

Financial statements
of Damiani Spa
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
as of March 31, 2018

Report on operations ⁽¹⁾

Damiani S.p.A. business activities

Damiani S.p.A. (hereinafter also "Company") is the parent company of the Damiani Group, within which operates both as a holding company that as a distributor, in Italy and abroad, in jewels and watches.

With regard to the distribution, Damiani S.p.A. markets both Group brands (Damiani, Salvini, Bliss and Calderoni) that prestigious third-party brands, particularly watchmaking, the latter through directly managed multi-brand boutiques with Rocca 1794 signboard.

The Company markets the products through two distribution channels:

- wholesale channel, made up of multi-brand independent jewelry shops, distributors, stockists and franchisees.
- retail channel made up of stores directly managed by the Company. At March 31, 2018 the mono-brand Damiani and Salvini points of sales were 10. To them are flanked the 12 multi-brand stores with the Rocca 1794 signboard.

The jewelry products are manufactured by the in-house production unit, supplied by the subsidiary Laboratorio Damiani S.r.l., as well as from third party producers, which are located mainly in the Italian district of Valenza, international center of excellence in the production of high value and quality craftsmanship jewelry.

Main risks and uncertainties for Damiani S.p.A.

For the market risks, affecting the Company which operates not only in the domestic market but at international level, and that are strongly related both to the current economic environment, characterized by high uncertainty and volatility, and to political turmoil, see what already indicated in the Report on operations of the consolidated financial statements.

For the operational risks please consult the Non-financial statement contained in the specific section of the Report on operations of the consolidated financial statements.

The financial risk management is part of the wider policies for managing the Group financial structure. For specific details see note 35. Financial risk management.

For commitments and contingencies that affect Damiani S.p.A. see note 32. Commitments and contingent liabilities.

Economic/financial data

Main economic data <i>(in thousands of Euro)</i>	Financial Year 2017/2018	Financial Year 2016/2017	change	change %
Revenues from sales and services	144,172	141,401	2,771	2.0%
Total revenues	144,353	141,557	2,796	2.0%
Cost of production	(137,989)	(135,101)	(2,888)	2.1%
EBITDA (*)	6,364	6,456	(92)	-1.4%
EBITDA %	4.4%	4.6%		
Depreciation and amortization	(2,699)	(2,455)	(244)	9.9%
Operating income	3,666	4,001	(335)	-8.4%
Operating income %	2.5%	2.8%		
Net financial incomes (expenses)	(8,451)	(2,459)	(5,992)	n.m.
Result before taxes	(4,786)	1,542	(6,328)	n.m.
Net result	(6,166)	(871)	(5,295)	n.m.
Average number of employees (**)	309	304	5	1.6%

(*) 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

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

⁽¹⁾ Damiani S.p.A. ends its financial year on March 31. Therefore, the 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 also 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).

Balance sheet data <i>(in thousands of Euro)</i>	Situation at March 31, 2018	Situation at March 31, 2017 (restated)*	change
Fixed assets	54,087	56,714	(2,627)
Net working capital	94,093	95,716	(1,622)
Non current liabilities	(7,647)	(8,707)	1,061
Net capital invested	140,534	143,722	(3,189)
Shareholders' Equity	78,685	84,872	(6,187)
Net financial position (**)	61,849	58,851	2,998
Sources of financing	140,534	143,722	(3,189)

(*) Financial data for the year ended March 31, 2017 have been restated in order to make them comparable with 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.

Comments on the main economic and financial data of Damiani S.p.A.

The economic and financial performance for the financial year ended March 31, 2018 has described below. In detail, revenues from sales broken down by channel were as follows:

Revenues by Sales Channel <i>(in thousands of Euro)</i>	Financial Year 2017/2018	Financial Year 2016/2017	change	change %
Third parties Wholesale	68,553	76,268	(7,715)	-10.1%
<i>Percentage on total revenues</i>	47.5%	53.9%		
Third parties Retail	52,282	47,190	5,092	10.8%
<i>Percentage on total revenues</i>	36.2%	33.3%		
Total wholesale and retail revenues	120,835	123,458	(2,623)	-2.1%
<i>Percentage on total revenues</i>	83.7%	87.2%		
Intercompany revenues	23,336	17,943	5,393	30.1%
<i>Percentage on total revenues</i>	16.2%	12.7%		
Other revenues	181	156	25	n.m.
<i>Percentage on total revenues</i>	0.1%	0.1%		
Total Revenues	144,353	141,557	2,796	2.0%

Compared with the financial year 2016/2017, the **total Revenues** increased by Euro 2,796 thousand (+2.0%). The *retail* channel recorded an increase (+10.8%), while the *wholesale* channel recorded a decrease, more in sales to non-core customers, with whom the Company has not continuous relationship. Intercompany sales recorded an increase towards foreign subsidiaries, to meet requests from foreign final customers.

The other revenues did not show significant changes.

EBITDA in the financial year ended March 31, 2018 was positive for Euro 6,364 thousand, in line with the previous year which recorded non-recurring incomes of Euro 1,540 thousand.

Therefore, net of non-recurring operations, EBITDA shows an improvement, compared with the financial year 2016/2017.

The **Net result** of the financial year 2017/2018 was a loss of Euro 6,166 thousand, compared to a loss of Euro 871 thousand in the previous year. The worsening of the result is attributable to the financial management affected by: i) impairment loss on the investment in Damiani Shanghai Trading Co. Ltd, whose value was adjusted and a write-down for Euro 3,592 thousand recorded, as a result of the impairment test, carried out to March 31, 2018; ii) negative exchange rate effects of Euro 3,236 thousand (mainly on foreign currency entries to subsidiaries), while in the fiscal year 2016/2017 the impact had been positive for Euro 1,641 thousand.

