Consolidated financial statements of the Damiani Group as of and for the year ended March 31, 2018

Prepared in accordance with
IAS/IFRS accounting standards

Damiani S.p.A.

Report on operations of the Consolidated financial statements as of March 31, 2018

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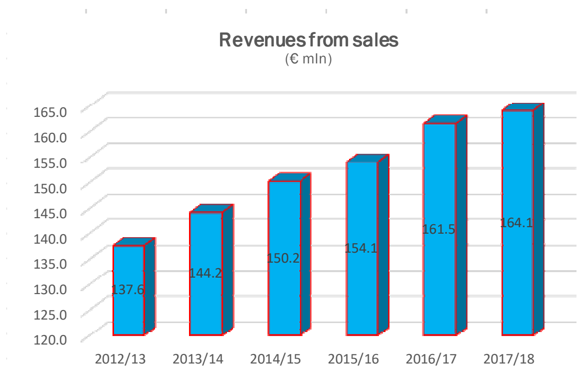
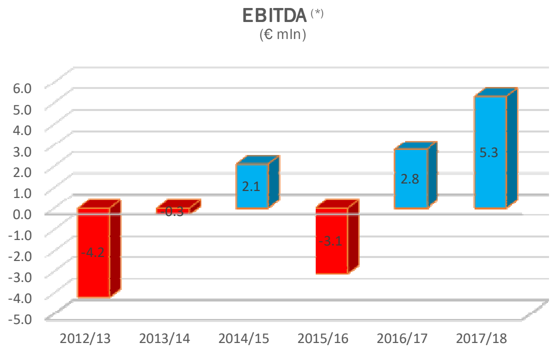
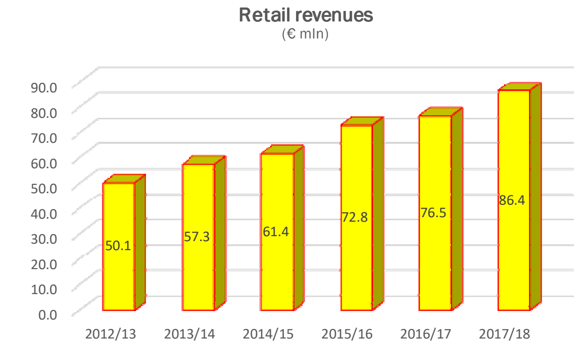
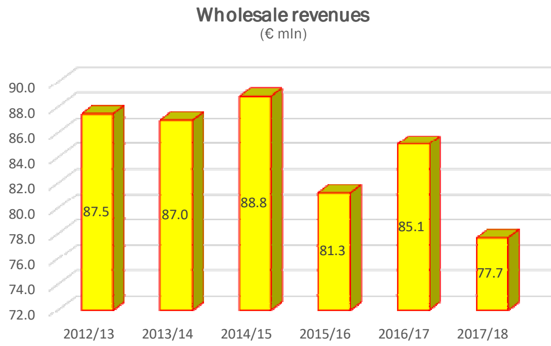
Report on operations of the Board of Directors (1)

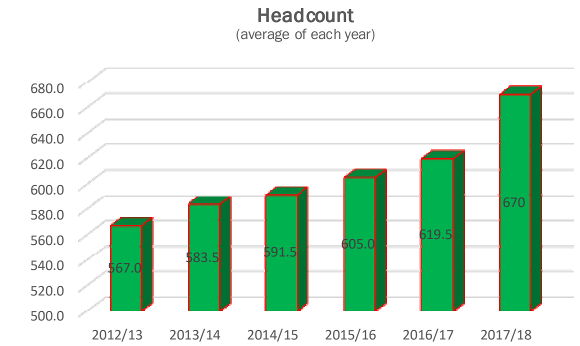
Damiani Group - Highlights

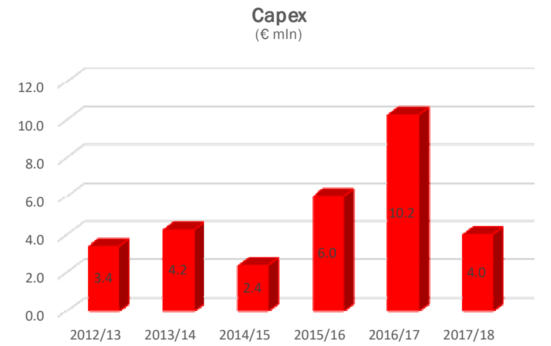












(*) Net of non-recurring operations

1 The Damiani Group ends its financial year on March 31. Therefore, the Consolidated financial statements at March 31, 2018 cover the period April 1, 2017 – March 31, 2018 (henceforth referred to as Financial year ended March 31, 2018 or Financial year 2017/2018). For comparative purposes are shown the figures related to the previous period April 1, 2016 – March 31, 2017 (henceforth referred to as Financial year ended March 31, 2017 or Financial year 2016/2017).

Corporate bodies

Board of Directors [2]

Guido Grassi Damiani (Chairman)

Giorgio Grassi Damiani (Vice President & CEO)

Silvia Grassi Damiani (Vice President)

Roberta Benaglia (Director)

Stefano Graidi (Director)

Giancarlo Malerba (Director)

Elena Garavaglia (Director)

Mirja Cartia D'Asero (Director) [3]

Board of Statutory Auditors [4]

Gianluca Bolelli (President)

Simone Cavalli (Statutory Auditor)

Laura Braga (Statutory Auditor)

Fabio Massimo Micaludi (Alternate Auditor)

Paola Mignani (Alternate Auditor)

Independent Auditors [5]

BDO Italia S.p.A.

Audit, Risk, Remuneration and Transaction with related parties Committee

Elena Garavaglia (President)

Roberta Benaglia

Giancarlo Malerba

Executive in charge of drawing up the accounting documents

Gilberto Frola

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[2] Appointed by the Shareholders' Meeting of Damiani S.p.A. of July 23, 2015 and in office for the period 2015-2018, until the approval of the Financial statements for the year ended March 31, 2018.

[3] Appointed by the Shareholders' Meeting of Damiani S.p.A. of July 21, 2016 and in office until the approval of the Financial statements for the year ended March 31, 2018.

[4] Appointed by the Shareholders' Meeting of Damiani S.p.A. of July 21, 2016 and in office for the period 2016-2019, until the approval of the Financial statements for the year ended March 31, 2019.

[5] Appointed by the Shareholders' Meeting of Damiani S.p.A. of July 21, 2016 and in charge for a nine-year period.

Corporate Governance

The governance system of Damiani S.p.A. (hereinafter also "Company") 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-year period 2015-2018, until the approval of the financial statements as of March 31, 2018 of Damiani S.p.A. On July 21, 2016, the Shareholders' Meeting approved the appointment of a new non–executive and independent Director, whose term expire with the approval of the financial statements on March 31, 2018. Therefore, the Board of Directors consists of eight members and respects the gender balance established by the current law.
The Board of Directors of Damiani S.p.A. which met 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. also appointed Giorgio Grassi Damiani as Director responsible for the internal control system and risk management.
The Shareholders' Meeting of July 21, 2016 appointed the Board of Statutory Auditors for the three-year period 2016 – 2019, therefore until the approval of the financial statement for the fiscal year ending as of 31st March 2019.
The Shareholders' Meeting of July 21, 2016, on the basis of the motivated proposal submitted by the Statutory Auditors, appointed BDO Italia S.p.A. as independent auditors to audit the financial statements of the Company.
Therefore, the Shareholders' Meeting appointed the Auditing company, under article 14 of the Legislative Decree n. 39/2010, to audit the financial statements for the next nine years, from financial year 2016/2017 until the approval of the financial statements and consolidated for the fiscal year ended March 31, 2025.

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 Supervisory Body (hereinafter "SB") under Legislative Decree n. 231/2001 supervises to ensure the correct application of the Organizational Model and Code of Ethics. The monocratic SB of the Company is the Internal Auditor.
During the financial year 2017/2018 the SB, the Audit, Risk, Remuneration and Transaction with related parties Committee and the Board of Statutory Auditors of Damiani S.p.A. met 6 times to share its findings on issues of internal audit.
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 Consolidated non financial statement (pursuant to Legislative Decree 254/2016) and the Annual report on corporate governance published at the same time as the financial statements and also available for consultation in the investor relations section of the website www.damiani.com.

Certification pursuant to art. 2.6.2, paragraph 8 of the Regulations for Markets organized and managed by Borsa Italiana S.p.A.

About the obligation under the art. 15 of the Regulation of Legislative Decree n. 58 of February 24, 1998, concerning market discipline adopted by the Consob (Italian SEC) with resolution n. 20249 of December 28, 2017 (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 15 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. and to the Independent Auditor of economic and financial figures necessary to prepare the annual and infra-annual 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.

Directors' fees

The fees for the financial year 2017/2018 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 2018/2019, and the procedures used for the adoption and implementation of this policy. It contains, 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 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

Share buy-back program

The Shareholders' Meeting of July 27, 2017 resolved to authorize – subject to revocation for the part not-executed of the resolution adopted by the Shareholders' Meeting of July 21, 2016 – the purchase and disposal of treasury shares under article 132 of the Legislative Decree n. 58/1998 and article 144-bis of the Regulation adopted by Consob (Italian SEC) 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 one-fifth 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 26, 2019.
- Purchase operations must be carried out in compliance with art. 132 of Legislative Decree 58/1998 and with art. 144-bis of Consob Regulation n. 11971/99, and respecting the principle of equal treatment of Shareholders and any other regulations, including European community rules.
- 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 price of the sale to third parties must be not less than 90% of the average official prices recorded in the trading sessions in the five days prior the sale. This price limit may be waived in the context of industrial and/or commercial projects and/or in any case of interest to the Company or the Group and in the case of assignment and/or transfer for consideration or free of shares or options to directors, employees, collaborators, agents and consultants of the Group.
- The authorization to dispose of treasury shares, even before purchases are completed, is given without time limit.
- The Shareholders' Meeting has conferred on the Board of Directors of Damiani S.p.A. every wider power necessary or appropriate to implement the deliberations.

As of March 31, 2018 Damiani S.p.A. owned n. 5,556,409 treasury shares (equal to 6.73% of the share capital), and no treasury shares have been purchased or sold between April 2017 and March 2018 or subsequently until the approval of this financial report.

Structure of the Damiani Group

The Damiani Group has been operating for almost a century in the jewelry and watches industry, with a significant presence in Italy and in the major foreign markets, with direct commercial subsidiaries that oversee their local markets.
The parent company is Damiani S.p.A., which in addition to carry out directly commercial activities, also covers the role of industrial and financial holding company.

Damiani S.p.A. has been listed on the Milan Stock Exchange since November 2007.
The consolidated financial statements for the financial year ended March 31, 2018 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 Italian Civil Code.
The subsidiaries included in the consolidation area at March 31, 2018, 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	72,000,000	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 Co. 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	20,010,000	Damiani international S.A.	0.00%	100.00%
Damiani Paris SAS	Paris, France	EUR	6,500,000	Damiani international S.A.	0.00%	100.00%
Damiani Jewels LLC	Dubai, United Arab Emirates	AED	300,000	Damiani International S.A.	0.00%	49.00%
Damiani Singapore Pte.Ltd.	Singapore	SGD	300,000	Damiani International S.A.	0.00%	100.00%

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

The scope of consolidation as at 31 March 2018 underwent the following changes with respect to those reported as at 31 March 2017:

- On May 2017 the new company Damiani Singapore PTE. Ltd was set up in Singapore and fully owned by Damiani International S.A. The subsidiary has a share capital of 300,000 SGD (around 195,000 euros). The company aims to distribute the brands of the Group in Singapore, both in wholesale and retail channels (in June was inaugurated the Damiani boutique located in one of the most prestigious shopping mall of the Asian metropolis).

Research and development

The products offered, together with the reputation and image of the brands sold, have always represented the key of the Company'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 2017/2018 the total cost for product development was equal to Euro 582 thousand.
At March 31, 2018, in the consolidated financial statements are not recognized development costs capitalized.

Main risks and uncertainties for the Damiani Group

The Damiani Group is exposed to various types of risk, in part specific to the sector in which it operates and the geographic markets in which it is present and, to a different extent, more generic and related to the ability to generate and use at the best the human and financial available resources. All risks are constantly monitored by the management and, in the most important components, examined by the Board of Directors of the Parent company, assisted by the Audit, risk, remuneration and transaction with related parties Committee. Risks and uncertainties can be categorized into three macro types: i) market and strategic; ii) operational; iii) financial (including those attributable to tax disputes).

The main risks for the Group are described below, broken down by type.

Market and strategic risks

The Damiani Group operates in the luxury goods sector, which is characterized by a strong correlation between the demand for goods and the level of wealth, growth and economic stability of the countries that generate the demand itself (and the corresponding propensity to consume). The Group is present in a significant number of countries all over the world, which makes it possible to mitigate the risk deriving from excessive geographical concentration. In this way, however, it is required to face at the same time the strong competition of both international brands and those operating locally. The availability of a broad portfolio of brands, which covers a large part of the demand, from Damiani masterpieces to the accessible luxury of Bliss, is another strong point of the Group to face market risks.
In 2017 world economy recorded a global growth (+3.8% of GDP compared to the previous year) [6], higher than the forecasts at the beginning of the year (+3.5%), thanks to better performance both among the advanced countries (+2.3% vs. +2.0%) and among emerging ones (+4.8% vs. 4.5%). In 2018 the positive trend should further strengthen: +3.9% of global GDP, with +2.5% among advanced countries and +4.9% among emerging ones. Even Italy, which remains the main market for the Group's products, seems to have embarked on a path of stable growth, although still lower than the other advanced economies (+1.5% in 2017 and 2018) and with a political scenario characterized by strong uncertainty.
Even if it's not probable on the basis of current macroeconomic estimates, any deterioration in economic conditions in one or more markets in which the Group operates may have negative consequences on its economic and financial results.
In formulating its strategy, the Group analyzes and assess the evolution of the demand of luxury goods in the different geographic areas and the potential of each location in which to place its stores. In more recent years, to the historic luxury strong markets of United States, Japan and Western Europe have joined by many new markets in emerging countries (China, South Korea, Russia and others), where the Group has made substantial investments.
Equally relevant in strategic terms is the ability of the Group to propose collections over time that are able to better interpret the preferences and tastes of customers and create communication campaigns aligned with the positioning of brands and aimed at increasing brand awareness. These aspects will be better explored in the subsequent "Consolidated non financial statement" (in the section dedicated to the product), which will highlight the centrality of the product in the Group's projects and activities. Given this centrality, it is immediately clear that if the actions carried out were not in line with the forecasts, the Group's performance and prospects would be negatively affected.

Operational risks

The operational risks related to the Group's typical processes will be analyzed in greater detail in the "Consolidated non-financial statement", the main ones being:
- Dependence on key suppliers for the supply of raw materials (precious stones and pearls in particular) and for manufacturing activities.
- Risk of loss of "strategic" human resources due to their know-how.
- Risk related to the wholesale channel, both due to the loss of geographical coverage and to any reputational damage that may be caused to the distributed brands.
- Risks related to the protection of intellectual property rights, as a result of illicit counterfeiting of products and trademarks.

Financial risks

- Risks related to fluctuations in prices 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 2017/2018, the average price of gold decreased, with an average price of 35.3 euros/gram from April 2017 to March 2018, down 4.2% compared with the average over the previous twelve months. In April and May 2018, the price remained enough stable and in line with the average level over the twelve previous months.

[6] Source: IMF, World Economic Outlook on April 2017.

Greater stability means better reliability in forecasting production costs and raw materials purchases, even if we proceed by activating mechanisms of hedging the risk of price fluctuations, also affected by seasonal events of the market.
The risks related to price of raw materials and to the strong and sudden fluctuations can be 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; 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.

- Risks related to exchange rate fluctuations

The Damiani Group's functional currency is the Euro and, therefore, the transactions in other currencies are subject to exchange rate fluctuations regarding the 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.

- 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 to contain the cost and risk of exposure to fluctuations in interest rates and maintain the structure of the sources balanced with the uses.
At March 31, 2018, the structure of funding sources is different compared with the previous financial year, with an increasing weight of medium/long-term sources: 57% of total gross indebtedness compared with 29% at March 31, 2017. In addition, 47% of gross debt is attributable to loans received from the majority shareholder Leading Jewels SA and related parties attributable to the same. Also in this case the weight of these sources is increasing compared with the end of the previous financial year (it was 22% of total indebtedness). Consequently, the liquidity risk is significantly lower than twelve months earlier.
Furthermore, the Damiani Group has short bank credit lines which as of March 31, 2018 are not fully used: about Euro 25.4 million on a total amount of Euro 60.1 million.
Damiani S.p.A provided guarantees to lending banks on behalf of some Group Companies. The amount of the guarantees has a limited value, about Euro 1.6 million, to secure a credit lines granted to Laboratorio Damiani S.r.l., Damiani Japan KK and Damiani International S.A.
Furthermore, under the proper balance between resources generated or absorbed by operating activities the Company also includes assessments made by management to bring the inventories (main item of the working capital) to a better dimension related to the current volume of activity. In order to achieve this balance, the Company can carry out different types of interventions that can be: i) fusion of the finished product with recovery of valuable raw materials (in 2017/2018 financial year no operations have been done); 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 risk

Closely related to the liquidity risk there is the risk of the remuneration rate of the sources of financing. The Group is active to minimize its burden diversifying the sources of financing in consideration of the rates applied and their variability over time.
The actions implemented during the 2017/2018 financial year were therefore aimed at further reducing the

average debt rate, fully benefiting from an overall context of low and stable market rates. Overall, considering all the different sources, the average annual debt rate was about 2.9% (in the previous year it was about 3% per year).
The risk profile has remained stable into the recent two financial years and decreasing in the medium term.

- 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. The deterioration in market conditions and difficult access to credit may impact on the solvency of some clients (mainly domestic). The Group conducts timely assessment of risks both in the closing of the financial year and during the same.

- Risks related to tax disputes

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, 2018.
With regard to tax audits in progress, it is provided an update at the date of approval of these financial statements.

- Tax audit by the Tax Agency of Milan started in Rocca S.p.A (merged in Damiani S.p.A. at December 2014) about IRES (income tax) and IRAP (regional tax) for the year 2009/2010 and for the VAT for the years 2009 and 2010. The notice of assessment is for Euro 286 thousand. The Company appealed to Provincial Tax Commission. The first judgment was filed and the appeal was partly accepted for IRES and IRAP, whereas the Provincial Tax Commission has not expressed its opinion about the VAT. In second instance, the Regional Tax Commission confirmed what was decided at first instance and accepted the Company's appeal for a further relief. The residual fiscal burden of Damiani S.p.A. is Euro 67 thousand, mainly covered by fund set aside in the previous fiscal years. The Company will proceed with the claim for reimbursement of the tax paid in excess on an appeal basis. On April 27, 2018 the Tax Agency filed an appeal with the Supreme Court against the ruling in favor to the Company. Against this, Damiani S.p.A. has filed its defense in accordance with the law and is awaiting the date of the hearing.
- Tax audit by the Tax Agency of Alessandria started in Damiani S.p.A. in the field of transfer pricing with reference to the tax periods 2011/2012, 2012/2013 and 2013/2014: the Company received from Tax Agency notification of assessment notice for IRES and IRAP for a total taxable amount of Euro 20,016 thousand and Euro 18,800 thousand, respectively. Deeming the Tax Office's findings unfounded, the Company initiated a series of meeting with the Office and in May 2018 a partial agreement was reached on the basis of which the Act of Accession for the tax period 2013/2014 was formalized for higher taxable income for IRES and IRAP for Euro 1,675 thousand and for Euro 1,475 thousand respectively, with a reduction of more than 50% compared to the assessment notice. On the two previous tax periods, for which the Company had already filed an appeal with the Provincial Directorate of the Tax Agency of Alessandria, on the same date, partial conciliation proceedings were formalized on a part of the findings contained in the two notices assessment, with a reduction of almost 70% compared to the amount initially notified.

  Overall, for the findings in adhesion/conciliation Damiani S.p.A. will proceed to the payment of the installments of taxes (IRES, IRAP and related penalties and interests, net of previous losses that can be used) for Euro 678 thousand, recognized in the income statement for the 2017/2018 financial year. On the other findings, equal to taxable IRES and IRAP of Euro 11,602 thousand for the tax periods 2011/2012 and 2012/2013, on which it was not possible to reach an agreement with the Tax Agency, the Company is now awaiting the date of convocation of the hearing for the discussion of the appeals presented.
- In January 2017 The Provincial Directorate of the Tax Agency of Alessandria requested the Company to provide the documentation allowing the disapplication of the CFC discipline (Controlled Foreign Companies) for the subsidiary Damiani International BV for the tax period 2013/2014. Damiani S.p.A. has provided the required documentation and the Tax Office has closed the audit without following up any assessment activity.

- The Tax Agency of Milan notified to Damiani S.p.A. notice of assessment for withholding taxes not operated in 2010 by the subsidiary Rocca S.p.A. (now Damiani S.p.A.) as part of a reorganization of the Italian network of directly operated stores of the Group for Euro 2,280 thousand and act of protest of the relevant sanctions. The Company has appealed, initiating the dispute with the Tax Agency. On May 29, 2017 the Tax Agency Provincial Directorate of Milan with the first-instance judgement fully accepted the appeal of Damiani S.p.A. Therefore, the Company obtained refund of the amount paid during the appeal. On December 1, 2017 Damiani S.p.A. was notified of the appeal filed by the Provincial Department of Tax Agency of Milan against the sentence of first instance. The Company has presented counter-claims to the Regional Tax Commission of Milan and is now awaiting the date of the hearing.

Consolidated economic/financial data

Main economic data *(in thousands of Euro)*	**Financial Year 2017/2018**	**Financial Year 2016/2017**	**Change**	**Change %**
Revenues from sales and services	164,065	161,545	2,520	1.6%
Total revenues	**164,252**	**161,709**	**2,543**	**1.6%**
Cost of production	(158,909)	(157,402)	(1,507)	1.0%
EBITDA (*)	**5,343**	**4,307**	**1,036**	**24.1%**
EBITDA %	***3.3%***	***2.7%***		
Amortization, depreciation and write downs	(5,034)	(4,200)	(834)	19.9%
Operating income	**309**	**107**	**202**	**n.m.**
Operating income %	***0.2%***	***0.1%***		
Net financial incomes (expenses)	(1,409)	(2,652)	1,243	-46.9%
Result before taxes	(1,100)	(2,545)	1,445	56.8%
Net result of the Group	(3,982)	(5,454)	1,472	27.0%
Basic Earnings (Losses) per Share	(0.05)	(0.07)		
Personnel cost	(30,616)	(28,564)	(2,052)	7.2%
Average number of employees (**)	670.0	619.5	50.5	8.2%

(*) 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 years compared.

Balance sheet data *(in thousands of Euro)*	**Situation at March 31, 2018**	**Situation at March 31, 2017 (restated)***	**change**
Fixed Assets	39,599	42,737	(3,138)
Net working capital	83,592	83,801	(209)
Non current Liabilities	(9,236)	(10,281)	1,045
Net Capital Invested	**113,955**	**116,257**	**(2,302)**
Shareholders' Equity	56,654	63,133	(6,479)
Net Financial position (*)	57,301	53,124	4,177
Sources of Financing	**113,955**	**116,257**	**(2,302)**

(*) The figures for the financial statements at March 31, 2017 have been reclassified to conform to the financial representation adopted in the financial statements at March 31, 2018.
(**) 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, 2018 and the net equity at March 31, 2018 of the Group parent company with the same figures in the consolidated accounts:

(in thousands of Euro)	**Situation at March 31, 2018**	
Description	**Shareholders' Equity**	**Net Result**
Shareholders' Equity of Damiani S.p.A.	**78,685**	**(6,166)**
1. Elimination of the book value of consolidated investments:		
- Difference between book value and shareholders' equity	(13,387)	2,343
Total	**(13,387)**	**2,343**
2. Elimination of the transaction between consolidated companies:		
Infra-group profits included in the value of inventories		
- Gross value	(12,285)	(200)
+ Deferred taxes	3,172	41
Total	**(9,113)**	**(159)**
Shareholders' equity and net profit belonging to the Group	**56,185**	**(3,982)**
Shareholders' equity and net profit belonging to the Minorities	**469**	**(249)**
Shareholders' equity and net profit belonging to the Shareholders	**56,654**	**(4,231)**

Comments on the main economic and financial data of the Group

The consolidated financial statements at March 31, 2018 have been prepared on a going concern basis because the Group believes that there is not uncertainty about the ability to continue its activity for the foreseeable future.
The net result of the Group for the financial year 2017/2018, even if negative, is an improvement compared with the previous financial year, which also included non-recurring incomes, absent in these financial statements.
The operating improvement for the 2017/2018 financial year on the adjusted values (detailed in the paragraphs below) benefits both from the growth in revenues and from the reduction of some costs components.
The results have been obtained within the strategic lines that the Group follows from some years and which provide, in addition to defending the domestic market, large investments to develop the retail channel and supporting expansion abroad. In the 2017/2018 financial year, the Group carried out industrial investments for Euro 4,023 thousand. The negative net result and the capital expenditures have a reflection in the worsening of the net financial position: Euro 57,301 thousand at March 31, 2018 compared with Euro 53,124 thousand at March 31, 2017.
Consolidated revenues, equal to Euro 164,065 thousand, have recorded an increase over the previous financial year by 3.1% at constant exchange rates (+1.6% at current exchange rates).
EBITDA in the financial year ended March 31, 2018 was positive for Euro 5,343 thousand, +24% compared with the previous financial year, that included non-recurring incomes. Net of these components recorded in 2016/2017 financial year, the improvement in EBITDA would have been greater and equal to +93%.
The net consolidated result of the Group in the 2017/2018 financial year was a loss for Euro 3,982 thousand against a net loss of Euro 5,454 thousand in the prior fiscal year.

