

Consolidated financial statements  
of the Damiani Group  
as of and for the year ended March 31, 2016

**Prepared in accordance with  
IAS/IFRS accounting standards**

**Damiani S.p.A.**

Report on operations of the  
Consolidated financial statements  
as of March 31, 2016

## Report on operations <sup>(1)</sup>

### Structure of the Damiani Group

The Damiani Group (hereinafter also "Group") has been operating for 90 years in the jewelry industry, with a significant presence in Italy and in the major markets that has emerged over time thanks to the quality and beauty of its products, recognized by customers around the world, who appreciate the luxury Made in Italy.

The Group, leader in Italy, works abroad with direct commercial subsidiaries that oversee the major markets.

The parent company is Damiani S.p.A. (hereinafter also "Company"), which in addition to carry out directly production and commercial activities, also covers the role of industrial and financial holding company.

Damiani Spa has been listed on the Milan Stock Exchange since November 2007.

The consolidated financial statements for the financial year ended March 31, 2016 include the financial statements of the parent company Damiani S.p.A. and those of the companies which it controls, either directly or indirectly, as per article 2359 of the Civil Code.

The subsidiaries included in the consolidation area at March 31, 2016, and therefore consolidated using line-by-line method, are listed below:

Company name	Registered office	Currency	Share Capital (local currency)	Held by	% Direct (*)	% of the Group
Laboratorio Damiani S.r.l.	Valenza (AL), Italy	EUR	850,000	Damiani S.p.A.	75.50%	75.50%
Damiani International B.V.	Amsterdam, Netherland	EUR	193,850	Damiani S.p.A.	100.00%	100.00%
Damiani Japan K.K.	Tokyo, Japan	JPY	495,000,000	Damiani International B.V.	0.00%	86.00%
Damiani USA, Corp.	New York, USA	USD	900,000	Damiani International B.V.	0.00%	100.00%
Casa Damiani Espana S.L.	Valencia, Spain	EUR	721,200	Damiani S.p.A.	99.00%	100.00%
Damiani Hong Kong Ltd	Hong Kong	HKD	72,500,000	Damiani S.p.A.	96.00%	100.00%
Damiani France S.A.	Paris, France	EUR	38,500	Damiani International B.V.	0.00%	100.00%
Damiani Macau Ltd	Macau	MOP	22,500,000	Damiani Hong Kong Ltd	0.00%	100.00%
Rocca International S.A.	Lugano, Switzerland	CHF	600,000	Damiani S.p.A.	100.00%	100.00%
Damiani Mexico S.A. de C.V.	Mexico Distrito Federal	MXN	3,000,000	Damiani International B.V.	10.00%	100.00%
Damiani Shanghai Trading Co. Ltd	Shanghai, China	CNY	45,000,000	Damiani S.p.A.	100.00%	100.00%
Damiani Korea Co. Ltd	Seoul, South Korea	KRW	1,900,000,000	Damiani S.p.A.	100.00%	100.00%
Damiani India PVT. Ltd	New Delhi, India	INR	70,000,000	Damiani International B.V.	0.00%	100.00%
Damiani International S.A.	Manno, Switzerland	CHF	1,000,000	Damiani International B.V.	0.00%	100.00%
Damiani Russia LLC	Moscow, Russia	RUB	10,000	Damiani S.p.A.	100.00%	100.00%

(\*) It's the share directly held by Damiani S.p.A.

Compared with the financial year ended March 31, 2015 the consolidation area at March 31, 2016 changed as follows:

- On July 14, 2015 Damiani S.p.A. acquired shares in Laboratorio Damiani S.r.l. held by Christian Rizzetto, 24.5% of the share capital of the company, for a value equivalent to the corresponding portion of shareholders' equity at March 31, 2015. Following this transaction, Damiani S.p.A. holds 75.5% of the share capital of Laboratorio Damiani S.r.l.
- On August 5, 2015 the company Damiani Russia LLC was set up. It is based in Moscow and has a capital of 10,000 rubles, wholly owned by Damiani S.p.A. The company aims to market the Group's brands in the Russian territory in the wholesale and retail channels.
- On October 6, 2015 Damiani International B.V. purchased the 49% of the share capital of Damiani India PVT. Ltd owned by the two Indian partners. Following this transaction Damiani International B.V. owns 100% of the share capital of the Indian subsidiary.

The Damiani Group, which has focused on producing and distributing jewelry and watches both in Italy and abroad, offers wide coverage of the main market segments and thanks to its different brands provides customers with a large range of differently priced products. The Group's portfolio has made up of five brands: Damiani, Salvini, Alfieri & St. John, Bliss and Calderoni.

Furthermore, through the fully owned network Rocca 1794, the Group distributes prestigious third party

<sup>1</sup> The Damiani Group ends its financial year on March 31. Therefore, the consolidated financial statements at March 31, 2016 cover the period April 1, 2015 – March 31, 2016 (henceforth referred to as Financial year ended March 31, 2016 or Financial Year 2015/2016). For comparative purposes are shown also the figures related to the previous period April 1, 2014 – March 31, 2015 (henceforth referred to as Financial year ended March 31, 2015 or Financial Year 2014/2015).

brands, mainly in the timepiece sectors, in its multi-brand stores.

The distribution of the Group products takes place through two different channels:

- the wholesale channel, consisting of independent multi-brands jewelers, department stores, distributors and franchisees (as of March 31, 2016 mono-brand franchisees were 19);
- the retail channel consisting of the store directly managed by the Group (boutiques, shop-in-shop and corners). As of March 31, 2016 the Point of Sales ("POS") were 55.

Geographically, the network of directly operated stores of the Group is as follows:

Boutiques and corners	Italy	Foreign countries	<b>Total</b>
Mono-brand Damiani	10	32	<b>42</b>
Multi-brand Rocca	12	1	<b>13</b>
<b>Total DOS</b>	<b>22</b>	<b>33</b>	<b>55</b>
<b>Franchising</b>	-	<b>19</b>	<b>19</b>

### **Corporate Governance**

The governance system of Damiani S.p.A. is the so-called "latin" or "traditional" form: the corporate bodies are the Shareholders' Meeting, the Board of Directors and the Board of Statutory Auditors.

The Board of Directors of Damiani S.p.A. was appointed on July 23, 2015 by the Shareholders' Meeting for the three years period 2015-2018, until the approval of the financial statements as of March 31, 2018 of Damiani S.p.A. The Board of Directors consists of seven members and respects the gender balance established by the current law.

The new Board of Directors of Damiani S.p.A. which met for the first time on July 23, 2015 appointed Guido Grassi Damiani as Chairman, Giorgio Grassi Damiani as Vice-President and CEO, Silvia Grassi Damiani as Vice-President, and Elena Garavaglia as Lead Independent Director.

Following the verification of the requirements of non-executive and independent directors, pursuant to article 148 of the Legislative Decree n. 58/1998 and article 3 of the Self-Regulation Code for Listed companies, the Directors Elena Garavaglia, Roberta Benaglia and Giancarlo Malerba were designated to form the Audit, Risk, Remuneration and Transaction with related parties Committee.

On July 23, 2015 the Board of Directors of Damiani S.p.A. appointed Giorgio Grassi Damiani as Director responsible for the internal control system and risk management.

The Board of Directors of July 23, 2015 also approved the remuneration for Directors with special powers, pursuant to art. 2389, paragraph 3, of the Civil Code.

Damiani S.p.A. and the Italian subsidiary Laboratorio Damiani S.r.l. adopted a Code of Ethics and the Organizational Model prescribed by the Legislative Decree n. 231/2001. The Code of Ethics refers to the values the Damiani Group adheres to when carrying out its activities and contains the ethical principles and rules that must guide the conduct of the individuals for whom it is meant. The Code of Ethics is applicable to all directors, employees, suppliers, consultants, agents and business partners and in general all those individuals who operate on behalf of the Company.

The Organizational Model adopted in its current version by the Board of Directors of Damiani S.p.A. on May 31, 2016 is a set of specific regulations dealing with conduct and operational procedures and it is designed to prevent unlawful conduct within those areas of business activities where there is a potential risk.

The Supervisory Body under Legislative Decree n. 231/2001 supervises to ensure the correct application of the Organizational Model and Code of Ethics. The Supervisory Body (hereinafter "SB") of the parent company currently in office was appointed by the Board of Directors on May 29, 2014.

The Board of Directors, with the approval of the Board of Statutory Auditors, has appointed until the approval of the financial statements of Damiani S.p.A. as of March 31, 2017, a SB sitting alone in the person of the Internal Auditor, Francesco Delucchi. To the SB was allocated an annual budget of expenses for the activities and functions conferred to it.

During the financial year 2015/2016 the Supervisory Body, the Audit, Risk, Remuneration and Transaction with related parties Committee and the Board of Statutory Auditors of Damiani S.p.A. met 3 times to share its findings on issues of internal audit.

The current Board of Statutory Auditors is in office until the financial statements of the Company at March 31, 2016.

For further details about the corporate governance system of the Company, together with information on the company structure per article 123-bis of Legislative Decree n. 58/1998, see the Annual report on corporate governance published at the same time as the financial statements and also available for consultation in the investor relation section of the website [www.damiani.com](http://www.damiani.com).

About the obligation under Title VI of the Regulation of Legislative Decree n. 58 of February 24, 1998, concerning market discipline (Market Regulations), states that Damiani S.p.A. controls directly or indirectly five companies which are not part of the European Union and which are relevant as per article 151 of the Market Regulations. According to article 36 of Market Regulations, states that:

- the companies have, in the opinion of the Issuer Damiani S.p.A., an administrative and reporting system suitable for regular reporting to the Corporate of Damiani S.p.A. of economic and financial figures necessary to prepare the consolidated financial statements and to carry out the statutory audit;
- the Issuer has the Statute and knows the composition of the Corporate bodies, and their powers, of the above mentioned companies, and it is advised of any modifications in a timely fashion;
- the reporting package of the companies, prepared for the purposes of consolidated financial statements of the Damiani Group, are provided in the manner and terms established by law.

### **Share buy-back program**

The Shareholders' Meeting of July 23, 2015 resolved to authorize – subject to revocation for the part non executed of the resolution adopted by the Shareholders' Meeting of July 24, 2014 – the purchase and disposal of treasury shares pursuant to art. 132 of Legislative Decree n. 58/1998 and article. 144-bis of the Regulation adopted by Consob resolution n. 11971/99.

The authorization to purchase treasury shares is structured as follows:

- Damiani S.p.A. may purchase a maximum of ordinary shares whose nominal value does not exceed the limit of the law, up to a maximum of n. 16,520,000 ordinary shares, at a nominal value of 0.44 euro each, corresponding to the fifth part of the share capital.
- The authorization was granted for a period of 18 months starting from the Shareholders' Meeting date and lasting until the date of January 23, 2017.
- The purchase price of each share, including additional expenses of purchase, must be as a minimum not less than 20% and a maximum not more than 20% of the official price registered by the share in the trading session before each exchange transaction.
- The purchase transactions will be conducted on regulated markets in accordance with local regulations (article 132 of the Legislative Decree n. 58/1998 and article 144bis of Consob Regulation n. 11971/1999) and respecting the principle of equal treatment of Shareholders and any other regulations, including Community rules.

As of March 31, 2016 Damiani S.p.A. owns n. 5,556,409 treasury shares (equal to 6.73% of the share capital), and no additional treasury shares have been purchased or sold between April 2015 and March 2016.

### **Directors' fees**

The fees for the financial year 2015/2016 due to the directors, statutory auditors and executives with strategic responsibilities of Damiani S.p.A., also with reference to what has perceived to similar functions performed within other Group companies, are reported in the Annual report on remuneration. This report is prepared pursuant to article 123-ter of the Legislative Decree n. 58/1998 and article 84-quater of Consob Regulation n. 11971/1999.

This report sets out the policy of Damiani S.p.A. regarding the remuneration of members of the Board of Directors and the executives with strategic responsibilities with reference to the financial year 2016/2017, and the procedures used for the adoption and implementation of this policy. The report contains, among other things, information concerning the plans based on financial instruments pursuant to the current article 114-bis of the Legislative Decree n. 58/1998.

The Annual report on Remuneration is available to the public, together with the annual statements and the Report on corporate governance and ownership structure, at the registered office of the Issuer Damiani S.p.A. and on the website [www.damiani.com](http://www.damiani.com)

### **Research and development**

The products offered, together with the reputation and image of the brands sold, has always represented the key of the Group's success, which over the years has been able to provide innovations in style and design in the collections offered to customers. The internal staff specifically dedicated to develop the products

operates with this goal. During the financial year 2015/2016 the total cost for product development was equal to Euro 523 thousands.

As of March 31, 2016 there are no capitalized development costs.

## **Main risks and uncertainties for the Damiani Group**

### Macroeconomic and market of luxury goods risks and uncertainties

The economic and financial performance of the Group is affected by the consumption trends of the countries in which it is directly present, that are influenced by changes of the factors that make up the general macroeconomic scenario (GDP trends, level of confidence of consumers and firms, interest rates, unemployment rate). Also the market for luxury goods is affected by the evolution in time, positive or negative, of these factors.

Increasing globalization and integration not only for the financial flows but also for the real economy with trade in goods and consumer products more and more intense and a greater flow of people (business and tourism) that generate higher volume of transactions for purchase of goods outside the domestic borders, have an increasing impact on the overall performance of the Group, which over the years has developed a greater international presence and visibility.

Since 2008 the world economic system, however, was marked by a highly volatility with significant impacts on all markets, including the luxury goods.

In 2015 the world economy has slowed down over the previous year and new troubling signs of uncertainty have been recorded, especially in the last quarter<sup>(2)</sup>. This was mainly due to the lower growth (and in some cases recession) in emerging countries, but also the trend in advanced economies has proved weaker than originally expected. The global growth was 3.1% (compared with 3.4% in 2014), with the GDP of the advanced economies which increased by 1.9% and that of emerging economies which increased by 4.0%. Among the advanced economies, the United States has confirmed a good rate of growth (+ 2.4%) although lower than originally expected, in Japan the growth was still weak (+ 0.5%), while there was a slowdown, about Europe, in Germany and UK. Italy in 2015 has finally returned to record an increase in GDP (+ 0.8%), matching the forecasts, although growth was still weak and the unemployment rate remained high (about 12%).

Among the emerging economies, the trend recorded in 2015 showed marked variations between different areas. In the countries of the former Soviet Union, the continuing political conflicts with international sanctions that have hit the core of the exports of the area, made up of the sources of energy, resulting in devaluations, it resulted in a significant slowdown of the local economy. The overall growth rate was reduced to -2.8% (Russia -3.7%). In Asia, China has recorded a slowdown respect to 2014 but GDP still grew by 6.9%, in line with expectations. Rates of growth lower than expectations were recorded in other Asian countries and in the Middle East, where it weighs the fall in oil prices. Even the South American countries registered a negative trend, driven by the recession that hit Brazil (-3.8% its GDP), and the lower growth in Mexico than originally expected (+ 2.5%).

The forecasts for 2016 outline a fairly stable scenario, both for advanced economies (increase in GDP by 1.9% of the total) that for emerging countries (+ 4.1%), but the uncertainties are still many, not only in strictly economic sphere but also in political terms. A number of factors, among which should not be overlooked Islamic terrorism and uncontrolled population movements, feed populist tendencies (in some European countries, not excluding the UK, but also in the United States among the groups which face in the presidential elections of autumn 2016), in respect of whom it doesn't seem to be government measures (national and international) effective and shared. If these groups should prevail, they could impose on their countries nationalistic policies, with protectionist economic measures, at the expense of international commercial traffic and the expected growth trend.

The geographical areas mentioned above have all a high relevance such as markets for luxury goods, in some cases strengthened over time (U.S., Japan, Western Europe, which together in 2015 covered a market share of more than two third of the total), and in other more recent development (Russia, China and the Arab countries). In the emerging markets growth rates have already subverted positions than until a few years ago seemed immutable. In 2015 the world market for luxury goods reached a total value of about 253 billion euro<sup>(3)</sup>, even if the increase of 13% depended significantly on the weakening of the euro against other currencies. At constant exchange rates, the growth has been modest and amounted to only +1%. The performance was negatively affected by many external factors that have strongly affected the international tourist flows (political crises, terrorism risk, exchange rates, etc.), which in recent years were generating

<sup>2</sup> World Economic Outlook of IFM - April 2016.

<sup>3</sup> Worldwide Luxury Markets Monitor by Bain & Co. and Fondazione Altgamma - May 2015.

high and increasing volumes of spending on luxury items, especially in world capitals shopping. This decline has not been compensated by increasing domestic demand, that only in some areas (Europe and Japan) gave some encouraging signals of recovery. The same trend is expected for 2016. Therefore, at constant prices, the luxury goods market is expected to record a slight increase in overall volumes (+1%). Probably, the slowdown in the growth trend is going to last even in the medium term.

In this context, the hard luxury segment, which includes jewelry and watches, and that is about one-fifth of the total, should record the worst performance relative to the entire market. In addition, the market for luxury products is undergoing a deep transformation. We are witnessing the gradual emergence of new distribution channels (mono-brand retail, online sales, travel retail) and new consumers, especially from emerging countries, who associate more and more the purchase of goods to other life experiences (holidays, cultural trips, business travel, etc.) spending abroad amounts much higher than those made at home.

The Damiani Group is fully aware of this profound transformation and the risks and opportunities associated with it. Its strategy and the corresponding actions during the financial year 2015/2016 resulted in investments (eg in retail distribution and in that online) that move in the direction to fully reap the benefits that these changes generate.

At the same time it is necessary to point out that the burden of such initiatives associated with macro-economic and socio-political uncertain, which may affect significantly even in the short term the future expected revenues, may have impacts on future profitability and, consequently, the financial structure of the Group. Although constantly monitored in order to make the necessary timely adjustments, these variables cannot be fully controlled and their effects neutralized.

#### Price fluctuations' risk and availability of raw materials

Among its raw materials the Damiani Group mainly uses precious stones, gold, pearls and other precious materials, whose market prices and availability can vary significantly due to factors as government regulations, market trends and investors' speculative positions, relationships with suppliers (above all regarding the purchase of diamonds) and consequent conditions of supply.

During the financial year 2015/2016, the average price of gold began to rise, with an average price of 33.5 euros/gram from April 2015 to March 2016, up 5.5% compared with the average over the previous twelve months. In April and May 2016, the price has maintained constant around 35.5 Euro/gram. This increase, if should stabilize, would be negative on production costs, and in the formulation of forecasts of purchase of the raw material, even if it should be activated mechanisms of hedging the risk of price fluctuations and manufacturing process planning (also affected by seasonal events of the market).

The risks related to price of raw materials and to the strong and sudden fluctuations are amplified by changes in the exchange rate, because some materials have official prices in currencies other than Euro and the same purchases are settled in US Dollar (diamonds) and Yen (pearls), while the Group's functional currency is the Euro.

The Damiani Group mitigates this risk as follows: a) proceeds to forward purchases of raw materials (gold only) with fixed prices and quantities in relation to the dynamics of the production process (at March 31, 2016 active contracts relating to purchases of gold were 15 for a total quantity of 73 kilograms and an agreed equivalent of Euro 2,359 thousands); b) purchases finished products from suppliers with a well established relationships and defined agreements for a medium-term time (normally six months) that enable to mitigate the effects associated with rapid and frequent price fluctuations; c) the retail price is increased (usually annually) in relation to the increase in the production costs.

If there were in the medium-long term an uptrend in the price of raw materials used in the production process, or sudden strong swings, it could inevitably cause a reduction of margins for the Group, as it would be impossible to fully pass on the retail price the increase in the cost of acquisition/production.

#### Exchange rate risks

The Damiani Group's functional currency is the Euro and, therefore, the transactions in other currencies are subject to exchange rate fluctuations, mainly of the US Dollar and Japanese Yen, which are the currencies of financial statements of the foreign subsidiaries located outside the Eurozone. The fluctuations in exchange rates affect the financial result and the financial position of the Group.

Furthermore, some purchases of raw materials and finished products, as described above, are made in US Dollar and Japanese Yen, which exposes them to the consequent exchange rate risk. If this risk is considered to be significant, as in those times of particular pressure on exchange rates, specific currency forward contracts are signed, for the purpose of hedging the exchange rate risk.

At March 31, 2016 there were outstanding currency forward contracts entered into by Damiani S.p.A. for a total of Euro 3,196 thousands. At March 31, 2015 contracts were instead equal to a total of Euro 5,770 thousands.

### Liquidity risk

As part of the overall financing needs, for the ongoing management and to support its development, the Group uses various forms of financing both in the medium/long term and short term (lines of credit and factoring). The goal is contain the cost and risk of exposure to fluctuations in interest rates and maintain the structure of the sources balanced with the uses.

During the financial year 2015/2016, the Group continued to pursue the dual objective of balance between loans and sources, acquiring a number of medium/long-term loans that could support the development projects in particular in the retail sector, both within abroad than in Italy, and the related cost containment.

As for the first goal and then in terms of liquidity risk management, the situation does not present a high risk profile, since 45% of the gross debt has medium-term maturity. Furthermore, the Damiani Group has short bank credit lines which as of March 31, 2016 have not been used for approximately Euro 22 million yet (out of a total of EUR 50.8 million).

Furthermore, under the proper balance between resources generated or absorbed by operating activities the Group also includes assessments made by management to bring the inventories to a better dimension related to the current volume of activity. In order to achieve this balance the Group can carry out different types of interventions that can be: i) fusion of the finished product with recovery of valuable raw materials (in the financial year 2015/2016 have not been implemented operations of this type); ii) the destocking operations on channels other than ordinary. The use of one rather than another type of intervention varies over time in the light of developments in the prices of raw materials and related production requirements, and in terms of convenience as brand equity.

### Interest rate risks

The second objective mentioned in the previous paragraph, closely related to liquidity risk, is the employee's risk management by fluctuations in interest rates over time. The Group is active to minimize its burden diversifying the sources of financing in consideration of the rates applied and their variability over time.

In line with the downtrend in market interest rates, the Group during the financial year 2015/2016 was then activated to contain the costs related to loans obtained both with reference to the medium/long term than on short lines. On the different components there are both remuneration at fixed rate (bond signed in September 2013 by significant shareholders, the financial contribution by Simest S.p.A. in Damiani Hong Kong Ltd, made in December 2013) and at floating rate (on the financing in pool and the short lines) as well as subsidized (Simest S.p.A. funding for development programs in China and the ministerial funding of research and development projects). Overall, the cost of indebtedness has been reduced by about one percentage point, from 3.94% to 2.99% per annum, with reductions in both the medium/long-term components and in the short ones, on average, less onerous. Considering the current balance of the sources, the risk in question is therefore less than the previous year.

### Credit risk

The credit risk is defined as the possibility of incurring a financial loss, which could be brought about by the non-fulfillment of a contractual obligation by a counterpart.

With reference to the dealership, the Group deals with a customer base consisting mainly of jewelry shops and distributors and therefore collaterals are not generally required. The Group carries out a preliminary information survey to customers through a specific information company and monitors all customers with the attribution of a specific trust. An automatic control is also operating with the help of an information company for reporting possible negativity (eg. Protests) that trigger the immediate blocking procedures and starting the process of debt collection. When there are critical situations with some customers, the credit management department formalizes plans to return while generating a lengthening of the average collection times, minimizes the risk of loss. This constant monitoring to date has determined the containment of losses to an acceptable level, albeit in a context where market conditions were partially damaged (mostly domestically), and the difficulty to access to credit can impact the solvency of some clients. The Group shall conduct timely assessment of risks both in the closing of the financial year as well as when preparing the interim reports.

### Uncertainties

There were no outstanding commitments or liabilities arising from obligations and for which it is probable an outflow of resources which are not already included in the financial statements at March 31, 2016.

With regard to tax audits in progress, it is provided an update at the date of approval of these financial statements.



On September 5, 2012 the Provincial Directorate II of the Tax Agency in Milan initiated in Rocca S.p.A. (later merged into Damiani S.p.A.) a tax audit on IRES and IRAP (income taxes) for the period 2009/2010 and for VAT purposes for the year 2009. On July 2, 2014 the Office notified Rocca S.p.A. an assessment notice for formulating a relief for an amount of Euro 277 thousand. The Company filed an appeal to the Provincial Tax Commission and on November 6, 2015 the hearing was held in front of the Provincial Tax Commission. The Company is waiting for the judgment and the Directors believe that there are no probable risks for the Company in excess of what was accounted in the specific fund.