Balance sheet

The following table shows the comparisons between the balance sheet at March 31, 2018 and to March 31, 2017.

Balance sheet data <i>(in thousands of Euro)</i>	Situation at March 31, 2018	Situation at March 31, 2017 (restated)*	change
Fixed assets	54,087	56,714	(2,627)
Net working capital	94,093	95,716	(1,622)
Non current liabilities	(7,647)	(8,707)	1,061
Net capital invested	140,534	143,722	(3,189)
Shareholders' Equity	78,685	84,872	(6,187)
Net financial position (**)	61,849	58,851	2,998
Sources of financing	140,534	143,722	(3,189)

(*) Financial data for the year ended March 31, 2017 have been restated in order to make them comparable with 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.

At March 31, 2018 the **Net capital invested** of Damiani S.p.A. amounted to Euro 140,534 thousand, decreasing of Euro 3,189 thousand compared with March 31, 2017. All the main components are down: fixed assets, working capital and non-current liabilities (decrease in provisions for risks and deferred taxes liabilities)

As a result of the described economic changes, the **Shareholders' Equity** reduced by Euro 6,187 thousand.

At March 31, 2018 the **Net financial position** was Euro 61,849 thousand, increased by Euro 2,998 thousand compared with March 31, 2017. The medium/long term portion in total of gross financial debt increases during the year (from 28% at March 31, 2017 to 58% at March 31, 2018) and the portion related to the majority shareholder, with the guarantee of greater efficiency and flexibility in treasury management and the simultaneous reduction of liquidity risk.

Transactions with related parties

Damiani S.p.A.'s dealings with related parties are commercial (sales of jewelry products of the Group brands and services), in connection with its *core business*, real estate transactions (rental of shops and offices) and financial (loans received by majority shareholders and funding granted by the Company, through a centralized treasury management, to the Italian and foreign subsidiaries).

For the specific figures and descriptions of the nature of dealings with related parties, please see note 31. Transactions with related parties.

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 amounts up to Euro 30 million, with the right to use.

These financial resources are necessary to obtain a more efficient treasury management, with further savings on financial expenses of the Group.

Significant events after the end of the financial year

On May 15, 2018, the Board of Directors of Damiani S.p.A. has renewed until 10 May 2019 the above-mentioned framework agreement, which provides for the commitment of the majority shareholder Leading Jewels S.A. to provide a credit line up to a maximum of Euro 25 million (of which Euro 20 million already provided).

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 (expiring on January 31, 2023).

Business outlook

Net result of the financial year 2017/2018 closed with an improvement compared with the previous year.

This confirms the correctness of the decision taken in recent years, in a difficult and highly uncertain and competitive environment which requires decisions and actions not only aimed to support the development of Damiani S.p.A., but the entire Group.

Also in the near future the Company will continue on strategic lines already largely tracked and shared by the entire *management*. Investments will be targeted to seize business opportunity that can ensure further growth for the Company in terms of turnover and operating profitability and generate adequate and rapid positive cash flow.

Proposed resolution on Damiani S.p.A.'s result for the financial year ended March 31, 2018

Shareholders,

to conclude our report, and trusting in your approval of the form and criteria used in preparing the financial statements at March 31, 2018, we propose:

1. to approve the financial statements of Damiani S.p.A. as of March 31, 2018;
2. to balance the net loss for Euro 6,165,502 using the Share premium reserve.

Milan, June 15, 2018

For the Board of Directors
CEO
Giorgio Grassi Damiani

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STATEMENT OF FINANCIAL POSITION

<i>(in Euro)</i>	Notes	March 31, 2018	March 31, 2017 (restated)*
NON-CURRENT ASSETS			
Goodwill	4	465,213	465,213
Other intangible assets	5	2,207,124	2,147,653
Property, plant and equipment	6	10,953,217	11,427,041
Investments	7	14,190,112	14,190,112
Other investments	7	112,753	112,753
Financial receivables and other non current assets	8	19,997,776	21,577,430
<i>of which towards related parties</i>		19,828,344	21,413,645
Deferred tax assets	9	6,160,709	6,793,538
TOTAL NON CURRENT ASSETS		54,086,903	56,713,740
CURRENT ASSETS			
Inventories	10	71,263,715	71,800,282
Trade receivables	11	92,494,766	91,788,712
<i>of which towards related parties</i>		54,333,569	53,931,802
Tax receivables	12	399,485	621,786
Other current assets	13	4,869,804	5,027,208
<i>of which towards related parties</i>		750,027	777,038
Cash and cash equivalents	14	2,594,531	2,796,572
TOTAL CURRENT ASSETS		171,622,300	172,034,561
TOTAL ASSETS		225,709,204	228,748,301
SHAREHOLDERS' EQUITY			
Share capital		36,344,000	36,344,000
Reserves		48,506,109	49,398,869
Net result for the period		(6,165,502)	(871,365)
TOTAL SHAREHOLDERS' EQUITY	15	78,684,607	84,871,504
NON CURRENT LIABILITIES			
Long term financial liabilities	16	37,636,959	17,291,201
<i>of which towards related parties</i>		30,327,120	12,582,267
Employees' Termination Indemnities	17	3,319,791	3,483,950
Deferred tax liabilities	9	650,123	858,357
Provision for risks and charges	18	3,676,731	4,364,870
TOTAL NON CURRENT LIABILITIES		45,283,603	25,998,378
CURRENT LIABILITIES			
Current portion of long term financial liabilities	16	3,371,731	13,930,605
<i>of which towards related parties</i>		1,209,814	1,055,254
Trade payables	19	69,176,132	68,490,443
<i>of which towards related parties</i>		28,091,046	24,954,407
Short term borrowings	20	23,434,843	30,425,499
<i>of which towards related parties</i>		601,344	103,665
Tax payables	21	678,109	462,755
Other current liabilities	22	5,080,177	4,569,117
<i>of which towards related parties</i>		490,254	456,439
TOTAL CURRENT LIABILITIES		101,740,993	117,878,419
TOTAL LIABILITIES		147,024,596	143,876,797
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		225,709,204	228,748,301