The following table shows the consolidated income statement for the financial year 2017/2018 compared with the financial year 2016/2017:

Income statement *(in thousands of Euro)*	**Financial Year 2017/2018**	**Financial Year 2016/2017**	**Change**	**Change %**
Revenues from sales and services	164,065	161,545	2,520	1.6%
Other revenues	187	164	23	14.0%
Total revenues	**164,252**	**161,709**	**2,543**	1.6%
Cost of production	(158,909)	(157,402)	(1,507)	1.0%
of which: net non-recurring income	-	*1,540*		
EBITDA *	**5,343**	**4,307**	**1,036**	24.1%
EBITDA %	***3.3%***	***2.7%***		
Depreciation and amortization	(5,034)	(4,200)	(834)	19.9%
Operating income	**309**	**107**	**202**	n.m.
Operating income %	***0.2%***	***0.1%***		
Net financial incomes (losses)	(1,409)	(2,652)	1,243	-46.9%
Result before taxes	**(1,100)**	**(2,545)**	**1,445**	56.8%
Result before taxes %	***-0.7%***	***-1.6%***		
Taxes	(3,131)	(3,307)	176	-5.3%
Net result	**(4,231)**	**(5,852)**	**1,621**	27.7%
Net result %	***-2.6%***	***-3.6%***		
Minorities Interests	(249)	(398)	149	37.4%
Net result of the Group	(3,982)	(5,454)	1,472	27.0%
Net result of the Group %	*-2.4%*	*-3.4%*		

(*) 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 income statements recorded the trends described below:

REVENUES

Consolidated revenues from sales and services for the 2017/2018 financial year increased by Euro 2,520 thousand (+ 3.1% at constant exchange rates; + 1.68% at current exchange rates) compared to the 2016/2017 financial year, from Euro 161,545 thousand to Euro 164,065 thousand.
The increase of consolidated revenues was driven by the retail channel, which grew by 15.3% at constant exchange rates and by 12.9% at current exchange rates. On the contrary, the wholesale channel recorded a contraction of almost 8% at constant exchange rates (-8.7% at current exchange rates).
As result of these trends, the percentage weight of retail sales on total revenues in 2017/2018 financial year resulted equal to about 53% of the total. The relevance acquired in recent years is a direct consequence of the strategic value that the Group has given to this channel on which it has concentrated its investments, with the aim of increasing visibility and notoriety in particular of the Damiani brand and improving relations with the end customer.
The following table shows the total revenue divided by sales channel.

Revenues by Sales Channel *(in thousands of Euro)*	**Financial Year 2017/2018**	**Financial Year 2016/2017**	**Change**	**Change %**
Retail	**86,389**	**76,486**	**9,903**	**12.9%**
Percentage on total revenues	*52.6%*	*47.3%*		
Wholesale	**77,676**	**85,059**	**(7,383)**	**-8.7%**
Percentage on total revenues	*47.3%*	*52.6%*		
Total revenues from sales and services	**164,065**	**161,545**	**2,520**	**1.6%**
Percentage on total revenues	*99.9%*	*99.9%*		
Other revenues	187	164	23	n.m.
Percentage on total revenues	*0.1%*	*0.1%*		
Total Revenues	**164,252**	**161,709**	**2,543**	**1.6%**

The other revenues, marginal, had not significantly changes in the two periods compared.

Cost of production, net

Overall the net production costs for the 2017/2018 financial year were Euro 158,909 thousand, an increasing by Euro 1,507 thousand compared with the financial year ended March 31, 2017 (Euro 157,402 thousand). The increase is directly affected by the non-recurring income recorded in the previous financial year (Euro 1,540 thousand): net of this component, cost of production is slightly down.
In detail, the overall trend of cost of production is the result of the following macro components:

- Cost for raw materials and others materials, including purchase of finished products, worth Euro 83,453 thousand, down by Euro 877 thousand compared to the twelve-month period ended March 31, 2017 (Euro 84,330 thousand), with consequent improvement in sales margins.
- Service costs amount to Euro 46,275 thousand, slightly down compared with the previous year (Euro 46,674 thousand). The increase in lease costs, due to the initiative to expand the network of direct operating stores, is offset from the contraction of most of the other cost components.
- The personnel costs amount to Euro 30,616 thousand, an increase of 7% compared with the previous period (Euro 28,564 thousand). The increase is directly related to the growth of the staff employed in the Group in the 2017/2018 financial year (equal to 670 units, +8% compared with the previous financial year), mainly in the retail segment.
- Other net operating income worth Euro 1,435 thousand, against Euro 2,166 thousand in the 2016/2017 financial year, that was affected by non-recurring income for Euro 1,540 thousand. In both financial years, the Group has even partially released the provision for returns on sales. The return goods fund, on the basis of the returned goods of the biennium and its future projection, was higher than the amount required: the positive effect was Euro 529 thousand in the 2017/2018 financial year and Euro 500 thousand in the previous one. The balance for the 2017/2018 financial year also includes Euro 1,213 thousand for recoveries from third parties and related parties for services provided, mainly commercial.

EBITDA

The trend of revenues and costs of production (net) described above results in a positive EBITDA in the financial year ended March 31, 2018 of Euro 5,343 thousand, an increase of Euro 1,036 thousand compared with the previous financial year (Euro 4,307 thousand). Net of non-recurring operations recorded in the 2016/2017 financial year, EBITDA in 2017/2018 financial year would show a greater increase, of Euro 2,576 thousand.

Depreciation, amortization and devaluation

The amortization and depreciation of tangible and intangible assets in the financial year ended March 31, 2018 were Euro 5,034 thousand, an increase of Euro 834 thousand compared with the previous financial year (Euro 4,200 thousand). The change was due to the higher amortization base of the assets relating to the new opened boutiques or restructured during the year.

Operating result

In the financial year ended March 31, 2018, the operating result was positive for Euro 309 thousand compared with a positive result for Euro 107 thousand in the 2016/2017 financial year. If the result of the previous year cleansed of the aforementioned non-recurring component, from the comparison of the operating performance would show an improvement of Euro 1,742 thousand.

Net financial incomes (expenses)

The balance of financial management in the financial year ended March 31, 2018 was negative for Euro 1,409 thousand, an improvement if compared with the twelve-months period ended March 31, 2017 (negative balance of Euro 2,652 thousand).
This change was due to the different exchange rates effect recorded during the two financial years: positive balance of Euro 843 thousand in the 2017/2018 financial year, negative balance of Euro 293 thousand in the 2016/2017 financial year.

Current, prepaid and deferred taxes

In the financial year ended March 31, 2018 income taxes have an impact on the consolidated result of Euro 3,131 thousand, while in the 2016/2017 financial year the negative impact was Euro 3,307 thousand. The value in the two financial years do not show significant variations in total, but the composition of the taxes is different in the two periods.
The current taxes in the 2017/2018 financial year result an increase of Euro 427 thousand, while in contraction are the deferred components. In addition, in the 2017/2018 financial year the higher taxes generated by the partial closure of a tax dispute with the Italian tax authority regarding transfer prices are recorded in the income statement (for details, see the section "Risks related to tax disputes" of this Report on operations). The adhesion/partial conciliation involved an increase in taxes in the amount of Euro 678 thousand (with payment by installments starting in June 2018), as well as the reversal of deferred tax assets relating to previous tax losses of Euro 366 thousand. The latter amount is added to the portion of deferred tax assets of Euro 1,416 thousand, already used in the previous year by Damiani S.p.A. to present the appeal before the Italian tax authority to an assessment notice, always concerning transfer pricing. On the basis of the notice of assessment, in the absence of a settlement agreement with the Italian financial administration, a dispute has been established.

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 2017 (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 April 24, 2018.

Net result

As a result of all the components above described, consolidated net result attributable to the Group for the financial year ended March 31, 2018 was negative for Euro 3,982 thousand, an improvement of Euro 1,472 thousand compared with the financial year ended March 31, 2017 (net loss of Euro 5,454 thousand).

Balance sheet and financial position

The following table shows the consolidated balance sheet of Damiani Group at March 31, 2018 compared with March 31, 2017.

Balance sheet data *(in thousands of Euro)*	**Situation at March 31, 2018**	**Situation at March 31, 2017 (restated)***	**change**
Fixed Assets	39,599	42,737	(3,138)
Net working capital	83,592	83,801	(209)
Non current Liabilities	(9,236)	(10,281)	1,045
Net Capital Invested	**113,955**	**116,257**	**(2,302)**
Shareholders' Equity	56,654	63,133	(6,479)
Net Financial position (*)	57,301	53,124	4,177
Sources of Financing	**113,955**	**116,257**	**(2,302)**

(*) The figures for the financial statements at March 31, 2017 have been reclassified to conform to the financial representation adopted in the financial statements at March 31, 2018.
(**) Net financial position is determined according to the indication of Consob communication n. DEM/6064293 of July 28, 2006.

Fixed Assets

At March 31, 2018 the consolidated fixed assets were Euro 39,599 thousand, a decrease compared with March 31, 2017 for Euro 3,138 thousand. This change was due to the two main variations: i) decrease of tangible and intangible fixed assets due to amortization and depreciation of the period higher than the capital expenditures done; ii) the decrease in receivables for deferred taxes for Euro 1,484 thousand, due to their partial use.

Net working capital

At March 31, 2018 the Net working capital amounted at Euro 83,592 thousand, a decrease for Euro 209 thousand if compared with March 31, 2017 (Euro 83,801 thousand).

Non-current liabilities

At March 31, 2018 the non-current liabilities amounted to Euro 9,236 thousand, a decrease by Euro 1,045 thousand compared with March 31, 2017 when the value was Euro 10,281 thousand. The main change is due to the partial release of the return on goods fund (included between “Provisions for risks and charges”), already mentioned, for Euro 529 thousand.

Shareholders’ equity

At March 31, 2018 the Shareholders’ Equity amounted to Euro 56,654 thousand, a decrease of Euro 6,479 thousand compared with March 31, 2017. The change was due to the following items:
- Loss of the financial year for Euro 4,231 thousand (including minorities);
- Actuarial loss on defined benefit plans for employees recognized in accordance with IAS 19 (2011) for Euro 31 thousand;
- Other negative changes in reserves for a total of Euro 2,217 thousand, mainly due to translation differences.

Net financial position

The following table shows the composition of the net financial position at March 31, 2018 and its evolution in relation to March 31, 2017:

Net Financial Position (*) *(in thousands of Euro)*	**Situation at March 31, 2018**	**Situation at March 31, 2017**	**change**
Current portion of loans and financing	2,295	12,909	(10,614)
Drawdown of credit lines, short term financing and others	25,363	31,148	(5,785)
Drawdown of credit lines with related parties	602	104	498
Current portion of loans and financing with related parties	1,210	1,055	155
Current financial indebtedness	**29,470**	**45,216**	**(15,746)**
Non current portion of loans and financing	8,302	5,737	2,565
Non current portion of loans and financing with related parties	30,327	12,582	17,745
Non current financial indebtedness	**38,629**	**18,319**	**20,310**
Total gross financial indebtedness	**68,099**	**63,535**	**4,564**
Cash and cash equivalents	(10,798)	(10,411)	(387)
Net Financial Position (*)	**57,301**	**53,124**	**4,177**

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

At March 31, 2018 the Group had a net financial debt of Euro 57,301 thousand, worsening if compared with March 31, 2017 (the net debt was Euro 53,124 thousand).
The net financial position at March 31, 2018 includes Euro 32,139 thousand of payables to related parties, of which Euro 29,603 thousand for mid-long term majority shareholder loans and Euro 2,536 thousand to real estate transactions accounted as sale and lease back.
The resources contributed by the majority shareholder during the 2017/2018 financial year allowed voluntary early repayment on May 2017 of the bank pool loan (at March 31, 2017, it had been reclassified as short - term debt) with the payment of the residual capital (Euro 10,880 thousand) and interests accrued.

Capital expenditures

During the financial year ended March 31, 2018 the Group carried out capital expenditures (tangible and intangible) of Euro 4,023 thousand compared with Euro 10,247 thousand booked in the previous financial year.
The investments have been made mainly in the retail channel, for renovations and for new stores activated in Italy and abroad. They reflect the strategic objectives pursued by the Group, retail oriented, with the aim of increasing the visibility and brand awareness.

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 composed as follows:
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, 2018 and in the previous financial year ended March 31, 2017.

Revenues by Geographical Area *(in thousands of Euro)*	**Financial Year 2017/2018**	**% of total**	**Financial Year 2016/2017**	**% of total**	**change %**
Italy:	**112,099**	68.2%	**114,267**	70.7%	-1.9%
- revenues from sales and services	111,918		114,111		
- other revenues	181		156		
Foreign Countries	**52,153**	31.8%	**47,442**	29.3%	9.9%
- revenues from sales and services	52,147		47,434		
- other revenues	6		8		
Total revenues	**164,252**	100.0%	**161,709**	100.0%	1.6%

Compared with the previous financial year, revenues in **Italy** decreased by 1.9%, while in the **Foreign countries** increased by about 15% at constant exhange rates and by 9.9% at current exchange rates, thanks to the contribution of retail channel, mainly in Middle East and Asia.

The following table shows the EBITDA breakdown by geographical areas in the financial years ended March 31, 2018 and March 31, 2017.

EBITDA by Geographical Area (*) *(in thousands of Euro)*	**Financial Year 2017/2018**	**Financial Year 2016/2017**	**change**
Italy	**6,815**	**8,075**	(1,260)
Foreign Countries	**(1,472)**	**(3,768)**	2,296
Consolidated EBITDA	**5,343**	**4,307**	1,036
% on Revenues	*3.3%*	*2.7%*	

(*) 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, the **Italy** segment was penalized by the absence of non-recurring income from which ita had benefited in the previous year. The improvement in the **Foreign countries** segment is driven by revenue growth.

Related party 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 (loans granted by majority shareholder Leading Jewels SA). Data concerning dealings of the Group with related parties in the financial year ended March 31, 2018 and in the previous financial year are displayed hereunder (for further details see note 32. Transactions with related parties).

(in thousands of Euro)	**Financial Year 2017/2018**		**Balance at March 31, 2018**			
	Net operating costs	Financial expenses	Other current assets	Trade receivables	Financial debts (including leasing)	Trade payables
Total with related parties	(1,196)	(1,187)	415	537	(32,139)	(1,581)
Total Consolidated	(163,943)	(2,540)	7,109	43,046	(68,099)	(48,728)
%age weight	1%	47%	6%	1%	47%	3%

(in thousands of Euro)	**Financial Year 2016/2017**		**Balance at March 31, 2017**			
	Net operating costs	Financial expenses	Other current assets	Trade receivables	Financial debts (including leasing)	Trade payables
Total with related parties	(1,277)	(809)	475	3	(13,741)	(2,955)
Total Consolidated	(161,602)	(2,862)	7,835	41,714	(63,535)	(51,456)
%age weight	1%	28%	6%	0%	22%	6%

Non-recurring, atypical and/or unusual transactions

There were no positions or transactions deriving from atypical and/or unusual and non-recurring operations as defined in the Consob ruling n. 15519 as of July 27, 2006.

Significant events during the financial year

On April 20, 2017 the Board of Directors of Damiani S.p.A., with the favorable opinion expressed by the Audit, Risk, Remuneration and Transaction with related parties Committee, resolved to sign an agreement with the majority shareholder Leading Jewels S.A. (relating to the Grassi Damiani family) where it makes available sums of money up to Euro 30 million and Damiani S.p.A can use them, if needed.
These financial resources are necessary to obtain a more efficient treasury management, with further savings on financial expenses of the Group.

During the half year, the Damiani Group has set up two prestigious exhibitions that have given visibility in Italy and over the world to the excellence of Made in Italy, exposing the most beautiful and precious jewels that retrace the almost centenary history of the maison. The first exhibition, between March and April 2017, was staged in the halls of the Palazzo Reale in Milan, in the central Piazza Duomo of the Italian metropolis. The second exhibition was held in September in the prestigious spaces of the State Historical Museum of Moscow, one of the most important capitals of world luxury and culture. Both initiatives have received considerable and appreciated feedback from the numerous visitors and will be re-proposed in the near future in other equally renowned locations.

The development of the Group's retail segment continued in the 2017/2018 financial year, with the opening of new stores directly managed abroad, with the aim of increasing the awareness and visibility of the Damiani brand in the world. In particular:

- In April 2017, a new Damiani boutique was inaugurated inside the Ginza Six, the new mega store of 19 floors located in the shopping district of Tokyo.
- Always in April, a new Damiani single-brand store was inaugurated in Shanghai in the Plaza 66 shopping mall.
- In May the Damiani boutique was inaugurated in Dubai, inside the Dubai Mall, the largest shopping center in the world with over a thousand shops and eighty million annual visitors.
- In June, the first directly-owned Damiani single-brand boutique was inaugurated in the city of Singapore.
- In June and July two new Damiani points of sale were inaugurated in South Korea, inside the shopping malls Shinsegae Main and Shinsegae Gangnam.

Significant events after the end of the financial year

On May 15, 2018 the Board of Directors of Damiani S.p.A. renewed until May 10, 2019 the agreement, already described, with the majority shareholder Leading Jewels S.A. (relating to the Grassi Damiani family) where it makes a credit line available to the Company up to a maximum of Euro 25 million (Euro 20 million already used). A further portion of the financing of Leading Jewels S.A., equal to Euro 5 million, was converted into medium/long term, starting from January 1, 2018 (maturing on January 31, 2013). The entire shareholder financing is aimed at allowing Damiani S.p.A. a more efficient and flexible management of its treasury and consequently reduce the liquidity risk.

On June 4, 2018 the President of the Italian Republic, Sergio Mattarella, conferred on Silvia Damiani, Vice President of the Group, the honor of knight of the “Order of the Star of Italy”. The award is given to Italians who have distinguished themselves in promoting and developing relations with other countries, both in economy and culture.

Business outlook

The 2017/2018 financial year closed for the Group with not yet satisfactory results, compared to the Group’s potential, but anyway there were positive signs: the confirmation of a multi-year trend of growth in sales revenues, dragged by the retail channel, and the improvement at the operational level, not influenced by non-recurring operations. These are the aspects that confirm the value of the strategies pursued, based on the development of the retail channel and the international expansion, combined with a constant and strict control on operational costs, in order to eliminate any inefficiencies. And it is on this basis thet the Group is articulating its decisions and actions for the current 2018/2019 financial year, with the aim of pursuing a further improvement in economic management that is able to generate adequate financial flows, to strengthen also the capital structure.

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.

Consolidated non-financial statement (pursuant to Legislative decree 254/2016)

Index

♦ 1. Methodological approach

The present Consolidated non-financial statement (hereinafter also “CNFS”) has been drawn up in compliance with the provisions of Legislative Decree n. 254 of December 30, 2016, issued in implementation of the law n. 114 of July 9, 2015, mandating the Government for the implementation of European directives and the execution of other acts of the European Union (European delegation law 2014).

a. <u>EU Barnier Directive 2014/95</u>

On April 25, 2014 the European Parliament approved the EU Directive 2014/95 on the communication of non-financial information, which provides the inclusion in the Report on operations or in a separate document of structured information on environmental and social issues, on employees, respect for human rights, anti-corruption, gender diversity of Board members and other aspects related to sustainability.

b. <u>Legislative Decree 254/2016</u>

The Italian State has implemented the EU Directive in its legislation with the Legislative Decree 254 of December 30, 2016, regulating in Article 2 the obligation to draft the Consolidated non-financial statement for public-interest entities (listed companies or group) of large dimensions, ie having an average number of employees over five hundred during the financial year and, at the closing date, exceeded at least one of the two following dimensional parameters: i) total of the balance sheet exceeding Euro 20 million; ii) total revenues from sales and services exceeding Euro 40 million.

The intervention of the legislator moves from the consideration of the importance of the communication from the medium-large entities of information on sustainability in order to identify the related risks and to increase the trust towards them of all stakeholders, be they investors, customers, suppliers and/or members of the local community in which the company operates.

The Damiani Group (hereinafter also “Group”) exceeds all the dimensional parameters envisaged by the Legislative Decree and is therefore subject to its application starting from the financial year ending March 31, 2018. The Consolidated non-financial statement is a supplement of the Report on operations and is part of the Consolidated financial statements of the Damiani Group as of March 31, 2018.

The information contained in the CNFS refers to the companies included in the consolidation area used for the consolidated financial statements, except for the companies that during the 2017/2018 financial year did not carry out any operational activity [7]. If, in presenting quantitative data, the perimeter is different, it will be specified on time.
The Group, in order to comply with the reporting requirements of the information of non-financial statement as required by the Legislative Decree 254/2016, adopted as guidelines the GRI standards, issued in 2016 by the Global Reporting Initiative, and that are the framework most internationally used for sustainability reports.
Section 11 of this CNFS summarizes a correlation table between the information reported by the Group and the GRI indicators, in its level of "Referenced" application.

The CNFS reports on the topics indicated in the Legislative Decree 254/2016 relating to: i) the environment; ii) personnel management; iii) social aspects; iv) respect for human rights; v) fight against active and passive corruption. Based on a prior materiality assessment that takes into account the specific activities carried out and the relevant characteristics of the Damiani Group, with reference also to the sector in which it operates (production and distribution of jewelry and watches in Italy and abroad), other topics related to corporate responsibility on economic and products aspects have been identified. These issues assume strategic importance for the Group and will therefore be dealt in details in the following chapters.
The process that led to identify the most significant and material aspects for the Group is illustrated below in the report (chapter 3).
For each macro topic mentioned by the legislation and for those recognized as "material" for the Group, the associated risks, the policies adopted to oversee them, any commitments undertaken and the results achieved during the financial year and, for comparative purposes, in the previous one (unless otherwise indicated) are highlighted.
The data reported in this CNFS have been provided by the various departments of the Group, using extractions from the company information systems and from the available management reports. The drafting of the CNFS was coordinated and elaborated by the Administrative department of Damiani S.p.A. Currently, the Group has not implemented a specific Sustainability function and CSR (Corporate Social Responsibility).

The Board of Directors of Damiani S.p.A., responsible for the contents of this document pursuant to article 7 of the Legislative Decree 254/2016, approved the Consolidated non-financial statement on June 15, 2018.
The CNFS has been submitted to a judgment of conformity by the auditing company BDO Italia S.p.A., which also certifies the financial statements of the Damiani Group.
This CNFS is published, together with the Damiani Group financial statements for the 2017/2018 financial year, in Investor Relation section of the website http://www.damiani.com.

♦ 2. Profile and main activities of the Damiani Group

A. Group profile

The Damiani Group has been active for almost a century in the production and distribution of jewelery and watchmaking products. The Group has a significant presence in Italy and in the main foreign markets which has established itself over time thanks to the quality and beauty of its products, recognized by customers all over the world who appreciate Made in Italy luxury goods.
The Group is a leader in the sector in Italy and operates abroad with direct commercial subsidiaries that cover the main markets. Parent company is Damiani S.p.A., which in addition to directly carrying out commercial activities, also holds the role of industrial and financial holding company. Damiani S.p.A. is based in Valenza (AL), in the north of Italy, where are located the adimistrative and logistics functions of the entire Group.

History

- 1924. The origins

Damiani history started in Valenza in 1924, in the heart of the goldsmith district considered the world excellence for the production of jewellery. Enrico, the founder, thanks to his ability as a master goldsmith, soon became the

[7] These are Damiani India Co. Ltd, Damiani France SA and Casa Damiani Espana SL. The three companies did not employ staff or generate revenues during the 2017/2018 financial year.

jeweller that leading families of the time contacted for the production of unique pieces, true masterpieces of fine craftsmanship. Damiani is the only Italian goldsmith company to design and produce jewellery from its foundation.

- 1960s. Industrial growth and commercial expansion

Damiano, son of Enrico, started a process of industrial growth and commercial expansion. He promoted research into design and technical innovation, which would have a deep effect in the company evolution in the following decades. Damiani jewels became more and more visible and prestigious thanks to ideas, revolutionary at that time, of guaranteeing the price to customers and creating catalouges with all the collections. .

- 1970s. The first *Diamonds International Award*.

In 1976 Damiani won the first *Diamonds International Award*, the most important prix of the sector, which prizes the best design and the best creation of jewel with diamonds. It was awarded to *Shark*, a bracelet in yellow gold and platinum illuminated by more than 41 carats of white diamond pavè, designed by Gabriella Damiani (Honorary President and mother of the third generation currently at the helm of the Group). Over the years Damiani was to win the award other seventeen times, which represents a world record never equaled.

- 1980s. The first testimonials

Damiani, one of the first in the world, successfully creates a new style of communication that combines the image of jewels with celebrities from the world of entertainment, the testimonials. Portraits by internationally renowned photographers, the characters of the star system chosen by Damiani give life to high impact advertising campaigns, which get awards for the innovative style of communication.
In 1986, the new brand Salvini was launched.