On March 13, 2014 the Provincial Directorate of the Tax Agency in Alessandria has initiated an audit in Damiani S.p.A. in the field of transfer pricing with reference to the tax period 2011/2012. On December 15, 2015 The Company received the summary report about this matter (called "PVC") from the Tax Agency, with reliefs for Euro 8,714 thousands for IRES (income tax) and Euro 8,669 thousands for IRAP (local tax). In the following months, meetings were held between the Company and the Provincial Directorate of the Tax Agency. Damiani S.p.A. opened a procedure with the Office, still in progress, to provide further elements of analysis to refute the findings of the PVC. Simultaneously, on February 22, 2016 the same Provincial Directorate has initiated a further verification in Damiani S.p.A. relating to transfer pricing for the tax years 2012/2013 and 2013/2014. The verification is in progress. At of today, based on the advancement of the audits and related assessments in progress also with the Office, the Directors of Damiani S.p.A. believe there is no probable risks for the Company.

On February 13, 2015 the tax police – department of Alessandria (Italy) - started an audit for VAT at the Administrative Offices of the former subsidiary Rocca S.p.A., merged in Damiani S.p.A. on December 16, 2014. On May 19, 2015, the financial police drew up the report "PVC" reporting reliefs for Euro 442 thousands. On September 18, 2015 the Provincial Directorate II of the Tax Agency in Milan issued notices of assessment relating to reliefs for years 2010 and 2011. Against them, the Company has submitted to the Tax Agency in Milan instance of tax settlement in November 2015. On February 12, 2016 were signed the acts of accession with the Office, agreeing a reduction compared with the assessed value and a rescheduling of the payment (final payment in November 2019). On May 20, 2016 has been noticed to Damiani S.p.A. also the assessment for the 2012 with a relief of Euro 34 thousands. The Company is considering what action to take in this regard.

On December 29, 2015 and January 5, 2016 the Tax Agency – Provincial Directorate II in Milan notified to Damiani S.p.A. notice of assessment for withholding taxes not operated for Euro 2,280 thousands and act of protest of the relevant sanctions. The contested measure was carried out in March 2010 by the subsidiary Rocca S.p.A. (merged into Damiani S.p.A. in December 2014) as part of a reorganization of the Italian network of directly operated stores of the Group. On May 26, 2016 the Company filed the appeal initiating the dispute with the Tax Agency. It is believed, in fact, that the proceeds of the sale of the lease can not be considered productive of a taxable profit according to the Italian rules in force. Therefore, at the present time the Company, supported by the opinion of its tax advisers, believes it is not probable an outflow of resources to fulfill the established dispute. It is waiting to be set for the hearing of the dispute procedure.

### Human resources and environment

In the financial year of twelve months closed at March 31, 2016 the average number of the Group's staff was equal to 605.0 units, down by 13.5 units compared with the previous year when there were 591.5 units, thus divided by category and geographical area:

Labour categories	Financial Year 2015/2016	% on total	Financial Year 2014/2015	% on total	Δ
Executives and Managers	46.8	7.7%	51.5	8.7%	-4.7
Clerks	466.2	77.1%	445.7	75.4%	20.5
Workers	92.0	15.2%	94.3	15.9%	-2.3
<b>Total</b>	<b>605.0</b>		<b>591.5</b>		<b>13.5</b>
Employees by geographical area	Financial Year 2015/2016	% on total	Financial Year 2014/2015	% on total	Δ
Italy	389	64.3%	416.5	70.4%	-27.5
Foreign countries	216.0	35.7%	175.0	29.6%	41.0
<b>Total</b>	<b>605.0</b>		<b>591.5</b>		<b>13.5</b>

The workforce at March 31, 2016 was made of 73.2% women (including n. 12 executives and managers) and the average age of the human resources was slightly higher than 42 years.

During the financial year there were not recorded any cases of workplace accidents that resulted in serious or extremely serious injuries to personnel nor there have been any complaints or claims regarding work-related illnesses involving employees or former employees or any legal proceedings for mobbing for which

the Group has been declared responsible.

The actions taken during the financial year 2015/2016, which affected the staff, were previously shared, where necessary, with the trade unions.

With regard to the environment, the activities of the Damiani Group do not entail significant impact on the habitat. It should be noted that during the financial year the Group has not cause any damage to the environment for which it has been convicted or has been subject to sanctions or penalties.

## Key data

Share Capital	March 31 2016	March 31 2015
Number of shares issued	82,600,000	82,600,000
Par value per share	0.44	0.44
Share capital	36,344,000	36,344,000
Ownership	% on shares issued	% on shares issued
Leading Jewels S.A. (1)	58.83%	58.83%
Sparkling Investment S.A. (1)	0.03%	0.03%
Guido Grassi Damiani	6.11%	5.99%
Giorgio Grassi Damiani	6.11%	6.11%
Silvia Grassi Damiani	5.30%	5.30%
Damiani S.p.A. (own shares) (2)	6.73%	6.73%
Market	16.89%	17.01%
Shares held by the subjects indicated by art. 79 Legislative Decree n. 58/98		
Individual	Office held	Number of shares
Guido Grassi Damiani (total n. 59,220,736) (3)	Director	5,043,850
Giorgio Grassi Damiani	Director	5,047,371
Silvia Grassi Damiani	Director	4,379,371
Strategic executives		15,000

(1) Companies traceable to Damiani Family

(2) The Shareholders' Meeting of July 23, 2015 approved the authorization, for the part not executed of the resolution of the Shareholders' meeting of July 24, 2014, for the purchase of own shares up to a maximum of n. 16,520,000 ordinary shares of Damiani S.p.A., within a period of 18 months from the date of the Shareholders' resolution.

As of March 31, 2016 the treasury shares in portfolio were n. 5,556,409, equal to 6.73% of the share capital.

(3) As controlling shareholder, to Mr. Guido Damiani are traceable the shares owned by Leading Jewels S.A., Sparkling Investment S.A. and the treasury shares of Damiani S.p.A.

## Consolidated economic/financial data

<b>Main economic data</b> <i>(in thousands of Euro)</i>	<b>Financial Year</b> <b>2015/2016</b>	<b>Financial Year</b> <b>2014/2015</b> <b>(restated) *</b>	<b>Change</b>	<b>Change %</b>
Revenues from sales and services	154,087	150,209	3,878	2.6%
<b>Total revenues</b>	<b>155,287</b>	<b>150,452</b>	<b>4,835</b>	<b>3.2%</b>
Cost of production	(131,140)	(146,413)	15,273	-10.4%
<b>EBITDA (**)</b>	<b>24,147</b>	<b>4,039</b>	<b>20,108</b>	<b>n.m.</b>
<b>EBITDA %</b>	<b>15.5%</b>	<b>2.7%</b>		
Amortization, depreciation and write downs	(9,864)	(4,439)	(5,425)	122.2%
<b>Operating income</b>	<b>14,283</b>	<b>(400)</b>	<b>14,683</b>	<b>n.m.</b>
<b>Operating income %</b>	<b>9.3%</b>	<b>-0.3%</b>		
Net financial incomes (expenses)	(2,012)	(3,171)	1,159	-36.5%
Result before taxes	12,271	(3,571)	15,842	n.m.
Net result of the Group	5,623	(3,454)	9,077	n.m.
Basic Earnings (Losses) per Share	0.07	(0.04)		
Personnel cost	(26,725)	(25,051)	(1,674)	6.7%
Average number of employees (***)	605.0	591.5	13.5	2.3%

(\*) The figures for the financial statements at March 31, 2015 have been reclassified to conform to the economic and financial representation adopted in the financial statements at March 31, 2016.

(\*\*) EBITDA represents the operating result gross of depreciation, amortization and write-downs. EBITDA thus defined is used by the Company's management to monitor and evaluate the Company's operational performance and is not an IFRS accounting measure, therefore it must not be considered as an alternative measure for evaluating Company's results. Since EBITDA is not regulated by the accounting standards adopted, the criteria used by the Group may not be the same as criteria used by other companies and therefore cannot be used for comparative purposes.

(\*\*\*) Average number of employees in the two financial year compared.

<b>Balance sheet data</b> <i>(in thousands of Euro)</i>	<b>Situation at</b> <b>March 31, 2016</b>	<b>Situation at</b> <b>March 31, 2015</b> <b>(restated) *</b>	<b>change</b>
Fixed Assets	39,113	46,213	(7,100)
Net working capital	87,673	77,943	9,730
Non current Liabilities	(6,538)	(7,413)	875
<b>Net Capital Invested</b>	<b>120,248</b>	<b>116,743</b>	<b>3,505</b>
Shareholders' Equity	67,747	64,166	3,581
Net Financial position (**)	52,501	52,577	(76)
<b>Sources of Financing</b>	<b>120,248</b>	<b>116,743</b>	<b>3,505</b>

(\*) The figures for the financial statements at March 31, 2015 have been reclassified to conform to the economic and financial representation adopted in the financial statements at March 31, 2016.

(\*\*) Net financial position is determined according to the indication of Consob communication n. DEM/6064293 of July 28, 2006.

In the following table there has given the reconciliation between the result for the financial year closed at March 31, 2016 and the net equity at March 31, 2016 of the Group parent company with the same figures in the consolidated accounts:

<i>(in thousands of Euro)</i>	<b>Situation at March 31, 2016</b>	
<b>Description</b>	<b>Shareholders' Equity</b>	<b>Net Result</b>
<b>Shareholders' Equity of Damiani S.p.A.</b>	<b>85,668</b>	<b>(3,640)</b>
<b>1. Elimination of the book value of consolidated investments:</b>		
- Difference between book value and shareholders' equity	(7,817)	10,015
<b>Total</b>	<b>(7,817)</b>	<b>10,015</b>
<b>2. Elimination of the transaction between consolidated companies:</b>		
Infra-group profits included in the value of inventories		
- Gross value	(15,452)	(157)
+ Deferred taxes	4,211	(595)
<b>Total</b>	<b>(11,241)</b>	<b>(752)</b>
<b>Shareholders' equity and net profit belonging to the Group</b>	<b>66,610</b>	<b>5,623</b>
<b>Shareholders' equity and net profit belonging to the Minorities</b>	<b>1,137</b>	<b>(202)</b>
<b>Shareholders' equity and net profit belonging to the Shareholders</b>	<b>67,747</b>	<b>5,421</b>

### Comments on the main economic and financial data of the Group

The consolidated financial statements at March 31, 2016 have been prepared on a going concern basis because the Group believes that there is no uncertainty about the ability to continue its activity for the

foreseeable future. The significant improvements made in terms of operating performance (which also benefited from non-recurring operations) testify to the correctness of the strategic actions taken to adapt to changing trends of the target market. These actions require both the focus on new markets/channels and simultaneously, carrying out transactions aimed at valorize its own network.

Consolidated revenues, equal to Euro 155,287 thousands, have recorded an increase over the previous financial year by 3.2%. Even the operational performance marked a strong improvement with EBITDA equal to Euro 24,147 thousands, compared with Euro 4,039 thousands in 2014/2015, which benefited of non-recurring incomes, described below.

The net result of the Group turned positive and was equal to Euro 5,623 thousands, compared with the net loss of Euro 3,454 thousands in the previous financial year.

The following table shows the consolidated income statement for the financial year 2015/2016 compared with the financial year 2014/2015:

<b>Income statement</b> <i>(in thousands of Euro)</i>	<b>Financial Year</b> <b>2015/2016</b>	<b>Financial Year</b> <b>2014/2015</b> <b>(restated) *</b>	<b>Change</b>	<b>Change %</b>
Revenues from sales and services	154,087	150,209	3,878	2.6%
Other revenues	1,200	243	957	n.m.
<b>Total revenues</b>	<b>155,287</b>	<b>150,452</b>	<b>4,835</b>	<b>3.2%</b>
Cost of production	(131,140)	(146,413)	15,273	-10.4%
<i>of which: net non-recurring income</i>	<i>27,250</i>	<i>1,891</i>		
<b>EBITDA **</b>	<b>24,147</b>	<b>4,039</b>	<b>20,108</b>	n.m.
<b>EBITDA %</b>	<b>15.5%</b>	<b>2.7%</b>		
Depreciation and amortization	(9,864)	(4,439)	(5,425)	122.2%
<i>of which: Non-recurring write-downs</i>	<i>(2,610)</i>	<i>(498)</i>		
<b>Operating income</b>	<b>14,283</b>	<b>(400)</b>	<b>14,683</b>	n.m.
<b>Operating income %</b>	<b>9.2%</b>	<b>-0.3%</b>		
Net financial incomes (losses)	(2,012)	(3,171)	1,159	-36.5%
<b>Result before taxes</b>	<b>12,271</b>	<b>(3,571)</b>	<b>15,842</b>	n.m.
<b>Result before taxes %</b>	<b>7.9%</b>	<b>-2.4%</b>		
Taxes	(6,850)	(28)	(6,822)	n.m.
<b>Net result</b>	<b>5,421</b>	<b>(3,599)</b>	<b>9,020</b>	n.m.
<b>Net result %</b>	<b>3.5%</b>	<b>-2.4%</b>		
Minorities Interests	(202)	(145)	(57)	-39.3%
Net result of the Group	5,623	(3,454)	9,077	n.m.
<b>Net result of the Group %</b>	<b>3.6%</b>	<b>-2.3%</b>		

(\*) The figures for the financial statements at March 31, 2015 have been reclassified to conform to the economic and financial representation adopted in the financial statements at March 31, 2016.

(\*\*) EBITDA represents the operating result gross of depreciation, amortization and write-downs. EBITDA thus defined is used by the Company's management to monitor and evaluate the Company's operational performance and is not an IFRS accounting measure, therefore it must not be considered as an alternative measure for evaluating Company's results. Since EBITDA is not regulated by the accounting standards adopted, the criteria used by the Group may not be the same as criteria used by other companies and therefore cannot be used for comparative purposes.

In detail, the components of the financial statements recorded the trends described below:

## REVENUES

Consolidated revenues from sales and services for the financial year 2015/2016 increased by Euro 3,878 thousands (+2.6% at current exchange rates; +1.4% at constant exchange rates) compared with the financial year 2014/2015, from Euro 150,209 thousands to Euro 154,087 thousands.

The growth of the consolidated revenues was due to the increase in the retail channel (+18.6% at current exchange rates; +16.3% at constant exchange rates), and in particular the very positive performance recorded by the Italian boutiques (overall +26.5% at current exchange rates), reflecting the appreciation of our collections by the end consumers. Even abroad the retail channel recorded a positive performance which supports the Group's strategy to penetrate through the direct channel the main international luxury markets. The wholesale channel decreased by 8.5% at current exchange rates (-8.9% at constant exchange rates), as a direct result of the contraction of some foreign markets, especially in Eastern Europe.

As a result of these trends, the percentage of total revenues from retail sales results in further growth, reaching approximately 47%. It confirms the correctness of the strategy of the Group in recent years, which is focusing its investments on this channel, with the aim of increasing the visibility and brand awareness of Damiani and improve the relationship with the final customer.

The table below shows the revenues by sales channel.

<b>Revenues by Sales Channel</b> <i>(in thousands of Euro)</i>	<b>Financial Year</b> <b>2015/2016</b>	<b>Financial Year</b> <b>2014/2015</b> <b>(restated) *</b>	<b>Change</b>	<b>Change %</b>
<b>Retail</b> <i>Percentage on total revenues</i>	<b>72,837</b> <i>46.9%</i>	<b>61,404</b> <i>40.8%</i>	<b>11,433</b>	<b>18.6%</b>
<b>Wholesale</b> <i>Percentage on total revenues</i>	<b>81,250</b> <i>52.3%</i>	<b>88,805</b> <i>59.0%</i>	<b>(7,555)</b>	<b>-8.5%</b>
<b>Total revenues from sales and services</b> <i>Percentage on total revenues</i>	<b>154,087</b> <i>99.2%</i>	<b>150,209</b> <i>99.8%</i>	<b>3,878</b>	<b>2.6%</b>
Other revenues <i>Percentage on total revenues</i>	1,200 <i>0.8%</i>	243 <i>0.2%</i>	957	n.m.
<b>Total Revenues</b>	<b>155,287</b>	<b>150,452</b>	<b>4,835</b>	<b>3.2%</b>

(\*) The figures for the financial statements at March 31, 2015 have been reclassified to conform to the economic and financial representation adopted in the financial statements at March 31, 2016.

### Cost of production

Overall the total net costs of production for the financial year ended March 31, 2016 were equal to Euro 131,140 thousands. They showed a decrease by Euro 15,273 thousands (-10.4%) compared with the financial year ended March 31, 2015 (Euro 146,413 thousands), mainly due to the non-recurring operating incomes. The change of some components have directly related to the higher volume of business of the Group, generated by the development actions carried out to support the visibility and the awareness of the brands sold internationally. The net balance has also affected by non-recurring transactions carried out with the aim to valorize the directly managed network.

In detail, the trend of costs in the financial year 2015/2016 was the following:

- Cost of raw materials and other materials, including purchase of finished products, was Euro 80,249 thousands, a decrease by 2.7% compared with the twelve months period ended March 31, 2015 (Euro 82,454 thousands). Compared with the increase in revenue, the opposite trend depends on the different mix of sales by channel and by product category, with a growth of components with higher margins and resulting in lower incidence of the cost of goods sold.
- Costs for services were Euro 50,662 thousands, an increase of 20.8% compared with the previous financial year (Euro 41,931 thousands). The increase was a direct result of the initiatives undertaken to adequately support the Group' development strategy, in Italy and abroad, according to which mainly increased the advertising and promotion expenses and those related to direct management of commercial spaces (more leases costs).
- Personnel costs amounted to Euro 26,725 thousands, an increase by 6.7% compared with the previous financial year (Euro 25,051 thousands). The increase in the cost is a direct correlation of the increase in average staff employed in the Group during the financial year 2015/2016, with the inclusion of new professionals abroad to support international development. In the financial year ended March 31, 2016 the average number of employees of the Group was 605 units (+2.3% compared to the previous year).
- The Other net operating incomes were Euro 26,496 thousands compared with a net income of Euro 3,023 thousands in the financial year 2014/2015. The balances of the two financial years compared were significantly affected by the non-recurring incomes generated from transactions with the aim of valorizing the commercial spaces home to shops, through the sale to third parties of lease contracts where the direct management did not result profitable. These incomes amounted to Euro 27,500 thousands (financial year 2015/2016) and to Euro 1,891 thousands (financial year 2014/2015).

### EBITDA

The trend of revenues and costs of production (net) described above results in a positive EBITDA in the financial year ended March 31, 2016 of Euro 24,147 thousands, an improvement compared with the gross operating result of the previous financial year for Euro 20,108 thousands.

### Depreciation, amortization and devaluation

In the financial year ended March 31, 2016 the amortization, depreciation and write-downs amounted to Euro 9,864 thousands, an increase by Euro 5,425 thousands compared with the previous twelve months period (Euro 4,439 thousands). This increase was mainly due to the write-downs of fixed assets recorded in the financial year 2015/2016 for Euro 5,501 thousands, relating to non-current assets of the stores directly managed, closed and whose spaces have been transferred to third parties (the positive effects associated to these operations are described previously), and to the goodwill related to a cash generating unit. In the previous financial year 2014/2015 the devaluations of assets were Euro 522 thousands.

### Operating result

In the financial year ended March 31, 2016, due to the factors described above, the operating result was positive for Euro 14,283 thousands compared with a negative result for Euro 400 thousands in the financial year 2014/2015, resulting in an improvement of Euro 14,683 thousands.

### Net financial incomes (expenses)

The balance of the financial management in the financial year ended March 31, 2016 was negative for Euro 2,012 thousands, an improvement compared with the twelve-months period ended March 31, 2015 (negative balance of Euro 3,171 thousands).

This change was due to lower interest expense on indebtedness and to the net positive exchange rate effects recorded in the financial year 2015/2016, compared with negative exchange rate effects in the previous financial year (the differential impact amounted to Euro 857 thousands).

### Result before taxes

In the financial year ended March 31, 2016 the result before taxes was positive and amounted to Euro 12,271 thousands, an improvement of Euro 15,842 thousands compared with the previous financial year (a negative result for Euro 3,571 thousands in the financial year 2014/2015).

### Current, prepaid and deferred taxes

In the financial year ended March 31, 2016 income taxes have an impact on the consolidated result of Euro 6,850 thousands, while in the financial year 2014/2015 the negative impact was only Euro 28 thousands. The higher value of taxes in the financial year 2015/2016 was mainly due to these elements: i) taxation of non-recurrent incomes; ii) recalculation of deferred taxes to align to the reduction of tax rates on corporate income (from 27.5% to 24%), which was introduced in Italy, effective from next year, when according to forecasts of future business plans the tax receivables will be progressively realized.

With reference to the provisions of Legislative Decree n. 344 of December 12, 2003 which introduced the tax regime of the Group called "fiscal consolidation", Damiani S.p.A. formalized the renewal of the national consolidated taxation for the period 2016-2018 at the time of filing the 2015 tax return, that took place on December 9, 2015. It includes its subsidiary Laboratorio Damiani S.r.l. As regards the regime of Group VAT for 2016 (Damiani S.p.A. and Laboratorio Damiani S.r.l.), pursuant to Presidential Decree 633/72 article 73, paragraph 3, DM 13/12/1979, was presented the special model for renewal on February 3, 2016.

### Net result

Consolidated net result attributable to the Group for the financial year ended March 31, 2016 was positive for Euro 5,623 thousands, an increase of Euro 9,077 thousands compared with the financial year ended March 31, 2015 (loss of Euro 3,454 thousands).

### Balance sheet and financial position

The following table shows the consolidated balance sheet of Damiani Group at March 31, 2016 compared with March 31, 2015.

<b>Balance sheet data</b> <i>(in thousands of Euro)</i>	<b>Situation at</b> <b>March 31, 2016</b>	<b>Situation at</b> <b>March 31, 2015</b> <b>(restated) *</b>	<b>change</b>
Fixed Assets	39,113	46,213	(7,100)
Net working capital	87,673	77,943	9,730
Non current Liabilities	(6,538)	(7,413)	875
<b>Net Capital Invested</b>	<b>120,248</b>	<b>116,743</b>	<b>3,505</b>
Shareholders' Equity	67,747	64,166	3,581
Net Financial position (**)	52,501	52,577	(76)
<b>Sources of Financing</b>	<b>120,248</b>	<b>116,743</b>	<b>3,505</b>

(\*) The figures for the financial statements at March 31, 2015 have been reclassified to conform to the economic and financial representation adopted in the financial statements at March 31, 2016.

(\*\*) Net financial position is determined according to the indication of Consob communication n. DEM/6064293 of July 28, 2006.

### Fixed Assets

At March 31, 2016 the consolidated fixed assets were Euro 39,113 thousands, a decrease compared with March 31, 2015 for Euro 7,100 thousands. This change was mainly due to the decrease in net tangible and intangible assets, as a result of amortization, depreciation and devaluation that more than offset the capital expenditures, equal to Euro 6,012 thousands. Also the tax receivables decreased by Euro 2,169 thousands, for the partial reversal of the temporary differences between book value and tax value of balance sheet items and for the recalculation of the residual tax credits based on the tax rates in force in Italy from next year.

### Net working capital

At March 31, 2016 the Net working capital amounted to Euro 87,673 thousands, an increase compared with March 31, 2015 of Euro 9,730 thousands. The change was mainly due to the increase in stock, required by the enlargement of the number of stores directly managed by the Group.

### Non-current liabilities

At March 31, 2016 the non-current liabilities amounted to Euro 6,538 thousands, a decrease by Euro 875 thousands compared with March 31, 2015. The change was mainly due to debt relief for severance indemnities.

### Shareholders' equity

At March 31, 2016 the Shareholders' Equity amounted to Euro 67,747 thousands, an increase of Euro 3,581 thousands compared with March 31, 2015. The change was due to the following items:

- Net result of the financial year for Euro 5,421 thousands (including minorities);
- Increase of stock option reserve for Euro 145 thousands, for the valuation of share-based payment pursuant to IFRS 2;
- Actuarial gain on defined benefit plans for employees recognized in accordance with IAS 19 (2011) for Euro 58 thousands;
- Other negative changes in reserves for a total of Euro 2,043 thousands, mainly due to translation differences.