(*) Financial data for the year ended March 31, 2017 have been restated in order to make them comparable with the financial statements at March 31, 2018.

INCOME STATEMENT

<i>(in Euro)</i>	Notes	Financial Year 2017/2018	Financial Year 2016/2017
Revenues from sales and services		144,171,583	141,400,856
<i>of which towards related parties</i>		23,335,390	17,942,875
Other revenues		181,496	156,176
TOTAL REVENUES	23	144,353,079	141,557,032
Cost of raw materials and consumables	24	(88,949,868)	(86,645,555)
<i>of which towards related parties</i>		(14,433,104)	(9,002,116)
Cost of services	25	(36,934,501)	(37,395,405)
<i>of which towards related parties</i>		(12,510,786)	(11,892,285)
Personnel cost	26	(13,619,930)	(13,651,943)
Other net operating (charges) incomes	27	1,515,703	2,591,582
<i>of which towards related parties</i>		323,004	428,499
<i>of which operating incomes not recurring</i>		-	1,540,000
Amortization, depreciation and write downs	28	(2,698,961)	(2,455,393)
TOTAL OPERATING EXPENSES		(140,687,556)	(137,556,716)
OPERATING INCOME (LOSS)		3,665,523	4,000,316
Financial expenses	29	(9,251,851)	(5,147,844)
<i>of which towards related parties</i>		(4,778,544)	(3,441,940)
Financial incomes	29	800,823	2,688,845
<i>of which towards related parties</i>		615,771	889,108
INCOME (LOSS) BEFORE INCOME TAXES		(4,785,505)	1,541,316
Income taxes	30	(1,379,997)	(2,412,681)
NET INCOME (LOSS) FOR THE PERIOD		(6,165,502)	(871,365)

STATEMENT OF COMPREHENSIVE INCOME

<i>(in Euro)</i>	Financial Year 2017/2018	Financial Year 2016/2017
Net income (loss) for the period	(6,165,502)	(871,365)
<i>Other gains (losses) that will not be reclassified to net income for the period:</i>		
Gain (Losses) on adjustments	5,537	-
Tax effect	-	-
Gain (Losses) on the remeasurement of defined benefit plans	(35,437)	56,021
Tax effect	8,505	(13,445)
Total comprehensive income (loss) for the period	(6,186,897)	(828,789)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

<i>(in Euro)</i>	Share capital	Share Premium Reserve	Legal Reserve	Stock option reserve	Treasury shares	Other reserves	IAS 19 reserve	Net income (loss) for the period	Total shareholders' equity
Balances at March 31, 2016	36,344,000	52,090,603	2,564,285	927,544	(8,134,724)	5,906,612	(389,540)	(3,640,447)	85,668,334
Allocation of the result for the period		(3,640,447)						3,640,447	-
Comprehensive income (loss)							42,576	(871,365)	(828,789)
Stock option				31,959					31,959
Reclassification				(521,944)		521,944			-
Balances at March 31, 2017	36,344,000	48,450,156	2,564,285	437,558	(8,134,724)	6,428,556	(346,964)	(871,365)	84,871,504

<i>(in Euro)</i>	Share capital	Share Premium Reserve	Legal Reserve	Stock option reserve	Treasury shares	Other reserves	IAS 19 reserve	Net income (loss) for the period	Total shareholders' equity
Balances at March 31, 2017	36,344,000	48,450,156	2,564,285	437,558	(8,134,724)	6,428,556	(346,964)	(871,365)	84,871,504
Allocation of the result for the period		(871,365)						871,365	-
Comprehensive income (loss)		5,537					(26,932)	(6,165,502)	(6,186,897)
Balances at March 31, 2018	36,344,000	47,584,328	2,564,285	437,558	(8,134,724)	6,428,556	(373,896)	(6,165,502)	78,684,607

