164,043 | 664 |
| Advertising expenses[(a)] | 28 | 481,185 | 68 | 529,079 | 241 |
| General and administrative expenses[(b)] | 28 | 856,449 | 4,937 | 883,562 | 12,389 |
| *of which non-recurring expenses* | *34* | *10,927* | - | *26,105* | - |
| **Total operating expenses** | | **4,432,158** | **6,467** | **4,601,119** | **13,432** |
| **Income from operations** | | **1,283,951** | **(90,907)** | **1,301,392** | **(55,764)** |
| Financial income | 28 | 18,344 | - | 18,199 | - |
| Financial expenses | 28 | (69,463) | - | (107,746) | - |
| *of which non-recurring expenses* | | *(4,743)* | - | *(29,540)* | - |
| Other net income/(expenses) | 28 | (4,359) | 1,184 | 45,441 | - |
| *of which non-recurring income* | *34* | - | - | *48,675* | - |
| **Total other income/(expenses)** | | **(55,478)** | **1,184** | **(44,106)** | **-** |
| **Income before taxes** | | **1,228,473** | **(89,723)** | **1,257,286** | **(55,764)** |
| Income taxes[(a)] [(b)] | 28 | (328,108) | - | (214,970) | |
| *of which non-recurring income/(expenses)* | *34* | *4,370* | - | *164,040* | |
| **Net income** | | **900,365** | **(89,723)** | **1,042,316** | |
| *Of which attributable to* | | | | | |
| Luxottica Group [(a)] [(b)] | | 900,202 | | 1,040,356 | |
| Non-controlling interests | | 163 | | 1,960 | |
| **Weighted average number of shares** | | | | | |
| Basic | 31 | 478,970,127 | | 478,068,696 | |
| Diluted | 31 | 479,012,110 | | 478,348,377 | |
| **EPS** | | | | | |
| Basic [(a)] [(b)] | 31 | 1.88 | | 2.18 | |
| Diluted [(a)] [(b)] | 31 | 1.88 | | 2.17 | |

(*) Amounts in thousands of Euro except for the number of shares and EPS, expressed in Euro.

a) The amounts as of December 31, 2017 have been restated to reflect the impact of the application of IFRS 15. For additional details, please refer to Note 2—New accounting standards.
b) The amounts as of December 31, 2017 have been restated to reflect the impact of the events described in Note 4—Business combinations, to which reference should be made for further details.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| Consolidated Statement of Comprehensive Income | | Financial Year | |
|---|---|---|---|
| (Euro/000) | Note | 2018 | 2017 Restated |
| **Net income for the period[(a)] [(b)]** | | **900,365** | **1,042,316** |
| Items that may be subsequently reclassified to profit or loss | | | |
| Fair value of hedging derivative contracts (IRS) | | (3,936) | 425 |
| Related tax effect | | 1,164 | (126) |
| Currency translation difference[(a)] [(b)] | 26 | 85,855 | (589,236) |
| **Total items that may be subsequently reclassified to profit or loss** | | **83,083** | **(588,937)** |
| Items that will not be subsequently reclassified to profit or loss | | | |
| Actuarial gains/(losses) on pension funds | 23 | 1,059 | 55,188 |
| Related tax effect | 23 | 1,789 | (48,755) |
| of which non-recurring income/(expenses) | | | (29,524) |
| **Total items that will not be subsequently reclassified to profit or loss** | | **2,849** | **6,433** |
| **Total other comprehensive income/(loss) – net of taxes** | | **85,932** | **(582,504)** |
| **Total comprehensive income for the period** | | **986,297** | **459,812** |
| Of which attributable to | | | |
| Luxottica Group Stockholders | | 986,444 | 457,805 |
| Non-controlling interests | | (147) | 2,007 |

a) The amounts as of December 31, 2017 have been restated to reflect the impact of the application of IFRS 15. For additional details, please refer to Note 2—New accounting standards.
b) The amounts as of December 31, 2017 have been restated to reflect the impact of the events described in Note 4—Business combinations, to which reference should be made for further details.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| Consolidated Stockholders' Equity *(Euro/000)** | Share Capital | | Legal Reserve | Reserve Shares | Retained Earnings | Stock Option Reserve | Translation of foreign operations and other | Treasury Shares | Luxottica Group Stockholders' Equity | Non-Controlling interests |
|---|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | | | | | | | | |
| | | | | | | | | | Note 26 | Note 27 |
| **Balance as of January 01, 2017** | **484,176,083** | **29,051** | **5,805** | **563,011** | **4,723,283** | **359,928** | **364,714** | **(269,755)** | **5,776,037** | **5,954** |
| Impact from the application of IFRS 15 | - | - | - | - | 5,971 | - | - | - | 5,971 | - |
| **Balance as of January 01, 2017 - restated** | **484,176,083** | **29,051** | **5,805** | **563,011** | **4,729,254** | **359,928** | **364,714** | **(269,755)** | **5,782,008** | **5,954** |
| **Total Comprehensive Income as of December 31, 2017 - restated** | **-** | **-** | **-** | **-** | **1,047,088** | **-** | **(589,283)** | **-** | **457,805** | **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) | - |
| Assignment of treasury shares to employees | - | - | - | - | (13,077) | - | - | 13,077 | - | - |
| Dividends (Euro 0.89 per ordinary share) | - | - | - | - | (439,695) | - | - | - | (439,695) | (2,498) |
| Allocation of profits to the legal reserve | - | - | 6 | - | (6) | - | - | - | - | - |
| **Balance as of December 31, 2017 restated** (a) (b) | **485,016,033** | **29,101** | **5,811** | **570,325** | **5,323,564** | **360,718** | **(224,569)** | **(256,678)** | **5,808,272** | **5,463** |
| **Balance as of January 01, 2018** | **485,016,033** | **29,101** | **5,811** | **570,325** | **5,323,564** | **360,718** | **(224,569)** | **(256,678)** | **5,808,272** | **5,463** |
| **Other Comprehensive Income as of December 31, 2018** | **-** | **-** | **-** | **-** | **900,278** | **-** | **86,165** | **-** | **986,444** | **(147)** |
| Exercise of stock options | 179,000 | 11 | - | 4,528 | - | - | - | - | 4,538 | - |
| Stock option notional value | - | - | - | - | - | 1,934 | - | - | 1,934 | - |
| Tax benefit on stock options | - | - | - | (7,031) | - | - | - | - | (7,031) | - |
| Obligations to purchase non-controlling interests | - | - | - | - | (10,799) | - | - | | (10,799) | - |
| Business combinations | - | - | - | - | - | - | - | - | - | 4,026 |
| Assignment of treasury shares to employees | - | - | - | - | (8,856) | - | - | 8,856 | - | - |
| Dividends (Euro 1.01 per ordinary share) | - | - | - | - | (483,783) | - | - | - | (483,783) | (2,409) |
| Allocation of profits to the legal reserve | - | - | 9 | - | (9) | - | - | - | - | - |
| **Balance as of December 31, 2018** | **485,195,033** | **29,112** | **5,820** | **567,822** | **5,720,394** | **362,652** | **(138,404)** | **(247,822)** | **6,299,574** | **6,933** |

* Except for the number of shares

(a) The amounts as of December 31, 2017 have been restated to reflect the impact of the application of IFRS 15. For additional details, please refer to Note 2—New accounting standards.

(b) The amounts as of December 31, 2017 have been restated to reflect the impact of the events described in Note 4—Business combinations, to which reference should be made for further details.

## CONSOLIDATED STATEMENT OF CASH FLOWS

| **Consolidated Statement of Cash Flows** *(Euro/000)* | **Note** | **December 31, 2018** | **December 31, 2017 Restated** |
|---|---|---|---|
| **Income before taxes[(a) (b)]** | | **1,228,473** | **1,257,286** |
| Share-based payments notional value | | 27,449 | 790 |
| Depreciation and amortization[(b)] | 11/12 | 515,067 | 541,011 |
| Write-down of property, plant and equipment and intangible assets | 11/12 | 41,764 | 26,375 |
| Financial expenses | 28 | 69,463 | 107,746 |
| Other non-monetary items | | 3,792 | (1,086) |
| Gains from the disposal of assets | 28 | - | (48,675) |
| Changes in accounts receivable | | (4,976) | (80,379) |
| Changes in inventories | | 22,526 | 24,316 |
| Changes in accounts payable | | 62,955 | 31,879 |
| Changes in other assets/liabilities/provisions for risks/employee benefits[(a)] | | (157,156) | 164,860 |
| **Total Adjustments** | | **580,884** | **766,836** |
| **Cash provided by operating activities** | | **1,809,357** | **2,024,122** |
| Interest expense | | (77,085) | (100,948) |
| Tax expenses | | (290,752) | (319,934) |
| **Net cash provided by operating activities** | | **1,441,520** | **1,603,240** |
| *of which to related parties* | *30* | (68,735) | *(45,214)* |
| Purchase of property, plant and equipment | 11 | (504,118) | (601,770) |
| Disposal of property, plant and equipment | 11 | - | 100,000 |
| (Purchase)/sale of businesses – net of cash acquired[(c)] | 4 | (18,671) | (136,302) |
| Changes in investments | 13 | 762 | 1,689 |
| Purchase of intangible assets | 12 | (88,764) | (63,821) |
| **Cash used in investing activities** | | **(610,791)** | **(700,204)** |
| *of which to related parties* | *30* | (30,469) | *(139,681)* |
| *Long-term debt* | | | |
| Contracted | 22 | - | 500,000 |
| Repayments | 22 | (190,882) | (469,302) |
| *Short-term debt* | | | |
| Contracted | | (24,649) | - |
| Repayments | | - | (136,716) |
| Exercise of stock options | 35 | 4,539 | 17,518 |
| (Purchase)/Sale of treasury shares | | - | - |
| Dividends paid | 36 | (486,192) | (442,193) |
| **Cash provided by/(used in) financing activities** | | **(697,184)** | **(530,694)** |
| **Increase/(decrease) in cash and cash equivalents** | | **133,545** | **372,342** |
| Opening cash and cash equivalents | | 1,159,320 | 866,864 |
| Effect of exchange rate changes on cash and cash equivalents | | 5,228 | (79,886) |
| **Closing cash and cash equivalents** | | **1,298,093** | **1,159,320** |

a. The amounts as of December 31, 2017 have been restated to reflect the impact of the application of IFRS 15. For additional details, please refer to Note 2—New accounting standards.
b. The amounts as of December 31, 2017 have been restated to reflect the impact of the events described in Note 4—Business combinations, to which reference should be made for further details.
c. Purchases of business—net of cash acquired in 2018 mainly referred to the Euro 2.7 million acquisition of Fukui Megane. For additional details please refer to note 4 – Business Combinations.

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**Milan, March 06, 2019**

**Luxottica Group S.p.A.**

**On behalf of the Board of Directors**

**Francesco Milleri**
*(Deputy Chairman & Chief Executive Officer)*

# 2.6

# Notes to the Consolidated Financial Statements

# Notes to the Consolidated Financial Statements as at December 31, 2018

**Share Capital € 29,111,701.98**

Authorized and issued

**Luxottica Group S.p.A.**

Headquarters and registered office: Piazzale Luigi Cadorna, 3, 20123 Milan, Italy

Website: www.luxottica.com

The Company is subject to direction and coordination by EssilorLuxottica S.A.

## GENERAL INFORMATION

Luxottica Group S.p.A. (hereinafter the ‘‘Company’’ or, together with its consolidated subsidiaries, the ‘‘Group’’) is a joint-stock company 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 portfolio of both owned and licensed brands.

The Parent Company Luxottica Group S.p.A. is controlled through an equity investment of approximately 92.05% as at December 31, 2018 by EssilorLuxottica SA (hereinafter also referred to as "EssilorLuxottica"), a French listed company ("Société Anonyme"). EssilorLuxottica is based in Paris, rue Paul Cézanne 1-6 with registered office in Charenton-le-Pont, rue de Paris, 147. EssilorLuxottica is the result of the business combination between Essilor International (Compagnie Générale d'Optique) SA and Luxottica Group S.p.A. The board of directors of EssilorLuxottica held on October 1, 2018 approved the change of name from Essilor International (Compagnie Générale d'Optique) SA to EssilorLuxottica SA.

These consolidated financial statements were authorized to be issued by the Board of Directors of Luxottica Group S.p.A. at its meeting on March 6, 2019 and were audited by the Company’s independent registered public accounting firm.

## BASIS OF PREPARATION

Pursuant to Legislative Decree no. 38 issued on February 28, 2005 "Exercise of the options provided for in Article 5 of Regulation (EC) No. 1606/2002 on international accounting standards", the consolidated financial statements as at December 31, 2018 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 at 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”).

In addition, the Company applied the provisions of Consob Resolution no. 15519 dated July 27, 2006 as well as Consob Communication no. 6064293 dated July 28, 2006, Consob Communication no. 0003907 dated January 19, 2015 and Consob Communication no. 0007780/16 dated January 28, 2016. During 2009 and 2010, CONSOB, in agreement with the Bank of Italy and ISVAP, issued two documents (2 and 4) “Disclosure in financial reports on the going concern assumption, financial risks, tests of assets for impairment and uncertainties on the use of estimates” and “Disclosure in financial reports on impairment of assets, clauses in debt contracts, debt restructuring and on the “Fair value hierarchy” which have been taken into account in the preparation of this document. Another document (5) was issued in 2012 in relation to the accounting treatment of deferred tax assets deriving from Italian Law 214/2011. The above documents were taken into account in the preparation of these consolidated financial statements.

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, 2018 as disclosed in Note 2

These consolidated financial statements are composed of a consolidated statement of income, a consolidated statement of 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 financial statements and within these Notes 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 over 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 was acquired by 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. Goodwill is calculated in proportion to the share held. 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 income statement as Other net income/(expenses).

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.

Associates are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. For further details, please refer to the next paragraph Impairment of assets.

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 income statement.

## 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);
- all resulting exchange differences are recognized in equity.

Goodwill and fair value adjustments arising from acquisitions by foreign companies are treated as assets and liabilities of the foreign companies 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 equivalents

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 recognized at amortised cost and measured on the basis of the impairment model introduced by IFRS 9 (see the paragraph *Financial assets* for the measurement on initial recognition). Under this model, the Group measures receivables according to an expected loss approach, replacing the IAS 39 framework usually based on the measurement of incurred losses.

In the case of accounts receivable, the Group adopts a simplified approach that does not require recognizing changes in credit risk on a regular basis, allowing instead to recognize an Expected Credit Loss ("ECL") calculated over the entire lifetime of the receivable (known as lifetime ECL). Specifically, under the policy adopted by the Group, accounts receivable are divided into three categories also based on the number of days past due and an assessment of the counterparty's solvency. The Group applies different impairment percentages to said categories that reflect the relevant expectations for recovery.

Accounts receivable are fully written down in the absence of a reasonable expectation for recovery or in the case of inactive business counterparties (e.g. receivables more than 180 days past due, insolvencies, and/or the commencement of legal proceedings).

Following the application of IFRS 9, the assessment of the credit risk related to accounts receivable did not increase significantly after initial recognition when contractual payments were due by longer than 30 days.

The other receivables, for which the Group estimates a low credit risk, are measured using a general approach. Under this approach, the Group estimates the ECL for the next 12 months as well as reviews changes in credit risk compared to the initial measurement at the end of each reporting period. In the case of receivables for which the Group recognizes no significant increases in credit risk, the ECL continues to be measured for the next 12 months. In the case of receivables for which the Group recognizes significant increases in credit risk, the ECL is measured over the entire *lifetime* of the receivable.

The amount of the receivables reported in the statement of financial position is net of the relevant bad debt provisions. The impairment losses reported pursuant to IFRS 9 are recognized in consolidated profit or loss net of any positive effects associated with reversals or revaluations and are presented under Net impairment losses on financial assets within the line item Selling expenses.

## Assets held for sale

Assets available for sale are carried at the lower of historical cost and fair value less cost 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 even if the estimated costs of completion or the estimated costs incurred to make the sale increase.

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 even if acquired jointly with the related building. 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 amount is not relevant for the Group.

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, represented by the fair value, net of disposal costs, and value in use, whichever is higher.

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 on a contractual basis.

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.

For further information on the adoption, as from January 1, 2019, of the new accounting standard IFRS 16, please refer to paragraph 2 below.

## 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 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 amortised on a straight-line basis over periods ranging between 15 and 25 years. Distributor

network, contractual customer relationships and franchise agreements are amortised 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 amortised 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 units). Intangible assets with a definite useful life are reviewed at the end of each reporting period 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 Group's financial assets are classified based on the business model adopted to manage them and the relevant cash flows. The Group has identified the following categories:

a. Financial assets measured at amortised cost

   This category includes financial assets that meet the following requirements: (i) the financial asset is held within a business model whose objective is to hold financial assets to collect their contractual cash flows; and (ii) the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding. These are mainly accounts receivable, loans, and other receivables already described in the paragraph *Accounts receivable and other receivables*. Loans and receivables are included in current assets, except for those with contractual maturities greater than 12 months compared to the end of the reporting period, which are classified as non-current assets. The Group's loans and receivables are classified in the statement of financial position as accounts receivable and other receivables. Except for accounts receivable that do not contain a significant financing component, other loans and receivables are initially recognized at fair value plus directly attributable transaction costs. Accounts receivable that do not contain a significant financing component are recognized at the transaction price (determined in accordance with IFRS 15 *Revenue from Contracts with Customers*). After initial recognition, the assets included in this category are measured at amortised cost, using the effective interest method. The effects of this measurement are recognized within the financing components of income. In addition, these assets are subject to the impairment model described in the paragraph *Accounts receivable and other receivables*.

b. Financial assets at fair value through other comprehensive income ("FVOCI")

   This category includes financial assets that meet the following requirements: (i) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and (ii) the contractual terms of the financial asset give rise to cash flows

that are solely payments of principal and interest on the principal amount outstanding. These assets are initially recognized at fair value plus directly attributable transaction costs. Subsequently, the measurement on initial recognition is updated and any changes in fair value are recognized through other comprehensive income. As in the case of the previous category, these assets are subject to the impairment model described in the paragraph *Accounts receivable and other receivables*.

c. Financial assets at fair value through consolidated profit or loss ("FVPL")

   This category includes financial assets not classified in any of the previous categories (i.e. residual category). These are mainly derivative instruments as well as quoted and unquoted equity instruments that the Group did not irrevocably designate as FVOCI on initial recognition or at the date of transition. Assets in this category are classified as current or non-current assets based on their maturity and are initially recognized at fair value. Specifically, investments in non-consolidated companies over which the Group does not have significant influence are included within this category and recognized under *Investments*. Any ancillary costs incurred on initial recognition of the assets are immediately recognized through consolidated profit or loss. After initial recognition, financial assets at FVPL are measured at fair value. Gains and losses deriving from changes in fair value are recognized through consolidated profit or loss in the period in which they occur, under *Other net income/(expenses).*

Purchases and sales of financial assets are recognized at the settlement date.

Financial assets are derecognized when the rights to receive cash flows from the instrument have expired and the Group has transferred substantially all risks and rewards of ownership.

The fair value of quoted financial instruments is based on the current bid price. If the market for a financial asset is not active (or if it refers to unquoted 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 models based on observable market inputs, which are consistent with the instruments under valuation.

During the valuation process, the Group primarily uses market data rather than internal sources of information specifically associated with the nature of the business in which the Group operates. For further information on the introduction of *IFRS 9 - "Financial Instruments"* see the following Note 2 - New accounting standards.

## Derivative financial instruments

Derivative financial instruments are recognized in accordance with IFRS 9. For further information on the introduction of *IFRS 9 - "Financial Instruments"* see the following Note 2 - New accounting standards.

At the inception of the contract, derivative instruments are initially recognized at fair value as financial assets at FVPL when the fair value is positive, or financial liabilities at FVPL when the fair value is negative. If the financial instruments are not designated as hedging instruments, any changes in fair value after initial recognition are treated as components of profit or loss for the year. If the derivative instruments meet the requirements to qualify as hedging instruments, any subsequent changes in fair value are recognized according to specific criteria, which are described below. Its content was confirmed by the findings of the analyses the Group conducted to assess the impact of the new standard.

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 IFRS 9 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 end of the reporting period. If not, they are presented as non-current liabilities.

Accounts payable are initially recognized at fair value and subsequently measured at amortised cost.

### Borrowings from banks and other financial institutions

The classification of Borrowings from banks and other financial institutions has not changed following the introduction of IFRS 9 - "Financial Instruments". For further details please refer to Note 2—New accounting standards. Borrowings from banks and other financial institutions are initially recorded at fair value, less directly attributable transaction costs, and subsequently measured at their amortised 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 internal rate of return. 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. The Group considers whether to offset cash and cash equivalents with bank overdrafts when it has a legal right to do so.

Borrowings from banks and other financial institutions are derecognized when they are settled, i.e. when all risks and costs associated with the instrument are transferred, cancelled, or extinguished.

### 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.

Deferred tax liabilities are not accounted for if they: *(i)* arise from the initial recognition of goodwill; *(ii)* 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 envisaged.

Deferred taxes are determined using tax rates (and laws) that have been enacted or substantially enacted as at 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 a detailed formal plan identifies the business or part of the business impacted, the location and number of employees involved in the restructuring, a detailed cost estimate as well as appropriate timing, and a valid expectation that the restructuring 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 income statement, with a corresponding adjustment to equity or provisions for employee benefits according to the classification of the reference plan.

## Recognition of revenue

The Group develops, manufactures and sells prescription frames and sunglasses. The Group's revenue includes:

(i) fees for the sales of goods to customers (both wholesale and retail);
(ii) fees for the rendering of services: this includes the fees for the rendering of insurance and administrative services associated with the vision care business as well as fees arising from eye exams and the related services;
(iii) fees for the sales of goods to franchisees along with other revenue from franchisees, such as royalties based on sales and initial franchise fee revenue.

Under the five-step model introduced by IFRS 15, the Group recognizes revenue after identifying the contracts with its customers and the relevant performance obligations (transfer of goods and/or services), determining the consideration to which it expects to be entitled in exchange for performing each of said obligations, and assessing how to perform these obligations (at a specific point in time *versus* over time).

Specifically, the Group recognizes revenue only if the following requirements are met (so-called requirements for identifying the "contract" with the customer):

a) the parties have approved the contract (either in writing, orally, or in accordance with other customary business practices) and intend to perform their respective obligations; there is therefore an agreement between the parties that creates enforceable rights and obligations, regardless of the form of said agreement;
b) the Group can identify each party's rights regarding the goods or services to be transferred;
c) the Group can identify the payment terms for the goods or services to be transferred;
d) the contract has commercial substance; and
e) it is probable that the Group will collect the consideration to which it will be entitled in exchange for goods or services transferred to the customer.

If the above requirements are not met, the relevant revenue is recognized when: (i) the Group has no more obligations to transfer goods and/or render services to the customer and all, or substantially all, of the consideration promised by the customer has been received by the Group and is non-refundable; or (ii) the contract has been terminated and the consideration received from the customer is not refundable.

If the above requirements are not met, the Group shall apply the following recognition rules.

*Sale of goods (Wholesale)*

Revenue from the wholesale of goods is recognized when control of the asset is transferred to the buyer, i.e. when the asset is delivered to the customer in accordance with contractual provisions and the customer acquires the ability to direct the use of and obtain substantially all of the benefits from the asset. If the sales contract includes retrospective volume-related discounts, the Group estimates the relevant impact and treat it as variable consideration. In addition, the Group estimates the impact of potential returns from customers. This impact is accounted for as variable consideration, recognizing a liability for returns and the corresponding asset in the statement of financial position in *Short-term provisions for risks* and *Other current assets*, respectively (separately presenting the portion related to the impact of IFRS 15 in the relevant notes). This estimate is based on the Group's right of return policies and practices along with historical data on returns. Variable consideration (discounts and returns) is recognized only when it is highly probable there will not be a significant adjustment to the amount of recognized revenue in the future. There are no post-delivery obligations other than product warranties, if required by local law; these warranties do not represent a separate performance obligation and are accounted for pursuant to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

*Sale of goods (Retail)*

Retail revenue is recognized upon receipt of the goods by the customer at the retail location. The relevant consideration is usually received at the time of the delivery. Any advance payments or deposits from customers are not recognized as revenue until the product is delivered. Concerning sales through the e-

commerce channel, the moment in which the customer obtains control of the asset is identified based on the specific terms and conditions applied by the on-line sales platforms used by the Group. In some countries, the Group allows customers to return the products for a certain period of time after the purchase: therefore, it estimates the relevant impact by accounting for it as variable consideration, recognizing the relevant assets and liabilities (see *Sale of goods (Wholesale)).* The estimate is based on the historical trend in returns, accounts for the time elapsed from the purchase date, and is regularly reviewed. The variable consideration is recognized only when it is highly probable there will not be a significant adjustment to the amount of recognized revenue in the future. There are no post-delivery obligations other than product warranties, if required by local law; these warranties do not represent a separate performance obligation and are accounted for pursuant to IAS 37.

*Loyalty programs*

The companies of the Retail division offer their customers discount programs or similar loyalty programs with a term of 12 months or greater. Customers who present a valid loyalty card 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.

*Rendering of services*

The Retail division's revenue includes also the consideration arising from vision care services. This revenue is recognized when the service is rendered to the customer. As for the fixed-fee insurance plans offered to customers, the Group acts through a sponsor. The plan sponsor pays the Group a monthly premium for each subscriber. Premium revenue is recognized as earned during the benefit coverage period. Any unearned premium revenue is recognized as deferred revenue in the consolidated statement of financial position. For plans with fees varying according to the service, the sponsor pays the Group a fee to process claims. Revenue is recognized as the services are rendered. For these programs, the sponsor is responsible for the cost associated with claims. The Group makes provisions for the receivables accrued under these agreements based on an estimate of the amounts considered uncollectible.

*Franchising and licensing agreements*

Revenue from franchising agreements is recognized based on the sales accrued and accounted for by unconsolidated franchisees. Upfront franchise fees may refer to:

- fees paid for the franchising agreement and/or the improvement of retail premises; in this case, the Group believes this does not represent a separate performance obligation to the franchisee, therefore the relevant revenue is recognized along with license fees throughout the term of the franchising agreement; and
- fees associated with the sale of tangible assets necessary for business operations (e.g. furniture); these fees are recognized as revenue when control of the asset is transferred to the buyer (i.e. when the asset is delivered to the customer in accordance with contractual provisions and the customer acquires the ability to direct the use of and obtain substantially all of the benefits from the asset).

The franchising agreement may also include:

- fees associated with the ongoing rendering of services to the franchisee throughout the term of the franchising agreement; these fees are recognized at the time the relevant service is rendered.
- fees associated with the management and implementation of advertising and marketing initiatives; in this case, the Group assesses the nature of said initiatives to verify whether these services represent a separate performance obligation under the agreement. If the Group concludes that this service represents a separate performance obligation over which it exercises control before the transfer to the customer, these fees are recognized as revenue.

The Group licenses the rights to certain intellectual property to third parties and recognizes royalty revenue based on the characteristics of the agreements with customers.

*Incremental costs for the acquisition 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, which typically have a term of 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. Therefore, these costs are recognized as a contractual asset and amortised over the term of the relevant contracts.

*Financing components*

The payment terms offered to the Group's customers do not exceed 12 months, therefore the Group recognizes adjustments to the transaction price to account for financing components.

## 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 at 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 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 subjective assessments mainly concern: (i) the method of calculation and the model to be used to determine the recoverable amount; and (ii) the calculation of the discount rate (weighted average cost of capital or "WACC") and the growth rate ("g-rate").

b. *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;

c. *Benefit 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;

d. *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.

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 2018 is related only to the year 2018, while that recognized in 2017 is related to the three-year period from 2015 to 2017. It 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 deferred tax assets.* Deferred tax assets are recognised on the basis of expected taxable income in future years. The valuation of such expected taxable income depends on factors that may vary over time and significantly impact the measurement of the deferred tax assets; *Valuation of receivables*. Receivables from customers are adjusted by the related bad debt provision in order to take into account their recoverable amount.

h. *Valuation of trade receivables*. Value of trade receivables reflects 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;

i. *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;

j. *Assessment of the impact of the new accounting standard IFRS 16* – Leases. The following paragraph 2 – New accounting standards discloses the expected impact of the application of the new accounting standard *IFRS 16 – Leases* as of January 1, 2019. Determining said impacts required management to make assumptions about the discount rates applied as well as the terms and classification of the lease agreements.

### 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, 2018

*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 was endorsed by the European Union in November 2016 and is effective for annual periods beginning on or after January 1, 2018 (the Group chose not to adopt the new standard early).

Except for the provisions relating to hedge accounting, which the Group applied prospectively, the Group applied IFRS 9 retrospectively, identifying January 1, 2018 as the date of initial application. In addition, as permitted by IFRS 9, the Group elected not to restate comparative information.

The adoption of IFRS 9 did not significantly impact the Group's financial statements and did not require making adjustments to the consolidated statement of financial position at the date of initial application of the standard.

The changes introduced by the new standard concerned the three main macro-areas described below.

- *Classification & Measurement*: IFRS 9 introduced new rules governing the classification and measurement of financial instruments, which mainly impact financial assets.

  Below is a reconciliation of the classes of financial assets and liabilities introduced by IFRS 9 to the disclosures in the financial statements as at December 31, 2017 pursuant to IFRS 7 *Financial Instruments: Disclosures*.

Amounts as at December 31, 2017 in thousands of Euro.

| IAS 39 / IFRS 9 | Financial assets at fair value through profit or loss | Loans and receivables | Held-to-maturity investments | Available for sale financial assets | Financial liabilities at fair value through profit or loss | Hedging derivatives | TOTAL |
|---|---|---|---|---|---|---|---|
| Financial assets at fair value through profit or loss | 5,260 | - | - | 10,881 | - | - | 16,141 |
| Financial liabilities at fair value through profit or loss | - | - | - | - | (3,408) | - | (3,408) |
| Financial assets and liabilities at fair value through other comprehensive income | - | - | - | - | - | - | - |
| Financial assets at amortised cost | - | 2,258,603 | - | - | - | - | 2,258,603 |
| Financial liabilities at amortised cost | - | (3,571,777) | - | - | - | - | (3,571,777) |
| Hedging derivatives | - | - | - | - | - | 487 | 487 |
| **TOTAL** | **5,260** | **(1,313,174)** | **-** | **10,881** | **(3,408)** | **487** | **(1,299,954)** |

- *Impairment*: under IFRS 9, the impairment of financial assets measured at amortised cost must be calculated according to an expected loss approach, replacing the current IAS 39 framework usually based on the measurement of incurred losses. In light of the analyses carried out, the Group did not deem it necessary to make adjustments to the consolidated statement of financial position at the date of initial application of the standard. Concerning specifically accounts receivable, the Group confirmed its policy to make allocations to the bad debt provision, as the model it applies adequately incorporates expected credit losses (see the following section on *Significant accounting policies*).
- *Hedge Accounting*: concerning the accounting for derivative instruments designated as hedging instruments, IFRS 9 introduces a major overhaul of the requirements and the underlying rules, partially streamlining the current IAS 39 framework and broadening the eligibility criteria for hedge accounting. However, the standard allows entities to elect to continue applying the requirements of IAS 39 or adopt the requirements of IFRS 9. The Group elected to adopt the requirements of IFRS 9. The Group applies hedge accounting only to interest rates swaps used to hedge interest rate risk. Based on the analyses carried out, the Group did not deem it necessary to change the accounting treatment of said instruments.

Please refer to the section “Consolidation principles, composition of the group and significant accounting policies” for details on the measurement bases used with reference to the above matters.

*IFRS 15 Revenue from Contracts with Customers and clarifications to IFRS 15 Revenue from Contracts with Customers*

In May 2014, the IASB issued IFRS 15, a new revenue recognition standard. It replaces IAS 18 *Revenue* and IAS 11 *Construction Contracts*, and in April 2016 it was supplemented by additional guidance clarifying its application. The European Union endorsed the new standard and the clarifications in September 2016 and October 2017, respectively.

IFRS 15 introduces a new five-step model that applies to all revenue arising from contracts with customers (unless the contracts are in the scope of other standards). The new standard requires recognizing revenue in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the transfer of goods or services to the customer.

The standard is effective for annual periods beginning on or after January 1, 2018 (the Group chose not to adopt the new standard early). For the purposes of the transition, the Group adopted a full retrospective approach, which required restating the comparative amounts for the year 2017.

Below is a summary of the impact of the adoption of IFRS 15.

a. *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, envisage the charging of a fee for the management and carrying-out of advertising and marketing initiatives to the franchisees. Following the analyses carried out, 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. Pursuant to IFRS 15, the Group reclassified Euro 27.3 million in fees arising from this service for the full year 2017 to revenue. These fees had been classified as a deduction from advertising expenses in consolidated profit or loss. The reclassification did not require adjustments to the Group's income from operations or changes in net income for the period.

b. *Recognition of renovation and/or improvement fees* – these fees are charged to franchisees for the renovation and/or improvement of retail premises (known as Site Development Services Addendum or SDSA), and were entirely recognized as revenue in the year in which the work was performed. Following the analyses carried out, this service was considered not to be a separate performance obligation under the franchising agreement. Pursuant to IFRS 15, the Group recognized the relevant revenue over the term of the franchising agreement, recognizing a liability corresponding to the portions of revenue attributable to subsequent years in the statement of financial position. The costs incurred for this work are recognized as a contractual asset when first applying the standard. The overall negative impact on the income from operations and net income for the period was immaterial. As at December 31, 2017, the Group recognized a Euro 2.4 million liability (including Euro 1.9 million under non-current liabilities) as well as Euro 0.9 million in capitalized costs (including Euro 0.6 million under non-current assets).

c. *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 with customers, which typically have a term of 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 are capitalized in accordance with IFRS 15 and were recognized as a contractual asset when first applying the standard. As at the date of retrospective application, i.e. January 1, 2017, the Group recognized a Euro 6.0 million impact on stockholders' equity. As at December 31, 2017, the costs capitalized among intangible assets, less the relevant accumulated amortization, totaled Euro 14.4 million, while the positive impact on the income from operations and net income for the year, before taxes, was immaterial.

d. *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 required identifying the component associated with the returns expected from customers within the line item *Short-term provisions for risks* as well as the corresponding asset within the line item *Other current assets*. In addition, in the notes to the financial statements on *Other current assets* and *Other non-current assets*, the Group separately identified the costs for the acquisition and performance of long-term contracts with customers.

e. Other adjustments – as a result of the above adjustments, with the adoption of IFRS 15, other line items in the main financial statements were restated as needed. These include deferred taxes, taxes, and retained earnings. In addition, the Group restated the exchange differences arising from the translation of foreign financial statements.

f. Presentation and disclosure requirements – pursuant to IFRS 15, the Group disaggregated the revenue from contracts with customers into categories that depict how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors (see Note 27—Information on the consolidated income statement). The Group disclosed also the relationship between disaggregated revenue disclosures and the revenue disclosures for each segment (see Note 5—Segment information).

Impact on consolidated profit or loss for the year ended December 31, 2017

| (Euro/000) | FY 2017 | | | |
|---|---|---|---|---|
| | **Published** | | **Adjustment** | **Under IFRS 15** |
| Net sales | 9,157,291 | a),b) | 26,884 | 9,184,175 |
| Cost of sales | 3,282,098 | c) | (434) | 3,281,664 |
| **Gross Profit** | **5,875,194** | | **27,318** | **5,902,512** |
| Selling expenses | 3,025,835 | c) | (1,401) | 3,024,434 |
| Royalties | 164,043 | | - | 164,043 |
| Advertising expenses | 501,748 | a) | 27,331 | 529,079 |
| General and administrative expenses | 882,971 | | - | 882,971 |
| *Total operating expenses* | *4,574,597* | | *25,931* | *4,600,528* |
| **Income from operations** | **1,300,596** | | **1,387** | **1,301,983** |
| Financial income | 18,199 | | - | 18,199 |
| Financial expenses | (107,746) | | - | (107,746) |
| Other net income (expenses) | 45,441 | | - | 45,441 |
| Total other income (expenses) | (44,106) | | - | (44,106) |
| **Income before taxes** | **1,256,490** | | **1,387** | **1,257,877** |
| Income taxes | (216,085) | e) | 914 | (215,171) |
| **Net income** | **1,040,405** | | **2,301** | **1,042,706** |
| Of which attributable to | | | | |
| *Luxottica stockholders* | *1,038,445* | | *2,301* | *1,040,746* |
| *Non-controlling interests* | *1,960* | | *-* | *1,960* |

Impact on other comprehensive income for the year ended December 31, 2017

| *(Euro/000)* | FY 2017 | | | |
|---|---|---|---|---|
| | **Published** | | **Adjustment** | **Under IFRS 15** |
| **Net income for the period** | **1,040,405** | | **2,301** | **1,042,706** |
| Items that may be subsequently reclassified to profit or loss | | | | |
| Fair value of hedging derivative contracts (IRS) | 425 | | - | 425 |
| Taxes | (126) | | - | (126) |
| Currency translation difference | (588,541) | e) | (731) | (589,272) |
| **Total items that may be subsequently reclassified to profit or loss** | **(588,241)** | | **(731)** | **(588,973)** |
| Items that will not be subsequently reclassified to profit or loss | | | | |
| Actuarial gains/(losses) on pension funds | 55,188 | | - | 55,188 |
| Taxes | (48,755) | | - | (48,755) |
| **Total items that will not be subsequently reclassified to profit or loss** | **6,432** | | **-** | **6,432** |
| **Total other comprehensive income/(loss) – net of taxes** | **(581,809)** | | **(731)** | **(582,540)** |
| **Total comprehensive income for the period** | **458,596** | | **1,570** | **460,166** |
| *Of which attributable to* | | | | |

| | | | |
|---|---|---|---|
| *Luxottica stockholders* | 456,589 | 1,570 | 458,159 |
| *Non-controlling interests* | 2,007 | | 2,007 |

Impact on the consolidated statement of financial position as at December 31, 2017

| **ASSETS (Euro/000)** | **December 31, 2017** | | | |
|---|---|---|---|---|
| | **Published** | | **Adjustment** | **Under IFRS 15** |
| *Current assets* | | | | |
| Cash and cash equivalents | 1,159,320 | | - | 1,159,320 |
| Accounts receivable | 943,778 | | - | 943,778 |
| Inventories | 831,549 | | - | 831,549 |
| Tax receivables | 66,105 | | - | 66,105 |
| Other current assets | 166,716 | c), d) | 7,231 | 173,947 |
| **Total current assets** | ***3,167,467*** | | ***7,231*** | ***3,174,698*** |
| | | | | |
| *Non-current assets* | | | | |
| Property, plant and equipment | 1,808,834 | | - | 1,808,834 |
| Intangible assets | 1,225,475 | | | 1,225,475 |
| Goodwill | 3,622,396 | | - | 3,622,396 |
| Investments | 14,488 | | - | 14,488 |
| Other non-current assets | 73,756 | c) | 7,155 | 80,911 |
| Deferred tax assets | 130,454 | | - | 130,454 |
| **Total non-current assets** | ***6,875,403*** | | ***7,155*** | ***6,882,558*** |
| | | | | |
| **Total assets** | **10,042,870** | | ***14,386*** | **10,057,256** |

| LIABILITIES AND STOCKHOLDERS' EQUITY (Euro/000) | December 31, 2017 Published | | Adjustment | Under IFRS 15 |
|---|---|---|---|---|
| *Current liabilities:* | | | | |
| Short-term borrowings from banks | 77,486 | | - | 77,486 |
| Current portion of medium-/long-term debt | 150,411 | | - | 150,411 |
| Accounts payable | 906,749 | | - | 906,749 |
| Current taxes payable | 22,299 | | - | 22,299 |
| Short-term provisions for risks | 169,226 | (d) | 1,789 | 171,015 |
| Other current liabilities | 764,394 | b) | 526 | 764,920 |
| **Total current liabilities** | ***2,090,564*** | | ***2,314*** | ***2,092,878*** |
| *Non-current liabilities:* | | | - | |
| Long-term financial debt | 1,671,281 | | - | 1,671,281 |
| Employee benefits | 121,555 | | - | 121,555 |
| Deferred tax liabilities | 147,843 | e) | 2,641 | 150,484 |
| Long-term provisions for risks | 130,453 | | - | 130,453 |
| Other non-current liabilities | 74,626 | b) | 1,890 | 76,516 |
| **Total non-current liabilities** | ***2,145,758*** | | ***4,531*** | ***2,150,289*** |
| *Stockholders' equity* | | | | |
| Share capital | 29,101 | | - | 29,101 |
| Reserves | 4,733,538 | e) | 5,239 | 4,738,777 |
| Net income attributable to Luxottica Group stockholders | 1,038,445 | b), c) | 2,301 | 1,040,746 |
| **Luxottica Group stockholders' equity** | ***5,801,085*** | | **7,541** | ***5,808,626*** |
| Equity attributable to non-controlling interests | 5,463 | | - | 5,463 |
| **Total stockholders' equity** | ***5,806,548*** | | **7,541** | **5,814,089** |
| **Total liabilities and stockholders' equity** | **10,042,870** | | **14,386** | **10,057,256** |

Impact on opening stockholders' equity as at January 1, 2017 and 2018

| **Stockholders' equity** | | ***(Euro/000)*** |
|---|---|---|
| Impact on the balance as at January 1, 2017 | | 5,971 |
| Accounting for renovation and/or improvement fees | b) | (994) |
| Recognition of certain costs incurred for the acquisition and performance of contracts | c) | 6,965 |
| Impact on the balance as at January 1, 2018 | | 7,541 |
| Accounting for renovation and/or improvement fees | b) | (1,115) |
| Recognition of certain costs incurred for the acquisition and performance of contracts | c) | 8,656 |

*Other impacts*

There was no impact on the cash flows reported in the statement of cash flows and on earnings per share.