### Net financial position

The following table shows the composition of the net financial position at March 31, 2016 and its evolution in relation to March 31, 2015:

<b>Net Financial Position (*)</b> <i>(in thousands of Euro)</i>	<b>Situation at</b> <b>March 31, 2016</b>	<b>Situation at</b> <b>March 31, 2015</b> <b>(restated) **</b>	<b>change</b>
Current portion of loans and financing	4,013	2,705	1,308
Drawdown of credit lines, short term financing and others	28,378	36,507	(8,129)
Current portion of loans and financing with related parties	1,036	1,031	5
<b>Current financial indebtedness</b>	<b>33,427</b>	<b>40,243</b>	<b>(6,816)</b>
Non current portion of loans and financing	18,045	11,049	6,997
Non current portion of loans and financing with related parties	9,847	10,893	(1,046)
<b>Non current financial indebtedness</b>	<b>27,892</b>	<b>21,941</b>	<b>5,951</b>
<b>Total gross financial indebtedness</b>	<b>61,319</b>	<b>62,184</b>	<b>(865)</b>
Cash and cash equivalents	(8,818)	(9,607)	789
<b>Net Financial Position (*)</b>	<b>52,501</b>	<b>52,577</b>	<b>(76)</b>

(\*) Net financial position is determined according to the indication of Consob communication n. DEM/6064293 of July 28, 2006.

(\*\*) The figures for the financial statements at March 31, 2015 have been reclassified to conform to the economic and financial representation adopted in the financial statements at March 31, 2016.

At March 31, 2016 the Group had a net financial debt of Euro 52,501 thousands, stable if compared with March 31, 2015 (the net debt was Euro 52,577 thousands).

In terms of sources, the debt is more balanced than the previous year: 45% of the gross debt is made up of medium/long term indebtedness, while this percentage was 35% at March 31, 2015. In addition, the cost of debt fell during the financial year 2015/2016 of around one percentage point compared with the previous year.

It should be noted that the net financial position at March 31, 2016 includes Euro 10,883 thousands of

payables to related parties, of which Euro 5,301 thousands for a bond loan (maturing in September 2019) and Euro 5,582 thousands to real estate transactions accounted as sale and lease back.

### Capital expenditures

During the financial year ended March 31, 2016 the Group carried out capital expenditures (tangible and intangible) of Euro 6,012 thousands compared with Euro 2,354 thousands booked in the previous financial year.

These investments are directed mainly to the retail channel, for renovations and for new stores activated in Italy and abroad.

### **Key economic data by geographical segments**

The Damiani Group operates in a single operating segment in which there are not any significant differences that could be considered as a basis for constituting separate business units. Therefore, the geographical dimension, featuring by the segments described afterwards, is subject of periodic observation and revision by the Directors as well as within the operational responsibilities of Group management.

The sectors are thus formed:

- i) the **Italy** segment includes revenues and operating costs of the parent company Damiani S.p.A., related to the domestic market, and its subsidiary Laboratorio Damiani S.r.l. that operates as manufacturing enterprise;
- ii) **Foreign countries** segment that includes revenues and operating costs of Damiani S.p.A. attributable to foreign markets, and commercial subsidiaries with registered offices outside the national borders that distribute the Group's products in their local markets.

The division between Italy and Foreign countries is the main dimension on which the Group proceeds to the analysis and evaluation of the business, both in term of revenues and operating profitability. To this end, the information by geographic region data taken from internal management systems of the Group is also considered, in order to allocate properly revenues and operating costs on the relevant areas.

In the following table are shown revenues by geographical sectors in the financial year ended March 31, 2016 and in the previous financial year ended March 31, 2015.

<b>Revenues by Geographical Area</b> <i>(in thousands of Euro)</i>	<b>Financial Year</b> <b>2015/2016</b>	<b>%</b> <b>of total</b>	<b>Financial Year</b> <b>2014/2015</b> <b>(restated) *</b>	<b>%</b> <b>of total</b>	<b>change</b> <b>%</b>
<b>Italy:</b>	<b>113,452</b>	73.1%	<b>103,983</b>	69.1%	9.1%
- revenues from sales and services	112,279		103,744		
- other revenues	1,173		239		
<b>Foreign Countries</b>	<b>41,835</b>	26.9%	<b>46,469</b>	30.9%	-10.0%
- revenues from sales and services	41,808		46,465		
- other revenues	27		4		
<b>Total revenues</b>	<b>155,287</b>	100.0%	<b>150,452</b>	100.0%	3.2%

(\*) The figures for the financial statements at March 31, 2015 have been reclassified to conform to the economic and financial representation adopted in the financial statements at March 31, 2016.

Compared with previous year the revenues in **Italy** grew by 9.1% benefiting of the good performance both in retail and wholesale channels.

Revenues in the **Foreign countries** decreased by 10.0% at current exchange rates (-13.0% at constant exchange rates), mainly penalized by the contraction recorded in the Eastern Europe where the economic and political crisis has strongly affected the consumption of luxury goods. Good performances have recorded by the Group in Japan (the second most important market after the domestic one) and in South Korea.

The following table shows the EBITDA breakdown by geographical areas in the financial years ended March 31, 2016 and March 31, 2015.



<b>EBITDA by Geographical Area (*)</b> <i>(in thousands of Euro)</i>	<b>Financial Year</b> <b>2015/2016</b>	<b>Financial Year</b> <b>2014/2015</b>	<b>change</b>
<b>Italy</b>	<b>16,068</b>	<b>6,795</b>	9,273
<b>Foreign Countries</b>	<b>8,079</b>	<b>(2,756)</b>	10,835
<b>Consolidated EBITDA</b>	<b>24,147</b>	<b>4,039</b>	20,108
<i>% on Revenues</i>	<i>15.5%</i>	<i>2.7%</i>	

(\*) EBITDA represents the operating result gross of depreciation, amortization and write-downs. EBITDA thus defined is used by the Company's management to monitor and evaluate the Company's operational performance and is not an IFRS accounting measure, therefore it must not be considered as an alternative measure for evaluating Company's results. Since EBITDA is not regulated by the accounting standards adopted, the criteria used by the Group may not be the same as criteria used by other companies and therefore cannot be used for comparative purposes.

In terms of EBITDA, both geographical segments recorded a significant improvement, also benefiting by non-recurring incomes.

### Related parties transactions

The operations carried out by the Damiani Group with related parties are mainly of real estate nature (property leasing for shops and offices) and financial (the executive Directors and shareholders Damiani Brothers signed a bond in the financial year 2013/2014). Data concerning dealings of the Group with related parties in the financial year ended March 31, 2016 and in the previous financial year are displayed hereunder (for further details see note 32. Transactions with related parties).

<i>(in thousands of Euro)</i>	<b>Financial Year 2015/2016</b>		<b>Balance at March 31, 2016</b>			
	Net operating costs	Financial expenses	Other current assets	Trade receivables	Financial debts (including	Trade payables
<b>Total with related parties</b>	(1,133)	(842)	541	5	(10,883)	(623)
<b>Total Consolidated</b>	(141,004)	(2,749)	7,745	34,111	(61,319)	(44,680)
%age weight	1%	31%	7%	0%	18%	1%

<i>(in thousands of Euro)</i>	<b>Financial Year 2014/2015</b>		<b>Balance at March 31, 2015</b>				
	Net operating costs	Financial expenses	Other current assets	Trade receivables	Financial debts (including	Other current liabilities	Trade payables
<b>Total with related parties</b>	(1,195)	(985)	608	4	(11,924)	(69)	(1,658)
<b>Total Consolidated</b>	(150,852)	(3,363)	8,656	35,843	(62,184)	(5,804)	(51,811)
%age weight	1%	29%	7%	0%	19%	1%	3%

(\*) The figures for the financial statements at March 31, 2015 have been reclassified to conform to the economic and financial representation adopted in the financial statements at March 31, 2016.

### Non-recurring, atypical and/or unusual transactions

In the financial year 2015/2016 there were no positions or transactions deriving from atypical and/or unusual operations as defined in the Consob ruling n. 15519 as of July 27, 2006.

As non-recurring operation it should be noted:

- The transfer to third parties of two lease contracts for properties in which the Group managed direct stores. The income for the Group as key money, net of related costs and taxes, was around Euro 20.5 millions, and is recognized in the income statement.

### Significant events during the financial year

On April 8, 2015 Silvia Damiani, Vice President of the Group, was named Businesswoman of the year 2015 by "Femmes Chefs d'Entreprises Mondiales" (FCEM) in the category Pioneers Award at the 63rd Annual World Congress of Women Entrepreneurs, held in the Kingdom of Bahrain, attended by over 500 women business leaders and entrepreneurs from around the world.

The FCEM, established in France in 1945, is the leading association for business and entrepreneurship that unites women owners of businesses around the world.

On April 27, 2015 Damiani received the "Leonardo Quality Italy" award, on the occasion of the "Day of Italian Quality", promoted by the Leonardo Committee and dedicated to companies that promote the image, style and excellence of Made in Italy in the world. Guido Damiani, President of the Group, was honored in Rome at the Quirinal Palace by Italian President Sergio Mattarella.

In early May 2015 the new multi-brand Rocca 1794 boutique was inaugurated, completely renovated and modernized in the stands, in the central Piazza Duomo in Milan. Besides Damiani, it offers corners dedicated to some of the most famous international brands of Haute Horlogerie and jewelry world: Rolex, Cartier, Omega and Jaeger-LeCoultre.

On May 27, 2015 a new mono-brand Damiani store was inaugurated at the Beijing International Airport. The store, managed in franchising, is part of the expansion strategy of the Group in the travel retail segment that is steadily growing in the global luxury market.

On June 3, 2015 at the Belgian pavilion at the Expo in Milan and attended by Minister of the Belgian Government an agreement between Damiani and HRD Antwerp was signed. HRD Antwerp is a European authority, leader in the certification of diamonds and owner of Diamond Lab, in conformity with the rules of the IDC (International Diamond Council).

On June 9, 2015 Damiani received, from the Polytechnic of Milan, the Ambrogio Lorenzetti award for corporate governance, in relation to listed company category, awarded by the GC Governance Consulting.

On June 11, 2015 was inaugurated the exhibition "Valenza and the art of jewelry: Damiani and the jewelry tradition", in the presence of well-known art critic Vittorio Sgarbi, the project promoter. The exhibition, in which Damiani showed its masterpieces that have characterized the successes of over 90 years of history, was open to the public until August at the charming spaces of Art nouveau Scalcabarozzi Palace, in Valenza, the Piedmont town cradle of the best jewelry tradition, internationally recognized.

In July a new multi-brand Rocca 1794 boutique was inaugurated at the International Airport Terminal 1 of Milan-Malpensa. The store hosts prestigious watch brands in addition to the jewelry of the Damiani Group.

On August 8, 2015 the new Damiani boutique in Tokyo was inaugurated, in the central and exclusive Chuo-dori in the Ginza district. The flagship store is located in a nine-floors building fully used by the Group that has moved there the headquarters of the Japanese subsidiary. Japan is the main export market of the Group. In Japan it already has 11 stores in the best department stores, and local customers have appreciated for years our Made in Italy products.

In August a new Damiani directly-managed boutique was inaugurated in the prestigious Pangyo Hyndai department store in the city of Seongnam in South Korea. This store has to be added to the other three already existing in the country in which the Group recently made its entrance, immediately obtaining the appreciation of the local customers.

On September 9, 2015 the conference to present the 72 Italian Open of Golf took place at the Royal Villa of Monza. For the second consecutive year it has Damiani as presenting sponsor. The greatest national golf event was held from Thursday 17 to Sunday 20 September, in the beautiful scenery of Milano Golf Club located inside the Park of Monza. The event was attended a public which registered a record in audience and the Trophy winner, Swedish Karlberg, also received, as reward, the gold cufflinks designed by Damiani and created specifically for the event. Damiani creations were also the protagonists of the gala dinner at the clubhouse of the Golf Club in the final evening of the event.

On September 9, 2015 the second Damiani boutique in Taipei, at 101Mall, was inaugurated. It is located in one of the tallest skyscrapers in the world in the financial and commercial heart of the island of Taiwan. The boutique, managed in franchising, is located on the second floor of the skyscraper, where there are the most important luxury brands.

On October 6, 2015 it has completed the contribution provided for by Decree of the Italian Ministry of Economic Development on March 5, 2014. This disbursement relates to the benefits granted to the manufacturing company of the Group, Laboratorio Damiani s.r.l., for the research and development of automated solutions for the processing of gold, made in previous years. The facilities consist of: i) a subsidized loan of Euro 1,056 thousands; ii) a contribution to the expense of Euro 704 thousands.

On November 11, was inaugurated the first Damiani boutique in Mexico City. It is into Palacio de Hierro, the most important and largest department store of luxury located in the residential neighborhood of Polanco in the Mexican metropolis.

In November the Group launched the direct management of a second Damiani boutique in Honolulu, in the prestigious context of Halekulani hotel, located in the Waikiki neighborhood, one of the most attractive tourist site in Hawaii.

In November the Group launched the direct management of the Damiani boutique in Moscow.

For the first edition of the Gazzetta Sports Awards on December 16, 2015, Damiani has created the rings which were awarded to the top eight Italian athletes who excelled worldwide in 2015 in their respective disciplines. The award ceremony was held at the Metropol theatre in Milan and at the ceremony the celebrities from the world of sport and entertainment wore the Damiani jewelries.

On December 4, 2015 Damiani has signed an exclusive license agreement for the Alfieri & St. John brand with the company Gens Aurea S.p.A. (controlled by the private equity fund Progressio) that, as a licensee, has acquired the right for a period of five years to produce and sell products with the licensed brand. For the duration of the agreement Damiani will receive a royalty on net sales made by the licensee. The agreement also includes an option to purchase the brand in favor of the licensee at the end of five years or a right of sale in favor of the licensor, under the terms and conditions stipulated in the license agreement. This agreement is part of the strategy for streamlining the Damiani brand's portfolio and became operational in the month of January 2016.

On January 29, 2016 Damiani International SA purchased a minority share in Venini S.p.A., historic and noble Murano glass factory that since 1921 is synonymous of Made in Italy in the glass art works.

### **Significant events after the end of the financial year**

With effect from April 1, 2016 Damiani S.p.A. acquired the availability of a new commercial building in Venice, which will be a new boutique Damiani, with scheduled opening in July 2016.

In April 2016 Damiani's new advertising campaign was presented. It tells a fascinating journey in Italy. Images taken by the famous photographer Greg Williams, match the beauty and artistic excellence of the country to the new brand ambassador, actress Nicoletta Romanoff, a direct descendant of the tsar of Russia, who perfectly embodies modern elegance of Damiani jewelry.

As part of the strengthening of the brand in the domestic market, on May 2016 it has started the direct management of a Salvini boutique in via Montenapoleone in Milan.

### **Business outlook**

In the financial year 2015/2016 the Damiani Group has returned to record a net profit after a few difficult years in which it had to face a world economic crisis of proportions and durability definitely exceptional. In this context, the Group has continued to invest in Italy and abroad, aware of its strength and validity of its strategies adopted. The Group has also put in place those actions aimed at making more efficient and effective business processes, with the goal to recover sustainable profitability levels in operational terms.

Are part of this frame also the operations aimed to valorize the direct network of the Group, such as those that have made during the financial year 2015/2016 which have added financial resources. Even in the future, in particular situations of economic and financial convenience and as part of an overall business strategy, they may be repeated.

Even the diversification operations, that in the financial year 2015/2016 had a marginal impact on the Group, may gain more weight in the near future. These projects will always aiming to develop synergies that can generate growth in revenues and earnings, without altering the characteristics of the Group or jeopardize the financial balance.

So, in the near future we will continue on already largely drawn lines and firmly understood and shared by all company structures, aware of the difficulties involved in increasingly competitive markets and with high volatility. Investments will be targeted in order to seize business opportunities that can ensure further growth path for the Group in terms of turnover and profitability, as well as generate adequate cash flows.

Under article 3 of Consob Resolution n. 18079 of January 20, 2012, we inform you that Damiani S.p.A. uses the derogation provided for article 70, paragraph 8 and 71, paragraph 1-bis, of Consob Regulation n. 11971/99 and subsequent changes and additions.

Milan, June 14, 2016

For the Board of Directors  
CEO  
Giorgio Grassi Damiani

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## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

<i>(in thousands of Euro)</i>	Note	March 31, 2016	March 31, 2015 (restated)*
<b>NON-CURRENT ASSETS</b>			
Goodwill	4	2,760	4,723
Other Intangible Assets	5	2,255	4,324
Property, plant and equipment	6	15,818	16,048
Investments	7	207	167
Financial receivables and other non current assets	8	3,949	4,658
Deferred tax assets	9	14,124	16,293
<b>TOTAL NON CURRENT ASSETS</b>		<b>39,113</b>	<b>46,213</b>
<b>CURRENT ASSETS</b>			
Inventories	10	103,361	92,598
Trade receivables	11	34,111	35,843
<i>of which towards related parties</i>		5	4
Tax receivables	12	1,034	845
Other current assets	13	7,745	8,656
<i>of which towards related parties</i>		541	608
Cash and cash equivalents	14	8,818	9,607
<b>TOTAL CURRENT ASSETS</b>		<b>155,069</b>	<b>147,549</b>
<b>TOTAL ASSETS</b>		<b>194,182</b>	<b>193,762</b>
<b>GROUP SHAREHOLDERS' EQUITY</b>			
Share Capital		36,344	36,344
Reserves		24,643	28,851
Group net income (loss) for the period		5,623	(3,454)
<b>TOTAL GROUP SHAREHOLDERS' EQUITY</b>		<b>66,610</b>	<b>61,741</b>
<b>NON CONTROLLING INTEREST</b>			
Non controlling interest share capital and reserves		1,339	2,570
Non controlling interest net income (loss) for the period		(202)	(145)
<b>TOTAL NON CONTROLLING INTEREST</b>		<b>1,137</b>	<b>2,425</b>
<b>TOTAL SHAREHOLDERS' EQUITY</b>	15	<b>67,747</b>	<b>64,166</b>
<b>NON CURRENT LIABILITIES</b>			
Long term financial liabilities	16	27,892	21,941
<i>of which towards related parties</i>		9,847	10,893
Employees Termination Indemnities	17	4,376	5,013
Deferred Tax liabilities	9	745	1,133
Provision for risks and charges	18	1,026	764
Other non current liabilities	19	391	503
<b>TOTAL NON CURRENT LIABILITIES</b>		<b>34,430</b>	<b>29,354</b>
<b>CURRENT LIABILITIES</b>			
Current portion of long term financial liabilities	16	5,049	3,736
<i>of which towards related parties</i>		1,036	1,031
Trade payables	20	44,680	51,811
<i>of which towards related parties</i>		623	1,658
Short term borrowings	21	28,378	36,507
Tax payables	22	5,983	2,384
Other current liabilities	23	7,915	5,804
<i>of which towards related parties</i>		-	69
<b>TOTAL CURRENT LIABILITIES</b>		<b>92,005</b>	<b>100,242</b>
<b>TOTAL LIABILITIES</b>		<b>126,435</b>	<b>129,596</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>194,182</b>	<b>193,762</b>

(\*) The figures for the financial statements at March 31, 2015 have been reclassified to conform to the economic and financial representation adopted in the financial statements at March 31, 2016.

## CONSOLIDATED INCOME STATEMENT

<i>(in thousands of Euro)</i>	Note	Financial Year 2015/2016	Financial Year 2014/2015 (restated)*
Revenues from sales and services		154,087	150,209
Other revenues		1,200	243
<b>TOTAL REVENUES</b>	24	<b>155,287</b>	<b>150,452</b>
Cost for raw materials and consumables	25	(80,249)	(82,454)
Cost of services	26	(50,662)	(41,931)
<i>of which towards related parties</i>		<i>(1,133)</i>	<i>(1,210)</i>
<i>of which not recurring</i>		<i>(250)</i>	-
Personnel cost	27	(26,725)	(25,051)
Other net operating (charges) incomes	28	26,496	3,023
<i>of which towards related parties</i>		-	15
<i>of which not recurring</i>		<i>27,500</i>	<i>1,891</i>
Amortization, depreciation and write downs	29	(9,864)	(4,439)
<i>of which not recurring</i>		<i>(2,610)</i>	<i>(498)</i>
<b>TOTAL OPERATING EXPENSES</b>		<b>(141,004)</b>	<b>(150,852)</b>
<b>OPERATING INCOME (LOSS)</b>		<b>14,283</b>	<b>(400)</b>
Financial Expenses	30	(2,749)	(3,363)
<i>of which towards related parties</i>		<i>(842)</i>	<i>(985)</i>
Financial Incomes	30	737	192
<b>INCOME (LOSS) BEFORE INCOME TAXES</b>		<b>12,271</b>	<b>(3,571)</b>
Income Taxes	31	(6,850)	(28)
<b>NET INCOME (LOSS) FOR THE PERIOD</b>		<b>5,421</b>	<b>(3,599)</b>
Attributable to:			
Equity holders of the parent		5,623	(3,454)
Non controlling interests		(202)	(145)
Basic Earnings (Losses) per Share(*)		<b>0.07</b>	<b>(0.04)</b>
Diluted Earnings (Losses) per Share(*)		<b>0.07</b>	<b>(0.04)</b>

(\*) The figures for the financial statements at March 31, 2015 have been reclassified to conform to the economic and financial representation adopted in the financial statements at March 31, 2016.

(\*\*) The earnings (losses) per share are calculated by dividing the net result for the financial year belonging to the ordinary shareholders of the parent company by the weighted average of the number of shares in circulation during the period.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

<i>(in thousands of Euro)</i>	Financial Year 2015/2016	Financial Year 2014/2015 (restated)*
<b>Net income (Loss) for the period</b>	<b>5,421</b>	<b>(3,599)</b>
<i>Other gains (losses) that will be reclassified to net income for the period:</i>		
Gain (Losses) on cash flow hedges	0	0
Tax Effect	(0)	(0)
Gain (Losses) on exchange differences on translating foreign operations	(561)	(3,723)
Tax Effect	118	(1,787)
<i>Other gains (losses) that will not be reclassified to net income for the period:</i>		
Gain (Losses) on the remeasurement of defined benefit plans	79	(255)
Tax effect	(21)	75
<b>Total Comprehensive Income (loss) for the period</b>	<b>5,037</b>	<b>(9,289)</b>
Equity holders of the parent	5,246	(9,204)
Non controlling interests	(209)	(85)

(\*) The figures for the financial statements at March 31, 2015 have been reclassified to conform to the economic and financial representation adopted in the financial statements at March 31, 2016.

## CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

<i>(in thousands of Euro)</i>	Share Capital	Share Premium Reserve	Legal Reserve	Shareholders payment reserve	Stock option reserve	Treasury Shares	Other reserves	IAS 19 reserve	Net income (Loss) for the period	Group shareholders' equity	Non controlling interest	Total shareholders' equity
<b>Balances at March 31, 2014</b>	<b>36,344</b>	<b>67,789</b>	<b>2,434</b>	<b>8,618</b>	<b>577</b>	<b>(8,134)</b>	<b>(34,775)</b>	<b>(355)</b>	<b>(8,557)</b>	<b>63,941</b>	<b>2,454</b>	<b>66,395</b>
Allocation of the result for the period		(2,033)					(6,524)		8,557			
Other comprehensive income(loss)							(5,570)	(180)	(3,454)	(9,204)	(85)	(9,289)
Changes perimeter of consolidation							6,791			6,791	122	6,913
Dividends to minority shareholders											(66)	(66)
Stock option					214					214		214
<b>Balances at March 31, 2015</b>	<b>36,344</b>	<b>65,756</b>	<b>2,434</b>	<b>8,618</b>	<b>791</b>	<b>(8,134)</b>	<b>(40,078)</b>	<b>(535)</b>	<b>(3,454)</b>	<b>61,741</b>	<b>2,425</b>	<b>64,166</b>

  

<i>(in thousands of Euro)</i>	Share Capital	Share Premium Reserve	Legal Reserve	Shareholders payment reserve	Stock option reserve	Treasury Shares	Other reserves	IAS 19 reserve	Net income (Loss) for the period	Group shareholders' equity	Non controlling interest	Total shareholders' equity
<b>Balances at March 31, 2015</b>	<b>36,344</b>	<b>65,756</b>	<b>2,434</b>	<b>8,618</b>	<b>791</b>	<b>(8,134)</b>	<b>(40,078)</b>	<b>(535)</b>	<b>(3,454)</b>	<b>61,741</b>	<b>2,425</b>	<b>64,166</b>
Allocation of the result for the period			130				(3,584)		3,454	-		-
Other comprehensive income(loss)							(433)	55	5,623	5,246	(209)	5,037
Changes perimeter of consolidation							(522)			(522)	(1,018)	(1,540)
Dividends to minority shareholders											(61)	(61)
Stock option					145					145		145
<b>Balances at March 31, 2016</b>	<b>36,344</b>	<b>65,756</b>	<b>2,564</b>	<b>8,618</b>	<b>936</b>	<b>(8,134)</b>	<b>(44,617)</b>	<b>(480)</b>	<b>5,623</b>	<b>66,610</b>	<b>1,137</b>	<b>67,747</b>

## CONSOLIDATED STATEMENT OF CASH FLOWS

<i>(in thousand of Euro)</i>	<b>Financial Year 2015/2016</b>	<b>Financial Year 2014/2015 (restated)*</b>
<b>CASH FLOW FROM/(USED IN) OPERATING ACTIVITIES</b>		
Net income (loss) for the period	5,421	(3,599)
<i>Adjustments to reconcile the income (loss) for the period to the cash flow generated (absorbed) by operating activities:</i>		
Amortization, depreciation and write downs	9,864	4,439
Costs/(revenues) for stock option	145	214
(Gains)/Losses from sale of non current assets	161	66
Accrual (releases) of allowance for doubtful accounts	804	1,660
Accrual (releases) of provision for risks and charges	489	250
Changes in the fair value of financial instruments	143	(657)
Accrual to employees' termination indemnity	40	353
Employees' termination indemnity payments	(677)	(345)
Changes in the deferred tax assets and liabilities	1,781	883
	18,170	3,263
<i>Changes on operating assets and liabilities:</i>		
Trade receivables	928	(6,978)
Inventories	(10,763)	(6,853)
Trade payables	(7,131)	2,628
Tax receivables	(189)	(348)
Tax payables	3,599	44
Provisions for risks and charges	(227)	(66)
Other current assets and current and non current liabilities	2,767	(987)
<b>NET CASH FLOW FROM/(USED IN) OPERATING ACTIVITIES (A)</b>	<b>7,154</b>	<b>(9,297)</b>
<b>CASH FLOW FROM/(USED IN) INVESTING ACTIVITIES</b>		
Disposal of intangible assets and property, plant and equipment	30	128
Purchase of property, plant and equipment	(4,207)	(1,677)
Purchase of intangible assets	(1,805)	(677)
Financial investments	(94)	-
Net change in the other non current assets	763	(533)
<b>NET CASH FLOW FROM/(USED) IN INVESTING ACTIVITIES (B)</b>	<b>(5,313)</b>	<b>(2,759)</b>
<b>CASH FLOW FROM/(USED IN) FINANCING ACTIVITIES</b>		
Repayment of long term loans	(3,829)	(4,906)
Issuance of long-term debt	11,093	903
Net change in short-term financial liabilities	(8,129)	14,953
<b>NET CASH FLOW FROM/(USED IN) FINANCING ACTIVITIES (C)</b>	<b>(865)</b>	<b>10,950</b>
<b>TOTAL CASH FLOW (D=A+B+C)</b>	<b>976</b>	<b>(1,106)</b>
Effect of exchange rates on cash (E)	(1,765)	249
<b>CASH AND CASH EQUIVALENT AT THE BEGINNING OF THE YEAR (F)</b>	<b>9,607</b>	<b>10,464</b>
<b>CASH AND CASH EQUIVALENT AT THE END OF THE PERIOD (G=D+E+F)</b>	<b>8,818</b>	<b>9,607</b>

(\*) The figures for the financial statements at March 31, 2015 have been reclassified to conform to the economic and financial representation adopted in the financial statements at March 31, 2016.



## EXPLANATORY NOTES

### 1. COMPANY INFORMATION AND BASIS OF PRESENTATION

#### Company information

The Damiani Group has been engaged for several years in the production and distribution of jewelry products and watches through both wholesale and retail channels. In particular, the Group offers five prestigious jewelry brands, such as Damiani, Salvini, Bliss, Alfieri & St. John and Calderoni. Moreover, through the Rocca 1794 network, the Damiani Group also distributes prestigious third-party brands in multi-brand boutiques, mainly regarding timepieces.

The registered office of the parent company Damiani S.p.A. is located in Piazza Damiano Grassi Damiani 1, Valenza (AL), Italy. Damiani S.p.A. is controlled by Leading Jewels S.A. (attributable to the family Grassi Damiani), which owns 58.83% of share capital.

#### Declaration of conformity to the International Accounting Standards (IFRS)

The Damiani Group prepared its consolidated financial statements as of and for the year ended March 31, 2016 in accordance with IAS/IFRS international accounting standards and related interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and of the Standing Interpretations Committee (SIC), issued by the International Accounting Standards Board (IASB) and adopted by the European Community, and with the measures implementing article 9 of Legislative Decree 38/2005.

#### Basis of presentation

The consolidated financial statements of the Damiani Group as of and for the year ended March 31, 2016 cover the period April 1, 2015 – March 31, 2016. They include the consolidated statement of financial position, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in shareholders' equity, the consolidated statement of cash flows and the explanatory notes (hereafter, the "Consolidated Financial Statements"). They have been approved by the Board of Directors of Damiani S.p.A. on June 14, 2016.

The statements comply with the provisions of IAS 1 – (Revised) Presentation of financial statements.

The structure of the statement of financial position follows the classification by "current assets" and "non-current assets", while the income statement classifies by nature. The cash flow statement has been prepared using the indirect method.

In accordance with Consob Resolution n. 15519 dated July 27, 2006, the effects of transactions with related parties are presented in the statement of financial position as well as in the income statement. Transactions with related parties are identified in accordance with the extended definition laid down by IAS 24, i.e. including relations with the administrative and control bodies as well as those executives who have strategic responsibilities. See also note 32. Transactions with related parties.

The Consolidated financial statements were prepared in thousands of Euro. All amounts included in the tables presented below are shown in thousands of Euro, unless otherwise indicated.

### 2. ACCOUNTING POLICIES

#### Criteria used

The financial statements of Damiani Group for the period April 1, 2015 – March 31, 2016 have been prepared in accordance with IFRS as adopted by the European Union. They include the financial statements of Damiani S.p.A. and those of the Italian and foreign companies, directly or indirectly controlled by the Company, determining their financial and management decisions and obtaining the corresponding benefits. Financial statements and equivalent accounts of Italian and foreign subsidiaries prepared following local GAAP were adjusted in order to be consolidated under IFRS.

The consolidated financial statements as of and for the year ended March 31, 2016 have been prepared on a going concern basis. In fact, the Group believe that there is no uncertainty about the ability to continue in operational existence for the foreseeable future. All this thanks to the actions taken to adapt to the current trend of the market, the effects of which are visible in the financial year 2015/2016 and further reflected in the business plans that provide, compared with the year ended, an additional recovery in revenues, especially with

reference to the foreign markets, and the improvement in operating profit, net of non-recurring transactions. The income statement, the changes in shareholders' equity and the cash flows for the financial year ended March 31, 2016 have compared with the figures for the corresponding prior year period. The statement of financial position as of March 31, 2016 has compared with that as of March 31, 2015.

In this regard, to make better comparability between economic/financial values of the two years, the data of the financial statements at March 31, 2015 have been reclassified in some items (revenues from sales and services and other revenues, current financial liabilities, cash and trade receivables). The main effect is made by the redetermination of the net financial position of the Group with an increase of Euro 1,645 thousands. Subsidiaries are fully consolidated from the date of the acquisition of the control by the Group and they cease being consolidated from the date when such control ceases.

The following subsidiaries are included within the scope of consolidation on March 31, 2016:

Company name	Registered office	Currency	Share Capital (local currency)	Held by	% Direct (*)	% of the Group
Laboratorio Damiani S.r.l.	Valenza (AL), Italy	EUR	850,000	Damiani S.p.A.	75.50%	75.50%
Damiani International B.V.	Amsterdam, Netherland	EUR	193,850	Damiani S.p.A.	100.00%	100.00%
Damiani Japan K.K.	Tokyo, Japan	JPY	495,000,000	Damiani International B.V.	0.00%	86.00%
Damiani USA, Corp.	New York, USA	USD	900,000	Damiani International B.V.	0.00%	100.00%
Casa Damiani Espana S.L.	Valencia, Spain	EUR	721,200	Damiani S.p.A.	99.00%	100.00%
Damiani Hong Kong Ltd	Hong Kong	HKD	72,500,000	Damiani S.p.A.	96.00%	100.00%
Damiani France S.A.	Paris, France	EUR	38,500	Damiani International B.V.	0.00%	100.00%
Damiani Macau Ltd	Macau	MOP	22,500,000	Damiani Hong Kong Ltd	0.00%	100.00%
Rocca International S.A.	Lugano, Switzerland	CHF	600,000	Damiani S.p.A.	100.00%	100.00%
Damiani Mexico S.A. de C.V.	Mexico Distrito Federal	MXN	3,000,000	Damiani International B.V.	10.00%	100.00%
Damiani Shanghai Trading Co. Ltd	Shanghai, China	CNY	45,000,000	Damiani S.p.A.	100.00%	100.00%
Damiani Korea Co. Ltd	Seoul, South Korea	KRW	1,900,000,000	Damiani S.p.A.	100.00%	100.00%
Damiani India PVT. Ltd	New Delhi, India	INR	70,000,000	Damiani International B.V.	0.00%	100.00%
Damiani International S.A.	Manno, Switzerland	CHF	1,000,000	Damiani International B.V.	0.00%	100.00%
Damiani Russia LLC	Moscow, Russia	RUB	10,000	Damiani S.p.A.	100.00%	100.00%

(\*) It's the share directly held by Damiani S.p.A.

Compared with the financial year ended March 31, 2015 the consolidation area at March 31, 2016 changed as follows:

- On July 14, 2015 Damiani S.p.A. acquired shares in Laboratorio Damiani S.r.l. held by Christian Rizzetto, 24.5% of the share capital of the company, for a value equivalent to the corresponding portion of shareholders' equity at March 31, 2015. Following this transaction, Damiani S.p.A. holds 75.5% of the share capital of Laboratorio Damiani S.r.l.
- On August 5, 2015 the company Damiani Russia LLC was set up. It is based in Moscow and has a capital of 10,000 rubles, wholly owned by Damiani S.p.A. The company aims to market the Group's brands in the Russian territory in the wholesale and retail channels.
- On October 6, 2015 Damiani International B.V. purchased the 49% of the share capital of Damiani India PVT. Ltd. owned by the two Indian partners. Following this transaction Damiani International B.V. owns 100% of the share capital of the Indian subsidiary.

### Associated companies

Associated companies are those in which the Group owns at least 20% of voting rights or exercises significant influence, but not control, over financial and operating policies.

At March 31, 2016 the Group had no interests in associated companies.

### Other investments

The following table includes information regarding investments in other companies held by the Damiani Group as of March 31, 2016 whose total value was Euro 207 thousands. See the "Summary of the main accounting policies" paragraph below for details regarding the evaluation criteria of the other investments.

Company name	Currency	Share capital (in thousands of Euro)	Book value (in thousands of Euro)	Held by	% owned directly	% owned by whole Group
Fin-or-val S.r.l. (1)	Euro	2,966	126	Damiani S.p.A.	4.36%	4.36%
Banca d'Alba (1)	Euro	46,792	41	Damiani S.p.A.	0.50%	0.50%
Venini S.p.A. (2)	Euro	3,725	94	Damiani International S.A.	5.00%	5.00%

(1) Share capital at December 31, 2014

(2) Share capital as approved by the resolution of January 29, 2016

## Consolidation

In the preparation of the consolidated financial statement the assets, liabilities, costs and revenues were consolidated using the line by line method, while "non-controlling" interests (in shareholders' equity and in the net result for the period) are accounted for separately in the statement of financial position and income statement. The carrying amount of the investment in each of subsidiary annulled against the corresponding portion of shareholders' equity in the same subsidiary, taking into consideration any fair value adjustments of its assets and liabilities, at the acquisition date, and allocating to goodwill any residual difference.

All balances and transactions within the Group, including any unrealized gains arising from intra-Group relations, are netted out. Likewise all profits and losses on trade with associate companies, to the extent of the Group's share. Intra-group losses are also netted out, except impairments.

## Translation of financial statements expressed in foreign currencies different from euro

The consolidated financial statements are expressed in Euro, which is also the functional currency in which the main Group companies operate.

The statement of financial position and the income statement figures for companies operating in currency other than Euro are translated into Euro, by applying: (i) the spot exchange rates at year end, for statement of financial position items; (ii) the historical exchange rates, for shareholders' equity items; (iii) the yearly average rates, for income statement items.

Exchange rate translation differences arising from the application of different exchange rates for assets and liabilities, shareholders' equity and the income statement are recognized in the consolidated shareholders' equity item "Foreign currency conversion reserve" for the portion attributable to the Group, and in the item "Non-controlling interests share capital and reserves" for the portion attributable to non-controlling interests.

The statement of financial position and income statement figures translated into Euro are those denominated in the functional currency. Goodwill and fair value adjustments generated when recognizing the purchase cost of a foreign company are recognized in the currency in which they were paid and are translated using the exchange rate at the end of the financial period.

## Accounting standards

The Damiani Group prepared its consolidated financial statements as of and for the year ended March 31, 2016 in accordance with international accounting standards (IFRS) issued by the International Accounting Standards Board (IASB) and adopted by the European Community and with the measures implementing article 9 of Legislative Decree 38/2005. IFRS also included all revised International Accounting Standards (IAS) and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), previously called Standing Interpretations Committee (SIC).

The accounting policies adopted in the preparation of these Consolidated financial statements are consistent with those applied in preparing the consolidated financial statements as of March 31, 2015, except as outlined below in relation to the amendments and interpretations applicable from April 1, 2015.

## Accounting standards, amendments and interpretations effective from April 1, 2015

Below are the nature and the impact of any new/revised accounting standards:

- Annual cycle of improvements IFRS 2010-2012. They include:
  - IFRS 2: definition of "vesting condition".
  - IFRS 3: Recognition of "contingent consideration" in a business combination.
  - IFRS 8: Information on the aggregation of operating segments.
  - IFRS 8: Reconciliation between the total assets of the operating segments with the total assets of the

company.

- IFRS 13: short-term receivables and payables.
- IAS 16 / IAS 38: revaluation method: proportional restatement of accumulated depreciation.
- IAS 24: a management company that provides management services with strategic responsibilities should be considered as a related party.
- Annual cycle of improvements IFRS 2011-2013. They include:
  - IFRS 3: it clarifies that the principle does not apply in accounting for the establishment of an agreement to joint control.
  - IFRS 13: changed the scope of the section on portfolio exception.
  - IAS 40: clarifies that, in determining whether a transaction is the purchase of an asset or a business combination must be used IFRS 3 and not the description of ancillary services in IAS 40.
- IAS 19 - Employee benefits: employee contributions (revised). IAS 19 calls for an entity to consider the contributions by employees or third parties when accounting defined benefit plans. When contributions are linked to the performance of the service, they should be attributed to the period of service as a negative benefit. The amendment states that if the amount of the fees is independent of the number of years of service, it's permitted to an entity to recognize these contributions as a reduction of cost of service during the period in which the service is provided, instead of allocating contributions to periods of service.
- IFRIC 21 - Taxes: clarifies that an entity recognizes a liability for taxes at the earliest when the event (to which the payment is linked) occurs, in accordance with applicable law. For payments that are due only to the passing of a certain minimum threshold, the liability is recognized only when the threshold is reached. It is required retrospective application for IFRIC 21.

### **Accounting standards, amendments and interpretations not yet applicable and not early adopted by the Company**

Listed below are the accounting standards, which, at the date of the financial statements of the Group, were already issued but not yet effective. The Group intends to adopt these standards when they come into force.

- IFRS 11 agreements to joint ventures: acquisition of a share. The amendments require that a joint operator recognizes that the acquisition of a stake in an agreement to joint control, whose activities represent a business, must apply the relevant principles of IFRS 3 regarding the accounting for business combinations. The changes also clarify that, in the maintenance of joint control, the previously held share in an agreement to joint control is not subject to re-measurement at the acquisition of an additional stake. In addition, it has added an exclusion from the scope of IFRS 11 to clarify that the changes do not apply when the parties sharing control, including the reporting entities are under common control of the same last controlling party. The changes apply both to the acquisition of the initial share of participation in an agreement to joint control and to the acquisition of each additional share in the same agreement to joint control. The changes must be applied prospectively for annual periods beginning on January 1, 2016 or later. Earlier application is permitted. No impact is expected on the Group arising from the application of the standard.
- IFRS 9 – Financial instruments: in July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that reflects all phases of the project relating to financial instruments and replaces IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for the classification, measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning from January 1, 2018 or later. Earlier application is permitted. It is required retrospective application of the principle, but it's not required to provide comparative information. It is permitted early application of the previous versions of IFRS 9 (2009, 2010 and 2013) if the date of initial application is earlier than February 1, 2015. No impact is expected on the Group arising from the application of the amendments.
- IFRS 15 - Revenue from contracts with customers. IFRS was issued in May 2014 and introduces a new model in five stages, which will apply to revenues from contracts with customers. IFRS 15 requires the recognition of revenue for an amount that reflects the compensation which the entity believes to receive in exchange for the transfer of goods or services to the customer. The standard provides a more structured approach to the recognition and measurement of revenue, replacing all current requirements in the other IFRS regarding revenue recognition. IFRS 15 is effective for annual periods beginning from January 1, 2017 onwards, with full retrospective application or modified. Earlier application is permitted. The Group plans to apply the new standards to the mandatory effective date and is assessing the impact.
- Amendments to IAS 1 - Use of judgment in financial reporting: the amendments to IAS 1 clarify some elements perceived as restrictions on the use of judgment from who draft the financial statements, and are effective for annual periods beginning on January 1, 2016 or later. Earlier application has permitted.

- Amendments to IAS 16 and IAS 38 - Clarification of the allowable methods of depreciation: the changes clarify the principles set out in IAS 16 and IAS 38: revenues reflect a pattern of economic benefits from operating a business, rather than economic benefits that wear out with use of the item. It follows that a method based on sales cannot be used for the depreciation of property, plant and equipment and may be used only in very limited circumstances for the amortization of intangible assets. The changes must be applied prospectively for annual periods beginning on January 1, 2016 or later. Earlier application has permitted. No impact is expected on the Group arising from the application of the amendments.
- Amendments to IFRS 10, IFRS 12 and IAS 28 - Investment Entities: the application of the exception to consolidation: the amendment clarifies the problems arising from the application of the exception to consolidation planned for the size of the investment, and effective for annual periods beginning on January 1, 2016 or later. Earlier application has permitted.
- Amendments to IFRS 10 and IAS 28 - Sale or transfer of an asset between an investor and an associate or joint venture: the amendment aims to eliminate the conflict between the requirements of IAS 28 and IFRS 10 and clarifies that, in a transaction that involves an associate or joint venture, the extent to which it is possible to detect a gain or loss depends on whether the asset, the subject of the sale or contribution, is a business. The amendment is effective for annual periods beginning on January 1, 2016 or later. Earlier application is permitted. No impact is expected on the Group arising from the application of the amendments.
- IFRS 11 agreements to joint ventures: acquisition of a share (amendments): The amendments require that a joint operator recognizes that the acquisition of a stake in an agreement to joint control, whose activities represent a business, must apply the relevant principles of IFRS 3 regarding the accounting for business combinations. The changes also clarify that, in the maintenance of joint control, the previously held share in an agreement to joint control is not subject to re-measurement at the acquisition of an additional stake. In addition, it has added an exclusion from the scope of IFRS 11 to clarify that the changes do not apply when the parties sharing control, including the reporting entities are under common control of the same last controlling party. The changes apply both to the acquisition of the initial share of participation in an agreement to joint control and to the acquisition of each additional share in the same agreement to joint control. The changes must be applied prospectively for annual periods beginning on January 1, 2016 or later. Earlier application is permitted. No impact is expected on the Group arising from the application of the amendments.
- Annual cycle of improvements IFRS 2012-2014. The improvements are effective from January 1, 2016 or later. They include:
  - IFRS 5: reclassification guide to methods provisions.
  - IFRS 7: further guidance to service contracts and applicability of IFRS 7 in the interim financial statements.
  - IAS 19: clarification of the discount rate.
  - IAS 34: guidance on the meaning of "in other sections of the interim report".

## **Use of estimates**

The preparation of the financial statements and the explanatory notes under the IFRSs requires the Group to make estimates and assumptions, which affect the values of the assets and liabilities stated in the consolidated financial statements and the reporting of potential assets and liabilities. Final results could differ from these estimates, which are used to measure provisions for credit risk, returns on sales, commercial obsolescence on stocks, to determine the useful life of property, plant and equipment and intangible assets in the calculation of amortization and depreciation, asset impairments, employee benefits, provisions for risks and charges and the assessment of taxable income for the purposes of determining the recoverability of deferred tax assets. These estimates and assumptions are reviewed periodically, and the effects of any change are booked directly to the income statement.

The main valuation processes for which the Group has used estimates regard the analysis of recoverability of goodwill and value of investments in the financial statements (impairment test), valuation of expected future returns on sales, determination of trade receivable and inventory write-downs, and determination of risk reserves for which at the reporting date there are obligations for which are likely to use resources to satisfy them.

The current economic and financial environment has a great volatility and uncertainty. Therefore, assumptions regarding future trends of revenues, costs and cash flows are characterized by high randomness and results of upcoming financial periods may be significantly different from those estimated, calling for adjustment of their respective valuations, which cannot be estimated or foreseen at this time. The financial statements items that

may be affected are goodwill, the funds for return on sales, the allowance for doubtful accounts and the inventory obsolescence reserve.

For further details on the estimates, please refer to the below specific notes to the financial statements.

## Summary of the main accounting policies

### Goodwill

Goodwill acquired in a business combination is defined as the amount by which the cost of the combination is exceeded by the combined Group's share of its total shareholders' equity at current values as calculated from the values of the identifiable assets, liabilities and potential liabilities that have been acquired. Following the initial entry, goodwill is valued at cost less any accrued impairment. Goodwill is subjected to an impairment test, either annually or more often if events or changes occur that might give rise to any impairment.

For the purposes of these impairment tests, the goodwill acquired with business combinations is allocated, from the acquisition date onwards, to each of the cash-generating units (or groups of units) which are believed to profit from the synergistic effects of the acquisition, regardless of the allocation of any other assets or liabilities acquired. Each unit or group of units to which goodwill is allocated:

- represents the lowest level within the Group at which goodwill is monitored for internal management purposes;
- is no greater than an operating segment of the Group as defined in the operating segments chart under IFRS 8.

Impairment is determined by defining the recoverable value of the cash generating unit (or group of units) to which the goodwill is allocated. If this recoverable value of the CGU (or group of CGUs) is lower than the book value, an impairment loss is recognized. Where goodwill has been attributed to a CGU (or group of CGUs) whose assets are partially disposed of, the goodwill associated with the asset disposed of is taken into account for the purposes of calculating any capital gain (or loss) arising from the transaction. In these circumstances the goodwill transferred is measured on the basis of the amount of the sold asset in proportion to the asset still held by the same unit.

### Intangible assets

Intangible assets acquired separately are recognized at cost, while those acquired through business combinations are recognized at fair value at the acquisition date. After initial recognition, intangible assets are booked at cost, net of accumulated amortization and any accumulated impairments. Intangible assets generated internally are not capitalized, but are recognized in the income statement for the period in which the cost of generating them was incurred.

The useful life expectancy of intangible assets is assessed as finite or indefinite. Intangible assets with a finite useful life are amortized over their estimated useful life. They are subjected to impairment tests whenever there are reasons to suspect a possible impairment. The amortization period and method applied to them is reviewed at the end of each financial period, or more often if necessary.