STATEMENT OF CASH FLOWS

	Financial Year 2017/2018	Financial Year 2016/2017 (restated)*
<i>(in Euro)</i>		
CASH FLOW FROM/(USED IN) OPERATING ACTIVITIES		
Net income /(Loss) for the period	(6,165,502)	(871,365)
Adjustments to reconcile the profit (loss) for the period to the cash flow generated (absorbed) by operations:		
Amortization, depreciation and write downs	2,698,961	5,048,541
Costs/(Revenues) for stock option	-	31,959
Changes in the fair value of financial instruments	72,482	(19,168)
Accruals (release) of allowance for doubtful accounts	548,015	423,450
Accruals to employees for termination indemnities	67,454	(42,493)
Employees termination indemnities payments	(231,613)	(133,659)
Accruals (release) of provision for risks and charges	(688,139)	3,598,005
Changes in deferred tax assets and liabilities	424,595	2,362,568
	(3,273,747)	10,397,838
<i>Changes on operating assets and liabilities</i>		
Trade receivables	(1,254,069)	(15,962,463)
Inventories	536,567	8,178,099
Trade payables	685,689	11,531,768
Tax receivables	222,302	(233,387)
Tax payables	215,355	(704,643)
Other current assets and current and non current liabilities	595,983	(1,386,695)
NET CASH FLOW FROM/(USED IN) OPERATING ACTIVITIES (A)	(2,271,920)	11,820,516
CASH FLOW FROM/(USED IN) INVESTING ACTIVITIES		
Disposals of intangible assets and Property, plant and equipment	-	25,311
Purchase of property, plant and equipment	(1,941,561)	(2,671,249)
Purchase of Intangible assets	(343,047)	(717,832)
Net changes in other non current assets	1,579,655	(7,170,758)
NET CASH FLOW FROM/(USED IN) INVESTING ACTIVITIES (B)	(704,953)	(10,534,528)
CASH FLOW FROM/(USED IN) FINANCING ACTIVITIES		
Turning loans from third parties	30,210,714	5,000,000
Repayment of long-term debt	(20,423,831)	(5,633,056)
Net change in short term financial liabilities	(6,990,656)	(1,176,010)
NET CASH FLOW FROM/(USED IN) FINANCING ACTIVITIES (C)	2,796,227	(1,809,066)
TOTAL CASH FLOW (D=A+B+C)	(180,646)	(523,078)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD (E)	2,796,572	3,277,074
Differences from other comprehensive income	(21,395)	42,575
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (G=D+E)	2,594,531	2,796,572

(*) Financial data for the year ended March 31, 2017 have been restated in order to make them comparable with the financial statements at March 31, 2018.

EXPLANATORY NOTES

1. COMPANY INFORMATION AND BASIS OF PRESENTATION

Company information

Damiani S.p.A. has been engaged for several years in the distribution of jewelry products and watches through both “wholesale” and “retail” channels. In particular, the Company offers jewelry brands such as Damiani, Salvini, Bliss and Calderoni. Furthermore, the Company has licensed to third party the distribution of the brand Alfieri & St. John, owned by the Company, and also sold jewelry and watches of third party brands through the multi-brand stores with Rocca 1794 signboard.

As parent company of the Damiani Group, the Company also holds the role of industrial and financial holding. The Company is listed on the electronic stock market of the Italian Stock Exchange since November 2007.

The registered office of the Company is located in Piazza Damiano Grassi Damiani, 1, Valenza (AL), Italy.

Declaration of conformity

Damiani S.p.A. prepared its 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 financial statements of Damiani S.p.A. as of and for the year ended March 31, 2018 cover the period April 1, 2017 – March 31, 2018, and include the statement of financial position, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity, the statement of cash flows and the explanatory notes (hereafter, the “financial statements”). They were approved by the Board of Directors of Damiani S.p.A. on June 18, 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. The statement of cash flows has been prepared using the indirect method.

In accordance with Consob Resolution n. 15519 dated July 27, 2006, the effects of transactions with related parties are presented in the statement of financial position as well as in the income statement. Transactions with related parties are identified in accordance with the extended definition laid down by IAS 24, i.e. including relations with the administrative and control bodies as well as those executives who have strategic responsibilities. See also note 31. Transactions with related parties.

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

2. ACCOUNTING POLICIES

Criteria used

The financial statements of Damiani S.p.A. for the period April 1, 2017 – March 31, 2018 has been prepared in accordance with IFRS as adopted by the European Union.

The financial statements as of and for the year ended March 31, 2018 has been prepared on a going concern basis. In fact, the Directors believe that there is no uncertainty about the ability of Damiani S.p.A. to continue in operational existence for the foreseeable future.

The income statement, the changes in shareholders' equity and the cash flows for the financial year ended March 31, 2018 (or fiscal year 2017/2018) have compared with the figures of the period 1st April 2016 – 31st March 2017 (or fiscal year 2016/2017). 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.

Accounting standards

Damiani S.p.A. prepared its financial statements as of and for the year ended March 31, 2018 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 include 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 standards used to prepare the Consolidated financial statements of Damiani S.p.A. are consistent with those adopted for the preparation of the annual consolidated financial statements as of 31 March 2017, with exception of the adoption of the following amendments as from 1st April 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: the IASB issued Recognition of Deferred Tax Assets for Unrealised Losses on 19 January 2016. These amendments clarify how to book deferred tax assets related to debt instruments measured at fair value. The application of these amendments has no impact on the Company.
- Amendments to IAS 7 – Statement of cash flows: the IASB issued the amendments on 29 January 2016. The amendments come with the objective that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. The application of these amendments has no impact on the Company.

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

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

- IFRS 9 – Financial Instruments. In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which replaces IAS 39 and all previous versions of IFRS 9. The standard refers to all three aspects related to the accounting for financial instruments: classification and evaluation, impairment, hedge accounting. 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 Company 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 - Revenue from contracts with customers. IFRS was issued in May 2014 and introduces a new model in five stages, which will apply to revenues from contracts with customers and it replaces all the current requirements in the IFRS regarding revenue recognition. 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 Company plans to apply the new standards to the mandatory effective date and is assessing the impact that adoption of these standards may have on the financial statements, with reference to the different channels in which the Company operates and services offered. Moreover, the Company 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 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 remeasurement 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 Company is assessing the impact of the adoption of the standard on their financial statements. Moreover, at the reporting date of these financial statements, the competent bodies of the European Union had not yet completed the endorsement process necessary for the adoption of the new accounting standards and amendments:

- Amendments to IFRS 10 and IAS 28 – Sale or contribution of assets between an Investor and its Associates or joint venture.
- Amendments to IFRS 2 - Classification and measurement of share based payment transactions.
- Amendments to IAS 40 – Transfers of investment property.
- IFRIC 22 – Foreign currency transactions and advance consideration.
- IFRIC 23 – Uncertainty over income tax treatments.
- Annual cycle of improvements 2014-2016 including: i) IFRS 1 – First time adoption of IFRS; ii) IAS 28 – Investments in associates.
- Annual cycle of improvements 2015-2017 including: 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 Damiani S.p.A. to make estimates and assumptions which affect the values of the assets and liabilities stated in the 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 and provisions for risks and charges. These estimates and assumptions are periodically reviewed, and the effects of any change are booked directly to the income statement.