- 1990s. The third generation and the start of international expansion

Silvia, Guido and Giorgio, sons of Damiano, enter the company progressively occupying roles of increasing responsibility. In 1996 Damiano died in an accident, and the company's management that already has 200 employees, passed definitively in the hands of his wife, Gabriella, and their three sons. At the end of the decade the Damiani Group opened the first international subsidiaries, with the aim of overseeing distribution in the main foreign markets.

- 2000s. From family company to listing on the Stock Exchange

In 2000, the Bliss brand was created and launched. In 2006 the Group acquired the historic Claderoni high jewelery brand, winner of four Diamonds International Award. In November 2007 Damiani was listed on Milan Stock Exchange, and it become one of the very few high-end jewellery groups all over the world to be listed. In 2008 Damiani acquired the full control of Rocca 1794, the Italian chain of boutiques of high-end jewelery and watches.

- 2010s. Retail expansion and diversification

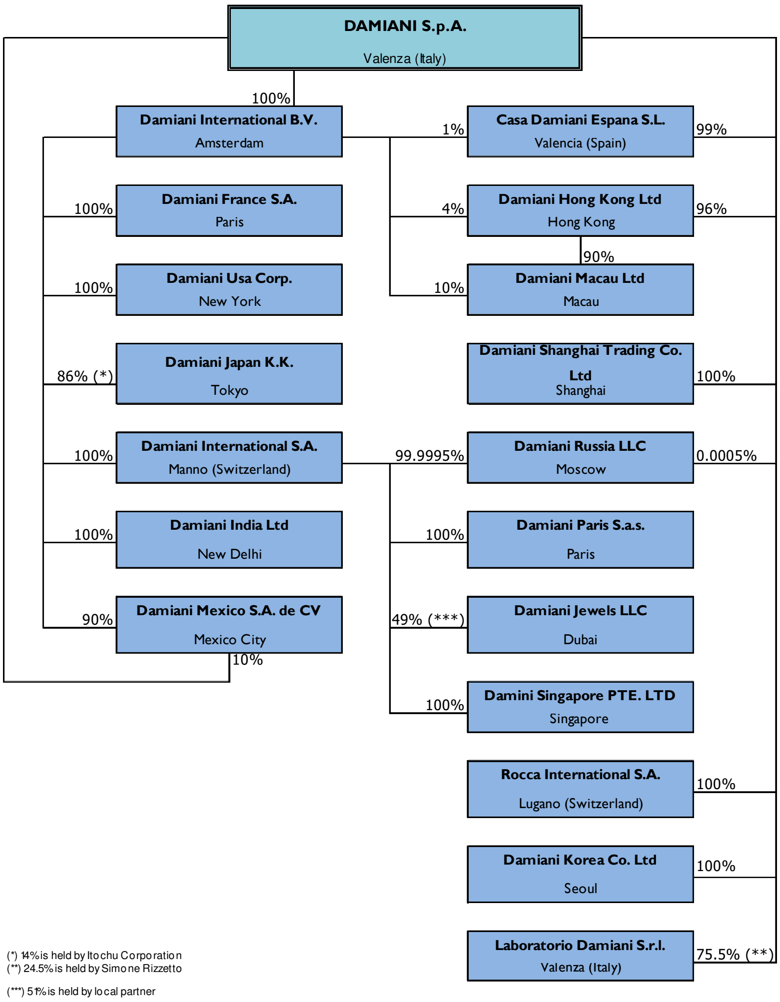
The Group's foreign subsidiaries are growing to oversee increasingly large geographical areas with high development potential. At the same time, grew Damiani boutiques directly managed in the world, located in the main shopping luxury streets.
In 2016 the Group also started a diversification project, acquiring a stake in Venini, historic and emblazoned artistic glassworks of Murano, founded in 1921.

The numbers of the Damiani Group

164 €mln Consolidated REVENUES 2017/2018	5 €mln Consolidated EBITDA 2017/2018	57 COUNTRIES where the Group is present 2017/2018
around 700 EMPLOYEES (March 2018)	63 DOS* worldwide (March 2018)	around 1,500 Wholesale CUSTOMERS worldwide 2017/2018
71% WOMEN on total employees (March 2018)	+63% HOURS of Training (2017/2018 vs 2016/2017)	82% PURCHASES from LOCAL SUPPLIERS for strategic supplies **

**Direct Operating Stores* to which retail revenues correspond.
*** These are the "core" supplies related to contracts for finished products and jewellery processing.*

Below, the Group's organization chart at March 31, 2018, the closing date of the 2017/2018 financial year, is shown [8], and then the shareholding structure of the issuer Damiani S.p.A. and its stock market capitalization data.



[8] The 2017/2018 financial year covers the period April 1, 2017 – March 31, 2018.

Data on shareholders and stock market capitalization by Damiani S.p.A.

Share Capital	March 31, 2017	March 31, 2018
Number of shares issued	82,600,000	82,600,000
Par value per share	0.44	0.44
Share capital (in euro)	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%	6.11%
Giorgio Grassi Damiani	6.11%	6.11%
Silvia Grassi Damiani	5.30%	5.30%
Damiani S.p.A. (treasury shares)	6.73%	6.73%
Market	16.89%	16.89%
Stock market capitalization	**March 31, 2017**	**March 31, 2018**
Value of Damiani S.p.A. share (March 31)	1.08	0.93
Market capitalization (in €)	90,000,000	76,000,000

(1) Companies traceable to Damiani Family.

B. Description of the business activities

The Group manufactures and distributes jewelery and watch products with proprietary brands, which differ from each other by price range, based on the raw materials used (gold, diamonds, pearls and other precious stones and metals), and to the target of clients to whom they turns. The Group operates both in the wholesale channel (with customers consisting of independent multi-brand jewelers, distributors, department stores, franchises) and in the retail channel (with direct management of mono and multi-brand stores).
The brands marketed are as follows:

- **Damiani**: brand born in 1924 and characterized by a careful research and develpment work, for the high quality of the raw materials used and for the accuracy of the craftsmanship. All jewels are handmade in Italy and are aimed at customers who appreciate the exclusivity of design and recognize the value of the product. The brand has a worldwide distribution, both in retail and wholesale channels.
- **Salvini**: brand created by the Group in 1986 with the aim of focusing on a contemporary and elegant female clientele. The offer, with a more accessible price, is complementary to that of Damiani and is almost full concentrated on the domestic market and in the wholsale channel. A mono-brand boutique is located in Milan, in Montenapoleone street.
- **Bliss**: is the entry-level brand of the Group, created in 2000. The offer is adressed to a young clientele, both female and male, who appreciates the stylistic innovation, also in the use of the materials (silver, steel and colored stones) and who seeks an affordable price product suitable for celebrating important events of life. The distribution is almost full wholesale and concentrated on the Italian market.

In the Group's portfolio there are two other brands: i) Calderoni, historic brand of Italian high-end jewelery, which was acquired by the Group in 2016, and that is currently distributed exclusively in Italy in the retail channel; ii) Alfieri & St. John, brand acquired by the Group in 1998 and licensed to a third party in 2015 for a pluriannual and autonomous production and worldwide distribution.
Furthermore, since 2008, the Group owns the **Rocca 1794** multi-brand boutique chain, unique in the high-end segment in Italy, which distributes prstigious third-party brands, mainly high-end Swiss watchmaking, alongside the Group's own brands.
The composition of the commercial structure managed by the Group in the 2017/2018 financial year and in the previous year is shown below.

Boutiques and corners	March 31, 2017			March 31, 2018		
	Italy	Foreign countries	**Total**	Italy	Foreign countries	**Total**
Mono-brand Damiani/Salvini	14	34	**48**	10	40	**50**
Multi-brand Rocca 1794	12	1	**13**	12	1	**13**
Total DOS	**26**	**35**	**61**	**22**	**41**	**63**
Franchising	**-**	**17**	**17**	**-**	**16**	**16**
N. customers wholesale (1)	**1,297**	**158**	**1,455**	**1,307**	**162**	**1,469**

(1) Includes customers, in Italy and abroad, with which the Group has continuous commercial relations. The counterparts with which there are non-recurring commercial relations are excluded (promotional customers, stockists)

The Damiani Group has an almost one-hundred-year history of jewelry production. Therefore, the control over the production chain is complete. It purchases the raw materials (diamonds, pearls, other precious stones) from a narrow circle of suppliers with whom the relationships are consolidated and this guarantees the excellence of the raw material purchased and the full traceability of the origin of the same. Subsequently, the Group takes care internally of the whole phase of creation and development of prototypes, and then moves on to the manufacturing phase, guaranteeing the made in Italy.

The Group's jewelery **manufacturing** is concentrated in the Valenza district, in the north-west of Italy, which has a long tradition in the goldsmith industry with a recognized international reputation for the high-end jewelry production. In addition to guaranteeing production excellence, this also allows the Group to have a strict and immediate control on the product quality, as well as on the availability times of the same and on the efficiency of the logistic process of delivery of goods to customers.

Always in Valenza there is the registered office of the parent company Damiani S.p.A. and the Group's logistics, administrative and staff activities are concentrated. In Milan, in Montenapoleone street, the heart of luxury shopping in Italy, with a worldwide reputation, is instead located the flagship store Damiani and the main show room of the Group. In Italy, Damiani S.p.A. directly manages the boutiques with the Rocca 1794 sign. The Company has recently started the distribution through an e_commerce channel. Finally, Damiani S.p.A. serves the network of wholesale customers, in Italy and abroad.

The following table shows for each Group's company the head office and the activity carried out.

Company name	Registered office	Performed activities
DAMIANI S.p.A.	Valenza (AL), Italy	Financial Holding - Corporate services - Distribution of jewels/watches
Laboratorio Damiani S.r.l.	Valenza (AL), Italy	Manufacturing production
Damiani International B.V.	Amsterdam, Netherland	Financial Holding
Damiani Japan K.K.	Tokyo, Japan	Distribution of jewels/watches
Damiani USA, Corp.	New York, USA	Distribution of jewels/watches
Casa Damiani Espana S.L.	Valencia, Spain	Non-active company
Damiani Hong Kong Ltd	Hong Kong	Distribution of jewels/watches
Damiani France S.A.	Paris, France	Non-active company
Damiani Macau Ltd	Macau	Distribution of jewels/watches
Rocca International S.A.	Lugano, Switzerland	Distribution of jewels/watches
Damiani Mexico S.A. de C.V.	Mexico Distrito Federal	Distribution of jewels/watches
Damiani Shanghai Trading Co. Ltd	Shanghai, China	Distribution of jewels/watches
Damiani Korea Co. Ltd	Seoul, South Korea	Distribution of jewels/watches
Damiani India Co. Ltd	New Delhi, India	Non-active company
Damiani International S.A.	Manno, Switzerland	Corporate services - Financial Holding
Damiani Russia LLC	Moscow, Russia	Distribution of jewels/watches
Damiani Paris SAS	Paris, France	Distribution of jewels/watches
Damiani Jewels LLC	Dubai, United Arab Emirates	Distribution of jewels/watches
Damiani Singapore Pte.Ltd.	Singapore	Distribution of jewels/watches

Breakdown Revenues by geographical area

The Damiani Group distributes its products in all the main markets of the world, with the presence of its commercial subsidiaries or through local distributors who manage their own sales network and/or through Damiani franchised mono-brand boutiques. In terms of percentage weight, the Group's main geographic markets are as follows:

Revenues from sales and services - breakdown by geographical areas (%)	Financial Year 2016/2017	Financial Year 2017/2018
Italy	70.6%	68.2%
Rest of Europe	7.1%	7.5%
Japan	9.8%	10.2%
Rest of Asia	9.8%	9.5%
RoW	2.7%	4.6%
TOTAL	**100.0%**	**100.0%**

Group's workforce

The Damiani Group's workforce is characterized by a strong presence of female employees (71% of the Group total in 2017/2018 financial year), active in all departments and with significant roles of responsibility.
The geographical structure of the workforce is related to the location of the foreign commercial subsidiaries, in which mainly operate the sales personnel of the directly managed boutiques. The central staff functions are instead concentrated in Italy and Switzerland and the internal manufacturing is totally in Italy.
In the following chapter 6 details on the Group's workforce will be provided.

C. Group values

The target of the Damiani Group is to pursue a sustainable and responsible development in the luxury goods segment worldwide, consistent with its centenary heritage. Quality, uniqueness and creativity define and characterize every product of the Group and make it easily identifiable for those who appreciate the made in Italy jewelry in the world.
This target has been achieved by always maintaining full control over the production process and supporting in time an increasingly close contact with the final customer, through an increasing weight of the retail channel and various initiatives in the social networks.
Through its internal control bodies, the Group identifies all types of risk that may affect the achievement of strategic and economic-financial targets, may undermine the relationships with customers and corporate assets and compromise the value of proprietary brands. These risks are then assessed according to a scale of impact on the most relevant decision-making processes and constantly monitored. Risks can be generated within the Group or from outside, and therefore associated with the market sector and the geographic area in which each company operates.
Operating in several countries around the world, the Group comes into contact with different people and cultures, with regulatory systems and environmental contexts of different nature and complexity. Respect for human rights, the environment and compliance with local laws in force are therefore considered fundamental requirements for a responsible management of the business, finalized on the one hand on virtuous growth over time and on the other hand to minimize related risks. In the following chapters, dealing with the single material issues related to the business activities, the specific risks will also be analyzed.
The values that inspire the Damiani Group in carrying out its activities are contained in its own **Code of Ethics** [(9)]. The Code contains "the ethical principles and rules of conduct that top management, employees, consultants, collaborators, agents, suppliers, business partners and all those who work in the name or on behalf of the Group are required to respect" [(10)]. The Group provides to inform all the subjects of the existence and contents of the Code and to protect its image and safeguard its own resources it does not entertain any relationships with the subjects that do not intend to operate in compliance with the principles and rules set forth in the Code.

[9] The updated version of the Code of Ethics has been approved by the Board of Directors of Damiani S.p.A. in May 2015.
[10] Premise: page 3 of the Code of Ethics.

The Code is broken down according to the ethical principles that all the subjects must respect. These include the topics that the Legislative Decree 254/2016 reaffirmed to be fundamental in an entity and in sustainable economic system:

- Compliance with laws and regulations
- Dignity and equality
- Safety of the working environment and the workers' health
- Conflicts of interest
- Environmental protection

Furthermore, the Code establishes the fundamental rules of conduct to be maintained in relation with all stakeholders [(11)]:

- Customers, suppliers, consultants, collaborators, agents and business partners
- Institutions and public officials
- Human resources, also with reference to the selection and recruitment of personnel in order to avoid any discriminatory behavior.

♦ 3. The material issues related to the business activities

During the 2017/2018 financial year the Damiani Group carried out a Materiality analysis to better focus its activity on the issues that are significant and relevant to the Group, as well as to its stakeholders. The analysis started from the provisions of the Legislative Decree 254/2016 which at art. 3 establishes that the report must focus on "relevant subjects taking into account the activities and characteristics of the company".
For the topics considered to be material, therefore, the related risks and the opportunities connected to them were identified, given the Group's business profile.
The analysis of materiality followed a structured process based on these points:

- ✓ Analysis of the characteristics of the sector, in order to identify the main themes on which the activities carried out are focused
- ✓ Analysis of the perception of the material issues from the internal point of view, which was carried out through a questionnaire submitted to managers and employees of the Group
- ✓ Indirect assessment of the perception that stakeholders may have of the same material issues
- ✓ Further interviews conducted with the Group's management to examine the main themes and prepare a definitive matrix of materiality

The material topics that emerged from the analysis were then combined in macro-categories that do not neglect the peculiarities of the Group nor those established by Legislative Decree 254/2016. The material topics are listed belowand subsequently developed in the chapters of CNFS, associating the related risks, the policies adopted by the Group and the performance achieved in 2017/2018 financial year.

Rank	Material topics for Damiani Group	Scope of application of Legislative Decree 254/2016
1.	Product quality and customer satisfaction	Economic and product responsibility
2.	Image and reputation of the brand	Economic and product responsibility
3.	Creativity and design	Economic and product responsibility
4.	Traceability of the products and raw materials used and sustainable supply	Economic and product responsibility
5.	Financial performance and economic impact: value added distribution	Economic and product responsibility
6.	Procurement practices: local suppliers	Social issues
7.	Marketing and responsible communications	Economic and product responsibility
8.	Human rights and working conditions in the value chain	Respect for human rights
9.	Territorial presence and market served	Economic and product responsibility
10.	Female work and non-discrimination	Personnel management
11.	Health and safety and quality of workers' professional life	Social issues
12.	Anti-corruption commitment	Contrast to active and passive corruption
13.	Ethical standards and business integrity	Contrast to active and passive corruption
14.	Attracting and developing talents	Personnel management
15.	Diversity and equal opportunities	Personnel management

11 Rules of conduct: pages 8-13 of the Code of Ethics.

The strong and consolidated commercial characterization of the Group evidently highlights the topics that most concern the ability to produce and distribute high quality products, thus orienting itself to customer satisfaction and guaranteeing at the same time the traceability of the product itself and raw materials used. In fact, only in compliance with ethical standard, the reputation of the brands can be established and maintained over time, and the creation of long-term value is guaranteed.
A virtuous and lasting relationship with the customer can not be separated from the active management of available human capital, present in the Group or acquired from outside. It becames a critical success factor in the context in which the Group operates, where the components of creativity, artisanal production capacity and relationship with markets and customers are the essential strategic variables for Damiani, which combines at the same time economic success with a high profile of responsibility.
At the management of the strategic productive resources must be associated also the active role in social environment where the Damiani Group is traditionally settled. This is the goldsmith district of Valenza that, at the same time, offered the Group a creative and productive capacity of absolute excellence but also benefited from the Group's desire to maintain strong links with local stakeholders (suppliers of products and services), generating in this way a powerful and profitable synergies system.
The environmental issues are not included in the list of material themes for the Group. Although not neglected, and as such managed under the current regulations, especially with regard to the treatment of industrial waste, they do not have a "strategic" connotation within the Group's business. Anyway, a specific chapter of the CNFS will be dedicated to them.

♦ 4. Business model and organization of activities

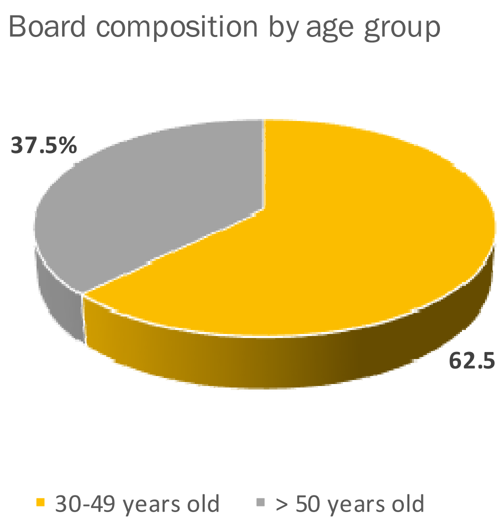
A. Governance and organizational structure [12]

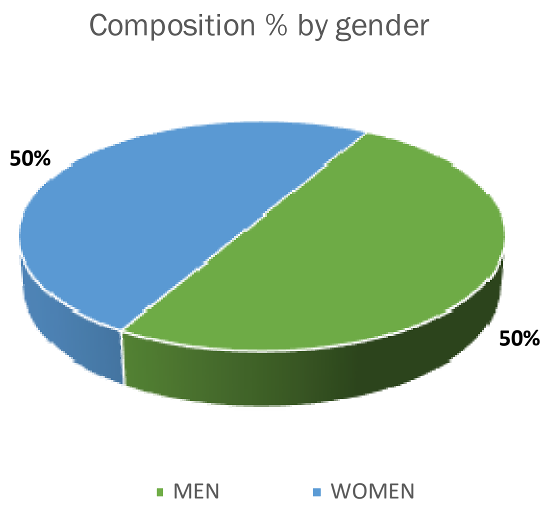
The governance system of Damiani S.p.A. is the so-called "latin" or "traditional" form: the corporate bodies are the Shareholders' Meeting, the Board of Directors and the Board of Statutory Auditors.
The Board of Directors of Damiani S.p.A. currently in charge was appointed by the Shareholders' Meeting on July 23, 2015 for the three-year period 2015-2018, until the approval of the financial statements as of March 31, 2018. The Shareholders' Meeting of July 21, 2016 approved the appointment of a new non-executive and independent director, whose term expire with the approval of the financial statements as of March 31, 2018. Therefore, the Board of Directors consists of eight members, of which four women, and respects the gender balance established by the current law.

Name	Office	Requirements (pursuant to article 2 and 3 of Self-Regulation Code)
Guido Roberto Grassi Damiani	Chairman	Executive
Giorgio Andrea Grassi Damiani	Vice President and CEO	Executive (1)
Silvia Maria Grassi Damiani	Vice President	Non-executive
Elena Angela Luigia Garavaglia	Director	Non-executive and independent (2)
Giancarlo Malerba	Director	Non-executive (3)
Roberta Benaglia	Director	Non-executive and independent (3)
Stefano Graidi	Director	Non-executive
Mirja Cartia D'Asero	Director	Non-executive and independent

(1) Director responsible for internal control system and risk management
(2) Lead independent director and President of Audit, Risk, Remuneration and Transaction with related parties Committee
(3) Member of Audit, Risk, Remuneration and Transaction with related parties Committee

12 This paragraph contains summary information on the bodies and roles of the corporate governance system of Damiani S.p.A. For more details, refer to the "Report on corporate governance and the ownership structure of Damiani S.p.A.", which is part of this 2017/2018 financial statements.





Chairman of Damiani S.p.A. is Guido Grassi Damiani. Giorgio Grassi Damiani is Vice President and CEO and Silvia Grassi Damiani is Vice President. Elena Garavaglia is Lead Independent Director.
Following the verification of the requirements of non-executive and independent directors, pursuant to article 148 of Legislative Decree 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. During the 2017/2018 financial year the Committee met 6 times.
Damiani S.p.A. caries out direction and coordination activities with respect to the Group's subsidiaries, which maintain legal autonomy and apply the principles of correct corporate management.
The Board of Statutory Auditors, made up of three standing members and two alternates, is the controlling body of the Company. Therefore, it ensures that the Company observes the laws and the By-laws in its operations, and respects the criteria of correct administration. It must also monitor the adequacy of the organizational structure of the Company, of the internal control and administrative accounting system, also monitoring the Independent auditors responsible for the audit of the annual financial statements.
The corporate governance structures are aligned with those established by the Self-Regulation Code, approved by the Corporate Governance Committe for the listed companies. Principles and recommendations contained in the latest edition of July 2015 of the Code have been implemented by the Board of Directors of Damiani S.p.A. with a specific framework resolution [13].

B. Internal control system

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.
Damiani S.p.A. and the Italian subsidiary Laboratorio Damiani S.r.l. have adopted a Code of Ethics and the Organizational Model prescribed by the Legislative Decree 231/2001. The aforementioned Code of Ethics refers to the values that the Damiani Group inspires in carrying out its own activities and contains the ethical principles and rules that must inspire the behavior of the subjects to whom it is addressed (the stakeholders).
The Organizational Model, approved in its updated version by the Board of Directors of Damiani S.p.A. in June 16, 2017 (to incorporate the introduction of new crimes), is the set of specific behavioral and operational rules having the purposes, in the areas of potential risk-crime activities, to prevent unlawful conduct by regulating the management and control for preventing purposes.
The Supervisory Body under Legislative Decree 231/2001 supervises to ensure the correct application of the Organizational Model and the Code of Ethics. The monocratic Supervisory Body currently in charge has been appointed by the Board of Directors of Damiani S.p.A. of June 16, 2017 and it consists of an external professional, the lawyer Luca Pecoraro.

[13] Resolution of the Board of Directors of Damiani S.p.A. of July 23, 2015.

♦ 5. Economic and product responsibility

Priorities for the Damiani Group's activities

Based on the results of the analysis of materiality, the main topics related to economic and product responsibility are attributable to:
- Product quality and customer satisfaction
- Image and reputation of the brand
- Creativity and design
- Traceability of the products and raw materials used and sustainable supply
- Financial performance and economic impact: value added distribution
- Marketing and responsible communications
- Territorial presence and markets served.

The Customer is the main stakeholder and the cornerstone around which the Group's strategic decisions are made, from the characteristics of the products offered to the location of our retail boutiques, which bear witness to the uniqueness of the Damiani brand throughout the world.
Therefore, all the material topics listed above are of particular relevance for the Group and are analyzed jointly because the reputation and visibility of the brands marketed and the resulting economic performance achieved can not be separated from a virtuous and overall sinergy between all these variables.
The reputation of the Damiani brand, in Italy and aboroad, is a direct consequence of the prestige of its jewels. They are featured by an excellent quality, both in terms of raw materials used (diamonds and other precious stones, pearls and gold) and for the skill of craftsmanship, which give the final product a mix of incomparable originality, elegance and refinement.
This excellent level has been achieved and preserved over time, with an almost century-old history of the *maison*, during which Damiani has received prestigious Italian and international awards. In fact, Damiani holds the unmatched record of 18 *Diamonds International Awards*, the world's jewelery Oscars, won between 1976 and 2000, thanks to creation of unique jewels of rare aesthetic and stylistic perfection, expression of Italian craftsmanship, mainly of the Valenza district, appreciated all over the world.
The Group's manufacture reaches its maximum expression with the "masterpieces", unique jewels since their creation and for the quality level of the raw materials used, which thus become true masterworks of the Made in Italy goldsmith.