Changes in the expected useful life or in the way the future financial rewards connected with the intangible asset are reaped by the Group are recognized by modifying the amortization period or method, and treated as changes in the accounting estimates. The amortization rates for intangible assets with a finite life are recognized in the income statement in the cost category consistent with the intangible asset's function.

Intangible assets with an indefinite useful life are subjected annually to an impairment test at the individual level or at the cash-generating unit level. These assets are not amortized at all. The useful life of an intangible asset with an indefinite useful life is reviewed each year to check that the conditions for this classification are still met. If not, the change from indefinite to finite useful life is done prospectively.

Gains or losses arising on disposal of an intangible asset are measured as the difference between the net revenue from the sale and the net book value of the asset, and are recognized in the income statement at the time of the sale.

In the case of intangible assets with a finite life expectancy, the annual amortization rates applied are as follows:

Category	Rate
Industrial rights and patents	from 10% to 20%
Software licences	from 20% to 33%
Key Money (indemnities paid for renewal of shop rental contracts)	duration of contract
Other deferred charges	from 14% to 20%

## Research and development costs

Research costs are directly recognized in the income statement in the financial year when they are incurred. Development expenditures on a particular project are capitalized only when the Group can demonstrate the technical possibility of completing the intangible asset so as to make it available for use or sale, the intention of completing it for in-house use or for sale to third parties, the generation of probable financial benefits in future, the availability of technical, financial and other resources needed to complete development, the ability to reliably evaluate the cost of the asset during its development and the existence of a market for the products and/or services that will arise from the asset and/or its usefulness for internal purposes can be demonstrated.

Following initial recognition, development costs are booked net of accumulated amortization and of any impairment losses recognized as previously described for intangible fixed assets with a finite useful life.

As of March 31, 2016 there are no capitalized development costs.

## Property, plant and equipment

Buildings, plant and machinery acquired separately – based on purchase or lease agreements – are recognized at purchase cost, while those acquired through business combination transactions are recognized on the basis of the fair value determined at the acquisition date.

Buildings, plant and machinery are recognized at cost, including the ancillary costs directly attributable and necessary for the asset's deployment in the function for which it was purchased, plus (if relevant and where obligations are incurred immediately), the present value of the estimated expense of dismantling and removing the asset. If significant portions of these tangible assets have different useful lives, these items are accounted for separately. Land, whether undeveloped or built up, are not depreciated since their useful life is unlimited.

The carrying amount of property, plant and equipment is reviewed whenever events or changes take place which give reason to believe that the carrying amount, as established under the amortization plan, might not be recoverable. If such reason exists, and if the carrying amount exceeds the estimated recoverable amount, the assets or cash-generating units to which the assets have been allocated are written down to their recoverable value.

The carrying value of the assets, their useful lives and the methods applied are reviewed annually and, if necessary, they are adjusted at the end of each period.

The depreciation rates applied are as follows:

Category	Rate
Buildings	from 2% to 3%
Plant and machinery	from 12% to 25%
Industrial and commercial equipments	from 7% to 35%
Other assets	from 12% to 25%
Leasehold improvements	Duration of lease contract

## Leased assets

Finance leases, which essentially transfer all the risks and rewards arising from ownership of the leased asset to the Group, are booked, as of the lease commencement date, at the leased asset's fair value or, if lower, at the current lease value. The rental amounts are divided into a capital portion and an interest portion in such a way as to give a constant rate of interest on the remaining balance of the liability. Borrowing costs are charged directly to the income statement.

The capitalized leased assets are depreciated over the shorter of the asset's useful life expectancy or the lease period, unless it is reasonably certain that the Group will become the owner of the asset at the end of the contract.

Rental amounts on operating leases are booked to the income statement for the duration of the lease.

## Impairment test

At the closing date of each period the Group assesses whether there has been a decrease in the value of its intangible assets with a finite useful life, its property, plant and equipment, its leased assets and investments. If such a decrease has occurred, an impairment test is carried out.

Goodwill and other intangible assets with indefinite useful lives are subjected to impairment test every year, whether or not there is any reason to suspect a loss in value. The other assets with definite useful lives are subjected to impairment test in the presence of indicators of impairment.

Recoverable value is determined as the greater of the fair value of an asset or cash-generating unit (net of selling costs) and its value in use, and it is calculated asset by asset, except where the asset generates income which is not fully independent of that generated by other assets or asset groups, in which case the Company estimates the recoverable value of the cash-generating unit to which the asset belongs. In particular, since goodwill does not generate any income independently of other assets or asset groups, the impairment test is conducted on the unit or group of units to which the goodwill has been allocated.

In determining value in use, the Group discounts at the current value the estimated future cash flow, using a pre-tax discount rate which reflects the market's evaluation of the temporal value of the money and any specific risks pertaining to the asset.

In order to estimate the value in use, future cash flows are derived from the business plans drawn up by the Corporate of the parent company and approved by its Board of Directors, since these represent the Group's best forecast of the economic conditions over the period of the plan.

Such forecasts are reflected over three years period; long-term growth rate used to estimate the terminal value of the asset or unit is normally lower than the average long-term growth rate of the relevant industry, country or market. Future cash flows are estimated on the basis of current conditions, therefore estimates do not take into account any benefits arising from future restructuring to which the Group is not yet committed, nor any future capital expenditures that aim to enhance or optimize the asset or unit or significantly modify it.

If the carrying amount of an asset or cash-generating unit exceeds its recoverable value, that asset has lost value and is consequently written down to its recoverable amount.

All impairment loss of operating assets are recognized in the income statement under the cost items relating to the asset that had lost value. Moreover, at the closing date of each period the Group assesses whether there is any reason to suspect that losses previously recognized may now be excessive and if this is the case, a new estimate of the fair value is made. The value of a previously written-down asset (except for goodwill) may only be restored if there have been changes in the estimates used to determine the asset's fair value after the most recent recognition of an impairment loss. In that case the asset's book value is revised to its recoverable value, though the revised value may never exceed the level which the book value would have been (net of any depreciation) if no impairment loss had been recognized in previous years. When a value is restored it is booked as income in the income statement and the adjusted carrying value of the asset is depreciated on a straight-line basis over the remaining useful life, net of any remaining values.

In no circumstances the value of goodwill can be restored after it has been written down.

### **Investments**

Investments in associated companies are valued using the net equity method.

Investments in companies other than associated and subsidiary companies (in general, those where the Group owns less than 20% of the stock), are classified, at the time of purchase, as either "financial assets available for sale" or "financial assets at fair value through profit and loss" whether non-current or current assets. In accordance with the provisions of IAS 39, such shareholdings are valued at fair value or, in the case of unlisted shareholdings or those for which a fair value cannot be reliably determined, at cost, adjusted to take into account the reduction of value.

Changes in the fair value of investments classified as "assets available for sale" are accounted for in the shareholders' equity and subsequently, when the asset is sold or there is a loss in its value, recognized in the income statement. Changes in the fair value of investments classified as "financial assets at fair value through profit and loss" are directly recognized in the income statement.

### **Inventories**

Inventories are booked at the lower of their purchase or production cost and their net realizable value, this being the amount which the company expects to obtain from their sale in the normal course of business. The cost configuration used is the weighted average cost method, which includes all ancillary charges accruing in relation to the purchase of these stocks during the period. Inventory valuations include both the direct cost of materials and labor and the indirect cost of production.

Inventories also include the production costs relating to returns expected in future years from deliveries already made, estimated on the basis of the sale value minus the average applied margin.

In order to calculate the net value of future realizable, the value of eventual obsolete or slow-moving goods is written down in relation to an estimate of future net use/realizable value, by means of a specific adjustment reserve for the reduction of the value of the inventories.



## **Trade receivables and other current asset**

Trade receivables and other current assets are booked at their fair value, which is the nominal value that is subsequently reduced to take into account any eventual loss in value by means of the creation of a specific provision for doubtful accounts, amending the value of the asset. Trade receivables are booked to the financial statements net of the estimated reserve for products that the Group expects to be returned by clients. The above mentioned reserve is related to the amounts invoiced on dispatch of the goods where it is reasonable, in the light of experience and on the probable percentage relating to sales in future years, to expect that not all significant risks and benefits connected to ownership of the assets have been definitively transferred at the financial statements date.

Trade receivables and other current assets, which neither bear interests nor are expected to be settled within normal commercial terms are discounted.

## **Financial instruments**

The financial instruments held by the Group may be grouped as follows:

- Non-current assets: include investments not consolidated, non-current loans and receivables and other non-current financial assets available for sale;
- Current assets: include trade receivables, other current financial assets and cash and cash equivalents;
- Current liabilities: include financial liabilities, other financial liabilities, trade payables and other payables.

The described above assets and liabilities are accounted for in accordance with IAS 39.

Initially all financial instruments are recognized at fair value, plus ancillary charges in the case of assets that are not at fair value in the income statement. The Group classifies its financial assets after they have been initially recognized and, when appropriate and permitted, reviews this classification at the end of each financial year.

All purchases and disposals of financial instruments are booked to their transaction date, which is the date on which the Company undertakes to buy the asset.

Subsequent to initial recognition, the financial instruments available for sale and held for trading are measured at fair value. If the market price is not available, the fair value of the financial instruments available for sale is measured using the most appropriate valuation methods such as the discounted cash flow analysis, carried out with the market information available at the date of the financial statement.

Gains and losses on financial assets available for sale are recognized directly in shareholders' equity until the financial asset is sold or impaired; when the asset is sold, the related gains or losses, are recognized in the income statement for the period; when the asset is impaired the accumulated losses are included in the income statement. Gains and losses arising from changes in fair value on financial instruments classified as held for trading are recognized in the income statement for the period.

Loans and receivables not held for trading purposes and which are not listed in an active market are recognized if they have a fixed maturity according to the amortized cost using the effective interest rate method. Otherwise, they are valued at acquisition cost. Gains and losses are recognized in the income statement when the loans and receivables are derecognized or when there is a loss of value, as well as through the amortization process.

With the exception of derivative financial instruments, the financial liabilities are measured at amortized cost using the effective interest method.

The financial assets and liabilities hedged by derivative instruments are measured in accordance with hedge accounting principles applicable to fair value hedges: gains and losses arising from re-measurement at fair value, due to changes of the relative risks, are recognized in the income statement.

### **Hedge accounting**

For the purposes of hedge accounting, hedges are classified as:

(i) fair value hedges, if they hedge the exposure to changes in the fair value of the underlying assets or liabilities; or if they are a firm commitment (in the exceptional case of currency hedges); or (ii) cash flow hedges, if they hedge the exposure to variability of cash flow which is either attributable to a particular risk associated with a recognized asset or liability or a highly probable planned transaction, or if they hedge the currency risk of a firm commitment; (iii) hedging of a net investment in a foreign company (net investment hedges).

When a hedge transaction is launched, the Group formally designates and documents it as such, stating its objectives in terms of the strategy pursued and the exposure hedged. This documentation identifies the hedge instrument, the element or transaction hedged, the nature of the risk and the way the company intends to

assess the hedge's effectiveness in covering exposure to changes in the fair value of the element covered or in the cash flow linked to the hedged risk.

Changes in the fair value of the hedge are booked to the income statement. The change in the fair value of the hedged asset attributable to the risk hedged against is recognized as part of the book value of the asset itself, with a counter-entry in the income statement.

As for fair value hedges of assets valued at amortized cost, the adjustment to the book value is amortized in the income statement for all the period remaining up until maturity. Any adjustments to the book value of a hedged financial instrument valued using the effective discount rates are amortized in the income statement.

Any profits and losses resulting from changes in the fair value of derivatives not suitable for hedge accounting are booked directly to the income statement for the period.

### ***De-recognition of financial assets and liabilities***

A financial asset (or, where applicable, part of a financial asset or a group of similar financial assets) is derecognized when:

- the rights to receive the financial flows expire;
- the Group keeps the right to receive the asset's financial flows, but has the contractual obligation to transfer them without delay to a third party;
- the Group has transferred the right to receive the asset's financial flows and (i) it has essentially transferred all the risks and benefits of ownership of the financial asset, or (ii) it has not substantially transferred nor retained all the risks and benefits of the asset, but has transferred control of it.

In case the Group has transferred the right to receive the financial flows from an asset and has not transferred or retained all the risks and benefits of the asset nor lost control of it, the asset is recognized in the Group's financial statements to the extent of the Group's remaining involvement in that asset. A "remaining involvement" which takes the form of a guarantee in respect of the transferred asset is valued at the lesser of the asset's initial book value and the maximum amount, which the Group might be required to pay.

A financial liability is derecognized from the financial statements when the underlying obligation is extinguished, annulled or fulfilled.

Where an existing financial liability is replaced by another from the same lender on materially different terms, or the terms of an existing financial liability are materially modified, this difference or modification is treated as a de-recognition of the original liability in the accounts and the recognition of a new one and any difference in the book values is booked to the income statement.

### **Cash and cash equivalent**

Cash and cash equivalent are booked at their par value, depending on their nature.

### **Financial liabilities**

Financial liabilities include financial debt and financial liabilities relating to derivative instruments. Financial liabilities other than derivatives are initially booked at fair value plus transaction costs, while thereafter they are valued at amortized cost, i.e. the initial value less any capital repayments already made, adjusted (up or down) by the amortization (at the effective interest rate) of any differences between the initial value and the value at maturity.

### **Employee benefits**

Guaranteed employee benefits paid on or after termination of employment under defined-benefits schemes (for Italian companies, this is the known as "TFR" or severance indemnities) are recognized in the period in which the rights are accrued.

Those liabilities relating to a defined-benefits scheme, net of any assets held to service the plan, are determined on the basis of actuarial assumptions and recognized on an accrual basis consistent with the employment services necessary for obtaining the benefits; liabilities are valued by an independent actuary.

Profits and losses arising from the actuarial calculations are booked to the separate income statement (personnel cost and financial expenses) and comprehensive (actuarial gains/losses).

### **Other employee benefits**

In accordance with IFRS 2 (Payments based on shares), stock options in favor of employees are valued by an external evaluator at their fair value at the grant date according to an appropriate model.

If the right can be exercisable after a certain period and/or when certain performance conditions take place, i.e. the vesting period, the overall fair value of the options is split equally over time during the said period and

booked to a specific item in the net equity while a corresponding amount is booked to the income statement as "personnel costs" (since it is a payment in kind paid to the employee) and as "costs of services" (in relation to the directors and agents who are beneficiaries of the options).

During the vesting period the fair value of the option that has been previously calculated is not reviewed or updated, but the estimated number of options that will mature at the due date is continually updated and, therefore, the number of beneficiaries with the right to exercise the options. The change in estimates has treated as an increase or a reduction in the net equity item referred to while a corresponding amount is booked to the income statement as "personnel costs" and "costs of services".

When the option date expires, the amount booked to the net equity item referred to is reclassified as follows: the amount of the shareholders' equity referring to the exercised options is booked under "Share premium reserve", while the part referring to the options that have not been exercised is reclassified under "Other reserves".

### **Trade payables and other current liabilities**

Trade payables and other current liabilities, whose due date fall under normal trade and contractual terms, are not booked to their net present value but to their par value.

### **Provision for risks and charges**

Provision for risks and charges refer to costs and charges that are of determined nature and are of either certain or probable and for which it was not possible to calculate the amount or contingency date at the end of the financial year. Provisions for risks and charges are booked when the Group must meet an obligation that derives from a past event if resources will probably have to be used to meet the obligation and the amount required can be reliably estimated.

When the Group believes that a provision will be either totally or partly reimbursed (insurance policy cover risks), if the reimbursement is practically certain, it is booked under a specific item under assets, in which case the provision is booked net of the reimbursement in the income statement.

The amount of provisions is based on the best estimate of the amount that is to be paid in order to meet the obligation or to transfer it to a third party, and is booked at the end of the financial year.

### **Revenues from sales and services**

Revenues and income shown net of discounts, allowances and returns are booked at their fair value as far as it is possible to calculate it and it is likely to enjoy the related financial benefits.

Revenues from the sale of goods are recognized when all the following conditions are met:

- the significant risks and benefits connected to the goods are transferred to the purchaser;
- the usual operations associated with ownership of the goods are no longer carried out and effective control of the goods is no longer exercised;
- the amount of the revenues can be reliably calculated;
- it is likely that any future financial benefits will be enjoyed;
- the costs incurred, or to be incurred can be reliably estimated.

In some cases the Group accepts from customers, for commercial reasons and in line with the usual practices of the sector, returns of goods that have already been delivered, including goods delivered in previous financial years. In such cases, the Group adjusts the amounts that have been invoiced at the time the goods were shipped for those amounts which, in the light of historical experience, it is possible to reasonably estimate that at the date of the financial statements not all the significant risks and benefits associated with ownership of the goods will be transferred to the new owner. Returns that are calculated in this manner are booked to the income statement as a reduction of revenues and in the balance sheet under a specific adjustment reserve for receivables from customers, while the relative estimated production cost is included under inventories.

### **Barter transactions**

Sales of goods in return for the purchases of publicity and advertising services are booked separately in the financial statements under "revenues from sales" and "costs of services". Revenues from the sale of goods is calculated at the fair value of the publicity and advertising services received, adjusted to take into account any cash payments or equivalents, and they are booked at the time the goods are shipped.

## **Other revenues and incomes**

The other revenues include financial benefits during the period from operations connected to the company's ordinary business activities.

Key monies received as a result of the disposal of leasing contracts before their due date for the commercial usage of premises are booked under other operational incomes when the amounts are received, which coincides with the date the original leasing contract is cancelled.

## **Costs**

Costs are accounted for on the accrual basis. In particular:

### Costs for advertising campaigns and testimonials

Commission due to advertising agencies and the cost of producing advertising campaigns (television commercials and photo shoots), are booked to the income statement at the time they have incurred.

Costs relating to advertising campaigns and promotional activities have recognized in the income statement for each period the services had received (advertising already broadcast, published or transmitted, testimonial appearances already made).

Any advances paid for services still to be received are booked at the period when the services are provided.

## **Financial incomes and expenses**

Financial incomes are recognized after an assessment has been carried out on the interest earned in the relevant period. This assessment is carried out using the effective interest rate method, represented by the rate used to discount the cash flow estimated on the basis of the life expectancy of the financial instrument.

Financial expenses are booked to the income statement in accordance with the accruals system and for the amount of the effective interest.

## **Dividends**

Dividends are booked when the shareholders' right to receive payment comes into force, coinciding with the moment in which dividends are declared.

## **Income taxes**

### Current taxes

Current taxes are calculated on the basis of the taxable income for the period. Taxable income differs from the result shown in the income statement because it excludes items (positive or negative) that will be taxable or deductible in other financial years and that will never be taxable or deductible. Current tax payables are calculated on the basis of the tax rates in force at the time the financial statements are prepared.

### Deferred and prepaid taxes

Deferred and prepaid taxes are calculated on the temporary differences between the book value of the assets and liabilities in the financial statements and the corresponding fiscal value used in calculating taxable income, accounted for using the balance sheet liability method. Deferred tax liabilities are recognized in the case of all such taxable temporary differences, with the exception of the following:

- when the deferred tax liabilities derive from the initial recognition of goodwill or of an asset or a liability in a transaction which is not a business combination and which, at the time of the transaction itself, has no effect either on the profit for the period calculated for the purposes of the financial statements, nor on the profit or loss calculated for tax purposes;
- in the case of taxable temporary differences linked to investments in subsidiary and associated companies and joint ventures, where the reversal of these temporary differences can be verified and it is likely that they will not in fact be reversed in the foreseeable future.

Deferred tax assets are recognized to the extent that it is thought likely that there will be sufficient taxable profits in future to enable the temporary differences to be deducted, except:

- where the prepaid tax derives from the initial recognition of an asset or liability in a transaction which is not a business combination and which, at the time of the transaction itself, had no effect either on the profit for the period calculated for the purposes of the financial statements nor on the profit or loss calculated for tax purposes.

The value assigned to the deferred tax assets is re-examined at the end of every financial period and reduced in accordance with the likelihood that in the year in which the temporary difference is expected to be reversed there might not be sufficient taxable income to enable its full or partial recovery. Any previously unrecognized taxes paid in advance are re-examined each year at the end of the financial period and are then

recognized in relation to the probability of their recovery.

Both prepaid and deferred taxes are calculated on the basis of the tax rates which are expected to be in force during the financial period in which the tax asset is realized or the tax liability is settled, in accordance with the tax law in force at the time covered by the financial statements.

Deferred taxes (liabilities and assets) are booked to the income statement, with the exception of amounts relating to items recognized directly in shareholders' equity for which the relative deferred and advance taxes are directly booked without being entered in the income statement.

Prepaid tax assets and deferred tax liabilities are classified as non-current assets and liabilities.

### **Foreign currency translation**

The Damiani Group's functional and presentation currency is the euro.

Transactions in other currencies are translated and booked at the rate in force at the time of the transaction. Any foreign currency based assets and liabilities are translated into euros using the rate in force at the reporting date of the financial statements. All exchange differences resulting from transactions in foreign currencies with third parties are booked to the income statement. Non-monetary items valued at their historical cost in foreign currencies are converted using the exchange rate in force at the date the transaction is recognized. Non-monetary items booked at their fair value in foreign currencies are converted using the exchange rate in force on the date the fair value is calculated.

### **Treasury shares**

Treasury shares are classified as a direct reduction of shareholders' equity. The original cost of treasury shares and gain from any subsequent sale of it are shown as changes in shareholders' equity.

### **Earnings (losses) per share**

Earnings (losses) per share are calculated by dividing the net result for the period attributable to the Company's ordinary shareholders by the weighted average number of ordinary shares in circulation during the period. It should be noted that when calculating the earnings per share for the financial period ending March 31, 2016 and for the financial period ending March 31, 2015, the average number of shares in circulation in each period was based on the changes in the company capital in each of those financial periods. The Company's diluted earnings (losses) per share are calculated by taking into account the effects produced by the treasury share purchase plan approved by the Shareholders' Meetings of February 22, 2008, July 22, 2009, July 21, 2010, July 27, 2011, July 26, 2012, July 26, 2013, July 24, 2014 and July 23, 2015.

### **Business combination**

Business combinations are accounted for by using the purchase cost method, whereby the costs of business combinations are allocated by recognizing the fair value of the assets and liabilities purchased, together with any identifiable potential liabilities and any equity instruments issued on of the date of the transaction, and the costs directly attributable to the purchase.

Any positive difference between the purchase cost and the share of the fair value of the assets, liabilities and identifiable potential liabilities of the purchase is recognized as goodwill in the assets and is subject to an impairment test at least once a year. Any negative difference is either booked directly to the income statement or booked as a liability in a special risk reserve if it represents future losses.

Purchase transactions between parties controlled by the same entities, which take the form of transactions between companies "under common control", are not currently regulated by IFRS and so, in line with IFRS recommendations, similar accounting procedures and principles are used for these business combinations. On the basis of such criteria, the purchase is booked at its historic values and any difference between the historic value and the price paid recognized in the financial statements of the purchased company is regarded as received or distributed capital to/from the controlling shareholders.

## **3. SEGMENT INFORMATION**

Damiani Group operates in a single operating segment in which there are not any significant differences that could be considered as a basis for constituting separate business units. Therefore, the geographical dimension is subject of periodic observation and revision by the Directors as well as within the operational responsibilities of Group management.

The reorganization of the Damiani Group implemented during the previous financial years resulted in the reallocation and the simplification of operational activities within the Italian and foreign companies. Therefore,

the division between **Italy** and **Foreign countries** is the main dimension on which the Group proceeds to the analysis and evaluation of the business, both in term of revenues and operating result. To this end data taken from internal management systems of the Group are also used, in order to allocate properly revenues and operating costs on the relevant areas.

The following tables provide the operating results for the financial year ended March 31, 2016 and March 31, 2015.