The main valuation processes for which the Company has used estimates is referred to 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 probably will 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 recoverable value of investments, the funds for return on sales, the allowance for doubtful accounts and the inventory obsolescence reserve.

For further details on the estimates, please refer the following 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 exceeds the share of its total shareholders' equity at current values as calculated from the values of the identifiable assets, liabilities and potential liabilities that have been acquired. Following the initial entry, goodwill is valued at cost less any accrued impairment. Goodwill is subjected to an impairment test, either annually or more often if events or changes occur that might give rise to any impairment.

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

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

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

Intangible assets

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

The useful life expectancy of intangible assets is assessed as finite or indefinite. Intangible assets with a finite useful life are amortized over their estimated useful life and 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 Company are recognized by modifying the amortization period or method and treated as changes in the accounting estimates. The amortization rates for intangible assets with a finite life are recognized in the income statement in the cost category consistent with the intangible asset's function.

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

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

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

Category	Rate
Software licences	20%
Key Money (Indemnities paid for renewal of shop rental contracts)	Duration of contract

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 Damiani S.p.A. 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 expenses 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	3%
Plant and machinery	12.5%
Industrial and commercial equipment	From 12% to 35%
Other assets	From 12% to 25%
Leasehold improvements	Duration of contract

Leased assets

Finance leases, which essentially transfer all the risks and rewards arising from ownership of the leased asset to Damiani S.p.A., 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 Damiani S.p.A. 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.

Investments

Investments in subsidiaries and other companies are recorded at cost adjusted for impairment losses, determined on the basis of a separate impairment test.

Impairment test

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

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

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

In determining value in use, the Company 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 Company'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 and on action already taken at the time when the plan was drawn up.

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

All impairment loss of operating assets are recognized in the income statement under the cost items relating to the asset that had lost value. Moreover, at the closing date of each period the Company 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.

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 Company may be grouped as follows:

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

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

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

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

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

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

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

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

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

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;
- Damiani S.p.A. keeps the right to receive the asset's financial flows, but has the contractual obligation to transfer them without delay to a third party;
- Damiani S.p.A. 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 Company 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 Company's

financial statements to the extent of the Company'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 Damiani S.p.A. 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 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 "Profit (Loss) brought forward".

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 Company 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 Company 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.

Provisions for risks and charges include the provision for sales returns. This provision is determined based on the amounts invoiced upon shipment of the goods and on basis of the impact of returns on sales per customer, in order to foresee the sales quota for which at the date of the financial statements not all the significant risks and benefits connected to the ownership of the corresponding assets have been definitively transferred. The provision is entered net of the impact on inventory and commission generated when a customer returns is recorded (normally from the 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 circumstances Damiani S.p.A. 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 Company adjusts the amounts that have been invoiced at the time the goods were shipped for those amounts which, in the light of historical experience, it is possible to reasonably estimate that at the date of the financial statements not all the significant risks and benefits associated with ownership of the goods will be transferred to the new owner. Returns that are calculated in this manner are booked to the income statement as a reduction of revenues and in the balance sheet under a specific adjustment reserve for receivables from customers, while the relative estimated production cost is included under inventories.

Barter transactions

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

Other revenues and incomes

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

Costs

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

Costs for advertising campaigns and testimonials

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

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

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

Financial incomes and expenses

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

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

Dividends

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

Income taxes

Current taxes

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

Deferred and prepaid taxes

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

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

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

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

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

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

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

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

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. has renewed the option for the three years 2016-2018 at the time of submission of the tax return 2015 which took place on December 9, 2015. It includes its subsidiary Laboratorio Damiani S.r.l. As concern the Group VAT system for 2016 (for Damiani S.p.A. and Laboratorio Damiani S.r.l.), pursuant to Presidential Decree 633/72 article 73, paragraph 3, DM 13/12/1979 it was presented the special model for renewal on April 24, 2018.

Foreign currency translation

Damiani S.p.A. 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 foreign currency are translated into the functional currency at the exchange rate in force at year end. All the exchange differences are recorded in the income statement Non-monetary items valued at their historical cost in foreign currencies are converted using the exchange rate at the time the transaction was carried out.

Non-monetary items booked at their fair value in foreign currencies are converted using the exchange rate on the

fair value measurement date.

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.

3. NOTES ON ITEMS OF THE FINANCIAL STATEMENTS

Below are comments on the items of financial and income statements.

4. GOODWILL

At March 31, 2018 goodwill amounted to Euro 465 thousand and it has unchanged compared with March 31, 2017.

The value refers to the goodwill paid by Damiani S.p.A. for two boutiques directly managed.

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 year ended March 31, 2018 and March 31, 2017, it was subject to an impairment test.

Impairment test is carried out at least once a year on the cash generating unit (CGU) to which the goodwill is charged.