Please refer to paragraph 1 above in the section *Significant accounting policies* for details of the accounting policies amended following the adoption of IFRS 15.

*IFRIC 22 - Foreign Currency Transactions and Advance Consideration*

The interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The interpretation was endorsed by the European Union in March 2018 and is effective for annual periods beginning on or after January 1, 2018. The adoption of the interpretation by the Group did not require changes to accounting policies or retrospective adjustments.

*Annual Improvements to IFRS Standards 2014-2016 Cycle*

The annual improvements are intended to address non-urgent issues related to inconsistencies found in IFRS standards or clarifications on certain terms that have been discussed by the IASB during the project cycle. The provisions issued concern:

- IAS 28 *Investments in Associates and Joint Ventures*: measurement of investments in an associate or joint venture at fair value in the presence of investment entities;
- IFRS 1 *First-time adoption of International Financial Reporting Standards*: deletion of short-term exemptions for first-time adopters;
- IFRS 12 *Disclosure of Interests in Other Entities*: clarification on the scope of the standard.

The provisions were endorsed by the European Union in February 2018 and are effective for annual periods beginning on or after January 1, 2018, in the case of the amendments to IAS 28 and IFRS 1, and January 1, 2017, in the case of the amendments to IFRS 12. The adoption of the provisions by the Group did not require changes to accounting policies or retrospective adjustments following the first application.

*Amendments to IAS 40: Transfers of Investment Property*

The amendments clarify when an entity should transfer property into, or out of investment property. The interpretation was endorsed by the European Union in March 2018 and is effective for annual periods beginning on or after January 1, 2018. The adoption of the amendments by the Group did not require changes to accounting policies or retrospective adjustments following the first application.

*Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions*

The amendments are intended to clarify the accounting treatment for certain types of share-based payment transactions. The interpretation was endorsed by the European Union in February 2018 and is effective for annual periods beginning on or after January 1, 2018. The adoption of the amendments by the Group did not require changes to accounting policies or retrospective adjustments following the first application.

*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 in light of the new requirements introduced by IFRS 9. These amendments were endorsed by the European Union in November 2017 and are effective for annual periods beginning on or after January 1, 2018. The adoption of the amendments by the Group did not require changes to accounting policies or retrospective adjustments following the first application.

## New standards, amendments and interpretations that are effective for reporting periods beginning after January 1, 2018 and not yet adopted by the Group.

**Endorsed**

*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 sets out the principles for the recognition, measurement, presentation and disclosure of leases. It requires lessees to recognize all leases based on a single model similar to the one used for finance leases under IAS 17. The standard includes two exemptions to the application of the model: leases of “low value” assets and short-term leases. Except for the leases falling within the scope of the above exemptions, at the commencement date, the lessee shall recognize a liability for the future lease payments (so-called *lease liability*) and an asset representing the right to use the underlying asset for the lease term (so-called right-of-use asset). Lessees shall separately recognize interest expense on the lease liability and depreciation on the right-of-use asset in their income statements.

IFRS 16 was endorsed by the European Union in October 2017 and is effective for annual periods beginning on or after January 1, 2019 (i.e. date of initial application).

The standard allows to elect whether to apply the new provisions using a full retrospective or a modified retrospective approach. To ensure full comparability between the information presented in the financial statements, the Group decided to apply the full retrospective approach (paragraph C5(a) of IFRS 16) which will require to restate 2018 information and account for the cumulative impact of applying IFRS 16 as an adjustment to equity as at January 1, 2018 (i.e. the beginning of the earliest period presented in the 2019 financial statements). As a practical expedient, the Group decided not to reassess whether a contract is, or contain, a lease at the date of initial application and relied on the assessment performed applying IAS 17 and IFRIC 4 (paragraph C3 of IFRS 16).

IFRS 16 will have a material impact on the Group's consolidated financial statements in term of right of use asset and lease liability recognition. Both values will be recognized in the statement of financial position with any difference existing at the transition date allocated to the related stockholders' equity reserves. During 2017 and 2018, several departments within the Group (finance, IT, real estate, controlling, etc.) have been involved in the implementation project and, as of the date of this financial statements, the Group has substantially completed its analysis of the population of lease contracts. The leases analysed mainly concern leased stores, plants, warehouses and offices. The expected amount of lease liabilities at January 1, 2019 estimated by the Group, ranges from Euro 1.6 to Euro 1.7 billion. The impact on stockholders' equity deriving from the recognition of the lease liability will be substantially compensated by an increase in total assets deriving from the recognition of the right of use asset. The Group does not expect the IFRS 16 impact on the operating profit to be material.

These estimates should be read in light of the off-balance sheet commitments disclosed in Note 29 *Commitments and risks*, considering that differences between this amount and the estimated IFRS 16 lease liability exist because of the following factors:

- unlike off-balance sheet commitments, lease liabilities will not include liabilities under leases with an initial term of one year or less (cd. short-term lease) nor liabilities under leases of low-value assets;
- the estimated term of certain leases under IFRS 16 may differ from that used to calculate off-balance sheet commitments (e.g. extension options are not considered in the calculation of off-balance sheet commitments); and
- off-balance sheet commitments do not reflect the impact of discounting lease liabilities.

*Amendments to IFRS 9: Prepayment Features with Negative Compensation*

These amendments are intended to clarify the classification of financial assets with particular prepayment features when applying IFRS 9. The interpretation was endorsed by the European Union in March 2018 and is effective for annual periods beginning on or after January 1, 2019. The Group does not expect significant impacts from the adoption of these amendments.

*IFRIC 23 Uncertainty over Income Tax Treatments*

The interpretation provides guidance on how to reflect uncertain tax treatments in accounting for income taxes. The interpretation will be effective in preparing the financial statements for annual periods beginning on or after January 1, 2019.

**Not yet endorsed**

*IFRS 17 Insurance Contracts*

The new accounting standard for the accounting of insurance contracts will replace IFRS 4. The new standard will be effective for annual periods beginning on or after January 1, 2021 unless it is subsequently deferred following its endorsement by the European Union, which had not yet been received at the date of these consolidated financial statements.

*Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures*

These amendments are intended to clarify the application of IFRS 9 in accounting for long-term receivables due from associates or join ventures that, in substance, form part of the net investment in the associate or

joint venture. The amendments will be effective for annual periods beginning on or after January 1, 2019 unless they are subsequently deferred following their endorsement by the European Union, which had not yet been received at the date of these consolidated financial statements.

*Annual Improvements to IFRS Standards 2015-2017 Cycle*

The provisions issued concern the following standards:

- IAS 12 *Income Taxes*: accounting treatment of the income tax consequences of dividends on financial instruments classified as equity;
- IAS 23 *Borrowing Costs*: classification of borrowing that specifically finance qualifying assets when they are ready for their intended use or sale;
- IFRS 3 *Business Combination* and IFRS 11 *Joint Arrangements*: accounting for the acquisition of control over a business that is a joint operation.

The provisions will be effective for annual periods beginning on or after January 1, 2019 unless they are subsequently deferred following their endorsement by the European Union, which had not yet been received at the date of these condensed consolidated interim financial statements.

*Amendments to IAS 19: Plan Amendment, Curtailment or Settlement*

The amendments clarify how to calculate service costs when a defined-benefit plan is amended. The amendments will be effective for annual periods beginning on or after January 1, 2019 unless they are subsequently deferred following their endorsement by the European Union, which had not yet been received at the date of these consolidated financial statements.

*Amendments to References to the Conceptual Framework in IFRS Standards*

In March 2018, the IASB issued a revised version of the Conceptual Framework for Financial Reporting ("Conceptual Framework") as well as a document updating the references to the previous Conceptual Framework in IFRS standards. The new references will be effective for annual periods beginning on or after January 1, 2020 unless they are subsequently deferred following their endorsement by the European Union, which had not yet been received at the date of these condensed consolidated interim financial statements.

*Amendments to IFRS 3: Business Combinations*

Amendments help companies understand whether the acquisitions made concern a business or a group of assets. The amendments will be effective for annual periods beginning on or after January 1, 2020 unless they are subsequently deferred following their endorsement by the European Union, which had not yet been received at the date of these condensed consolidated interim financial statements.

*Amendments to IAS 1 and IAS 8: Definition of Material*

The purpose of the provisions is to clarify whether information is material for inclusion in the financial statements. The amendments will be effective for annual periods beginning on or after January 1, 2020 unless they are subsequently deferred following their endorsement by the European Union, which had not yet been received at the date of these condensed consolidated interim financial statements.

## 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.

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% the negative effect on income before taxes will be a decrease of Euro 107.8 million and Euro 91.1 million in 2018 and 2017, respectively. If the Euro/USD exchange rate decreases by 10% the positive effect on income before taxes will be an increase of Euro 107.8 million and Euro 91.1 million in 2018 and 2017, respectively.

The Group does not engage in long-term hedging operations 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 and shares which are classified as assets at fair value through profit or loss. As at December 31, 2018 and 2017, the Group bond portfolio was fully divested while equity securities were recorded for a total value of approximately Euro 5.8 million as at December 31, 2018 (Euro 4.7 million as at December 31, 2017). The risk of fluctuations in the price of these securities is monitored both locally and at corporate level and is limited by the immateriality of the amounts invested.

## 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 for the Wholesale and Retail segment, 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, unless otherwise concluded as a result of the application of the simplified approach described above, 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");
- "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;

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 or authorized by the Company's Control and Risk Committee, 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 at December 31, 2018, had unused credit lines of approximately Euro 937.5 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;
- 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 at December 31, 2018 and December 31, 2017. 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 at December 31, 2018** | | | | |
| Cash and cash equivalents | 1,298,093 | - | - | - |
| Exchange rate derivatives | 3,854 | - | - | - |
| Interest rate derivatives | - | - | - | - |
| Accounts receivable | 951,672 | - | - | - |
| Other current assets | 109,462 | - | - | - |

| (Euro/000) | Less than 1 year | From 1 to 3 years | From 3 to 5 years | Beyond 5 years |
|---|---|---|---|---|
| **As at 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 | 104,977 | - | - | - |

| (Euro/000) | Less than 1 year | From 1 to 3 years | From 3 to 5 years | Beyond 5 years |
|---|---|---|---|---|
| **As at December 31, 2018** | | | | |
| Borrowings from banks and other financial institutions | 596,069 | 88,224 | 535,595 | 501,442 (**) |
| Exchange rate derivatives | 2,513 | - | - | - |
| Interest rate derivatives | | - | 3,510 | - |
| Accounts payable | 961,850 | - | - | - |
| Other current liabilities | 715,167 | - | - | - |

| (Euro/000) | Less than 1 year | From 1 to 3 years | From 3 to 5 years | Beyond 5 years |
|---|---|---|---|---|
| **As at 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 | 694,928 | - | - | - |

(*) In order to make them comparable with those as at December 31, 2018, borrowings from banks and other financial institutions as at December 31, 2017 were amended to include the effect of the interest component on future cash flows.
(**) Excludes the balance of the amortised costs of Euro (3.9) million in 2018 and (6.0) in 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 derivative 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%. As part of 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 at December 31, 2018 and December 31, 2017 there were no floating rate debts not hedged against interest rate risk.

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):

| **As at December 31, 2018** (Euro/000) | **Financial assets at fair value through profit or loss** | **Financial liabilities at fair value through profit or loss** | **Financial assets at amortised cost** | **Financial liabilities at amortised cost** | **Hedging derivatives** | **Total** | **Note (*)** |
|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | - | - | 1,298,093 | - | - | 1,298,093 | 6 |
| Accounts receivable | - | - | 951,672 | - | - | 951,672 | 7 |
| Other current assets | 3,854 | - | 105,607 | - | - | 109,461 | 10 |
| Other non-current assets | - | - | 168,709 | - | - | 168,709 | 14 |
| Investments | 12,220 | - | - | - | - | 12,220 | 13 |
| Short-term borrowings from banks | - | - | - | 49,378 | - | 49,378 | 16 |
| Current portion of medium-/long-term debt | - | - | - | 602,580 | - | 602,580 | 17 |
| Accounts payable | - | - | - | 961,850 | - | 961,850 | 18 |
| Other current liabilities | - | 2,513 | - | 712,654 | - | 715,167 | 21 |
| Long-term financial debt | - | - | - | 1,074,452 | - | 1,074,452 | 22 |
| Other non-current liabilities | - | - | - | 72,392 | 3,510 | 75,902 | 25 |

*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.

| **As at December 31, 2017** (Euro/000) | **Financial assets at fair value through profit or loss** | **Financial liabilities at fair value through profit or loss** | **Financial assets at amortised cost** | **Financial liabilities at amortised cost** | **Hedging derivatives** | **Total** | **Note (*)** |
|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | - | - | 1,159,320 | - | - | 1,159,320 | 6 |
| Accounts receivable | - | - | 943,778 | - | - | 943,778 | 7 |
| Other current assets | 5,260 | - | 99,717 | - | - | 104,977 | 10 |
| Other non-current assets | - | - | 70,174 | - | 487 | 70,661 | 14 |
| Investments | 10,881 | - | - | - | - | 10,881 | 13 |
| 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 | - | 3,408 | - | 691,751 | - | 695,159 | 21 |
| Long-term financial debt | - | - | - | 1,671,281 | - | 1,671,281 | 22 |
| Other non-current liabilities | - | - | - | 76,516 | - | 76,516 | 25 |

*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 favour 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;
- "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 at December 31, 2018, 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, to date, 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 sets out a hierarchy of valuation techniques 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);
- 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) in order to select the appropriate valuation techniques to utilize, the Group uses the above valuation hierarchy; (ii) as at December 31, 2018, the Company did not use, for fair value measurement purposes, inputs that caused the relative financial instrument to be included in level 3.

The Company determined the fair value of the derivatives existing as at December 31, 2018 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** (Euro/000) | **Classification** | **December 31, 2018** | **Fair Value measurements at the end of the reporting period using:** | | |
|---|---|---|---|---|---|
| | | | **Level 1** | **Level 2** | **Level 3** |
| Forward exchange rate contracts | Other short-term assets | 3,854 | - | 3,854 | - |
| Rate derivatives | Other long-term liabilities | 3,510 | - | 3,510 | - |
| Forward exchange rate contracts | Other short-term liabilities | 2,513 | - | 2,513 | - |
| Investments | Investments | 12,220 | 5,837 | 6,382 | |

| **Description** (Euro/000) | **Classification** | **December 31, 2017** | **Fair Value measurements at the end of the reporting period using:** | | |
|---|---|---|---|---|---|
| | | | **Level 1** | **Level 2** | **Level 3** |
| Forward exchange rate contracts | Other short-term assets | 5,260 | - | 5,260 | - |
| Rate derivatives | Other long-term assets | 487 | - | 487 | - |
| Forward exchange rate contracts | Other short-term liabilities | 3,408 | - | 3,408 | - |
| Investments | Investments | 10,881 | 4,744 | 6,137 | - |

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. These instruments, categorized within level 1, mainly include equity investments classified as financial assets at fair value through profit or loss.

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 Óticas Carol, one of the most important optical franchise chains 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 owns six entities 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*.

The acquisition of Óticas Carol represents a business combination recognized in accordance with IFRS 3 *Business combinations*.

For the purposes of the consolidated financial statements as at December 31, 2017, in accordance with the

provisions of IFRS 3, the fair value of the identifiable assets and liabilities acquired was 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 84.7 million.

As at December 31, 2018, the valuation processes relating to the acquisition of Óticas Carol had been completed and, consequently, the comparative figures for the financial information as at December 31, 2017 were restated on the basis of the final estimates. Below is the reconciliation of the amounts estimated on a provisional basis and the final amounts.

| (Euro/000) | Provisional valuation | Adjustments | Final valuation |
|---|---|---|---|
| Acquisition value 100% (A) | 97,947 | - | 97,947 |
| Total net identifiable assets (B) | 13,297 | 14,957 | 28,254 |
| **Goodwill (C=A-B)** | **84,650** | **14,957** | **69,693** |
| Consideration for the acquisition (D) | 97,947 | - | 97,947 |
| Acquiree cash (E) | (658) | - | (658) |
| **Cash flow absorbed by the acquisition (F=E-D)** | **97,289** | **-** | **97,289** |

The restatement based on the above information caused a decline in the group's goodwill and an increase in intangible assets (Trade names and trademarks), and specifically the Óticas Carol brand. Therefore, in accordance with the provisions of IFRS 3, the comparative information as at December 31, 2017 was retrospectively restated to reflect the above changes. Specifically, excluding translation differences:

(i) goodwill declined by Euro 14.2 million;

(ii) intangible assets increased by Euro 20.9 million, excluding the relevant amortization recognized during the period (Euro 0.6 million); and

(iii) deferred tax liabilities increased by Euro 7.1 million.

Net income for the year 2017 was restated to account for the higher amortization of the Óticas Carol brand since the acquisition date until the end of the year as well as the relevant tax impact (Euro 0.6 and Euro 0.2 million, respectively).

The following table summarizes the impact of the above adjustments on the items in the financial statements as at December 31, 2017.

| **Impact on the situation as at December 31, 2017** | ***(Euro/000)*** |
|---|---|
| Goodwill | (14,171) |
| Intangible assets | 20,934 |
| Deferred tax liabilities | 7,117 |
| Retained earnings | (390) |

## Fukui Megane

On May 18, 2018, Luxottica Group finalized the acquisition of 67% of Fukui Megane Co. Ltd ("Fukui Megane"). The company specializes in the production of luxury eyewear frames made of titanium and solid gold. Therefore, as from said date, Fukui Megane and its subsidiary became part of the Group's 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 verified that Fukui Megane Co. Ltd and its subsidiary Monjyu Co. Ltd did not fall within the scope of application of CONSOB Market Regulations.

The acquisition of Fukui Megane represents a business combination recognized in accordance with IFRS 3 *Business Combinations*. To this end, at the date of acquisition of control, the individual identifiable assets and liabilities acquired were recognized 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 are subject to change within 12 months from the acquisition date.

The consideration determined for the acquisition was JPY 872.6 million (Euro 6.7 million).

The closing of the transaction did not cause the Group to incur any significant acquisition costs towards third parties.

The accounting effects of this business combination, in accordance with IFRS 3 *Business Combinations*, are as follows:

| (Euro/000) | December 31, 2018 |
|---|---|
| | |
| Acquisition value 100% (A) | 10,032 |
| Total net identifiable assets (B) | 5,661 |
| **Goodwill (C=A-B)** | **4,371** |
| | |
| Consideration for the acquisition (D) | 6,721 |
| Deferred Payment (E) | (940) |
| Acquiree cash (F) | (3,131) |
| **Cash flow absorbed by the acquisition (G=D+E+F)** | **2,650** |

Below is the fair value of Fukui Megane's assets and liabilities at the acquisition date:

| (Euro/000) | Fair value at the acquisition date |
|---|---|
| Cash and cash equivalents (F) | 3,131 |
| Accounts receivable* | 3,429 |
| Inventories | 5,362 |
| Other current assets | 66 |
| Property, plant and equipment | 5,221 |
| Intangible assets | 63 |
| Deferred tax assets | 1,978 |
| Other non-current assets | 2,908 |
| **Total fair value of the assets acquired (H)** | **22,157** |
| Short-term borrowings from banks | 1,494 |
| Accounts payable | 263 |
| Short-term provisions for risks | - |
| Other current liabilities | 706 |
| Long-term financial debt | 10,741 |
| Long-term provisions for risks | 2,961 |
| Deferred tax liabilities (net) | - |
| Employee benefits | - |
| Other non-current liabilities | 329 |
| **Total fair value of the liabilities acquired (I)** | **16,496** |
| **Total net identifiable assets (B=H-I)** | **5,661** |
| **Share attributable to the Group (67% of B)** | **3,793** |

* Euro 3.4 million net of Euro 0.03 million in the bad debt provision

Goodwill is not tax deductible and primarily reflects the synergies that the Group estimates it will derive from the acquisition.

Finally, under the agreements Luxottica and the minority shareholder entered into at the time of the acquisition, Luxottica shall purchase, and the minority shareholder sell, the remaining 33% interest in Fukui Megane within 6 months of the approval of the 2022 financial statements for the higher of: a) Euro 3.3 million; and b) the amount resulting from a formula that links the consideration with the trend in sales and the net financial position of the subsidiary. This contractual obligation does not guarantee the Group access to the rewards incidental to ownership of the interest held by the minority shareholder, therefore the Group recognized it as a financial liability with a corresponding deduction from stockholders' equity.

Fukui Megane's sales and net income/(loss), as a contribution to the consolidated financial statements, totaled Euro 5.0 million and Euro (0.9) million, respectively. On an unaudited pro forma basis, had the acquisition occurred at the beginning of the year, net sales and net income/(loss) contributed by Fukui Megane to the consolidated financial statements would have been Euro 7.8 million and Euro (1.2) million, respectively. Due diligence costs are not significant.

## Spectacle Hut

On October 5, 2018, the Luxottica Group completed the acquisition of 60% of Spectacle Hut, one of the most important optical franchise chains in Singapore. As from said date, Spectacle Hut became part of the Group's scope of consolidation and was consolidated on a line-by-line basis in accordance with IFRS 10 *Consolidated Financial Statements.*

The acquisition of Spectacle Hut represents a business combination recognized in accordance with IFRS 3 *Business Combinations*. To this end, at the date of acquisition of control, the individual identifiable assets and liabilities acquired were recognized at their fair value.

The consideration paid for the acquisition was SGD 22.4 million (Euro 14.1 million).

The closing of the transaction did not cause the Group to incur any significant acquisition costs towards third parties.

The accounting effects of this business combination, in accordance with IFRS 3 *Business Combinations*, are as follows:

| **(Euro/000)** | **December 31, 2018** |
|---|---|
| | |
| Acquisition value 100% (A) | 23,473 |
| Total net identifiable assets (B) | 2,235 |
| **Goodwill (C=A-B)** | **21,238** |
| | |
| Consideration for the acquisition (D) | 14,084 |
| Deferred Payment (E) | - |
| Acquiree cash (F) | (52) |
| **Cash flow absorbed by the acquisition (G=D+E+F)** | **14,032** |

Below is the fair value of Spectacle Hut's assets and liabilities at the acquisition date:

| **(Euro/000)** | **Fair value at the acquisition date** |
|---|---|
| Cash and cash equivalents (F) | 52 |
| Accounts receivable | 70 |
| Inventories | 4,405 |
| Other current assets | 768 |

| | |
|---|---|
| Property, plant and equipment | 1,172 |
| Intangible assets | 635 |
| Deferred tax assets | - |
| Other non-current assets | 1,341 |
| **Total fair value of the assets acquired (H)** | **8,443** |
| Short-term borrowings from banks | 2,368 |
| Accounts payable | 2,928 |
| Short-term provisions for risks | - |
| Other current liabilities | 743 |
| Long-term financial debt | - |
| Long-term provisions for risks | - |
| Deferred tax liabilities (net) | 168 |
| Employee benefits | - |
| Other non-current liabilities | - |
| **Total fair value of the assets acquired (I)** | **6,208** |
| **Total net identifiable assets (B=H-I)** | **2,235** |
| **Share attributable to the Group (60% of B)** | **1,341** |

Goodwill is not tax deductible and primarily reflects the synergies that the Group estimates it will derive from the acquisition.

Lastly, under the agreements Luxottica and the minority shareholder entered into at the time of the acquisition, Luxottica shall purchase, and the minority shareholder sell, the remaining 40% interest in Spectacle Hut for the consideration agreed in the contract. This contractual obligation does not guarantee the Group access to the rewards incidental to ownership of the interest held by the minority shareholder, therefore the Group recognized it as a financial liability with a corresponding deduction from stockholders' equity.

Spectacle Hut's sales and net income/(loss), as a contribution to the consolidated financial statements, totaled Euro 3.9 million and Euro (1.3) million, respectively. On an unaudited pro forma basis, had the acquisition occurred at the beginning of the year, net sales and net income contributed by Spectacle Hut to the consolidated financial statements would have been Euro 26.2 million and Euro (2.6) million, respectively. Due diligence costs are not significant.

## 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, 2018.

| **Segment information** (Euro/000) | **Wholesale** | **Retail** | **Inter-segment transactions and other adjustments[c]** | **Consolidated** |
|---|---|---|---|---|
| **December 31, 2018** | | | | |
| Net sales[a] | 3,194,167 | 5,734,722 | - | 8,928,889 |
| Income from operations[b] | 719,401 | 807,274 | (242,724) | 1,283,951 |
| Financial income | - | - | - | 18,344 |
| Financial expenses | - | - | - | (69,463) |
| Other net income/(expenses) | - | - | - | 4,359 |
| Income before taxes | - | - | - | 1,228,473 |
| Income taxes | - | - | - | (328,108) |
| Net income | - | - | - | 900,365 |
| Of which attributable to: | | | | |
| Luxottica stockholders | - | - | - | 900,202 |
| Non-controlling interests | - | - | - | 163 |
| Investments | 343,511 | 239,391 | - | 582,902 |
| Depreciation | 168,377 | 257,525 | 89,165 | 515,067 |
| | | | | |
| **December 31, 2017** | | | | |
| Net sales[a] [d] | 3,370,793 | 5,813,382 | - | 9,184,175 |
| Income from operations[b] [d] | 720,836 | 808,228 | (227,671) | 1,301,392 |
| Financial income | - | - | - | 18,199 |
| Financial expenses | - | - | - | (107,746) |
| Other net income/(expenses) | - | - | - | 45,441 |
| Income before taxes | - | - | - | 1,257,286 |
| Income taxes | - | - | - | (214,970) |
| Net income | - | - | - | 1,042,316 |
| Of which attributable to: | | | | |
| - Luxottica stockholders | - | - | - | 1,040,356 |
| - Non-controlling interests | - | - | - | 1,960 |
| Investments | 413,352 | 249,624 | - | 662,976 |
| Depreciation and amortization[d] | 174,418 | 277,171 | 89,423 | 541,011 |

[a] Net sales of both the Manufacturing & Wholesale Distribution segment and the Retail Distribution segment include sales to third-party customers only.
[b] 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. The income from operations of the Retail segment is related to retail sales, considering the cost of goods acquired from the Wholesale segment at manufacturing cost, thus including the relevant "manufacturing profit" attributable to those sales.
[c] 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.
[d] Net sales, income from operations and depreciation, amortization and write-down for the first half of 2017 were restated to reflect the application of the new IFRS 15 accounting standard, the impact of the events described in Note 4—Business combinations, to which reference should be made for further details and the inclusion of the results of the Group's e-commerce platform within the Retail segment.
The inclusion of the results of the Group's e-commerce platforms within the Retail division has no impact on the results of the impairment test on goodwill carried out as at December 31, 2017.

## 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**[(1)] | **North America**[(2)] | **Asia Pacific**[(3)] | **Latin America** | **Other** | **Consolidated** |
|---|---|---|---|---|---|---|
| **2018** | | | | | | |
| Net Sales | 1,921,757 | 5,138,185 | 1,155,351 | 564,312 | 149,285 | 8,928,889 |
| Property, plant and equipment | 684,195 | 910,023 | 342,812 | 72,946 | 5,280 | 2,015,256 |
| **2017** | | | | | | |
| Net Sales[(4)] | 1,966,434 | 5,275,888 | 1,159,203 | 616,197 | 166,453 | 9,184,175 |
| Property, plant and equipment | 583,236 | 824,527 | 318,755 | 76,724 | 5,592 | 1,808,834 |

[(1)] Property, plant and equipment located in Italy represented 31% and 30% of the Group's total property, plant and equipment in 2018 and 2017, respectively. Net sales recorded in Italy were Euro 0.5 billion and Euro 0.5 billion in 2018 and 2017, respectively.
[(2)] Property, plant and equipment located in the United States represented 45% and 46% of the Group's total property, plant and equipment in 2018 and 2017, respectively. Net sales recorded in the United States were Euro 5.1 billion and Euro 5.3 billion in 2018 and 2017, respectively.
[(3)] Longlived assets located in China represented 13% and 14% of the Group's total fixed assets in 2018 and 2017, respectively.
[(4)] Net sales for the year ended December 31, 2017 for Manufacturing & Wholesale Distribution have been revised to reflect a reclassification of certain geographic markets, which the Group considers immaterial.

***CURRENT ASSETS***

## 6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are comprised of the following items:

| **Cash and cash equivalents** (Euro/000) | **December 31, 2018** | **December 31, 2017** |
|---|---|---|
| Cash at bank | 1,292,004 | 1,144,382 |
| Checks | 2,859 | 11,188 |
| Cash and cash equivalents on hand | 3,230 | 3,749 |
| **Total** | **1,298,093** | **1,159,320** |

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, 2018** | **December 31, 2017** |
|---|---|---|
| Accounts receivable | 1,026,813 | 1,018,177 |
| Bad debt provision | (75,141) | (74,399) |
| **Total net accounts receivable** | **951,672** | **943,778** |

The value of net trade receivables as at December 31, 2018 amounted to Euro 951.7 million, substantially in line with the value as at December 31, 2017 (Euro 943.8 million).

Specifically, the impairment losses reported pursuant to IFRS 9 are recognized in consolidated profit or loss, net of any positive effects associated with reversals or revaluations, under “Net impairment losses on financial assets” within the line item Selling expenses. They amounted to Euro 9.4 million as at December 31, 2018 (Euro 39.9 million as at December 31, 2017).

The following table shows the changes in bad debt provision:

| **Bad debt provision** (Euro/000) | **2018** | **2017** |
|---|---|---|
| **Balance as at January 1** | **74,399** | **51,008** |
| Provisions | 12,751 | 32,335 |
| Utilization (Releases) | (12,522) | (5,518) |
| Translation difference and other | 513 | (3,426) |
| **Balance as at December 31** | **75,141** | **74,399** |

As at December 31, 2018, the gross amount of accounts receivable assessed for inclusion in the bad debt provision was equal to Euro 1,027 million (Euro 1,018 million as at December 31, 2017). The bad debt provision as at December 31, 2018 amounted to Euro 75.1 million (Euro 74.4 million as at December 31, 2017).

Allocation of accounts receivable is determined in accordance with the Group credit policy described in Note 3—Financial Risks.

The maximum exposure to credit risk at the end of the reporting period 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 tables below summarizes the quantitative information required by IFRS 7. In the first and in the second table such information are presented based on the categories of receivables pursuant to Group policies:

| **As at December 31, 2018** (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** |
|---|---|---|---|---|---|---|
| Receivables of the Wholesale segment classified as GOOD | 626,780 | (12,282) | 614,498 | 41,586 | 25,781 | 15,806 |
| Receivable of the Wholesale segment classified as RISK | 48,440 | (43,488) | 4,952 | 924 | 50 | 874 |
| Receivables of the Retail segment | 351,593 | (19,371) | 332,222 | 31,621 | 20,121 | 11,499 |
| **Total** | **1,026,813** | **(75,141)** | **951,672** | **74,131** | **45,952** | **28,179** |

| **As at December 31, 2017** (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** |
|---|---|---|---|---|---|---|
| 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** |

| **As at December 31, 2018** (Euro/000) | **Current** | **Beyond 30 days overdue** | **Beyond 60 days overdue** | **Beyond 90 days overdue** | **Total** |
|---|---|---|---|---|---|
| Expected rate of loss | 0.0% | 5.5% | 24.9% | 93.1% | 7.3% |
| Receivables of the Wholesale segment | 609,949 | 8,309 | 5,522 | 51,441 | 675,220 |
| Receivables of the Retail segment | 310,787 | 7,555 | 9,308 | 23,943 | 351,593 |
| Bad debt provision | (408) | (867) | (3,689) | (70,177) | (75,141) |
| **Total** | **920,328** | **14,996** | **11,141** | **5,207** | **951,672** |

| **As at December 31, 2017** (Euro/000) | **Current** | **Beyond 30 days overdue** | **Beyond 60 days overdue** | **Beyond 90 days overdue** | **Total** |
|---|---|---|---|---|---|
| Expected rate of loss | 0.5% | 5.0% | 6.7% | 86.9% | 7.3% |
| Receivables of the Wholesale segment | 603,169 | 11,323 | 6,065 | 63,882 | 684,438 |
| Receivables of the Retail segment | 308,742 | 3,740 | 6,672 | 14,585 | 333,739 |
| Bad debt provision | (4,619) | (758) | (856) | (68,166) | (74,399) |
| **Total** | **907,291** | **14,305** | **11,881** | **10,301** | **943,778** |

The accounts receivable of the retail segment are mainly related to the insurance business of the Group.

As at December 31, 2018, the amount of overdue receivables which were not included in the bad debt provision was equal to 7.2% of gross receivables (8.2% as at December 31, 2017) and 7.8% of receivables net of the bad debt provision (8.8% as at December 31, 2017). 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, 2018 | December 31, 2017 |
|---|---|---|
| Raw materials and packaging | 140,083 | 181,618 |
| Work in progress | 37,513 | 33,710 |
| Finished goods | 812,580 | 782,263 |
| Inventory obsolescence reserve | (166,718) | (166,042) |
| **Total** | **823,458** | **831,549** |

As at December 31, 2018, the value of inventories and the related inventory obsolescence is in line with the previous year.

The movements in the inventory obsolescence reserve are as follows:

| Inventory obsolescence reserve (Euro/000) | 2018 | 2017 |
|---|---|---|
| **Balance as at January 1** | **166,042** | **141,032** |
| Provisions | 110,749 | 104,145 |
| Utilization | (110,142) | (70,557) |
| Translation difference and other | 69 | (8,578) |
| **As at December 31** | **166,718** | **166,042** |

## 9. TAX RECEIVABLES

Tax receivables decreased by Euro 17.0 million to Euro 49.1 million from Euro 66.1 million as at December 31, 2017, largely because Luxottica Group and Luxottica US Holding used their credits for direct taxes against taxes owed for the period.

## 10. OTHER CURRENT ASSETS

Other current assets comprise the following items:

| **Other current assets** (Euro/000) | **December 31, 2018** | **December 31, 2017** ***Restated*** |
|---|---|---|
| Sales tax receivables | 55,926 | 47,422 |
| Accrued income | 688 | 1,044 |
| Costs for contracts with customers | 6,382 | 5,442 |
| Right to recover returned goods (asset) | 4,267 | 1,789 |
| Derivative instruments - assets | 3,854 | 5,260 |
| Other assets | 38,345 | 44,020 |
| **Total other financial assets** | **109,462** | **104,977** |
| Advances to suppliers | 32,667 | 13,636 |
| Prepaid expenses | 62,188 | 52,973 |
| Other assets | 2,000 | 2,361 |
| **Total other non-financial assets** | **96,855** | **68,970** |
| **Total other current assets** | **206,317** | **173,947** |

The Euro 4.5 million increase in Other current financial assets was largely the result of the net Euro 8.5 million rise in Sales tax receivables —partially offset by decreases in other assets for Euro 5.7 million. As at December 31, 2018, the line item also included: (i) Euro 3.9 million in receivables arising from exchange rate risk hedges (Euro 5.3 million as at December 31, 2017); (ii) Euro 6.4 million in costs for contracts with customers capitalized in accordance with IFRS 15; and (iii) the asset for the right to recover returned goods, estimated at Euro 4.3 million and included within this line item pursuant to IFRS 15. In addition, the opening balance of the line item was restated, recognizing a Euro 7.2 million increase (including Euro 5.4 million related to Costs for contracts with customers and Euro 1.8 million referring to the Right to recover returned goods (asset) ) to reflect the impact of the adoption of the new international accounting standard IFRS 15 (for more information, see Note 2—New accounting standards).

The increase in Other current non-financial assets compared to December 31, 2017 was largely the result of: (i) Euro 19.0 million in Advances to suppliers, mainly attributable to the short-term portion of the upfront payment (totalling USD 100 million) recognized under the Bass Pro agreement; (ii) Euro 9.2 million in Prepaid expenses.

The carrying amount of financial assets is approximately equal to their fair value and also corresponds to the maximum exposure to credit risk. The Group has no guarantees or other instruments to mitigate credit risk.

***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 | Industrial plant, machinery and equipment | Aircraft | Other equipment | Total |
|---|---|---|---|---|---|
| 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 at January 1, 2017** | **588,175** | **576,156** | **9,928** | **498,293** | **1,672,552** |
| Increases | 231,930 | 107,809 | - | 238,164 | 577,903 |
| Decreases | (7,235) | (7,438) | - | (9,824) | (24,497) |
| Business combinations | - | 4,646 | - | 26,239 | 30,885 |
| Translation differences and other changes | (26,702) | 30,931 | - | (143,069) | (138,840) |
| Depreciation | (81,931) | (139,695) | (568) | (86,975) | (309,169) |
| **Total as at 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 at December 31, 2017** | **704,237** | **572,409** | **9,360** | **522,828** | **1,808,834** |
| Increases | 106,716 | 123,806 | - | 267,459 | 497,981 |
| Decreases | (2,896) | (17,317) | - | (7,201) | (27,414) |
| Business combinations | 4,515 | 622 | - | 1,359 | 6,496 |
| Translation differences and other changes | 138,965 | 88,384 | - | (196,383) | 30,966 |
| Depreciation | (72,873) | (146,322) | (568) | (81,844) | (301,608) |
| **Total as at December 31, 2018** | **878,664** | **621,582** | **8,792** | **506,218** | **2,015,256** |
| *Of which* | | | | | |
| *Historical cost* | 1,590,471 | 1,806,110 | 11,362 | 1,064,843 | 4,472,786 |
| *Accumulated depreciation* | (711,807) | (1,184,528) | (2,570) | (558,625) | (2,457,530) |
| **Total as at December 31, 2018** | **878,664** | **621,582** | **8,792** | **506,218** | **2,015,256** |

Of the total depreciation expense of Euro 301.6 million (Euro 309.2 million in 2017), Euro 111.5 million (Euro 107.9 million in 2017) is included in cost of sales, Euro 138.0 million (Euro 151.3 million in 2017) in selling expenses, Euro 14.1 million (Euro 14.1 million in 2017) in advertising expenses, and Euro 37.9 million (Euro 35.8 million in 2017) in general and administrative expenses.

Investments in 2017 and 2018 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 2017 and 2018. In 2018, the Group purchased land and buildings for a consideration of Euro 106.7 million, mainly in relation to the acquisition of the building hosting the corporate offices in New York.

Other property, plant and equipment included Euro 220.6 million in assets under construction as at

December 31, 2018 (Euro 267.4 million as at December 31, 2017). Leasehold improvements totaled Euro 257.9 million and Euro 213.2 million as at December 31, 2018 and December 31, 2017, respectively.

The value included in business combinations represented mainly the value of the land on which the buildings in Fukui Megane stand. For further details, see note 4 "Business Combinations".

No adjustments to the value of tangible assets were performed in 2018 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, 2017 and 2018, were as follows:

| (Euro/000) | Goodwill | Trade names and trademarks | Customer relations and contracts | Franchise agreements | Other | Total |
|---|---|---|---|---|---|---|
| Historical cost | 3,864,955 | 1,883,690 | 302,957 | 27,227 | 1,164,267 | 7,243,096 |
| Accumulated amortisation | - | (1,078,612) | (163,549) | (16,001) | (642,662) | (1,900,824) |
| **Total as at January 1, 2017** | **3,864,955** | **805,078** | **139,408** | **11,226** | **521,605** | **5,342,272** |
| Increases | - | - | - | - | 85,073 | 85,073 |
| Decreases | - | - | - | - | (1,485) | (1,485) |
| Business combinations | 102,728 | 16,852 | 194 | - | 3,412 | 123,186 |
| Translation differences and other changes | (345,287) | (68,059) | (13,924) | (1,286) | (41,367) | (469,923) |
| Amortisation | - | (72,266) | (14,117) | (1,270) | (143,598) | (231,251) |
| **Total as at 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 amortisation | - | (1,062,146) | (156,452) | (15,261) | (702,554) | (1,936,413) |
| **Total as at December 31, 2017** | **3,622,396** | **681,605** | **111,561** | **8,670** | **423,640** | **4,847,872** |
| *PPA Óticas Carol* | (14,171) | 20,934 | - | - | - | 6,763 |
| **Total as at December 31, 2017 *Restated*** | **3,608,225** | **702,539** | **111,561** | **8,670** | **423,640** | **4,854,635** |
| Increases | - | 19 | - | - | 84,979 | 84,998 |
| Decreases | - | (12,225) | - | - | (3,091) | (15,316) |
| Business combinations | 19,599 | 629 | - | - | 68 | 20,296 |
| Translation differences and other changes | 69,606 | 12,314 | 2,135 | 373 | 8,145 | 92,573 |
| Amortisation | - | (73,539) | (14,627) | (1,215) | (124,078) | (213,459) |
| **Total as at December 31, 2018** | **3,697,430** | **629,737** | **99,069** | **7,828** | **389,663** | **4,823,727** |
| *Of which* | | | | | | |
| Historical cost | 3,697,430 | 1,790,365 | 276,078 | 25,066 | 1,180,228 | 6,969,167 |
| Accumulated amortisation | - | (1,160,628) | (177,010) | (17,238) | (790,565) | (2,145,441) |
| **Total as at December 31, 2018** | **3,697,430** | **629,737** | **99,068** | **7,828** | **389,663** | **4,823,726** |

The most significant trademarks relate to Oakley, Salmoiraghi & Viganò and Sunglass Hut, whose book values as at December 31, 2018 amounted to Euro 253.0 million, Euro 86.0 million and Euro 80.7 million (Euro 257.8 million, Euro 90.0 million and Euro 83.1 million as at December 31, 2017). The remaining useful life as at December 31, 2018 of these trademarks is 14, 23 and 7 years, respectively. The decline in this line

item was attributable to the outcome of the impairment tests performed in accordance with IAS 36.