**Information by geographical areas (financial year ended March 31, 2016)**

<b>Financial Year 2015/2016</b> <i>(in thousands of Euro)</i>	<b>Italy</b>	<b>Foreign Countries</b>	<b>Consolidated</b>
Net Sales to third party customers	112,279	41,808	154,087
Other revenues	1,173	27	1,200
<b>Total net sales</b>	<b>113,452</b>	<b>41,835</b>	<b>155,287</b>
<b>Operating Costs</b>	<b>(102,108)</b>	<b>(38,896)</b>	<b>(141,004)</b>
<b>Operating profit (loss)</b>	<b>11,344</b>	<b>2,939</b>	<b>14,283</b>

<b>Situation at March 31, 2016</b> <i>(in thousands of Euro)</i>	<b>Italy</b>	<b>Foreign Countries</b>	<b>Consolidated</b>
Capex	3,287	2,725	6,012

**Information by geographical areas (financial year ended March 31, 2015)**

<b>Financial Year 2014/2015</b> <b>(restated)*</b> <i>(in thousands of Euro)</i>	<b>Italy</b>	<b>Foreign Countries</b>	<b>Consolidated</b>
Net Sales to third party customers	103,744	46,465	150,209
Other revenues	239	4	243
<b>Total net sales</b>	<b>103,983</b>	<b>46,469</b>	<b>150,452</b>
<b>Operating Costs</b>	<b>(100,028)</b>	<b>(50,824)</b>	<b>(150,852)</b>
<b>Operating profit (loss)</b>	<b>3,955</b>	<b>(4,355)</b>	<b>(400)</b>

(\*) The figures for the financial statements at March 31, 2015 have been reclassified to conform to the economic and financial representation adopted in the financial statements at March 31, 2016.

<b>Situation at March 31 2015</b> <i>(in thousands of Euro)</i>	<b>Italy</b>	<b>Foreign Countries</b>	<b>Consolidated</b>
Capex	1,001	1,353	2,354

The assets and liabilities are all managed at Group level and therefore are not presented separately by geographical segments.

**NOTES ON ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS**

**4. GOODWILL**

The following table provides a breakdown as of March 31, 2016 and 2015:

<i>(in thousands of Euro)</i>	<b>March 31, 2016</b>	<b>March 31, 2015</b>
Goodwill, boutiques	465	465
Goodwill, Alfieri & St. John	2,295	4,258
<b>Total goodwill</b>	<b>2,760</b>	<b>4,723</b>

This item refers, for Euro 2,295 thousands, to the goodwill recognized in relation to the acquisition, in 1998, of 100% of the shares of Alfieri & St. John S.p.A. (merged in Damiani S.p.A. in 2012/2013) and for Euro 465 thousand to the goodwill paid by the parent company in relation to two directly operated stores. Compared with March 31, 2015, the change was due to the reduction attributable to Alfieri & St. John goodwill to align it with the impairment test results, carried out at March 31, 2016, as described in the following paragraph.

#### ***Impairment test on intangible assets with an indefinite useful life***

Since goodwill is an asset with an indefinite useful life and is booked under non-current assets for the financial years ended at March 31, 2016 and at March 31, 2015, it was subject to the impairment test.

Impairment tests are carried out at least once a year on the Cash generating units (CGU) to which the goodwill is charged.

More specifically, the goodwill related to the purchase of Alfieri & St. John S.p.A. was allocated to the Alfieri & St. John CGU, that is a business unit of Damiani S.p.A. In the assessment of this CGU were considered the recent commercial events that affected it. In particular, the value of goodwill was determined by the impairment test that was affected by the clauses contained in the exclusive licensing agreement dated December 4, 2015, signed by Damiani S.p.A. with a third party, which as a licensee has acquired the right to market the brand for a multi-year period. The license agreement provides during the period of its validity, the payment of royalties to Damiani S.p.A. on the basis of the turnover of the licensee and the possibility to realize put or call options in favor of either parties in certain time frames. The flows of the Alfieri & St. John CGU are discounted at WACC of 6.45% (it was 6.25% at March 31, 2015) net of the related tax effect. The determined value in use of the CGU, according to the scenario considered most likely, is less than the carrying amount accounted in the financial statement. Therefore, the value was written down to the recoverable amount. Goodwill is therefore sensitive to the assumptions adopted; if the Company exercise its option to sell in advance, based on the terms contractually established, it would determine an additional impairment loss of Euro 625 thousands.

Even the goodwill concerning the boutique has been allocated to the Damiani CGU, that is another business line of the legal entity Damiani S.p.A. The recoverable value was calculated using the value in use. It was calculated by using the following data and assumptions in the impairment test:

- the cash flows were taken from the 2016-2019 business plans of the Group (which include all the Cash generating units – CGU of the Group). The business plan was approved by the Board of Directors of Damiani S.p.A. on May 31, 2016;
- the cash flows were calculated using the EBITDA for each CGU minus the amounts referring to investments and to changes in net working capital;
- the cash flows were discounted at WACC (weighted average cost of capital), including tax expense, calculated according to the following elements:
  - risk free rate: yield on the ten-years emissions in the countries in which the CGUs operate
  - beta: determined as the average debt/equity in a panel of comparable
  - market premium: yield spread between the risk free rate and the equity remuneration of the industry in the geographical context in which the CGUs operate
  - rate of average debt: cost related to sources of financing by third parties of the CGU

The expected cash flows of the Damiani CGU are discounted at WACC equal to 6.45% (6.28% as at March 31, 2015) net of the related tax effect. The expected growth rate "g", after the three years period covered by the business plan, was equal to 1, in line with the projections of the business plan and lower than the rate of growth of the retail sector.

The impairment test led to confirm the recoverability of the carrying value of goodwill, even if the parameters (WACC and g) were worse than plan hypothesis.

## **5. OTHER INTANGIBLE ASSETS**

The following table provides a breakdown as of March 31, 2016 and 2015:

<i>(in thousands of Euro)</i>	<b>March 31, 2016</b>	<b>March 31, 2015</b>
Industrial rights and patents	224	182
Key Money	734	3,429
Intangible assets under construction	1,298	714
<b>Total other intangible assets</b>	<b>2,255</b>	<b>4,324</b>

The item key money decreased by amortization of the financial year, on the basis of the residual duration of the leasing contract and by the devaluation of the portion not yet amortized of the boutiques divested during the year.

The item Assets under construction increased by the costs incurred for the development of the retail channel, with reference to works not yet completed at year-end.

The following table shows the changes in intangible assets during the period:

<i>(in thousands of Euro)</i>	Industrial rights and patents	Key Money	Intangible assets under construction	Total
<b>Net book value at March 31, 2015</b>	<b>182</b>	<b>3,429</b>	<b>714</b>	<b>4,324</b>
Purchases	97	362	1,346	1,805
Disposals	-	-	(2)	(2)
Riclassification	50	-	(747)	(697)
Write downs	-	(2,907)	-	(2,907)
Amortization	(100)	(112)	-	(212)
Exchange differences	(5)	(38)	(13)	(56)
<b>Net book value at March 31, 2016</b>	<b>224</b>	<b>734</b>	<b>1,298</b>	<b>2,255</b>

## 6. PROPERTY, PLANT AND EQUIPMENT

The following table provides a breakdown as of March 31, 2016 and 2015:

<i>(in thousands of Euro)</i>	March 31, 2016	March 31, 2015
Land and buildings	6,681	7,589
Plant and machinery	491	432
Industrial and commercial equipment	136	170
Other assets	8,496	7,852
Assets under construction	13	4
<b>Total property, plant and equipment</b>	<b>15,818</b>	<b>16,048</b>

Tangible assets are reduced by a total of Euro 230 thousands compared with the previous year, and the depreciation, affected by the strong growth in the retail segment recently realized, offset the investments in the period. The increases for investments in the year 2015/2016, equal to Euro 4,207 thousands, are mainly represented by investments made for the development of the retail channel in Italy and abroad and for the restructuring of some directly operated stores in Italy.

Land and buildings item also includes the residual value of properties subject to sale and lease back, which related parties have bought from the Group in prior financial years and then leased for commercial use to the same (for details see note 32. Transactions with related parties).

Sale and lease back assets value was Euro 5,387 thousands at March 31, 2016 and Euro 6,263 thousands at March 31, 2015.

The item Other assets includes furniture, furnishings, office equipment and vehicles, and leasehold improvements (costs incurred to adapt/refurbish the boutiques).

The following table shows the changes in property, plant and equipment during the financial year 2015/2016.

<i>(in thousands of Euro)</i>	Land and buildings	Plant and machinery	Industrial and commercial equipment	Other assets	Assets under construction	Total
<b>Net book value at March 31, 2015</b>	<b>7,589</b>	<b>432</b>	<b>170</b>	<b>7,852</b>	<b>4</b>	<b>16,048</b>
Purchases	-	247	59	3,890	11	4,207
Disposals	-	-	-	(187)	(2)	(189)
Write downs	-	-	-	(631)	-	(631)
Reclassification	-	-	-	697	-	697
Depreciation	(908)	(191)	(93)	(2,959)	-	(4,151)
Exchange differences	-	3	-	(166)	-	(163)
<b>Net book value at March 31, 2016</b>	<b>6,681</b>	<b>491</b>	<b>136</b>	<b>8,496</b>	<b>13</b>	<b>15,818</b>

Property, plant and equipment do not include assets subject to revaluations, as per the special laws contained in article 10 of Law 72/1983.

## 7. INVESTMENTS

At March 31, 2016 this item was referred to non-controlling interests in Fin.Or.Val S.r.l., Banca d'Alba and



Venini S.p.A. for a total of Euro 207 thousands. Compared with March 31, 2015 the changes were: i) write-down of Euro 54 thousands of the investment in Fin.Or.Val S.r.l. to align with the corresponding portion of equity. The amounts recognized in the financial statements are aligned to the fair value based on the latest available financial statements of the companies; ii) purchase, in January 2016, from Damiani International S.A. of a minority stake (5% of the share capital) of Venini S.p.A. for an amount of Euro 94 thousands.

## 8. FINANCIAL RECEIVABLES AND OTHER NON-CURRENT ASSETS

The following table provides a breakdown as of March 31, 2016 and 2015:

<i>(in thousands of Euro)</i>	<b>March 31, 2016</b>	<b>March 31, 2015</b>
Guarantee deposits	3,898	4,607
Other receivables	51	51
<b>Total financial receivables and other non-current assets</b>	<b>3,949</b>	<b>4,658</b>

The decrease in guarantee deposits of Euro 709 thousands compared with the previous financial year was mainly due to changes in foreign locations and exchange rate effects.

## 9. DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

Deferred tax assets and liabilities for the financial year ended March 31, 2016 and financial year ended March 31, 2015 are detailed in the table below. The descriptions indicate the nature of the temporary differences.

<i>(in thousands of Euro)</i>	<b>March 31, 2016</b>	<b>March 31, 2015</b>
<b>Deferred tax assets:</b>		
Net Impact of the returns on sales	960	1,212
Write off on intercompany gains and inventory margins	5,849	6,855
Exchange loss differences	82	347
Provision for doubtful accounts not deductible	743	838
Write downs of inventories	2,533	2,411
Loss on Barter Receivables	-	146
Provisions on lawsuits	184	103
Financial interests in excess	1,623	2,103
Tax losses	1,782	1,956
Effect on stock option plans	160	120
Other timing differences of a taxation nature	208	201
<b>Total deferred tax assets</b>	<b>14,124</b>	<b>16,293</b>
<b>Deferred tax liabilities:</b>		
Exchange differences	503	897
Other timing differences of a taxation nature	242	236
<b>Total deferred tax liabilities</b>	<b>745</b>	<b>1,133</b>

The main difference compared with March 31, 2015 was due to lower tax assets on margins and intercompany gains. This effect was due both to the reduction of these items and for the recalculation of the credit to align it with the change in rate for income taxes, in force in Italy from next year in which progressively the margins on inventories will be realized.

Deferred tax assets on tax losses and financial interests in excess booked in the financial statements refer to the Italian companies participating in the Group taxation system (Damiani S.p.A. and Laboratorio Damiani S.r.l.) and are deemed recoverable taking into account the benefits resulting from the consolidation and, therefore, the estimate of future taxable income of the companies, considering the regime of carrying forward of tax losses (art. 84 of the income Tax Code), made temporarily unlimited even if with annual numerical limitations. The amount of deferred tax assets on losses not recognized in the balance sheet is still relevant and cumulatively amounted to Euro 1,002 thousands.

## 10. INVENTORIES

The following table provides a breakdown as of March 31, 2016 and 2015:

<i>(in thousands of Euro)</i>	<b>March 31, 2016</b>	<b>March 31, 2015</b>
Raw materials, semi-finished goods and advance payments	13,492	12,911
Finished products and goods	89,869	79,687
<b>Total inventories</b>	<b>103,361</b>	<b>92,598</b>

The net value of inventories at March 31, 2016 showed an increase of Euro 10,763 thousands compared with the previous year. Growth in the finished products was due to the increase in stock in DOS to support the sales in the retail channel and more effectively meet the demands of customers. The value of inventories of finished products is net of impairment losses, measured by management, based on the assessments made to identify the component of commercial obsolescence for each type of goods in stock. The assessments carried out have led to detect a risk of obsolescence in slight increase compared with the end of the previous year. Therefore, the total value of the inventory write-down at March 31, 2016 amounted to Euro 11,562 thousands compared with Euro 10,334 thousands at March 31, 2015.

It should be noted that at March 31, 2016 the item finished products includes Euro 4,505 thousands (Euro 4,502 thousands at March 31, 2015) of finished products delivered to customers but for which at the ending date of the financial year were not satisfied the conditions for the recognition of related revenues.

## 11. TRADE RECEIVABLES

The following table provides a breakdown as of March 31, 2016 and 2015:

<i>(in thousands of Euro)</i>	<b>March 31, 2016</b>	<b>March 31, 2015 (restated)*</b>
<b>Trade receivables, gross</b>	<b>46,982</b>	<b>49,277</b>
Provision for doubtful accounts	(3,690)	(4,264)
Fund for returns on sales from customers	(9,175)	(9,164)
Impact of Net Present Value calculation of receivables	(6)	(6)
<b>Total net trade receivables</b>	<b>34,111</b>	<b>35,843</b>

(\*) The figures for the financial statements at March 31, 2015 have been reclassified to conform to the economic and financial representation adopted in the financial statements at March 31, 2016.

The decrease of net trade receivables of Euro 1,732 thousands was due to lower gross amount. The balance at March 31, 2016 is shown net of provision for doubtful accounts and fund for returns, as well as the effect of discounting receivables represented by reissued bank effects with maturities over the period.

The following table shows the changes in the bad debts reserve and in the fund for returns on sales during the financial year ended March 31, 2016.

<i>(in thousands of Euro)</i>	<b>Fund for returns on sales from customers</b>	<b>Provision for doubtful accounts</b>
<b>Book value at March 31, 2015</b>	<b>(9,164)</b>	<b>(4,264)</b>
Accrual	(2,954)	(804)
Utilization	2,943	1,379
<b>Book value at March 31, 2016</b>	<b>(9,175)</b>	<b>(3,690)</b>

There are no receivables with contractual terms exceeding five years.

## 12. TAX RECEIVABLES

The balance at March 31, 2016 amounted to Euro 1,034 thousands compared with Euro 845 thousands at March 31, 2015. The increase compared with the previous year is mainly attributable to a higher down payment for withholding and income taxes.

### 13. OTHER CURRENT ASSETS

The following table provides a breakdown as of March 31, 2016 and 2015:

<i>(in thousands of Euro)</i>	<b>March 31, 2016</b>	<b>March 31, 2015</b>
VAT receivables from the Tax Authorities	2,062	2,693
Deposits to suppliers	1,638	1,713
Prepayments	3,208	2,493
Receivables from other	837	1,758
<b>Total other current assets</b>	<b>7,745</b>	<b>8,656</b>

The reduction in Other current assets compared with March 31, 2015 was mainly due to the collection of receivables from the insurance company for a refund of Euro 596 thousands recorded under "receivables from other", and to the lower VAT receivables. An increase were "prepayments" related to the purchase of advertising, whose use is deferred to the next year.

### 14. CASH AND CASH EQUIVALENTS

The following table provides a breakdown as of March 31, 2016 and 2015:

<i>(in thousands of Euro)</i>	<b>March 31, 2016</b>	<b>March 31, 2015 (restated)*</b>
Bank and post accounts	8,599	9,421
Cash on hand	219	186
<b>Total cash and cash equivalents</b>	<b>8,818</b>	<b>9,607</b>

(\*) The figures for the financial statements at March 31, 2015 have been reclassified to conform to the economic and financial representation adopted in the financial statements at March 31, 2016.

The cash balance represents the bank and post office accounts and the existence of cash on hand at the end of the financial year.

### 15. SHAREHOLDERS' EQUITY

The share capital, fully paid up at March 31, 2016, gross of treasury stock amounted to Euro 36,344 thousands and is made up of 82,600,000 ordinary shares a par value of Euro 0.44 each.

No dividends were distributed during the financial year 2015/2016. On June 14, 2016 the Board of Directors did not propose to the Shareholders' Meeting any dividend payment for the financial year 2015/2016.

The number of treasury stock held in the portfolio amounted to 5,556,409 equivalent to Euro 8,134 thousands. This amount is booked as a direct reduction in the shareholders' equity.

The number of shares in circulation at March 31, 2016 was 13,827,522, slightly down compared with March 31, 2015.

The changes in shareholders' equity in the financial year ended March 31, 2016 (and illustrated in details in the statement of changes in equity) were as follows:

- Positive net result for the financial year of Euro 5,421 thousands (including minorities)
- Actuarial gain on defined benefit plans for employees recognized in accordance with IAS 19 (2011) for Euro 58 thousands
- Increase in the stock option reserve for Euro 145 thousands, for the enhancement of the share-based payments pursuant to IFRS 2
- The other negative effects mainly arising from exchange differences on translation of financial statements in currencies other than the Euro for Euro 2,043 thousands.

### 16. FINANCIAL LIABILITIES: CURRENT AND NON-CURRENT PORTION

The current and non-current portion of financial liabilities was made up as follows at March 31, 2016 and 2015:

<i>(in thousands of Euro)</i>	<b>March 31, 2016</b>	<b>March 31, 2015</b>	<b>Notes</b>
<b>Non current portion</b>			
Loan A	10,880	6,012	a
Loan B	5,301	5,000	b
Loan C	1,808	2,074	c
Loan D	2,904	2,904	d
Loan E	1,400	-	e
Loan F	-	58	f
Loan G	950	-	g
Loan H	-	-	h
Loan I	103	-	i
Financial Leasing	4,546	5,893	l
<b>Total non current portion of medium/long term financial liabilities</b>	<b>27,892</b>	<b>21,941</b>	
<b>Current portion</b>			
Loan A	2,720	-	a
Loan B	-	-	b
Loan C	602	519	c
Loan D	-	-	d
Loan E	600	-	e
Loan F	58	687	f
Loan G	-	-	g
Loan H	-	1,500	h
Loan I	33	-	i
Financial Leasing	1,036	1,031	l
<b>Total current portion of medium/long term financial liabilities</b>	<b>5,049</b>	<b>3,736</b>	
<b>Total medium/long term financial liabilities</b>	<b>32,941</b>	<b>25,677</b>	

The following is a breakdown of key information relating to loans granted by banks and other lenders at the Group:

- a) The medium-term loan A has been signed by Damiani S.p.A. with a pool of three banks on November 6, 2013 for an amount up to a maximum of Euro 11,000 thousands, which aims to support the continued operation of the Damiani Group, mainly by financing industrial investments and the provision of the inventory, required for the development of the retail channel. Disbursements were subject to the effective implementation of the investment plan of the Group and compliance with the financial covenants contractually established and verified quarterly by the lenders. Failure to comply with these covenants, resulted in the temporary suspension of payments and the renegotiation of the covenants themselves between Damiani S.p.A. and lenders. This process ended on July 31, 2015 with the signing by the parties of an act amending the initial loan agreement, which introduced some changes. In particular: i) reduction of the spread applied on the amount paid from 6.05% to 3.90% per year; ii) review of the financial covenants, based on the targets of the new three-year plan 2015-2018 of the Group, annually verified (the first check on March 31, 2016). Following the signing of the amendment, in October 2015 Damiani S.p.A. has been granted the remaining part of the credit line. On December 18, 2015 was signed a second amending act between the parties in which has been enshrined in the adherence to the financing of a new lender that has provided Damiani S.p.A. an additional line of Euro 2,600 thousands, under the same terms and conditions agreed in the first amending act of July 2015. At March 31, 2016 the covenants were respected. The repayment of the credit line runs from the 30th month following the signature of the contract, to be completed after 66 months of signing, according to the established plan. Therefore, on May 2016 the first installment has been repaid.
- b) The private non-convertible bond (item B) was signed by the executive directors Guido, Giorgio and Silvia Grassi Damiani, who represent the majority shareholders of Damiani S.p.A. It provides for a term from October 1, 2013 to September 30, 2019 and repayment at maturity in one installment and an annual fixed interest rate of 3.9%. Interests have to be capitalized from January 1, 2015 and paid in a single

- installment at the time of loan repayment.
- c) Loan C referred to a subsidized loan signed in February 2013 by Damiani S.p.A. with Simest S.p.A. to implement development programs in China within 24 months following the signing of the contract. Based on the progress of investments the loan, of total Euro 3,012 thousands, was paid in five separate tranches and provides a repayment plan in seven years, after the first two years grace period, in half-yearly installments and at an effective annual rate of 0.5%. In the month of August 2015 the first installment of repayment for the amount of Euro 301 thousands was paid.
- d) Loan D was completed on December 31, 2013 and consists in the financial contribution of HK\$ 29,826,000 (equivalent to Euro 2,904 thousands) by Simest S.p.A. (66.7% of the total) and by the Venture Capital Fund of the Ministry of Economic Development (the remaining 33.3%) in the subsidiary Damiani Hong Kong Ltd to support its development in the Greater China. In legal terms, the transaction is considered as a capital increase for Damiani Hong Kong Ltd. From an accounting standpoint, given the commitments stipulated in the contract signed between Damiani S.p.A. and Simest S.p.A. (and with the Venture Capital Fund), which provides for the repurchase of shares at a predetermined minimum price (at least equal to the initial) at the end of the agreed period (starting from September 30, 2018 and until September 30, 2021), as well as a flat-rate annual fee to be paid to Simest S.p.A. (and to the Venture Capital Fund) benchmarked to the initial payment, translated in Euro, this contribution can be configured as a medium-long term financing and as such accounted in the financial statements of the Damiani Group.
- e) Loan E was signed on October 29, 2015 with a bank for the amount of Euro 2,000 thousands and three years duration. On this loan accrues annual interest determined from Euribor 6 months + 1.53% spread. The refund will be in 10 constant quarterly installments, starting from September 2016.
- f) Loan F was granted to Rocca S.p.A. (merged into Damiani S.p.A. in December 2014) in April 2013, to support retail development for a total of Euro 2,000 thousands with a repayment plan in 36 monthly installments starting from May 2013 (the last installment will be repaid in April 2016). On this loan interests are paid at a rate equal to Euribor three months + spread 3%.
- g) It is the subsidized loan granted in July 2015 by the Ministry of Economic Development to the company Laboratorio Damiani S.r.l., for the research and development of automated solutions for the processing of gold, made in previous years. The loan pays an annual interest rate of 0.5% and it will be reimbursed in ten annual installments, starting from March 2019 (maturity on March 2028).
- h) Loan H was originally granted to Damiani S.p.A. in June 2009 for a total of Euro 15,000 thousands with a repayment plan based on constant six-monthly installments for the period from December 31, 2010 to June 30, 2015. Therefore, during the financial year 2015/2016 it was duly paid with the repayment of the last installment.
- i) The debt at point I refers to a finance lease on the alarm system, signed by the subsidiary Damiani Japan KK for an amount of Japanese Yen 20,122 thousands.

Moreover, in the table the debt for leasing on buildings are showed. They are related to three contracts for the sale of properties to related parties, which are treated as sale and lease back arrangements under IAS 17. These real estate units are Damiani and Rocca 1794 store locations.