Related main risks

The quality and safety of the products sold are at the center of the Group's attention, which implements strong checks on the entire value chain.
Thanks to the experience gained and the continuous research and development, the Group has a unique know-how both in the knowledge and selection of raw materials used, and in the manufacturing process.
In this context, the image and reputation of the brand have a very high value and consequently the reputational damage the could derive to the Group from a possible defect of the product or from the use of raw materials of nor excellent quality and without certification, would be very serious.
In addition, the Group has always developed responsible marketing and communication activities, even if it does not adhere to specific codes or standards relating to advertising. The messages conveyed are defined with extreme care, to respect company values, comply with regulations in force in each country where the actions are conducted, respect human dignity and are not discriminatory. As proof of this strong attention, the marketing, advertising and sponsorship of the Group's products, although wide and varied, have never given rise to cases of non-compliance with the regulations in force.
An additional risk may derive from the possible counterfeiting of products of the Group's brands, illegally operated by third parties that copying jewels, even with the use of raw materials of bad quality (for example, synthetic diamonds) can damage the image and reputation of brands.
Counteracting action against the production and distribution of counterfeit products is based on solid portfolios of protected brands and models that guarantee the Group intellectual property rights in the territories of current and potential commercial interests.

Policies to oversee the topic

To guarantee the quality of the product marketed, the image and reputation of the brand, the absolute transparency in relationship with the customers, both wholesale and retail, the Group adopts policies and actions that ensure full control of the value chain and, consequently, the monitoring of risks. In particular:

- Full application of the regulations in force in Europe for the processing and composition of the different gold alloys used (European standard EN 28654). Since April 2013 the Group also adopted the UNI EN 1811:2011 which regulates the quantity of nickel present in all the alloys used for the production of white gold jewellery. Even suppliers of gold products certify to correctly apply the "nickel free" legislation.
- Careful selection of the diamonds used in the production of jewels, which are identified internationally in the "**4C**" (Carat that identifies the weight of the precious stone; Cut that identifies the proportions of the cut and the shape that gives brightness to the diamond; Colour that classifies diamonds for their non-colour; Clarity that identifies the purity of the stone). The diamonds in line with the high-quality standards of the brand contain an exclusive internal engraving that shows its characteristics and the number of international certification, a guarantee of authenticity recognized internationally (GIA – Gemological Institute of America or HRD – Hoge Raad voor Diamant, of Antwerp).
- Damiani provides additional services including:
  - The number of the international certificate (GIA or HRD) is engraved on the diamond to guarantee the value of the stone (GIA o HRD)
  - To testify the value over time, is offered the possibility to replace the purchased solitaire with the certificate up to 20 years from the purchase
  - A multi-year insurance cover is also provided that, in case robbery or snatching, replace the jewel.
- In addition, the diamonds purchased by the Group are part of the **Kimberly Process**, which certifies the origin of the precious stones outside areas where conflicts are taking place. This is a joint agreement between the governments of the main countries of the world (currently 81) and the diamond-producing multinationals, which guarantees, under the aegis of the UN, that profits from the diamonds trade are not used to finance civil wars. The agreement also obliges the partecipating countries to strictly control the import and export of rough diamonds, tracing their origin and the various steps in the marketing process. All the precious stones suppliers of the Damiani Group declare to adhere to the UN resolutions.
- **CRM** (Customer Relationship Management): the customers are the focus around which the Group's main projects revolve and in the recent years significant investments have been made to better manage relations with them and increase their loyalty. In 2014 the complete integration of the various customer touch points took place: all the data flow into a single marketing database, through a platform called Microsoft Dynamics, in which the data collected from the various sources converge (cash registers, insurance, e_commerce).

  All data relating to users included in the marketing database are used to send targeted institutional, promotional and commercial communications and from the boutiques to manage in the best way the relationship with the customer.

  The marketing team manages the sending of digital communications through DEM (direct email marketing): about 2 times a month the customers and prospects of the Damiani brand receive a communication in order to be always updated on the Damiani world. The main topics communicated are: new collections, new openings, best wishes for special occasions (Chistmas, Easter, birthday, wedding anniversary), in compliance with current regulations on the processing of personal data.

  Many customers respond to emails received, using the channel as a *customer service* to be informed on:
    - Product prices
    - Availability of the product in the boutiques
    - Description of products and precious stones

  Since November 2016 the DEM activity has been further increased as the Group has a more advanced professional email marketing platform, as well as a professional agency specialized in these activities that support the dedicated team.
- The direct relationship with customers (or potential ones) has been further strengthened through the main international social network. The marketing team manages the main channel dedicated to Damiani social networks:

  - Worldwide: Facebook, Twitter, Instagram, Pinterest, YouTube, LinkedIn
  - Only China: WeChat and Sina Weibo

The average of the posts is 3 per week and are of different types. Some, more institutional, communicate the value of the brand, while others are more commercial and have the purpose of promoting certain collections at particular times of the year. Some posts then communicate the events planned by the Group, others the endorsements coming from well-known personalities from the entertainment or sports world. Finally, others are greeting cards for the holidays.
Damiani also communicates through the Facebook and Instagram pages of authorized Italian and foreign dealers: once or twice a week a Damiani post is done on the pages of the retailers and the contents are managed directly at central level to ensure consistency between the different channels of communication.
Always for the wholesale channel, Damiani provides a free website management service: the best performing dealers are offered the opportunity to develop a free website through which is possible to communicate the brands, with particular focus on Damiani.

- The Group also protects its brands against the risks of counterfaiting and/or imitations by registering them. The registered trademarks are about a thousand and owner is Damiani S.p.A. for Italy, and the subsidiaries Damiani International BV and Damiani International SA for foreign markets. Furthermore, the Group has obtained the recognition of the industrial property both of individual and multiple ornamental models in Italy and abroad, through the deposit that guarantees a multi-year protection. For products assessed as strategic, the international filing of models allows to obtain a single protection procedure promoted at the WIPO (World Organization for Intellectual Protection) in Geneva, promoted by the UN.

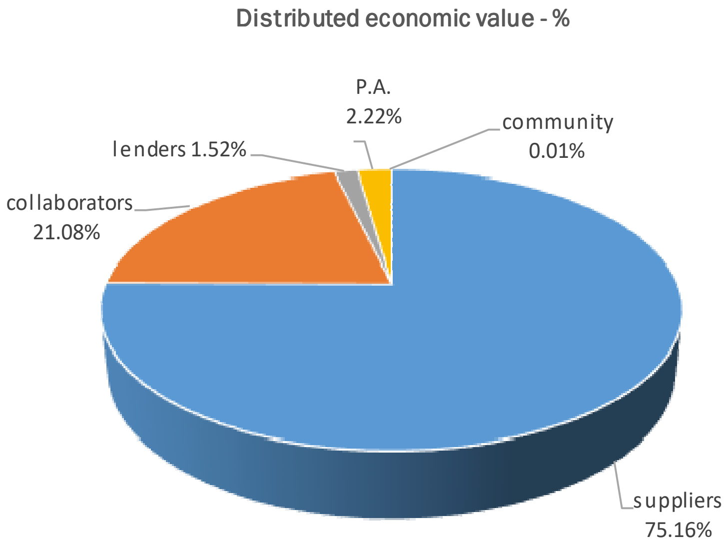
Performance achieved

The results achieved in relations with customers, both wholesale and retail, in the 2017/2018 financial year are positive and move in the right direction that consists in increasing their knowledge, satisfaction and as a direct consequence their loyalty.
As for wholesale customers, both Italian and foreign, with which the Group has continuous business relationships, there is an increasing level of loyalty.
The digital channel is becoming an increasingly important tool in the communication strategy of the Group, in order to establish ever closer contact with customers loyal to the products offered. The activity takes place on all digital platforms and visibility on social networks is increasing, for all the brands of the Group.

	FACEBOOK	INSTAGRAM
2016/2017	981,981	92,420
2017/2018	1,023,183	139,348
delta growth fans/followers	**41,202**	**46,928**

The Group's investments in web communication have been substantial in the past years and continue to be so today and in the near future. The Damiani and Salvini sites already support e_commerce activities and recently the online chat has been activated, managed by a dedicated person that support the customer in real time as a real sales assistant giving all the information and details of the product, of shipping jewels and how to take out insurance.
In the early months of 2018 the new Salvini website was released and, by the end of 2018, the new Damiani e_commerce site will be released: it is a platform which integrates institutional and e_commerce site. The new platform is Mobile First usable mainly by mobile. The new site will be released in 9 languages to satisfy the majority of our customers: Italian, English, Spanish, French, German, Korean, Simplified Chinese, Japanese and Russian and later also in Arabic.
The total control of the value chain, from the purchase of raw materials, to production and quality control, and then continue in the process of distribution and management of the relationship with the end customer, allows the Group to offer the product with the required characteristics from each group of Italian and foreign clients. The product sold, and certified in its quantitative/qualitative parameters, does not have any characteristics or components that are not verifiable and traceable. To confirm that, it should be noted the Group has not received

any protest from customers during the period, in which the elements of the products purchased are contested, or that the use of the same may have produced harmful effects for the user.
The graph and the table below represent a useful summary of the economic relations between the Group and all its main stakeholders, as it expresses the distribution towards each of them of the economic value generated in each period examined. Compared to previous financial year, in 2017/2018 the distribution is better correlated to the economic value generated, that means the Group has a growing ability to create wealth and benefits to its own stakeholders.



GENERATED AND DISTRIBUTED ECONOMIC VALUE

(in €/000)	2017/2018	2016/2017
Revenues	164,065	161,545
Other net incomes	2,930	3,663
Financial incomes	288	210
Write-down of receivables (including losses)	(574)	(490)
Exchange differences (net)	843	(293)
Gains/(losses) from disposals	(36)	(112)
GENERATED ECONOMIC VALUE	**167,516**	**164,523**
Value distributed to suppliers	125,221	126,659
Value distributed to collaborators	35,124	32,909
Value distributed to lenders	2,540	2,570
Value distributed to shareholders	0	0
Value distributed to the PA	3,704	3,894
Value distributed to the community	25	57
DISTRIBUTED ECONIMIC VALUE	**166,614**	**166,089**

♦ 6. Personnel management

Priorities for the Damiani Group's activities

Based on the results of the analysis of materiality, the main topics related to the personnel management are attributable to:
- Female work and non-discrimination
- Health and safety of workers (which will be dealt with in the chapter dedicated to social issues)
- Attracting and developing talents
- Diversity and equal opportunities.

Like the product, human resources are also a strategic asset of the Damiani Group.

The Group believes that its economic growth and its national and international development can not leave aside from the attention dedicated to the human capital employed which is a critical success factor. The actions taken are therefore aimed at promoting maximum professional expression.

Related main risks

The sector in which the Group operates is chacterized by the continuous capacity for product innovation, both to meet the needs expressed by end customers and to anticipate the evolution of tastes and expectations, thus placing itself on a highly competitive position with regard to competitors both at national level, where Damiani is leader, and on the international markets where the goal consists to enlarge market share.
In the very competitive and dynamic context in which the Group operates, the identification of highly qualified and skilled human resources, both for the creation and innovation of the product and for the handmade realization of the jewelery products, becomes an absolutely ctitical variable. If the Group is not able to identify, acquire, manage and renew such individual capacities, it could therefore jeopardize its competitiveness and its survival over time.
At the same time in the relationship with the customers, the sales staff employed in the directly managed boutiques must be able to correctly approach the people interested in buying the jewels. To them must be able to provide not only exhaustively the technical data related to the offered goods but also to effectively transmit the values that have always characterized the Damiani offer: quality and traceability of the raw materials used and ethics of the whole production and distribution chain.

Policies to oversee the topic

The Group pays particular attention to the selection, training and management of resources employed in:
- Product development
- Jewelery production
- Marketing in directly managed boutiques.

In these three areas the most active retention and training policies are concentrated, both on new hires and on senior staff, all in full respect of gender diversity and equal opportunities.
The importance for the Group of the relationship with the client, which was highlighted in the previous chapter, determines the high iimpact of the training carried out at the sales staff (manager and sales force) of the directly managed boutiques, which are the first to transmit the values and history of the company and to know the needs of the customer and its evolution over time.
The evolution of the customer has also transformed the approach of sales staff that today, thanks to its ability is not limited to selling a product but also conveys experiences and information, according to the model of “shopping experience”. The training activity that therefore involves all the boutique staff is based on a composite set of management techniques for all the moments of contact between the customer and the seller.
The training therefore has the goal not only to transmit technical notions but also to instill motivation and spirit of belonging to the Group, as well as the ability to grasp all those “strategic” elements that, with a proactive approach, if transferred to their hierarchical superiors increase the understanding of the market and its evolution.
In this context, even the specific training on CRM at points of sale acquires a strategic value. Every quarter, training sessions are organized for the Italian sales force at the Damiani show room in Milan, and for foreigners through the Skype connection with a conference call in English. To this is added the daily support provided by telephone to the boutiques for the ordinary CRM activities.

Performance achieved

✓ Training and development of skills

The training activity in 2017/2018 is up compared to the previous year: greater number of employees involved, both women and men, and greater number of hours per capita. The training is mainly concentrated on sales personnel, and is of a specific technical type, in line with the strategy to improve more and more the relationship with the customer and the knowledge of the product offered.

Training	FY 2016/17						FY 2017/18					
	MEN		WOMEN		TOT.EMPLOYEES	TOTAL HOURS	MEN		WOMEN		TOT.EMPLOYEES	TOTAL HOURS
	n. Employees	n. hours	n. Employees	n. hours			n. Employees	n. hours	n. Employees	n. hours		
Breakdown by geographical areas	**31**	**361**	**91**	**1,113**	**122**	**1,474**	**42**	**635**	**129**	**1,773**	**171**	**2,408**
- Italy	26	311	70	887	96	1,198	25	416	56	776	81	1,192
- Foreign countries	5	50	21	226	26	276	17	219	73	997	90	1,216
Breakdown by functional areas	**31**	**361**	**91**	**1,113**	**122**	**1,474**	**42**	**635**	**129**	**1,773**	**171**	**2,408**
- Production (including Logistic)	2	51	6	89	8	140	3	36	11	164	14	200
- Commercial (including Sales forces)	27	246	84	984	111	1,230	39	599	118	1,609	157	2,208
- Central Staff	2	64	1	40	3	104	0	0	0	0	0	0
Breakdown by contract category	**31**	**361**	**91**	**1,113**	**122**	**1,474**	**42**	**635**	**129**	**1,773**	**171**	**2,408**
- Executives/Managers	4	82	2	49	6	131	2	48	1	24	3	72
- Clerks	27	279	89	1,064	116	1,343	40	587	128	1,749	168	2,336
Breakdown by type of training	**31**	**361**	**91**	**1,113**	**122**	**1,474**	**42**	**635**	**129**	**1,773**	**171**	**2,408**
- Technical training	28	257	89	1,033	117	1,290	42	635	129	1,773	171	2,408
- Language training	2	80	2	80	4	160	0	0	0	0	0	0
- IT training	1	24	0	0	1	24	0	0	0	0	0	0
Training costs (in €/000)	61,850						57,600					
- of which: financed	23,693						32,632					

Ratio on training activity (average hours)	2016/2017	2017/2018
Average hours of training per employee	2.3	3.6
Average hours of training per female employee	2.4	3.7
Average hours of training per male employee	2.0	3.3
Average hours of training per executives/managers	2.6	1.5
Average hours of training per clerks	2.7	4.3

*No training has been given to the Workers category

The average hours of training described above do not take into account the one carried out in terms of health and safety (details in chapter 7), as to date it is not possible to divide these hours by gender and category of contract.

- ✓ Equal opportunities, plurality and inclusion

The Group’s workforce consists mainly of women: in both comparative periods the percentage was higher then 71% of the total at the end of the year. The percentage rises futher if we consider only the sales personnel, which reaches almost 80%.
Even if at a lower percentage, the female presence is also significant among management (executives and managers), with a share of over 30% of the total category in both periods and with a slight increase in 2017/2018. Women managers occupy senior positions in both central staff and commercial areas.

Headcount of Damiani Group (units)	Headcount at March 31, 2017			Headcount at March 31, 2018		
	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL
Breakdown by geographical areas	**180**	**456**	**636**	**193**	**479**	**672**
- Italy	126	260	386	121	258	379
- Europe (excluding Italy)	27	56	83	30	66	96
- Asia (including Japan)	27	130	157	39	143	182
- Row	0	10	10	3	12	15
Breakdown by functional areas	**180**	**456**	**636**	**193**	**479**	**672**
- Production (including Logistic)	58	110	168	57	108	165
- Commercial (including Sales forces)	81	286	367	96	309	405
- Central Staff	41	60	101	40	62	102
Breakdown by contract category	**180**	**456**	**636**	**193**	**479**	**672**
- Permanent	171	410	581	173	433	606
- Fixed-term work	9	46	55	20	46	66
Breakdown by:	**180**	**456**	**636**	**193**	**479**	**672**
- Part - time	6	75	**81**	8	73	**81**
- Full - time	174	381	**555**	185	406	**591**

Headcount of Damiani Group (units)						
	2016/2017			2017/2018		
	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL
Breakdown by age group	**180**	**456**	**636**	**193**	**479**	**672**
- < 30 years old	21	40	61	26	45	71
- between 30 and 49 years old	97	345	442	103	364	467
- ≥ 50 years old	62	71	133	64	70	134
Breakdown by gender (%)	28.3%	71.7%	100.0%	28.7%	71.3%	100.0%

Headcount of Damiani Group (units)						
	2016/2017			2017/2018		
	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL
Breakdown by contract category	**180**	**456**	**636**	**193**	**479**	**672**
- Executives/Managers	36	15	51	33	14	47
- Clerks	96	400	496	114	426	540
- Workers	48	41	89	46	39	85
Breakdown by contract category (%)	28.3%	71.7%	100.0%	28.7%	71.3%	100.0%

Breakdown by age group								
	2016/2017				2017/2018			
N. of employees	**<30 years old**	**30-49 years old**	**≥ 50 years old**	**Total**	**<30 years old**	**30-49 years old**	**≥ 50 years old**	**Total**
Executives/Managers	0	29	22	51	0	25	22	47
Clerks	59	357	80	496	68	389	83	540
Workers	2	56	31	89	3	53	29	85
Totale	**61**	**442**	**133**	**636**	**71**	**467**	**134**	**672**
%	9.6%	69.5%	20.9%	100.0%	10.6%	69.5%	19.9%	100.0%

During the 2017/2018 financial year, the Group used temporary workers to a marginal extent, and the use of these resources was concentrated only on some Group companies.
With regard to employees belonging to protected categories (23 employees at December 31, 2017), the Group complies with the regulations in force in the countries in which it operates.

- ✓ Employee turnover

The two compared financial years were characterized by a positive employee turnover, with the new employees greater than the exits, consistent with the Group's expansion abroad. The highest turnover rates were recorded among the employees of commercial functions (including sales area). The production and staff areas, on the other hand, have been characterized by low turnover, as the executives /managers and goldsmith workers.

Turnover	FY 2016/17							
	IN				OFF			
	MEN	WOMEN	TOTAL	% TURNOVER	MEN	WOMEN	TOTAL	% TURNOVER
Breakdown by geographical areas	**43**	**127**	**170**	**26.7%**	**25**	**104**	**129**	**20.3%**
- Italy	17	34	51	8.0%	14	34	48	7.5%
- Europe (excluding Italy)	5	28	33	5.2%	1	14	15	2.4%
- Asia (including Japan)	21	61	82	12.9%	9	51	60	9.4%
- Row	0	4	4	0.6%	1	5	6	0.9%
Breakdown by functional areas	**43**	**127**	**170**	**26.7%**	**25**	**104**	**129**	**20.3%**
- Production (including Logistic)	1	1	2	0.3%	2	6	8	1.3%
- Commercial (including Sales forces)	40	123	163	25.6%	23	90	113	17.8%
- Central Staff	2	3	5	0.8%	0	8	8	1.3%
Breakdown by contract category	**43**	**127**	**170**	**26.7%**	**25**	**104**	**129**	**20.3%**
- Executives/Managers	4	3	7	1.1%	1	3	4	0.6%
- Clerks	37	124	161	25.3%	20	100	120	18.9%
- Workers	2	0	2	0.3%	4	1	5	0.8%

Turnover	FY 2017/18							
	IN				OFF			
	MEN	WOMEN	TOTAL	% TURNOVER	MEN	WOMEN	TOTAL	% TURNOVER
Breakdown by geographical areas	**41**	**130**	**171**	**25.4%**	**29**	**115**	**144**	**21.4%**
- Italy	11	30	41	6.1%	15	33	48	7.1%
- Europe (excluding Italy)	5	21	26	3.9%	2	15	17	2.5%
- Asia (including Japan)	20	70	90	13.4%	10	60	70	10.4%
- Row	5	9	14	2.1%	2	7	9	1.3%
Breakdown by functional areas	**41**	**130**	**171**	**25.4%**	**29**	**115**	**144**	**21.4%**
- Production (including Logistic)	0	0	0	0.0%	2	2	4	0.6%
- Commercial (including Sales forces)	37	125	162	24.1%	23	111	134	19.9%
- Central Staff	4	5	9	1.3%	4	2	6	0.9%
Breakdown by contract category	**41**	**130**	**171**	**25.4%**	**29**	**115**	**144**	**21.4%**
- Executives/Managers	4	1	5	0.7%	5	3	8	1.2%
- Clerks	36	129	165	24.6%	21	110	131	19.5%
- Workers	1	0	1	0.1%	3	2	5	0.7%

♦ 7. Social issues

Priorities for the Damiani Group’s activities

Based on the results of the analysis of materiality, the main topics related to social issues are attributable to:
- Procurement practices: local suppliers
- Health and safety and quality of workers’ professional life.

The Group’s commitment mainly takes the form of initiatives aimed at developing the local community in which Damiani S.p.A. is historically rooted: the district of Valenza, from which it draws a large part of its human resources, with particular reference to the production area, and to which it addressed for the outsourced manufacturing portions, with the guarantee of obtaining high quality and efficiency feedback.
Closely related to this role played in the local community, and extended to the entire staff of the Group, both Italian and foreign, is the attention paid to the health and safety of workers, given the peculiarity of the goods produced and distributed which, due to their high intrinsic value and ease of transport, are particularly susceptible to illicit actions, attempted from the outside (thefts, robberies and snatching).
The Organizational model adopted by the Group identifies the specific risk areas based on the legal profiles (art. 25-septies of the Decree 231/01 and Legislative decree 81/2008) and adopts specific protocols and procedures to minimize the impact on employees of the different activities and Group’s companies.
Finally, the Group’s social commitment is strong, with initiatives to support humanitarian projects in the world or to benefit populations hit by natural disasters.

Related main risks

The risks of social content to which the Group is subjected are currently characterized by a low probability level of occurrence and they are mainly attributable to the following:
- Impossibility to continue to play the historical role in the local community with external suppliers due to occured uncontrollable, and currently unforeeseable, factors that could jeopardize the supply chain (for example the lack of skilled labor) and negatively affect the relationship with customers, up to putting at risk the continuity of the Group’s own activity.
- Regulatory measures in the field of health and safety which make difficult, at least temporarily, to continue the activity with the current methods, both in the manufacturing (eg; the need to adapt the space used for production and logistics activities) and in distribution.
- For the specific types of work carried out, even the health risks of workers are absolutely limited. Regarding the safety both of employees and collaborators and of the customers, the Group adopts policies aimed at minimizing potential risk situations (eg: in the transport of values or in the access of points of sale), with targeted training actions and insurance coverage.

Policies to oversee the topic

The need, already described, to pay great attention to the strict control of the whole value chain to guarantee the excellence of the final product and to build a close and lasting trust relationship with the customer, determines

the need to maintain even close ties with the "strategic" suppliers, mainly for the purchase of raw materials and for the manufacturing of finished goods (with the so-called "goldsmiths"), which can ensure the achievement of the expected goals.
With regard to the procurement of raw materials, mainly of precious stones, the commercial relationships that the Group has established with suppliers are of long-term and consolidated durability and mutual trust and they do not present criticity.
As far as the relationship with goldsmiths is concerned, in recent years the Group has increased its internal production capacity, alongside that of local suppliers, mainly located in the Valenza district, with whom the relationships are of over ten years. Relations with these suppliers have consolidated over time, with the aim of being able to exercise closer monitoring of the supply chain (and product quality) and develop increasingly fruitful partnerships for both parties. The use of local suppliers also generates logistical benefits.
The Group's production structure, consisting of the subsidiary Laboratorio Damiani s.r.l. located in Valenza, employs proven technical expertise, both in the creation and development phase and in the more specific manufacture. The company occupies a laboratory, located in a architectural context in which not only all the health and safety regulations are complied with, but it is adequate for carrying out delicate activities such as those required for the creation of unique jewels for which the continuous attention and precision are an essential added value.
The Group therefore provides a tangible contribution to the development of the territory and the community in which it is rooted.

Furthermore, the Group pays particular attention to minimize personal risks, both for its employees and collaborators, and to protect customers who access the boutiques, making investments both in training and in the implementation of adequate security systems, as well as by stipulating specific insurance policies.