In 2018, the increase in intangible assets deriving from business combinations is mainly due to the goodwill deriving from the acquisition of Spectacle Hut and Fukui Megane, as described in paragraph 4 "Business combinations". In 2017, the increase in the item derived from the goodwill resulting from the acquisition of Óticas Carol, as described in paragraph 4 "Business combinations".

Other intangible assets include Euro 36.0 million in current assets as at December 31, 2018 (Euro 41.0 million as at December 31, 2017).

Of the total amortization expense of Euro 213.5 million (Euro 231.3 million as at December 31, 2017), Euro 172.6 million (Euro 185.8 million as at December 31, 2017) is included in general and administrative expenses, Euro 29.2 million (Euro 29.5 million as at December 31, 2017) is included in selling expenses and Euro 11.7 million (Euro 15.9 million as at December 31, 2017) 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 at December 31, 2018 and 2017, goodwill totalled Euro 3,697.4 million and Euro 3,608.2 million, respectively. The increase is mainly due to the acquisition of Fukui Megane for Euro 4.4 million and Spectacle Hut for Euro 12.7 million as well as to the strengthening of the main currencies in which the Group operates (Euro 69.6 million).

The CGUs are unchanged compared to December 31, 2017; the value of goodwill allocated to each CGU is shown in the table below:

| (Euro/000) | **December 31, 2018** | **December 31, 2017 *Restated*** |
|---|---|---|
| Wholesale | 1,387,441 | 1,371,448 |
| Retail Optical | 1,141,563 | 1,124,782 |
| Retail Sun & Luxury | 994,906 | 946,826 |
| Retail Oakley | 173,521 | 165,169 |
| **Total** | **3,697,430** | **3,608,225** |

The recoverable amount of each CGU has been verified by comparing its net assets carrying amount to its value in use calculated as the net present value of future discounted cash flow of each CGU.

The main assumptions for determining the value in use are reported below:

| **Rates used by CGU** | **post-tax WACC** | **G-Rate** |
|---|---|---|
| Wholesale | 6.66% | 2.01% |
| Retail Optical | 6.26% | 2.23% |
| Retail Sun & Luxury | 6.47% | 2.21% |
| Retail Oakely | 6.03% | 1.95% |

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.

The pre-tax WACCs that, when applied to the pre-tax Free Cash Flow of all CGUs, return the same

recoverable amount, increased by about 1.41% compared to the related post-tax WACCs.

The growth rate use to determine the terminal value is in line with the long-term expected inflation in the countries where the Group operates.

The recoverable amount of CGUs has been determined by utilizing cash flow forecasts based on the Group's 2019-2021 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 at the end of the reporting period 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 496%, 75%, 117% and 154% 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 28.45% for the Wholesale CGU, approximately 9.29% for Retail Optical, approximately 11.43% for Retail Sun & Luxury and approximately 12% 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. INVESTMENTS

Investments amounted to Euro 16.0 million (Euro 14.5 million as at December 31, 2017). The balance mainly related to the investment in Eyebiz Laboratories pty Limited ("Eyebiz") for Euro 3.7 million (Euro 3.6 million as at December 31, 2017). Eyebiz is a joint venture established in 2010 between Luxottica and Essilor International SA and is the only investment measured using the equity method.

The change in this item between December 31, 2018 and December 31, 2017 is mainly due to the effects of applying the equity method to the measurement of equity investments. The profit of Eyebiz Laboratories pty Limited pertaining to the Group amounted to Euro 1.1 million in 2018 and Euro 1.0 million in 2017.

## 14. OTHER NON-CURRENT ASSETS

| **Other non-current assets** (Euro/000) | **December 31, 2018** | **December 31, 2017** ***Restated*** |
|---|---|---|
| Other financial assets | 168,709 | 70,661 |
| *Of which Colsts for customer contracts* | 10,280 | 7,155 |
| Other non-financial assets | 8,250 | 10,250 |
| **Total other long-term assets** | **176,959** | **80,911** |

Other long-term financial assets primarily include security deposits totalling Euro 69.9 million (Euro 36.5 million as at December 31, 2017), as well as the non-current portion of the upfront payment (totalling USD 100 million) recognised on the basis of the Bass Pro agreement.

The opening balance of Other financial assets was restated by Euro 7.2 million to reflect the impact of the adoption of the new international accounting standard IFRS 15 (for more information, see Note 2—New

accounting standards).

Other non-financial assets primarily included advance payments made to certain licensees for future contractual minimum royalties, totalling Euro 8.3 million (Euro 10.2 million as at December 31, 2017).

## 15. DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

The balance of deferred tax assets and liabilities as at December 31, 2018 and 2017 is as follows:

| **Deferred taxes** (Euro/000) | **December 31, 2018** | **December 31, 2017** ***Restated*** |
|---|---|---|
| Deferred tax assets | 103,672 | 130,453 |
| Deferred tax liabilities | 147,366 | 157,601 |
| **Deferred tax liabilities (net)** | **43,694** | **27,147** |

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, 2018** | **December 31, 2017** ***Restated*** |
|---|---|---|
| *Deferred tax assets* | | |
| Within 12 months | 199,203 | 214,521 |
| After 12 months | 170,197 | 163,098 |
| **Total** | **369,400** | **377,619** |
| *Deferred tax liabilities* | | |
| Within 12 months | 35,971 | 31,210 |
| After 12 months | 377,123 | 373,556 |
| **Total** | **413,094** | **404,766** |
| **Deferred tax liabilities (net)** | **43,694** | **27,147** |

The changes in deferred tax liabilities (net), during 2018 and 2017 are as follows:

| **Deferred tax liabilities (net)** (Euro/000) | **Financial Year 2018** | **Financial Year 2017** ***Restated*** |
|---|---|---|
| **As at January 1** | **27,147** | **123,667** |
| Exchange rate difference and other movements | 6,781 | (16,919) |
| Business combinations | (1,810) | 12,669 |
| Tax charged / (credited) to the income statement | 14,229 | (146,698) |
| Tax charged / (credited) to equity | (2,653) | 54,428 |
| **As at December 31** | **43,694** | **27,147** |

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 at January 1, 2018** | **Exchange rate difference and other movements** | **Business combinations** | **Tax charged/ (credited) to the income statement** | **Tax charged/ (credited) to equity** | **As at December 31, 2018** |
|---|---|---|---|---|---|---|
| Inventories | 138,062 | 2,008 | (1,281) | (304) | - | 138,485 |
| Self-insurance reserves | 8,856 | 413 | - | (182) | - | 9,087 |
| Net operating loss carry-forwards | 28,813 | 1,381 | (20) | (6,053) | - | 4,121 |
| Rights of return | 14,902 | 1,138 | (1,283) | 4,588 | - | 19,344 |
| Employee-related reserves | 34,753 | 1,363 | (151) | 2,683 | 2,779 | 41,425 |
| Occupancy reserves | 13,839 | 4,207 | (4,766) | (370) | - | 12,911 |
| Trade names | 57,076 | (1,805) | 1,970 | (4,580) | - | 52,663 |
| Property, plant and equipment | 9,359 | 4,449 | 17 | (420) | - | 13,404 |
| Others | 71,959 | (3,855) | 7,497 | (17,641) | - | 57,960 |
| **Total** | **377,619** | **9,299** | **1,983** | **(22,279)** | **2,779** | **369,400** |

| **Deferred tax liabilities** (Euro/000) | **As at January 1, 2018** | **Exchange rate difference and other movements** | **Business combinations** | **Tax charged/ (credited) to the income statement** | **Tax charged/ (credited) to equity** | **As at December 31, 2018** |
|---|---|---|---|---|---|---|
| Dividends | 15,684 | 1 | (12) | 2,719 | - | 18,392 |
| Trade names | 170,857 | (120) | 107 | (12,228) | - | 158,616 |
| Property, plant and equipment | 55,582 | 51,846 | (6,595) | 2,597 | - | 103,430 |
| Other intangibles | 146,200 | (29,915) | (9,165) | 1,276 | - | 108,397 |
| Other (Including pension funds) | 16,443 | (5,732) | 15,838 | 2,414 | 126 | 24,259 |
| **Total** | **404,766** | **16,080** | **173** | **(8,050)** | **126** | **413,094** |

| **Deferred tax assets** (Euro/000) | **As at January 1, 2017** | **Exchange rate difference and other movements** | **Business combinations** | **Tax charged/ (credited) to the income statement** | **Tax charged/ (credited) to equity** | **As at 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 | 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 |
| Others | 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 at January 1, 2017** | **Exchange rate difference and other movements** | **Business combinations** | **Tax charged/ (credited) to the income statement** | **Tax charged/ (credited) to equity** | **As at December 31, 2017** ***Restated*** |
|---|---|---|---|---|---|---|
| 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 intangibles | 241,920 | (61,942) | 321 | (34,099) | - | 146,200 |
| Others | 18,512 | (11,281) | 7,117 | (29,357) | 31,452 | 16,443 |
| **Total** | **596,240** | **(60,489)** | **13,474** | **(175,911)** | **31,452** | **404,766** |

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 40.6 million in respect of losses amounting to Euro 146.1 million, that can be carried forward against future taxable income. These losses are indefinite for Euro 79.1 million whereas for Euro 67 million there is a breakdown of the net operating losses by expiration date as follows:

| **As at December 31** (Euro/000) | **Amount** |
|---|---|
| 2019 | 19,731 |
| 2020 | 10,181 |
| 2021 | 3,045 |
| 2022 | 13,309 |
| 2023 | 2,094 |
| Subsequent years | 18,624 |
| **Total** | **66,984** |

The Group does not recognize deferred tax liabilities on undistributed earnings of its non-Italian operations to the related Italian parent company of Euro 4.2 billion and Euro 3.7 billion in 2018 and 2017, respectively, that are intended to be permanently invested.

In connection with the 2018 earnings of certain subsidiaries, the Group has recognized deferred tax liabilities related to dividends to be paid in 2019.

No provision was made for theoretical deferred taxes of Euro 26.9 million in 2018 (Euro 26.9 million in 2017) on tax-suspended reserves in that they are not expected to be used or distributed.

On December 22, 2017, note that 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 as at December 31, 2017 of Euro 78.2 million, determined by the following factors of opposite sign: (i) Euro 108.6 million: adjustment of taxes through profit or loss; (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 at December 31, 2018 and 2017, 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 at December 31, 2018 and 2017, the Group had unsecured and unused short-term credit lines of Euro 937.5 million and Euro 897.3 million, respectively.

The Company and its Italian subsidiaries Luxottica S.r.l. and Luxottica Italia S.r.l. maintain unsecured credit lines with leading banks for a total of Euro 540.1 million. These credit lines are renewable annually, can be cancelled at short notice and have no commitment fees. As at December 31, 2018, 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 110.3 million (USD 126.3 million). These credit lines are renewable annually, can be cancelled at short notice and have no commitment fees. As at December 31, 2018, these credit lines were not utilized. There was Euro 58.2 million of standby letters of credit outstanding.

The average interest rate on the above credit lines is negotiated with the banking counterparties when they are used.

The book value of 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 financial debt." For further details see Note 22—Long-term financial debt.

## 18. ACCOUNTS PAYABLE

Accounts payable amounted to Euro 961.9 million (Euro 906.7 million as at December 31, 2017). The increase was primarily due to the trend in payments.

The carrying amount of accounts payable is approximately equal to their fair value.

## 19. CURRENT TAXES PAYABLE

Below is the breakdown of this line item:

| **Current taxes** (Euro/000) | **December 31, 2018** | **December 31, 2017** |
|---|---|---|
| Income taxes payable | 49,573 | 49,291 |
| Income tax advance payments | (27,518) | (26,992) |
| **Total** | **22,005** | **22,299** |

## 20. SHORT-TERM PROVISIONS FOR RISKS

Below is the breakdown of the line item as at December 31, 2018 and December 31, 2017:

| Short-term provisions for risks<br>(Euro/000) | December 31, 2018 | December 31, 2017<br>*Restated* |
|---|---|---|
| Legal disputes | 2,619 | 1,929 |
| Self-insurance | 6,090 | 6,532 |
| Tax risks | 75,854 | 54,106 |
| Returns | 59,875 | 63,866 |
| Other risks | 14,228 | 44,581 |
| **Total** | **158,665** | **171,015** |

The change in short-term provision for risks from December 31, 2017 to December 31, 2018, is as follows:

| Short-term provisions for risks<br>(Euro/000) | Legal disputes | Self-insurance | Tax risks | Other risks | Returns | Total |
|---|---|---|---|---|---|---|
| **Balance as at January 1, 2018** | **1,929** | **6,532** | **54,106** | **44,581** | **63,866** | **171,015** |
| Increases | 1,439 | 3,401 | 2,382 | 4,113 | 14,691 | 26,027 |
| Utilization | (452) | (4,133) | (22,264) | (33,763) | (18,483) | (79,095) |
| Exchange rate differences and other movements | (298) | 289 | 41,631 | (703) | (200) | 40,719 |
| **Balance as at December 31, 2018** | **2,619** | **6,090** | **75,854** | **14,228** | **59,875** | **158,665** |

Legal risk includes provisions for various litigated matters 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 Group is self-insured for certain losses relating to workers’ compensation, general liability, auto liability, and employee medical benefits for claims filed and for claims incurred but not reported. The Group’s liability is estimated using historical claims experience and the industry average. 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.

The decrease in other risks is mainly due to the decrease in 2018 compared to 2017 in the difference between the advertising spending relating to licensed brands and the minimum amounts contractually due.

## 21. OTHER CURRENT LIABILITIES

| **Other current liabilities** (Euro/000) | **December 31, 2018** | **December 31, 2017** ***Restated*** |
|---|---|---|
| Salaries payable | 347,732 | 347,209 |
| Sales taxes payable | 44,313 | 48,812 |
| Sales taxes payable | 74,627 | 68,956 |
| Rents and leases | 26,947 | 26,926 |
| Insurance | 14,680 | 10,637 |
| Sales commissions payable | 4,624 | 7,975 |
| Premiums and discounts | 2,818 | 7,672 |
| Royalties payable | 1,031 | 2,426 |
| Derivative financial instruments | 2,513 | 3,408 |
| Other financial liabilities | 195,881 | 170,906 |
| **Total financial liabilities** | **715,167** | **694,928** |
| | | |
| Deferred income | 68,633 | 69,992 |
| Other liabilities | - | - |
| **Total liabilities** | **68,633** | **69,992** |
| | | |
| **Total other current liabilities** | **783,800** | **764,920** |

All the items that make up other current liabilities have a balance substantially in line with the previous period.

***NON-CURRENT LIABILITIES***

## 22. LONG-TERM FINANCIAL DEBT

Long-term financial debt was Euro 1,677 million as at December 31, 2018, including Euro 602.6 million due in 1 year (Euro 1,821.7 million, including Euro 150.4 million short-term, as at December 31, 2017).

The change in long-term financial debt in 2018 and 2017, is as follows:

| **Long-term financial debt** (Euro/000) | **Luxottica Group credit agreements with various financial institutions** | **Unsecured guaranteed notes** | **Other loans from banks and third parties** | **Total** |
|---|---|---|---|---|
| **Balance as at January 1, 2018** | **499,068** | **1,288,522** | **34,102** | **1,821,692** |
| New loans | - | - | 27,792 | 27,792 |
| Repayments | - | (158,387) | (32,495) | (190,882) |
| Business combinations | - | - | 12,236 | 12,236 |
| Amortization of bank fees and interests | 275 | (2,443) | - | (2,168) |
| Translation reserve | - | 7,110 | 1,253 | 8,363 |
| **Balance as at December 31, 2018** | **499,342** | **1,134,803** | **42,888** | **1,677,032** |

| **Long-term financial debt** (Euro/000) | **Luxottica Group credit agreements with various financial institutions** | **Unsecured guaranteed notes** | **Other loans from banks and third parties** | **Total** |
|---|---|---|---|---|
| **Balance as at January 1, 2017** | **-** | **1,747,832** | **87,210** | **1,835,045** |
| New loans | 500,000 | - | 11,548 | 511,548 |
| Repayments | (1,139) | (404,082) | (64,082) | (469,303) |
| Business combinations | - | - | 3,909 | 3,909 |
| Amortization of bank fees and interests | 206 | 115 | - | 321 |
| Translation reserve | - | (55,342) | (4,483) | (59,825) |
| **Balance as at December 31, 2017** | **499,068** | **1,288,522** | **34,102** | **1,821,692** |

The Group uses debt financing to raise financial resources for long-term business operations and to finance acquisitions. The Group continues to seek debt refinancing at favourable market rates and actively monitors the debt capital markets in order to take action to issue debt, when appropriate. The loans indicated in the table below envisage financial and operating covenants complied with by the Company at December 31, 2018 and calculated as described in paragraph *3) Default risk: negative pledge and debt covenants*.

The following table shows the main information relating to long-term financial debt taken out by the Group:

| Description | Series | Issuer | Issue date | Currency | Initial Debt | Amount of debt to be repaid as at December 31, 2018 | Fair Value (€/ml) | Coupon / Pricing | Interest rate as at December 31, 2018 | Maturity |
|---|---|---|---|---|---|---|---|---|---|---|
| Private Placement | F | Luxottica US Holdings | 1/29/2010 | USD | 75,000,000 | 75,000,000 | 67.1 | 5.390% | 5.390% | 1/29/2019 |
| Bond (Listed on Luxembourg Stock Exchange/no covenants) | | Luxottica Group S.p.A. | 3/19/2012 | EUR | 500,000,000 | 500,000,000 | 518.1 | 3.625% | 3.625% | 3/19/2019 |
| Private Placement | E | Luxottica US Holdings | 1/29/2010 | USD | 50,000,000 | 50,000,000 | 46.0 | 5.750% | 5.750% | 1/29/2020 |
| Facility agreement Intesa | | Luxottica Group Spa | 3/10/2017 | EUR | 250,000,000 | 250,000,000 | 253.4 | 0.70% + Euribor | 0.391% | 3/10/2022 |
| Facility agreement Natixis. | | Luxottica Group Spa | 3/10/2017 | EUR | 250,000,000 | 250,000,000 | 252.8 | 0.62% + Euribor | 0.311% | 3/10/2022 |
| Bond (Listed on Luxembourg Stock Exchange/no covenants) | | Luxottica Group S.p.A. | 2/10/2014 | EUR | 500,000,000 | 500,000,000 | 563.8 | 2.625% | 2.625% | 2/10/2024 |
| Sundry Bank Loans | | Fukui Megane | Miscellaneous | JPY | 876,676,000 | 876,676,000 | 7.3 | Miscellaneous | Miscellaneous | Miscellaneous |

On March 19, 2012, the Group completed an offering in Europe to institutional investors of Euro 500 million of senior unsecured guaranteed notes due March 19, 2019. Interest on the Notes accrues at 3.625% per annum. The notes are guaranteed 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 adopted an Euro Medium Term Note Programme (hereinafter the "Programme") for an amount of Euro 2 billion. The Programme allows the offering of bonds to institutional investors with the exception of those residing in 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 Group completed an offering in Europe to institutional investors of Euro 500 million of senior unsecured guaranteed notes due February 10, 2024 under the Group's 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.

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. As part of 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.

In 2018, the Group carried out the following transactions:

- On July 1, 2018 Luxottica U.S. Holdings repaid the Regulation C private placement contracted on July 1, 2008 for a total of USD 128 million (Euro 111.8 million).
- On October 29, 2018 Luxottica Group repaid in advance the Regulation H private placement contracted on September 30, 2010 for a total of Euro 50 million, following application of the "Change

of Control" clause.

See Note 28—Information on the consolidated income statement for details on the economic effect of the early repayments described above.

The fair value of long-term debt as at December 31, 2018 amounted to Euro 1,708.5 million (Euro 1,901.0 million as at December 31, 2017). 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 Group's current credit rating. The above fair value does not include lease obligations totalling Euro 24.8 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:

| **As at December 31, 2018** (Euro/000) | **Amount** |
|---|---|
| 2019 | 602,580 |
| 2020 | 51,793 |
| 2021 | 14,045 |
| 2022 | 508,579 |
| Subsequent years | 503,942 |
| Effect deriving from the adoption of the amortised cost method | (3,908) |
| **Total** | **1,677,032** |

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 application of the European Commission regulation on Prospectus” is as follows:

| | **Net financial position** (Euro/000) | **Note** | **December 31, 2018** | **December 31, 2017** |
|---|---|---|---|---|
| A | Cash | 6 | 6,089 | 14,938 |
| B | Other cash equivalents | 6 | 1,292,004 | 1,144,382 |
| C | Foreign exchange rate hedges | 10 | 3,854 | 5,260 |
| D | Hedging instruments on interest rates | | - | 487 |
| **E** | **Liquidity (A) + (B) + (C)** | | **1,301,947** | **1,165,067** |
| **F** | **Current financial receivables** | | **-** | **-** |
| G | Current bank borrowings | 16 | 49,378 | 77,486 |
| H | Current portion of long-term debt | 17 | 602,580 | 150,411 |
| I | Foreign exchange rate hedges | 21 | 2,513 | 3,408 |
| J | Hedging instruments on interest rates | | - | - |
| **K** | **Current financial debt (G) + (H) +(I) + (J)** | | **654,471** | **231,305** |
| **L** | **Net liquidity (K) - (E) - (F)** | | **(647,476)** | **(933,762)** |
| M | Non-current bank borrowings | 22 | 506,887 | 500,000 |
| N | Notes issued | 22 | 539,876 | 1,148,275 |
| O | Hedging instruments on interest rates | | 3,510 | - |
| P | Other non-current debt | 22 | 27,689 | 23,006 |
| **Q** | **Non-current financial debt (M) + (N) + (O) + (P)** | | **1,077,962** | **1,671,281** |
| **R** | **Net financial debt (L) + (Q)** | | **(430,486)** | **737,519** |

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, 2018** | **December 31, 2017** |
|---|---|---|
| **Net financial position** | **430,486** | **737,519** |
| Foreign exchange rate hedges - assets | 3,854 | 5,260 |
| Foreign exchange rate hedges - liabilities | (2,513) | (3,408) |
| Hedging instruments on interest rates | (3,510) | 487 |
| **Net financial position of the Group presented in the Management Report** | **428,317** | **739,858** |

The Company determined the fair value of the derivatives existing as at December 31, 2018 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 at the measurement date). 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 29.0 million (Euro 32.6 million as at December 31, 2017) is classified under current liabilities.

Our net financial position with respect to related parties is not material.

Long-term financial debt includes finance lease liabilities of Euro 24.8 million (Euro 33.9 million as at December 31, 2017) mainly relating to IT supply contracts, detailed below by maturity:

| **Finance leases** (Euro/000) | **December 31, 2018** | **December 31, 2017** |
|---|---|---|
| Gross finance lease liabilities: | | |
| - no later than 1 year | 8,970 | 12,791 |
| - later than 1 year and no later than 5 years | 16,891 | 23,681 |
| - later than 5 years | - | - |
| **Finance lease liabilities** | **25,861** | **36,472** |
| Future finance charges on finance lease liabilities | 1,109 | 2,555 |
| **Present values of finance lease liabilities** | **24,752** | **33,916** |

The present value of finance lease liabilities is as follows:

| **Finance leases** (Euro/000) | **December 31, 2018** | **December 31, 2017** |
|---|---|---|
| no later than 1 year | 8,024 | 11,070 |
| later than 1 year and no later than 5 years | 16,728 | 22,846 |
| later than 5 years | - | - |
| Present values of finance lease liabilities | 24,752 | 33,916 |

## 23. EMPLOYEE BENEFITS

The balance of employee benefits was Euro 154.5 million (Euro 121.6 million as at December 31, 2017) and mainly include: *(i)* liabilities for severance indemnity of Euro 52.6 million (Euro 54.2 million as at December 31, 2017); *(ii)* liabilities for the employee benefits of US subsidiaries of Euro 31.3 million (Euro 39.0 million as at December 31, 2017) and *(iii)* liabilities for the long-term incentive (LTI) plan of Euro 70.7 million (Euro 28.4 million as at December 31, 2017) approved by the Board of Directors of Luxottica Group S.p.A. of October 2016 and December 2017. Recipients will receive the monetary bonus at the end of the plan period, i.e. approximately 3 years, if the relevant conditions precedent are not fulfilled (for instance, the recipient leaves the Group during the plan period).

The increase in the balance as at December 31, 2018 compared to December 31, 2017 was mainly due to the LTI, partially offset by the decrease mainly due to actuarial trends in provisions for employee benefits of the US subsidiaries.

Actuarial gains/(losses) recognised in the statement of comprehensive income as components that will not be reversed to the income statement in subsequent periods amounted to Euro 1.1 million (Euro 2.8 million net of the tax effect) in 2018 and Euro 55.2 million (Euro 6.4 million net of the tax effect) in 2017.

### Liabilities for Employee Benefits for the Italian Companies

Liabilities for termination indemnities mainly include post employment benefits of the Italian companies' employees (hereinafter "TFR"), which at December 31, 2018 amounted to Euro 40.6 million (Euro 43.1 million as at December 31, 2017).

Effective January 1, 2007, the TFR system was reformed, and under the new law, employees are given the ability to choose where the TFR compensation is invested, whereas such compensation otherwise would be 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 and continues to be considered a defined benefit plan.

This liability as at December 31, 2018 represents the estimated future payments required to settle the obligation resulting from employee service, determined using the actuarial techniques, excluding the component related to the future salary increases.

Contribution expense to pension funds was Euro 26.1 million and Euro 23.9 million for the years 2018 and 2017, respectively.

In application of IAS 19, the valuation of TFR liability accrued as at December 31, 2006 was based on the Projected Unit Credit Cost method. The main assumptions utilized are reported below:

| Economic Assumptions | Financial Year 2018 | Financial Year 2017 |
|---|---|---|
| Discount rate | 1.57% | 1.30% |
| 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 Liabilities (Euro/000) | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Liabilities at the beginning of the period | 43,350 | 44,729 |
| Interest expense/(income) | 553 | 570 |
| Change in the revaluation rate | - | - |
| Actuarial loss (income) | (602) | 7 |
| Benefit payment | (2,662) | (2,168) |
| Business combinations | - | - |
| **Liabilities at the end of the period** | **40,639** | **43,138** |

The sensitivity of the defined benefit obligation to changes in the significant assumptions is:

| (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 | 38,986 | 42,410 | 41,142 | 40,145 | 40,417 | 40,967 |

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 the defined benefit obligations to significant actuarial assumptions, the same method has been applied as when calculating the liabilities recognized within the statements of financial position.

## Post-employment Employee benefits

**Qualified Pension Plans** — U.S. Holdings sponsors a qualified noncontributory 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 U.S. 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.

**Nonqualified Pension Plans and Agreements** — U.S. Holdings also maintains a nonqualified, unfunded supplemental executive retirement plan (“Lux SERP”) for participants of its Lux Pension Plan. This plan

provides benefits in excess of amounts provided for by the US prevailing tax law. The pension liability and expense associated with this plan are accrued using the same actuarial methods and assumptions as those used for the qualified pension plan. This plan's benefit provisions mirror those of the Lux Pension Plan.

All plans operate under the U.S. regulatory framework. The plans are subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). The Committee that oversees the investment activities related to pension plans and ensures their compliance with ERISA (hereinafter referred to as "the Committee") operates within the Group. The Committee also controls and manages the operation and administration of the plans. The plans expose the Company to actuarial risks, such as longevity risk, currency risk, and interest rate risk.

The following tables provide key information pertaining to the Lux Pension Plan and SERPs (amounts in thousands of Euro).

| **Lux Pension Plan** (Euro/000) | **Benefit Obligation** | **Plan Assets** | **Total** |
|---|---|---|---|
| **As at January 1, 2017** | **853,640** | **(774,729)** | **78,912** |
| Service Cost | 24,537 | 2,906 | 27,443 |
| Interest expense/(income) | 28,284 | (25,865) | 2,419 |
| Total amounts recognised in the income statement | 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 amounts recognised in 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 at December 31, 2017** | **828,664** | **(801,720)** | **26,944** |

| **Lux Plan**<br>(Euro/000) | **Benefit Obligation** | **Plan Assets** | **Total** |
|---|---|---|---|
| **As at January 1, 2018** | **828,664** | **(801,720)** | **26,944** |
| Service Cost | 21,096 | 2,650 | 23,746 |
| Interest expense/(income) | 27,364 | (26,981) | 383 |
| **Total amounts recognised in the income statement** | **48,460** | **(24,331)** | **24,129** |
| Return on plan assets | | 66,999 | 66,999 |
| (Gain)/loss from financial assumption changes | (68,255) | | (68,255) |
| (Gain)/loss from demographic assumption changes | 591 | | 591 |
| Experience (gains)/losses | 1,130 | | 1,130 |
| **Total amounts recognised in the statement of comprehensive income** | **(66,535)** | **66,999** | **465** |
| Employer contributions | | (32,050) | (32,050) |
| Benefit payment | (35,144) | 35,144 | - |
| Translation difference | 37,627 | (36,583) | 1,044 |
| **As at December 31, 2018** | **813,072** | **(792,541)** | **20,531** |

| **SERP plan**<br>(Euro/000) | **Benefit Obligation** | **Plan Assets** | **Total** |
|---|---|---|---|
| **As at January 1, 2017** | **13,539** | **-** | **13,539** |
| Service Cost | 597 | - | 597 |
| Interest expense/(income) | 376 | - | 376 |
| **Total amounts recognised in the income statement** | **973** | **-** | **973** |
| Return on plan assets | | - | - |
| (Gain)/loss from financial assumption changes | 214 | - | 214 |
| (Gain)/loss from demographic assumption changes | (316) | - | (316) |
| Experience (gains)/losses | (604) | - | (604) |
| **Total amounts recognised in 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) | - | (1,562) |
| **As at December 31, 2017** | **10,652** | **-** | **10,652** |

| SERP plan<br>(Euro/000) | Benefit Obligation | Plan Assets | Total |
|---|---|---|---|
| **As at January 1, 2018** | **10,652** | **-** | **10,652** |
| Service Cost | 287 | - | 287 |
| Interest expense/(income) | 233 | - | 233 |
| **Total amounts recognised in the income statement** | **520** | **-** | **520** |
| Return on plan assets | | - | |
| (Gain)/loss from financial assumption changes | (350) | - | (350) |
| (Gain)/loss from demographic assumption changes | (3) | - | (3) |
| Experience (gains)/losses | (491) | - | (491) |
| **Total amounts recognised in the statement of comprehensive income** | **(843)** | **-** | **(843)** |
| Employer contributions | | (2,539) | (2,539) |
| Benefit payment | (20) | 20 | - |
| Settlements | (2,519) | 2,519 | - |
| Translation difference | 327 | - | 327 |
| **As at December 31, 2018** | **8,118** | **-** | **8,118** |

During 2018 and 2017, the SERP plan 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 benefit obligation for the periods indicated below.

| (Euro/000) | LUX PLAN | | SERPs | |
|---|---|---|---|---|
| | **Financial Year 2018** | **FY 2017** | **FY 2018** | **FY 2017** |
| Weighted average assumptions used to determine benefit obligations: | | | | |
| Discount rate | 4.40% | 3.72% | 4.08% | 3.43/3.57% |
| Rate of compensation increase | 7.5%/4%/3% | 7.5%/4%/3% | 7.5%/4%/3% | 7.5%/4%/3% |
| Mortality table | Static 2018 | Static 2017 | Static 2018 | Static 2017 |

U.S. Holdings' discount rate is developed using a third party yield curve derived from noncallable 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 300 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. U.S. Holdings uses an assumption for salary increases based on a graduated approach of historical experience. U.S. Holdings' experience shows salary increases that typically vary by age.

The sensitivity of the defined benefit obligation to changes in the significant assumptions is:

| (Euro/000) | | Impact on defined benefit obligation | | | |
|---|---|---|---|---|---|
| | **Change in assumption** | **Increase in assumption** | | **Decrease in assumption** | |
| | | Lux Plan | SERP | Lux Plan | SERP |
| Discount rate | 1.0% | (84,003) | (467) | 101,325 | 527 |
| Rate of compensation increase | 1% for each age group | 6,253 | 450 | (5,639) | (328) |

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 the defined benefit obligations to significant actuarial assumptions, the same method has been applied as when calculating the liabilities recognized within the statements of financial position.

**Plan Assets**— The Plan's 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 assets of the Plan. 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 U.S. 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 at December 31, 2018, the Plan's asset allocation was within the guidelines described in the investment policy. The table below shows the asset classes as percentage of total assets:

| Asset Category | Asset Class as a Percent of Total Assets |
|---|---|
| Fixed income Funds | 57% |
| U.S. Equity Funds | 8% |
| International and Global Equity Funds | 29% |
| Global real estate funds | 5% |
| Money market funds | 0% |
| Cash and Equivalents | 1% |

Plan assets are invested in various funds which employ both passive and active management strategies. Passive strategies involve investment in an exchange-traded fund that closely tracks a particular index while active strategies employ investment managers seeking to manage the fund's performance. Certain transactions and securities are not authorized to be conducted or held in the pension trusts, such as purchase or sale of commodity contracts, illiquid securities or real estate, nonagency mortgage, and American Depositary Receipts (ADR) or common stock of the Company's parent, Luxottica Group S.p.A. 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**—U.S.Holdings expects to contribute Euro 8,7 million to its pension plan and Euro 1.4 million to the SERP in 2019.

**Duration**—The weighted average duration of the pension defined benefit obligations is 11.3 years while the weighted average duration of the SERPs is 6.1 years. The following table provides the undiscounted estimated future benefit payments:

| **Future benefit payments** (Euro/000) | Lux Plan | SERP |
|---|---|---|
| 2019 | 39,970 | 1,411 |
| 2020 | 41,847 | 607 |
| 2021 | 42,664 | 690 |
| 2022 | 43,490 | 753 |
| 2023 | 44,086 | 914 |
| Subsequent years | 249,027 | 3,452 |

**Other Benefits**—U.S. Holdings provides certain post-employment medical, disability and life insurance benefits. A provision of Euro 1.3 million and Euro 1.1 million was made to cover this commitment, respectively as at December 31, 2018 and as at December 31, 2017. US Holdings also sponsors supplementary pension plans, which cover certain present and past employees of some of its US subsidiaries. In particular, U.S. Holdings provides, under individual agreements, post-employment benefits for continuation of health care benefits and life insurance coverage to former employees after employment.

As at each of December 31, 2018 and 2017, the accrued liability related to these benefits was Euro 0.6 million and Euro 0.6 million, respectively.

U.S. Holdings sponsors certain defined contribution plans for its United States and Puerto Rico employees. The cost of contributions incurred in 2018 and 2017 was Euro 17.6 million and Euro 16.2 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. A contribution cost of Euro 14.0 million and Euro 14.2 million was incurred for these plans in 2018 and 2017, respectively.

**Health Benefit Plans —** U.S. Holdings partially subsidises 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, U.S. Holdings provided for a onetime special election of early retirement to certain associates 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 0.9 million and Euro 1.0 million at each of December 31, 2018 and 2017, is included in other non-current liabilities on the consolidated statement of financial position. The cost of this plan in 2018 and 2017 as well as the 2019 expected contributions are immaterial.

For 2019, a 6.9% (7.7% for 2018) increase in the cost of covered health care benefits was assumed. This rate was assumed to decrease gradually to 4.5% for 2026 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 4.4% at December 31, 2018 and 3.7% at December 31, 2017. A 1% increase or decrease in the discount rate would not have a material impact on the post-retirement benefit obligation.

## 24. LONG-TERM PROVISIONS FOR RISK

The balance in 2017 and 2018 is detailed below:

| **Long-term provisions for risks** (Euro/000) | **December 31, 2018** | **December 31, 2017** |
|---|---|---|
| Legal disputes | 17,654 | 19,140 |
| Self-insurance | 26,356 | 23,855 |
| Tax risks | 41,739 | 47,005 |
| Guarantees | 7,957 | 7,755 |
| Other risks | 33,442 | 32,697 |
| **Total** | **127,147** | **130,453** |

The change in long-term provision for risks from December 31, 2017 to December 31, 2018, is as follows.

| **Long-term provisions for risks** (Euro/000) | **Legal disputes** | **Self-insurance** | **Tax risks** | **Guarantees** | **Other Risks** | **Total** |
|---|---|---|---|---|---|---|
| **Balance as at December 31, 2017** | **19,140** | **23,856** | **47,005** | **7,755** | **32,697** | **130,453** |
| Increases | 4,689 | 8,095 | 5,974 | 1,600 | 16,546 | 36,905 |
| Utilisation | (5,112) | (6,767) | (673) | (1,209) | (10,909) | (24,670) |
| Exchange rate differences and other movements | (1,064) | 1,173 | (10,568) | (190) | (4,892) | (15,541) |
| **Balance as at December 31, 2018** | **17,654** | **26,356** | **41,739** | **7,957** | **33,442** | **127,147** |

Other risks largely included: (i) accruals to the provision for agents' leaving indemnities for some Italian companies of Euro 5.4 million (Euro 5.5 million as at December 31, 2017) and (ii) provisions relating to contingent liabilities on companies subject matter of purchase price allocation of Euro 11.0 million (Euro 11.5 million as at December 31, 2017).

Please refer to Note 20 for additional details related to self-insurance risk funds and Note 29 for details on the most significant litigations.

## 25. OTHER NON-CURRENT LIABILITIES

The balance of other non-current liabilities was Euro 75.9 million and Euro 76.5 million as at December 31, 2017.

Other liabilities include long-term liabilities of the North American retail division of Euro 37.9 million (Euro 33.5 million as at December 31, 2017) and the fair value of interest rate hedging instruments of Euro 3.5 million.

In addition, the opening balance was restated by Euro 1.9 million to reflect the impact of the new international accounting standard IFRS 15 (for more information, see Note 2—New accounting standards).

## 26. STOCKHOLDERS' EQUITY

### Share capital

The share capital of Luxottica Group S.p.A. as at December 31, 2018 amounted to Euro 29,111,701.98 and was comprised of 485,195,033 ordinary shares with a par value of Euro 0.06 each.

The share capital of Luxottica Group S.p.A. as at January 1, 2018 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.

Following the exercise of 179,000 options to purchase ordinary shares granted to employees under existing stock option plans, the share capital increased by Euro 10,740 during 2018.

The total options exercised numbered 179,000, of which 3,000 referred to the 2009 grant, 10,000 referred to the Ordinary 2009 grant (reassignment of the 2006 and 2007 Ordinary grants), 13,000 referred to the 2010 grant, 35,000 referred to the 2011 ordinary grant, and 118,000 referred to the 2012 ordinary grant.

### Legal reserve

This reserve represents the portion of the Parent's earnings that are not distributable as dividends, in accordance with Article 2430 of the Italian Civil Code.

### Additional paid-in capital

This reserve increases following the exercise of options.

### Retained earnings

These include the subsidiaries' earnings that have not been distributed as dividends and the amount of the consolidated companies' equity in excess of the corresponding carrying amounts of the relevant 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 amounted to Euro 247.8 million (Euro 256.7 million as at December 31, 2017). The Euro 8.9 million decrease is due to the grants to certain top executives equaling 446,767 treasury shares in the amount of Euro 8.9 million as a result of the Group having achieved the financial targets identified by the Board of Directors under the 2015 Performance Share Plan.

## 27. NON-CONTROLLING INTERESTS

Equity attributable to non  controlling interests was Euro 6.9 million and Euro 5.5 million as at December 31, 2018 and December 31, 2017, respectively. The increase was largely attributable to the recognition of the non-controlling interest in Fukui Megane (Euro 3.3 million) and Spectacle Hut (Euro 0.7 million) net of Euro 2.4 million in dividends paid to third-party shareholders. Comprehensive income for the period amounted to

Euro 0.2 million.