The table below shows the detail of Net financial position at March 31, 2016 and at March 31, 2015:

<b>Net Financial Position (*)</b> <i>(in thousands of Euro)</i>	<b>Situation at March 31, 2016</b>	<b>Situation at March 31, 2015 (restated) **</b>
Current portion of loans and financing	4,013	2,705
Drawdown of credit lines, short term financing and others	28,378	36,507
Current portion of loans and financing with related parties	1,036	1,031
<b>Current financial indebtedness</b>	<b>33,427</b>	<b>40,243</b>
Non current portion of loans and financing	18,045	11,049
Non current portion of loans and financing with related parties	9,847	10,893
<b>Non current financial indebtedness</b>	<b>27,892</b>	<b>21,941</b>
<b>Total gross financial indebtedness</b>	<b>61,319</b>	<b>62,184</b>
Cash and cash equivalents	(8,818)	(9,607)
<b>Net Financial Position (*)</b>	<b>52,501</b>	<b>52,577</b>

(\*) Net financial position is determined according to the indication of Consob communication n. DEM/6064293 of July 28, 2006.

(\*\*) The figures for the financial statements at March 31, 2015 have been reclassified to conform to the economic and financial representation adopted in the financial statements at March 31, 2016.

At March 31, 2016 the Group had a net financial debt equal to Euro 52,501 thousands, stable compared with

March 31, 2015 (Euro 52,577 thousands).

In terms of sources, the debt is more balanced than the previous year: 45% of the gross debt is made up of medium/long term indebtedness, while this percentage was 35% at March 31, 2015. In addition, the credit lines were only partially used and the cost of debt fell during the financial year 2015/2016 of around one percentage point compared with the previous year.

## 17. EMPLOYEES' TERMINATION INDEMNITIES

In the twelve-months period ended March 31, 2016 the following changes took place on Employees' termination indemnities:

<i>(in thousands of Euro)</i>	
<b>Termination Indemnities at March 31, 2015</b>	<b>5,013</b>
Cost related to current work performed	70
Financial expenses	49
Paid benefits	(677)
Actuarial Loss (Profit)	(79)
<b>Termination Indemnities at March 31, 2016</b>	<b>4,376</b>

The changes during the period reflect the provisions and the outlays, including advances, implemented during the financial year.

Employees' termination indemnities are part of the defined benefits plans.

Liabilities were calculated using the Project Unit Cost method based on the following:

- A series of financial assumptions were used (increases in the cost of living, pay increases, etc.) to calculate the potential payments that will have to be made to each employee in the event of retirement, death, invalidity, resignation and so on. This estimate of future payments includes the increases due to further years of services experience and the expected growth rate of pay received at the valuation date.
- It has been calculated the average present value of future benefits on the basis of the annual interest rate used and the probability that each service has to be effectively delivered at the financial statements date.
- It has been defined the liability for the Group identifying the share of the average present value of future benefits that refers to the service already accrued by the employee at the date of valuation.
- It has been established, on the basis of the liability determined in the previous paragraph and the reserve set aside in the financial statements as per the Italian law, the IFRS reserve.

Details of the assumption adopted are as follows:

<b>Financial hypotheses</b>	
Annual rate for the Net Present Value	0.82%
	1.50% for year 2016
	1.80% for year 2017
Annual inflation rate	1.70% for year 2018
	1.60% for year 2019
	2.00% from 2020 onwards
<b>Demographic hypotheses</b>	
Mortality	RG 48 (RGS table 48)
Inability	INPS tables by age and sex
Pensionable age	Reaching 100% of the mandatory social security requirements

Gains and losses deriving from actuarial calculations are booked to the income statements.

## 18. PROVISIONS FOR RISKS AND CHARGES

At March 31, 2016 risk reserves amounted to Euro 1,026 thousands (at March 31, 2015 it was equal to Euro 764 thousands), to cover estimated costs of litigation for Euro 768 thousands and for Euro 258 thousands to reorganization measures in progress at Damiani USA Corp. The value of the fund for litigations increased from Euro 453 thousands at March 31, 2015 to Euro 768 thousands at March 31, 2016, due to: i) provisions for Euro

489 thousands made in the period; ii) use of Euro 174 thousands. The provision for reorganization decreased from Euro 311 thousands at March 31, 2015 to Euro 258 thousands at March 31, 2016, after being used for Euro 53 thousands.

## 19. OTHER NON-CURRENT LIABILITIES

The amount of the costs passed from Euro 503 thousands at March 31, 2015 to Euro 391 thousands at March 31, 2016. The amount is mainly composed of the termination indemnity of directors.

## 20. TRADE PAYABLES

The following table provides a breakdown as of March 31, 2016 and 2015:

<i>(in thousands of Euro)</i>	<b>March 31, 2016</b>	<b>March 31, 2015</b>
Trade payables due in less than 12 months	42,602	50,354
Bill payable, other credit securities and advances	2,078	1,457
<b>Total trade payables</b>	<b>44,680</b>	<b>51,811</b>

## 21. SHORT TERM BORROWINGS

Short-term borrowings at March 31, 2016 amounted to Euro 28,378 thousands, compared with debt of Euro 36,507 thousands at March 31, 2015. The reduction is related to the rebalancing of the sources of short and medium/long term components, which occurred during the year.

These credit lines are intended for short-term working capital financing. It is to be noted that the short-term credit lines available are only partially used and are currently less expensive than the medium / long term.

## 22. TAX PAYABLES

The following table provides a breakdown as of March 31, 2016 and 2015:

<i>(in thousands of Euro)</i>	<b>March 31, 2016</b>	<b>March 31, 2015</b>
Taxes withheld from employees (IRPEF)	255	266
Current income tax payables	5,650	1,997
Other tax payables	78	122
<b>Total tax payables</b>	<b>5,983</b>	<b>2,384</b>

The increase in current tax liabilities was mainly due to the taxable debt generated by the Group's foreign subsidiary that comes from non-recurring income achieved during the financial year.

## 23. OTHER CURRENT LIABILITIES

The following table provides a breakdown as of March 31, 2016 and 2015:

<i>(in thousands of Euro)</i>	<b>March 31, 2016</b>	<b>March 31, 2015</b>
Payables to social security institutions	1,194	1,214
Payables to employees	2,766	2,724
Other liabilities	1,694	433
Deferred income	2,261	1,433
<b>Total other current liabilities</b>	<b>7,915</b>	<b>5,804</b>

Payables to social security institutions include the debt for social security and social contributions and insurance.

The item payables to employees include liabilities for vacation and leave not still enjoyed as well as the amount accrued and not yet delivered by 13th and 14th monthly.

## 24. REVENUES

The table below shows the consolidated revenues for the financial year ended March 31, 2016 and the financial year ended March 31, 2015:

<i>(in thousands of Euro)</i>	<b>Financial Year 2015/2016</b>	<b>Financial Year 2014/2015 (restated) *</b>
Revenues from sales and services	154,087	150,209
Other revenues	1,200	243
<b>Total revenues</b>	<b>155,287</b>	<b>150,452</b>

(\*) The figures for the financial statements at March 31, 2015 have been reclassified to conform to the economic and financial representation adopted in the financial statements at March 31, 2016.

The breakdown of revenues by sales channel is the following:

<b>Revenues by Sales Channel</b> <i>(in thousands of Euro)</i>	<b>Financial Year 2015/2016</b>	<b>Financial Year 2014/2015 (restated) *</b>
<b>Retail</b>	<b>72,837</b>	<b>61,404</b>
<i>Percentage on total sales</i>	<i>46.9%</i>	<i>40.8%</i>
<b>Wholesale</b>	<b>81,250</b>	<b>88,805</b>
<i>Percentage on total sales</i>	<i>52.3%</i>	<i>59.0%</i>
<b>Total revenues from sales and services</b>	<b>154,087</b>	<b>150,209</b>
<i>Percentage on total sales</i>	<i>99.2%</i>	<i>99.8%</i>
Other revenues	1,200	243
<i>Percentage on total sales</i>	<i>0.8%</i>	<i>0.2%</i>
<b>Total Revenues</b>	<b>155,287</b>	<b>150,452</b>

(\*) The figures for the financial statements at March 31, 2015 have been reclassified to conform to the economic and financial representation adopted in the financial statements at March 31, 2016.

Consolidated revenues for the financial year ended March 31, 2016 amounted to Euro 155,287 thousands, compared with Euro 150,452 thousands in the financial year ended March 31, 2015, an increase equal to Euro 4,835 thousands (+3.2%). The trends are discussed in the Report on Operations.

The other revenues mainly include, in both years, the insurance reimbursements against robberies of jewelry and watches incurred by the Group.

## 25. COST OF RAW MATERIALS AND CONSUMABLES

The table below shows the cost of raw materials and consumables (including purchases of finished products) for the financial year ended March 31, 2016 and the financial year ended March 31, 2015:

<i>(in thousands of Euro)</i>	<b>Financial Year 2015/2016</b>	<b>Financial Year 2014/2015</b>
Purchases	91,111	90,001
Change in inventory of finished products	(10,565)	(7,644)
Change in inventory of raw materials and consumables	(296)	98
<b>Total cost of raw materials and consumables</b>	<b>80,249</b>	<b>82,454</b>

Cost of raw materials and consumables, including purchases of finished products, in the financial year 2015/2016 amounted for Euro 80,249 thousands, a decrease by 2.7% compared with the twelve months period ended March 31, 2015 (Euro 82,454 thousands)..

Compared with the increase in revenue, the opposite trend depends on the different mix of sales by channel and by product category, with a growth of components with higher margins and resulting in lower incidence of the cost of goods sold.



## 26. COST OF SERVICES

The breakdown of the main items for the financial year ended March 31, 2016 and the financial year ended March 31, 2015 is the following:

<i>(in thousands of Euro)</i>	<b>Financial Year 2015/2016</b>	<b>Financial Year 2014/2015</b>
Operating expenses	8,010	6,895
Advertising expenses	12,934	10,186
Other commercial expenses	3,691	3,443
Production costs	3,721	3,457
Consultancies	3,722	3,179
Travel/transport expenses	4,067	3,736
Directors' Fees	1,979	667
Use of third party assets	12,539	10,368
<b>Total cost of services</b>	<b>50,662</b>	<b>41,931</b>

Costs for services were Euro 50,662 thousands, an increase of 20.8% compared with the previous financial year (Euro 41,931 thousands). The increase was a direct result of the initiatives undertaken to adequately support the Group' development strategy, in Italy and abroad, according to which mainly increased the advertising and promotion expenses and those related to direct management of commercial spaces (more leases costs included in "Use of third party assets").

## 27. PERSONNEL COST

The breakdown of the main items for the financial year ended March 31, 2016 and the financial year ended March 31, 2015 is the following:

<i>(in thousands of Euro)</i>	<b>Financial Year 2015/2016</b>	<b>Financial Year 2014/2015</b>
Wages and salaries	20,655	19,051
Social security costs	4,762	4,774
Termination indemnity	900	927
Other personnel costs	408	299
<b>Total personnel cost</b>	<b>26,725</b>	<b>25,051</b>

Personnel costs amounted to Euro 26,725 thousands, an increase by 6.7% compared with the previous financial year (Euro 25,051 thousands). The increase in the cost is a direct correlation of the increase in average staff employed in the Group during the financial year 2015/2016, with the inclusion of new professionals abroad to support international development. In the financial year ended March 31, 2016 the average number of employees of the Group was 605 units (+2.3% compared with the previous year).

The table below shows the average number of employees of the Group by categories in the financial year ended March 31, 2016 and in the financial year ended March 31, 2015:

<b>Labour categories</b>	<b>Financial Year 2015/2016</b>	<b>Financial Year 2014/2015</b>
Executives and Managers	46.8	51.5
Clerks	466.2	445.7
Workers	92.0	94.3
<b>Total</b>	<b>605.0</b>	<b>591.5</b>

## 28. OTHER NET OPERATING (CHARGES) INCOMES

The breakdown of the main items for the financial year ended March 31, 2016 and the financial year ended March 31, 2015 is the following:

<i>(in thousands of Euro)</i>	<b>Financial Year 2015/2016</b>	<b>Financial Year 2014/2015</b>
Other operating (charges) incomes	27,345	4,704
Allowance for doubtful accounts	(849)	(1,681)
<b>Total other net operating (charges) incomes</b>	<b>26,496</b>	<b>3,023</b>

The balances of the two financial years compared were positive and in strong increase of Euro 23,473 thousands. These balances include, in addition to write-downs and losses on trade receivables reported in the table, the following main components:

In the financial year 2015/2016:

- 1) Non-recurring gross incomes, arising from disposals to third parties for commercial spaces used for directly-operated stores, for a total amount of Euro 27,500 thousands.
- 2) The provisions to cover probable costs for litigation of Euro 489 thousands.
- 3) The closure of a tax dispute regarding Damiani S.p.A. through an act of accession that led to a charge of Euro 576 thousands, with payment by installments.
- 4) The grant of Euro 633 thousands received by the subsidiary Laboratorio Damiani S.r.l. from the Italian Ministry of Economic Development for the research and development programs made by the company.

In the financial year 2014/2015:

- 1) The income received from the sale of the business unit relating to a multi-brand Rocca 1794 boutique, which took place in May 2014. The amount was equal to Euro 1,891 thousands.
- 2) The net effect of the restatement of the fund that cover possible returns from customers, allocated in previous years and which resulted in excess at the Group level, given the drop in the volume of returns from customers. The net income was Euro 1,722 thousands.
- 3) The provisions to cover probable costs for litigation of Euro 250 thousands.

## **29. AMORTIZATION, DEPRECIATION AND WRITE-DOWNS**

The breakdown of the main items for the financial year ended March 31, 2016 and the financial year ended March 31, 2015 is the following:

<i>(in thousands of Euro)</i>	<b>Financial Year 2015/2016</b>	<b>Financial Year 2014/2015</b>
Amortization of intangible assets	212	305
Depreciation of property, plant and equipment	4,151	3,612
Write downs of property, plant and equipment and intangible assets	5,501	522
<b>Total Amortization, depreciation and write downs</b>	<b>9,864</b>	<b>4,439</b>

In the financial year ended March 31, 2016 the amount of amortization, depreciation and write-downs was Euro 9,864 thousands, an increase of Euro 5,425 thousands compared with the previous twelve months period (Euro 4,439 thousands). This increase was the result of higher write-downs of fixed assets related to directly-operated stores, closed in the financial year, and of the goodwill accounted in the financial statement as a result of the impairment test made at March 31, 2016.

## **30. FINANCIAL (EXPENSES)/INCOMES**

The breakdown of the main items for the financial year ended March 31, 2016 and the financial year ended March 31, 2015 is the following:

<i>(in thousands of Euro)</i>	<b>Financial Year 2015/2016</b>	<b>Financial Year 2014/2015</b>
Net exchange (charges)/incomes	395	(462)
Other financial charges	(2,749)	(2,901)
Other financial revenues	342	192
<b>Total financial (expenses) incomes</b>	<b>(2,012)</b>	<b>(3,171)</b>

The balance was an improvement for Euro 1,159 thousands compared with the previous financial year. This change was due to lower interest expense on indebtedness and to the net positive exchange rate effects recorded in the financial year 2015/2016, for Euro 395 thousands, compared with negative exchange rate effects for Euro 462 thousands in the previous financial year.

### 31. INCOME TAXES

In the financial year ended March 31, 2016 income taxes have an impact on the consolidated result of Euro 6,850 thousands, while in the financial year 2014/2015 the negative impact was only Euro 28 thousands. The higher value of taxes in the financial year 2015/2016 was mainly due to these elements: i) taxation of non-recurrent income related to the before described real estate operation, in the foreign subsidiary; ii) recalculation of deferred taxes to align to the reduction of tax rates on corporate income, which was introduced in Italy, effective from next year, when the tax receivables will be progressively realized.

The current and deferred taxes recognized directly in shareholders' equity are negative and equal to Euro 97 thousands.

The reconciliation between taxes from the consolidated financial statements and the theoretical tax calculated on the basis of IRES (income tax) rate applicable to Damiani S.p.A. in the financial year ended March 31, 2016 and in the financial year ended March 31, 2015 is presented below:

<i>(in thousands of Euro)</i>	<b>Financial Year 2015/2016</b>	<b>Financial Year 2014/2015</b>
<b>Result before taxes</b>	<b>12,271</b>	<b>(3,571)</b>
IRES (Corporate) tax rate for the period	27.5%	27.5%
Theoretical tax burden	(3,375)	982
Not recoverable subsidiary losses	(3,102)	(3,604)
IRAP (Regional tax on productive activities) effect	(161)	(448)
Differences in tax rates	531	1,166
Tax impact on intercompany foreign exchange	(383)	1,787
Other non deductible costs	(360)	89
<b>Total differences</b>	<b>(3,475)</b>	<b>(1,010)</b>
<b>Total taxes for Income statements</b>	<b>(6,850)</b>	<b>(28)</b>
Effective tax rate	-55.8%	0.8%

### 32. TRANSACTIONS WITH RELATED PARTIES

This paragraph describes the relationships between the companies of the Damiani Group and the related parties as defined in IAS 24 and by Consob Regulation n. 17221/2010 and subsequent amendments and additions, for the financial years ended March 31, 2016 and March 31, 2015, highlighting the impact on the consolidated economic and financial values.

Dealings with related parties are almost exclusively related to real estates and financials (bond, leases, sale and lease-back transactions, rental of business units).

The following table shows the details of the relationships between the Group companies and the related parties in the financial year ended March 31, 2016.

<i>(in thousands of Euro)</i>	Financial Year 2015/2016		Balance at March 31, 2016			
	Net operating costs	Financial expenses	Other current assets	Trade receivables	Financial debts (including	Trade payables
D.Holding S.A.	(150)	-	-	-	-	0
Imm.re Miralto S.r.l.	(521)	(13)	541	4	(164)	(5)
Caesarea S.A. (Luxembourg)	-	-	-	-	-	(190)
Montenapoleone 10 S.r.l.	(246)	(296)	-	-	(1,240)	(63)
Duomo 25 S.r.l.	-	(301)	-	-	(4,178)	(234)
Il Bricco	(83)	-	-	-	-	(32)
Dofa S.r.l.	1	-	-	1	-	0
Venini S.p.A.	(2)	-	-	-	-	0
Majority Shareholders	-	(232)	-	-	(5,301)	-
Executives with strategic responsibilities	(132)	-	-	-	-	(99)
<b>Total with related parties</b>	<b>(1,133)</b>	<b>(842)</b>	<b>541</b>	<b>5</b>	<b>(10,883)</b>	<b>(623)</b>
<b>Total Consolidated</b>	<b>(141,004)</b>	<b>(2,749)</b>	<b>7,745</b>	<b>34,111</b>	<b>(61,319)</b>	<b>(44,680)</b>
%age weight	1%	31%	7%	0%	18%	1%

- The costs of Euro 150 thousands to D.Holding S.A. refer to rental payment made by the subsidiary Damiani International S.A. for the use at special events of the masterpieces that won the *Diamonds International Awards*, and that are owned by this related party.
- Net operating costs to Immobiliare Miralto S.r.l. are related to the rents paid for the premises in Turin and Taormina, where are located Rocca 1794 boutiques, and other spaces for office and warehouse. To the premises in Turin refer also the other current assets for the prepaid expense initially paid to the related party in the financial year 2010/2011 when the lease contract related to this boutique was signed (the value at March 31, 2016 is equal to Euro 541 thousands). In addition, in the period financial expenses also arise for Euro 13 thousands, corresponding to the interest portion of the repayment of the debt to the related party for a sale and lease-back operation to a premises in Padova, where is located a Rocca 1794 boutique. The debt outstanding at March 31, 2016 amounted to Euro 164 thousands.
- Trade payables to Cesarea S.A. refer to rents, accrued in prior years, for a premises in New York used by the subsidiary Damiani Usa Corp. The lease has been terminated.
- Net operating costs to Montenapoleone 10 S.r.l. refer to the rents paid for the sublease of offices and show room in Milan. In addition, in the period financial expenses also arise for Euro 296 thousands, corresponding to the interest portion of the repayment of the debt to the related party for a sale and lease-back operation to a premises in Milan, where is located a Damiani boutique. The outstanding debt at March 31, 2016 amounted to Euro 1,240 thousands.
- The financial expenses to Duomo 25 S.r.l. for Euro 301 thousands correspond to the interest portion of the repayment of the debt to the related party for a sale and lease-back operation to a premises in Milan, where is located a Rocca 1794 boutique. The outstanding debt at March 31, 2016 amounted to Euro 4,178 thousands.
- The cost towards Il Bricco refers to the lease of a prestigious building located in Valenza (Italy), used for commercial purposes for the organization of events. The annual fee is Euro 100 thousands, as of June 1, 2015.
- The income refers to services of secretaries made on behalf of Dofa S.r.l.
- The cost towards Venini S.p.A. refers to the purchase of goods used by Damiani S.p.A. for gifts.
- The financial debt for Euro 5,301 thousands toward the major shareholders refers to the reserved non-convertible bond issued by Damiani S.p.A. and signed by the Damiani brothers in September 2013 for an amount of Euro 5,000 thousands. On this bond capitalized interests are accrued at a fixed rate of 3.90% per annum, which will be paid at maturity.
- The costs referred to the key executives relate to the provision of services, which fall under the ordinary operations of the Group.

The following table shows the details of the relationships between the Group companies and the related parties in the financial year ended March 31, 2015.

<i>(in thousands of Euro)</i>	Financial Year 2014/2015		Balance at March 31, 2015				
	Net operating costs	Financial expenses	Other current assets	Trade receivables	Financial debts (including	Other current liabilities	Trade payables
D.Holding S.A.	(170)	-	-	-	-	-	(1,020)
Imm.re Miralto S.r.l.	(342)	(15)	608	4	(199)	-	-
Caesarea S.A. (Luxembourg)	-	-	-	-	-	-	(201)
Montenapoleone 10 S.r.l.	(414)	(346)	-	-	(1,711)	-	-
Duomo 25 S.r.l.	1	(349)	-	-	(5,014)	-	(234)
Magenta 82 S.r.l.	(79)	-	-	-	-	-	(80)
Majority Shareholders	-	(275)	-	-	(5,000)	(69)	-
Executives with strategic responsibilities	(191)	-	-	-	-	-	(123)
<b>Total with related parties</b>	<b>(1,195)</b>	<b>(985)</b>	<b>608</b>	<b>4</b>	<b>(11,924)</b>	<b>(69)</b>	<b>(1,658)</b>
<b>Total Consolidated</b>	<b>(150,852)</b>	<b>(3,363)</b>	<b>8,656</b>	<b>35,843</b>	<b>(62,184)</b>	<b>(5,804)</b>	<b>(51,811)</b>
%age weight	1%	29%	7%	0%	20%	1%	3%

(\*) The figures for the financial statements at March 31, 2015 have been reclassified to conform to the economic and financial representation adopted in the financial statements at March 31, 2016.

- The costs of Euro 170 thousands to D.Holding S.A. refer to rental payment made by the subsidiary Damiani International B.V. for the use at special events of the masterpieces that won the *Diamonds International Awards*, and that are owned by this related party.
- Net operating costs to Immobiliare Miralto S.r.l. are related to the rents paid for the premises in Turin, where is located a Rocca 1794 boutique. To this premises refer also the other current assets for the prepaid expense initially paid to the related party in the financial year 2010/2011 when the lease contract related to the Turin boutique was signed (the value at March 31, 2015 was equal to Euro 608 thousands). In addition, in the period financial expenses also arose for Euro 15 thousands, corresponding to the interest portion of the repayment of the debt to the related party for a sale and lease-back operation to a premises in Padova, where is located a Rocca 1794 boutique. The debt outstanding at March 31, 2015 amounted to Euro 199 thousands.
- Trade payables to Cesarea S.A. (in previous financial years Roof Garden S.A.) refer to rents, accrued in prior years, for a premise in New York used by the subsidiary Damiani Usa Corp. The lease has been terminated.
- Net operating costs to Montenapoleone 10 S.r.l. are related to the rents paid for the sublease of offices and show room in Milan. In addition, in the period financial expenses also arose for Euro 346 thousands, corresponding to the interest portion of the repayment of the debt to the related party for a sale and lease-back operation to a premises in Milan, where is located a Damiani boutique. The outstanding debt at March 31, 2015 amounted to Euro 1,711 thousands.
- The financial expenses to Duomo 25 S.r.l. for Euro 349 thousands correspond to the interest portion of the repayment of the debt to the related party for a sale and lease-back operation to a premises in Milan, where is located a Rocca 1794 boutique. The outstanding debt at March 31, 2015 amounted to Euro 5,014 thousands.
- The expenses recorded against the company Magenta 82 S.r.l. referred to the use of space for the organization of meetings and events provided by the related party in the palace of its property.
- The financial debt for Euro 5,000 thousands to the major shareholders refers to the reserved non-convertible bond issued by Damiani S.p.A. and signed by the Damiani brothers.
- The costs referred to the key executives relate to the provision of services, which fall under the ordinary operations of the Group.