The presence of the Damiani Group also alongside famous people to support humanitarian initiatives is now a multi-year one. Among the initiatives still active there is the "Clean water", together with the actress Sharon Stone, in favor of the African population with the aim of building wells for the extraction of drinking water and reducing the deseases that mainly affect children.

From some years Damiani is part of the Leonardo Committee, an association promoted by Confindustria and ICE – the Italian National Institute for foreign trade, with the aim of promoting and affirming the quality of Italy in the world. Today it associates over 160 Italian entrepreneurs, artists, scientists and men of culture who, through their activities promote the product and image of Italy abroad.
In 2015 the Chairman of the Group, Guido Grassi Damiani, received from the President of the Italian Republic Sergio Mattarella the "Leonardo Qualità Italia – 2014" award, for the entrepreneurs whose company distinguished itself for quality innovation in products, combined with a strong international projection.

Performance achieved

The presence of the Group in the territory of the goldsmith district of Valenza remains strong over time. The productive relationships with the local manufacturing companies with regard to "strategic" supplies [14], which guarantee the quality of the product and the efficiency and effectiveness of the logistics process, are numerically significant, both in terms of the number of suppliers and the weight of the value of jewelry purchases at local level, to protect even the Made in Italy (over 80% of the value acquired in Italy comes from the district of Valenza and 98% of the jewels produced/purchased by the Group in 2017/2018 are Italian artifacts).

[14] The strategic suppliers are those who make the jewelery for the Group's brands (Damiani, Salvini and Bliss). These are goldsmith companies to whom is commissioned the finished products or the processing (supplying them of raw materials). The data in the table also includes Laboratorio Damiani srl, controlled by Damiani S.p.A., located in Valenza which cover a significant part of the Group's production needs.

Damiani Group Suppliers - % of spending on strategic suppliers

	FY 2016/17		FY 2017/18	
	Goldsmith suppliers		Goldsmith suppliers	
	Number	Value (€/000)	Number	Value (€/000)
Italy	59	29,543	79	37,065
- of which: Valenza District	*40*	*25,449*	*53*	*30,311*
% Valenza District/Italy	*68%*	*86%*	*67%*	*82%*
Foreign countries	*10*	*1,192*	*6*	*656*
Total	**69**	**30,735**	**85**	**37,721**

The quality of the production carried out in the district of Valenza, also in terms of investments in research and development, is futher testified by the ministerial acknowledgments received in the recent years by Laboratorio Damiani s.r.l. In 2014, the Ministry of Economic development within the Technological Innovation Fund granted the Group company a subsidized loan and a non-repayable grant (for a total of Euro 1,760 thousand) for the "Study and development of automatic solutions for gold processing". The last tranche for Euro 70,381 was disbursed in December 2017.

Attention to the health and safety of its employees, combined with the specific nature of the activities carried out in the Group that do not present particular risk profiles (also in manufacturing) have generated the following statistics for accident and diseases, which highlight an optimal situation.

Health and safety (*)	FY 2016/17			FY 2017/18		
	Italy			Italy		
	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL
Total accidents	0	2	2	3	5	8
-In the company	0	2	2	2	2	4
-In itinere	0	0	0	1	3	4
Professional illness rate	0%	0%	0%	0%	0%	0%

**Data only available for Italy*

The Group continuously carries out training activities in the field of safety, in full compliance with the Italian regulations, involving a great part of its workforce.
Damiani S.p.A., in compliance with the Legislative decree 81/2008 appointed the competent doctor, the RSPP (Responsible for prevention and protection) and the ASPP (Prevention and protection service officer). The election of the RLS (Representative of workers for safety) took place on July 28, 2017.

Security training (*)

Period	N. employees	Hours of training
2016/2017	165	955
2017/2018	261	1,513

**Data only available for Italy*

The training involved fire fighting courses, first aid, Prevention and protection service employees and Workers Representatives for the safety and training of managers and supervisors.

Furthermore, together with the insurance company, field training activities are periodically organized that involve all the staff in the boutiques in Italy. These activities are used to assess the procedures adopted and test the existing systems at each point of sale to minimize the risk of criminal events that may occur during the daily activities carried out by the personnel managing the stores, intervening to correct any shortage and/or lack of preparation. This training was carried out in May 2015 and will be reiterated in June 2018.

♦ 8. Respect for human rights

Priorities for the Damiani Group's activities

Based on the results of the analysis of materiality, the main topic is:

- Human rights and working conditions in the value chain.

The subject involves a double action of control by the Group:

- Inside, in order to guarantee respect for the fundamental rights of people involved in carrying out their activities in the different Group's companies.
- Outside, with the suppliers, mainly for the strategic ones involved in the core activities for the Group (supply of raw materials and finished products processing), so that they comply with the standardsset by the national and international regulations in force.

Related main risks

The risks are basically of two types:

a) Failure to comply with the laws in force concerning the rights of persons, with consequent physical and moral damages on the same.
b) Reputational risk, if the failure to control the application of binding and ethical rules in the entire production/distribution chain causes damage to the Group brands.

Policies to oversee the topic

The Group requires the adoption of its own Code of Ethics to all suppliers and, internally, checks its application in all the existing functions and activities performed.

The Code establishes that the Group treats "…the workers and collaborators according to the principles of equality, respect and dignity and contrasts and rejects any form of direct and indirect discrimination due to physical, sexual, racial, religious or psychological differencies. Furthermore, the Damiani Group ensures the correct treatment of individuals and rejects firmly any hypothesis of exploitation and deprivation of liberty. The Damiani Group requires that each Recipient [15] comply with the above".

Performance achieved

In the 2017/2018 financial year and in the previous year, no specific training hours were provided for employees on policies and procedures concerning human rights. Furthermore, there are non situations or sanctions that have directly or indirectly affected Group companies on matters relating to respect for human rights.

♦ 9. Contrast to active and passive corruption

Priorities for the Damiani Group's activities

Based on the results of the analysis of materiality, the main topics related to the fight against corruption are attributable to:

- Anti-corruption commitment
- Ethical standards and business integrity.

As already mentioned above, the issue is relevant as an indispensable part of the ethical and responsible behavior of the Group in carrying out the ordinary activities and in the relationships that exist with the stakeholders.

In practice, it is noted that the topic does not generate frequent situations at risk since the Group only occasionally has contacts with public authorities, such as to cause potential corruptive profiles, nor does the sector in which the companies operate is subject to supervisory bodies as for example, the authorities that oversee the sectors of publici utility.

The Group's relations with the outside concern mainly private subjects, and therefore, any type of potential corruption is regulated by art. 2635 of Italian civil code.

Related main risks

The risk is not currently at a high level, even if perceived potentially relevant from an ethical point of view by the employees who work daily in contact with the outside and aim to protect the integrity of the Group.

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[15] According to the definition contained in the Code of Ethics, by Recipient is meant: "top management, employees, consultants, colaborators, agents, suppliers, business partners and all those who work in the name or on behalf of the Group".

To this end, the Group, and mainly the Italian companies that maintain most of the contractual relationships with third-party companies, has developed a system of procedures, proxies, authorization levels and internal cross checks aimed at minimizing and combating corruption in all its forms, active and passive.
Furthermore, in addition to the Code of Ethics, a management model was also adopted which provides for a preventive coverage on the types of crime envisaged pursuanto to the Legislative decree 231/2001 and subsequent amendaments.
The Model of organization, management and control pursuant to Legislative decree 231/2001 (its latest update is June 16, 2017), provides for a set of rules of behavioral and operational nature whose respect, in carrying out the activities, allows to prevent actions that are functional to the commission of the offenses envisaged by the legislative decree [16], and which can be imputable to the company.

Policies to oversee the topic

Damiani S.p.A. and Laboratorio Damiani s.r.l., with the adoption of the Organizational Model, have fixed a set of Principles of conduct as well as Protocols that, in compliance with the system of assignment of functions and delegations of powers, as well as internal procedures, respond to the purposes and requirements of the Decree 231 and subsequent modifications.
The Organizational Model consists of:

- General section illustrating the contents of the Legislative decree 231/01, the system for preventing the risk of commission of crimes, the features of the Supervisory Body (SB) and the disciplinary system in the case of violation of the Model
- Special sections relating to the classes of offense against which the processes at risk are identifiable [17]. The special sections, if they concern recurring activities, refer to specific protocols that regulate the activities and behaviors of the various company departments.

The Board of Directors has entrusted the Supervisory Body with the task of supervising the functioning and observance of the Organizational Model. The SB reports on its work to the Board of Directors and operates with the following characteristics: i) autonomy and independence; ii) professionalism; iii) continuity of action. The SB is currently monocratic and in office for three years.
The constant information and adequate training of the personnel and of all the people on the principles and requirements contained in the Organizational Model are factors of great importance for the correct and effective implementation of the corporate prevention system. The communication to the personnel of the adoption of the Organizational Model initially took place with an information signed by the CEO. The document is available on the company intranet and the hard copy is available at the Legal Office of Damiani S.p.A. The SB over time also carried out specific training on the contents of the Organizational Model.

Performance achieved

The activities carried out by the SB during the 2017/2018 financial year focused mainly on issues related to the risk of money laundering and use of money from illicit source, on which the Group pays particular attention, in consideration of the sometimes big amounts in the purchase of jewelery and watches in all the countries in which Damiani S.p.A. and the subsidiaries operates.
The audit strands are mainly three: i) traceability of payments received; ii) control on the correct application of company procedures; iii) auditing and training on anti-money laundering at the boutique staff. All the audits carried out did not reveal any critical situations that deviate from the guidelines provided for the Organizational Model and colud entail risks for the Group companies regarding corruption or other offenses governed by Decree 231/01.

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[16] With the law 146/06 the responsibility also extended to "transnational crimes". The liability on the company is criminal and exists if the crime is committed in its interest or to its advantage. The sanctioning system is pecuniary, interdiction, until the confiscation of the profit generated by the crime committed and in certain cases the publication of the sentence of conviction.

[17] Article 6, paragraph 2, letter a) of Legislative decree 231 which states that the Organizational Model must "identify the activities in which crimes may be committed". The special parts of the Organizational Model refer to: A – Offenses against the Public Administration and obstruction of justice; B – Corporate offenses; C – Crimes and administrative offenses of market abuse; D – Transnational crimes and organized crime offenses; E – Crimes regarding health and safety at work; F – Crimes of receiving stolen goods, laundering of money, goods or utilities of illicit origin and self-laundering; G – Cyber crimes and illicit data processing; H – Offenses against industry and commerce and of falsity in signs of recognition; I – Offenses concerning the violation of copyright; J – Environmental crimes; K – Crimes of recruitment of non-UE workers.

♦ 10. Environmental responsibility

Priorities for the Damiani Group's activities

The Damiani Group for the type of business developed and for the related activities carried out has no a significant environmental impact. Consequently, even the perception within the Group, even if not negligible, does not result from the analysis of materiality to be a critical factor in terms of:

- Energy consumption
- Emissions and waste management

Related main risks

The activity carried out by the Group, mainly for its manufactuirng processes, has no significant impact on the environment and, consequently, even high risks. Energy consumption and waste management (for the part not related to processing waste, made of precious metals that are recovered and returned to the production circuit), takes place in compliance with current regulations.

Policies to oversee the topic

The Group's policies in this area are focused on full compliance with the laws in force in the context of manufacturing activities.
The Organizational Model adopted by the Group analyzes environmental crimes as identified in article 25-undecies of Decree 231/01 and introduced protocols and procedures to manage them in the best way minimizing the risks, although not of high profile in the prodution and distribution context in which the Group companies operate.
The Group is also assessing whether to establish control measures and start the investments necessary to activate more active policies aimed at minimizing energy consumption (in offices and boutiques as well as for the car fleet and consumables), through a responsible use of the resources used and also resorting to supplies from renewable sources.

♦ 11. List of standard GRIs adopted broken down by subject

GRI Standard	Disclosure	Page/Note
102 - Organizational profile	102-1. Name of the organization	22
	102-2. Activities, brands, products, and services	25
	102-3. Location of headquarters	22
	102-4. Location of operations	24
	102-5. Ownership and legal form	25
	102-6. Markets served	24;27
	102-7. Scale of the organization	24;26;37
	102-8. Information on employees and other workers	37 - Partial coverage
	102-9. Supply chain	26
	102-16. Values, principles, standards, and norms of behavior	27
	102-18. Governance structure	29
	102-45. Entities included in the consolidated financial statements	24;26
	102-47. List of material topics	28
	102-50. Reporting period	21;22
	102-55. GRI content index	44
	102-56. External assurance	45
103 - Management approach	103-1. Explanation of the material topic and its Boundary	28
	103-2. The management approach and its components	28
201 - Economic Performance	201-1. Direct economic value generated and distributed	34
	201-4. Financial assistance received from government	40
204 - Procurement practices	204-1. Proportion of spending on local suppliers	40
205 - Anti-corruption	205-1. Operations assessed for risks related to corruption	41
	205-2. Communication and training about anti-corruption policies and procedures	41 - Partial coverage
	205-3. Confirmed incidents of corruption and actions taken	There were no incidents of corruption
307 - Environmental Compliance	307-1. Non-compliance with environmental laws and regulations	In the two-year period, the Group received no significant fines or sanctions
401 - Employment	401-1. New employee hires and employee turnover	37
403 - Occupational health and safety	403-1. Workers representation in formal joint management-worker health and safety committee	40
	403-2. Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	40 - Partial coverage
404 - Training and education	404-1. Average hours of training per year per employee	36
405 - Diversity and equal opportunity	405-1. Diversity of governance bodies and employees	29;36
406 - Non-discrimination	406-1. Incidents of discrimination and corrective actions taken	There have been no incidents of discrimination
412 - Human rights assessment	412-2. Employee training on human rights policies and procedures	40
413 - Local communities	413-1. Operations with local community engagement, impact assessments, and development programs	38
416 - Customer health and safety	416-1. Assessment of the health and safety impacts of product and service categories	32;40
	416-2. Incidents of non-compliance concerning the health and safety impacts of products and services	There have been no incidents of non-compliance
417 - Marketing and labeling	417-1. Requirements for product and service information and labeling	32
	417-2. Incidents of non-compliance concerning product and service information and labeling	There have been no cases of non-compliance concerning products
	417-3. Incidents of non-compliance concerning marketing communications	There were no incidents of non-compliance in marketing communications
418 - Customer privacy	418-1. Substantiated complaints concerning breaches of customer privacy and losses of customer data	There have been no incidents of privacy violation

Milan, June 15 2018

For the Board of Directors
CEO
Giorgio Grassi Damiani

Damiani S.p.A.

Independent Auditors' Report on the consolidated non-financial statement pursuant to article 3, paragraph 10 of Legislative Decree no. 254 of December 30, 2016 and of art. 5 of CONSOB Regulation n. 20267

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Independent Auditors' Report

on the consolidated non-financial statement pursuant to article 3, paragraph 10 of Legislative Decree no. 254 of December 30, 2016 and of art. 5 of CONSOB Regulation n. 20267

To the Board of Directors of
DAMIANI S.p.A.

Pursuant to article 3, paragraph 10, of the Legislative Decree no. 254 of December 30, 2016 ("Decree”) and to article 5 of the CONSOB Regulation n. 20267, we have carried out a limited assurance engagement on the Consolidated Non-Financial Statement of Damiani S.p.A. and subsidiaries (the “Group”) as of March 31,2018 prepared on the basis of art. 4 of the Decree, and approved by the Board of Directors on June 15,2018 (hereinafter the "NFS").

Directors' and Board of Statutory Auditors' responsibility on the Consolidated Non-Financial Statement

The Directors are responsible for the preparation of the NFS in accordance with articles 3 and 4 of the Decree and "Global Reporting Initiative Sustainability Reporting Standards" established by GRI – Global Reporting Initiative (“GRI Standards"), with reference to the selection of GRI Standards.
The Directors are also responsible, within the terms established by law, for such internal control as they determine is necessary to enable the preparation of NFS that is free from material misstatement, whether due to fraud or error.

The Directors are moreover responsible for defining the contents of the NFS, within the topics specified in article 3, paragraph 1, of the Decree, taking into account the activities and characteristics of the Group, and to the extent necessary in order to ensure the understanding of the Group's activities, Its trends, performance and the related impacts.

Finally, the Directors are responsible for defining the business management model and the organisation of the Group's activities as well as, with reference to the topics detected and reported in the NFS, for identifying and managing the risks generated or undertaken by the Group.
The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, compliance with the provisions set out in the Decree.

Auditors' Independence and quality check

Our independence is based on the principles of ethics and independence expressed within the Code of Ethics for Professional Accountants (the "Code"), which has been released by the International Ethics Standards Board for Accountants. The Code is based on the principles of integrity, objectivity competency, confidentiality and professional behaviour. Our auditing firm applies the International Standard on Quality Control 1 (ISQC Italia 1) and it maintains a system of quality control that includes directives and procedures concerning the compliance to ethics and professional principles and regulations of the applicable laws.

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Auditors' responsibility

Our responsibility is to express our conclusion based on the procedures performed about the compliance of the NFS with the Decree and the GRI Standards identified as reporting standards. We conducted our work in accordance with the criteria established in the *International Standard on Assurance Engagements 3000 (Revised) ~ Assurance Engagements Other than Audits or Reviews of Historical Financial Information ("ISAE 3000 Revised")*, issued by the International Auditing and Assurance Standards Board (IAASB) for limited assurance engagements. The standard requires the compliance with ethical principles, including independence requirements, and that we plan and perform the engagement to obtain limited assurance whether the report is free from material misstatement. The procedures performed in a limited assurance engagement are less than those performed in a reasonable assurance engagement in accordance with *ISAE 3000 Revised*, and, therefore, do not enable us to obtain assurance that we would become aware of all significant matters and events that might be identified in a reasonable assurance engagement.

The procedures performed on NFS are based on our professional judgement and included inquiries, primarily with company personnel responsible for the preparation of NFS, analysis of documents, recalculations and other procedures aimed to obtain evidence as appropriate.

Specifically we carried out the following procedures:

1. Analysis of relevant topics with reference to the Group's activities and characteristics disclosed in the NFS, in order to assess the reasonableness of the process in place for the selection process in the light of the provisions of art. 3 of the Decree and taking into account the adopted reporting standard.
2. Analysis and assessment of the identification criteria of the consolidation area, in order to assess its compliance to the Decree.
3. If applicable: comparison of data and financial economic information included in the NFS with data and information included in the consolidated financial statements.
4. Understanding of the following matters:
   - Business management model of the Group's activity, with reference to the management of the topics specified by article 3 of the Decree;
   - Policies adopted by the entity in connection with the topics specified by article 3 of the Decree, achieved results and related fundamental performance indicators;
   - Main risks, generated and/or undertaken, in connection with the topics specified by article 3 of the Decree.

   With reference to these matters, we carried out a comparison with the information contained in the NFS and the verifications described in the subsequent point 5, letter a) of this report.

5. Understanding of the processes underlying the origination, recording and management of qualitative and quantitative material information included in the NFS.

   In particular, we carried out interviews and discussions with the management of DAMIANI S.p.A. and with the employees of Damiani S.p.A. and the Group. We therefore carried out limited documentary verifications, in order to gather information about the processes and procedures which support the collection, aggregation, elaboration and transmittal of non-financial data and information to the department responsible for the preparation of the NFS.

   In addition, for material information, taking into consideration the Group's activities and characteristics:

   - at parent company's level and subsidiaries:
     a) with regards to qualitative information included in the NFS, and specifically with reference to the business management model, policies applied and main risks, we carried out interviews and gathered supporting documentation in order to verify its consistency with the available evidence.
     b) with regards to quantitative information, we carried out both analytical procedures and limited verifications in to ensure, on a sample basis, the correct aggregation of data.

   for the following subsidiaries (DAMIANI S.p.A. and Laboratorio Damiani S.r.L.), which we selected based on their activities, their contribution to the performance indicators at the consolidated level and their location, we carried out site visits, during which we have met their management and have gathered supporting documentation with reference to the correct application of procedures and calculation methods used for the indicators

Conclusions

Based on the work performed, nothing has come to our attention that causes us to believe that the NFS of the Damiani Group as of March 31,2018 is not prepared, in all material respects, in accordance with article 3 and 4 of the Decree and selected GRI Standards, as stated in the paragraph “note on methodology” of the NFS.

Milan, July 2, 2018

Signed by
BDO Italia S.p.A.

Fabrizio Brugora
Partner

This report has been translated into English from the original, which was prepared in Italian and represents the only authentic copy, solely for the convenience of international readers.

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in thousands of Euro)	Note	March 31, 2018	March 31, 2017 (restated)*
NON-CURRENT ASSETS			
Goodwill	4	2,760	2,760
Other Intangible Assets	5	6,349	7,104
Property, plant and equipment	6	16,191	17,052
Investments	7	207	207
Financial receivables and other non current assets	8	3,947	3,986
Deferred tax assets	9	10,145	11,629
TOTAL NON CURRENT ASSETS		**39,599**	**42,738**
CURRENT ASSETS			
Inventories	10	91,462	93,979
Trade receivables	11	43,046	41,714
of which towards related parties		*537*	3
Tax receivables	12	1,400	1,559
Other current assets	13	7,109	7,835
of which towards related parties		*415*	*475*
Cash and cash equivalents	14	10,798	10,411
TOTAL CURRENT ASSETS		**153,815**	**155,498**
TOTAL ASSETS		**193,414**	**198,236**
GROUP SHAREHOLDERS' EQUITY			
Share Capital		36,344	36,344
Reserves		23,823	31,532
Group net income (loss) for the period		(3,982)	(5,454)
TOTAL GROUP SHAREHOLDERS' EQUITY		**56,185**	**62,422**
NON CONTROLLING INTEREST			
Non controlling interest share capital and reserves		718	1,109
Non controlling interest net income (loss) for the period		(249)	(398)
TOTAL NON CONTROLLING INTEREST		**469**	**711**
TOTAL SHAREHOLDERS' EQUITY	15	**56,654**	**63,133**
NON CURRENT LIABILITIES			
Long term financial liabilities	16	38,629	18,319
of which towards related parties		*30,327*	*12,582*
Employees Termination Indemnities	17	3,973	4,164
Deferred Tax liabilities	9	756	965
Provision for risks and charges	18	3,971	4,651
Other non current liabilities	19	536	501
TOTAL NON CURRENT LIABILITIES		**47,865**	**28,600**
CURRENT LIABILITIES			
Current portion of long term financial liabilities	16	3,505	13,964
of which towards related parties		*1,210*	*1,055*
Trade payables	20	48,728	51,456
of which towards related parties		*1,581*	*2,955*
Short term borrowings	21	25,965	31,252
of which towards related parties		*602*	104
Tax payables	22	2,136	1,877
Other current liabilities	23	8,561	7,954
TOTAL CURRENT LIABILITIES		**88,895**	**106,503**
TOTAL LIABILITIES		**136,760**	**135,103**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**193,414**	**198,236**

(*) The figures for the financial statements at March 31, 2017 have been reclassified to conform to the financial representation adopted in the financial statements at March 31, 2018.