## 28. INFORMATION ON THE CONSOLIDATED INCOME STATEMENT

### Revenue by category

The break-down of revenues by category was as follows:

| **Revenue by category** (Euro/000) | **Financial Year 2018** | **Financial Year 2017 *Restated*** |
|---|---:|---:|
| Sales of products | 7,992,544 | 8,250,137 |
| Vision care business | 741,585 | 744,909 |
| Eye-exam and related professional fees | 118,058 | 112,187 |
| Revenues relating to royalties from franchisees | 76,702 | 76,941 |
| **Total net sales** | **8,928,889** | **9,184,175** |

### Analysis of expenses by nature

The reconciliation of the expenses by function to the expenses by nature was as follows:

| **Analysis of expenses by nature** (Euro/000) | **Financial Year 2018** | **Financial Year 2017 *Restated*** |
|---|---:|---:|
| Cost of sales | 3,212,780 | 3,281,664 |
| Selling and advertising | 3,575,709 | 3,717,557 |
| General and administrative | 856,449 | 883,562 |
| **Total expenses by function** | **7,644,938** | **7,882,783** |
| | | |
| Personnel costs | 2,651,857 | 2,701,440 |
| Costs for raw materials and consumables | 1,320,596 | 1,406,596 |
| Production costs | 788,789 | 761,567 |
| Rental costs and incidental expenses | 729,815 | 743,891 |
| Depreciation and amortization | 527,292 | 541,011 |
| Advertising media and promotion expenses | 284,409 | 322,948 |
| Logistics costs | 236,812 | 212,130 |
| Trade marketing | 156,935 | 157,647 |
| Royalties | 154,753 | 164,043 |
| Share-based payments | 1,934 | 791 |
| Other | 791,747 | 870,718 |
| **Total expenses by nature** | **7,644,938** | **7,882,783** |

The following table shows the average number of employees:

| Business Area | 2018 | 2017 |
|---|---|---|
| Retail | 50,876 | 52,713 |
| Operations | 26,373 | 27,442 |
| Wholesale | 4,096 | 4,117 |
| Corporate | 1,013 | 878 |
| **Group Total** | **82,358** | **85,150** |

| Geographic Area | 2018 | 2017 |
|---|---|---|
| North America | 37,825 | 41,488 |
| Asia Pacific | 20,013 | 20,076 |
| Europe | 17,454 | 16,892 |
| Latin America | 6,323 | 6,034 |
| Middle East & South Africa | 743 | 660 |
| **Group Total** | **82,358** | **85,150** |

## Other income and expenses

The composition of other income/(expense) is as follows:

| **Financial expenses** (Euro/000) | **Financial Year 2018** | **Financial Year 2017** |
|---|---|---|
| Interest expense on bank overdrafts | (218) | (821) |
| Interest expense on loans | (49,584) | (60,153) |
| Financial expenses on derivatives | (11,769) | (10,583) |
| Other financial expenses | (7,892) | (36,190) |
| **Total interest expense** | **(69,463)** | **(107,746)** |

| **Financial income** (Euro/000) | **Financial Year 2018** | **Financial Year 2017** |
|---|---|---|
| Interest income on bank accounts | 11,985 | 10,889 |
| Financial income on derivatives | 3,827 | 3,507 |
| Other financial income | 2,532 | 3,803 |
| **Total financial income** | **18,344** | **18,199** |
| Net income (expenses) on derivative financial instruments and exchange differences | (3,435) | (956) |
| Other—net | (924) | 46,397 |
| **Total Other net income/(expenses)** | **(4,359)** | **45,441** |

The item Other financial expenses in 2018 included non-recurring expenses of Euro 4.7 million relating to the early repayment of the Series H private placement contracted by the Luxottica Group on September 30, 2010.

The item Other financial expenses in 2017 included non-recurring expenses of Euro 30.8 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) in 2017 includes non-recurring income for Euro 48.7 million relating to the capital gains on the sale of a property owner by the Group and sold in March 2017.

## Provision for income taxes

The income tax provision is as follows:

| **Income taxes**<br>(Euro/000) | **Financial Year 2018** | **Financial Year 2017 *Restated*** |
|---|---:|---:|
| Current taxes | (313,880) | (361,668) |
| Deferred taxes | (14,229) | 146,698 |
| **Total income tax provision** | **(328,108)** | **(214,970)** |

The increase in income taxes compared to the previous year is mainly due to the following reasons: (i) in 2017 the balance of deferred tax assets included the non recurring income deriving from the US tax reform; and (ii) the balance of current tax assets included, in 2017, the non recurring income deriving from the Patent Box for the years 2015 and 2016 and, in 2018, the income relating to the lower *tax rate* applied in the USA following the abovementioned tax reform.

On November 24, 2017, Luxottica Group S.p.A. 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. In the case of trademark applications, the legislation provides for a five-year concession, from 2015 to 2019, calculated by excluding from the taxable base an increasing portion of the income attributable to the use of subsidisable intangible assets, equal to 30% and 40% in 2015 and 2016, and 50% in the following three financial years. The Company's tax benefit for the three-year period from 2015 to 2017, amounting to approximately Euro 102.8 million, was recognized in the 2017 financial statements. Part of this amount is recorded under non-recurring income, for details see note 34 - non-recurring transactions. In the current financial year, only the benefit relating to 2018 was recognised.

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 tax rate reduction led to a reduction in income taxes of Euro 98.8 million in 2017.

The reconciliation between the Italian statutory tax rate and the effective rate is shown below:

| **Effective rate**<br>(Euro/000) | **Financial Year 2018** | **Financial Year 2017 *Restated*** |
|---|---:|---:|
| Italian statutory tax rate | 27.9% | 27.9% |
| *including IRAP* | *3.9%* | *3.9%* |
| US tax reform | - | (7.8) |
| Patent box tax benefit of the Company | (3.8) | (8.2) |
| Aggregate effect of different tax rates in foreign jurisdictions | 2.8% | 5.2% |
| Adjustment for restructuring and reorganization expenses and non-recurring income/expenses | (0.2) | (0.0) |
| **Effective rate** | **26.7%** | **17.1%** |

For an analysis of the principal changes in 2018 as compared to 2017 please refer to paragraph 4 "Financial Results" of the "Management Report."

## 29. COMMITMENTS AND RISKS

### Licensing agreements

Luxottica Group S.p.A. has entered into licensing agreements with certain designers for the production, design and distribution of sunglasses and prescription frames.

Under these licensing agreements, which typically have terms ranging from 4 to 10 years, the Group is required to pay a royalty generally ranging from 5% to 14% of net sales of the related collection. Certain contracts also provide for the payment of minimum annual guaranteed amounts and a mandatory marketing contribution (the latter typically amounts to between 5% and 13% of net sales of the related collection). These agreements can typically be terminated early by either party for various reasons, including but not limited to nonpayment of royalties, failure to reach minimum sales thresholds or 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, 2018 are detailed as follows:

| **As at December 31**<br>(Euro/000) | **Amount** |
|---|---|
| 2019 | 139,123 |
| 2020 | 134,994 |
| 2021 | 111,463 |
| 2022 | 111,785 |
| 2023 | 76,555 |
| Subsequent years | 169,655 |
| **Total** | **743,575** |

### Rentals, leasing 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. The lease arrangements for the Group's U.S. retail locations - the main retail market of the Group - 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.

The total cost for operating lease payments for the years ended December 31, 2018 and 2017 is as follows:

| **Operating lease payments**<br>(Euro/000) | **Financial Year 2018** | **Financial Year 2017** |
|---|---|---|
| Minimum lease payments | 457,930 | 463,466 |
| Additional lease payments | 152,410 | 148,663 |
| Sublease payments received | (36,769) | (35,848) |
| **Total** | **573,571** | **576,281** |

Future mimimum operating lease payments related to stores, warehouses and offices, are as follows:

| **As at December 31**<br>(Euro/000) | **Amount** |
|---|---|
| 2019 | 379,057 |
| 2020 | 304,536 |
| 2021 | 253,753 |
| 2022 | 206,418 |
| 2023 | 140,903 |

| Subsequent years | 250,067 |
|---|---|
| **Total** | **1,534,734** |

## 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 purchasing commitments for tangible and intangible fixed assets, and, in particular, auto and plants lease commitments.

Future minimum amounts to be paid for endorsement contracts and supplier purchase commitments are as follows:

| **As at December 31** (Euro/000) | **Endorsement contracts** | **Supply commitments** | **Other commitments** |
|---|---|---|---|
| 2019 | 4,581 | 11,494 | 81,072 |
| 2020 | 2,567 | 8,701 | 59,218 |
| 2021 | 98 | 7,836 | 29,402 |
| 2022 | - | 3,179 | 3,400 |
| 2023 | - | 328 | 206 |
| Subsequent years | - | - | 177 |
| **Total** | **7,246** | **31,538** | **173,475** |

## Guarantees

A wholly-owned U.S. 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 franchising agreements. Total minimum guaranteed payments amounted to Euro 0.2 million (USD 0.2 million) as at December 31, 2018 (Euro 1.1 million as at December 31, 2017). The commitments provided for by the guarantee arise if the franchisee cannot honor its financial commitments under the lease agreements. A liability has been recognized based on the present value of the estimated fair value of the commitments related to the guarantees. Such amount is immaterial to the consolidated financial statements as at December 31, 2018. The commitments provided for by the guarantee expire on different dates by October 23, 2025.

## Litigation

### French Competition Authority Investigation

In 2015, the French Competition Authority (the “Authority”) notified the Group and, in particular, 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, a statement of objections in relation to the alleged anti-competitive practices.

In 2017, the Authority considered that there was insufficient evidence to confirm the above litigations and sent the file back to the investigation departments of the Authority for further investigation.

The evaluation of the risk profile for the Group may be updated, as necessary, based on the analysis of the contents and the merits of further statements of objections that may be issued by the French competition authority in the next few months.

## Other proceedings

The Group is a defendant in various other legal and fiscal lawsuits arising in the ordinary course of business. It is the opinion of the management of the Company that it has meritorious defenses against all such outstanding claims, which the Company 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 branded eyewear. The brand is held by Brooks Brothers Group, Inc., which is owned and controlled by Claudio Del Vecchio. The license expired on December 31, 2015 and has been renewed until December 31, 2019. The Group paid Brooks Brothers Group, Inc. Euro 0.9 million in 2018 and Euro 0.7 million in 2017. Management believes that the terms of the license agreement are fair to the Company.

## Technology Advisory Agreements

On April 26, 2016, the Company entered into a three-year framework agreement, as subsequently amended on November 13, 2017 and approved by the Board of Directors of Luxottica Group S.p.A., with Mea S.r.l. ("MeA"), a company owned by Francesco Milleri for the implementation and development of the Group's IT platforms and other digital services (the "Agreement").

The costs incurred for the services rendered under the Agreement amounted to Euro 59.8 million, 25.3 million of which were paid in the year 2018 and Euro 27.3 million in 2017. Euro 19.9 million in such costs were capitalized within the line item intangible assets in 2018 (Euro 25.0 million in 2017). The net carrying amount as at December 31, 2018 of these fixed assets amounted to Euro 30.9 million, whereas as at December 31, 2017 it amounted to Euro 29.6 million.

On January 30, 2019, the Luxottica Group S.p.A.'s Board of Directors authorized the Company to enter into a new agreement with MeA for the provision of IT services, estimated at Euro 46 million (the "New Agreement").

The New Agreement was signed on February 26, 2019 alongside an early termination agreement for the Contract and will expire on December 31, 2020.

The following table shows the amounts of trade and financial transactions entered into with related parties in 2018 and 2017. Please note that: *(i)* 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 at the reporting date; *(ii)* the amounts reported below in the columns "Revenues" and "Costs" do not correspond to those presented in the line items of the consolidated income statement "Net sales" and "Cost of sales", as these include some purchases of goods from companies of the EssilorLuxottica Group in accordance with *IFRS 15 – Revenue from contracts with customers*.

It should also be noted that the value of Euro 119.1 million indicated in the consolidated statement of financial position under property, plant and equipment includes the net book value of the property purchased from Beni Stabili SIIQ S.p.A. in 2017 equal to Euro 115 million. The decrease in this item compared to the value indicated as at December 31, 2017 is representative of the depreciation for the period.

Note that transactions with companies belonging to the EssilorLuxottica Group: (i) are of a commercial nature and mainly relate to the purchase and sale of lenses and frames; (ii) data relating to Revenues and Costs are expressed from October 1, 2018 to December 31, 2018; (iii) Costs are reported net of goods purchased and not yet sold, which, therefore, were recognized as inventories as at December 31, 2018.

| December 31, 2018 (Euro/000) | Impact on the consolidated income statement | | Impact on the consolidated statement of financial position | |
|---|---|---|---|---|
| **Related party** | **Revenues** | **Costs** | **Assets** | **Liabilities** |
| Brooks Brothers Group, Inc. | 111 | 921 | 52 | 218 |
| Eyebiz Laboratories Pty Limited | 486 | 31,087 | 5,203 | 8,263 |
| Entities owned by Francesco Milleri | - | 5,365 | 19,932 | 10,229 |
| EssilorLuxottica Group | 6,783 | 60,830 | 30,538 | 41,084 |
| Others | 1,313 | 183 | 508 | 20 |
| **Total** | **8,694** | **98,378** | **56,233** | **59,815** |

| December 31, 2017 (Euro/000) | Impact on the consolidated income statement | | Impact on the consolidated statement of financial position | |
|---|---|---|---|---|
| **Related party** | **Revenues** | **Costs** | **Assets** | **Liabilities** |
| Brooks Brothers Group, Inc. | 28 | 743 | 16 | 233 |
| Eyebiz Laboratories Pty Limited | 445 | 42,993 | 8,389 | 7,210 |
| Entities owned by Francesco Milleri | - | 2,367 | 24,977 | 16,413 |
| Others | 170 | 10,304 | 120,966 | 344 |
| **Total** | **644** | **56,407** | **154,349** | **24,199** |

Total remuneration due to key managers amounted to approximately Euro 27.4 million and Euro 31.1 million for the years ended December 31, 2018 and 2017, respectively.

In 2018 and in 2017, transactions with related parties resulted in a cash outflow of approximately Euro 99.2 million and Euro 184.9 million.

As at December 31, 2018, there are no obligations to the entities owned by Francesco Milleri associated with the provision of IT services. These obligations totalled Euro 5.7 million as at December 31, 2017.

## 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 2018 and 2017 amounting to Euro 900.2 million and Euro 1,040.4 million, respectively, to the number of outstanding shares—basic and dilutive of the Company.

Basic earnings per share in 2018 were equal to Euro 1.88 compared to Euro 2.18 in 2017. Diluted earnings per share in 2018 were equal to Euro 1.88 compared to Euro 2.17 in 2017.

The following table shows the reconciliation between the average weighted number of shares utilized to calculate basic and diluted earnings per share:

| (Euro/000) | Financial Year 2018 | Financial Year 2017 |
|---|---|---|
| Weighted average shares outstanding – basic | 478,970,127 | 478,068,696 |
| Effect of dilutive stock options | 41,983 | 279,681 |
| Weighted average shares outstanding – dilutive | 479,012,110 | 478,348,377 |
| Options not included in the calculation of dilutive shares, as the average strike price was greater than the average price during the reporting period and performance conditions had not been met | - | 477,124 |

## 32. ATYPICAL AND/OR UNUSUAL TRANSACTIONS

No atypical and/or unusual transactions, as defined by CONSOB Communication 6064293 dated July 28, 2006, were undertaken during 2018. For details of the merger with Essilor, please refer to paragraph 3 -

Significant events in 2018 of the management report.

## 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 as at December 31, 2018 and as at December 31, 2017:

| **Derivative financial instruments** (Euro/000) | FY 2018 | | FY 2017 | |
|---|---|---|---|---|
| | **Assets** | **Liabilities** | **Assets** | **Liabilities** |
| Interest rate swaps—cash flow hedge | - | - | - | - |
| Forward contracts—cash flow hedge | 3,854 | 2,513 | 5,260 | 3,408 |
| **Total current portion** | **3,854** | **2,513** | **5,260** | **3,408** |
| Interest rate swaps—cash flow hedge | - | 3,510 | 487 | - |
| Forward contracts—cash flow hedge | - | - | - | - |
| **Total non-current portion** | **-** | **-** | **487** | **-** |
| **Total derivative financial instruments** | **3,854** | **6,023** | **5,747** | **3,408** |

### Interest rate swaps

As at December 31, 2018, 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.

## 34. NON-RECURRING TRANSACTIONS

In 2018, the Group recorded non-recurring expenses, with a Euro 15.7 million and Euro 11.3 million impact on income before taxes and net income, respectively, associated with: (i) the early repayment of Euro 4.7 million worth of loans (Euro 3.6 million net of taxes), and (ii) Euro 10.9 million (Euro 7.7 million net of taxes) in costs related to the merger with Essilor.

During 2017, the Group incurred:

- non-recurring expenses, with a Euro 55.6 million and Euro 36.6 million impact on income before taxes and net income, respectively, associated with: (i) the early repayment of loans equal to Euro 29.5 million (Euro 18.2 million net of taxes), (ii) costs related to the merger 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) related to the departure of the CEO for Product and Operations, Massimo Vian (Euro 6.3 million) and other important managers of the Group (Euro 1.3 million).
- non-recurring income, with a Euro 48.7 million and Euro 193.7 million impact on income before taxes and net income, respectively, associated with: (i) capital gains 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 tax) and (ii) tax benefits deriving from the Patent Box and the US tax reform for Euro 158.8 million.

The cash flow relating to non-recurring transactions resulted in an absorption of cash and cash equivalents of Euro 16.9 million in 2018 and a generation of cash and cash equivalents of Euro 60.7 million in 2017.

## 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 (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 Company—the Company's stockholders meetings approved three stock 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 stock 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 stock 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 at December 31, 2018, 34,695,033 have been exercised.

In total, the Board of Directors approved the following stock option plans:

| Plan | 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 (*) | 1,725,000 | 70,000 |
| 2007 (*) | 1,745,000 | 20,000 |
| 2008 | 2,020,500 | 1,664,000 |
| 2009 | 1,050,000 | 784,000 |
| 2009 Ordinary Plan: reassignment to non-US beneficiaries | 2,060,000 | 1,840,000 |
| 2009 Ordinary Plan: reassignment to US beneficiaries | 825,000 | 630,000 |
| 2002 Performance Plan | 1,170,000 | - |
| 2004 Performance Plan | 1,000,000 | 1,000,000 |
| 2006 Performance Plan—US beneficiaries(*) | 3,500,000 | - |
| 2006 Performance Plan—non-US beneficiaries(*) | 9,500,000 | 1,100,000 |
| 2009 Performance Plan: reassignment to non-US beneficiaries | 4,250,000 | 4,250,000 |
| 2009 Performance Plan: reassignment to US beneficiaries | 1,450,000 | 1,350,000 |
| 2010 | 1,924,500 | 1,567,000 |
| 2011 | 2,039,000 | 1,667,500 |
| 2012 | 2,076,500 | 1,719,000 |
| **Total** | **55,909,800** | **34,695,033** |

(*) The plan was reassigned in 2009.

On May 4, 2015 the Board, through the incentive plan Performance Shares Plan 2015/2018 (hereinafter “PSP 2015”), granted certain of the Group’s key employees 1,318,300 rights to receive ordinary shares of Luxottica Group (so called *Units*) 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. Note that this performance condition was achieved in advance by reducing the rights to receive Luxottica Group shares free of charge to 1,100,370 and by changing the PSP 2015 into a retention plan. 446,767 options were assigned to key employees on March 2, 2018.

On December 15, 2017, the Board of Directors of the company approved a three-year retention plan whose vesting date is March 31, 2021 (“LTI 2018”); this plan is classified as cash-settled share based plan in accordance with IFRS 2 – Share-based payments. The regulations of the plan allow the company to exercise an option to convert the cash bonus awarded to the beneficiaries into shares of the parent company EssilorLuxottica;.at the meeting held on November 29, 2018, the latter decided to convert the plan from a cash to a share price.

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 2018 are set forth below:

| Stock options and Performance Share Plan | Exercise price | Currency | No. options as at 31.12.17 | Granted options | Forfeited options | Exercised options/vested units | Expired options | No. options as at 31.12.18 |
|---|---|---|---|---|---|---|---|---|
| 2009 Ordinary plan for citizens not resident in the U.S. | 13.45 | Euro | 3,000 | - | - | (3,000) | - | - |
| 2009 Plan—reassignment of 2006/2007 plans for citizens not resident in the U.S. | 13.45 | Euro | 10,000 | - | - | (10,000) | - | - |
| 2010 Ordinary Plan—for citizens not resident in the U.S. | 20.72 | Euro | 13,000 | - | - | (13,000) | - | - |
| 2011 Ordinary Plan—for citizens not resident in the U.S. | 22.62 | Euro | 32,000 | - | - | (32,000) | - | - |
| 2011 Ordinary Plan—for citizens resident in the U.S. | 23.18 | Euro | 3,000 | - | - | (3,000) | - | - |
| 2012 Ordinary Plan—for citizens not resident in the U.S. | 26.94 | Euro | 112,000 | - | - | (112,000) | - | - |
| 2012 Ordinary Plan—for citizens resident in the U.S. | 28.32 | Euro | 6,000 | - | - | (6,000) | - | - |
| PSP 2015 (ordinary) | - | Euro | 397,579 | - | (5,562) | (392,017) | - | - |
| PSP 2015 (extraordinary) | - | Euro | 54,750 | - | - | (54,750) | - | - |
| | **Total** | | **631,329** | | **(5,562)** | **(625,767)** | **-** | |

There were no options exercisable as at December 31, 2018.

With regards to the options exercised during the course of 2018, the weighted average share price of the shares in 2018 was equal to Euro 53.5.

The Company did not record expenses for the ordinary stock option plans in 2018 and 2017. For the 2015 extraordinary PSP plan, for the 2014 and 2015 PSPs and for the 2018 LTI plan, the Company recorded a total expense of Euro 27.4 million and Euro 0.8 million in 2018 and 2017, respectively. The plans in place as at December 31, 2018, which envisage share-based payments to employees, make the assignment of options conditional upon employees remaining in the company ("service conditions").

## 36. DIVIDENDS PAID

In April 2018, the Company distributed aggregate dividends to its stockholders of Euro 483.8 million equal to Euro 1.01 per ordinary share. Dividends distributed to non-controlling interests of the subsidiaries totalled Euro 2.4 million.

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 of the subsidiaries totalled Euro 2.5 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 shareholders and benefit to other stockholders and to maintain an optimal capital structure to reduce the cost of capital.

Consistent with others in the industry, the Group also monitors capital on the basis of a gearing ratio that is calculated as net financial position divided by total capital. 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 as at December 31, 2018 and as at December 31, 2017 as follows:

| **Gearing ratio** (Euro/000) | **Financial Year 2018** | **Financial Year 2017** ***Restated*** |
|---|---:|---:|
| Total borrowings (notes 16, 17 and 22) | 1,726.4 | 1,899.2 |
| Cash and cash equivalents (note 6) | (1,298.1) | (1,159.3) |
| **Net financial position (note 22)** | **428.3** | **739.9** |
| Total equity (note 26) | 6,299.6 | 5,808.3 |
| **Capital** | **6,727.9** | **6,548.2** |
| **Gearing ratio** | **6.3%** | **11.3%** |

## 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 2018 for audit and other services provided by the external auditors of Luxottica Group S.p.A. and its subsidiaries.

| (Euro/000) | Entity providing services | Entity receiving services | Fees for 2018 | Fees for 2017 |
|---|---|---|---:|---:|
| Audit services | Pricewaterhouse Coopers S.p.A | Luxottica Group S.p.A. | 1,167.9 | 900.7 |
| | Pricewaterhouse Coopers S.p.A | Subsidiaries | 1,164.1 | 1,117.1 |
| | Pricewaterhouse Coopers S.p.A. network | Subsidiaries | 5,965.9 | 5,885.6 |
| Attestation services | Pricewaterhouse Coopers S.p.A | Luxottica Group S.p.A. | 450.3 | 280.7 |
| | Pricewaterhouse Coopers S.p.A. network | Subsidiaries | 172.2 | 430.2 |
| Other services | Pricewaterhouse Coopers S.p.A | Luxottica Group S.p.A. | 1.7 | 365.2 |
| | Pricewaterhouse Coopers S.p.A. network | Subsidiaries | 51.4 | 166.2 |
| **Total** | | | **8,973.6** | **9,145.8** |

## 39. SUMMARY OF GOVERNMENT GRANTS PURSUANT TO ART. 1, PARAGRAPH 125, ITALIAN LAW NO. 124/2017

Art. 1, paragraph 125, of Italian Law no. 124 of August 4, 2017 (so-called Annual Market and Competition Law) introduced new disclosure requirements concerning the transparency of government grants received and granted.

During 2018, the Group recognized the following grants falling under the scope of Italian Law no. 124 of August 4, 2017 on an accrual basis:

| Grantor | Nature of government grant | Government Grants for 2018 (Euro) | Government Grants for 2017 (Euro) | Classification in the financial statements of the recipient |
|---|---|---|---|---|
| Fondimpresa | Employee training | 127,359 | 85,200 | Costs for services |
| Fondirigenti | Employee training | 45,836 | 78,199 | Costs for services |
| European Community | Horizon 2020- ISEE | - | 18,270 | Costs for services |
| Fondimpresa | Employee training | 472,955 | 411,755 | Other revenue and income |
| Fondirigenti | Employee training | - | 25,799 | Other revenue and income |
| European Community | Horizon 2020- ISEE | - | 117,554 | Other revenue and income |
| **Total** | | **646,150** | **737,777** | |

In addition to the information presented in the above table, during 2018 the subsidiary Salmoiraghi & Viganò S.p.A. recognized a Euro 7,319 employment subsidy for Southern Italy, as per Directorial Decree no. 367/2016 of the Italian Ministry of Labor and Social Policies.

In addition, the following tax benefits were recognized during 2018:

- For Luxottica Group: (i) “Art Bonus” tax credit for charitable donations supporting culture (Art. 1 of Italian Legislative Decree no. 83 of May 31, 2014 as amended and supplemented), totaling Euro 1,107,866, for donations made in 2018; (ii) tax credit for “Research & Development” investments totaling Euro 443,814.00
- For Luxottica Srl: deductible "energy saving” expenses concerning existing buildings (Art. 1 p. 345 Italian Law 296/2006), totaling Euro (76,564).
- For Nextore Srl: tax credit for "Research & Development" investments totaling Euro 16,495.

Futhermore, for the purposes of this disclosure, the Group did not consider any amounts received and/or grants recognized on an accrual basis that are either general in nature or associated with state aid or “de-minimis” aid included in Italy's National State Aid Register as per Article 52 of Italian Law no. 234 of December 24, 2012. Please refer to said register for more information on any such grants received by the Group.

Finally, according to an authoritative interpretations of the current legislation and pending an authentic interpretation by the competent Authorities, it is not necessary to indicate the tax benefits (already included in the filed tax declarations) and general measures available for all companies.

## 40. SUBSEQUENT EVENTS

On January 22, 2019, following the procedure relating to the obligation to purchase pursuant to art. 108, paragraph 2, of the Consolidated Law on Finance and in accordance with Article 2.5.1, paragraph 6, of the Market Regulations of Borsa Italiana S.p.A., Borsa Italiana revoked the listing of the shares of Luxottica Group (IT0001479374) on the electronic stock exchange (MTA, Mercato Telematico Azionario) effective as from March 5, 2019.

## 41. ATTACHMENT – EXCHANGE RATES USED TO TRANSLATE FINANCIAL STATEMENTS PREPARED IN CURRENCIES OTHER THAN EURO.

| | Average exchange rate as at December 31, 2018 | Final exchange rate as at December 31, 2018 | Average exchange rate as at December 31, 2017 | Final exchange rate as at December 31, 2017 |
|---|---|---|---|---|
| U.S. Dollar | 1.1810 | 1.1450 | 1.1297 | 1.1993 |
| Australian Dollar | 1.5797 | 1.6220 | 1.4732 | 1.5346 |
| Chinese Renminbi | 7.8081 | 7.8751 | 7.6290 | 7.8044 |
| Argentine Peso | 32.9094 | 43.1593 | 18.7408 | 22.9310 |
| Brazilian Real | 4.3085 | 4.4440 | 3.6054 | 3.9729 |
| Canadian Dollar | 1.5294 | 1.5605 | 1.4647 | 1.5039 |
| Chilean Peso | 756.9409 | 794.3700 | 732.6075 | 737.2900 |
| Colombian Peso | 3486.7410 | 3721.8100 | 3336.1675 | 3580.1900 |
| Croatian Kuna | 7.4182 | 7.4125 | 7.4637 | 7.4400 |
| Danish Krone | 7.4532 | 7.4673 | 7.4386 | 7.4449 |
| United Arab Emirates Dirham | 4.3371 | 4.2050 | 4.1475 | 4.4044 |
| Japanese Yen | 130.3959 | 125.8500 | 126.7112 | 135.0100 |
| Hong Kong Dollar | 9.2559 | 8.9675 | 8.8045 | 9.3720 |
| Indian Rupee | 80.7332 | 79.7298 | 73.5324 | 76.6055 |
| British Pound | 0.8847 | 0.8945 | 0.8767 | 0.8872 |
| Israeli New Shekel | 4.2423 | 4.2972 | 4.0622 | 4.1635 |
| Malaysian Ringgit | 4.7634 | 4.7317 | 4.8527 | 4.8536 |
| Mexican Peso | 22.7054 | 22.4921 | 21.3286 | 23.6612 |
| Namibian Dollar | 15.6186 | 16.4594 | 15.0490 | 14.8054 |
| New Zealand Dollar | 1.7065 | 1.7056 | 1.5897 | 1.6850 |
| Norwegian Krone | 9.5975 | 9.9483 | 9.3270 | 9.8403 |
| Peruvian Nuevo Sol | 3.8793 | 3.8630 | 3.6833 | 3.8854 |
| Polish Zloty | 4.2615 | 4.3014 | 4.2570 | 4.1770 |
| Russian Ruble | 74.0416 | 79.7153 | 65.9383 | 69.3920 |
| Singapore Dollar | 1.5926 | 1.5591 | 1.5588 | 1.6024 |
| South African Rand | 15.6186 | 16.4594 | 15.0490 | 14.8054 |
| South Korean Won | 1299.0713 | 1277.9300 | 1276.7381 | 1279.6100 |
| Swedish Krona | 10.2583 | 10.2548 | 9.6351 | 9.8438 |
| Swiss Franc | 1.1550 | 1.1269 | 1.1117 | 1.1702 |
| Taiwan Dollar | 35.5864 | 35.0223 | 34.3635 | 35.6555 |
| Thailand Bath | 38.1644 | 37.0520 | 38.2958 | 39.1210 |
| New Turkish Lira | 5.7077 | 6.0588 | 4.1206 | 4.5464 |
| Hungarian Forint | 318.8897 | 320.9800 | 309.1933 | 310.3300 |
| Riyal Saudita | 4.4286 | 4.2938 | 4.2366 | 4.4974 |

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**Milan, March 6, 2019**

**Luxottica Group S.p.A.**

**On behalf of the Board of Directors**

**Francesco Milleri**
*(Deputy Chairman & Chief Executive Officer)*

# 2.7

# Certification of the Consolidated Financial Statements pursuant to Article 154-bis of Legislative Decree 58/98

## 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 2018.

2. The assessment of the adequacy of the administrative and accounting procedures for the preparation of the consolidated financial statements as of December 31, 2018 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, 2018:

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 on 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.

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**Milan, March 6, 2019**

**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)*

# 2.8

# Independent Auditor's Report

# Consolidated Financial Statements

**LUXOTTICA GROUP SPA**

**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**

**CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018**

***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 2018, 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 2018, and of the result of its operations and cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union, 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 pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *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***

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| *Key Audit Matter* | *Auditing procedures performed in response to key audit matters* |
|---|---|
| **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.*<br><br>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.<br><br>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.<br><br>We have performed external confirmation procedures with the aim of obtaining probing evidence to support trade receivables and related revenues 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.*<br><br>As of 31 December 2018, goodwill and definite lives intangible assets amounted to Euro 3,697 million and Euro 1,126 million, respectively.<br><br>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 intangible assets and assumptions used in the calculation models.<br><br>With reference to the year ended 31 December 2018, management carried out an impairment | We have performed, through specific investigations, an understanding and evaluating of the relevant controls implemented by the Group over the "Goodwill" and "Intangible assets" areas, in order to assess the adequacy of their design. We have verified the operating effectiveness of these controls.<br><br>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.<br><br>We have assessed the adequacy of the groups of CGU used for the allocation of goodwill and their consistency with the Group organizational structure, internal decision-making processes and management reporting. |

| Key Audit Matter | Auditing procedures performed in response to key audit matters |
|---|---|
| test on goodwill, based on the following approach:<br><br>• 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;<br>• the model included explicit projections limited to three years, with a terminal value applied to the last explicit year;<br>• the estimated cash flows of each group of CGU were discounted to the present value using the weighted average cost of capital ("WACC");<br>• 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;<br>• in addition, management carried out a sensitivity analysis to assess the impact of changes to significant assumptions on the assets recoverable amount.<br><br>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. | 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.<br><br>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.<br><br>We have analysed projections used for impairment testing and whether they were consistent with the three-year plan prepared by management.<br><br>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.<br><br>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.<br><br>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 2018. |
| **Disclosure of the expected impacts of the application of IFRS 16 'Leasing'**<br><br>*The impacts arising from the expected adoption of IFRS 16 'Leasing' on financial reporting are illustrated in section 1 "Consolidation principles, composition of the group and significant accounting policies", paragraph "Use of accounting estimates" and in note 2 "New accounting standards", paragraph "IFRS 16* | We have performed, through specific investigations, an understanding and evaluating of the relevant controls introduced by the Group over the implementation of IFRS 16 'Leasing' in order to assess the adequacy of their design. We have verified the operating effectiveness of those controls. |

| *Key Audit Matter* | *Auditing procedures performed in response to key audit matters* |
|---|---|
| *Leases", of the notes to the consolidated financial statements.*<br><br>The new international financial reporting standard related to lease accounting, IFRS16 'Leasing' became effective on 1 January 2019.<br><br>With reference to lessee accounting, the new standard, with limited exceptions, requires the recognition of the acquired right-of-use asset and the corresponding financial liability measured at the present value of future lease payments.<br><br>In accordance with applicable guidance, in the notes to the consolidated financial statements the Company disclosed the estimated impacts arising from the application of the new standard.<br><br>We have identified an area of focus considering the significance of the balances disclosed in the notes to the consolidated financial statements, the complexity of the implementation process and the fact that the valuation process involves a high degree of judgement of management in developing assumptions relating to the methodologies of implementation of the new accounting standard. | We have performed an understanding and evaluation of the reasonableness of the accounting policies and assumptions developed by management in the process of adoption of IFRS 16 'Leasing'.<br><br>We have carried out testing procedures on the mathematical accuracy of the calculations, on the completeness of the population of contracts qualifying for recognition under IFRS 16 'Leasing' and on the consistency of the data inputs used.<br><br>In addition, we have verified the accuracy and completeness of disclosures included in note 2 "New accounting standards" to the consolidated financial statements as of 31 December 2018. |

### *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, as well as 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 they determine 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, the Directors use the going concern basis of accounting unless they either intends to liquidate Luxottica Group SpA or to cease operations, or have no realistic alternative but to do so.

The Board of Statutory Auditors is responsible for overseeing, in the terms prescribed by law, the group 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 our audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised professional judgement and maintained professional scepticism throughout the audit.

Furthermore:

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

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

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 current period 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 addressed to the Board of Statutory Auditors, in its 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 (in relation to specific information required under Article 123-bis, paragraph 2, letter b), of Legislative Decree 58/98) of the Luxottica group as of 31 December 2018, 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 2018 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 2018 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 and its environment 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*

The Directors of Luxottica Group SpA are 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 the subject of a separate statement of compliance issued by our firm.

Milan, 26 March 2019

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*

2.9

# 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 n. 20267 of January 2018

**LUXOTTICA GROUP SPA**

# 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 OF JANUARY 2018

**YEAR ENDED 31 DECEMBER 2018**

***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 of January 2018*

To the Board of Directors of Luxottica Group SpA

Pursuant to article 3, paragraph 10, of Legislative Decree No. 254 of 30 December 2016 (the "Decree") and article 5 of CONSOB Regulation 20267/2018, we have performed a limited assurance engagement on the consolidated non-financial statement of Luxottica Group SpA and its subsidiaries (the "Luxottica Group") for the year ended 31 December 2018 prepared in accordance with article 4 of the Decree, presented in chapter 8 of the Annual Report 2018 of the Luxottica Group, and approved by the Board of Directors on 6 March 2019 (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, with the "Global Reporting Initiative - Sustainability Reporting Standards" defined in 2016 by the GRI - Global Reporting Initiative (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 paragraphs "The sustainability reporting process" and "The *Zero injuries program* and the initiatives for the promotion of safety in the workplace" 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 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 organisational model of the 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.

The Board of Statutory Auditors is responsible for overseeing, in accordance with the law, compliance with the Decree.

***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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## 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 the International Standard on Quality Control 1 (“ISQC Italy 1”) and, accordingly, maintains an overall quality control system which includes processes and procedures for 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, 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 ISAE 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 apply procedures in order to obtain 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 that we have 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 of company personnel responsible for the preparation of the information presented in the NFS, analysis of documents, recalculations and other procedures aimed at obtaining evidence as appropriate.

In particular, we 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 the with the reporting standards adopted;

2. analysis and assessment of the criteria used to identify the consolidation area, in order to assess their compliance with the Decree;

3. comparison of 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, Luxottica Tristar (Dongguan) Optical Co Ltd., Salmoiraghi & Viganò SpA, Luxottica of America Inc. 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 characteristics 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 their 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 facilities of Agordo and Sedico (Italy), Dongguan (China) and Atlanta (USA), 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 site visits and interviews where we discussed with plant 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 Luxottica Group as of 31 December 2018 has not been prepared, in all material respects, in compliance with articles 3 and 4 of the Decree, 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 paragraphs "The sustainability reporting process" and "The *Zero injuries programs* and the initiatives for the promotion of safety in the workplace" of the NFS.