In both periods are also outstanding loans agreements between the Parent company and certain subsidiaries negotiated at market conditions.

### 33. COMMITMENTS AND CONTINGENT LIABILITIES

There were no outstanding commitments or liabilities arising from obligations and for which it is probable an outflow of resources which are not already included in the financial statements at March 31, 2016.

With regard to tax audits in progress, it is provided an update at the date of approval of these financial statements.

On September 5, 2012 the Provincial Directorate II of the Tax Agency in Milan initiated in Rocca S.p.A. (later merged into Damiani S.p.A.) a tax audit on IRES and IRAP (income taxes) for the period 2009/2010 and for VAT purposes for the year 2009. On July 2, 2014 the Office notified Rocca S.p.A. an assessment notice for

formulating a relief for an amount of Euro 277 thousand. The Company filed an appeal to the Provincial Tax Commission and on November 6, 2015 the hearing was held in front of the Provincial Tax Commission. The Company is waiting for the judgment and the Directors believe that there are no probable risks for the Company in excess of what was accounted in the specific fund.

On March 13, 2014 the Provincial Directorate of the Tax Agency in Alessandria has initiated an audit in Damiani S.p.A. in the field of transfer pricing with reference to the tax period 2011/2012. On December 15, 2015 The Company received the summary report about this matter (called "PVC") from the Tax Agency, with reliefs for Euro 8,714 thousands for IRES (income tax) and Euro 8,669 thousands for IRAP (local tax). In the following months, meetings were held between the Company and the Provincial Directorate of the Tax Agency. Damiani S.p.A. opened a procedure with the Office, still in progress, to provide further elements of analysis to refute the findings of the PVC. Simultaneously, on February 22, 2016 the same Provincial Directorate has initiated a further verification in Damiani S.p.A. relating to transfer pricing for the tax years 2012/2013 and 2013/2014. The verification is in progress. At the present time, based on the advancement of the audits and related assessments in progress also with the Office, the Directors of Damiani S.p.A. believe there is no probable risks for the Company.

On February 13, 2015 the tax police – department of Alessandria (Italy) - started an audit for VAT at the Administrative Offices of the former subsidiary Rocca S.p.A., merged in Damiani S.p.A. on December 16, 2014. On May 19, 2015, the financial police drew up the report "PVC" reporting reliefs for Euro 442 thousands. On September 18, 2015 the Provincial Directorate II of the Tax Agency in Milan issued notices of assessment relating to reliefs for years 2010 and 2011. Against them, the Company has submitted to the Tax Agency in Milan instance of tax settlement in November 2015. On February 12, 2016 were signed the acts of accession with the Office, agreeing a reduction compared with the assessed value and a rescheduling of the payment (final payment in November 2019). On May 20, 2016 has been noticed to Damiani S.p.A. also the assessment for the 2012 with a relief of Euro 34 thousands. The Company is considering what action to take in this regard.

On December 29, 2015 and January 5, 2016 the Tax Agency – Provincial Directorate II in Milan notified to Damiani S.p.A. notice of assessment for withholding taxes not operated for Euro 2,280 thousands and act of protest of the relevant sanctions. The contested measure was carried out in March 2010 by the subsidiary Rocca S.p.A. (merged into Damiani S.p.A. in December 2014) as part of a reorganization of the Italian network of directly operated stores of the Group. On May 26, 2016 the Company filed the appeal initiating the dispute with the Tax Agency. It is believed, in fact, that the proceeds of the sale of the lease can not be considered productive of a taxable profit according to the Italian rules in force. Therefore, at the present time the Company, supported by the opinion of its tax advisers, believes it is not probable an outflow of resources to fulfill the established dispute. It is waiting to be set for the hearing of the dispute procedure.

#### **34. ATYPICAL AND/OR UNUSUAL AND NON-RECURRING TRANSACTIONS**

In the financial year 2015/2016 there were no positions or transactions deriving from atypical and/or unusual operations as defined in the Consob ruling n. 15519 as of July 27, 2006.

As non-recurring operation it should be noted:

- The transfer to third parties of two lease contracts for properties in which the Group managed direct stores. The income for the Group as key money, net of related costs and taxes, was around Euro 20.5 millions, and is recognized in the income statement.

#### **35. EARNINGS (LOSSES) PER SHARE**

The basic earnings (losses) per share was calculated dividing the net result attributable to the ordinary shareholders of the Issuer Damiani S.p.A. by the weighted average number of shares in circulation during the period. For the calculation of earnings (losses) per share was determined by the weighted average number of shares in circulation considering also the effects arising from the purchase of treasury shares starting from March 2008, following the resolutions approved by the Shareholders' Meetings on February 22, 2008, July 22, 2009, July 21, 2010, July 27, 2011, July 26, 2012, July 26, 2013, July 24, 2014 and July 23, 2015.

The following section provides information on the shares used in calculating basic and diluting earnings/(losses) per shares:

<b>Basic Earnings (Losses) per Share</b>	<b>Financial Year 2015/2016</b>	<b>Financial Year 2014/2015</b>
Number of ordinary shares at the beginning of the period	82,600,000	82,600,000
Number of ordinary shares at the end of the period	82,600,000	82,600,000
Weighted average number of ordinary shares for computation of basic earnings per share	77,421,810	77,475,949
<b>Basic Earnings per Share (amount in Euro)</b>	<b>0.07</b>	<b>(0.04)</b>

  

<b>Diluted Earnings (Losses) per Share</b>	<b>Financial Year 2015/2016</b>	<b>Financial Year 2014/2015</b>
Number of ordinary shares at the beginning and at the end of the period	82,600,000	82,600,000
Weighted average number of ordinary shares for computation of basic earnings per share	77,421,810	77,475,949
Diluted effects	-	-
Weighted average number of ordinary shares for computation of diluted earnings per share	77,421,810	77,475,949
<b>Diluted Earnings per Share (amount in Euro)</b>	<b>0.07</b>	<b>(0.04)</b>

### 36. DIRECTORS' FEES

The fees for the financial year 2015/2016 due to the directors, statutory auditors and executives with strategic responsibilities of Damiani S.p.A., also with reference to what is perceived to similar functions performed within other Group companies are reported in the annual Report on remuneration, prepared pursuant to article 123-ter of Legislative Decree n. 58/1998 and article 84-quater of Consob Regulation n. 11971/1999.

This report sets out the policy of Damiani S.p.A. regarding the remuneration of members of the Board of Directors and the executives with strategic responsibilities with reference to the financial year 2016/2017 and the procedures used for the adoption and implementation of this policy, and contains information concerning the valid plans based on financial instruments pursuant to article 114-bis of Legislative Decree n. 58/1998.

The Report on remuneration is available to the public, together with the annual financial statements and the Report on corporate governance and ownership structure, at the registered office of the Issuer Damiani S.p.A. and on the website [www.damiani.com](http://www.damiani.com)

### 37. STOCK OPTION PLANS

At the date of approval of the financial statements there is an ongoing compensation plan based on financial instruments pursuant to article 114-bis of the legislative Decree n. 58/1998.

- Stock Option Plan 2010, approved by the Shareholders' Meeting of July 21, 2010 and concerning the free allocation of options for the purchase of a maximum of n. 3,500,000 Damiani shares to directors, executives, managers, other employees, consultants and co-workers, including agents of the Damiani Group, in one or more tranches within five years from the approval of the Meeting. The Plan was amended by the Shareholders' Meeting of July 27, 2011 and has been so far subject to three cycles of implementation approved by: i) the first cycle by the Board of Directors on April 21, 2011 (amended on February 10, 2012) and still valid; ii) the second and the third by the Board of Directors on June 12, 2014 and still valid.

In addition, the Shareholders' Meeting of July 24, 2014 approved the adoption of two further plans based on financial instruments pursuant to article 114-bis of the Legislative Decree n. 58/1998, that have not yet been implemented.

- Stock Grant Plan 2014-2019 which provides for the free assignment of a maximum of n. 1,000,000 Damiani shares in favor of the beneficiaries to be identified by the Board of Directors of Damiani S.p.A., with the assistance of the Audit, Risk, Remuneration and Transaction with related parties Committee, between directors, employees and consultants of the Group companies.
- Stock Option Plan 2014-2019 which provides for the sale of options to purchase a maximum of n. 3,500,000 Damiani shares in favor of the beneficiaries to be identified by the Board of Directors of Damiani S.p.A., with the assistance of the Audit, Risk, Remuneration and Transaction with related parties Committee, between the management of the Group companies.

Finally, the Shareholders' Meeting of July 23, 2015 approved a new compensation plan based on financial instruments, the Stock Option Plan 2015-2020, concerning the free allocation of a maximum n. 3,500,000 options to beneficiaries. These have to be identified by the Board of Directors, with the assistance of the Audit, Risk, Remuneration and Transaction with related parties Committee, including executive directors, executives, managers, other employees, consultants and contractors, including agents, of the Group. The Plan has not yet been implemented.

For more information refer the Report on Remuneration, prepared by the Board of Directors of Damiani S.p.A. under the article 123-ter of the Legislative Decree n. 58/1998 and the article 84-quater of the Consob Regulation n. 11971/1999 and available on the website [www.damiani.com](http://www.damiani.com).

### **38. CAPITAL MANAGEMENT**

The primary objective of the Damiani Group is to guarantee, even in periods of economic crisis and financial stress, the best possible balance between assets and liabilities (solvency ratio). On this basis, the Group will endeavor to identify the sources necessary to support the growth plans of the Group's business in the best economic and financial possible conditions, both in terms of cost and time, with the overall objective of maintaining the capital structure to an appropriate level of solidity in the medium term.

The Group manages its capital structure and changes it according to the economic conditions and the targets of its strategic plans.

### **39. FINANCIAL RISK MANAGEMENT**

At March 31, 2016 the Damiani Group had a negative financial position of Euro 52.5 millions, stable compared with March 31, 2015.

The Group has arranged its financial structure so that it appears appropriate to its development plans, in Italy and above all abroad, with the aim of acquiring a dimensional level and an international recognition comparable to the main players in the sectors.

In the following paragraphs are described the main financial risks to which the Damiani Group is exposed, listing them in descending order of importance, and the actions taken or pursued to mitigate the effects.

Consistent with these goals, the Group searches the balance between sources and uses and is active to minimize the associated costs and risks.

#### **Liquidity risk**

As part of the overall financing needs, for the ongoing management and to support its development, the Group uses various forms of financing both in the medium/long term and short term (lines of credit and factoring). The goal is contain the cost and risk of exposure to fluctuations in interest rates and maintain the structure of the sources balanced with the uses.

During the financial year 2015/2016, the Group continued to pursue the dual objective of balance between loans and sources, acquiring a number of medium/long-term loans that could support the development projects in particular in the retail sector, both within abroad than in Italy, and the related cost containment.

As for the first goal and then in terms of liquidity risk management, the situation does not present a high risk profile, since 45% of the gross debt has medium-term maturity. Furthermore, the Damiani Group has short bank credit lines which as of March 31, 2016 have not been used for approximately Euro 22 million yet (out of a total of EUR 50.8 million).

Furthermore, under the proper balance between resources generated or absorbed by operating activities the Group also includes assessments made by management to bring the inventories to a better dimension related to the current volume of activity. In order to achieve this balance the Group can carry out different types of interventions that can be: i) fusion of the finished product with recovery of valuable raw materials (in the financial year 2015/2016 have not been implemented operations of this type); ii) the destocking operations on channels other than ordinary. The use of one rather than another type of intervention varies over time in the light of developments in the prices of raw materials and related production requirements, and in terms of convenience as brand equity.

The table below shows the detail of the liquidity risk:



<i>(in thousands of Euro)</i>	Analysis of the due date at March 31, 2016			Total
	within 1 year	1 to 5 years	over 5 years	
Trade payables	44,680	-	-	44,680
Long term financial debts	3,981	14,367	3,574	21,922
Long term financial debts towards related parties	-	5,301	-	5,301
Debts for financial leasing	1,068	4,650	-	5,718
Short term borrowings	28,378	-	-	28,378
Other current liabilities	13,898	-	-	13,898
<b>Total exposure</b>	<b>92,005</b>	<b>24,318</b>	<b>3,574</b>	<b>119,897</b>
<i>(in thousands of Euro)</i>	Analysis of the due date at March 31, 2015 <i>(restated)</i> *			Total
	within 1 year	1 to 5 years	over 5 years	
Trade payables	51,811	-	-	51,811
Long term financial debts	2,706	8,143	2,904	13,753
Long term financial debts towards related parties	-	5,000	-	5,000
Debts for financial leasing	1,031	5,610	283	6,924
Short term borrowings	36,507	-	-	36,507
Other current liabilities	8,189	-	-	8,189
<b>Total exposure</b>	<b>100,244</b>	<b>18,753</b>	<b>3,187</b>	<b>122,184</b>

(\*) The figures for the financial statements at March 31, 2015 have been reclassified to conform to the economic and financial representation adopted in the financial statements at March 31, 2016.

### Interest rate risks

The second objective mentioned in the previous paragraph, closely related to liquidity risk, is the employee's risk management by fluctuations in interest rates over time. The Group is active to minimize its burden diversifying the sources of financing in consideration of the rates applied and their variability over time.

In line with the downtrend in market interest rates, the Group during the financial year 2015/2016 was then activated to contain the costs related to loans obtained both with reference to the medium/long term than on short lines. On the different components there are both remuneration at fixed rate (bond signed in September 2013 by significant shareholders, the financial contribution by Simest S.p.A. in Damiani Hong Kong Ltd made in December 2013) and at floating rate (on the financing in pool and the short lines) as well as subsidized (Simest S.p.A. funding for development programs in China and the ministerial funding of research and development projects). Overall, the cost of indebtedness has been reduced by about one percentage point, from 3.94% to 2.99% per annum, with reductions in both the medium/long-term components and in the short ones, on average, less onerous. Considering the current balance of the sources, the risk in question is therefore less than the previous year.

### Credit risk

The credit risk is defined as the possibility of incurring a financial loss, which could be brought about by the non-fulfillment of a contractual obligation by a counterpart.

With reference to the dealership, the Group deals with a customer base consisting mainly of jewelry shops and distributors and therefore collaterals are not generally required. The Group carries out a preliminary information survey to customers through a specific information company and monitors all customers with the attribution of a specific trust. An automatic control is also operating with the help of an information company for reporting possible negativity (eg. Protests) that trigger the immediate blocking procedures and starting the process of debt collection. When there are critical situations with some customers, the credit management department formalizes plans to return while generating a lengthening of the average collection times, minimizes the risk of loss. This constant monitoring to date has determined the containment of losses to an acceptable level, albeit in a context where market conditions were partially damaged (mostly domestically), and the difficulty to access to credit can impact the solvency of some clients. The Group shall conduct timely assessment of risks both in the closing of the financial year as well as when preparing the interim reports.

The table below shows the maximum potential exposure to the credit risk at March 31, 2016 and at March 31, 2015.

<i>(in thousands of Euro)</i>	<b>March 31, 2016</b>	<b>March 31, 2015 (restated)*</b>
Cash and cash equivalent	8,599	9,421
Trade receivables	34,111	35,843
Other non current assets	3,949	4,658
Other current assets	8,779	9,501
<b>Total maximum exposure to the credit risk</b>	<b>55,438</b>	<b>59,423</b>

(\*) The figures for the financial statements at March 31, 2015 have been reclassified to conform to the economic and financial representation adopted in the financial statements at March 31, 2016.

In relation to trade receivables the exposure reported in the table has already been appropriately adjusted to reflect the estimated realizable value at the date of the financial statements based on the assessment and the findings reported in note 11.

### **Price fluctuations' risk and availability of raw materials**

Among its raw materials the Damiani Group mainly uses precious stones, gold, pearls and other precious materials, whose market prices and availability can vary significantly due to factors as government regulations, market trends and investors' speculative positions, relationships with suppliers (above all regarding the purchase of diamonds) and consequent conditions of supply.

During the financial year 2015/2016, the average price of gold began to rise, with an average price of 33.5 euros/gram from April 2015 to March 2016, up 5.5% compared with the average over the previous twelve months. In April and May 2016, the price has maintained constant above 35 Euro/gram. This increase, if should stabilize, would be negative on production costs, and in the formulation of forecasts of purchase of the raw material, even if it should be activated mechanisms of hedging the risk of price fluctuations and manufacturing process planning (also affected by seasonal events of the market).

The risks related to price of raw materials and to the strong and sudden fluctuations are amplified by changes in the exchange rate, because some materials have official prices in currencies other than Euro and the same purchases are settled in US Dollar (diamonds) and Yen (pearls), while the Group's functional currency is the Euro.

The Damiani Group mitigates this risk as follows: a) proceeds to forward purchases of raw materials (gold only) with fixed prices and quantities in relation to the dynamics of the production process (at March 31, 2016 active contracts relating to purchases of gold were 15 for a total quantity of 73 kilograms and an agreed equivalent of Euro 2,359 thousands); b) purchases finished products from suppliers with a well established relationships and defined agreements for a medium-term time (normally six months) that enable to mitigate the effects associated with rapid and frequent price fluctuations; c) the retail price is increased (usually annually) in relation to the increase in the production costs.

If there were in the medium-long term an uptrend in the price of raw materials used in the production process, or sudden strong swings, it could inevitably cause a reduction of margins for the Group, as it would be impossible to fully pass on the retail price the increase in the cost of acquisition/production.

### **Exchange rate risks**

The Damiani Group's functional currency is the Euro and, therefore, the transactions in other currencies are subject to exchange rate fluctuations, mainly of the US Dollar and Japanese Yen, which are the currencies of financial statements of the foreign subsidiaries located outside the Eurozone. The fluctuations in exchange rates affect the financial result and the financial position of the Group.

Furthermore, some purchases of raw materials and finished products, as described above, are made in US Dollar and Japanese Yen, which exposes them to the consequent exchange rate risk. If this risk is considered to be significant, as in those times of particular pressure on exchange rates, specific currency forward contracts are signed, for the purpose of hedging the exchange rate risk.

At March 31, 2016 there were outstanding currency forward contracts entered into by Damiani S.p.A. for a total of Euro 3,196 thousands. At March 31, 2015 contracts were instead equal to a total of Euro 5,770 thousands.

### **Financial instruments at fair value and relative valuation hierarchy levels**

The table below gives details of assets and liabilities valued at fair value. No significant differences emerge from a comparison of the book value and fair value of the different categories of financial instruments used by the Group and booked to the financial statements.

<i>(in thousands of Euro)</i>	<b>Total</b>		<b>Book value</b>				<b>Fair value</b>	
	<b>March 31, 2016</b>	<b>March 31, 2015 (restated) *</b>	current		non current		<b>March 31, 2016</b>	<b>March 31, 2015 (restated) *</b>
			March 31, 2016	March 31, 2015 (restated) *	March 31, 2016	March 31, 2015		
Cash and cash equivalent	8,818	9,607	8,818	9,607	-	-	8,818	9,607
Trade receivables	34,111	35,843	34,111	35,843	-	-	34,111	35,843
Other financial assets	12,728	14,159	8,779	9,501	3,949	4,658	12,728	14,159
<b>Total financial assets</b>	<b>55,657</b>	<b>59,609</b>	<b>51,708</b>	<b>54,951</b>	<b>3,949</b>	<b>4,658</b>	<b>55,657</b>	<b>59,609</b>
Trade liabilities	44,680	51,811	44,680	51,811	-	-	44,680	51,811
Financial debts	61,319	62,184	33,427	40,243	27,892	21,941	61,319	62,184
Other liabilities	13,898	8,189	13,898	8,189	-	-	13,898	8,189
<b>Total financial liabilities</b>	<b>119,897</b>	<b>122,184</b>	<b>92,005</b>	<b>100,243</b>	<b>27,892</b>	<b>21,941</b>	<b>119,897</b>	<b>122,184</b>

(\*) The figures for the financial statements at March 31, 2015 have been reclassified to conform to the economic and financial representation adopted in the financial statements at March 31, 2016.

With regard to the financial instruments booked at fair value, IFRS 7 requires these values to be classified on the basis of hierarchy levels that reflect the significance of the method used to calculate the fair value. These levels are as follows:

- level 1: financial instrument listed on an active market
- level 2: fair value is measured on the basis of valuation techniques that are based on observable market data, different from the listing
- level 3: fair value is calculated on the basis of valuation techniques that are not based on observable market data.

All assets and liabilities valued at fair value at March 31, 2016 are classified at level 2 and during the financial year 2015/2016 there were no transfer from level 1 or 3 to level 2.

#### **40. SIGNIFICANT EVENTS AFTER THE END OF THE FINANCIAL YEAR**

There were no significant events after the end of the financial year, affecting the financial position of the Group.

#### **41. AUDIT COSTS**

The following table, compliant to article 149-duodecies of Consob Issuers' Regulation, shows the contractual fees accrued in the financial year ended March 31, 2016 for services provided by the independent audit company and by entities belonging to the same network.

The independent auditors provided only the following audit services:

1. Audit of financial statements of the parent company Damiani S.p.A. and its subsidiaries
2. Audit of consolidated financial statements
3. Limited review of the interim condensed consolidated financial report as of and for the six months ended September 30, 2015.

The costs of these services are summarized in the table below:

<i>(in thousands of Euro)</i>				
<b>Type of services</b>	<b>Service provider</b>	<b>Service provide to</b>	<b>Services</b>	<b>Fees</b>
Audit	Reconta Ernst & Young S.p.A.	Parent company	Professional fees	280
		Parent company	Other expenses	29
Audit	Reconta Ernst & Young S.p.A.	Subsidiaries	Professional fees	86
		Subsidiaries	Other expenses	5
		<b>Total</b>		<b>400</b>

#### **42. EXCHANGE RATES**

The exchange rates at March 31, 2016 and at March 31, 2015 used for the translation of financial statements in foreign currencies were the following.

<b>Currency</b>	<b>Average 2015/2016</b>	<b>Spot March 31, 2016</b>	<b>Average 2014/2015</b>	<b>Spot March 31, 2015</b>
U.S. Dollar	1.104	1.139	1.268	1.076
Japanese Yen	132.583	127.900	138.654	128.950
Swiss franc	1.074	1.093	1.177	1.046
G.B.Pound	0.732	0.792	0.785	0.727
Hong Kong Dollar	8.561	8.828	9.834	8.342
Pataca Macau	8.819	9.094	10.129	8.593
Mexican Peso	18.365	19.590	17.333	16.512
Indian Rupee	72.255	75.429	77.460	67.273
Renminbi China	7.019	7.351	7.856	6.671
Won Republic of Korea	1,277.028	1,294.800	1,342.464	1,192.500
Russian Ruble	76.966	76.305	n.a.	n.a.

For the Board of Directors  
CEO  
Giorgio Grassi Damiani

**Attestation regarding the Consolidated Financial Statements, pursuant to article 154 bis of the Legislative Decree 58/1998**

1. The undersigned Mr. Giorgio Grassi Damiani, CEO, and Mr. Gilberto Frola, Executive in charge of drawing up the accounting documents of Damiani S.p.A., also considering the provisions of article 154-bis, paragraph 3 and 4, of the Legislative Decree n. 58 of February 24, 1998, certify:

- The adequacy in relation to the characteristics of the company and
- The effective application of the administrative and accounting procedures for the preparation of the consolidated financial statements as of March 31, 2016.

2. Furthermore it is certified that the consolidated financial statements:

- a) Are prepared in conformity with the International Accounting Standards as endorsed by the European Union pursuant to the EC regulation n. 1606/2002 of the European Parliament and Council dated July 19, 2002
- b) Agree with the contents of the accounting books and entries
- c) Provide a true and fair representation of the economic and financial position of the Issuer and the companies included in the consolidation area
- d) The report on operations contains a reliable analysis of the results of operations, and the situation of the Group, with a description of the main risks and uncertainties to which it is exposed.

Milan, June 14, 2016

Giorgio Grassi Damiani  
CEO

Gilberto Frola  
Executive in charge of drawing up the  
accounting documents