The method utilized is described in note 7, with reference to the impairment test carried out to verify the recoverability of the investments' book value.

5. OTHER INTANGIBLE ASSETS

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

<i>(in thousands of Euro)</i>	March 31, 2018	March 31, 2017
Industrial rights and patents	314	84
Intang.fix.ass.in process of formation	19	8
Key money	1,874	2,056
Total other intangible assets	2,207	2,148

The amount of the item key money is amortized on the basis of the remaining contractual term of the related lease contract.

The Industrial rights and patents refer to software licenses, for which investments were made in the financial year 2017/2018 for the development of e-commerce platforms.

In the financial year 2017/2018 the changes in intangible assets were the following:

<i>(in thousands of Euro)</i>	Industrial rights and patents	Intang.fix.ass.in process of formation	Key money	Total
Net book value at March 31, 2017	84	8	2,056	2,148
Purchases	331	11	-	342
Amortization	(101)	-	(182)	(283)
Net book value at March 31, 2018	314	19	1,874	2,207

6. PROPERTY, PLANT AND EQUIPMENT

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

<i>(in thousands of Euro)</i>	March 31, 2018	March 31, 2017
Land and buildings	4,865	5,773
Plant and machinery	335	323
Industrial and commercial equipments	29	32
Leasehold improvements	3,210	2,974
Other assets	2,514	2,325
Total property, plant and equipment	10,953	11,427

The Land and buildings item also includes the residual value of three properties subject to sale and lease back, which related parties have bought from Damiani S.p.A. in previous financial years and then re-leased to the Company. The value of these properties amounted to Euro 3,635 thousand at March 31, 2018 and refers to mono-brand Damiani and multi-brand Rocca 1794 stores.

The Other assets item mainly includes furniture, furnishings, office equipment and vehicles.

In the financial year 2017/2018 the changes in property, plant and equipment were the following:

<i>(in thousands of Euro)</i>	Land and buildings	Plant and machinery	Industrial and commercial equipments	Leasehold improvements	Other assets	Total
Historical cost	21,685	2,481	599	4,698	17,432	46,895
Depreciation reserve at March 31 2017	(15,912)	(2,158)	(567)	(1,724)	(15,107)	(35,468)
Net book value at March 31, 2017	5,773	323	32	2,974	2,325	11,427
Purchases	-	88	11	1,158	685	1,942
Depreciation	(908)	(76)	(14)	(922)	(496)	(2,416)
Net book value at March 31, 2018	4,865	335	29	3,210	2,514	10,953

The increase in these assets mainly consist of equipment/renovations of stores.

Property, plant and equipment do not include assets subject to revaluation, as per the special laws contained in article 10 of Law 72/83.

7. INVESTMENTS

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

<i>(in thousands of Euro)</i>	March 31, 2018	March 31, 2017
Investments in subsidiaries	14,190	14,190
Investments in other companies	113	113
Total investments	14,303	14,303

The value at March 31, 2018 is unchanged compared with the previous year. During the financial year 2017/2018 a capital contribution was made in Damiani Shanghai Trading Co. Ltd of Euro 3,592 thousand. At the end of the year, the impairment test on the value of the investments, however, showed a lasting loss in value of the Chinese subsidiary and therefore proceeded to record its write-down.

The table below provides details of investments in subsidiaries at March 31, 2018.

<i>(in thousands of Euro)</i>	Registered Office	Share capital	Net Equity	Profit/(Loss)	% owned	Net Equity owned	Book value	Note
Casa Damiani Espana S.L.	Valencia (Spain)	721	828	(2)	99%	820	330	1)
Damiani International B.V.	Amsterdam (Netherlands)	194	9,053	11,274	100%	9,053	9,894	1)
Damiani Hong Kong Ltd.	Hong Kong	7,498	(2,516)	(370)	96%	(2,415)	-	1)
Laboratorio Damiani S.r.l.	Valenza (Italy)	850	4,880	818	75.5%	3,684	1,412	1)
Rocca International S.A.	Lugano (Switzerland)	509	717	(275)	100%	717	1,182	1)
Damiani Mexico S.A.	Mexico D.F. (Mexico)	133	(314)	(37)	10%	(31)	29	1)
Damiani Shanghai Trading Co. Ltd	Shanghai (China)	9,294	(2,158)	(1,403)	100%	(2,158)	-	1)
Damiani Korea Co. Ltd	Seoul (South Korea)	1,449	(108)	(272)	100%	(108)	1,343	1)
Damiani Russia LLC	Moscow (Russia)	282	(173)	(584)	0.0005% -	0	0.15	1)
Total							14,190	

1) Financial statements prepared in accordance with local accounting standards

Impairment test carried out on investments

Investments, constituting Cash generating units (CGU), are subject to impairment tests, with particular attention on those whose carrying value is higher than the share of equity.

The recoverable value was calculated using the value in use, which in turns was calculated by using the discounted cash flow method that involves estimating the future cash flow and discounting this by using a rate coinciding with the weighted average cost of the capital (WACC). To the value in use thus obtained is subtracted the value of the financial debt of the company, and the resulting value (equity value) is compared with the book value of the investment. The verification of the value of investments, which in turn owns other investments was made as the sum of the parts that reflects the equity value of the respective subsidiaries.