Milan, 26 March 2019

PricewaterhouseCoopers SpA

| *Signed by* | *Signed by* |
| --- | --- |
| Christian Sartori<br>(Partner) | Paolo Bersani<br>(Authorized signatory) |

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

# 3. Separate Financial Statement

3.1 Statement of financial position
3.2 Statement of income
3.3 Statement of comprehensive income
3.4 Statement of changes in stockholders’ equity
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3.6 Notes to the Separate Financial Statements as of December 31, 2018
3.7 Certification of the Separate Financial Statements pursuant to Article 154-bis of Legislative Decree 58/98
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3.10 Board of Statutory Auditors’ Report on the Consolidated and Separate Financial Statements

# 3.1-3.5

# Separated Financial Statement as of December 31, 2018

## STATEMENT OF FINANCIAL POSITION

(in euro)

| ASSETS | Note | 12/31/2018 | of which related parties | 12/31/2017 | of which related parties |
|---|---|---|---|---|---|
| CURRENT ASSETS | | | | | |
| Cash and cash equivalents | 4 | 380,994,210 | - | 405,767,173 | - |
| Accounts receivable | 5 | 642,305,265 | 638,069,382 | 607,504,883 | 601,301,304 |
| Inventories | 6 | 177,029,764 | - | 184,396,747 | - |
| Taxes receivable | 7 | 36,218,732 | - | 32,657,132 | - |
| Derivative financial instruments | 8 | 3,469,518 | - | 5,428,629 | - |
| Other current assets | 9 | 420,076,567 | 399,516,108 | 444,276,532 | 430,481,119 |
| **Total current assets** | | **1,660,094,056** | **1,037,585,490** | **1,680,031,096** | **1,031,782,423** |
| NON-CURRENT ASSETS | | | | | |
| Property, plant and equipment | 10 | 256,742,538 | 111,346,478 | 218,400,746 | 117,750,250 |
| Intangible assets | 11 | 232,939,743 | 27,751,951 | 235,436,100 | 26,592,463 |
| Investments in subsidiaries | 12 | 3,306,854,511 | 3,306,854,511 | 3,314,919,198 | 3,314,919,198 |
| Investments in associates | 12 | 1,195,566 | 1,195,566 | 1,195,566 | 1,195,566 |
| Deferred tax assets | 13 | 48,462,643 | - | 50,483,920 | - |
| Other non-current assets | 14 | 22,781,074 | 14,010,495 | 24,738,883 | 14,010,495 |
| **Total non-current assets** | | **3,868,976,075** | **3,461,159,001** | **3,845,174,413** | **3,474,467,972** |
| **TOTAL ASSETS** | | **5,529,070,131** | **4,498,744,491** | **5,525,205,509** | **4,506,250,395** |

| LIABILITIES AND STOCKHOLDERS' EQUITY | Note | 12/31/2018 | of which related parties | 12/31/2017 | of which related parties |
|---|---|---|---|---|---|
| CURRENT LIABILITIES | | | | | |
| Short-term borrowings | 15 | 90,393,699 | 90,393,239 | 52,078,927 | 52,078,470 |
| Current portion of long-term debt | 16 | 527,117,381 | | 27,481,481 | |
| Accounts payable | 17 | 530,375,914 | 265,532,427 | 609,005,947 | 367,820,915 |
| Income taxes payable | 18 | 1,403,996 | - | 759,106 | - |
| Short-term provisions for risks and other charges | 19 | 35,143,326 | - | 49,128,809 | - |
| Derivative financial instruments | 20 | 2,428,823 | - | 3,344,737 | - |
| Other current liabilities | 21 | 432,413,300 | 359,332,605 | 354,511,525 | 290,615,509 |
| **Total current liabilities** | | **1,619,276,439** | **715,053,271** | **1,096,310,532** | **710,514,894** |
| | | | | | |
| NON-CURRENT LIABILITIES | | | | | |
| Long-term debt | 22 | 996,098,204 | - | 1,544,842,528 | - |
| Employee benefits | 23 | 51,552,285 | - | 21,295,493 | - |
| Long-term provisions for risks and other charges | 24 | 83,000 | - | 283,000 | - |
| Derivative financial instruments | 25 | 3,510,410 | - | - | - |
| Other non-current liabilities | 26 | 972,790 | - | - | - |
| **Total non-current liabilities** | | **1,052,216,689** | **-** | **1,566,421,021** | **-** |
| | | | | | |
| STOCKHOLDERS' EQUITY | | | | | |
| Capital stock | 27 | 29,111,702 | - | 29,100,962 | - |
| Legal reserve | 27 | 5,820,781 | - | 5,811,283 | - |
| Other reserves | 27 | 2,595,393,940 | - | 2,452,968,959 | - |
| Treasury shares | 27 | (247,822,151) | - | (256,677,949) | - |
| Net income | 27 | 475,072,731 | - | 631,270,701 | - |
| **Total stockholders' equity** | | **2,857,577,003** | **-** | **2,862,473,956** | **-** |
| | | | | | |
| **TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY** | | **5,529,070,131** | **715,053,271** | **5,525,205,509** | **710,514,894** |

## STATEMENT OF INCOME

(in euro)

| STATEMENT OF INCOME | Note | 12/31/2018 | of which related parties | 12/31/2017 | of which related parties |
|---|---|---|---|---|---|
| Net sales | 28 | 2,796,569,308 | 2,760,452,005 | 2,876,555,811 | 2,852,125,986 |
| Other revenue and income | 29 | 200,276,065 | 188,563,011 | 169,049,326 | 112,193,239 |
| Changes in inventories | 30 | (7,366,983) | - | 12,699,661 | - |
| Cost of goods purchased | 31 | (1,570,310,928) | (1,520,021,258) | (1,565,006,438) | (1,521,924,530) |
| Service costs | 32 | (315,096,005) | (21,408,122) | (310,144,389) | (57,707,509) |
| *of which non-recurring costs* | | *(10,927,289)* | - | *(18,511,670)* | - |
| License and lease costs | 33 | (190,681,843) | (11,934,352) | (233,583,345) | (16,133,872) |
| Amortization, depreciation and impairment | 34 | (80,330,584) | - | (82,404,563) | - |
| Personnel costs | 35 | (191,195,771) | 30,083,015 | (155,523,441) | 22,485,413 |
| *of which non-recurring costs* | | - | - | *(7,593,000)* | - |
| Other operating expenses | 36 | (15,477,305) | (3,397,550) | (12,561,016) | (1,952,785) |
| **Income from operations** | | **626,385,954** | **1,422,336,749** | **699,081,606** | **1,389,085,941** |
| Income and expense from investments | 37 | 39,621,061 | 39,621,061 | 66,934,678 | 66,934,678 |
| Finance income | 38 | 4,632,818 | 1,036,297 | 5,357,775 | 1,922,565 |
| Finance expense | 39 | (62,974,790) | (7,215,547) | (57,466,818) | (6,659,763) |
| *of which non-recurring expense* | | *(4,743,125)* | - | - | - |
| Foreign currency hedge and exchange difference gains | 40 | 136,632,779 | 56,248,305 | 151,885,130 | 50,496,589 |
| Foreign currency hedge and exchange difference losses | 40 | (132,971,292) | (48,924,924) | (160,442,290) | (84,629,090) |
| Other net income (expense) | 41 | 39,652 | 7,072 | 48,675,343 | 48,675,343 |
| *of which non-recurring income* | | - | - | *48,675,343* | *48,675,343* |
| **Total other income and expense** | | **(15,019,772)** | **40,772,264** | **54,943,818** | **76,740,322** |
| **Income before provision for income taxes** | | **611,366,182** | **1,463,109,013** | **754,025,424** | **1,465,826,263** |
| Provision for income taxes | 42 | (136,293,451) | (2,140) | (122,754,723) | - |
| *of which non-recurring income (expense)* | | *4,369,549* | - | *55,904,635* | - |
| **Net income** | | **475,072,731** | **1,463,106,873** | **631,270,701** | **1,465,826,263** |

## STATEMENT OF COMPREHENSIVE INCOME

(in euro)

| STATEMENT OF COMPREHENSIVE INCOME | Note | 12/31/2018 | of which related parties | 12/31/2017 | of which related parties |
|---|---|---|---|---|---|
| **Net income for the period** | | **475,072,731** | **-** | **631,270,701** | **-** |
| *Items that may be subsequently reclassified to profit or loss* | | | | | |
| Fair value of IRS hedging derivatives | 25 | (3,935,776) | - | 425,366 | - |
| Tax effect on fair value of IRS hedging derivatives | | 1,163,809 | - | (125,781) | - |
| **Total items that may be subsequently reclassified to profit or loss** | | **(2,771,967)** | **-** | **299,585** | **-** |
| *Items that will not be subsequently reclassified to profit or loss* | | | | | |
| Actuarial gains/(losses) on defined benefit plans | 27 | 112,067 | - | 48,764 | - |
| Tax effect on actuarial gains/(losses) on defined benefit plans | | - | - | - | - |
| **Total items that will not be subsequently reclassified to profit or loss** | | **112,067** | **-** | **48,764** | **-** |
| **Total other comprehensive income, net of tax** | | **(2,659,900)** | **-** | **348,349** | **-** |
| Comprehensive income for the period | | *472,412,831* | - | *631,619,050* | - |

## STATEMENT OF CHANGES IN STOCKHOLDER' EQUITY

| | Number shares | Amount | Legal reserve | Additional paid-in capital | Extraordinary reserve | IAS reserve | Other reserves | Treasury shares | Equity reserve (merger/ demerger) | Net income for the period | Stockholders' equity |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | | Note 27 |
| **Balance at January 1, 2017** | **484,176,083** | **29,050,565** | **5,804,887** | **454,224,557** | **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 |
| Treasury shares granted to employees | | | | | (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) | - |
| Other changes | | | | | - | | | - | | | - |
| **Balance at December 31, 2017** | **485,016,033** | **29,100,962** | **5,811,283** | **471,537,086** | **1,098,660,830** | **734,446,070** | **-** | **(256,677,949)** | **148,324,973** | **631,270,701** | **2,862,473,956** |

| | Number shares | Amount | Legal reserve | Additional paid-in capital | Extraordinary reserve | IAS reserve | Other reserves | Treasury shares | Equity reserve (merger/ demerger) | Net income for the period | Stockholders' equity |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | | Note 27 |
| **Balance at January 1, 2018** | **485,016,033** | **29,100,962** | **5,811,283** | **471,537,086** | **1,098,660,830** | **734,446,070** | **-** | **(256,677,949)** | **148,324,973** | **631,270,701** | **2,862,473,956** |
| Net income for the period | | | | | | | | | | 475,072,731 | 475,072,731 |
| Other comprehensive income for the period: | | | | | | | | | | | |
| Actuarial gains/losses | | | | | | 112,067 | | | | | 112,067 |
| Cash Flow Hedges, net of tax | | | | | | (2,771,967) | | | | | (2,771,967) |
| **Total comprehensive income at December 31, 2018** | | | | | | **(2,659,900)** | | | | **475,072,731** | **472,412,831** |
| Capital increases | 179,000 | 10,740 | | 4,414,050 | | | - | | | | 4,424,790 |
| Non-cash stock based compensation | | | | | | 1,934,637 | | | | | 1,934,637 |
| Treasury shares granted to employees | | | | | (8,855,798) | | | 8,855,798 | | | - |
| Recharge of treasury shares to subsidiaries | | | | | 113,830 | | | | | | 113,830 |
| Dividends paid (Euro 1.01 per share) | | | | | | | | | | (483,783,041) | (483,783,041) |
| Allocation of prior year net income | | | 9,497 | | 147,478,162 | | | | | (147,487,659) | - |
| Other changes | | | | | | | | | | | |
| **Balance at December 31, 2018** | **485,195,033** | **29,111,702** | **5,820,780** | **475,951,136** | **1,237,397,024** | **733,720,807** | **-** | **(247,822,151)** | **148,324,973** | **475,072,731** | **2,857,577,003** |

## STATEMENT OF CASH FLOWS

| (in euro) | Note | 12/31/2018 | of which related parties | 12/31/2017 | of which related parties |
|---|---|---|---|---|---|
| **Income before provision for income taxes, net of dividend income** | | **532,562,562** | **1,384,303,253** | **670,901,477** | **1,382,702,316** |
| Stock-based compensation | 35 | 20,820,227 | - | 1,090,405 | - |
| Amortization and depreciation | 34 | 80,330,584 | - | 82,404,563 | - |
| Impairment and capital gains | 34/41 | 39,800,514 | 39,833,094 | (28,065,862) | (28,065,862) |
| Finance expense | 39 | 53,609,769 | 7,678,373 | 55,039,062 | 6,659,763 |
| Finance income | 38 | (4,632,820) | (1,036,595) | (5,351,919) | (1,922,565) |
| Changes in accounts receivable | 5 | (24,216,872) | (26,184,568) | (233,588,291) | (231,847,625) |
| Changes in inventories | 6 | 7,366,983 | - | (10,844,431) | - |
| Changes in accounts payable | 17 | (68,010,724) | (88,914,487) | 32,628,143 | 57,418,635 |
| Changes in other assets/liabilities / provisions for risks/ employee benefits | | 12,512,028 | (40,211,673) | 83,481,444 | 16,960,247 |
| **Total non-cash adjustments** | | **117,579,689** | **(108,835.856)** | **(23,206,844)** | **(180,797,408)** |
| **Cash provided by operating activities** | | **650,142,251** | **1,275,467,398** | **647,694,992** | **1,201,904,909** |
| Interest paid | | (56,437,655) | (11,474,511) | (51,124,163) | (2,481,919) |
| Interest received | | 5,372,919 | 1,365,861 | 5,593,244 | 1,999,907 |
| Taxes paid | | (166,079,548) | - | (140,357,017) | - |
| Dividend income | 37 | 50,749,214 | 50,749,214 | 83,123,947 | 83,123,947 |
| **Net cash provided by operating activities** | | **483,747,181** | **1,316,107,962** | **544,931,002** | **1,284,546,844** |
| Purchase of property, plant and equipment | 10 | (51,233,244) | - | (157,980,257) | (119,179,550) |
| Disposal of property, plant and equipment | 10 | 7,933,781 | 4,002,980 | 100,037,518 | - |
| Increases in investments | 12 | (19,121,310) | (19,121,310) | (273,939,201) | (273,939,201) |
| Liquidations of investments | 12 | - | - | 4,100,047 | 4,100,047 |
| Purchase of intangible assets | 11 | (80,689,372) | (29,534,397) | (21,548,749) | (13,798,788) |
| Disposal of intangible assets | 11 | 1,029,297 | 698,462 | 1,778,692 | 1,778,692 |

| | | | | | |
|---|---|---|---|---|---|
| Dividends paid | 27 | (483,783,042) | - | (439,695,227) | - |
| | | | | | |
| **Cash provided by (used in) investing activities** | | **(625,863,890)** | **(43,954,265)** | **(787,247,177)** | **(401,038,800)** |
| | | | | | |
| *Long-term debt* | | | | | |
| Proceeds | 22 | - | - | 500,000,000 | - |
| Repayments | 22 | (49,108,424) | - | (43,493) | - |
| *Short-term borrowings* | | | | | |
| Proceeds | 15 | 38,314,769 | 38,314,769 | 3,535,009 | 3,535,009 |
| Repayments | 15 | - | - | (102,377,460) | (1,673,092) |
| *Long-term loans given* | | | | | |
| Disbursements | 14 | (6,589) | - | - | - |
| Repayments | 14 | - | - | - | - |
| *Short-term loans given* | | | | | |
| Disbursements | 9 | (38,937,656) | (38,937,656) | (58,281,147) | (58,281,147) |
| Repayments | 9 | (45,962) | (45,962) | 17,598,606 | 17,598,606 |
| | | | | | |
| Change in cash pooling payables and receivables | 9/21 | 162,941,811 | 162,941,811 | 207,936,194 | 207,936,194 |
| Stock options exercised | 27 | 4,424,790 | - | 17,362,926 | - |
| | | | | | |
| **Cash provided by (used in) financing activities** | | **117,582,739** | **162,272,962** | **585,730,635** | **169,115,570** |
| | | | | | |
| **Change in cash and cash equivalents** | | **(24,533,971)** | **1,434,426,658** | **343,414,460** | **1,052,623,614** |
| | | | | | |
| Cash and cash equivalents, beginning of period | | 405,766,716 | - | 62,294,725 | - |
| Effect of the conversion difference on cash and cash equivalents accounts | | (238,995) | | 57,531 | |
| **Cash and cash equivalents, end of period** | | **380,993,750** | **-** | **405,766,716** | **-** |

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**Milan, March 6, 2019**

**Luxottica Group S.p.A.**

**On behalf of the Board of Directors**

**Francesco Milleri**

*(Deputy Chairman – Chief Executive Officer)*

# 3.6 Notes to the Separate Financial Statements as of December 31, 2018

# Notes to the Separate Financial Statements as of December 31, 2018

**Capital stock € 29,111,701.98**

Fully paid-up

**Luxottica Group S.p.A.**

Registered office: Piazzale Luigi Cadorna, 3 – 20123 Milan (Italy)

Website: www.luxottica.com

Company subject to direction and coordination of EssilorLuxottica S.A.

## GENERAL INFORMATION

Luxottica Group S.p.A. (the "Company" or, together with its subsidiaries, the "Group") is a joint-stock company incorporated under Italian law with registered office located in Milan (Italy) at Piazzale Luigi Cadorna 3.

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., the parent company, is controlled by EssilorLuxottica S.A., a company incorporated under French law, through an equity interest of approximately 92.05%. EssilorLuxottica is based in Paris, rue Paul Cézanne 1-6 with registered office in Charenton-le-Pont, rue de Paris, 147. EssilorLuxottica is the result of the business combination between Essilor International (Compagnie Générale d'Optique) SA and Luxottica Group S.p.A. The board of directors of EssilorLuxottica held on October 1, 2018 approved the change of name from Essilor International (Compagnie Générale d'Optique) SA to EssilorLuxottica SA.

The present separate financial statements were authorized for publication by the Board of Directors of Luxottica Group S.p.A. in its meeting on March 6, 2019 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, 2018 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 approval of the present financial statements by the Company's Board of Directors.

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 dated July 28, 2006, 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 accounting standards and policies used to prepare the current separate financial statements have been applied consistently to all the periods presented, with the exception of the accounting standards and interpretations adopted by the Company with effect from January 1, 2018, as reported in Note 2.

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 currency used by the Company for presenting the financial statements is the Euro. Unless stated otherwise, the figures in the financial statements and the accompanying notes are presented in whole Euros.

The reporting structure chosen by the Company involves a statement of income classified by nature of expense, in view of its specific business, a statement of financial position based on a current/non-current classification of assets and liabilities and a statement of cash flow prepared using the indirect method. 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.

The financial statements have been prepared on a historical cost basis, 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:

**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 by recognizing an impairment loss 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 reversal of the impairment loss recognized through profit or loss.

**Accounts receivable and other receivables**

Accounts receivable and other receivables are recognized at amortized cost and are measured on the basis of the impairment model introduced by IFRS 9 (see the paragraph on *Financial assets* in the consolidated financial statements for measurement on initial recognition). Under this model, the Group measures receivables according to an expected loss approach, replacing the IAS 39 framework generally based on the measurement of incurred losses.

In the case of accounts receivable, the Group adopts a simplified approach that does not require assessing changes in credit risk on a regular basis, but instead allows for the recognition of an Expected Credit Loss ("ECL") calculated over the entire lifetime of the receivable (so-called lifetime ECL). Specifically, under the policy adopted by the Group, accounts receivables are divided into three categories based on the number of days past due and an assessment of the counterparty's solvency. The Group applies different impairment percentages to these categories that reflect the relevant expectations for credit recovery. Accounts receivable are impaired in full in the absence of a reasonable expectation of recovery, meaning in the case of inactive business counterparties (e.g. receivables more than 180 days past due, insolvencies and/or the commencement of legal proceedings).

The other receivables, for which the Company estimates a low credit risk, are measured using a general approach. Under this approach, the Company estimates the ECL for the next 12 months as well as reviews changes in credit risk compared to the initial measurement at the end of each reporting period. In the case of receivables for which the Company recognizes no significant increases in credit risk, the ECL continues to be measured for the next 12 months. In the case of receivables for which the Company recognizes significant increases in credit risk, the ECL is measured over the entire *lifetime* of the receivable.

**Employee benefits**

The Company has defined benefit pension plans in place for its employees. Defined benefit pension plans typically define the amount of benefit employees will receive upon retirement, which usually depends on one or more factors such as age, years of service and level of remuneration. The liability recognized in the statement of financial position for defined benefit pension plans is equal to the present value of the pension obligation at the end of the reporting period, also including any adjustment for unrecognized past service costs, less the fair value of any plan assets. The pension obligation is calculated annually, with the help of external actuaries, using the "projected unit credit method". The present value of the pension obligation is calculated by discounting future outlays using an interest rate on investment grade corporate bonds denominated in the same currency and with a similar maturity as that of the pension obligation. Actuarial gains and losses arising from changes in the actuarial assumptions used or changes in the terms of a defined benefit plan are recognized in profit or loss in the period in which they occur. Past service costs are recognized immediately through the statement of income.

The Company also has long-term incentive plans (LTI) in place for employees that, depending on their characteristics, qualify as cash-settled share-based payments accounted for in accordance with IFRS 2 - *Share-Based Payment*.

**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, whereby goods or services acquired in an equity-settled share-based payment transaction are 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. recharges 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".*

The Company also has long-term incentive plans (LTI) in place for employees that, depending on their characteristics, qualify as cash-settled share-based payments accounted for in accordance with IFRS 2 - *Share-Based Payment*.

**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 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.

It should be noted that some items within the financial statements and related tables presented in this report have been reclassified for the sake of better comparison.

## 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;
- *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.

## 2. NEW ACCOUNTING STANDARDS

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, 2018**

*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 was endorsed by the European Union in November 2016 and is effective for annual periods beginning on or after January 1, 2018.

The Company has applied the provisions of IFRS 9 retrospectively except for those relating to hedge accounting, applied prospectively, identifying January 1, 2018 as the first-time application date. In addition, as permitted by IFRS 9, the Company has elected not to restate comparative information.

The adoption of IFRS 9 has not had a significant impact on the Company's financial statements and has not required adjustments to the statement of financial position at the standard's first-time application date.

The changes introduced by the new standard have concerned the three main macro-areas described below.

*Classification & Measurement*: IFRS 9 has introduced new rules governing the classification and measurement of financial instruments, which mainly impact financial assets.

The following table presents a reconciliation of the categories of financial assets and liabilities introduced by IFRS 9 to the categories reported in the financial statements at December 31, 2017 in compliance with IFRS 7 *Financial Instruments: Disclosures*.

Amounts as of December 31, 2017 in thousands of Euro.

| IAS 39<br><br>IFRS 9 | Financial assets at fair value through profit or loss | Loand and receivables and debt | Financial liabilities at fair value through profit or loss | Hedging derivatives | TOTAL |
|---|---|---|---|---|---|
| Financial assets at fair value through profit or loss | 4,942 | - | - | - | 4,942 |
| Financial liabilities at fair value through profit or loss | - | - | (3,345) | - | (3,345) |
| Financial assets and liabilities at fair value through other comprehensive income | - | - | - | - | - |
| Financial assets at amortized cost | - | 1,457,548 | - | - | 1,457,548 |
| Financial liabilities at amortized cost | - | 2,587,920 | - | - | 2,587,920 |
| Hedging derivatives | - | - | - | 487 | 487 |
| **Total** | **4,942** | **4,045,468** | **3,345** | **487** | **4,047,065** |

*Impairment*: under IFRS 9, the impairment of financial assets measured at amortized cost must be calculated according to an expected loss approach, replacing the current IAS 39 framework usually based on the measurement of incurred losses. In light of the analyses carried out, the Company has not deemed it necessary to make adjustments to the statement of financial position at the standard's first-time application date. With particular reference to accounts receivable, the Company has confirmed its bad debt provision guidelines, as the model applied adequately incorporates expected credit losses. With reference to other receivables, please refer to what is reported in the previous section on *Significant accounting policies*.

*Hedge Accounting*: concerning the accounting for derivative instruments designated as hedging instruments, IFRS 9 introduces a major revision of the requirements and the underlying rules, partially simplifying the current IAS 39 framework and broadening the eligibility criteria for hedge accounting. The standard nonetheless allows reporting entities to elect to continue applying the requirements of IAS 39 or to adopt the requirements of IFRS 9. The Company has elected to adopt the requirements of IFRS 9. The Company applies hedge accounting only to interest rates swaps used to hedge interest rate risk. Based on the analyses carried out, the Company has not deemed it necessary to change the accounting treatment of these instruments.

Please refer to the section on "*Significant accounting policies*" and the disclosures to the consolidated financial statements for details of the accounting policies used for the items discussed above.

*IFRS 15 - Revenue from Contracts with Customers and clarifications to IFRS 15 - Revenue from Contracts with Customers*

In May 2014, the IASB issued IFRS 15, a new revenue recognition standard that replaces IAS 18 *Revenue* and IAS 11 *Construction Contracts*. In April 2016 IFRS 15 was supplemented by additional guidance clarifying its application. The European Union endorsed the new standard and the clarifications in September 2016 and October 2017, respectively.

IFRS 15 introduces a new five-step model that applies to all revenue arising from contracts with customers (unless the contracts fall under the scope of other standards). The new standard requires recognizing

revenue in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the transfer of goods or services to the customer.

The standard is effective for annual periods beginning on or after January 1, 2018 (the Company chose not to adopt the new standard early).

The adoption of IFRS 15 has not impacted the Company's financial statements and has not required adjustments to the statement of financial position at the standard's first-time application date.

*IFRIC 22 - Foreign Currency Transactions and Advance Consideration*

The interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The interpretation was endorsed by the European Union in March 2018 and is effective for annual periods beginning on or after January 1, 2018. The adoption of the interpretation by the Company has not required any changes to accounting policies or retrospective adjustments.

*Annual Improvements to IFRS Standards 2014-2016 Cycle*

The annual improvements are intended to address non-urgent issues related to inconsistencies found in IFRS standards or clarifications on certain terms that have been discussed by the IASB during the project cycle. The provisions issued concern:

- IAS 28 *Investments in Associates and Joint Ventures*: measurement of investments in an associate or joint venture at fair value in the presence of investment entities;
- IFRS 1 *First-time adoption of International Financial Reporting Standards*: deletion of short-term exemptions for first-time adopters;
- IFRS 12 *Disclosure of Interests in Other Entities*: clarification of the scope of the disclosure requirements.

The provisions were endorsed by the European Union in February 2018 and are effective for annual periods beginning on or after January 1, 2018, in the case of the amendments to IAS 28 and IFRS 1, and January 1, 2017, in the case of the amendments to IFRS 12. The adoption of the provisions by the Company has not required any changes to accounting policies or retrospective adjustments.

*Amendments to IAS 40: Transfers of Investment Property*

The amendments clarify when an entity should transfer property into, or out of investment property. These amendments were endorsed by the European Union in March 2018 and are effective for annual periods beginning on or after January 1, 2018. The adoption of the amendments by the Company has not required any changes to accounting policies or retrospective adjustments.

*Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions*

The amendments intend to clarify the accounting treatment for certain types of share-based payment transactions. These amendments were endorsed by the European Union in February 2018 and are effective for annual periods beginning on or after January 1, 2018. The adoption of the amendments by the Company has not required any changes to accounting policies or retrospective adjustments.

*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 requirements introduced by IFRS 9. These amendments were endorsed by the European Union in November 2017 and are effective for annual periods beginning on or after January 1, 2018. The adoption of the amendments by the Company has not required any changes to accounting policies or retrospective adjustments.

**New standards, amendments to existing standards and interpretations effective for annual periods subsequent to January 1, 2019 and not yet adopted by the Company**

**Endorsed**

*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 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize all leases based on a single model similar to the one used for finance leases under IAS 17. The standard allows two exemptions to the application of the model: leases of "low value" assets and short-term leases. Except for the leases falling within the scope of the above exemptions, at the lease commencement date, the lessee shall recognize a liability for the future lease payments (the lease liability) and an asset representing the right to use the underlying asset for the lease term (the right-of-use asset). Lessees shall separately recognize interest expense on the lease liability and depreciation on the right-of-use asset in their statements of income.

The lessees shall also remeasure the lease liability when certain events occur (e.g.: a change in the lease terms and conditions, a change in future lease payments resulting from a change in an index or rate used to determine those payments). In general, the lessee shall recognize the remeasurement of the lease liability as an adjustment to the right-of-use asset.

IFRS 16 was endorsed by the European Union in October 2017 and is effective for annual periods beginning on or after January 1, 2019.

The standard allows entities to elect whether to apply the new provisions using a full retrospective or a modified retrospective approach. The Company has adopted a full retrospective approach to ensure the information presented in the financial statements is fully comparable.

The Company has performed its analyses with reference to the existing population of lease contracts, which largely concern motor vehicles, offices, equipment and, to a lesser extent, part of the IT system.

IFRS 16 will not have a material impact on the Company’s financial statements in term of right of use asset and lease liability recognition. Both values will be recognized in the statement of financial position with any difference existing at the transition date allocated to the related stockholders' equity reserves. During 2017 and 2018, several departments within the Company (finance, IT, real estate, controlling, etc.) have been involved in the implementation project and as of the date of these financial statements the Company has substantially completed its analysis of the population of lease contracts. The leases analysed mainly concern leased vehicles, offices, equipment and, for the residual amount, a part of the IT system. The expected amount of lease liabilities at January 1, 2019 estimated by the Company, ranges from Euro 6.5 to Euro 7 milllion. The impact on stockholders' equity deriving from the recognition of the lease liability will be substantially compensated by an increase in total assets deriving from the recognition of the right of use asset. The Company does not expect the IFRS 16 impact on the operating profit to be material.

These estimates must be read in the light of the commitments reported in Note 43 *“Commitments, risks, guarantees, contingent liabilities and other procedures”*, considering, however, that the differences between the amount reported in this note and the estimate of the IFRS 16 lease liability are justified by the following factors:

- unlike commitments, the estimated lease liability does not include the liabilities linked to contracts with a contractual duration of one year or less (short-term leases) as well as the liabilities linked to leasing contracts in which the underlying asset is "Modest value" (low-value lease);
- the contractual durations defined according to IFRS 16 may differ from the contractual durations used to calculate the commitments (for example due to the renewal options, not considered in the calculation of the commitments);
- the value of the commitments does not reflect the impact of the discounting incorporated in the calculation of the lease liability.

*Amendments to IFRS 9: Prepayment Features with Negative Compensation*

These amendments are intended to clarify the classification of financial assets with particular prepayment features when applying IFRS 9. The interpretation was endorsed by the European Union in March 2018 and is effective for annual periods beginning on or after January 1, 2019. The Group does not expect significant impacts from the adoption of these amendments.

*IFRIC 23 Uncertainty over Income Tax Treatments*

The interpretation provides guidance on how to reflect uncertain tax treatments in accounting for income taxes. The interpretation will be effective in preparing the financial statements for annual periods beginning on or after January 1, 2019.

**Not yet endorsed**

*IFRS 17 Insurance Contracts*

The new accounting standard for the accounting of insurance contracts will replace IFRS 4. The new standard will be effective for annual periods beginning on or after January 1, 2021 unless it is subsequently deferred following its endorsement by the European Union, which had not yet been received at the date of this financial statement.

*Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures*

These amendments are intended to clarify the application of IFRS 9 in accounting for long-term receivables due from associates or join ventures that, in substance, form part of the net investment in the associate or joint venture. The amendments will be effective for annual periods beginning on or after January 1, 2019 unless they are subsequently deferred following their endorsement by the European Union, which had not yet been received at the date of this financial statement.

*Annual Improvements to IFRS Standards 2015-2017 Cycle*

The provisions issued concern the following standards:

- IAS 12 *Income Taxes*: accounting treatment of the income tax consequences of dividends on financial instruments classified as equity;
- IAS 23 *Borrowing Costs*: classification of borrowing that specifically finance qualifying assets when they are ready for their intended use or sale;
- IFRS 3 *Business Combination* and IFRS 11 *Joint Arrangements*: accounting for the acquisition of control over a business that is a joint operation.

The provisions will be effective for annual periods beginning on or after January 1, 2019 unless they are subsequently deferred following their endorsement by the European Union, which had not yet been received at the date of this financial statement.

*Amendments to IAS 19: Plan Amendment, Curtailment or Settlement*

The amendments clarify how to calculate service costs when a defined-benefit plan is amended. The amendments will be effective for annual periods beginning on or after January 1, 2019 unless they are subsequently deferred following their endorsement by the European Union, which had not yet been received at the date of this financial statement.

*Amendments to References to the Conceptual Framework in IFRS Standards*

In March 2018, the IASB issued a revised version of the Conceptual Framework for Financial Reporting ("Conceptual Framework") as well as a document updating the references to the previous Conceptual Framework in IFRS standards. The new references will be effective for annual periods beginning on or after January 1, 2020 unless they are subsequently deferred following their endorsement by the European Union, which had not yet been received at the date of this financial statement.

*Amendments to IFRS 3: Business Combinations*

Amendments help companies understand whether the acquisitions made concern a business or a group of assets. The amendments will be effective for annual periods beginning on or after January 1, 2020 unless they are subsequently deferred following their endorsement by the European Union, which had not yet been received at the date of this financial statement.

*Amendments to IAS 1 and IAS 8: Definition of Material*

The purpose of the provisions is to clarify whether information is material for inclusion in the financial statements. The amendments will be effective for annual periods beginning on or after January 1, 2020 unless they are subsequently deferred following their endorsement by the European Union, which had not yet been received at the date of this financial statement.

## 3. FINANCIAL RISKS

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.

Credit risk associated with the management of financial resources and cash is managed and monitored by the Treasury department, which adopts procedures to ensure that the Company operates with leading credit institutions. Credit limits for the principal financial counterparties are based on assessments and analyses conducted by the Treasury department.

There are agreed guidelines within the Group 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.

All operations for the European subsidiaries involving derivatives have been centralized within the Company since 2015. 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 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 have also been centralized within the Company.

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 above counterparties being unable 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, 2018;
- 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 analyse the maturity of assets and liabilities at December 31, 2018 and December 31, 2017. 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)*

| At December 31, 2018 | At December 31, 2018 | Within 1 year | From 1 to 3 years | From 3 to 5 years |
|---|---|---|---|---|
| Cash and cash equivalents | 380,994 | - | - | - |
| Derivative financial instruments | 3,470 | - | - | - |
| Accounts receivable | 642,305 | - | - | - |
| Other current assets | 456,295 | - | - | - |

| At December 31, 2017 | At December 31, 2018 | Within 1 year | From 1 to 3 years | From 3 to 5 years |
|---|---|---|---|---|
| Cash and cash equivalents | 405,767 | - | - | - |
| Derivative financial instruments | 5,429 | - | - | - |
| Accounts receivable | 607,505 | - | - | - |
| Other current assets | 476,934 | - | - | - |

**- Maturity of liabilities**

*(in thousands of Euro)*

| At December 31, 2018 | Within 1 year | From 1 to 3 years | From 3 to 5 years | Beyond 5 years |
|---|---|---|---|---|
| Long-term and short-term debt | 609,473 | 29,610 | 526,567 | 501,422 |
| Finance lease liabilities | 760 | - | - | - |
| Derivative financial instruments | 2,429 | - | 3,510 | - |
| Accounts payable | 530,376 | - | - | - |
| Other current liabilities | 432,413 | - | - | - |

| At December 31, 2017 | Within 1 year | From 1 to 3 years | From 3 to 5 years | Beyond 5 years |
|---|---|---|---|---|
| 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 | 354,511 | - | - | - |

**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.

The Group calculates the impact of a change in rates on the statement of income using a number of scenarios. 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 March 10, 2022. Under these agreements, Euro 500 million was borrowed on March 10, 2017 at a rate of EURIBOR plus respective spreads of 0.70% and 0.62%. Two interest rate swaps with an aggregate notional amount of Euro 500 million have been taken out against these facilities, with Intesa Sanpaolo S.p.A. and Natixis S.A. (Milan Branch) respectively. The swaps, which qualify as cash flow hedges, fix the EURIBOR rate at an average rate of 0.1185% per annum.

At December 31, 2018, and at December 31, 2017, there were no floating-rate liabilities that were not hedged against interest rate risk.

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):

| 12/31/2018 | Notes | Financial assets/liabilities at fair value through profit or loss | Loans and receivables/Debt | Hedging derivatives |
|---|---|---|---|---|
| Cash and cash equivalents | 4 | | 380,994 | |
| Accounts receivable | 5 | | 642,305 | |
| Other current assets | 9 | | 420,077 | |
| Current derivative financial instruments (assets) | 8 | 3,470 | | |
| Short-term borrowings | 15 | | (617,511) | |
| Accounts payable | 17 | | (530,376) | |
| Current derivative financial instruments (liabilities) | 20 | (2,429) | | |
| Long-term debt | 22 | | (996,098) | |
| Other current liabilities | 21 | | (432,413) | |
| Non-current derivative financial instruments (liabilities) | 25 | | | (3,510) |
| Other non-current liabilities | 26 | | (973) | |

| 12/31/2017 | Notes | Financial assets/liabilities at fair value through profit or loss | Loans and receivables/Debt | Hedging derivatives |
|---|---|---|---|---|
| Cash and cash equivalents | 4 | | 405,767 | |
| Accounts receivable | 5 | | 607,505 | |
| Other current assets | 9 | | 444,276 | |
| Current derivative financial instruments (assets) | 8 | 4,942 | | 487 |
| Short-term borrowings | 15 | | (79,560) | |
| Accounts payable | 17 | | (609,006) | |
| Current derivative financial instruments (liabilities) | 20 | (3,345) | | |
| Long-term debt | 22 | | (1,544,843) | |
| Other current liabilities | 21 | | (354,512) | |
| Non-current derivative financial instruments (liabilities) | 25 | | - | |
| Other non-current liabilities | 26 | | - | |

**b) Exchange rate risk**

The Company operates internationally and is therefore exposed to exchange rate risk related to the various currencies with which the Group operates. The Company only manages transaction risk. The transaction exchange rate risk derives from commercial and financial transactions in currencies other than the functional currency of the Company.

The primary exchange rate to which the Company 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.

A +/-10% change in the EUR/USD exchange rate, assuming all other variables remain equal, would have increased net income for 2018 by Euro 11.6 million and decreased it by Euro 9.5 million respectively. The impact of a +/-10% change on net income for 2017, assuming all other variables remain equal, would have increased it by Euro 9.1 million and decreased it by Euro 7.5 million respectively.

The Company does not engage in long-term hedging operations 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.

**Default and negative pledge risk**

The Company's credit agreements (Term Facility Agreements maturing on March 10, 2022) call for compliance with negative pledges and financial covenants; however, the Company's bond issues (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 30% of consolidated assets.

Failure to comply with the above covenants, followed by failure to comply within the agreed grace period, could constitute a breach of credit agreement contractual obligations.

The financial covenants require the Company to comply with agreed financial ratios.

The limits for these main covenants are as follows:

| | |
|---|---|
| **Net Financial Position/Proforma Ebitda** | < 3.5 |

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).
- In the event the Company 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 Company monitors the amount of these Covenants at the end of every quarter and was in full compliance with them at December 31, 2018. The Company also forecasts trends in these Covenants in order to monitor future compliance; current forecasts show that the Company's ratios are below the limits that would trigger a breach of contract. It is specified that the impacts on some covenants deriving from the adoption of IFRS 16 - Leases are constantly monitored and the Company will take appropriate and timely measures in order to avoid any overruns.

**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.

- 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, 2018 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 info 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** (amounts in thousands of Euro) | **Classification** | **Dec-31-2018** | **Fair Value at the reporting date using:** | | |
|---|---|---|---|---|---|
| | | | **Level 1** | **Level 2** | **Level 3** |
| Forex derivatives | Other current assets | 3,470 | | 3,470 | |
| Interest Rate Swaps (cash flow hedges) | Other non-current liabilities | 3,510 | | 3,510 | |
| Forex derivatives | Other current liabilities | 2,429 | | 2,429 | |

| **Description** (amounts in thousands of Euro) | **Classification** | **Dec-31-2017** | **Fair Value at the reporting date using:** | | |
|---|---|---|---|---|---|
| | | | **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 | |

At December 31, 2018, none of the Company's financial instruments was 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 (amounts in thousands of Euro) | 2018 | | 2017 | |
|---|---|---|---|---|
| | **Assets** | **Liabilities** | **Assets** | **Liabilities** |
| Commodities | - | - | - | - |
| Forex derivatives | 3,470 | (2,429) | 4,942 | (3,345) |
| Interest Rate Swaps | - | (3,510) | 487 | - |
| **Total** | **3,470** | **(5,939)** | **5,429** | **(3,345)** |

Derivatives are all classified either as assets or as current or non-current liabilities.

## INFORMATION ON THE STATEMENT OF FINANCIAL POSITION

## CURRENT ASSETS

### 4. CASH AND CASH EQUIVALENTS

| Balance at 12/31/2018 | Balance at 12/31/2017 |
|---|---|
| 380,994,210 | 405,767,173 |

This balance represents the cash and cash equivalents held at year end and mostly consists of cash balances on bank accounts.

| Description | 12/31/2018 | 12/31/2017 |
|---|---:|---:|
| Cash at banks and post offices | 380,993,076 | 405,766,751 |
| Cash and cash equivalents on hand | 1,134 | 422 |
| **Total** | **380,994,210** | **405,767,173** |

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 12/31/2018 | Balance at 12/31/2017 |
|---|---|
| 642,305,265 | 607,504,883 |

The year-end balance mostly consists of Euro 603,326,236 in trade receivables from subsidiaries, Euro 85,987,542 in invoices to be issued to subsidiaries, Euro 51,403,466 in credit notes to be issued to subsidiaries, Euro 1,705,189 in foreign customer receivables, Euro 440,461 in Italian customer receivables and Euro 2,252,858 in invoices to be issued to third-party customers.

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 given the absence of any recovery risks.

The receivables are presented net of an allowance for doubtful accounts of Euro 131,346 which has remained unchanged over the course of the year.

The following table summarizes the quantitative information required by IFRS 9:

| 12/31/2018<br><br>(Euro) | Current | >30 days overdue accounts receivable | >60 days overdue accounts receivable | >90 days overdue accounts receivable | Total |
|---|---|---|---|---|---|
| Expected loss rate | 0.00% | 0.00% | 0.00% | (0.54%) | (0.02%) |
| Receivables from Group companies | 598,861,063 | 9,540,301 | 6,036,620 | 23,600,116 | 638,038,100 |
| Receivables from third parties | 3.280.550 | 332.942 | 34.405 | 750,613 | 4,398,510 |
| Allowance for doubtful accounts | | | | (131.346) | (131.346) |

| 12/31/2017<br><br>(Euro) | Current | >30 days overdue accounts receivable | >60 days overdue accounts receivable | >90 days overdue accounts receivable | Total |
|---|---|---|---|---|---|
| Expected loss rate | 0,00% | 0,00% | 0,00% | (0,37%) | (0,02%) |
| Receivables from Group companies | 546,511,855 | 13,727,710 | 6,702,925 | 34,297,442 | 601,239,933 |
| Receivables from third parties | 4,864,186 | 156,308 | 3,355 | 1,372,446 | 6,396,295 |
| Allowance for doubtful accounts | | | | (131,346) | (131,346) |

## 6. INVENTORIES

| Balance at 12/31/2018 | Balance at 12/31/2017 |
|---|---|
| 177,029,764 | 184,396,747 |

| Description | 12/31/2018 | 12/31/2017 |
|---|---|---|
| Finished goods (frames) | 158,946,873 | 165,809,674 |
| Spare parts | 7,855,039 | 10,558,342 |
| Clothing, shoes and accessories | 7,961,673 | 6,287,540 |
| Packaging material | 2,136,548 | 1,654,813 |
| Other | 129,631 | 86,378 |
| Total | **177,029,764** | **184,396,747** |

Inventories are reported net of an obsolescence reserve for Euro 40,514,208.

The inventory obsolescence reserve reported the following movements during the course of the year:

| Description | Amount |
|---|---|
| **Inventory obsolescence reserve at 12/31/2016** | **33,608,724** |
| Utilization of reserve for scrapping | (29,175,926) |
| Increase in reserve during the year | 31,196,469 |
| **Inventory obsolescence reserve at 12/31/2017** | **35,629,267** |
| Utilization of reserve for scrapping | (29,325,026) |
| Increase in reserve during the year | 34,209,967 |
| **Inventory obsolescence reserve at 12/31/2018** | **40,514,208** |

## 7. TAXES RECEIVABLE

| Balance at 12/31/2018 | Balance at 12/31/2017 |
|---|---|
| 36,218,732 | 32,657,132 |

"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 18,874,779 for outstanding IRES credits and Euro 3,854,437 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 12/31/2018 | Balance at 12/31/2017 |
|---|---|
| 3,469,518 | 5,428,629 |

The balance at December 31, 2018 consists of Euro 837,426 for the fair value of 109 forward contracts with third parties and Euro 2,632,272 for the fair value of 74 swap agreements with third parties.

The balance at December 31, 2017 consisted 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.

Additional information can be found in section three of these notes entitled "Financial risks".