CONSOLIDATED INCOME STATEMENT

(in thousands of Euro)	Note	Financial Year 2017/2018	Financial Year 2016/2017
Revenues from sales and services		164,065	161,545
Other revenues		187	164
TOTAL REVENUES	24	**164,252**	**161,709**
Cost for raw materials and consumables	25	(83,453)	(84,330)
of which towards related parties		*(286)*	-
Cost of services	26	(46,275)	(46,674)
of which towards related parties		*(910)*	*(1,277)*
Personnel cost	27	(30,616)	(28,564)
Other net operating (charges) incomes	28	1,435	2,166
of which not recurring		-	*1,540*
Amortization, depreciation and write downs	29	(5,034)	(4,200)
TOTAL OPERATING EXPENSES		**(163,943)**	**(161,602)**
OPERATING INCOME (LOSS)		**309**	**107**
Financial Expenses	30	(2,540)	(2,862)
of which towards related parties		*(1,187)*	*(809)*
Financial Incomes	30	1,131	210
INCOME (LOSS) BEFORE INCOME TAXES		**(1,100)**	**(2,545)**
Income Taxes	31	(3,131)	(3,307)
NET INCOME (LOSS) FOR THE PERIOD		**(4,231)**	**(5,852)**
Attributable to:			
Equity holders of the parent		(3,982)	(5,454)
Non controlling interests		(249)	(398)
Basic Earnings (Losses) per Share(*)		**(0.05)**	**(0.07)**
Diluted Earnings (Losses) per Share(*)		**(0.05)**	**(0.07)**

(*) 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

(in thousands of Euro)	**Financial Year 2017/2018**	**Financial Year 2016/2017**
Net income (Loss) for the period	**(4,231)**	**(5,852)**
Other gains (losses) that will be reclassified to net income for the period:		
Gain (Losses) on cash flow hedges	0	0
Tax Effect	(0)	(0)
Gain (Losses) on exchange differences on translating foreign operations	(2,534)	1,132
Tax Effect	318	107
Other gains (losses) that will not be reclassified to net income for the period:		
Gain (Losses) on the remeasurement of defined benefit plans	(41)	71
Tax effect	10	(17)
Total Comprehensive Income (loss) for the period	**(6,478)**	**(4,559)**
Equity holders of the parent	(6,235)	(4,222)
Non controlling interests	(243)	(337)

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousands of Euro)	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
Balances at March 31, 2016	**36,344**	**65,756**	**2,564**	**8,618**	**936**	**(8,134)**	**(44,617)**	**(480)**	**5,623**	**66,610**	**1,137**	**67,747**
Allocation of the result for the period							5,623		(5,623)	-	-	-
Other comprehensive income(loss)							1,178	54	(5,454)	(4,222)	(337)	(4,559)
Dividends to minority shareholders										-	(88)	(88)
Reclassification					(522)		522			-	-	-
Stock option					32					32	-	32
Balances at March 31, 2017	**36,344**	**65,756**	**2,564**	**8,618**	**446**	**(8,134)**	**(37,294)**	**(426)**	**(5,454)**	**62,420**	**712**	**63,133**

(in thousands of Euro)	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
Balances at March 31, 2017	**36,344**	**65,756**	**2,564**	**8,618**	**446**	**(8,134)**	**(37,294)**	**(426)**	**(5,454)**	**62,420**	**712**	**63,133**
Allocation of the result for the period							(5,454)		5,454			-
Other comprehensive income(loss)		6					(2,229)	(30)	(3,982)	(6,235)	(243)	(6,478)
Dividends to minority shareholders												-
Balances at March 31, 2018	**36,344**	**65,762**	**2,564**	**8,618**	**446**	**(8,134)**	**(44,977)**	**(456)**	**(3,982)**	**56,185**	**469**	**56,654**

CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousand of Euro)	**Financial Year 2017/2018**	**Financial Year 2016/2017 (restated)***
CASH FLOW FROM/(USED IN) OPERATING ACTIVITIES		
Net income (loss) for the period	(4,231)	(5,852)
Adjustments to reconcile the income (loss) for the period to the cash flow generated (absorbed) by operating activities:		
Amortization, depreciation and write downs	5,034	4,200
Costs/(revenues) for stock option	-	32
(Gains)/Losses from sale of non current assets	36	112
Accrual (releases) of allowance for doubtful accounts	571	449
Accrual (releases) of provision for risks and charges	30	87
Changes in the fair value of financial instruments	72	(19)
Accrual to employees' termination indemnity	119	(36)
Employees' termination indemnity payments	(310)	(176)
Changes in the deferred tax assets and liabilities	1,275	2,715
	2,595	1,511
Changes on operating assets and liabilities:		
Trade receivables	(1,903)	(8,052)
Inventories	2,517	9,382
Trade payables	(2,728)	6,776
Tax receivables	159	(525)
Tax payables	259	(4,106)
Provisions for risks and charges	(710)	3,538
Other current assets and current and non current liabilities	1,296	78
NET CASH FLOW FROM/(USED IN) OPERATING ACTIVITIES (A)	**1,485**	**8,602**
CASH FLOW FROM/(USED IN) INVESTING ACTIVITIES		
Disposal of intangible assets and property, plant and equipment	25	28
Purchase of property, plant and equipment	(3,634)	(4,676)
Purchase of intangible assets	(389)	(5,571)
Net change in the other non current assets	39	(37)
NET CASH FLOW FROM/(USED) IN INVESTING ACTIVITIES (B)	**(3,959)**	**(10,256)**
CASH FLOW FROM/(USED IN) FINANCING ACTIVITIES		
Repayment of long term loans	(20,465)	(6,658)
Issuance of long-term debt	30,316	5,000
Net change in short-term financial liabilities	(5,287)	3,874
NET CASH FLOW FROM/(USED IN) FINANCING ACTIVITIES (C)	**4,564**	**2,216**
TOTAL CASH FLOW (D=A+B+C)	**2,090**	**562**
Effect of exchange rates on cash (E)	(1,703)	1,031
CASH AND CASH EQUIVALENT AT THE BEGINNING OF THE YEAR (F)	**10,411**	**8,818**
CASH AND CASH EQUIVALENT AT THE END OF THE PERIOD (G=D+E+F)	**10,798**	**10,411**

(*) The figures for the financial statements at March 31, 2017 have been reclassified to conform to the financial representation adopted in the financial statements at March 31, 2018.

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 prestigious jewelry brands, such as Damiani, Salvini and Bliss. 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, 2018 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, 2018 cover the period April 1, 2017 – March 31, 2018. 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 15, 2018.
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, which is considered as a more representative form compared with the structure by destination (also known as cost of sales). The cash flow statement has been prepared using the indirect method.
In accordance with Consob (Italian SEC) 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, 2017 – March 31, 2018 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, 2018 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, in which the economic-financial effects reflected in the business plans envisage further growth in revenues, mainly in the foreign markets, and an improvement in operating profitability, net of non-recurring operations.
The income statement, the changes in shareholders' equity and the cash flows for the financial year ended March 31, 2018 have compared with the figures for the corresponding prior year period. The statement of financial position as of March 31, 2018 has compared with that as of March 31, 2017.
The balance sheet values at March 31, 2017 have been restated in the components affected by the assessment of the risk related to the returns by customers (inventories, trade receivables and liabilities), in order to align them with the representation adopted at March 31, 2018 with the accounting of a specific risk fund.
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, 2018:

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	72,000,000	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 Co. 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	20,010,000	Damiani international S.A.	0.00%	100.00%
Damiani Paris SAS	Paris, France	EUR	6,500,000	Damiani international S.A.	0.00%	100.00%
Damiani Jewels LLC	Dubai, United Arab Emirates	AED	300,000	Damiani International S.A.	0.00%	49.00%
Damiani Singapore Pte.Ltd.	Singapore	SGD	300,000	Damiani International S.A.	0.00%	100.00%

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

Compared with the financial year ended March 31, 2017 the consolidation area at March 31, 2018 changed as follows:

- On May 2017 the new company Damiani Singapore PTE. Ltd was set up, with a share capital of 300,000 SGD (around Euro 195,000), wholly owned by Damiani International S.A. The company aims to distribute the brands of the Group in Singapore, both in wholesale and retail channels (in June was inaugurated the new Damiani boutique in one of the most prestigious mall of the Asian metropolis).

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, 2018 the Group had no interests in associated companies.

Other investments

The following table details the investment in other companies held by the Group at March 31, 2018 for the total amounts of Euro 207 thousand.
On the evaluation criteria of Other investments refer to the following paragraph, summary of main accounting policies.

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	71	Damiani S.p.A.	4.36%	4.36%
Banca d'Alba (1)	Euro	46,781	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, 2016

(2) Share capital at December 31, 2017

Consolidation

In the consolidated financial statements, assets, liabilities, costs and revenues of consolidated companies are loaded line-by-line, attributing to minority shareholders, in the appropriate entries of the balance sheet and income statement, the portion of shareholders' equity and the result of the period in which they are held.
The carrying amount of the investment in each subsidiary is eliminated against the corresponding share of its net equity including any eventual fair value adjustments for impairment at the date control was acquired; any remaining difference is allocated to the item goodwill.
All intercompany balances and transactions, including any profits and losses not realized, resulting from relations maintained between Group companies are completely written off. Intragroup losses are eliminated except when they are representative of durable losses.

Translation of financial statements expressed in foreign currencies different from euro

The consolidated financial statement is presented in Euro, which is also the functional currency of the Parent Company Damiani S.p.A. and a part of the Group companies.
The financial and economic data of companies, operating in areas other than the Euro, are converted into Euro by applying: (i) asset and liability items, current exchange rates at the end of the financial year, (ii) equity items, historical exchange rates; (iii) the income statement items, the average exchange rates for the year.
Exchange rate differences, arising from the application of different exchange rates for assets and liabilities, for Shareholders' equity and income statement, are recognized in the item of consolidated Shareholders' equity "Conversion reserve" for the Group's share of responsibility, to the item "Equity and reserves of third parties" for the part of the competence of a third party.
The balance and economic data used for conversion are those expressed in the functional currency. Goodwill and fair value adjustments, generated when allocating the cost of acquiring of a foreign company, are recognized in the relevant currency and are converted using the exchange rate of the year ending.

Accounting standards

The consolidated financial statements closed as of March 31, 2018 have been prepared 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, 2017, except as outlined below in relation to the amendments and interpretations applicable from April 1, 2017.

Accounting standards, amendments and interpretations effective from April 1, 2017

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

- Amendments to IAS 12 – Income taxes: published by the IASB on January 19, 2016. These amendments clarify how to account for deferred tax assets relating to debt instruments measured at fair value. The application of these amendments has no impact on the Group.
- Amendments to IAS 7 – Cash flow statement: published by the IASB on January 29, 2016. Their purposes are to improve the information provided to investors and concern the disclosure relating to financial liabilities. The

application of these amendments has no impact on the Group.

Accounting standards, amendments and interpretations not yet applicable and not early adopted by the Group

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 Damiani Group intends to adopt these principles when it comes into force and is now considering what may be the implications of their future application.

- IFRS 9 – Financial instruments: in July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 and all previous versions of IFRS 9. The standard brings together all three aspects of the project on accounting for financial instruments: classification and valuation, loss of value and hedge accounting. L'IFRS 9 is effective for annual periods beginning from January 1, 2018 or later. Earlier application is permitted. With the exception of hedge accounting, it is required retrospective application of the standard, but it is not mandatory to provide comparative information. For hedge accounting, the standard applies generally in a forward-looking manner with some limited exceptions. The Group will apply the new standard from the date of its entry into force and should not have significant impacts on its financial statements.
- IFRS 15 - Revenues 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. IFRS 15 is effective for annual periods beginning from January 1, 2018 onwards, with full retrospective application or modified. Earlier application is permitted. The Group applies the new standards to the mandatory effective date and is assessing the impact that adoption of these standards may have on the financial statements, considering each channel on which it operates and the services offered. Moreover, the Group is assessing the impact of the adoption of the standard in terms of presentation mode and disclosures required (IT system, internal control, etc.).
- IFRS 16 Leases: the standard was published in January 2016 and it will replace IAS 17 leasing, IFRIC 4, SIC-15 and SIC-27. IFRS 16 defines the principles for the measurement, presentation and disclosure of leases (contracts granting the right to use third party assets) and requires the tenants to account for all lease contracts in the financial statements on basis of a single model similar to that used for financial leases in accordance with IAS 17. The standard provides for two exemptions for the recognition by tenants: contracts relating to "low value" assets and short-term contracts. At the beginning of the lease contract, the tenant accounts a liability for non-variable lease payments and an asset representing the right to use the underlying asset for the duration of the contract. Tenants must separately account for interest charges on leasing liabilities and amortization of the right to use the asset. Tenants will also have to reschedule leasing liabilities when certain events occur. The leasing liability re-measurement will be generally recognized as an adjustment to the right to use the asset. According to IFRS 16, the accountability for the lessor is essentially unchanged from today's accounting in accordance with IAS 17, even if the latter considers the substance of the transaction comparable to the purchase of an asset while IFRS 16 is based on the concept of right to use of a specific good. The lessors will continue to classify all leases using the same classifications standard provided by IAS 17. IFRS 16 requires tenants and lessors to have more extensive disclosures than IAS 17. The new standard will enter into force for financial years beginning on January 1, 2019. Earlier application is permitted, but not before entity has adopted IFRS 15. The Group is assessing the extent of the impact deriving from the new standard on its economic-financial values.

Furthermore, at the date of these financial statements the competent bodies of the European Union have not yet completed the approval process for the adoption of new standards and amendments:

- Amendments to IFRS 10 and to IAS 28 – Sale or transfer of an asset between an investor and an assiocate or joint venture.
- Amendments to IFRS 2 – Classification and measurement of share-based payments.
- Amendments to IAS 40 – Transfer of real estate investments.
- IFRIC 22 – Transactions in foreign currency and advances on fees.
- IFRIC 23 – Uncertainties about the tax treatment of taxes.
- Annual cycle of improvements 2014-2016. They include: i) IFRS 1 – First adoption of IFRS; ii) IAS 28 – Investments in associated companies.
- Annual cycle of improvements 2015-2017: They include: i) IFRS 3 – Business combination; ii) IFRS 11 – Joint

arrangements; iii) IAS 12 – Income taxes; iv) IAS 23 – Borrowing costs.

Use of estimates

The preparation of the financial statements and the explanatory notes under the IFRS 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. The estimates 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 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 and are recognized in the income statement for the period in which the cost of generating them was incurred.
The useful life of intangible assets is valued as definite or indefinite. Intangible assets with a definite 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 definite 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 definite 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.
For the intangible assets with a definite 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, 2018, 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. 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 is 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.
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 others 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 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;
- 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 Group 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.
Provision for risks and charges include the provision for returns. This provision is determined on the basis of the amounts invoiced at the time of shipment of the goods and the historical analysis of the incidence of returns of sales by customer, in order to forecast the sales for which not all significant risks at the reporting date and the benefits associated with ownership of the goods have been definitively transferred. The provision is recorded net

of the impact on the stock and the commission fees generated when a customer return proceeds (normally from wholesale channel).

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 case 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 been transferred to the new owner. The risk of returns thus determined is recognized in the income statement with a specific provision and in the balance sheet among the risk provisions.

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:
<u>Costs for advertising campaigns and testimonials</u>
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 approved.

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. Monetary assets and liabilities denominated in currencies other then the euro 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, 2018 and for the financial period ending March 31, 2017, 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, July 23, 2015, July 21, 2016 and July 27, 2017.

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, 2018 and March 31, 2017.

Information by geographical areas (financial year ended March 31, 2018)

Financial Year 2017/2018 *(in thousands of Euro)*	**Italy**	**Foreign Countries**	**Consolidated**
Net Sales to third party customers	111,918	52,147	164,065
Other revenues	181	6	187
Total net sales	**112,099**	**52,153**	**164,252**
Operating Costs	**(108,010)**	**(55,933)**	**(163,943)**
Operating profit (loss)	**4,089**	**(3,780)**	**309**

Situation at March 31, 2018 *(in thousands of Euro)*	**Italy**	**Foreign Countries**	**Consolidated**
Capex	2,125	1,898	4,023

Information by geographical areas (financial year ended March 31, 2017)

Financial Year 2016/2017 *(in thousands of Euro)*	**Italy**	**Foreign Countries**	**Consolidated**
Net Sales to third party customers	114,111	47,434	161,545
Other revenues	156	8	164
Total net sales	**114,267**	**47,442**	**161,709**
Operating Costs	**(108,713)**	**(52,889)**	**(161,602)**
Operating profit (loss)	**5,554**	**(5,447)**	**107**

Situation at March 31 2017 *(in thousands of Euro)*	**Italy**	**Foreign Countries**	**Consolidated**
Capex	3,400	6,847	10,247

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, 2018 and March 31, 2017:

(in thousands of Euro)	**March 31, 2018**	**March 31, 2017**
Goodwill, boutiques	465	465
Goodwill, Alfieri & St.John	2,295	2,295
Total goodwill	**2,760**	**2,760**

This item refers, for Euro 2,295 thousand, 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. The goodwill value is unchanged from the previous year and the impairment test as at March 31, 2018, as described in the following paragraph, did not show any impairment loss indicators.

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, 2018 and at March 31, 2017, 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 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 5.29% (it was 7.24% at March 31, 2017) net of the related tax effect. The value in use of the CGU, according to the scenario considered most likely, is higher than the carrying amount accounted in the financial statement.
The goodwill for the boutiques was also attributed to Damiani CGU, another branch of business included in the legal entity Damiani S.p.A.
To determine the recoverable amount, reference was made to the value of use for the determination of which the following data were used in the impairment process and the related hypotheses were used:

- financial data were derived from the Group's business plan 2018-2021 (detailed in the Cash Generating Units of the Group). The business plan was approved by the Board of Directors of Damiani S.p.A. on 12 June 2018,
- to determine the cash flows, we started from the EBITDA of each CGU and were cleared of the value related to investments and the change in net working capital,
- cash flows have been discounted on the basis of the weighted average cost of invested capital (WACC), including the tax burden, determined on the basis of the following benchmarks:
    - risk free rate: ten-year yields in the countries where CGUs operate
    - beta: determined as the average of debt / equity in a panel of comparable companies
    - market premium: the yield differential between the risk-free rate and the equity remuneration of the sector in the geographical context in which the CGU operates
    - average debt rate: cost related to third-party funding sources of the CGU.

The Damiani Boutiques CGU streams are discounted at WACC of 5.29% (it was 7.24% at March 31, 2017) net of the related tax effect. The expected growth rate "g" after the three-year period covered by the business plan is equal to one, consistent with the business plan projection curve and below the growth rate of the retail sector. The value of goodwill attributable to Damiani boutiques is confirmed by the impairment test, even if the parameters (WACC and g) were worse than the plan hypotheses.

5. OTHER INTANGIBLE ASSETS

The following table provides a breakdown as of March 31, 2018 and March 31, 2017:

(in thousands of Euro)	**March 31, 2018**	**March 31, 2017**
Industrial rights and patents	429	220
Key Money	5,901	6,569
Intangible assets under construction	19	315
Total other intangible assets	**6,349**	**7,104**

The item industrial rights and patents increased for investments in application software made during the period.
The item key money decreased for the amortization of the period. The paid key money is amortized on the basis of the residual term of the lease contract.
Intangible assets under construction reduced as a consequence to completion of the work carried out for the development of the retail channel, with the reclassification of the fixed assets and the commencement of the subsequent amortization process.
Below are the movements of the intangible fixed assets:

(in thousands of Euro)	Industrial rights and patents	Key Money	Intangible assets under construction	Total
Net book value at March 31, 2017	**220**	**6,569**	**315**	**7,104**
Purchases	377	-	12	389
Disposals	(12)	-	(2)	(14)
Riclassification	-	-	(281)	(281)
Amortization	(143)	(660)	-	(803)
Exchange differences	(13)	(8)	(25)	(46)
Net book value at March 31, 2018	**429**	**5,901**	**19**	**6,349**

6. PROPERTY, PLANT AND EQUIPMENT

The following table provides a breakdown as of March 31, 2018 and March 31, 2017:

(in thousands of Euro)	**March 31, 2018**	**March 31, 2017**
Land and buildings	4,866	5,774
Plant and machinery	536	541
Industrial and commercial equipment	62	79
Other assets	10,650	10,266
Assets under construction	77	392
Total property, plant and equipment	**16,191**	**17,052**

Property, plant and equipment decreased by Euro 861 thousand compared to the previous financial year as investments, mainly concentrated in the retail segment for new boutiques or renovations, are lower than the depreciation for the period.
The item "Land and buildings" also includes the residual value of sale and lease back properties that related parties purchased from Group companies in previous years and subsequently re-leased for commercial use to them (for details refer to note 32. Transactions with related parties).
These sale and lease back assets amounted to Euro 3,635 thousand at March 31, 2018 and to Euro 4,511 thousand at March 31, 2017.
The item "Other assets" includes furniture, fixtures, office and vehicle machines, and leasehold improvements (expenses incurred to adapt / renovate boutiques).
Below are the movement of the items that comprise the property, plant and equipment, carried out during the year ended March 31, 2018:

(in thousands of Euro)	Land and buildings	Plant and machinery	Industrial and commercial equipment	Other assets	Assets under construction	Total
Net book value at March 31, 2017	**5,774**	**541**	**79**	**10,266**	**392**	**17,052**
Purchases	-	171	26	3,366	71	3,634
Disposals	-	(20)	(2)	(8)	(17)	(47)
Reclassification	-	18	(5)	599	(331)	281
Depreciation	(908)	(160)	(35)	(3,128)	-	(4,231)
Exchange differences	-	(14)	(1)	(445)	(38)	(498)
Net book value at March 31, 2018	**4,866**	**536**	**62**	**10,650**	**77**	**16,191**

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, 2018 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 thousand. Compared to March 31, 2017 there have been no changes.

8. FINANCIAL RECEIVABLES AND OTHER NON-CURRENT ASSETS

The following table provides a breakdown as of March 31, 2018 and March 31, 2017:

(in thousands of Euro)	**March 31, 2018**	**March 31, 2017**
Guarantee deposits	3,894	3,896
Other receivables	53	90
Total financial receivables and other non-current assets	**3,947**	**3,986**

Compared with March 31, 2017 there were no significant changes.

9. DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

Deferred tax assets and liabilities for the financial year ended March 31, 2017 and financial year ended March 31, 2016 are detailed in the table below. The descriptions indicate the nature of the temporary differences:

(in thousands of Euro)	**March 31, 2018**	**March 31, 2017**
Deferred tax assets:		
Net Impact of the returns on sales	755	925
Write off on intercompany gains and inventory margins	4,312	5,161
Exchange loss differences	554	152
Provision for doubtful accounts not deductible	531	699
Write downs of inventories	2,254	2,352
Provisions on lawsuits	98	117
Financial interests in excess	1,518	1,624
Tax losses	-	367
Effect on stock option plans	85	85
Other timing differences of a taxation nature	38	147
Total deferred tax assets	**10,145**	**11,629**
Deferred tax liabilities:		
Exchange differences	281	695
Other timing differences of a taxation nature	475	270
Total deferred tax liabilities	**756**	**965**

The main differences in receivables/liabilities for prepaid/deferred taxes compared with March 31, 2017 are due to: i) lower assets on intragroup margins and gains of Euro 849 thousand for the reduction in the amount generating the temporary difference, ii) determination of the anticipated/deferred tax effects on exchange differences generated by open receivables/liabilities, iii) cancellation of assets related to previous tax losses as a result of their use both to initiate the appeal against two notice of assessment notified to Damiani S.p.A. by the Italian Tax Authorities, and to define the adhesion and partial conciliation with the same Office against further assessment notices on other tax periods (for more details, see the report on operations and the following note 33. Commitments and contingent liabilities).

10. INVENTORIES

The following table provides a breakdown as of March 31, 2018 and March 31, 2017:

(in thousands of Euro)	**March 31, 2018**	**March 31, 2017 (restated)***
Raw materials, semi-finished goods and advance payments	12,693	13,416
Finished products and goods	78,769	80,563
Total inventories	**91,462**	**93,979**

(*) The figures for the financial statements at March 31, 2017 have been reclassified to conform to the financial representation adopted in the financial statements at March 31, 2018.

The net value of inventories at March 31, 2018 shows a decrease of Euro 2,517 thousand compared with the previous financial year. The value of inventories of finished products is shown net of write-downs, recognized by the management on the basis of the valuations made to identify the component of commercial obsolescence for each type of goods in stock. The assessment carried out, on a total gross reduction, led to a decrease in risk of obsolescence compared to the end of the previous year. Therefore, the total value of the inventory write-down provision at March 31, 2018 amounts to Euro 9,698 thousand compared to Euro 11,427 thousand at March 31, 2017.

11. TRADE RECEIVABLES

The following table provides a breakdown as of March 31, 2018 and March 31, 2017:

(in thousands of Euro)	**March 31, 2018**	**March 31, 2017 (restated)***
Trade receivables, gross	**45,767**	**45,245**
Provision for doubtful accounts	(2,705)	(3,519)
Impact of Net Present Value calculation of receivables	(16)	(12)
Total net trade receivables	**43,046**	**41,714**

(*) The figures for the financial statements at March 31, 2017 have been reclassified to conform to the financial representation adopted in the financial statements at March 31, 2018.

The increase in net trade receivables of Euro 1,332 thousand is related to both the increase in gross amount and the lower value of the provision for bad debt, used during the year to cover positions closed and for which a specific provision had previously carried out. The balance at March 31, 2018 is therefore shown net of the doubtful debt provision recalculated on outstanding non-performing positions, as well as the effect of discounting the receivables represented by re-issued banking effects that have maturity beyond the period.
The following table shows the changes in the bad debts reserve during the financial year ended March 31, 2018.

(in thousands of Euro)	**Provision for doubtful accounts**
Book value at March 31, 2017	**(3,519)**
Accrual	(571)
Utilization	1,385
Book value at March 31, 2018	**(2,705)**

There are no receivables with contractual terms exceeding five years.

12. TAX RECEIVABLES

The item presents a balance at March 31, 2018 of Euro 1,400 thousand compared to Euro 1,559 thousand at March 31, 2017. The reduction is mainly due to a lower prepayment for income taxes.

13. OTHER CURRENT ASSETS

The following table provides a breakdown as of March 31, 2018 and March 31, 2017:

(in thousands of Euro)	March 31, 2018	March 31, 2017
VAT receivables from the Tax Authorities	2,554	1,426
Deposits to suppliers	1,484	2,208
Prepayments	2,324	2,169
Receivables from other	747	2,032
Total other current assets	**7,109**	**7,835**

The increase in VAT receivables is due to the repurchase of a credit transferred in the past to the banking system for Euro 1,400 thousand. The decrease in receivables towards other is mainly generated by the collection of Euro 943 thousand, which in the previous year was paid to trigger an appeal against a tax assessment. The first instance ruling fully aknowledged the reasons of Damiani S.p.A., which during 2017 thus obtained reimbursement of the amount paid.

14. CASH AND CASH EQUIVALENTS

The following table provides a breakdown as of March 31, 2018 and March 31, 2017:

(in thousands of Euro)	March 31, 2018	March 31, 2017
Bank and post accounts	10,289	9,993
Cash on hand	509	418
Total cash and cash equivalents	**10,798**	**10,411**

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, 2018, gross of treasury stock amounted to Euro 36,344 thousand 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 2017/2018. On June 15, 2018 the Board of Directors did not propose to the Shareholders' Meeting any dividend payment for the financial year 2017/2018.
The number of treasury stock held in the portfolio amounted to 5,556,409 for a countervalue of Euro 8,134 thousand. This amount is booked as a direct reduction in the shareholders' equity.
The number of shares in circulation at March 31, 2018 is n. 13,827,522, unchanged from March 31, 2017.
The changes in shareholders' equity in the financial year ended March 31, 2018 (and illustrated in details in the statement of changes in equity) were as follows:

- negative net result for the financial year of Euro 4,231 thousand (including minorities),
- actuarial loss on defined benefit plans for employees recognized in accordance with IAS 19 (2011) for Euro 31 thousand,
- the other negative effects mainly arising from exchange differences on translation of financial statements in currencies other than Euro for Euro 2,217 thousand.