In order to execute such impairments have been used the following data and made the following assumptions:

- The cash flows were taken from the 2018-2021 (1st April 2018 – 31st March 2021) business plan of the Group (including each Cash generating unit). The business plan was approved by the Board of Directors of Damiani S.p.A. on June 12, 2018.
- The cash flows were calculated for each CGU from the EBITDA minus the capital expenditure and the changes in net working capital.
- The cash flows were discounted at WACC, net of tax expenses, calculating according to the following elements:
 - risk free rate: yield on ten-years emissions in the countries in which the CGUs operate
 - beta: determined as the average ratio debt/equity in a panel
 - market premium: yield spread between the risk-free rate and the equity remuneration of the industry in the geographical context in which the CGUs operate
 - average debt rate: cost related to sources of financing by third parties of the CGU
 - average indebtedness: cost related to the sources of financing from third parties of the Group to which the CGU belongs.

The cash flows were discounted using a WACC specific to each direct and indirect investment (from 4.11% to 5.69%), net of tax effect, consistent with the individual parameters listed above and related to each CGU. In the previous financial year the WACCs ranged from 5.33% to 7.24%.

In particular, the expected growth rate “g”, after the three years covered by the business plan, to be used for the calculation of the terminal value, was assumed to be zero, except for CGUs operating in the retail channel (Damiani boutiques in Italy). In this CGU the “g” rate is 1%, in line with the curve of the projections of its business plan and lower than the growth rate of the market. The same approach was also held in the previous financial year.

For the sub-holding Damiani International B.V. the impairment test considers beside the value in use of its assets also the sum of the recoverable values of each subsidiary directly owned.

The impairment tests performed showed recoverable value in excess compared with the book value in the financial statements of Damiani S.p.A., with the exceptions of Damiani Shanghai Trading Co. Ltd., for which it has recorded a permanent impairment that resulted in a write-down of Euro 3,592 thousand.

The following table details the investment in other companies:

<i>(in thousands of Euro)</i>	March 31, 2018
Fin-Or-Val S.r.l.	72
Banca d'Alba	41
Total investments in other companies	113

The carrying amounts are unchanged compared with March 2017 and aligned to their fair values that can be deduced from the latest available financial statements of the two companies (December 31, 2016).

8. FINANCIAL RECEIVABLES AND OTHER NON-CURRENT ASSETS

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

<i>(in thousands of Euro)</i>	March 31, 2018	March 31, 2017
Receivables towards subsidiaries	19,828	21,414
Receivables towards others	170	163
Total financial receivables and other non-current assets	19,998	21,577

Financial receivables towards subsidiaries decreased by Euro 1,586 thousand in the financial year 2017/2018,

mainly due to the conversion of part of the receivable from the subsidiary Damiani Shanghai Trading Co. Ltd into capital.

Accounts receivable refer mainly to loans granted to cover the financial needs generated by current management of Group companies in their phase of expansion on foreign markets.

At March 31, 2018 receivables towards subsidiaries were as follows:

<i>(in thousands of Euro)</i>	March 31, 2018	March 31, 2017
Damiani International B.V.	5,094	4,460
Damiani Hong Kong Ltd	1,513	843
Laboratorio Damiani S.r.l.	3,030	3,030
Rocca International S.A.	731	731
Damiani Macau Ltd	724	724
Damiani Shanghai Trading Co. Ltd	3,013	5,903
Damiani Korea Co. Ltd	120	120
Damiani International S.A.	5,150	5,150
Damiani Russia LLC	453	453
Total	19,828	21,414

The loans granted to subsidiaries provides interests income on basis of Euribor (three or six months) plus a spread.

9. DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

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

<i>(in thousands of Euro)</i>	March 31, 2018	March 31, 2017
Deferred tax assets		
Net impact of the returns reserve	755	925
Write-off on intercompany inventory margins	287	392
Financial interests in excess	1,518	1,624
Fiscal losses	-	367
Provision for doubtful accounts not deductible	531	699
Provisions on lawsuits	98	117
Write downs of inventories	2,254	2,352
Foreign exchange rate loss	554	152
Effect on stock option plans	85	85
Other timing differences of a taxation nature	79	81
Total deferred tax assets	6,161	6,794

<i>(in thousands of Euro)</i>	March 31, 2018	March 31, 2017
Deferred tax liabilities		
Exchange differences	281	695
Other timing differences of a taxation nature	369	163
Total deferred tax liabilities	650	858

The most significant change compared with March 31, 2017 of the prepaid / deferred tax components are related to the positive and negative exchange effects calculated on open balances in foreign currency and not yet realized.

During the financial year 2017/2018, receivables for deferred tax assets related to the previous tax losses were used to close a dispute with the Tax Administration on transfer pricing, through accession and conciliation procedure (for more details see following note 32. Commitments and contingent liabilities).

10. INVENTORIES

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

<i>(in thousands of Euro)</i>	March 31, 2018	March 31, 2017 (restated)*
Raw materials, semi-finished goods and advance payments	9,622	10,590
Finished products and goods	61,642	61,210
Total inventories	71,264	71,800

(*) Financial data for the year ended March 31, 2017 have been restated in order to make them comparable with the financial statements at March 31, 2018.

The value of inventories of raw materials, finished products and goods at March 31, 2018 is slightly decreasing of Euro 536 thousand compared with the previous financial year.

The value in the two financial years were written down to address the risk of commercial obsolescence of stocks of finished products. The provision was calculated on the estimates made by the Company management, evaluating for each category of product, different levels of inventory turnover, recorded in the financial year.

At March 31, 2018, the value of the gross amount adjustment amounted to Euro 9,393 thousand (Euro 9,800 thousand at March 31, 2017).