## 9. OTHER CURRENT ASSETS

| Balance at 12/31/2018 | Balance at 12/31/2017 |
|---|---|
| 420,076,567 | 444,276,532 |

This balance comprises:

| Description | 12/31/2018 | 12/31/2017 |
|---|---|---|
| Cash pooling receivables from Group companies | 171,978,696 | 260,511,549 |
| Loans to Group companies | 158,337,576 | 119,353,958 |
| Tax consolidation receivables from Group companies | 62,566,504 | 50,474,200 |
| Sundry advances | 10,075,951 | 6,177,210 |
| Prepaid expenses | 9,380,482 | 4,799,340 |
| Dividends receivable from subsidiaries | 6,500,000 | - |
| Other receivables | 1,206,062 | 2,960,275 |
| Sales tax transferred by Group companies | 31,296 | - |
| **Total** | **420,076,567** | **444,276,532** |

### 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 mainly comprise Euro 50,544,333 for a loan to the subsidiary Luxottica Spain Slu, Euro 41,000,000 for a loan to the subsidiary Salmoiraghi & Viganò S.p.A., Euro 36,700,000 for a loan to the subsidiary Luxottica Italia S.r.l, Euro 16,686,532 for a loan to the subsidiary Mirari Japan and Euro 5,562,177 to the subsidiary Fukui Megane.

The fair value of short-term loans to subsidiaries is Euro 158.7 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 52,119,517;
- Luxottica Italia S.r.l. for Euro 8,950,836;
- Oakley Sport International S.r.l. for Euro 1,340,904;
- Nextore S.r.l. for Euro 155,247.

### 9.4 Sundry advances

| Balance at 12/31/2018 | Balance at 12/31/2017 |
|---|---|
| 10,075,951 | 6,177,210 |

At December 31, 2018, sundry advances mostly refer to advances to suppliers for Euro 5,538,056 (Euro 1,218,805 at December 31, 2017), advances to employees for Euro 2,535,108 (Euro 2,587,150 at December 31, 2017) and advance payments for royalties for Euro 2,000,000 (Euro 2,361,111 at December 31, 2017).

### 9.5 Prepaid expenses

| Balance at 12/31/2018 | Balance at 12/31/2017 |
|---|---|
| 9,380,482 | 4,799,340 |

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 balance at December 31, 2018 includes no accrued income or prepaid expenses that will be recovered after more than five years.

The above balances are analyzed as follows:

| Description | 12/31/2018 | 12/31/2017 |
|---|---|---|
| Prepaid marketing expenses | 1,759,402 | 2,322,407 |
| Prepaid royalties | 3,509,325 | 17,023 |
| Other prepaid expenses | 4,111,755 | 2,459,910 |
| **Total** | **9,380,482** | **4,799,340** |

The above *"Prepaid expenses"* refer to costs that will be accounted for in profit or loss in subsequent years.

### 9.6 Dividends receivable from subsidiaries

The balance at December 31, 2018 reports a dividend receivable from Luxottica Germany Gmbh following a shareholder resolution to apportion this company's 2017 net income.

At December 31, 2017 there were no dividends receivable from Group companies.

### 9.7 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, 2018 refers in its entirety to Luxottica Italia S.r.l.

At December 31, 2017 the receivables balance for sales tax transferred by Group companies was zero.

## NON-CURRENT ASSETS

## 10. PROPERTY, PLANT AND EQUIPMENT

| Balance at 12/31/2018 | Balance at 12/31/2017 |
|---|---|
| 256,742,538 | 218,400,746 |

| Description | Balance at 12/31/2017 | Increases | Decreases | Transfers from (to) other categories | Depreciation expense | Balance at 12/31/2018 |
|---|---|---|---|---|---|---|
| Land and buildings | 163,652,916 | 9,115,953 | - | 9,943,277 | (3,857,692) | 178,854,454 |
| Plant and machinery | 14,128,170 | 580,609 | (122,537) | 3,492,549 | (2,459,238) | 15,619,553 |
| Industrial and commercial equipment | 1,250,218 | 134,554 | - | 406,714 | (482,793) | 1,308,692 |
| Other assets | 15,147,215 | 16,416,357 | (7,771,593) | 2,358,864 | (8,016,945) | 18,133,898 |
| Assets under construction and advances | 24,222,227 | 36,413,525 | - | (17,809,811) | - | 42,825,941 |
| **Total** | **218,400,746** | **62,660,997** | **(7,894,129)** | **(1,608,408)** | **(14,816,668)** | **256,742,538** |

Net transfers to other categories, amounting to Euro 1,608,408, reflect a reclassification of Euro 1,800,000 to *"Non-operating software"* under Intangible assets and a reclassification of Euro 191,593 from Intangible assets to "Other assets" under Property, plant and equipment.

The constituent parts of *"Property, plant and equipment"* at December 31, 2018 are analyzed in the following tables.

### *Land and buildings*

| Description | Amount |
|---|---:|
| Historical cost | 51,252,753 |
| Accumulated depreciation | (29,825,564) |
| **Balance at 12/31/2016** | **21,427,189** |
| Additions | 136,665,900 |
| Disposals | (87,125) |
| Reversal of accumulated depreciation on disposals | - |
| Transfers from other categories | 7,897,053 |
| Depreciation expense | (2,250,101) |
| **Balance at 12/31/2017** | **163,652,916** |
| Additions | 9,115,953 |
| Disposals | - |
| Reversal of accumulated depreciation on disposals | - |
| Transfers from other categories | 9,943,277 |
| Depreciation expense | (3,857,692) |
| **Balance at 12/31/2018** | **178,854,454** |

The additions in the year mainly refer to the purchase for Euro 9,182,581, inclusive of incidental expenses, of the "Bonaparte" building, forming part of the Palazzo Litta complex located in Corso Magenta, Milan.

*"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 9,373,708 for enlargement of the Sedico Ophthalmic Lens plant.

## Plant and machinery

| Description | Amount |
|---|---:|
| Historical cost | 31,241,512 |
| Accumulated depreciation | (18,851,869) |
| **Balance at 12/31/2016** | **12,389,642** |
| Additions | 1,232,824 |
| Disposals | (47,651) |
| Reversal of accumulated depreciation on disposals | 18,170 |
| Transfers from other categories | 3,199,771 |
| Other movements | (492,405) |
| Depreciation expense | (2,172,181) |
| **Balance at 12/31/2017** | **14,128,170** |
| Additions | 580,609 |
| Disposals | (143,952) |
| Reversal of accumulated depreciation on disposals | 21,415 |
| Transfers from other categories | 3,492,549 |
| Depreciation expense | (2,459,238) |
| **Balance at 12/31/2018** | **15,619,554** |

The additions to *"Plant and machinery"* reflect expenditure 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 | 43,350 | - | 43,350 |
| Improvements to existing specific plant/installations | 31,030 | - | 31,030 |
| New generic plant/installations | 150,254 | 148,030 | 298,284 |
| Improvements to existing generic plant/installations | 178,611 | - | 178,611 |
| New machinery | 29,334 | - | 29,334 |
| **Total** | **432,579** | **148,030** | **580,609** |

*"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 | 5,856,676 |
| Accumulated depreciation | (4,563,039) |
| **Balance at 12/31/2016** | **1,293,636** |
| Additions | 174,064 |
| 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 12/31/2017** | **1,250,218** |
| Additions | 134,554 |
| Disposals | - |
| Reversal of accumulated depreciation on disposals | - |
| Transfers from other categories | 406,714 |
| Depreciation expense | (482,793) |
| **Balance at 12/31/2018** | **1,308,693** |

The additions in the year reflect new equipment purchases in Sedico for Euro 115,228 and in Milan for Euro 19,326.

*"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 | 65,470,843 |
| Accumulated depreciation | (42,288,725) |
| **Balance at 12/31/2016** | **23,182,119** |
| Additions | 3,163,991 |
| 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 12/31/2017** | **15,147,215** |
| Additions | 16,416,357 |
| Disposals | (8,069,252) |
| Reversal of accumulated depreciation on disposals | 297,659 |
| Transfers from other categories | 2,358,864 |
| Depreciation expense | (8,016,945) |
| **Balance at 12/31/2018** | **18,133,898** |

The additions in the year mainly consist of hardware for Euro 12,915,394, operating software for Euro 2,105,617 and furniture and fittings for Euro 1,287,078.

*"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 12/31/2016** | **13,856,250** |
| Additions | 23,227,337 |
| Transfers to other categories | (12,914,887) |
| Other movements | 53,527 |
| **Balance at 12/31/2017** | **24,222,227** |
| Additions | 36,413,525 |
| Transfers to other categories | (17,809,811) |
| **Balance at 12/31/2018** | **42,825,941** |

The additions in the year mostly comprise advances paid against the purchase of assets not yet available for use, of which Euro 16,271,056 and Euro 3,614,836 for generic and specific plant/installations, machinery, buildings, furniture, fittings and equipment at Sedico and Milan respectively and Euro 2,948,451 for hardware.

"Transfers to other categories", net of the reclassification of Euro 1,608,408 to intangible assets, refer to reclassifications of assets that became available for use during the year as follows:

| Description | Sedico | Milan | Generic | Total |
|---|---|---|---|---|
| Equipment | 421,354 | (14,640) | - | 406,714 |
| Hardware | - | - | 1,954,895 | 1,954,895 |
| Generic plant/installations | 2,978,349 | 155,954 | - | 3,134,303 |
| Specific plant/installations | 170,720 | - | - | 170,720 |
| Machinery | 187,526 | - | - | 187,526 |
| Furniture and fittings | 369,372 | 686 | - | 370,058 |
| Software | 1,500 | - | 8,524 | 10,024 |
| Buildings | 9,416,124 | 527,153 | - | 9,943,277 |
| Digital displays | - | 14,640 | - | 14,640 |
| Leasehold improvements | 9,247 | - | - | 9,247 |
| **Total** | **13,554,192** | **683,793** | **1,963,419** | **16,201,404** |

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 |
|---|---|
| Commercial equipment | 12% |
| Industrial equipment | 25% |
| Non-industrial equipment | 6% |
| Motor vehicles | 25% |
| Buildings | 3% |
| Light buildings | 10% |
| Computer hardware | 20% - 33% |
| Hardware PC held by agents | 20% - 30% |
| Generic plant/installations | 10% |
| Specific plant/installations | 8% |
| Telephone systems | 20% |
| Luminous signs | 10% |
| Machinery | 8% |
| Furniture and fittings | 12% |
| Operating software | 33% |
| Leasehold improvements | from 16% to 33% |
| Digital displays | 33% |

The above depreciation rates were once again reviewed in 2018 to confirm their reasonableness.

## 11. INTANGIBLE ASSETS

| Balance at 12/31/2018 | Balance at 12/31/2017 |
|---|---|
| 232,939,743 | 235,436,100 |

*Overall movements in net intangible assets*

| Description | Balance at 12/31/2017 | Increases | Decreases | Transfers from (to) other categories | Amortization expense | Balance at 12/31/2018 |
|---|---|---|---|---|---|---|
| Trademarks | 115,426,418 | 16,151 | - | 2,562 | (22,688,023) | 92,757,108 |
| Software | 84,309,063 | 43,070,713 | (879,297) | 25,011,750 | (40,818,350) | 110,693,880 |
| Assets under development | 24,775,815 | 19,332,921 | (150,000) | (23,405,905) | - | 20,552,831 |
| Other | 10,924,804 | 18,663 | - | - | (2,007,543) | 8,935,924 |
| **Total** | **235,436,100** | **62,438,448** | **(1,029,297)** | **1,608,407** | **(65,513,916)** | **232,939,743** |

The increases in "Trademarks" entirely refer to costs for their maintenance. The residual value of trademarks at year end mainly comprises:

- Euro 7,614,052 for the Ray-Ban and Arnette trademarks with a remaining useful life of 7 years;
- Euro 77,926,266 for the OPSM trademarks with a remaining useful life of 10 years and 7 months.

Increases in *"Software"* mainly refer to the following applications:

- North America Luxottica System (NAILS), for Euro 10,299,452, amortized over 5 years;
- SAP, for Euro 4,448,546, amortized over 12 years;
- Transition & Transformation Go to Cloud, for Euro 4,049,220, amortized over 3 years;
- Oakley Global eCommerce Platform (OO.com), for Euro 2,759,531, amortized over 5 years;
- Business Intelligence 2017, for Euro 2,717,477, amortized over 3 years;
- RTTF (Road To The Future), for Euro 2,335,749, amortized over 5 years;
- RXO, for Euro 2,203,212, amortized over 5 years;
- SAP HR, for Euro 2,000,000, amortized over 5 years;
- Ray-Ban Global eCommerce Platform, for Euro 1,494,265, amortized over 5 years;
- CRM – Customer Relationship Management, for Euro 1,176,286, amortized over 3 years;
- MES – Manufacturing Execution System, for Euro 1,153,440, amortized over 5 years;
- SunglassHut eCommerce Platform (SGH.Com), for Euro 1,122,156, amortized over 5 years;
- In Store platform, for Euro 744,055, 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 from other categories of Euro 1,608,408 reflect a reclassification of Euro 1,800,000 from Property, plant and equipment to *"Non-operating software"* and a reclassification of Euro 191,593 from Intangible assets to "*Other assets*" under Property, plant and equipment.

Historical cost at the start of the year is analyzed as follows:

| Description | Historical cost | Acc. amortization | Net carrying amount |
|---|---|---|---|
| Trademarks | 527,590,004 | (412,163,586) | 115,426,418 |
| Other licenses and software | 265,395,241 | (181,086,177) | 84,309,064 |
| Assets under development | 24,775,815 | - | 24,775,815 |
| Other | 20,274,560 | (9,349,757) | 10,924,803 |
| **Total** | **838,035,620** | **(602,599,518)** | **235,436,100** |

Software is amortized over a period of between three and twelve 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 2019 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.

## 12. INVESTMENTS

| Balance at 12/31/2018 | Balance at 12/31/2017 |
|---|---|
| 3,308,050,077 | 3,316,114,764 |

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 | Currency | Capital stock (local currency) | Net income (loss) (local currency) | Stockholders' equity (Euro) | % | Carrying amount of investment (Euro) |
|---|---|---|---|---|---|---|---|
| Fukui Megane Industry Co Ltd | Fukui | JPY | 212,500 | NA | NA | 67 | 6,721,158 |
| Luxottica (Switzerland) Ag | Zurich | CHF | 100,000 | 506,751 | 906,309 | 100 | 141,974 |
| Luxottica Argentina Srl | Buenos Aires | ARS | 41,837,001 | 27,207,189 | 2,403,632 | 94 | 2,641,399 |
| Luxottica Austria Gmbh | Vienna | EUR | 508,710 | 721,351 | 1,447,178 | 100 | 545,310 |
| Luxottica Belgium Nv | Berchem | EUR | 62,000 | 655,730 | 402,308 | 99 | 2,197,195 |
| Luxottica Brasil Produtos Oticos E Esportivos Ltda | San Paolo | BRL | 1,043,457,587 | (2,681,640) | 220,018,199 | 58 | 191,725,206 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Luxottica Colombia Sas | Bogota' | COP | 3,500,000,000 | 2,677,153,881 | 2,348,381 | 100 | 1,262,262 |
| Luxottica France Sasu | Valbonne | EUR | 534,000 | 8,742,000 | 31,254,465 | 100 | 877,783 |
| Luxottica Germany Gmbh | Grasbrunn | EUR | 200,000 | 6,984,518 | 7,339,268 | 100 | 635,637 |
| Luxottica Gozluk Endustri Ve Ticaret Anonim Sirketi | Cigli-Izmir | LTL | 10,390,460 | 23,938,441 | 22,032,089 | 65 | 15,165,020 |
| Luxottica Hellas Ae | Pallini | EUR | 1,752,900 | 4,448,624 | 6,941,816 | 70 | 2,528,715 |
| Luxottica Holland Bv | Heemstede | EUR | 45,000 | 7,419,647 | 115,039,638 | 100 | 108,490,670 |
| Luxottica Hong Kong Services Limited | Hong Kong | HKD | 548,536,635 | 17,917,459 | 64,726,853 | 100 | 64,754,899 |
| Luxottica Italia Srl | Agordo | EUR | 5,000,000 | 13,616,900 | 50,635,761 | 100 | 37,406,201 |
| Luxottica Korea Ltd | Seoul | KRW | 120,000,000 | 1,489,573,825 | 2,868,071 | 100 | 105,681 |
| Luxottica Mexico Sa De Cv | Mexico City | MXN | 342,000,000 | 100,053,911 | 29,607,592 | 96 | 20,830,625 |
| Luxottica Middle East Fze | Dubai | AED | 1,000,000 | 5,926,637 | 3,062,053 | 100 | 274,183 |
| Luxottica Nordic Ab | Stockholm | SEK | 250,000 | 21,499,412 | 2,360,856 | 100 | 188,525 |
| Luxottica Norge As | Drammen | NOK | 100,000 | 7,318,385 | 921,684 | 100 | 61,248 |
| Luxottica North Europe Ltd | S. Albans-Hertfordshire | GBP | 90,000 | 11,651,074 | 14,533,650 | 100 | 3,504,075 |
| Luxottica Of Canada Inc | Saint John, New Brunswick | USD | 1,000,000 | 5,377,914 | 127,205,195 | 28 | 478,221 |
| Luxottica Optics Ltd | Tel Aviv | ILS | 44 | 3,552,790 | 3,980,618 | 100 | 3,198,081 |
| Luxottica Poland Sp Zoo | Kracow | PLN | 390,000 | 4,118,961 | 1,981,168 | 25 | 130,316 |
| Luxottica Portugal Sa | Lisbon | EUR | 3,043,129 | 1,768,827 | 6,295,731 | 82 | 4,063,776 |
| Luxottica Retail Uk Ltd | St Albans-Hertfordshire | GBP | 24,410,765 | 3,314,344 | 32,163,800 | 68 | 40,917,076 |
| Luxottica South Pacific Holdings Pty Limited | Macquarie Park-Nsw | AUD | 322,797,001 | 27,523,172 | 260,656,663 | 100 | 208,484,214 |
| Luxottica Southern Africa Pty Ltd | Cape Town - Observatory | ZAR | 2,200 | NA | NA | 100 | 45,393,594 |
| Luxottica Spain Slu | Madrid | EUR | 8,147,795 | 10,198,786 | 76,013,833 | 100 | 233,200,724 |
| Luxottica Srl | Agordo | EUR | 10,100,000 | 118,627,097 | 408,829,455 | 100 | 183,196,197 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Luxottica The Netherlands Bv | Amsterdam | EUR | 18,151 | 3,426,111 | 31,878,903 | 100 | 82,503,165 |
| Luxottica Us Holdings Corp | Dover-Delaware | USD | 100 | 786,493 | 2,879,582,917 | 100 | 1,597,374,814 |
| Luxottica Wholesale (Thailand) Ltd | Bangkok | THB | 100,000,000 | 41,221,521 | 6,597,210 | 100 | 2,499,500 |
| Luxottica Wholesale Malaysia Sdn Bhd | Kuala Lumpur | MYR | 4,500,000 | 884,910 | 4,169,220 | 100 | 997,164 |
| Mikli Diffusion France Sasu | Paris | EUR | 4,459,787 | 4,521,634 | 11,627,794 | 100 | 86,524,876 |
| Mirari Japan Co Ltd | Tokyo | JPY | 473,700,000 | 697,484,610 | 20,032,840 | 16 | 12,494 |
| Nextore Srl | Milan | EUR | 1,000,000 | (250,696) | 1,041,894 | 60 | 598,152 |
| Oakley Sport International Srl | Agordo | EUR | 50,000 | 49,143 | 22,278,425 | 100 | 19,955,790 |
| Opticas Gmo Chile Sa | Comuna De Huechuraba | CLP | 7,263,089 | 162,242,960 | 34,016,791 | - | - |
| Oy Luxottica Finland Ab | Espoo | EUR | 170,000 | 390,126 | 1,591,950 | 100 | 619,206 |
| Rayban Air | Agordo | EUR | 13,317,243 | (265,775) | 12,180,320 | 68 | 9,196,962 |
| Salmoiraghi & Vigano' Spa | Milan | EUR | 11,919,861 | (518,965) | 52,611,521 | 100 | 191,408,793 |
| Sgh Brasil Comercio De Oculos Ltda | San Paolo | BRL | 501,720,000 | (17,564,939) | 78,278,935 | 100 | 77,245,805 |
| Spectacle Hut Pte Ltd | Singapore | SGD | 1,000,000 | NA | NA | 60 | 14,083,785 |
| Sunglass Hut (Thailand) Co Ltd | Khet Patumwan, Bangkok | THB | 85,000,000 | 1,793,750 | 435,912 | 46 | 1,053,454 |
| Sunglass Hut De Mexico Sapi De Cv | Mexico City | MXN | 315,970 | (122,789,332) | 29,557,320 | 100 | 22,884,759 |
| Sunglass Hut France Sasu | Paris | EUR | 3,600,000 | 510,721 | 4,998,787 | 100 | 3,600,000 |
| Sunglass Hut Ireland Limited | Dublin | EUR | 253 | 446,014 | (150,701,633) | 100 | 9,354,590 |
| Sunglass Hut Middle East General Trading Llc | Dubai | AED | 1,200,000 | 669,570 | 708,923 | 49 | 142,112 |
| Sunglass Hut Turkey Gozluk Ticaret Anonim Sirketi | Cigli-Izmir | LTL | 41,000,000 | (3,770,030) | 2,609,389 | 100 | 8,874,691 |
| **Total** | | | | | | | **3,308,050,077** |

The figures presented refer to amounts reported in financial statements at December 31, 2018.

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 negative 2018 results of Sunglass Hut De Mexico Sapi De CV and SGH Brasil Comercio de Oculos LTDA, it has been necessary to test the related investments for impairment; this has led to the recognition of impairment losses of Euro 23.6 million and Euro 20 million respectively, making the carrying amount of these subsidiaries equal to their recoverable amount. In addition, the investment in Luxottica Southern Africa PTY LTD, written down in previous years, has been revalued by Euro 3.8 million to reflect the improvement in the company's results during the year.

Further details can be found in Note 37 *"Income and expense from investments"*.

### 12.1 Investments in subsidiaries

| Balance at 12/31/2018 | Balance at 12/31/2017 |
|---|---|
| 3,306,854,511 | 3,314,919,198 |

| **Balance at 12/31/2017** | **3,314,919,198** |
|---|---|
| Increases in year for capitalization/acquisition | 42,359,349 |
| Decreases | (10,583,870) |
| Revaluations | 3,759,834 |
| Impairment | (43,600,000) |
| **Balance at 12/31/2018** | **3,306,854,511** |

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 21,554,406 to increase the equity interest in Luxottica Southern Africa;
- Euro 14,083,785 to acquire the investment in Spectacle Hut, occurred on October 5, 2018, aimed at achieving commercial synergies;
- Euro 6,721,158 to acquire the investment in Fukui Megane, occurred on May 18, 2018, aimed at achieving production synergies;
- Decreases of Euro 10,583,870 reflect a reduction in the value of investments in subsidiaries against invoices issued for the Performance Share Plan 2015, accounted for in accordance with IFRS 2.

### 12.2 Investments in associates

| Balance at 12/31/2018 | Balance at 12/31/2017 |
|---|---|
| 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.

## 13. DEFERRED TAX ASSETS AND LIABILITIES

| Balance at 12/31/2018 | Balance at 12/31/2017 |
|---|---|
| 48,462,643 | 50,483,920 |

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 2018 are shown in the following tables:

| | |
|---|---|
| **01/01/2018** | **50,483,920** |
| Taxes through profit or loss | (3,185,086) |
| Taxes through equity | 1,163,809 |
| **12/31/2018** | **48,462,643** |

| Description | 12/31/2017 | Increases | Decreases | 12/31/2018 |
|---|---|---|---|---|
| Net deferred tax assets (IRES) | 41,724,930 | - | 94,095 | 41,630,835 |
| Net deferred tax assets (IRAP) | 8,758,990 | - | 1,927,182 | 6,831,808 |
| **Total** | **50,483,920** | **-** | **2,021,277** | **48,462,643** |

The following table presents the composition of deferred tax assets and liabilities, ignoring any offsetting of balances:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | 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 | 3,821,175 | 1,129,921 | 4,380,634 | 1,295,353 |
| Inventory write-down | 40,514,209 | 9,723,410 | 35,629,267 | 8,551,024 |
| Provisions for risks and other charges | 2,760,318 | 814,388 | 29,029,293 | 8,582,124 |
| Trademarks | 119,224,914 | 35,254,808 | 130,952,656 | 38,722,700 |
| Long-term incentives | 31,822,745 | 7,637,459 | 10,591,846 | 2,542,043 |
| Net exchange differences from accounting measurement | 3,751,441 | 900,346 | 5,065,683 | 1,215,765 |
| Other | 8,830,681 | 2,346,865 | 5,902,851 | 1,504,042 |
| **Total deferred tax assets** | **210,725,483** | **57,807,197** | **221,552,230** | **62,413,051** |
| **Deferred tax liabilities:** | | | | |
| Trademarks | 7,204,171 | 2,130,273 | 8,645,005 | 2,556,328 |
| Finance leases | 1,831,558 | 439,574 | 1,831,558 | 439,574 |
| Multi-year taxed income | 27,835,657 | 6,680,557 | 37,154,499 | 8,917,080 |
| Other | 392,292 | 94,150 | 67,292 | 16,149 |
| **Total deferred tax liabilities** | **37,263,678** | **9,344,554** | **47,698,354** | **11,929,131** |
| **Net deferred tax assets** | **173,461,805** | **48,462,643** | **173,853,876** | **50,483,920** |

Deferred tax assets and/or liabilities that will reverse from 2019 have been calculated using the tax rates applying in 2019: 24.00% in the case of IRES and 5.57% in the case of IRAP.

## 14. OTHER NON-CURRENT ASSETS

| Balance at 12/31/2018 | Balance at 12/31/2017 |
|---|---|
| 22,781,074 | 24,738,883 |

| Description | 12/31/2017 | Increases | Decreases | 12/31/2018 |
|---|---|---|---|---|
| Long-term receivables from Group companies | 14,010,495 | - | - | 14,010,495 |
| Advances on royalties | 10,249,755 | - | (2,000,000) | 8,249,755 |
| Security deposits | 339,681 | 154,103 | (118,501) | 375,283 |
| Long-term loans to third parties | 138,952 | 6,589 | - | 145,541 |
| **Total** | **24,738,883** | **160,692** | **(2,118,501)** | **22,781,074** |

*"Long-term receivables from Group companies"* refer to the balance 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.

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 2019.

## CURRENT LIABILITIES

### 15. SHORT-TERM BORROWINGS

| Balance at 12/31/2018 | Balance at 12/31/2017 |
|---|---|
| 90,393,699 | 52,078,927 |

Short-term borrowings mainly consist of loans from other Group companies, of which Euro 57.6 million from Luxottica France Sasu, Euro 28.7 million from Luxottica Retail UK Ltd, Euro 3.9 million from Luxottica Nordic AB and Euro 1 million from Luxottica Norge AS.

Loans obtained from other Group companies have a fair value of Euro 91.2 million.

The balance at December 31, 2017 consisted of Euro 52 million in loans from other Group companies, 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.

### 16. CURRENT PORTION OF LONG-TERM DEBT

| Balance at 12/31/2018 | Balance at 12/31/2017 |
|---|---|
| 527,117,381 | 27,481,481 |

The current portion of long-term debt reports:

- Euro 500 million for the short-term portion of the bond with Unicredit maturing in 2019
- Euro 26 million in accrued interest payable
- Euro 0.8 million for the short-term portion of lease financing liabilities.

The balance at December 31, 2017 reported:

- Euro 26 million in accrued interest payable
- Euro 1 million for the short-term portion of lease financing liabilities.

### 17. ACCOUNTS PAYABLE

| Balance at 12/31/2018 | Balance at 12/31/2017 |
|---|---|
| 530,375,914 | 609,005,947 |

Accounts payable are stated at their nominal value, and analyzed by maturity as follows:

| 12/31/2018 | Within 12 months | Beyond 12 months | Beyond 5 years | Total |
|---|---|---|---|---|
| Subsidiaries | 254,860,311 | - | - | 254,860,311 |
| Suppliers | 275,515,603 | - | - | 275,515,603 |
| **Total** | **530,375,914** | | | **530,375,914** |

| 12/31/2017 | Within 12 months | Beyond 12 months | Beyond 5 years | Total |
|---|---|---|---|---|
| Subsidiaries | 351,081,444 | - | - | 351,081,444 |
| Suppliers | 257,924,503 | - | - | 257,924,503 |
| **Total** | **609,005,947** | | | **609,005,947** |

*"Accounts payable to subsidiaries"* mostly comprise amounts owed to:

- Luxottica S.r.l., for Euro 145.9 million (Euro 213 million as at December 31, 2017);
- Luxottica Hong Kong Services Limited, for Euro 55.2 million (Euro 54 million as at December 31, 2017);
- Luxottica Retail UK, for Euro 11 million (Euro 11 million as at December 31, 2017);
- Oakley Inc., for Euro 9.9 million (Euro 7.5 million as at December 31, 2017).

*"Accounts payable to suppliers"* are presented net of trade discounts and consist of:

- Euro 147.6 million, owed to Italian suppliers (Euro 122.3 million as at December 31, 2017);
- Euro 23.6 million, owed to foreign suppliers (Euro 30.2 million as at December 31, 2017);
- Euro 8.1 million in credit notes receivable (Euro 6.3 million as at December 31, 2017) 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.

## 18. INCOME TAXES PAYABLE

| Balance at 12/31/2018 | Balance at 12/31/2017 |
|---|---|
| 1,403,996 | 759,106 |

"Income taxes payable" report only specific, known liabilities for tax, in connection with IRAP (Italian regional business tax).

## 19. SHORT-TERM PROVISIONS FOR RISKS AND OTHER CHARGES

| Balance at 12/31/2018 | Balance at 12/31/2017 |
|---|---|
| 35,143,326 | 49,128,809 |

The item mainly refers to collections of various kinds that have already taken place following judgments in favor of the Company which became enforceable, whose level of judgment has not yet been completed and relating to uncertainties in the interpretation of legal regulations for which the company had requested refund.

The remainder consists of 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 decrease in these provisions is mainly due to a reduction in 2018 versus 2017 in the difference between advertising spending on licensed brands and the contractual minimum due.

Movements over the year in short-term provisions for risks are as follows:

| **Short-term provisions for risks**<br><br>(Euro/000) | **Risks for future charges for advertising expenses on licenses** | **Other risks** | **Total** |
|---|---|---|---|
| **Balance as at January 1, 2018** | **28,996,293** | **20,132,516** | **49,128,809** |
| Increases | 2,727,316 | 30,333,067 | 33,060,384 |
| Utilization | (28,996,291) | (18,049,576) | (47,045,867) |
| **Balance as at December 31, 2018** | **2,727,318** | **32,416,008** | **35,143,326** |

## 20. DERIVATIVE FINANCIAL INSTRUMENTS

| **Balance at 12/31/2018** | **Balance at 12/31/2017** |
|---|---|
| 2,428,823 | 3,344,737 |

The balance at December 31, 2018 consists of Euro 1,955,586 for the fair value of 65 swap agreements with third parties and Euro 837,246 for the fair value of 109 forward contracts with third parties.

The balance at December 31, 2017 consisted 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.

Additional information can be found in section three of these notes entitled "Financial risks".

## 21. OTHER CURRENT LIABILITIES

| **Balance at 12/31/2018** | **Balance at 12/31/2017** |
|---|---|
| 432,413,300 | 354,511,525 |

Other liabilities are stated at their nominal value and analyzed by maturity as follows:

| **12/31/2018** | **Within 12 months** | **Total** |
|---|---|---|
| Payables to subsidiaries | 359,345,641 | 359,345,641 |
| Other liabilities | 68,339,499 | 68,339,499 |
| Social security payable | 4,728,160 | 4,728,160 |
| **Total** | **432,413,300** | **432,413,300** |

| 12/31/2017 | Within 12 months | Total |
|---|---|---|
| Payables to subsidiaries | 290,614,884 | 290,614,884 |
| Other liabilities | 59,953,092 | 59,953,092 |
| Social security payable | 3,943,549 | 3,943,549 |
| **Total** | **354,511,525** | **354,511,525** |

"*Social security payable"* include Euro 2,586,593 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 | 12/31/2018 |
|---|---|---|
| Luxottica S.r.l. | Cash pooling payables | 208,327,317 |
| Luxottica North Europe Ltd | Cash pooling payables | 36,281,882 |
| Luxottica Italia S.r.l. | Cash pooling payables | 28,562,080 |
| Luxottica Germany Gmbh | Cash pooling payables | 18,184,257 |
| Oakley Sport International S.r.l. | Cash pooling payables | 13,978,231 |
| Mikli Diffusion France Sasu | Cash pooling payables | 14,821,798 |
| Luxottica S.r.l. | Sales tax transferred by subsidiaries | 9,267,418 |
| Luxottica France Sasu | Cash pooling payables | 5,099,555 |
| Luxottica Italia S.r.l. | Cash pooling payables | 3,867,781 |
| Salmoiraghi & Viganò S.p.a. | Sales tax transferred by subsidiaries | 3,369,426 |
| Luxottica Spain SLU | Cash pooling payables | 2,941,033 |
| Salmoiraghi & Viganò S.p.a. | Tax consolidation payables | 2,553,404 |
| Luxottica Belgium NV | Cash pooling payables | 2,405,813 |
| Luxottica The Netherlands BV | Cash pooling payables | 1,936,659 |
| Luxottica Poland SP Zoo | Cash pooling payables | 1,373,539 |
| OY Luxottica Finland AB | Cash pooling payables | 1,360,603 |
| Luxottica Norge AS | Cash pooling payables | 1,179,027 |
| Luxottica Austria Gmbh | Cash pooling payables | 1,092,372 |
| Luxottica Italia S.r.l. | Sales tax transferred by subsidiaries | 817,882 |
| Luxottica S.r.l. | Other liabilities | 721,989 |
| Luxottica Retail UK Ltd | Cash pooling payables | 674,916 |
| Nextore S.r.l. | Sales tax transferred by subsidiaries | 410,370 |
| Other immaterial amounts | | 118,289 |
| **Total** | | **359,345,641** |

*"Other liabilities"* comprise:

| **Description** | **12/31/2018** | **12/31/2017** |
|---|---|---|
| Employee bonuses | 35,389,188 | 25,350,220 |
| Employee wages and salaries | 10,605,416 | 12,769,104 |
| Unused employee holiday entitlement | 9,829,693 | 9,230,126 |
| Withholding taxes payable | 7,772,035 | 7,984,848 |
| Other | 4,743,167 | 4,618,794 |
| **Total** | **68,339,499** | **59,953,092** |

*"Other"* includes a liability of Euro 2.7 million for building permits, which will be settled in 2019.

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 payables 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 12/31/2018 | Balance at 12/31/2017 |
|---|---|
| 996,098,204 | 1,544,842,528 |

Non-current debt consists entirely of debt with financial institutions.

The fair value of long-term debt is Euro 1,070 million at December 31, 2018 (Euro 1,676.23 million at December 31, 2017). 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.

Long-term debt is repayable as follows:

| December 31 | Amount |
|---|---:|
| 2022 | 500,000,000 |
| 2024 | 500,000,000 |
| Effect of applying the amortized cost method | (3,901,796) |
| **Total** | **996,098,204** |

On March 10, 2017, Luxottica Group entered into two term facility agreements for Euro 250 million each, guaranteed by the subsidiary Luxottica U.S. Holding Corp. The agreements were entered into with Banca IMI S.p.A./Intesa San Paolo, respectively acting as mandated lead arranger and original lender ("IMI/Intesa facility"), and with Natixis S.A. - Milan Branch, acting as both mandated lead arranger and original lender. The final maturity of each term facility is March 10, 2022. Under these agreements, Euro 500 million was borrowed on March 10, 2017 at a rate of EURIBOR plus a spread of 0.70% on the IMI/Intesa facility and of 0.62% on the Natixis facility. Two interest rate swaps with an aggregate notional amount of Euro 500 million have been taken out against these facilities, with Intesa Sanpaolo S.p.A. and Natixis S.A (Milan Branch) respectively. The swaps, which qualify as cash flow hedges, fix the EURIBOR rate at an average rate of 0.1185% per annum.

On March 19, 2012, the Group completed an offering in Europe to institutional investors of Euro 500 million of senior unsecured guaranteed notes due March 19, 2019. Interest on the Notes accrues at 3.625% per annum. The notes are guaranteed 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 adopted an Euro Medium Term Note Programme (hereinafter the "Programme") for an amount of Euro 2 billion. The Programme allows the offering of bonds to institutional investors with the exception of those residing in 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 Group completed an offering to institutional investors of Euro 500 million of senior unsecured notes due February 10, 2024 under the Group's Euro Medium Term Note Program. The Notes mature on February 10, 2024 and interest is calculated at an annual rate of 2.625%. The Notes are listed on the Luxembourg Stock Exchange under ISIN XS1030851791 and have been awarded an A- rating.

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, 2018 and December 31, 2017 (in Euro):

| | | Note | 2018 | of which related parties | 2017 | of which related parties | Change |
|---|---|---|---|---|---|---|---|
| A | Cash on hand | 4 | 1,134 | - | 422 | - | 712 |
| B | Other liquid assets | 4 | 380,993,076 | - | 405,766,751 | - | (24,773,675) |
| C | Currency and interest rate hedging instruments | 8 | 3,469,518 | - | 5,428,629 | - | (1,959,111) |
| **D** | **Liquidity (A) + (B) + (C)** | | **384,463,728** | **-** | **411,195,802** | **-** | **(26,732,074)** |
| **E** | **Current financial receivables** | **8-9** | **330,316,272** | **330,316,272** | **379,865,507** | **379,865,507** | **(49,549,235)** |
| F | Bank overdrafts | 15 | 460 | - | 457 | - | 3 |
| G | Current portion of long-term debt | 16 | 760,332 | - | 922,307 | - | (161,975) |
| H | Notes payable | 16 | 526,357,049 | - | 26,559,174 | - | 499,797,875 |
| I | Other current financial liabilities | 21 | 432,480,101 | 432,480,101 | 319,756,375 | 319,756,375 | 112,723,726 |
| J | Currency and interest rate hedging instruments | 20 | 2,428,823 | - | 3,344,737 | - | (915,914) |
| **K** | **Current financial liabilities (F) + (G) + (H) + (I) + (J)** | | **962,026,765** | **432,480,101** | **350,583,050** | **319,756,375** | **611,443,715** |
| **L** | **Net current financial liabilities (K) - (E) - (D)** | | **247,246,765** | **102,163,829** | **(440,478,259)** | **(60,109,132)** | **687,725,024** |
| M | Long-term debt | 22 | 499,314,747 | - | 499,035,066 | - | 279,681 |
| N | Notes payable | 22 | 496,783,457 | - | 1,045,047,131 | - | (548,263,674) |
| O | Other non-current liabilities | 22 | - | - | 760,331 | - | (760,331) |
| P | Currency and interest rate hedging instruments | 25 | 3,510,410 | - | - | - | 3,510,410 |
| **Q** | **Non-current financial liabilities (M) + (N) + (O) + (P)** | | **999,608,614** | **-** | **1,544,842,528** | **-** | **(545,233,914)** |
| **R** | **Net debt (L) + (Q)** | | **1,246,855,379** | **102,163,829** | **1,104,364,269** | **(60,109,132)** | **142,491,110** |

## 23. EMPLOYEE BENEFITS

| Balance at 12/31/2018 | Balance at 12/31/2017 |
|---|---|
| 51,552,285 | 21,295,493 |

*"Employee benefits"* are comprised as follows at December 31, 2018:

- Euro 7,743,492 for the termination indemnity obligation accruing up to December 31, 2006 in respect of employees on the payroll at that date, net of any advance payments (Euro 7,735,651 at December 31, 2017);
- Euro 43,808,793 in provisions for the employee Long-Term Incentive Plan (Euro 13,919,842 at December 31, 2017).

The change in the termination indemnity obligation over the year is analyzed below:

| **Liability at 12/31/2016** | **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 12/31/2017** | **7,375,651** |
| Interest expense | (81,864) |
| Actuarial loss (gain) | (112,067) |
| Transfers (to)/from other Group companies | 920,761 |
| Benefits paid | (358,989) |
| **Liability at 12/31/2018** | **7,743,492** |

*"Termination indemnities"* at December 31, 2018 reflect the obligation 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 2018 and the transfer of indemnities maturing in 2018 to alternative pension funds or to INPS (Italian social security agency).

The liability at December 31, 2018 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 provisions to the Long-Term Incentive Plan were approved by the Company's Board of Directors in October 2016 and December 2017. The monetary incentive will be paid to beneficiaries at the end of a vesting period, of about three years, provided the conditions precedent have been met (e.g. the beneficiary has remained in the Company's employment during the vesting period).

The principal actuarial assumptions used to calculate termination indemnities are as follows:

| Economic assumptions | 2018 | 2017 |
|---|---|---|
| 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 |
| Invalidity 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%). | 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 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, 2018, that is based on the iBoxx Eurozone Corporates AA 10+ index at the valuation date.

More information about the accounting treatment of this liability further to the changes in the law can be found in the earlier section on "Accounting policies and principles".