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, 2018 and 2017:

(in thousands of Euro)	**March 31, 2018**	**March 31, 2017**	**Notes**
Non current portion			
Loan A	25,000	-	a
Loan B	3,700	4,000	b
Loan C	602	1,205	c
Loan D	2,904	2,904	d
Loan E	-	600	e
Loan F	3,804	-	f
Loan G	-	-	g
Loan H	953	950	h
Loan I	-	-	i
Loan J	40	78	j
Loan K	-	-	k
Loan L	-	5,508	l
Financial Leasing	1,626	3,074	m
Total non current portion of medium/long term financial liabilities	**38,629**	**18,319**	
Current portion			
Loan A	-	-	a
Loan B	300	-	b
Loan C	602	602	c
Loan D	-	-	d
Loan E	600	800	e
Loan F	960	-	f
Loan G	-	84	g
Loan H	103	-	h
Loan I	-	509	i
Loan J	30	34	j
Loan K	-	10,880	k
Loan L	-	-	l
Financial Leasing	910	1,055	m
Total current portion of medium/long term financial liabilities	**3,505**	**13,964**	
Total medium/long term financial liabilities	**42,134**	**32,283**	

The following is a breakdown of key information relating to loans granted by banks and other lenders at the Group at March 31, 2018:

a) The loan of Euro 25,000 thousand was granted by the majority shareholder Leading Jewels S.A. (attributable to the Damiani family) in several tranches in 2017 following the framework agreement signed in April 2017 and extended in May 2018. Leading Jewels S.A. has made available to Damiani S.p.A. amounts up to a maximum of Euro 30 million to allow more efficient treasury management. The credit line is remunerated at a fixed annual rate of 3.6%, with the exception of a portion of Euro 5,000 thousand, the repayment of which is subordinated to that relating to the loan referred to at point f). The interest rate on this portion, expiring on May 31, 2023, is 4.3% per year.

b) The financing for Euro 4,000 thousand was paid in July 2016 to Damiani S.p.A. by the majority shareholder Leading Jewels S.A. The loan includes a 6-month Euribor + 3.90% remuneration and a half-year repayment plan starting from January 2019 and ending December 31, 2021.

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. Based on the progress of investments the loan, of total Euro 3,012 thousand 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% (the first repayment installment was paid in August 2015).
d) Loan D was completed on December 2013 and consists in the financial contribution of HK$ 29,826,000 (equivalent to Euro 2,904 thousand) 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, 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 Group.
e) Loan E was signed on October 2015 by Damiani S.p.A. with a bank for the amounts of Euro 2,000 thousand and three years duration. On this loan accrues annual interest determined from Euribor 6 months + 1.53% spread. The refund is in 10 constant quarterly installments, ending December 2018.
f) The loan was disbursed to Damiani S.p.A. in December 2017 by a bank for Euro 5,000 thousand, with a repayment plan in 60 monthly installments starting from January 2018, expiring in December 2022. The annual remuneration rate is based on Euribor 3 months + 2.25% spread.
g) Debt refers to a loan of Euro 1,000 distributed to Damiani S.p.A. in April 2016 by an Italian bank. The debt was fully repaid in April 2017.
h) It is the subsidized loan granted in July 2015 (and the llast tranche has been paid on May 2017) 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).
i) Debt refers to a loan of Euro 1,000 distributed to Damiani S.p.A. in February 2016 by an Italian bank. The duration is 24 months with repayment in quarterly installments and the last installment has been reimbursed on March 2018.
j) The debt refers to a finance lease on the alarm system, signed by the subsidiary Damiani Japan KK for an amount of Japanese Yen 20,122 thousand.
k) The loan has been signed by Damiani S.p.A. with a pool of banks on November 2013 for an amount up to a maximum of Euro 13,600 thousand. It aimed to support the continued operation of the Damiani Group, mainly by financing industrial investments for the development of the retail channel. The repayment started on May 2016 and at May 31, 2017 the loan was repaid early with the reimbursement of principal and interest accrued up to that date.
l) The private non-convertible bond for Euro 5,000 thousand 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. The Board of Directors of Damiani S.p.A. on December 22, 2017 has resolved to change the maturity of the bond, anticipating it as of December 31, 2017. The full repayment of principal and interest occurred in January 2018.

In addition, the table shows the payables for financial leases on buildings of Euro 2,536 thousand relating to n. 3 properties sold to related parties, qualifying as sales and lease back contracts under IAS 17. These properties are Damiani and Rocca 1794 boutiques.

The table below shows the detail of Net financial position at March 31, 2018 and at March 31, 2017:

Net Financial Position (*) *(in thousands of Euro)*	**Situation at** **March 31, 2018**	**Situation at** **March 31, 2017**
Current portion of loans and financing	2,295	12,909
Drawdown of credit lines, short term financing and others	25,363	31,148
Drawdown of credit lines with related parties	602	104
Current portion of loans and financing with related parties	1,210	1,055
Current financial indebtedness	**29,470**	**45,216**
Non current portion of loans and financing	8,302	5,737
Non current portion of loans and financing with related parties	30,327	12,582
Non current financial indebtedness	**38,629**	**18,319**
Total gross financial indebtedness	**68,099**	**63,535**
Cash and cash equivalents	(10,798)	(10,411)
Net Financial Position (*)	**57,301**	**53,124**

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

Net financial indebtedness at March 31, 2018 shows a balance of Euro 57,301 thousand, an increase compared with March 31, 2017 (Euro 53,124 thousand).
The net financial position at March 31, 2018 includes Euro 32,139 thousand debts towards related parties, of which Euro 29,603 thousand for medium/long term loans received from majority shareholder and Euro 2,536 thousand for real estate operations accounted as sale and lease-back.
The financial resources from the majority shareholder received during 2017/2018 financial year allowed voluntary extinction in May 2017 of the pool bank loan (at March 31, 2017 included between current portion) with the repayment of the residual principal (Euro 10,880 thousand) and the accrued interest up to that date.
With regard to short-term borrowings to the banking system, it should be noted that the Damiani Group has credit lines that at March 31, 2018 are not fully utilized: around Euro 25.4 million on a total of Euro 60.1 million.

17. EMPLOYEES' TERMINATION INDEMNITIES

In the financial year ended March 31, 2018 the following changes took place on Employees' termination indemnities (TFR):

(in thousands of Euro)	
Termination Indemnities at March 31, 2017	**4,164**
Cost related to current work performed	**40**
Financial expenses	**38**
Paid benefits	**(310)**
Actuarial Loss (Profit)	**41**
Termination Indemnities at March 31, 2018	**3,973**

The changes during the period reflect the provisions and the outlays, including advances, implemented during the financial year ended March 31, 2018.
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:

Financial hypotheses	
Annual rate for the Net Present Value	1.03%
Annual inflation rate	1.50% for 2016
	1.80% for 2017
	1.50% for 2018
	1.60% for 2019
	2.00% from 2020 onwards

Demographic hypotheses	
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

The following table provides a breakdown as of March 31, 2018 and March 31, 2017:

(in thousands of Euro)	**March 31, 2018**	**March 31, 2017 (restated)***
Sales returns reserve	3,385	3,920
Provision for legal disputes	407	487
Other reserves for risks and charges	179	244
Total provisions for risks and charges	**3,971**	**4,651**

(*) The figures for the financial statements at March 31, 2017 have been reclassified to conform to the financial representation adopted in the financial statements at March 31, 2018.

At March 31, 2018 the provision for risks and charges totaled Euro 3,971 thousand (Euro 4,651 thousand at March 31, 2017), to cover probable charges for legal disputes for Euro 407 thousand, for Euro 179 thousand for reorganization actions in the subsidiary Damiani USA Corp. and for Euro 3,385 thousand to cover probable future returns from customers. The value of this last fund is based on the assessments made at March 31, 2018, analyzing the returns of finished goods received from customers during the financial year and their historiacal trend. This analysis shows a progressive contraction of this trend, with a consequent redetermination of the fund: from Euro 3,920 thousand at March 31, 2017 to Euro 3,385 thousand at March 31, 2018 (the provision is shown as a net effect of the various components, receivables, inventories and commissions, which are accounted when the returns from customers are booked).

The value of the fund for legal disputes varies from Euro 487 thousand for the year ended March 31, 2017 to Euro 407 thousand for the year ended March 31, 2018, due to: i) Provisions for Euro 30 thousand carried out during the year; ii) use for Euro 110 thousand. The reorganization fund went from Euro 244 thousand at March 31, 2017 to Euro 179 thousand at March 31, 2018, after being used for Euro 65 thousand.

19. OTHER NON-CURRENT LIABILITIES

The amount of the item increased from Euro 501 thousand at March 31, 2017 to Euro 536 thousand at March

31, 2018. The amount is mainly comprised of the termination indemnities of the Directors.

20. TRADE PAYABLES

The following table provides a breakdown as of March 31, 2018 and March 31, 2017:

(in thousands of Euro)	**March 31, 2018**	**March 31, 2017 (restated)***
Trade payables due in less than 12 months	46,577	49,745
Bill payable, other credit securities and advances	2,151	1,711
Total trade payables	**48,728**	**51,456**

(*) The figures for the financial statements at March 31, 2017 have been reclassified to conform to the financial representation adopted in the financial statements at March 31, 2018.

The reduction is directly related to the contraction in operating costs and capital expenditures, which involve deferred payments.

21. SHORT TERM BORROWINGS

The short-term borrowings at March 31, 2018 amounted to Euro 25,965 thousand, down by Euro 5,287 thousand compared with March 31, 2017 (Euro 31,252 thousand). The reduction is the direct consequence of the actions carried out in the financial year to increase the weight of medium/long term debt (thanks above all to the contribution of the majority shareholder), with the aim of guaranteeing greater flexibility in treasury management and reduce the liquidity risk.
Short-term credit lines are intended to finance working capital. It should also be noted that at March 31, 2018 the available short-term credit lines are only partially used (about 42% of the total).

22. TAX PAYABLES

The following table provides a breakdown as of March 31, 2018 and March 31, 2017:

(in thousands of Euro)	**March 31, 2018**	**March 31, 2017**
VAT payables	30	479
Taxes withheld from employees (IRPEF)	416	361
Current income tax payables	1,640	983
Other tax payables	50	54
Total tax payables	**2,136**	**1,877**

The most significant change is related to the recognition of current tax payables, which increased with reference to the Group companies which achieved a higher taxable income in the 2017/2018 financial year.

23. OTHER CURRENT LIABILITIES

The following table provides a breakdown as of March 31, 2018 and March 31, 2017:

(in thousands of Euro)	**March 31, 2018**	**March 31, 2017**
Payables to social security institutions	1,525	1,404
Payables to employees	3,243	2,898
Other liabilities	1,419	819
Deferred income	2,374	2,833
Total other current liabilities	**8,561**	**7,954**

Payables to social security institutions include social security debts and social security and insurance contributions.
The payables to the staff include the debts for holidays and permits not enjoyed as well as the amount matured and not yet paid for the 13th and 14th months.
"Other payables" increased due to the recognition of the debt of Euro 678 thousand to the Italian Tax Authority for the amount relating to assessment notice closed with partial acceptance and conciliation, whose payment is to be made in installments (for more details see note 33. Commitments and contingent liabilities).

24. REVENUES

The table below shows the consolidated revenues for the financial year ended March 31, 2018 and the financial year ended March 31, 2017:

(in thousands of Euro)	**Financial Year 2017/2018**	**Financial Year 2016/2017**
Revenues from sales and services	164,065	161,545
Other revenues	187	164
Total revenues	**164,252**	**161,709**

The breakdown of revenues by sales channel is the following:

Revenues by Sales Channel *(in thousands of Euro)*	**Financial Year 2017/2018**	**Financial Year 2016/2017**
Retail	**86,389**	**76,486**
Percentage on total sales	*52.6%*	*47.3%*
Wholesale	**77,676**	**85,059**
Percentage on total sales	*47.3%*	*52.6%*
Total revenues from sales and services	**164,065**	**161,545**
Percentage on total sales	*99.9%*	*99.9%*
Other revenues	187	164
Percentage on total sales	*0.1%*	*0.1%*
Total Revenues	**164,252**	**161,709**

Consolidated revenues for the year ended March 31, 2018 amount to Euro 164,252 thousand, compared with Euro 161,709 thousand for the year ended March 31, 2017, an increase of Euro 2,543 thousand (+ 1.6%). Sales revenue trends have been commented on the Report on operations to which reference is made.
The other revenues, marginal, are stable in the two financial years.

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, 2018 and the financial year ended March 31, 2017:

(in thousands of Euro)	Financial Year 2017/2018	Financial Year 2016/2017
Purchases	81,510	79,379
Change in inventory of finished products	1,078	5,458
Change in inventory of raw materials and consumables	865	(507)
Total cost of raw materials and consumables	**83,453**	**84,330**

The cost of raw materials and consumables, including purchases of finished products, totaled Euro 83,453 thousand, down by Euro 877 thousand compared with the twelve-month period ended March 31, 2017 (Euro 84,330 thousand). Against the growth of revenues, the average margins generated by sales in each channel increased.

26. COST OF SERVICES

The breakdown of the main items for the financial year ended March 31, 2018 and the financial year ended March 31, 2017 is the following:

(in thousands of Euro)	Financial Year 2017/2018	Financial Year 2016/2017
Operating expenses	7,869	7,950
Advertising expenses	7,971	10,456
Other commercial expenses	3,788	3,559
Production costs	3,816	2,938
Consultancies	3,143	3,373
Travel/transport expenses	3,789	3,915
Directors' Fees	1,229	1,268
Use of third party assets	14,670	13,215
Total cost of services	**46,275**	**46,674**

Costs for services amounted to Euro 46,275 thousand, down by around 1% compared with the previous year (Euro 46,674 thousand). The reduction in advertising expenses was largely offset by higher production costs, for outsourced works, and costs for the use of third party assets, for greater rents for use of the Group's boutique locations.

27. PERSONNEL COST

Below is the breakdown of the item for the year ended March 31, 2018 and for the year ended March 31, 2017:

(in thousands of Euro)	Financial Year 2017/2018	Financial Year 2016/2017
Wages and salaries	24,322	22,418
Social security costs	5,269	4,968
Termination indemnity	822	791
Other personnel costs	203	387
Total personnel cost	**30,616**	**28,564**

Personnel costs amount to Euro 30,616 thousand, an increase of 7% compared with the previous year (Euro 28,564 thousand). The increase in cost is directly related with the growth in the average number of employees employed by the Group in 2017/2018 financial year, concentrated abroad to support international development. The average workforce in 2017/2018 financial year was n. 670 units (+8% compared to n. 619.5 units employed on average in the previous year).

The following table shows the breakdown of personnel costs for macro-areas of use of human resources.

(in thousands of Euro)	Financial Year 2017/2018	Financial Year 2016/2017
Commercial	18,435	16,326
Manufacturing	5,662	5,395
General and Administrative	6,519	6,843
Total cost of personnel	**30,616**	**28,564**

28. OTHER NET OPERATING (CHARGES) INCOMES

Below is the breakdown of the item for the year ended March 31, 2018 and for the year ended March 31, 2017:

(in thousands of Euro)	Financial Year 2017/2018	Financial Year 2016/2017
Other operating (charges) incomes	2,009	2,657
Write-downs and losses on receivables	(574)	(491)
Total other net operating (charges) incomes	**1,435**	**2,166**

The net balance is positive in both the comparative periods, and is down by Euro 731 thousand. This balance includes, in addition to the write-downs and losses on receivables shown in the table, also the following main components:
In 2017/2018 financial year:
1) The partial release of the returns fund, in excess given the trend of returns from customers recorded in the financial year and their expected projection for the future. The positive net effect was Euro 529 thousand.
2) The re-charge to third parties of promotional expenses and services for Euro 814 thousand.

In 2016/2017 financial year:
1) The non-recurring income deriving from the sale to third party of a commercial space used for a DOS, for a total value of Euro 1,540 thousand.
2) The partial release of the returns fund, in excess given the trend of returns from customers recorded in the financial year and their expected projection for the future. The positive net effect was Euro 500 thousand.
3) The partial release of the provision for risks following the positive ending for the Group of a dispute with a former customer, for which a higher risk was previously prudentially estimated. The positive effect on the income statement was Euro 250 thousand.

29. AMORTIZATION, DEPRECIATION AND WRITE-DOWNS

Below is the breakdown of the item for the year ended March 31, 2018 and for the year ended March 31, 2017:

(in thousands of Euro)	Financial Year 2017/2018	Financial Year 2016/2017
Amortization of intangible assets	803	681
Depreciation of property, plant and equipment	4,231	3,519
Total Amortization, depreciation and write downs	**5,034**	**4,200**

In the year ended March 31, 2018, the amortization and depreciation amounted to Euro 5,034 thousand, with an increase of Euro 834 thousand compared with the previous twelve-month period (Euro 4,200 thousand). The change is related to the higher amortization base, a direct result of the capital expenditures made to develop the retail segment (mainly depreciation of boutique furnitures and furnishings).

30. FINANCIAL (EXPENSES) / INCOMES

Below is the breakdown of the item for the year ended March 31, 2018 and for the year ended March 31, 2017:

(in thousands of Euro)	Financial Year 2017/2018	Financial Year 2016/2017
Net exchange (charges)/incomes	843	(293)
Other financial charges	(2,540)	(2,569)
Other financial revenues	288	210
Total financial (expenses) incomes	**(1,409)**	**(2,652)**

The improvement of Euro 1,243 thousand compared with the previous year was due to the different impact of exchange rate effects in the two comparative periods: positive for Euro 843 thousand in 2017/2018 and negative for Euro 293 thousand in 2016/2017.

31. INCOME TAXES

In the financial year ended March 31, 2018 income taxes have a total impact of Euro 3,131 thousand, while in 2016/2017 financial year the negative impact was higher and equal to Euro 3,307 thousand. The values have a different articulation in the two periods. Current taxes in 2017/2018 financial year are Euro 972 thousand, higher than the previous year (Euro 545 thousand), due to higher taxable values in some Group companies. On the other hand, the impacts to the deferred component decreased, although it includes the accrued portion related to taxes determined following the definition, through adhesion/partial conciliation, of a dispute with the Italian Tax Authority regarding transfer pricing: the value of Euro 678 thousand recorded in the income statement will be paid in instalments in the 2018/2019 financial year and in the following year.
Taxes recognized directly in shareholders' equity are passive and amount to Euro 328 thousand.
The reconciliation between the consolidated tax liability and the theoretical tax liability determined on the basis of the IRES (income tax) rate applicable to Damiani S.p.A. for the year ended March 31, 2018 and for the year ended March 31, 2017, is as follows:

(in thousands of Euro)	Financial Year 2017/2018	Financial Year 2016/2017
Result before taxes	**(1,100)**	**(2,545)**
IRES (Corporate) tax rate for the period	24.0%	27.5%
Theoretical tax burden	264	700
Not recoverable subsidiary losses	(1,881)	(2,775)
IRAP (Regional tax on productive activities) effect	(244)	(208)
Differences in tax rates	83	11
Tax impact on intercompany foreign exchange	(1,009)	427
Other non deductible costs	(344)	(1,461)
Total differences	**(3,395)**	**(4,007)**
Total taxes for Income statements	**(3,131)**	**(3,307)**
Effective tax rate	n.m.	n.m.

32. TRANSACTIONS WITH RELATED PARTIES

This note describes the relationships between Damiani Group companies and related parties, as defined in IAS 24 and Consob Regulation no. 17221/2010 and subsequent amendments and additions, in the financial years ended March 31, 2018 and March 31, 2017, showing the impact on consolidated financial statements.

Relationships with related parties are almost exclusively of real estate and financial nature (financing of majority shareholders, leases, sale and lease back, rental of business units).

The following table shows the details of the relationship between the Group companies and the related parties in the financial year ended March 31, 2018.

(in thousands of Euro)	Financial Year 2017/2018		Balance at March 31, 2018			
	Net operating costs	Financial expenses	Other current assets	Trade receivables	Financial debts (including leasing)	Trade payables
Leading Jewels SA	-	(602)	-	-	(29,602)	-
D.Holding S.A.	-	-	-	113	-	-
Imm.re Miralto S.r.l.	(689)	(8)	398	-	(88)	(375)
Caesarea S.A.	-	-	-	-	-	(175)
Montenapoleone 10 S.r.l.	(246)	(171)	-	-	(105)	(333)
Duomo 25 S.r.l.	-	(195)	-	-	(2,344)	(286)
Il Bricco	(101)	-	17	-	-	(8)
Dofa S.r.l.	(142)	-	-	-	-	-
Venini S.p.A.	104	-	-	424	-	(357)
Majority Shareholders	-	(211)	-	-	-	-
Executives with strategic responsabilities	(122)	-	-	-	-	(47)
Total with related parties	(1,196)	(1,187)	415	537	(32,139)	(1,581)
Total Consolidated	(163,943)	(2,540)	7,109	43,046	(68,099)	(48,728)
%age weight	1%	47%	6%	1%	47%	3%

- The financial debt and related costs, towards the majority shareholders is referred to the loans granted on July 2016 to Damiani S.p.A (for Euro 4,000 thousand) and from may 2017(credit line up to a maximun of Euro 30,000 thousand, drawndown for Euro 25,000 thousand at March 31, 2018), with market rate remuneration. Financial charges are related to the interest accrued and not yet paid (for more details see previous note 16. Financial Liabilities: Current and non-current portion).
- The receivable from DHolding refers to the adjustment of a cost recorded in excess in previous years.
- Net operating costs towards Immobiliare Miralto S.r.l. relate to the rental fees paid for the rent of Turin and Taormina premises, boutiques with Rocca 1794 sign, and other office and warehouse spaces. To the Turin property also refers the other current assets for the prepayment of the maxi initial instalment paid to the related party in 2010/2011 at the time of the lease of the boutique in Turin (the residual value at March 31, 2018 is Euro 398 thousand). In addition, during the financial year, financial charges amounted to Euro 8 thousand corresponding to the portion of the interest on the repayment of the financial debt to the related party for a sale and lease back transaction in relation to a property in Padua, home to a boutique with the sign Rocca 1794. The residual financial debt at March 31, 2018 amounts to Euro 88 thousand.
- Trade payables towards Caesarea S.A. relate to lease payments accrued in previous years for its New York property, used by the subsidiary Damiani USA Corp. The lease has been ceased.
- Net operating costs towards Montenapoleone 10 S.r.l. are related to the rental fees paid for the sublease of office and showroom premises in Milan. In addition, financial charges amounted to Euro 171 thousand, corresponding to the interest on the repayment of the financial debt to the related party for a sale and lease back transaction relating to the Milan-based Damiani boutique. The residual financial debt at March 31, 2018 amounts to Euro 105 thousand.
- The financial charges towards Duomo 25 S.r.l. for Euro 195 thousand corresponds to the interest on the repayment of the financial debt to the related party for a sale and lease back transaction relating to the Milan property where is located a Rocca 1794 boutique. The residual financial debt at March 31, 2018 amounts to Euro 2,344 thousand.
- The cost to Il Bricco refers to the lease of a precious site in Valenza, used for commercial use for the organization of representative events. The annual fee is Euro 100 thousand, with effect from June 1, 2015.
- The cost to Dofa S.r.l. refers to the rent for office spaces in Milan.

- The cost to Venini S.p.A. refers to: i) the purchase of glass products marketed in the multi-brand stores of Damiani S.p.A. for Euro 287 thousand; ii) recharge of commercial services performed by the Group on behalf of the company Venini S.p.A. for Euro 391 thousand. Payables and trade receivables correspond to costs and income.
- Costs to executives with strategic responsibilities are related to the provision of services within the Group's ordinary operations.

The following table shows the details of the relationships between the Group companies and the related parties in the financial year ended March 31, 2017.