## 24. LONG-TERM PROVISIONS FOR RISKS AND OTHER CHARGES

| Balance at 12/31/2018 | Balance at 12/31/2017 |
|---|---|
| 83,000 | 283,000 |

*"Long-term provisions for risks and other charges"* consist of provisions recognized in the past against risks related to various types of litigation for which a monetary outlay is deemed reasonably likely in future years.

The decrease in the above long-term provisions is due to utilization.

## 25. DERIVATIVE FINANCIAL INSTRUMENTS

| Balance at 12/31/2018 | Balance at 12/31/2017 |
|---|---|
| 3,510,410 | - |

The balance at December 31, 2018 reflects the fair value of 2 interest rate swaps.

## 26. OTHER NON-CURRENT LIABILITIES

| Balance at 12/31/2018 | Balance at 12/31/2017 |
|---|---|
| 972,790 | - |

This balance reports the residual liability for the acquisition of the company Fukui Megane.

## 27. STOCKHOLDERS' EQUITY

| | Balance at 12/31/2018 | Balance at 12/31/2017 |
|---|---|---|
| Capital stock | 29,111,702 | 29,100,962 |
| Other reserves | 2,353,392,570 | 2,202,102,293 |
| Net income for the year | 475,072,731 | 631,270,701 |
| **Total stockholders' equity** | **2,857,577,003** | **2,862,473,956** |

### 27.1 Capital stock

| Balance at 12/31/2018 | Balance at 12/31/2017 |
|---|---|
| 29,111,702 | 29,100,962 |

Capital stock is made up as follows:

| Shares | Number | Nominal value in Euro |
|---|---|---|
| Ordinary | 485,016,033 | 0.06 |

At December 31, 2018, the capital stock of Luxottica Group S.p.A. amounted to Euro 29,111,702 and comprised 485,195,033 ordinary shares with a nominal value of Euro 0.06 each.

At January 1, 2018, the capital stock had amounted to Euro 29,100,962, divided into 485,016,033 ordinary fully paid-up shares with a nominal value of Euro 0.06 each.

Following the exercise of 179,000 options to purchase ordinary shares granted to employees under existing stock option plans, capital stock increased by Euro 10,740 over the course of 2018.

Of the 179,000 options exercised, 3,000 refer to the 2009 Plan, 10,000 refer to the 2009 Ordinary Plan (reassignment of the 2006 and 2007 Ordinary Plans), 13,000 refer to the 2010 Plan, 35,000 refer to the 2011 Plan and 118,000 refer to the 2012 Plan.

### 27.2. Other reserves and allocation of prior year net income

| Balance at 12/31/2018 | Balance at 12/31/2017 |
|---|---|
| 2,353,392,570 | 2,202,102,293 |

### Allocation of prior year net income

The stockholders' meeting of April 19, 2018 voted:

- to distribute a total of Euro 483,783,041 in dividends;
- to allocate Euro 9,497 to the legal reserve;

- to allocate Euro 146,026,642 to the extraordinary reserve:
- to place Euro 1,451,520 in the restricted reserve under Art. 2426-8bis of the Italian Civil Code.

**Legal reserve**

The increase of Euro 9,497 reflects the allocation of a portion of the prior year's net income.

**Extraordinary reserve**

The increase of Euro 146,026,642 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 247,882,151 at year end (Euro 256,677,949 at December 31, 2017).

Accordingly, the number of treasury shares held went from 6,518,689 at December 31, 2017 to 6,071,922 at December 31, 2018.

**Other reserves**

The change reflects Euro 1,934,637 to account for stock options in accordance with IFRS 2, and Euro 112,067 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** | **29,111,702** | **B** | **-** | **-** | **-** |
| **Capital reserves:** | | | | | |
| Additional paid-in capital (*) | 475,951,136 | A, B, C | 475,949,577 | - | - |
| Treasury shares | (247,822,151) | - | - | - | - |
| Other reserves | - | A | - | - | - |
| **Earnings reserves:** | | | | | |
| Legal reserve | 5,820,781 | B | - | - | - |
| Extraordinary reserve | 1,237,397,024 | A, B, C | 1,235,945,505 | - | - |
| IAS reserve - FTA IFRS reserve under Art. 7, par. 7 Italian Leg. Decree 38 2005 | 604,447 | - | - | - | - |
| IAS reserve - Employee benefits: IAS 19 | (618,878) | - | - | - | - |
| IAS reserve - Stock Options: IFRS 2 (**) | 12,991,764 | - | - | - | - |
| IAS reserve - FTA IAS 36 | 396,820,262 | A, B, C | 396,820,262 | - | - |
| IAS reserve - stock options | 326,395,594 | - | - | - | - |
| IAS reserve - Derivative instruments reserve net of tax | (2,472,382) | - | - | - | - |
| Merger/demerger surplus reserve | 148,324,973 | A, B, C | 148,324,973 | - | - |
| **Total reserves** | **2,353,392,570** | **-** | **2,257,040,317** | **-** | **-** |
| **Undistributable amount** | **-** | - | - | **-** | **-** |
| **Distributable amount** | **-** | **-** | **2,257,040,317** | **-** | **-** |

Key: A: to increase capital B: to cover losses C: distribution to stockholders

Notes:

(*) The undistributable amount of Euro 1,559 refers to the residual amount required to be allocated to the legal reserve to make it equal to 20% of capital stock

(**) 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.

It is noted that the Company's stockholders' equity contains 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 (2017: 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

## 28. NET SALES

| 2018 | 2017 | Change |
|---|---|---|
| 2,796,569,308 | 2,876,555,811 | (79,986,503) |

### NET SALES BY PRODUCT CATEGORY

| Description | 2018 | 2017 | Change |
|---|---|---|---|
| Finished goods | 2,763,363,396 | 2,849,651,693 | (86,288,297) |
| Spare parts | 28,308,403 | 25,869,543 | 2,438,860 |
| Direct materials | 242,366 | 210,618 | 31,748 |
| Accessories | 4,655,143 | 823,957 | 3,831,186 |
| **Total** | **2,796,569,308** | **2,876,555,811** | **(79,986,503)** |

## 29. OTHER REVENUE AND INCOME

| 2018 | 2017 | Change |
|---|---|---|
| 200,276,065 | 169,049,326 | 31,226,739 |

| Description | 2018 | 2017 | Change |
|---|---|---|---|
| Recharged marketing expenses | 30,930,049 | 30,123,094 | 806,955 |
| Recharged technology and data transmission expenses | 104,235,601 | 77,310,782 | 26,924,819 |
| Other | 65,110,415 | 61,615,450 | 3,494,965 |
| **Total** | **200,276,065** | **169,049,326** | **31,226,739** |

*"Other"* primarily consists of:

- Euro 21,393,554 in royalties, originating from revenue from licensing agreements with subsidiaries for the use of the OPSM, Sunglass Hut, Ilori, Ray Ban, Arnette, Persol, Vogue, Luxottica and Sferoflex trademarks;
- Euro 5,172,826 in administrative services charged to subsidiaries.

## 30. CHANGES IN INVENTORIES

| 2018 | 2017 | Change |
|---|---|---|
| (7,366,983) | 12,699,661 | (20,066,644) |

Changes in inventories are analyzed as follows:

| Description | 2018 | 2017 | Change |
|---|---|---|---|
| Finished goods | (7,295,565) | 12,162,578 | (19,458,143) |
| Samples | (29,789) | 1,668,803 | (1,698,592) |
| Spare parts | (40,114) | 1,151,587 | (1,191,701) |
| Accessories | (475,603) | (324,617) | (150,986) |
| Packaging material | 442,710 | 396,643 | 46,067 |
| Advertising material | 31,378 | (2,355,332) | 2,386,710 |
| **Total** | **(7,366,983)** | **12,699,661** | **(20,066,644)** |

## 31. COST OF GOODS PURCHASED

| 2018 | 2017 | Change |
|---|---|---|
| 1,570,310,928 | 1,565,006,438 | 5,304,490 |

The cost of goods purchased is analyzed by category as follows:

| Description | 2018 | 2017 | Change |
|---|---|---|---|
| Purchase of finished eyewear (frames) | 1,535,486,040 | 1,529,182,545 | 6,303,495 |
| Purchase of spare parts | 16,833,194 | 21,512,994 | (4,679,800) |
| Customs duties | 7,279,792 | 8,102,764 | (822,972) |
| Purchase of materials | 6,773,117 | 5,621,587 | 1,151,530 |
| Purchase of eyewear accessories | 3,840,735 | 481,977 | 3,358,758 |
| Packaging costs | 98,050 | 104,571 | (6,521) |
| **Total** | **1,570,310,928** | **1,565,006,438** | **5,304,490** |

*"Purchase of materials"* relates to purchases associated with the packaging process.

## 32. SERVICE COSTS

| 2018 | 2017 | Change |
|---|---|---|
| 315,096,005 | 310,144,389 | 4,951,616 |

The principal types of cost included in this line in both periods are as follows:

| Description | 2018 | 2017 | Change |
|---|---|---|---|
| Marketing costs | 104,439,902 | 141,276,820 | (36,836,918) |
| Transport and logistics costs | 62,721,634 | 55,306,400 | 7,415,234 |
| Legal and consulting fees | 29,112,300 | 31,492,833 | (2,380,533) |
| Technology and data transmission costs | 67,026,463 | 29,446,436 | 37,580,027 |
| Business travel | 11,265,487 | 12,037,405 | (771,918) |
| Software maintenance | 6,346,091 | 4,670,297 | 1,675,794 |
| Directors' fees | 3,596,185 | 4,212,220 | (616,035) |
| Insurance | 2,635,980 | 2,616,340 | 19,640 |
| Canteen | 2,296,592 | 2,091,278 | 205,314 |
| Personnel search and training | 2,130,232 | 1,836,491 | 293,741 |
| Vehicle costs | 900,787 | 812,947 | 87,840 |
| Statutory auditors' fees | 263,427 | 258,873 | 4,554 |
| Research and development | 597,205 | 207,973 | 389,232 |
| Telephone | 174,914 | 179,848 | (4,934) |
| Other services | 21,588,806 | 23,698,228 | (2,109,422) |
| **Total** | **315,096,005** | **310,144,389** | **4,951,616** |

"Other services" primarily consist of Euro 19 million in commercial and general services recharged by subsidiaries.

## 33. LICENSE AND LEASE COSTS

| 2018 | 2017 | Change |
|---|---|---|
| 190,681,843 | 233,583,345 | (42,901,502) |

These costs primarily consist of:

- Euro 156,312,487 for royalties;
- Euro 44,826,838 for advertising expenditure under contractual commitments;
- Euro 7,367,945 for the rental of software licenses;
- Euro 1,996,812 for car and truck rental;
- Euro 876,014 for photocopier and printer rental;
- Euro 1,148,419 for property rental expenses.

## 34. AMORTIZATION, DEPRECIATION AND IMPAIRMENT

| 2018 | 2017 | Change |
|---|---|---|
| 80,330,584 | 82,404,563 | (2,073,979) |

The amount recorded for 2018 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 expense amounts to Euro 80 million in 2018.

Amortization of intangible assets primarily consists of Euro 41 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 14.8 million) can be found in Note 10.

## 35. PERSONNEL COSTS

| 2018 | 2017 | Change |
|---|---|---|
| 191,195,771 | 155,523,441 | 35,672,330 |

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 | 2018 | 2017 | Change |
|---|---:|---:|---:|
| Wages and salaries | 110,451,135 | 100,580,776 | 9,870,359 |
| Social security contributions | 31,608,044 | 27,140,967 | 4,467,077 |
| Long-term incentive plan | 30,102,507 | 11,626,036 | 18,476,471 |
| Employee benefits | 9,594,080 | 7,835,071 | 1,759,009 |
| Other personnel costs | 8,216,211 | 7,250,186 | 966,025 |
| Non-cash stock-based compensation | 1,223,794 | 1,090,405 | 133,389 |
| **Total** | **191,195,771** | **155,523,441** | **35,672,330** |

The above expenses include Euro 24.9 million in personnel costs recharged to Group companies.

The average number of employees, analyzed by category, has undergone the following changes since the prior year:

| Employees | 2018 | 2017 | Change |
|---|---|---|---|
| Senior managers | 145 | 139 | 6 |
| Staff | 1,191 | 967 | 224 |
| Workers | 563 | 534 | 29 |
| **Total** | **1,899** | **1,640** | **259** |

The national collective labor agreement applied to the Company is that for the eyewear industry.

## 36. OTHER OPERATING EXPENSES

| 2018 | 2017 | Change |
|---|---|---|
| 15,477,305 | 12,561,016 | 2,916,289 |

These expenses consist of consumable materials and other expenses not included in any of the previous categories.

## 37. INCOME AND EXPENSE FROM INVESTMENTS

| 2018 | 2017 | Change |
|---|---|---|
| 39,621,061 | 66,934,678 | (27,313,617) |

"Dividend income" is analyzed as follows:

| Description | Dividends 2018 | Dividends 2017 | Change |
|---|---|---|---|
| Luxottica South Africa PTY LTD | 21,554,406 | - | 21,554,406 |
| Luxottica South Pacific Holding PTY limited | 16,376,401 | 13,540,045 | 2,836,356 |
| Luxottica North Europe Ltd | 8,335,729 | 15,118,667 | (6,782,938) |
| Luxottica Germany Gmbh | 6,500,000 | - | 6,500,000 |
| Luxottica Retail UK Ltd | 5,472,858 | - | 5,472,858 |
| Luxottica Mexico SA de CV | 5,151,320 | - | 5,151,320 |
| Luxottica Nordic AB | 3,489,285 | 996,068 | 2,493,217 |
| Luxottica Hellas A.E. | 3,154,268 | 3,284,308 | (130,040) |
| Luxottica Gozluk Endustri Ve Ticaret Anonim Sirketi | 1,774,138 | - | 1,774,138 |
| Luxottica Norge AS | 1,626,699 | 535,820 | 1,090,879 |
| Luxottica Middle East Fze | 1,163,955 | 1,826,234 | (662,279) |
| Luxottica Portugal SA | 896,940 | 892,185 | 4,755 |
| Miriari Japan Co LTD | 845,060 | - | 845,060 |
| Luxottica Belgium N.V. | 693,000 | 1,485,000 | (792,000) |
| OY Luxottica Finland AB | 550,000 | 400,000 | 150,000 |
| Luxottica Austria GMBH | 500,000 | 500,000 | 0 |

| | | | |
|---|---:|---:|---:|
| Luxottica (Switzerland) A.G. | 421,799 | 916,506 | (494,707) |
| Luxottica Poland Sp ZOO | 297,763 | - | 297,763 |
| Opticas GMO Chile SA | 1 | - | 1 |
| Luxottica Retail UK | - | 11,638,521 | (11,638,521) |
| Luxottica Italia S.r.l. | - | 10,500,000 | (10,500,000) |
| 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 | (4,700,000) |
| Luxottica Spain Slu | - | 4,500,000 | (4,500,000) |
| Oakley Sport International Srl | - | 600,000 | (600,000) |
| Salmoiraghi & Viganò | - | 100,000 | (100,000) |
| **Total** | **78,803,620** | **83,123,947** | **(4,320,328)** |

Income and expense from investments also include Euro 23.6 million in impairment losses recognized against the investment in the subsidiary Sunglass Hut De Mexico Sapi De CV., Euro 20 million in impairment losses against the investment in the subsidiary SGH Brasil Comercio de Oculos LTDA and Euro 3.8 million to revalue the investment in Luxottica Southern Africa PTY LTD.

Income and expense from investments also include Euro 0.7 million in income from subsidiaries for recharges in connection with the 2015 Performance Share Plan.

## 38. FINANCE INCOME

| 2018 | 2017 | Change |
|---|---|---|
| 4,632,818 | 5,357,775 | (724,957) |

| Description | 2018 | 2017 | Change |
|---|---:|---:|---:|
| Derivatives interest income | 3,568,211 | 3,683,011 | (114,800) |
| Income from other non-current assets | 629,000 | 883,160 | (254.160) |
| Income from other current assets | (50,459) | 117,872 | 168.331 |
| Cash pooling finance income | 361,739 | 541,126 | (179,387) |
| Income other than above | 124,327 | 132,606 | (8,279) |
| **Total** | **4,632,818** | **5,357,775** | **(724,957)** |

*"Income from other non-current assets"* comprises the fee income for guarantees given to the subsidiary Luxottica U.S. Holdings Corp. against bank loans (compared with Euro 768,791 at December 31, 2017).

*"Income from other current assets"* mainly consists of interest on loans by Luxottica Group S.p.A. to Group companies.

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"*.

## 39. FINANCE EXPENSE

| 2018 | 2017 | Change |
|---|---|---|
| 62,974,790 | 57,466,818 | 5,507,972 |

| Description | 2018 | 2017 | Change |
|---|---|---|---|
| Bond interest | 31,250,000 | 31,250,000 | - |
| Derivatives interest expense | 11,674,168 | 10,898,909 | 775,259 |
| Negative differential on Interest Rate Swap | 2,248,965 | 1,822,021 | 426,944 |
| Finance expense on joint guarantees | 6,405,106 | 5,576,070 | 829,036 |
| Loan interest | 3,713,604 | 3,379,807 | 333,797 |
| Cash pooling finance expense | 521,866 | 388,666 | 133,200 |
| Interest on loans from subsidiaries | 288,575 | 232,202 | 56,373 |
| Bank interest | 10,351 | 28,835 | (18,484) |
| Other finance expense | 6,862,155 | 3,890,308 | 2,971,847 |
| **Total** | **62,974,790** | **57,466,818** | **5,507,972** |

*"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 Group companies to Luxottica Group S.p.A.

*"Other finance expense"* mostly consists of Euro 1,759,028 (Euro 3,477,917 in 2017) in interest expense on corporate bonds and Euro 4,743,125 in non-recurring finance expense on the early repayment of the Private Placement maturing in 2020.

## 40. FOREIGN CURRENCY HEDGE AND EXCHANGE DIFFERENCE GAINS/LOSSES

| | 2018 | 2017 | Change |
|---|---|---|---|
| Gains | 136,632,779 | 151,885,130 | (15,252,351) |
| Losses | (132,971,292) | (160,442,290) | 27,470,998 |
| **Total** | **3,661,487** | **(8,557,160)** | **12,218,647** |

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.

## 41. OTHER NET INCOME (EXPENSE)

At December 31, 2017 this included Euro 48.7 million in non-recurring income for the gain realized on the sale in March 2017 of a property owned by the Company.

## 42. PROVISION FOR INCOME TAXES

| 2018 | 2017 | Change |
|---|---|---|
| (136,293,451) | (122,754,723) | (13,538,728) |

| Taxes | 2018 | 2017 | Change |
|---|---|---|---|
| **Current taxes:** | **(134,717,466)** | **(178,837,973)** | **44,120,507** |
| IRES | (107,177,522) | (144,797,485) | 37,619,963 |
| IRAP | (26,084,525) | (33,053,915) | 6,969,390 |
| Taxes paid abroad | (1,455,419) | (986,573) | (468,846) |
| Taxes on foreign income | - | - | - |
| **Taxes relating to prior years:** | **1,609,101** | **62,487,644** | **(60,878,543)** |
| Taxes for prior years | 1,609,101 | 62,487,644 | (60,878,543) |
| **Deferred tax assets (liabilities)** | **(3,185,086)** | **(6,404,394)** | **3,219,308** |
| IRES | (1,038,683) | (6,423,241) | 5,384,558 |
| IRAP | (2,146,403) | 18,847 | (2,165,250) |
| **Total** | **(136,293,451)** | **(122,754,723)** | **(13,538,728)** |

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 107,177,522 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 26,084,525, calculated on the value of net production for the year.

A tax benefit of Euro 1,609,101 has been recognized in connection with prior years.

In terms of deferred tax, the Company has recognized net charges of Euro 1,038,683 for deferred IRES and net charges of Euro 2,146,403 for deferred IRAP.

## Tax rate reconciliation

| | 2018 | Tax rate | 2017 | Tax rate |
|---|---|---|---|---|
| Income before provision for income taxes | 611,366,182 | | 754,025,424 | |
| **Theoretical income taxes at theoretical rate** | **146,727,883** | **24.00%** | **180,966,102** | **24.00%** |
| IRAP | 26,084,525 | 4.26% | 33,053,915 | 4.38% |
| Dividends received | (16,531,470) | (2.71%) | (18,963,787) | (2.52%) |
| Impairment of assets | 9,561,640 | 1.56% | 4,800,000 | 0.64% |
| Allowance for corporate equity (ACE) | - | 0.00% | (947,806) | (0.12%) |
| Taxes for prior years | (1,609,101) | (0.26%) | (62,487,644) | (8.29%) |
| Other differences | (27,940,026) | (4.56%) | (13,666,057) | (1.81%) |
| **Effective income taxes** | **136,293,451** | **22.29%** | **122,754,723** | **16.28%** |

"Other differences" mostly refer to the patent box effect for 2018.

## 43. COMMITMENTS, RISKS, GUARANTEES, CONTINGENT LIABILITIES AND OTHER PROCEEDINGS

| Description | 2018 | 2017 |
|---|---|---|
| Risks assumed by the company for guarantees | 512,854,544 | 664,078,418 |
| Minimum royalties and advertising contributions | 743,574,813 | 893,921,901 |
| Purchase commitments | 73,871,431 | 83,214,075 |
| **Total** | **1,330,300,788** | **1,641,214,394** |

The following table summarizes commitments for minimum royalties according to maturity:

| Less than 1 year | From 1 to 5 years | Beyond 5 years |
|---|---|---|
| 139,122,845 | 434,796,144 | 169,655,824 |

The Company has future commitments under supplier contracts for property, plant and equipment and intangible assets for Euro 73.9 million, spread over the following years:

| 2019 | 2020 | 2021 |
|---|---|---|
| 34,891,605 | 26,158,532 | 12,821,294 |

The Company has obligations related to various types of leasing contracts for Euro 2 million maturing in 2019 and for Euro 4.7 maturing between 2020 and 2026

*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 the subsidiary Luxottica U.S. Holdings Corp. for a private bond placement of USD 125 million (about Euro 109.2 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 5% 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 13% 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

In 2015, the French Competition Authority (the “Authority”) notified the Group and, in particular, 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, a statement of objections in relation to the alleged anti-competitive practices.

In 2017, the Authority considered that there was insufficient evidence to confirm the above litigations and sent the file back to the investigation departments of the Authority for further investigation.

The evaluation of the risk profile for the Group may be updated, as necessary, based on the analysis of the contents and the merits of further statements of objections that may be issued by the French competition authority in the next few months.

### 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 the management that the Company has meritorious defenses against all such outstanding disputes, which will be pursued 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.

## 44. 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, 2018 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 successively 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.

Transactions during the year and balances at year end with related parties, subsidiaries, associates and parents are as follows:

| (Euro) | Impact on separate statement of income | | Impact on separate statement of financial position | | Guarantees |
|---|---|---|---|---|---|
| **Related Party** | **Revenue** | **Costs (a)** | **Assets** | **Liabilities** | |
| Autant Pour Voir Que Pour Etre' Vues Sarl | 3,000 | - | 255,060 | - | - |
| Eyemed Vision Care Llc | 53,593 | 477,724 | 434,421 | - | - |
| Fukui Megane Industry Co Ltd | 18,623 | - | 5,580,801 | - | - |
| Guangzhou Ming Long Optical Technology Co Ltd | 277 | (315) | 7,478 | - | 12,698,251 |
| Lunettes Group Limited | 36,951 | (47,812) | - | - | - |
| Luxottica (China) Investment Co Ltd | 699,764 | 492,669 | 5,899,079 | 864,899 | 1,269,825 |
| Luxottica (Shanghai) Trading Co Ltd | 6,769,263 | (1,274,470) | 4,106,410 | 1,681,470 | 16,349,126 |
| Luxottica (Switzerland) Ag | 12,181,851 | (238,138) | 1,907,346 | 140,197 | - |
| Luxottica Argentina Srl | 3,778,197 | (233,899) | 1,641,670 | - | - |

| | | | | | |
|---|---|---|---|---|---|
| Luxottica Austria Gmbh | 10,759,660 | 23,124 | 1,182,712 | 1,094,498 | 10,434 |
| Luxottica Belgium Nv | 13,084,475 | 38,599 | 1,690,911 | 2,412,063 | 58,553 |
| Luxottica Brasil Produtos Oticos E Esportivos Ltda | 55,524,785 | (5,782,570) | 16,663,413 | 441,554 | 18,001,800 |
| Luxottica Central Europe Kft | 12,439,243 | (55,869) | 1,665,422 | 2,310 | - |
| Luxottica Chile Spa | 8,672,704 | (161,600) | 2,768,176 | 6,887 | - |
| Luxottica Colombia Sas | 5,717,417 | (236,360) | 2,646,352 | - | - |
| Luxottica Commercial Service (Dongguan) Co Ltd | 2,779,784 | (7,129,224) | 1,129,665 | 1,443,659 | - |
| Luxottica France Sasu | 196,293,076 | (586,254) | 30,743,952 | 63,109,500 | - |
| Luxottica Germany Gmbh | 114,945,903 | 669,849 | 17,599,869 | 18,646,365 | 300,221 |
| Luxottica Gozluk Endustri Ve Ticaret Anonim Sirketi | 41,315,166 | (1,626,122) | 885,075 | 16,946 | 11,140,820 |
| Luxottica Hellas Ae | 18,757,489 | 19,126 | 1,682,279 | 787 | - |
| Luxottica Holland Bv | - | (65,570) | 61,002,380 | - | - |
| Luxottica Hong Kong Services Limited | 223,072,134 | (434,369,854) | 44,884,233 | 55,292,589 | - |
| Luxottica Hong Kong Wholesale Limited | 6,694,598 | 74,084 | 1,405,793 | 127,119 | - |
| Luxottica India Eyewear Private Limited | 14,766,708 | 83,574 | 4,481,441 | 3,526 | 12,969,486 |
| Luxottica Italia Srl | 294,300,765 | 283,933 | 97,339,824 | 33,531,447 | - |
| Luxottica Korea Ltd | 18,507,083 | 914,108 | 3,361,324 | 34,231 | - |
| Luxottica Mexico Sa De Cv | 81,177,649 | (116,158) | 14,508,834 | 25,757 | 3,556,804 |
| Luxottica Middle East Fze | 27,506,821 | 299,663 | 9,447,672 | 56,327 | - |
| Luxottica Netherland B.V. | - | - | - | - | 99,933 |
| Luxottica Nordic Ab | 3,772,913 | (88,160) | 1,304,973 | 3,938,125 | - |
| Luxottica Norge As | 1,715,124 | (54,847) | 32,094 | 2,152,245 | - |
| Luxottica North Europe Ltd | 181,812,205 | (6,925,759) | 35,033,181 | 36,703,087 | - |
| Luxottica Of America Inc | 1,092,844,142 | (75,279,173) | 182,858,476 | 4,885,273 | - |
| Luxottica Of Canada Inc | 7,322,643 | (68,214) | 1,378,574 | - | - |
| Luxottica Optics Ltd | 19,201,649 | (416,729) | 5,230,464 | - | - |
| Luxottica Poland Sp Zoo | 20,290,195 | (301,833) | 4,393,419 | 1,377,338 | - |
| Luxottica Portugal Sa | 26,784,307 | 14,469 | 6,125,998 | 5,066 | - |
| Luxottica Retail Australia Pty Ltd | 12,764,160 | 3,001,694 | 11,620,980 | 190,392 | - |
| Luxottica Retail Hong Kong Limited | 1,472,861 | (865,767) | 1,004,600 | 2,892,356 | 10,000,000 |
| Luxottica Retail New Zealand Limited | 970,484 | (15) | 962,935 | - | - |
| Luxottica Retail Uk Ltd | 40,168,355 | (1,710,304) | 41,249,219 | 39,655,688 | - |
| Luxottica Rus Llc | 14,371,349 | (166,452) | 625,805 | 2,289 | - |
| Luxottica South Africa Pty Ltd | 32,434,751 | (104,455) | - | 358,696 | 607,556 |

| | | | | | |
|---|---|---|---|---|---|
| Luxottica South East Asia Pte Ltd | 5,374,339 | (567,062) | 1,033,016 | 405,698 | 641,396 |
| Luxottica South Eastern Europe Ltd | 14,025,109 | 100,733 | 2,457,789 | 1,930 | - |
| Luxottica South Pacific Holdings Pty Limited | 19,783,498 | (179,062) | 219 | 456,353 | - |
| Luxottica Southern Africa Pty Ltd | 13,953,620 | (925,416) | 3,789,160 | - | - |
| Luxottica Spain Slu | 114,216,040 | 481,741 | 64,822,455 | 8,072,994 | - |
| Luxottica Srl | 29,832,535 | (970,718,773) | 134,964,996 | 364,195,945 | 1,298,727 |
| Luxottica The Netherlands Bv | 49,534,285 | 139,027 | 7,886,559 | 1,939,068 | - |
| Luxottica Tristar (Dongguan) Optical Co Ltd | 5,404,371 | 164,911 | 4,275,271 | 1,568 | - |
| Luxottica Us Holdings Corp | 28,449,665 | 2,185,147 | 15,505,993 | 1,698,317 | 222,707,424 |
| Luxottica Wholesale (Thailand) Ltd | 10,783,036 | (19,261) | 2,697,875 | 17,059 | - |
| Luxottica Wholesale Malaysia Sdn Bhd | 4,778,955 | (80,099) | 334,742 | 11,245 | - |
| Mikli Diffusion France Sasu | 7,897,451 | (2,799,200) | 4,233,812 | 16,348,905 | 605,372 |
| Mikli Japan Kk | 324,026 | (37,345) | - | - | - |
| Mirari Japan Co Ltd | 4,348,969 | 174,763 | 17,372,747 | 155,662 | - |
| Nextore Inc | 170 | 1,242 | 1,488 | - | - |
| Nextore Srl | 234,800 | (332,108) | 3,241,039 | 1,874,056 | - |
| Oakley Inc | 30,877,113 | (70,004,980) | 18,640,938 | 10,601,458 | - |
| Oakley Sport International Srl | 42,130,925 | (2,357,475) | 5,618,525 | 14,909,358 | - |
| Onesight Luxottica Group Foundation | 277 | - | 3,383 | - | - |
| Opticas Gmo Chile Sa | 8,266,378 | 30,362 | 66,032 | 3,257 | 4,800,000 |
| Opticas Gmo Colombia Sas | 3,071,925 | (143,532) | 447,932 | - | 4,541,485 |
| Opticas Gmo Ecuador Sa | 24,607 | (24) | 126 | - | - |
| Opticas Gmo Peru Sac | 8,692,478 | (164,191) | 2,679,943 | - | 4,366,812 |
| Oticas Carol Sa | - | - | - | - | 4,500,450 |
| Oy Luxottica Finland Ab | 557,200 | 9,306 | 20,881 | 1,362,837 | - |
| Ray Ban Sun Optics India Private Limited | 140,169 | 9,000 | 9,099 | 153 | 1,750,000 |
| Rayban Air | 14,800 | (1,010,027) | 2,701 | 149,815 | - |
| Salmoiraghi & Vigano' Spa | 40,954,959 | 836,687 | 94,212,901 | 5,930,428 | 1,099,201 |
| Sgh Brasil Comercio De Oculos Ltda | 323,325 | (19,929,208) | 75,437 | - | 7,875,788 |
| Società Cinesi (b) | - | - | - | - | 104,351,958 |
| Spectacle Hut Pte Ltd | 6,663 | - | 1,161,176 | - | - |
| Spv Zeta Optical Commercial And Trading (Shanghai) Co Ltd | 277 | 1,957 | 4,185 | - | 10,158,601 |
| Spv Zeta Optical Trading (Beijing) Co Ltd | 2,616 | (3,024) | 53,452 | - | 11,428,426 |

| | | | | | |
|---|---|---|---|---|---|
| Sunglass Hut (South East Asia) Pte Ltd | 2,237,247 | 246,728 | 1,210,309 | 2,045,148 | 5,772,561 |
| Sunglass Hut (Thailand) Co Ltd | 47,100 | - | 996,837 | 625 | - |
| Sunglass Hut Airports South Africa (Pty) Ltd | 1,120,255 | (107,383) | 37,730 | - | 60,756 |
| Sunglass Hut De Mexico Sapi De Cv | 1,724,911 | (23,613,438) | 414,612 | 376 | 8,892,011 |
| Sunglass Hut France Sasu | 6,981,381 | 496,256 | 1,726,236 | - | 259,700 |
| Sunglass Hut Hong Kong Limited | 714,711 | (316,463) | 921,890 | 3,074,472 | - |
| Sunglass Hut Ireland Limited | 5,622,423 | (87,678) | 28,892,120 | - | - |
| Sunglass Hut Middle East General Trading Llc | 614,569 | (2,437) | 26,688 | - | - |
| Sunglass Hut Retail Namibia (Pty) Ltd | 56,052 | (9,704) | 149,558 | - | 60,756 |
| Sunglass Hut Turkey Gozluk Ticaret Anonim Sirketi | 495,851 | (35,353) | 227,215 | 53,186 | - |
| **Total** | **3,089,401,198** | **(1,620,078,689)** | **1,046,959,370** | **704,402,600** | **482,234,232** |

(a) The positive amounts reported in the "Costs" column refer to intercompany recharges of goods/services purchased from third parties.

(b) The guarantees relating to the Chinese companies include Euro 62,447,727 in respect of: Luxottica Hong Kong Services, Luxottica Hong Kong Wholesale Ltd, Luxottica Retail Hong Kong Ltd e Sunglass Hut Hong Kong Ltd.; Euro 41,904,229 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 e SPV Zeta Optical Commercial and Trading (Shanghai) Co. Ltd.

## 45. RELATED PARTY TRANSACTIONS

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 account of the characteristics of the goods and services supplied.

The table presented below reports trade and financial transactions undertaken with related parties during the course of 2018. The amounts shown in the "Assets" column below do not match those reported in the statement of financial position, which instead presents net book value at the reporting date.

The figure of Euro 111 million reported in the statement of financial position under property, plant and equipment reflects the net book value of the property purchased for Euro 115 million from Beni Stabili SIIQ S.p.A. during 2017. The decrease in value since December 31, 2017 is due to depreciation and the sale of assets to Group companies.

Transactions with companies in the EssilorLuxottica Group are reported for the period from October 1, 2018 to December 31, 2018.

Transactions with other companies in the Luxottica Group are posted on prior section.

The total remuneration of key management personnel came to Euro 26.7 million in the year ended December 31, 2018 (Euro 31.1 million in 2017). For more details, please refer to the remuneration report prepared in accordance with Art. 123-ter of Italy's Consolidated Law on Finance.

| 12/31/2018 | Impact on statement of income | | Impact on statement of financial position | |
|---|---|---|---|---|
| Related party (Euro) | Revenues | Costs | Assets | Liabilities |
| Brooks Brothers Group | | 920,905 | | 218,341 |
| Companies owned by Francesco Milleri | - | 5,301,490 | 19,751,535 | 10,229,050 |
| EssilorLuxottica Group (*) | 294 | 262 | 70,200 | 469,417 |
| Other | 129,878 | 123,946 | 213,612 | 5,244 |
| **Total** | **130,172** | **6,343,603** | **20,035,347** | **10,922,052** |

(*) transactions with companies controlled by Luxottica Group SpA are excluded

**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 2018 and Euro 0.9 million in 2017.

**Technology advisory arrangements**

On April 26, 2016, the Company entered into a two-year master agreement with companies owned or controlled by Mr. Milleri for services to implement and develop the Group's IT platforms. This agreement was amended and updated on November 13, 2017 in order: (i) to include the supply of digital IT services; (ii) to extend the term of the agreement to three years, ending on April 25, 2019. This contractual addendum has been approved by the Board of Directors of Luxottica Group S.p.A.

The costs incurred for the services rendered under the Agreement amounted to Euro 51.9 million, 25 million of which were paid in the year 2018 and Euro 26.9 million in 2017. Euro 19.8 million in such costs were capitalized within the line item intangible assets in 2018 (Euro 24.6 million in 2017). The net carrying amount as at December 31, 2018 of these fixed assets amounted to Euro 28.6 million, whereas as at December 31, 2017 it amounted to Euro 26.6 million.

On January 30, 2019 the Board of Directors of Luxottica Group S.p.A. authorized the Company to enter into a new contract (the "New Contract") with MeA worth an estimated Euro 46 million for the supply of IT services in continuity with those rendered under the Contract.

The New Contract was signed on February 26, 2019 at the same time as a consensual agreement to terminate the Contract and will expire on December 31, 2020.

**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, on the Company's interest in entering into the lease and 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 was 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, on the Company's interest in completing the transaction and on the convenience and substantive fairness of the related conditions.

## 46. 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 2018 or 2017.

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.

## 47. 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 2018 for audit and other services provided by the external auditors to Luxottica Group S.p.A. and its subsidiaries.

| (Euro/000) | Entity providing services | Recipient of services | Fees for 2018 | Fees for 2017 |
|---|---|---|---|---|
| Audit services | Pricewaterhouse Coopers S.p.A | Luxottica Group SpA | 1,167,858 | 900,730 |
| Attestation services | Pricewaterhouse Coopers S.p.A. | Luxottica Group SpA | 450,329 | 280,720 |
| Other services | Pricewaterhouse Coopers S.p.A | Luxottica Group SpA | 1,700 | 365,200 |
| **Total** | | | **1,619,887** | **1,546,650** |

## 48. 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, 2018 is as follows:

| | Europe | North America | Asia Pacific | Latin America | Rest of world | Total |
|---|---|---|---|---|---|---|
| Other receivables (current) | 386,377,534 | 3,811,806 | 24,278,014 | 22,493 | 5,586,720 | 420,076,567 |
| Other receivables (non-current) | 22,635,533 | - | - | - | 145,541 | 22,781,074 |
| Accounts receivable | 269,367,229 | 223,610,191 | 83,387,325 | 41,970,984 | 24,100,880 | 642,436,609 |
| Taxes receivable | 36,218,732 | - | - | - | - | 36,218,732 |
| **Total** | **714,599,028** | **227,421,997** | **107,665,339** | **41,993,477** | **29,833,141** | **1,121,512,982** |

The geographical breakdown of payables at December 31, 2018 is as follows:

| | Europe | North America | Asia Pacific | Latin America | Rest of world | Total |
|---|---|---|---|---|---|---|
| Long-term debt | 996,098,204 | - | - | - | - | 996,098,204 |
| Short-term borrowings | 617,511,080 | - | - | - | - | 617,511,080 |
| Accounts payable (current) | 415,424,330 | 25,713,805 | 88,712,797 | 157,837 | 367,145 | 530,375,914 |
| Other liabilities (current) | 432,201,247 | - | 206,407 | 3,316 | 2,330 | 432,413,300 |
| Current income taxes payable | 1,403,996 | - | - | - | - | 1,403,996 |
| **Total** | **2,462,638,857** | **25,713,805** | **88,919,204** | **161,153** | **369,475** | **2,577,802,494** |

The geographical breakdown of revenue at December 31, 2018 is as follows:

| | Europe | North America | Asia Pacific | Latin America | Rest of world | Total |
|---|---|---|---|---|---|---|
| Net sales | 1,204,624,025 | 1,061,416,725 | 249,707,191 | 152,037,192 | 128,784,175 | 2,796,569.308 |
| Other revenue and income | 69,616,732 | 72,844,529 | 31,810,604 | 16,285,939 | 9,678,261 | 200,276,065 |
| **Total** | **1,274,240,757** | **1,134,261,254** | **281,517,795** | **168,323,131** | **138,462,436** | **2,996,845,373** |

## 49. NON-RECURRING TRANSACTIONS

In 2018, the Company recorded:

- non-recurring costs with an impact of Euro 15.7 million on income before provision for income taxes and of Euro 11.3 million on net income, in regard to: (i) costs in connection with the Essilor combination project for Euro 11 million (Euro 7.7 million after tax), and (ii) Euro 4.7 million (Euro 3.6 million after tax) for the early repayment of the Private Placement maturing in 2020.

In 2017, the Company had 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.

## 50. 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).

On May 4, 2015, in implementation of the Performance Shares Plan 2015/2018 ("PSP 2015"), the Company's Board of Directors granted beneficiary employees 1,318,300 rights to receive Luxottica Group shares (known as "Units") for no consideration, allowing for a 20% increase in this number to 1,581,960 at the end of the three-year vesting period (financial years 2015-2017) on condition of achieving the combined EPS target set by the Board of Directors at the end of such period. This performance condition was curtailed before the end of the vesting period, reducing the number of rights to receive Luxottica Group shares for no consideration to 1,100,370 and amending the PSP 2015 into a retention plan. A total of 446,767 options were granted to beneficiary employees on March 3, 2017.

On December 15, 2017, the Board of Directors approved a cash-settled Long-Term Incentive Plan, with the option to convert the cash bonus into shares of the newco EssilorLuxottica. The vesting date was March 31, 2021. Following the combination of the two entities, the stockholders' meeting of EssilorLuxottica held on November 29, 2018 voted to convert the plan from cash to equity, by granting 738,261 rights to receive EssilorLuxottica shares for no consideration, on condition the beneficiaries remain in the Company's employment.

Please refer to paragraph 45 as far as the amount related to the share-based payment of key management personnel.

## 51.CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue, as a going concern, to provide returns to shareholders and benefit to other stockholders and to maintain an optimal capital structure to reduce the cost of capital.