(in thousands of Euro)	**Financial Year 2016/2017**		**Balance at March 31, 2017**			
	Net operating costs	Financial expenses	Other current assets	Trade receivables	Financial debts (including leasing)	Trade payables
Leading Jewels SA	-	(104)	-	-	(4,104)	-
Imm.re Miralto S.r.l.	(560)	(11)	458	-	(127)	(239)
Caesarea S.A.	-	-	-	-	-	(202)
Montenapoleone 10 S.r.l.	(245)	(238)	-	-	(711)	(1,678)
Duomo 25 S.r.l.	1	(249)	-	-	(3,291)	(444)
Il Bricco	(100)	-	17	-	-	(58)
Dofa S.r.l.	(139)	-	-	-	-	(162)
Venini S.p.A.	(122)	-	-	3	-	(70)
Majority Shareholders	-	(207)	-	-	(5,508)	-
Executives with strategic responsabilities	(112)	-	-	-	-	(102)
Total with related parties	(1,277)	(809)	475	3	(13,741)	(2,955)
Total Consolidated	(161,602)	(2,862)	7,835	41,714	(63,535)	(51,456)
%age weight	1%	28%	6%	0%	22%	6%

- The financial debt and the related charges towards the majority shareholder Leading Jewels SA relates to the medium/long-term loan granted to Damiani S.p.A. in July 2016, with a market rate remuneration. Financial charges relate to interest accrued and not yet paid (for details see note 16. Financial liabilities: current and non-current portion).
- Net operating costs towards Immobiliare Miralto S.r.l. relate to the rental fees paid for the rent of Turin and Taormina premises, boutiques with Rocca 1794 sign, and other office and warehouse spaces. To the Turin property also refers the other current assets for the prepayment of the maxi initial instalment paid to the related party in 2010/2011 at the time of the lease of the boutique in Turin (the residual value at March 31, 2017 is Euro 458 thousand). In addition, during the financial year, financial charges amounted to Euro 11 thousand corresponding to the portion of the interest on the repayment of the financial debt to the related party for a sale and lease back transaction in relation to a property in Padua, home to a boutique with the sign Rocca 1794. The residual financial debt at March 31, 2017 amounts to Euro 127 thousand.
- Trade payables towards Caesarea S.A. relate to lease payments accrued in previous years for its New York property, used by the subsidiary Damiani USA Corp. The lease has been ceased.
- Net operating costs towards Montenapoleone 10 S.r.l. are related to the rental fees paid for the sublease of office and showroom premises in Milan. In addition, financial charges amounted to Euro 238 thousand, corresponding to the interest on the repayment of the financial debt to the related party for a sale and lease back transaction relating to the Milan-based Damiani boutique. The residual financial debt at March 31, 2017 amounts to Euro 711 thousand.
- The financial charges towards Duomo 25 S.r.l. for Euro 249 thousand corresponds to the interest on the repayment of the financial debt to the related party for a sale and lease back transaction relating to the Milan property where is located a Rocca 1794 boutique. The residual financial debt at March 31, 2017 amounts to Euro 3,291 thousand.
- The cost to Il Bricco refers to the lease of a precious site in Valenza, used for commercial use for the organization of representative events. The annual fee is Euro 100 thousand, with effect from June 1, 2015.
- The cost to Dofa S.r.l. refers to the rent for office spaces in Milan.
- The cost to Venini S.p.A. refers to the purchase of glass products marketed in the multi-brand stores of Damiani S.p.A.

- The financial debt of Euro 5,508 thousand to majority shareholders refers to the reserved bond issued by Damiani S.p.A. and signed by the Damiani Brothers in September 2013 for the amounts of Euro 5,000 thousand and on which the matured interest expense are capitalized at the annual rate of 3.90% and they will be paid at the time of repayment of the loan. The debt was extinguished early in January 2018.
- Costs to executives with strategic responsibilities are related to the provision of services within the Group's ordinary operations.

Both periods there are also financing contracts between the Parent Company and some subsidiaries traded under normal market conditions.

33. COMMITMENTS AND CONTINGENT LIABILITIES

There are not outstanding commitments and liabilities arising from current obligations and for which the use of resources to fulfill the obligation is probable, which are not already reflected in the values of the financial statements at March 31, 2018.
With regard to tax audits in progress, it is provided an update at the date of approval of these financial statements:

- Tax audit by the Tax Agency of Milan started in Rocca S.p.A (merged in Damiani S.p.A. at December 2014) about IRES (income tax) and IRAP (regional tax) for the year 2009/2010 and for the VAT for the years 2009 and 2010. The notice of assessment is for Euro 286 thousand. The Company appealed to Provincial Tax Commission. The first judgment was filed and the appeal was partly accepted for IRES and IRAP, whereas the Provincial Tax Commission has not expressed its opinion about the VAT. In second instance, the Regional Tax Commission confirmed what was decided at first instance and accepted the Company's appeal for a further relief. The residual fiscal burden of Damiani S.p.A. is Euro 67 thousand, mainly covered by fund set aside in the previous fiscal years. The Company will proceed with the claim for reimbursement of the tax paid in excess on an appeal basis. On April 26, 2018 the Tax Agency filed an appeal with the Supreme Court against the ruling in favor to the Company. Against this, Damiani S.p.A. has filed its defense in accordance with the law and is awaiting the date of the hearing.
- Tax audit by the Tax Agency of Alessandria started in Damiani S.p.A. in the field of transfer pricing with reference to the tax periods 2011/2012, 2012/2013 and 2013/2014: the Company received from Tax Agency notification of assessment notice for IRES and IRAP for a total taxable amount of Euro 20,016 thousand and Euro 18,800 thousand, respectively. Deeming the Tax Office's findings unfounded, the Company initiated a series of meeting with the Office and in May 2018 a partial agreement was reached on the basis of which the Act of Accession for the tax period 2013/2014 was formalized for higher taxable income for IRES and IRAP for Euro 1,675 thousand and for Euro 1,475 thousand respectively, with a reduction of more than 50% compared to the assessment notice. On the two previous tax periods, for which the Company had already filed an appeal with the Provincial Directorate of the Tax Agency of Alessandria, on the same date, partial conciliation proceedings were formalized on a part of the findings contained in the two notices assessment, with a reduction of almost 70% compared to the amount initially notified.
  Overall, for the findings in adhesion/conciliation Damiani S.p.A. will proceed to the payment of the installments of taxes (IRES, IRAP and related penalties and interests, net of previous losses that can be used) for Euro 678 thousand, recognized in the income statement for the 2017/2018 financial year. On the other findings, for the tax periods 2011/2012 and 2012/2013, on which it was not possible to reach an agreement with the Tax Agency, the Company is now awaiting the date of convocation of the hearing for the discussion of the appeals presented.
- In January 2017 The Provincial Directorate of the Tax Agency of Alessandria requested the Company to provide the documentation allowing the disapplication of the CFC discipline (Controlled Foreign Companies) for the subsidiary Damiani International BV for the tax period 2013/2014. Damiani S.p.A. has provided the required documentation and the Tax Office has closed the audit without following up any assessment activity.
- The Tax Agency of Milan notified to Damiani S.p.A. notice of assessment for withholding taxes not operated in 2010 by the subsidiary Rocca S.p.A. (now Damiani S.p.A.) as part of a reorganization of the Italian network of directly operated stores of the Group for Euro 2,280 thousand and act of protest of the relevant sanctions. The Company has appealed, initiating the dispute with the Tax Agency. On May 29, 2017 the Tax Agency Provincial Directorate of Milan with the first-instance judgement fully accepted the appeal of Damiani S.p.A. Therefore, the Company obtained refund of the amount paid during the appeal. On December 1, 2017 Damiani S.p.A. was

notified of the appeal filed by the Provincial Department of Tax Agency of Milan against the sentence of first instance. The Company has presented counter-claims to the Regional Tax Commission of Milan and is now awaiting the date of the hearing.

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

In the financial ended March 31, 2018 there were no positions or transactions deriving from atypical and/or unusual transactions as defined in the Consob ruling n.15519 as of July 27, 2006.

35. EARNINGS (LOSSES) PER SHARE

Basic earnings per share was calculated by dividing the net result of the period attributable to the ordinary shareholders of the Issuer Damiani S.p.A. for the weighted average number of shares outstanding in the relevant financial year. In calculating the earnings per share, the weighted average number of ordinary shares outstanding was determined, also considering the effects of the purchase of treasury shares made since March 2008, following the shareholders' resolutions of February 22, 2008, of July 22, 2009, July 21, 2010, July 27, 2011, July 26, 2012, July 26, 2013, July 24, 2014, July 23,2015, July 21, 2016 and July 27, 2017.
The following is information about the stock used to calculate basic earnings and diluted per share:

Basic Earnings (Losses) per Share	Financial Year 2017/2018	Financial Year 2016/2017
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	76,476,134	77,379,811
Basic Earnings per Share (amount in Euro)	**(0.05)**	**(0.07)**

Diluted Earnings (Losses) per Share	Financial Year 2017/2018	Financial Year 2016/2017
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	76,476,134	77,379,811
Diluted effects	-	-
Weighted average number of ordinary shares for computation of diluted earnings per share	76,476,134	77,379,811
Diluted Earnings per Share (amount in Euro)	**(0.05)**	**(0.07)**

36. DIRECTORS' FEES

The fees for the financial year 2017/2018 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 2018/2019 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

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. In detail:

- Stock Grant Plan 2014-2019 approved by the Shareholders' Meeting of July 24, 2014 which provides 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. The plan has not yet been implemented.
- Stock Option Plan 2014-2019 approved by the Shareholders' Meeting of July 24, 2014 approvato dall'Assemblea degli Azionisti del 24 luglio 2014, 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. The plan has not yet been implemented.
- Stock Option Plan 2015-2020 approved by the Shareholders' Meeting of July 23, 2015, 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.

Morover, at the date of approval of the financial statements, the period of excercise of the option assigned with the third cycle of implementation of the Stock Option Plan 2010 expires, approved by the Shareholders' Meeting of July 21, 2010 and concerning the free assignment of options for the purchase of maximum of 3,500,000 Damiani shares in favor of executive directors, executives, managers, other employees, consultants and contractors, including agents, of the Group in one or more tranches within five years from the approval of the shareholders' meeting.
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.
It is noted that the Company has not issued other financial instruments that attribute the right to subscribe newly issued shares.

38. CAPITAL MANAGEMENT

The primary objective of the Damiani Group is to guarantee the best possible balance between assets and liabilities (solvency ratio), within an international development strategy and a market context with strong global competition in a high volatile scenario.
Starting from this context and from the general objective, the Group endeavors 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, 2018 the Damiani Group has a negative financial position of Euro 57.3 million, compred with the net debt of Euro 53.1 million at March 31, 2017.
However, the composition of debt changed significantly during the 2017/2018 financial year with a higher mediu/long term exposure and the corresponding contraction of the short-term portion. This diversification is a direct result of the substantial contribution of financial resources by Leading Jewels SA, the majority shareholder of Damiani S.p.A., which in April 2017 (renewed in May 2018) made available to the Company a credit line up to a maximum of Euro 30 million, which can be used at discretion by Damiani S.p.A. At March 31, 2018 this line was

used for Euro 25 million, and thanks to this contribution the Group's treasury management was more flexible and the liquidity risk lower.
In the following paragraphs are described the main financial risks to which the Damiani Group is exposed (for macroeconomic and market risks see the Report on operations), listing them in descending order of importance, and the actions taken or pursued to mitigate the effects.

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 to contain the cost and risk of exposure to fluctuations in interest rates and maintain the structure of the sources balanced with the uses.
At March 31, 2018, the structure of funding sources is different compared with the previous financial year, with an increasing weight of medium/long-term sources: 57% of total gross indebtedness compared with 29% at March 31, 2017. In addition, 47% of gross debt is attributable to loans received from the majority shareholder Leading Jewels SA and related parties attributable to the same. Also in this case the weight of these sources is increasing compared with the end of the previous financial year (it was 22% of total indebtedness). Consequently, the liquidity risk is significantly lower than twelve months earlier.
Furthermore, the Damiani Group has short bank credit lines which as of March 31, 2018 are not fully used: about Euro 25.4 million on a total amount of Euro 60.1 million.
Damiani S.p.A provided guarantees to lending banks on behalf of some Group Companies. The amount of the guarantees has a limited value, about Euro 1.6 million, to secure a credit lines granted to Laboratorio Damiani S.r.l., Damiani Japan KK and Damiani International S.A.
Furthermore, under the proper balance between resources generated or absorbed by operating activities the Company also includes assessments made by management to bring the inventories (main item of the working capital) to a better dimension related to the current volume of activity. In order to achieve this balance, the Company can carry out different types of interventions that can be: i) fusion of the finished product with recovery of valuable raw materials (in 2017/2018 financial year no operations have been done); 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:

(in thousands of Euro)	**Analysis of the due date at March 31, 2018**			
	within 1 year	**1 to 5 years**	**over 5 years**	**Total**
Trade payables	48,728	-	-	48,728
Long term financial debts	2,265	7,310	953	10,528
Long term financial debts towards related parties	902	28,700	-	29,602
Debts for financial leasing	940	1,666	-	2,606
Short term borrowings	25,363	-	-	25,363
Other current liabilities	10,697	-	-	10,697
Total exposure	**88,895**	**37,676**	**953**	**127,524**

(in thousands of Euro)	**Analysis of the due date at March 31, 2017 (restated)***			
	within 1 year	**1 to 5 years**	**over 5 years**	**Total**
Trade payables	51,456	-	-	51,456
Long term financial debts	12,875	4,709	950	18,534
Long term financial debts towards related parties	104	9,508	-	9,612
Debts for financial leasing	1,089	3,152	-	4,241
Short term borrowings	31,148	-	-	31,148
Other current liabilities	9,831	-	-	9,831
Total exposure	**106,503**	**17,369**	**950**	**124,822**

(*) The figures for the financial statements at March 31, 2017 have been reclassified to conform to the financial representation adopted in the financial statements at March 31, 2018.

Interest rate risk

Closely related to the liquidity risk there is the risk of the remuneration rate of the sources of financing. The Group is active to minimize its burden diversifying the sources of financing in consideration of the rates applied and their variability over time.
The actions implemented during the 2017/2018 financial year were therefore aimed at further reducing the average debt rate, fully benefiting from an overall context of low and stable market rates. Overall, considering all the different sources, the average annual debt rate was about 2.9% (in the previous year it was about 3% per year).
The risk profile has remained stable into the recent two financial years and decreasing in the medium term.

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. The deterioration in market conditions and difficult access to credit may impact on the solvency of some clients (mainly domestic). The Group conducts timely assessment of risks both in the closing of the financial year and during the same.

The table below shows the maximum potential exposure to the credit risk at March 31, 2018 and at March 31, 2017.

(in thousands of Euro)	**March 31, 2018**	**March 31, 2017 (restated)***
Cash and cash equivalent	10,289	9,993
Trade receivables	43,046	41,714
Other non current assets	3,947	3,986
Other current assets	8,509	9,394
Total maximum exposure to the credit risk	**65,791**	**65,087**

(*) The figures for the financial statements at March 31, 2017 have been reclassified to conform to the financial representation adopted in the financial statements at March 31, 2018.

As regards trade receivables, the exposure shown in the table has already been appropriately adjusted to reflect the estimated realizable value at the balance sheet date on the basis of the assessments and results reported in note 11 above.

Risks related to fluctuations in prices 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 2017/2018 financial year, the average price of gold decreased, with an average price of 35.3 euros/gram from April 2017 to March 2018, down 4.2% compared with the average over the previous twelve months. In April and May 2018, the price remained enough stable and in line with the average level over the twelve previous months.

Greater stability means better reliability in forecasting production costs and raw materials purchases, even if we proceed by activating mechanisms of hedging the risk of price fluctuations, also affected by seasonal events of the market.

The risks related to price of raw materials and to the strong and sudden fluctuations can be 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, 2018 the forward contracts of gold were n. 9 for a total amount of Kg. 27 and a counter-value agreed of Euro 928 thousand); 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.

Risks related to exchange rate fluctuations

The Damiani Group's functional currency is the Euro and, therefore, the transactions in other currencies are subject to exchange rate fluctuations regarding the 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, 2018 there were forward contracts to purchase currencies stipulated by Damiani S.p.A. for a net contractual value of Euro 4,816 thousand. At March 31, 2017 the forward contracts were for a net contractual value of Euro 2,611 thousand.

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.

(in thousands of Euro)	Book value						Fair value	
	Total		current		non current			
	March 31, 2018	March 31, 2017 (restated)*	March 31, 2018	March 31, 2017 (restated)*	March 31, 2018	March 31, 2017 (restated)*	March 31, 2018	March 31, 2017 (restated)*
Cash and cash equivalent	10,798	10,411	10,798	10,411	-	-	10,798	10,411
Trade receivables	43,046	41,714	43,046	41,714	-	-	43,046	41,714
Other financial assets	12,456	13,380	8,509	9,394	3,947	3,986	12,456	13,380
Total financial assets	**66,300**	**65,505**	**62,353**	**61,519**	**3,947**	**3,986**	**66,300**	**65,505**
Trade liabilities	48,728	51,456	48,728	51,456	-	-	48,728	51,456
Financial debts	68,099	63,535	29,470	45,216	38,629	18,319	68,099	63,535
Other liabilities	10,697	9,831	10,697	9,831	-	-	10,697	9,831
Total financial liabilities	**127,524**	**124,822**	**88,895**	**106,503**	**38,629**	**18,319**	**127,524**	**124,822**

(*) The figures for the financial statements at March 31, 2017 have been reclassified to conform to the financial representation adopted in the financial statements at March 31, 2018.

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, 2018 are classified at level 2 and during the 2017/2018 financial year there were no transfer from level 1 or 3 to level 2.

40. SIGNIFICANT EVENTS AFTER THE END OF THE FINANCIAL YEAR

On May 15, 2018 the Board of Directors of Damiani S.p.A. renewed until May 10, 2019 the agreement, already described, with the majority shareholder Leading Jewels S.A. (relating to the Grassi Damiani family) where it makes a credit line available to the Company up to a maximum of Euro 25 million (Euro 20 million already used). A further portion of the financing of Leading Jewels S.A., equal to Euro 5 million, was converted into medium/long term, starting from January 1, 2018 (maturing on January 31, 2013). The entire shareholder financing is aimed at allowing Damiani S.p.A. a more efficient and flexible management of its treasury and consequently reduce the liquidity risk.

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, 2018 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
4. Other services including the assurance of the Consolidated non-financial statement (CNFS).

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

(in thousands of Euro)				
Type of services	**Service provider**	**Service provide to**	**Services**	**Fees**
Audit	BDO Italia S.p.A.	Parent company	Professional fees	101
Other services	BDO Italia S.p.A.	Parent company	Professional fees for NFS	18
	BDO Italia S.p.A.	Parent company	Professional fees for other activities (*)	12
Audit	BDO Italia S.p.A.	Subsidiary	Professional fees	14
		Total		**145**

(*) Assurance of sales point turnover and Gap Analysis for Non Financial Statement (NFS)

42. EXCHANGE RATES

The exchange rates at March 31, 2018 and at March 31, 2017 used for the translation of financial statements in foreign currencies were the following.

Currency	Average 2017/2018	Spot March 31, 2018	Average 2016/2017	Spot March 31, 2017
U.S. Dollar	1.171	1.232	1.093	1.069
Japanese Yen	129.782	131.150	118.779	119.550
Swiss franc	1.136	1.178	1.084	1.070
G.B.Pound	0.883	0.875	0.841	0.856
Hong Kong Dollar	9.147	9.670	8.516	8.307
Pataca Macau	9.421	9.960	8.773	8.557
Mexican Peso	21.680	22.525	21.088	20.017
Indian Rupee	75.503	80.296	73.586	69.396
Renminbi China	7.751	7.747	7.382	7.364
Won Republic of Korea	1,299.616	1,310.890	1,260.346	1,194.540
Russian Ruble	67.701	70.890	69.258	60.313
United Arab Emirates Dirham	4.300	4.525	3.836	3.925
Singapore Dollar	1.594	1.616	-	-

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 and article 81 – ter of Consob Regulation 11971/1999 and subsequent amendments and additions

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, 2018 (1st April 2017 – 31st March 2018).

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 15, 2018

Giorgio Grassi Damiani CEO	Gilberto Frola Executive in charge of drawing up the accounting documents

Damiani S.p.A.

Independent auditor's report pursuant to
article 14 of Legislative Decree n. 39,
dated January 27, 2010 and article 10 of
EU Regulation n. 537/2014

Consolidated financial statements at March 31, 2018

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Independent auditor's Report

pursuant to article 14 of Legislative Decree n. 39, dated January 27, 2010 and article 10 of EU Regulation n. 537/2014

To the Shareholders of
Damiani S.p.A.

Report on the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Damiani Group (the "Group"), which comprise the statement of financial position as at March 31, 2018, the statement of comprehensive income, the income statement, the statement of changes in shareholders' equity, the statement of cash flow for the year then ended, and explanatory notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at March 31, 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as the regulation issued to implement art. 9 of Legislative Decree n. 38/'05.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the consolidated financial statements* section of our report. We are independent of the company Damiani S.p.A. (the "Company") in accordance with the ethical and independence requirements applicable in Italy to the audit of financial statements.

We believe that the audit evidence we have obtained is adequate and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Bari, Bergamo, Bologna, Brescia, Cagliari, Firenze, Genova, Milano, Napoli, Padova, Palermo, Pescara, Roma, Torino, Treviso, Trieste, Verona, Vicenza

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Key audit matter	Audit response
Inventories evaluation	
As at March 31, 2018 the consolidated financial statements include inventories for a total of Euro 91,5 million, net of a provision of Euro 9,7 million. The write down provision represents a complex accounting estimate, requiring an elevate discretionary component influenced by the specific business characteristics, and based on measurement parameters that take into account the collections seasonality, the customers' preferences variability, the numerousness of goods codes and the probable recoverability percentage of raw materials deriving from the scrap of critical goods. For these reasons we considered the inventories evaluation a key audit matter. Disclosures regarding the inventories evaluation are included in note "10-inventories" and note "25- costs of raw materials and consumables", a well as in the paragraph "use of estimates" and "inventories" of the explanatory notes to the consolidated financial statements.	Our main audit procedures performed included the following: • we acknowledged the evaluation process adopted by the Entity related to inventories devaluation; • we assessed the design and implementation of automated controls and performed procedures to test the operational efficiency of relevant controls with the support of our IT audit experts; • we examined the supporting documentation and inquired the personnel involved in the write down provision assessment; • we analysed the inventories variation, taking into account the rotation rate of main goods; • we tested for reasonableness and clerical accuracy the measurement parameters adopted; • we tested for adequacy the disclosures provided in the explanatory notes.
Provisions for risks and charges	
The Company, starting from the period closed as at March 31, 2018, posts in its financial statements a provision for risks and charges to hedge the risk of future return from *wholesale* customers for goods regarding previously sold collections. The total amount accrued for return provision as at March 31, 2018, is equal to euro 3,4 million. The amount was previously classified by management to each related financial statements item. The process to assess this risk is based on complex estimate assumptions that consider the returns recorded during the period and their historical trend. The disclosures in the financial statements related to the provision is included in notes "18 –provisions for risks and charges" and "28 – other net operating (charges) incomes", as well as in paragraph "Use of estimates" and "provision for risks and charges" of the explanatory notes to the consolidated financial statements.	Our main audit procedures performed included the following: ▪ we analysed the procedure adopted by the Company to estimate the provision for returns, verified the methodology and assumptions adopted and the consistency with the methodology previously adopted; ▪ we verified the reconciliation of the initial value of the provision for returns; ▪ we verified the correct assessment of risk for future returns, based on the information available on return from previous periods sales, registered during the period 2017/2018; ▪ we tested for adequacy the disclosures provided in the explanatory notes.

Responsibilities of Management and Those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, as well as the regulation issued to implement art. 9 of Legislative Decree n. 38/'05 and, within the terms prescribed by the law, for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, Management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Parent Company Damiani S.p.A. or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the audit of the consolidated financial statements

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

As part of an audit in accordance with ISA Italia, we exercised professional judgment and maintain professional skepticism throughout the audit. We also have:

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

We have communicated with Those charged with governance, as properly identified in accordance with ISA Italia, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We have also provided Those charged with governance with a statement that we have complied with relevant ethical and independence requirements applicable in Italy and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with Those charged with governance, we determined those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We described those matters in our auditor’s report.

Other information communicated pursuant to article 10 of Regulation (EU) 537/2014

We were initially engaged by the Shareholders meeting of Damiani S.p.A. on July 21,2016 to perform the audits of the Company’s and the consolidated financial statements of each fiscal year starting from March 31, 2017 to March 31, 2025.

We declare that we did not provide prohibited non-audit services, referred to article 5, paragraph 1, of Regulation (EU) 537/2014, and that we remained independent of the Company in conducting the audit.

We confirm that the opinion on the consolidated financial statements of Damiani S.p.A. included in this audit report is consistent with the content of the additional report prepared in accordance with article 11 of the EU Regulation n.537/2014, submitted to Those charged with governance.

Report on other legal and regulatory requirements

The Directors of Damiani S.p.A. are responsible for the preparation of the report on operations and of the corporate governance report of Damiani S.p.A. as at March 31, 2018, including their consistency with the consolidated financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and of specific information of the corporate governance report as provided by article 123-bis, paragraph. 4, of Legislative Decree n. 58/’98, with the consolidated financial statements of Damiani Group as at March 31, 2018 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the report on operations and the above mentioned specific information of the corporate governance report are consistent with the consolidated financial statements of Damiani Group as at March 31, 2018 and are compliant with applicable laws and regulations.

With reference to the assessment pursuant to article 14, paragraph. 2, letter e), of Legislative Decree n. 39/’10 based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Statement in accordance with article 4 of Consob Regulation in application of Legislative Decree n.254, of December 30, 2016

The Directors of Damiani S.p.A. are responsible for the preparation of the non-financial consolidated statements in accordance with Legislative Decree n.254, of December 30,2016. We verified the approval of the non-financial consolidated statements by the Board of Directors.

According to article 3, paragraph 10, of Legislative Decree n.254, of December 30,2016 we perform a separate audit analysis on this statement.

Milan, July 3, 2018

Signed by
BDO Italia S.p.A.

Fabrizio Brugora
Partner

This report has been translated into English from the original, which was prepared in Italian and represents the only authentic copy, solely for the convenience of international readers.