Consistent with others in the industry, the Company also monitors capital on the basis of a gearing ratio that is calculated as net financial position divided by total capital. 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 Company's gearing ratio as at December 31, 2018 and as at December 31, 2017 as follows:

| **Gearing ratio** (Euro/000) | **Financial Year 2018** | **Financial Year 2017** |
|---|---|---|
| Total borrowings (notes 15, 16 and 22) | 1,955,697 | 1,892,081 |
| Cash and cash equivalents (note 4) | (380,994) | (405,767) |
| **Net financial position (*) (note 22)** | **1,574,702** | **1,486,314** |
| Total equity (note 27) | 2,857,577 | 2,862,474 |
| **Capital** | **4,432,279** | **4,348,788** |
| **Gearing ratio** | **35.53%** | **34.18%** |

(*) derivative financial instruments and current financial receivables are excluded

## 52. SUMMARY OF PUBLIC PAYMENTS IN ACCORDANCE WITH ART. 1, PARAGRAPH 125, LAW N. 124/2017

Law 124 of 4 August 2017 (c.d. Annual law for the market and the competition) has introduced, to the art. 1, paragraph 125, new disclosure obligations regarding the transparency of public disbursements, received and granted.

During 2018 the company Luxottica Group SpA booked the following grants for the cases referred to law 124 of 4 August 2017:

| **Lending Institution** | **Nature of public grants** | **Public grants for 2018** | **Public grants for 2017** | **Classification on financial statement** |
|---|---|---|---|---|
| Fondimpresa | Formazione Dipendenti | 127,359 | 85,200 | Service costs |
| Fondirigenti | Formazione Dipendenti | 45,836 | 78,199 | Service costs |
| Comunità Europea | Horizon 2020- ISEE | - | 18,270 | Service costs |
| **Total** | | **173,195** | **181,669** | |

It should be noted that were not reported receipts and / or contributions entered for competence that are of a general nature or that relate to State aid or "de minimis" aid that are contained in the National Register of State aid pursuant to article 52 of the law of 24 December 2012, n. 234. Please refer to this register for any contributions received from Luxottica Group SpA which fall under these circumstances.

During 2018 were recorded the following tax incentives:

- tax credit for payments in support of “Art Bonus” (Article 1 of Legislative Decree No. 83 dated 31 May 2014, additions and amendments) for Euro 1,107,866 referred to payments of 2018;
- tax credit for investments in Research & Development” activities for Euro 443.814.

Finally, according to an authoritative interpretations of the current legislation and pending an authentic interpretation by the competent Authorities, it is not necessary to indicate the tax benefits (already included in the filed tax declarations) and general measures available for all companies.

## 53. DIRECTION AND COORDINATION

As required by Art. 2497-*bis* par. 4 and *sexies*, disclosed below are highlights from the consolidated financial statements at December 31, 2017 of EssilorLuxottica S.A. (formerly Essilor International (Compagnie Générale d’Optique) S.A.), the company which exercises direction and coordination over Luxottica Group S.p.A.

The relationships with the other companies subject to the same management and coordination activity are reported below.

**Statement of financial position - Assets**

| *€ millions* | Notes | December 31, 2017 | December 31, 2016 |
|---|---|---|---|
| Goodwill | 10 | 5,583 | 6,191 |
| Other intangible assets | 11 | 1,682 | 1,825 |
| Property, plant and equipment | 12 | 1,116 | 1,214 |
| Investments in associates | | 20 | 8 |
| Non-current financial assets | 13 | 111 | 136 |
| Deferred tax assets | 7 | 211 | 187 |
| Long-term receivables | | 41 | 37 |
| Other non-current assets | | 47 | 56 |
| **TOTAL NON-CURRENT ASSETS** | | **8,811** | **9,654** |
| Inventories | 14 | 1,097 | 1,125 |
| Prepayments to suppliers | | 30 | 31 |
| Short-term receivables | 15 | 1,685 | 1,618 |
| Tax receivables | | 74 | 81 |
| Other receivables | | 3 | 25 |
| Derivative financial instruments recognized in assets | 20 | 29 | 45 |
| Prepaid expenses | | 87 | 67 |
| Cash and cash equivalents | 16 | 484 | 517 |
| **CURRENT ASSETS** | | **3,489** | **3,509** |
| **TOTAL ASSETS** | | **12,300** | **13,163** |

## Statement of financial position – Liabilities

| *€ millions* | Notes | December 31, 2017 | December 31, 2016 |
|---|---|---|---|
| Share capital | | 39 | 39 |
| Issue premiums | | 635 | 591 |
| Consolidated reserves | | 5,432 | 4,936 |
| Own shares | | (111) | (168) |
| Hedging and revaluation reserves | | (155) | (159) |
| Translation differences | | (125) | 636 |
| Net profit attributable to Group equity holders | | 789 | 813 |
| **Equity attributable to parent company owners** | | **6,504** | **6,688** |
| Equity attributable to non-controlling interests | | 423 | 366 |
| **TOTAL CONSOLIDATED EQUITY** | | **6,927** | **7,054** |
| Provisions for pensions | 17 | 337 | 344 |
| Long-term borrowings | 19 | 1,674 | 1,364 |
| Deferred tax liabilities | 7 | 257 | 383 |
| Other non-current liabilities | 21 | 153 | 300 |
| **NON-CURRENT LIABILITIES** | | **2,421** | **2,391** |
| Provisions | 18 | 394 | 393 |
| Short-term borrowings | 19 | 491 | 1,246 |
| Customer prepayments | | 44 | 33 |
| Short-term payables | 15 | 1,515 | 1,431 |
| Tax payables | | 81 | 73 |
| Other current liabilities | 21 | 378 | 509 |
| Derivative financial instruments recognized in liabilities | 20 | 15 | 22 |
| Deferred income | | 34 | 11 |
| **CURRENT LIABILITIES** | | **2,952** | **3,718** |
| **TOTAL LIABILITIES** | | **12,300** | **13,163** |

### Statement of income

| *€ millions, excluding per share data* | Notes | Year 2017 | Year 2016 |
|---|---|---|---|
| Revenue | 3 | 7,490 | 7,115 |
| Cost of sales | | (3,144) | (2,934) |
| **GROSS MARGIN** | | **4,346** | **4,181** |
| Research and development costs | | (217) | (214) |
| Selling and distribution costs | | (1,845) | (1,750) |
| Other operating expenses | | (923) | (896) |
| **CONTRIBUTION FROM OPERATIONS [a]** | | **1,361** | **1,321** |
| Other income from operations | 5 | 12 | 18 |
| Other expenses from operations | 5 | (299) | (109) |
| **OPERATING PROFIT** | **3** | **1,074** | **1,230** |
| Cost of gross debt | | (70) | (71) |
| Income from cash and cash equivalents | | 18 | 17 |
| Other financial income | 6 | 2 | |
| Other financial expenses | 6 | (14) | (12) |
| Share of profits of associates | | | 1 |
| **PROFIT BEFORE TAX** | | **1,010** | **1,165** |
| Income tax expense | 7 | (132) | (285) |
| **NET PROFIT** | | **878** | **880** |
| Attributable to Group equity holders | | 789 | 813 |
| Attributable to minority interests | | 89 | 67 |
| Net profit attributable to Group equity holders per share *(€)* | | 3.64 | 3.79 |
| Average number of shares *(thousands)* | 8 | 216,604 | 214,614 |
| Diluted net profit attributable to Group equity holders per share *(€)* | | 3.57 | 3.71 |
| Diluted average number of shares *(thousands)* | 9 | 221,298 | 219,203 |

*(a) The contribution from operations corresponds to revenue less the cost of sales and operating expenses (research and development costs, selling and distribution costs, and other operating expenses).*

For an adequate and complete understanding of the balance sheet and financial position of EssilorLuxottica SA, as well as of the economic result achieved by the Group in the period ended on that date, refer to the consolidated financial statements which, together with the report of the independent auditors, is available in forms and methods provided for by law.

It should be noted that there were no transactions between Luxottica Group S.p.A. and EssilorLuxottica S.A. during 2018.

The relationships with the other companies subject to the same management and coordination activity are reported below.

| Dec-31-2018 | Impact on statement of income | | Impact on statement of financial position | |
|---|---|---|---|---|
| (Euro) | Revenues | Costs | Assets | Liabilities |
| EssilorLuxottica Group (*) | 294 | 262 | 70,200 | 469,417 |
| **Total** | **294** | **262** | **70,200** | **469,417** |

(*) transactions with companies controlled by Luxottica Group SpA are excluded

## 54. SUBSEQUENT EVENTS

On January 22, 2019, in view of Art. 2.5.1 par. 6 of the Market Regulations of Borsa Italiana S.p.A., the Italian Stock Exchange revoked the listing of Luxottica Group shares (IT0001479374) on the main Italian stock market *(Mercato Telematico Azionario* or *MTA)* effective from March 5, 2019.

## 55. 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, 2018, 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 | Investor | City | Currency | Capital stock | No. shares held | % Direct | % Group |
|---|---|---|---|---|---|---|---|
| Air Sun | Luxottica Of America Inc | Mason-Ohio | USD | 1.00 | 70.00 | 70.00 | 70.00 |
| Autant Pour Voir Que Pour Etre' Vues Sarl | Mikli Diffusion France Sasu | Paris | EUR | 15,245.00 | 1,000.00 | 100.00 | 100.00 |
| Campo Visual Participacoes Ltda | Oticas Carol Sa | Barueri | BRL | 58,908,000.00 | 58,907,999.00 | 100.00 | 100.00 |
| | Luxottica Brasil Produtos Oticos E Esportivos Ltda | Barueri | BRL | 58,908,000.00 | 1.00 | 0,00 | 100,00 |
| Centre Professionnel De Vision Ussc Inc | Oakley Inc | Mississauga-Ontario | CAD | 1.00 | 99.00 | 100.00 | 100.00 |
| David Clulow Loughton Limited | Luxottica Retail Uk Ltd | London | GBP | 2.00 | 1.00 | 50.00 | 50.00 |
| Eye Safety Systems Inc | Oakley Inc | Dover-Delaware | USD | 1.00 | 100.00 | 100.00 | 100.00 |
| Eyebiz Laboratories Pty Limited (***) | Luxottica Retail Australia Pty Ltd | Macquarie Park-Nsw | AUD | 10,000,005.00 | 6,000,003.00 | 30.00 | 30.00 |
| Eyemed Insurance Company | Luxottica Us Holdings Corp | Phoenix-Arizona | USD | 300,000.00 | 300,000.00 | 100.00 | 100.00 |
| Eyemed Vision Care Hmo Of Texas Inc | Oakley Inc | Dallas-Texas | USD | 1,000.00 | 1,000.00 | 100.00 | 100.00 |
| Eyemed Vision Care Ipa Llc | Eyemed Vision Care Llc | New York-New York | USD | 1.00 | 1.00 | 100.00 | 100.00 |
| Eyemed Vision Care Llc | Luxottica Of America Inc | Dover-Delaware | USD | 1.00 | 1.00 | 100.00 | 100.00 |
| Eyexam Of California Inc | Oakley Inc | Los Angeles-California | USD | 10.00 | 1,000.00 | 100.00 | 100.00 |
| First American Administrators Inc | Eyemed Vision Care Llc | Phoenix-Arizona | USD | 1,000.00 | 1,000.00 | 100.00 | 100.00 |
| Fukui Megane Industry Co Ltd | Luxottica Group Spa | Fukui | JPY | 212,500.00 | 142,375.00 | 67.00 | 67.00 |
| Global Lux Do Brasil Distribuidora E Importadora De Relogio, Acessorios E Produtos Opticos Ltda | Campo Visual Participacoes Ltda | Sao Paulo | BRL | 28,103,637.00 | 1.00 | 0.00 | 100.00 |
| | Oticas Carol Sa | Sao Paulo | BRL | 28,103,637.00 | 28,103,636.00 | 100.00 | 100.00 |
| Guangzhou Ming Long Optical Technology Co Ltd | Luxottica (China) Investment Co Ltd | Guangzhou City | CNR | 645,500,000.00 | 645,500,000.00 | 100.00 | 100.00 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Lunettes Group Limited | Luxottica Retail Hong Kong Limited | Macao | MOP | 1,000,000.00 | 990,000.00 | 99.00 | 100.00 |
| | Luxottica Hong Kong Wholesale Limited | Macao | MOP | 1,000,000.00 | 10,000.00 | 1.00 | 100.00 |
| Luxottica (China) Investment Co Ltd | Sunglass Hut Ireland Limited | Shanghai | CNR | 1,434,458,960.05 | 1,434,458,960.05 | 100.00 | 100.00 |
| Luxottica (Shanghai) Trading Co Ltd | Luxottica Holland Bv | Shanghai | CNR | 109,999,700.00 | 109,999,700.00 | 100.00 | 100.00 |
| Luxottica (Switzerland) Ag | Luxottica Group Spa | Zurich | CHF | 100,000.00 | 100.00 | 100.00 | 100.00 |
| Luxottica Argentina Srl | Luxottica Srl | Buenos Aires | ARS | 41,837,001.00 | 2,510,663.00 | 6.00 | 100.00 |
| | Luxottica Group Spa | Buenos Aires | ARS | 41,837,001.00 | 39,326,338.00 | 94.00 | 100.00 |
| Luxottica Austria Gmbh | Luxottica Group Spa | Vienna | EUR | 508,710.00 | 50,871.00 | 100.00 | 100.00 |
| Luxottica Belgium Nv | Luxottica Group Spa | Berchem | EUR | 62,000.00 | 99.00 | 99.00 | 100.00 |
| | Luxottica Srl | Berchem | EUR | 62,000.00 | 1.00 | 1.00 | 100.00 |
| Luxottica Brasil Produtos Oticos E Esportivos Ltda | Luxottica Of Canada Inc | San Paolo | BRL | 1,043,457,587.00 | 438,383,816.00 | 42.01 | 100.00 |
| | Luxottica Srl | San Paolo | BRL | 1,043,457,587.00 | 3,603.00 | 0.00 | 100.00 |
| | Luxottica Group Spa | San Paolo | BRL | 1,043,457,587.00 | 605,070,168.00 | 57.99 | 100.00 |
| Luxottica Central Europe Kft | Luxottica Holland Bv | Budapest | HUF | 3,000,000.00 | 3,000,000.00 | 100.00 | 100.00 |
| Luxottica Chile Spa | Luxottica Spain Slu | Santiago | CLP | 455,000,000.00 | 455,000.00 | 100.00 | 100.00 |
| Luxottica Colombia Sas | Luxottica Group Spa | Bogota' | COP | 3,500,000,000.00 | 35,000.00 | 100.00 | 100.00 |
| Luxottica Commercial Service (Dongguan) Co Ltd | Sunglass Hut Ireland Limited | Dongguan City, Guangdong | CNR | 3,000,000.00 | 3,000,000.00 | 100.00 | 100.00 |
| Luxottica France Sasu | Luxottica Group Spa | Valbonne | EUR | 534,000.00 | 500.00 | 100.00 | 100.00 |
| Luxottica Franchising Australia Pty Limited | Luxottica Retail Australia Pty Ltd | Macquarie Park-Nsw | AUD | 2.00 | 2.00 | 100.00 | 100.00 |
| Luxottica Germany Gmbh | Luxottica Group Spa | Grasbrunn | EUR | 200,000.00 | 200,000.00 | 100.00 | 100.00 |
| Luxottica Gozluk Endustri Ve Ticaret Anonim Sirketi | Luxottica The Netherlands Bv | Cigli-Izmir | LTL | 10,390,459.89 | 365,328,570.00 | 35.16 | 100.00 |
| | Luxottica Group Spa | Cigli-Izmir | LTL | 10,390,459.89 | 673,717,419.00 | 64.84 | 100.00 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Luxottica Hellas Ae | Luxottica Group Spa | Pallini | EUR | 1,752,900.00 | 40,901.00 | 70.00 | 70.00 |
| Luxottica Holland Bv | Luxottica Group Spa | Heemstede | EUR | 45,000.00 | 100.00 | 100.00 | 100.00 |
| Luxottica Hong Kong Services Limited | Luxottica Group Spa | Hong-Kong | HKD | 548,536,634.67 | 8,700,001.00 | 100.00 | 100.00 |
| Luxottica Hong Kong Wholesale Limited | Luxottica Hong Kong Services Limited | Kowloon | HKD | 10,000,000.00 | 10,000,000.00 | 100.00 | 100.00 |
| Luxottica India Eyewear Private Limited | Luxottica Holland Bv | Gurgaon-Haryana | RUP | 1,330,400.00 | 133,036.00 | 100.00 | 100.00 |
| | Luxottica Italia Srl | Gurgaon-Haryana | RUP | 1,330,400.00 | 4.00 | 0.00 | 100.00 |
| Luxottica Italia Srl | Luxottica Group Spa | Agordo | EUR | 5,000,000.00 | 5,000,000.00 | 100.00 | 100.00 |
| Luxottica Korea Ltd | Luxottica Group Spa | Seoul | KRW | 120,000,000.00 | 12,000.00 | 100.00 | 100.00 |
| Luxottica Mexico Sa De Cv | Luxottica Group Spa | Mexico City | MXN | 342,000,000.00 | 328,320.00 | 96.00 | 100.00 |
| | Luxottica Srl | Mexico City | MXN | 342,000,000.00 | 13,680.00 | 4.00 | 100.00 |
| Luxottica Middle East Fze | Luxottica Group Spa | Dubai | AED | 1,000,000.00 | 1.00 | 100.00 | 100.00 |
| Luxottica Nordic Ab | Luxottica Group Spa | Stockholm | SEK | 250,000.00 | 2,500.00 | 100.00 | 100.00 |
| Luxottica Norge As | Luxottica Group Spa | Drammen | NOK | 100,000.00 | 100.00 | 100.00 | 100.00 |
| Luxottica North Europe Ltd | Luxottica Group Spa | S. Albans-Hertfordshire | GBP | 90,000.00 | 90,000.00 | 100.00 | 100.00 |
| Luxottica Of America Inc | Oakley Inc | Cleveland-Ohio | USD | 1.00 | 20.00 | 100.00 | 100.00 |
| Luxottica Of Canada Inc | Luxottica Group Spa | Saint John, New Brunswick | USD | 1,000,000.00 | 280,000.00 | 28.00 | 100.00 |
| | Luxottica Of America Inc | Saint John, New Brunswick | USD | 1,000,000.00 | 720,000.00 | 72.00 | 100.00 |
| Luxottica Optics Ltd | Luxottica Group Spa | Tel Aviv | ILS | 43.50 | 435,000.00 | 100.00 | 100.00 |
| Luxottica Poland Sp Zoo | Luxottica Group Spa | Kracow | PLN | 390,000.00 | 195.00 | 25.00 | 100.00 |
| | Luxottica Holland Bv | Kracow | PLN | 390,000.00 | 585.00 | 75.00 | 100.00 |
| Luxottica Portugal Sa | Luxottica Srl | Lisbona | EUR | 3,043,129.00 | 106,509.00 | 0.14 | 100.00 |
| | Luxottica Spain Slu | Lisbon | EUR | 3,043,129.00 | 13,937,530.00 | 18.32 | 100.00 |
| | Luxottica Group Spa | Lisbon | EUR | 3,043,129.00 | 62,034,186.00 | 81.54 | 100.00 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Luxottica Retail Australia Pty Ltd | Luxottica South Pacific Holdings Pty Limited | Macquarie Park-Nsw | AUD | 307,796.00 | 307,796.00 | 100.00 | 100.00 |
| Luxottica Retail Hong Kong Limited | Luxottica Hong Kong Services Limited | Hong Kong | HKD | 239,127,000.00 | 2,391,270.00 | 100.00 | 100.00 |
| Luxottica Retail New Zealand Limited | Luxottica Hong Kong Services Limited | Auckland | NZD | 67,700,100.00 | 67,700,100.00 | 100.00 | 100.00 |
| Luxottica Retail Uk Ltd | Luxottica Group Spa | St Albans-Hertfordshire | GBP | 24,410,765.00 | 16,599,320.00 | 68.00 | 100.00 |
| | Luxottica Of America Inc | St Albans-Hertfordshire | GBP | 24,410,765.00 | 209,634.00 | 0.86 | 100.00 |
| | Luxottica Us Holdings Corp | St Albans-Hertfordshire | GBP | 24,410,765.00 | 7,601,811.00 | 31.14 | 100.00 |
| Luxottica Rus Llc | Luxottica The Netherlands Bv | Moscow | RUB | 393,000,000.00 | 391,770,000.00 | 99.69 | 100.00 |
| | Luxottica Holland Bv | Moscow | RUB | 393,000,000.00 | 1,230,000.00 | 0.31 | 100.00 |
| Luxottica South Africa Pty Ltd | Luxottica Group Spa | Cape Town - Observatory | ZAR | 2,200.02 | 220,002.00 | 100.00 | 100.00 |
| Luxottica South East Asia Pte Ltd | Luxottica Holland Bv | Singapore | SGD | 1,360,000.00 | 1,360,000.00 | 100.00 | 100.00 |
| Luxottica South Eastern Europe Ltd | Luxottica Holland Bv | Novigrad | HRK | 1,000,000.00 | 1,000,000.00 | 100.00 | 100.00 |
| Luxottica South Pacific Holdings Pty Limited | Luxottica Group Spa | Macquarie Park-Nsw | AUD | 322,797,001.00 | 322,797,001.00 | 100.00 | 100.00 |
| Luxottica Southern Africa Pty Ltd | Luxottica Group Spa | Cape Town - Observatory | ZAR | 12,678.00 | 12,678.00 | 100.00 | 100.00 |
| Luxottica Spain Slu | Luxottica Group Spa | Madrid | EUR | 8,147,795.20 | 10,184,744.00 | 100.00 | 100.00 |
| Luxottica Srl | Luxottica Group Spa | Agordo | EUR | 10,100,000.00 | 10,100,000.00 | 100.00 | 100.00 |
| Luxottica The Netherlands Bv | Luxottica Group Spa | Amsterdam | EUR | 18,151.20 | 40.00 | 100.00 | 100.00 |
| Luxottica Tristar (Dongguan) Optical Co Ltd | Luxottica Holland Bv | Don Guan City | USD | 128,719,301.00 | 128,719,301.00 | 100.00 | 100.00 |
| Luxottica Us Holdings Corp | Luxottica Group Spa | Dover-Delaware | USD | 100.00 | 10,000.00 | 100.00 | 100.00 |
| Luxottica Wholesale (Thailand) Ltd | Luxottica Group Spa | Bangkok | THB | 100,000,000.00 | 9,999,998.00 | 100.00 | 100.00 |
| | Luxottica Holland Bv | Bangkok | THB | 100,000,000.00 | 1.00 | 0.00 | 100.00 |
| | Luxottica Srl | Bangkok | THB | 100,000,000.00 | 1.00 | 0.00 | 100.00 |
| Luxottica Wholesale Malaysia Sdn Bhd | Luxottica Group Spa | Kuala Lumpur | MYR | 4,500,000.00 | 4,500,000.00 | 100.00 | 100.00 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Mikli Diffusion France Sasu | Luxottica Group Spa | Paris | EUR | 4,459,786.64 | 31,972.00 | 100.00 | 100.00 |
| Mirari Japan Co Ltd | Luxottica Group Spa | Tokyo | JPY | 473,700,000.00 | 1,500.00 | 15.83 | 100.00 |
| | Luxottica Holland Bv | Tokyo | JPY | 473,700,000.00 | 7,974.00 | 84.17 | 100.00 |
| Monjyu Co Ltd | Fukui Megane Industry Co Ltd | Fukui | JPY | 400.00 | 400.00 | 100.00 | 100.00 |
| Nextore Inc | Nextore Srl | Delaware | USD | 1.00 | 100.00 | 100.00 | 60.00 |
| Nextore Srl | Luxottica Group Spa | Milan | EUR | 1,000,000.00 | 600,000.00 | 60.00 | 60.00 |
| Oakley Air Jv | Luxottica Of America Inc | Chicago-Illinois | USD | 1.00 | 70.00 | 70.00 | 70.00 |
| Oakley Inc | Luxottica Us Holdings Corp | Olympia-Washington | USD | 10.00 | 1,000.00 | 100.00 | 100.00 |
| Oakley Sport International Srl | Luxottica Group Spa | Agordo | EUR | 50,000.00 | 50,000.00 | 100.00 | 100.00 |
| Oakley Uk Ltd | Oakley Inc | St Albans-Hertfordshire | GBP | 1,000.00 | 1,000.00 | 100.00 | 100.00 |
| Optical Procurement Services Llc | Luxottica Of America Inc | Dover | USD | 100.00 | 100.00 | 100.00 | 100.00 |
| Opticas Gmo Chile Sa | Luxottica Group Spa | Comuna De Huechuraba | CLP | 7,263,089.00 | 2.00 | 0.00 | 100.00 |
| | Luxottica Spain Slu | Comuna De Huechuraba | CLP | 7,263,089.00 | 7,263,087.00 | 100.00 | 100.00 |
| Opticas Gmo Colombia Sas | Luxottica Spain Slu | Bogota' | COP | 21,851,033,000.00 | 21,851,033,000.00 | 100.00 | 100.00 |
| Opticas Gmo Ecuador Sa | Opticas Gmo Peru Sac | Guayaquil | USD | 9,051,517.00 | 1.00 | 0.00 | 100.00 |
| | Luxottica Spain Slu | Guayaquil | USD | 9,051,517.00 | 9,051,516.00 | 100.00 | 100.00 |
| Opticas Gmo Peru Sac | Luxottica Spain Slu | Lima | PEN | 34,631,139.00 | 34,631,138.00 | 100.00 | 100.00 |
| | Opticas Gmo Ecuador Sa | Lima | PEN | 34,631,139.00 | 1.00 | 0.00 | 100.00 |
| Oticas Carol Sa | Luxottica Brasil Produtos Oticos E Esportivos Ltda | San Paolo | BRL | 90,625,798.00 | 90,625,798.00 | 100.00 | 100.00 |
| Oy Luxottica Finland Ab | Luxottica Group Spa | Espoo | EUR | 170,000.00 | 1,000.00 | 100.00 | 100.00 |
| Ray Ban Sun Optics India Private Limited | Luxottica Us Holdings Corp | Bhiwadi | RUP | 228,372,710.00 | 22,837,270.00 | 100.00 | 100.00 |
| | Luxottica Holland Bv | Bhiwadi | RUP | 228,372,710.00 | 1.00 | 0.00 | 100.00 |
| Rayban Air | Luxottica Srl | Agordo | EUR | 13,317,242.62 | 4,310,966.81 | 32.37 | 100.00 |
| | Luxottica Group Spa | Agordo | EUR | 13,317,242.62 | 9,006,275.81 | 67.63 | 100.00 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Rays Houston | Luxottica Of America Inc | Mason-Ohio | USD | 1.00 | 51.00 | 51.00 | 51.00 |
| Salmoiraghi & Vigano' Spa | Luxottica Group Spa | Milan | EUR | 11,919,861.00 | 11,919,861.00 | 100.00 | 100.00 |
| Sgh Brasil Comercio De Oculos Ltda | Luxottica Italia Srl | San Paolo | BRL | 501,720,000.00 | 50,172.00 | 0.01 | 100.00 |
| | Luxottica Group Spa | San Paolo | BRL | 501,720,000.00 | 501,669,828.00 | 99.99 | 100.00 |
| Sgh Optics Malaysia Sdn Bhd | Luxottica Retail Australia Pty Ltd | Kuala Lampur | MYR | 29,000,002.00 | 29,000,002.00 | 100.00 | 100.00 |
| Spectacle Hut Pte Ltd | Luxottica Group Spa | Singapore | SGD | 1,000,000.00 | 599,999.00 | 60.00 | 60.00 |
| | Luxottica The Netherlands Bv | Singapore | SGD | 1,000,000.00 | 1.00 | 0.00 | 60.00 |
| Spv Zeta Optical Commercial And Trading (Shanghai) Co Ltd | Luxottica (China) Investment Co Ltd | Shanghai | CNR | 209,734,713.00 | 209,734,713.00 | 100.00 | 100.00 |
| Spv Zeta Optical Trading (Beijing) Co Ltd | Luxottica (China) Investment Co Ltd | Beijing | CNR | 682,231,000.00 | 682,231,000.00 | 100.00 | 100.00 |
| Sunglass Hut (South East Asia) Pte Ltd | Luxottica Holland Bv | Singapore | SGD | 10,100,000.00 | 10,100,000.00 | 100.00 | 100.00 |
| Sunglass Hut (Thailand) Co Ltd ** | Luxottica Group Spa | Khet Patumwan, Bangkok | THB | 85,000,000.00 | 39,100.00 | 46.00 | 49.00 |
| | Luxottica Srl | Khet Patumwan, Bangkok | THB | 85,000,000.00 | 2,550.00 | 3.00 | 49.00 |
| Sunglass Hut Airports South Africa (Pty) Ltd * | Luxottica Southern Africa Pty Ltd | Cape Town - Observatory | ZAR | 1,000.00 | 450.00 | 45.00 | 45.00 |
| Sunglass Hut Australia Pty Limited | Luxottica South Pacific Holdings Pty Limited | Macquarie Park-Nsw | AUD | 46,251,012.00 | 46,251,012.00 | 100.00 | 100.00 |
| Sunglass Hut De Mexico Sapi De Cv | Luxottica Group Spa | Mexico City | MXN | 315,970.00 | 315,969.00 | 100.00 | 100.00 |
| | Luxottica Italia Srl | Mexico City | MXN | 315,970.00 | 1.00 | 0.00 | 100.00 |
| Sunglass Hut France Sasu | Luxottica Group Spa | Parigi | EUR | 3,600,000.00 | 3,600,000.00 | 100.00 | 100.00 |
| Sunglass Hut Hong Kong Limited | Luxottica Hong Kong Services Limited | Hong Kong | HKD | 115,000,002.00 | 115,000,002.00 | 100.00 | 100.00 |
| Sunglass Hut Ireland Limited | Luxottica Group Spa | Dublin | EUR | 252.50 | 202.00 | 100.00 | 100.00 |
| Sunglass Hut Middle East General Trading Llc | Luxottica Group Spa | Dubai | AED | 1,200,000.00 | 588.00 | 49.00 | 49.00 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Sunglass Hut Retail Namibia (Pty) Ltd | Luxottica Southern Africa Pty Ltd | Windhoek | NAD | 100.00 | 100.00 | 100.00 | 100.00 |
| Sunglass Hut Turkey Gozluk Ticaret Anonim Sirketi | Luxottica Group Spa | Cigli-Izmir | LTL | 41,000,000.00 | 4,100,000.00 | 100.00 | 100.00 |

(*) Controlled by a shareholders' agreement

(**) Controlled through a shareholding that allows a dominant influence to be exercised in ordinary shareholders' meetings

(***) Shareholding recorded in the consolidate financial statement using the equity method

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**Milan, March 6, 2019**

**Luxottica Group S.p.A.**

**On behalf of the Board of Directors**

**Francesco Milleri**

*(Deputy Chairman – Chief Executive Officer)*

# 3.7

# Certification of the Separate Financial Statements pursuant to Article 154-bis of Legislative Decree 58/98

## Certification of the separate financial statements pursuant to Art. 154-bis of Italian Legislative Decree 58/98

**1**. The undersigned Francesco Milleri, as Chief Executive Officer, and Stefano Grassi, as Officer Responsible for Preparing the Financial Reports of Luxottica Group S.p.A., having also taken into account the provisions of Art. 154-*bis*, par. 3 and 4, of Italian Legislative Decree 58 of February 24, 1998, hereby certify that during 2017 the administrative and accounting procedures for preparing the separate financial statements:

- have been adequate in relation to the business's characteristics and
- have been effectively applied.

**2**. The adequacy of the administrative and accounting procedures for preparing the separate financial statements at December 31, 2018 has been evaluated on the basis of a process developed by Luxottica Group S.p.A. in accordance with the Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, which is a generally accepted model internationally.

**3.** They also certify that:

3.1 the separate financial statements:

a) have been prepared in accordance with the international accounting standards recognized in the European Union under Regulation (EC) 1606/2002 of the European Parliament and Council dated July 19, 2002, and the provisions which implement Art. 9 of Italian Legislative Decree 38/2005;

b) correspond to the underlying accounting records and books of account;

c) are able to provide a true and fair view of the issuer's statement of financial position and results of operations.

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**Milan, March 6, 2019**

**Luxottica Group S.p.A.**

**Francesco Milleri**
*(Deputy Chairman – Chief Executive Officer)*

**Stefano Grassi**
*(Officer Responsible for Preparing the Company's Financial Reports)*

# 3.8

# Independent Auditor's Report

**LUXOTTICA GROUP SPA**

**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**

**SEPARATE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018**

*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 2018, 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 2018, and of the result of its operations and cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union, 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 pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### 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* | *Auditing procedures performed in response to key audit matters* |
|---|---|
| **Revenue recognition** | |
| *Revenue recognition policies are described in section 1 "Significant accounting policies" of the notes to the separate financial statements.*<br><br>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.<br><br>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.<br><br>We have performed external or intra-group confirmation procedures with the aim of obtaining probing evidence to support trade receivables and related revenues included in the financial statements. |
| **Recoverability of equity investments** | |
| *Investment measurement policies are described in section 1 "Significant accounting policies", paragraphs "Investments in subsidiaries and associates", "Impairment" and "Influence of estimates" of the notes to the separate financial statements.*<br><br>As of 31 December 2018, investments in subsidiaries amounted to Euro 3,307 million.<br><br>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.<br><br>With reference to the year ended 31 December 2018, management carried out an impairment test on investments, based on the following approach: | 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.<br><br>We have performed an understanding of the impairment testing procedures adopted by management, policies applied in measuring investment and of estimates developed by management with the aim of measuring and monitoring their recoverability.<br><br>We have assessed consistency between cash flows used and investments being tested.<br><br>We have examined the methodologies |

| *Key Audit Matter* | *Auditing procedures performed in response to key audit matters* |
|---|---|
| • they defined the perimeter of investments to be tested for impairment defined based on a number of impairment indicators;<br>• 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;<br>• the value in use model included explicit projections up to five years, with a terminal value applied to the last explicit year;<br>• the estimated cash flows were discounted to present value using the weighted average cost of capital ("WACC");<br>• 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;<br>• in addition, management carried out a sensitivity analysis to assess the impact of changes to significant assumptions on the assets recoverable amount. | 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.<br><br>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.<br><br>We have analysed projections used for impairment testing and whether they were consistent with the plans prepared by management.<br><br>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.<br><br>In addition, we have verified accuracy and completeness of disclosures included in note 12.1 "Investments in subsidiaries" to the separate financial statements as of 31 December 2018. |

### *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, as well as 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 they determine 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, the Directors use the going concern basis of accounting unless they either intends to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Board of Statutory Auditors is responsible for overseeing, in the terms prescribed by law, the Company 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 our 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 the Directors;
- we concluded on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the 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 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 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 current period 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 addressed to the Board of Statutory Auditors, in its 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 (in relation to specific information required under Article 123-bis, paragraph 2, letter b), of Legislative Decree 58/98) of Luxottica Group SpA as of 31 December 2018, 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 2018 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 2018 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, 26 March 2019

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*

# 3.9

# Proposed Allocation of the Profit for the year

## Board of Directors' proposal

The Board of Directors hereby proposes to refer to the Luxottica Group shareholders' meeting, in the scope of the direction and coordination exercised by the holding company EssilorLuxottica S.A. and in accordance with the management of the financial liability currently allocated to Luxottica Group S.p.A., the potential dividend distribution decision, which amount shall not exceed the distributable net profit resulting from the Luxottica Group S.p.A. separate (not consolidated) financial statements as of December 31, 2018, net of the amount to be allocated to the legal reserve, taking into account the authorized and issued share capital as of the date of the resolution approving the financial statements and the dividend distribution.

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**Milan, March 6, 2019**

**Luxottica Group S.p.A.**

**On behalf of the Board of Directors**

**Francesco Milleri**
*(Deputy Chairman & Chief Executive Officer)*

# 3.10
# Board of Statutory Auditors' Report on the Consolidated and Separate Financial Statements

## 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, 2018 pursuant to article 2429 of the Italian Civil Code and article 153 of Italian Legislative Decree 58/1998.

To the Sole Shareholder,

This Board of Statutory Auditors was appointed on April 19, 2018 and will be in office until the approval of the Statutory financial statements as of December 31, 2020. The members of the Board of Statutory Auditors are Giovanni Fiori (Chairman), Dario Righetti and Barbara Tadolini. Francesca Di Donato and Maria Venturini are alternate statutory auditors.

During the 2018 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 (*Consiglio Nazionale dei Dottori Commercialisti e degli Esperti contabili*).

With reference to the activities performed during the fiscal year, and in compliance with the instructions provided by CONSOB through the April 6, 2001 communication and subsequent amendments and supplements, we hereby report the following:

a) We verified the respect and compliance with the law, the certificate 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 October 1, 2018, Delfin S.à.r.l. ("Delfin"), the majority shareholder of Luxottica Group S.p.A. ("Luxottica"), and Essilor International (Compagnie Générale d'Optique) ("Essilor"), announced the completion of the combination of Essilor and Luxottica. All the conditions precedent to the transaction were met, including the approval by Essilor's shareholders in May 2017, the transfer of almost all of Essilor's assets to Essilor International SAS (a wholly owned subsidiary of Essilor) in November 2017 and the approval by the antitrust authorities.

2. On February 26, 2018, Luxottica Group S.p.A. entered into an agreement to acquire 67% of Fukui Megane Co. The transaction was closed on May 18, 2018.

3. On May 11, 2018, Luxottica Group and Bass Pro Outdoor World, L.L.C., a US outdoor retailer, entered into an agreement to open approximately 160 Sunglass Hut shop-in-shops inside Bass Pro Shops and Cabela's stores in the United States. The agreement is expected to generate nearly 100 million US dollars in annual revenues once fully operational.

4. On June 22, 2018, Luxottica Group S.p.A. announced the acquisition of Barberini S.p.A., the world's largest manufacturer of optical glass sun lenses. The approximately Euro 140 million acquisition is expected to be close in 2019 and is subject to the customary closing conditions.

5. On July 1, 2018, the Regulation C private placement contracted by the company Luxottica U.S. Holdings on July 1, 2008 was repaid at maturity for an amount of USD 128 million (Euro 111,8 million).

6. On August 1, 2018, Luxottica Group S.p.A. announced that it had been included in the FTSE4Good index, created by FTSE Russell to measure the performance of companies that comply with globally recognised environmental, social and governance standards.

7. On October 5, 2018, Luxottica Group completed the acquisition of 60% of Spectacle Hut, one of Singapore's leading optical chains, and its mission is to become the benchmark for the most sought-after eyewear. As at December 31, 2018, Luxottica managed 36 Spectacle Hut stores in Singapore.

8. On October 29, 2018, Luxottica Group early repaid the Regulation H private placement contracted on September 30, 2010 for an amount of Euro 50 million following the application of the “Change of Control” clause.

Based on the information available to us, we can reasonably assure that the above-mentioned transactions 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 through meetings with the Independent Auditors, according to a reciprocal exchange of the significant facts and figures. No significant issues concerning the main subsidiaries arose from the assessment of the annual reports, annexed to the financial statements and issued by the local 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) the 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 19, 2018, reported on the activities developed during the 2018 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 preparation of the non-financial information included in the management report;
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.
   The related party transactions were analyzed by Control and Risk Committee in accordance with the Procedure and were considered ordinary transactions;
l) We set meetings with the managers of the Independent Audit Firm, also in accordance with article 150, paragraph 3 of Italian Legislative Decree 58/98, during which no events or situations arose that must be highlighted in this report;
m) On March 26, 2019 PricewaterhouseCoopers S.p.A. issued the audit reports without remarks in accordance with article 14 of Italian Legislative Decree 39/2010, for the consolidated and separate financial statements of the Group for the fiscal year ending on December 31, 2018 prepared in accordance with the International Financial Reporting Standards (IFRS). From these audit reports it arises 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, 2018. Furthermore, in accordance with article 14, paragraph 2.e) of Italian Legislative Decree 39/2010, the Independent Audit Firm certified that the Management Report is consistent with the consolidated and separate financial statements as of December 31, 2018 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 2018;
p) The Company provided information, requested by articles 123 bis paragraph 2 of the Italian Consolidated Law on Finance (*Testo Unico della Finanza*) in the Management 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, 2018 the provisions were applied to the subsidiary companies which the Company indicated as significant with reference to the financial information control system: in this respect it has to be stated that no omissions were noted;
r) the Independent 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 the related 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. | 450 |
| | Pricewaterhouse Coopers S.p.A. Network | Subsidiaries | 172 |
| Other Audit Services | Pricewaterhouse Coopers S.p.A | Luxottica Group S.p.A. | 2 |
| | Pricewaterhouse Coopers S.p.A. Network | Subsidiaries | 51 |
| **Total** | | | **675** |

Taking in to account 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 that PricewaterhouseCoopers S.p.A. remained independent;

s) During 2018 fiscal year the Board of Auditors met 15 times, the Board of Directors met 8 times and the Risk and Control Committee met 9 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 2018 fiscal year as presented by the Board of Directors, and to the consequent proposal, made by the Board itself.

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**Milan, March 26, 2019**

| **Giovanni Fiori** | **Dario Righetti** | **Barbara Tadolini** |
| --- | --- | --- |
| *(Board of Statutory Auditors' Chairman)* | *(Statutory Auditor)* | *(Statutory Auditor)* |

## LUXOTTICA GROUP S.P.A.


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