11. TRADE RECEIVABLES

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

<i>(in thousands of Euro)</i>	March 31, 2018	March 31, 2017 (restated)*
Trade receivables towards clients	40,578	40,973
Trade receivables towards subsidiaries	54,316	53,928
Trade receivables, gross	94,894	94,901
Provision for doubtful accounts	(2,383)	(3,100)
Net present value calculation of receivables	(16)	(12)
Total trade receivables	92,495	91,789

(*) Financial data for the year ended March 31, 2017 have been restated in order to make them comparable with the financial statements at March 31, 2018.

The balance of trade receivables is net of allowance for doubtful accounts and fund for returns on sales, as well as net of the effects of discounting the receivables represented by bank receipts that have been reissued and have due dates that go beyond the accounting period.

The following table shows the details of trade receivables from Group companies in the two periods compared.

<i>(in thousands of Euro)</i>	March 31, 2018	March 31, 2017
Damiani International B.V.	2,246	1,840
Damiani Japan K.K.	18,092	19,760
Damiani Usa Corp.	3,425	3,290
Damiani Hong Kong Ltd	8,251	10,533
Laboratorio Damiani S.r.l.	812	2,091
Rocca International S.A.	1,922	1,755
Damiani Macau Ltd	1,681	1,958
Damiani Mexico S.A. de C.V.	1,857	1,841
Damiani Shanghai Trading Co. Ltd	2,823	2,625
Damiani Korea Co. Ltd	5,100	3,551
Damiani International S.A.	1,571	1,252
Damiani Russia LLC	3,292	2,082
Damiani Paris S.a.s.	2,100	1,319
Damiani Jewels LLC	797	31
Damiani Singapore LTD	347	-
Total	54,316	53,928

The slight increase in trade receivables towards subsidiaries compared with March 31, 2017 was mainly due to the subsidiaries that have more recently started the business in their own markets, by purchasing the finished products from Damiani S.p.A, and therefore are placed in a start-up.

The following table shows the changes in the provision for doubtful accounts happened during the financial year ended March 31, 2018.

<i>(in thousands of Euro)</i>	Provision for doubtful accounts
Book value at March 31, 2017	(3,100)
Accrual	(548)
Utilization	1,265
Book value at March 31, 2018	(2,383)

There are no trade receivables with a duration of more than five years.

12. TAX RECEIVABLES

The tax receivables decreased from Euro 622 thousand at March 31, 2017 to Euro 399 thousand at March 31, 2018 relating to lower direct taxes deposits.

13. OTHER CURRENT ASSETS

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

<i>(in thousands of Euro)</i>	March 31, 2018	March 31, 2017
VAT receivables from the Tax Authorities	1,709	197
Others receivables towards subsidiaries	300	286
Prepayments	1,035	914
Accrued income towards subsidiaries	35	17
Advances to suppliers	1,440	2,176
Receivables from others	351	1,437
Total other current assets	4,870	5,027

The balance of the item Other current assets decreased by Euro 157 thousand compared with March 31, 2017. The change is due to the compensation between the following differences: i) increase in receivables from tax authorities for VAT due to the repurchase of a credit previously transferred to a bank for Euro 1,400 thousand; ii) reduction of advances to suppliers for Euro 736 thousand; iii) reduction of receivables from others for the reimbursement of Euro 943 thousand obtained by the Financial Administration for a payment made in the previous financial year to initiate an appeal against a tax notice received. In May 2017 has been issued a first instance judgement where the appeal of Damiani S.p.A has been accepted. The Company obtained the reimbursement of the amount paid.

14. CASH AND CASH EQUIVALENTS

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

<i>(in thousands of Euro)</i>	March 31, 2018	March 31, 2017
Bank and post accounts	2,456	2,696
Cash on hand	139	101
Total cash and cash equivalents	2,595	2,797

The balance represents the existing cash on bank accounts and post office, and the existence of cash and cash equivalents at the end of the period.

15. SHAREHOLDERS' EQUITY

The share capital, fully paid up at March 31, 2018, amounted to Euro 36,344 thousand, gross of treasury shares, and was made up of 82,600,000 shares with a par value of Euro 0.44 each.

It should be noted that no dividends were paid during the financial year. The Board of Directors on June 15, 2018 did not propose to the Shareholders' Meeting any dividend payment for the financial year 2017/2018.

The number of treasury shares held in the portfolio amounted to 5,556,409 (6.73% of the share capital) for a total value of Euro 8,135 thousand. The amount was booked as a direct reduction in equity.

The number of shares in circulation, equal to 13,827,522, remains unchanged compared with March 31, 2017.

The changes in equity in the financial year ended March 31, 2018 were as follows:

- Negative net result for Euro 6,166 thousand
- Actuarial loss on defined benefit plans for employees recognized in accordance with IAS 19 (2011) for Euro 27 thousand.
- Other net positive changes for Euro 6 thousand

Details of the utilization and availability of the reserves are given below:

Description	Amount	Usage	Share available	Usage in	
				the three previous financial years to cover losses	for other uses
Share capital	36,344				
Share premium reserve	47,584	1) 2) 3)	47,584 (*)	6,544	6,941
Legal reserve	2,564	2)			
Other reserves:					
FTA reserve	(5,358)	1) 2) 3)	(5,358)		
extraordinary reserve	3	1) 2) 3)	3	-	4,268
stock option and stock grant reserve	438	1) 2)			
reserve from discounting	3,275	4)			
Total	84,850		42,229	6,544	11,209

Note

1) for share capital increase

2) to cover losses

3) to be distributed to shareholders

4) not distributable

(*) For position 3) distribution to shareholders, the share premium reserve is used for Euro 42,879 thousands

16. FINANCIAL LIABILITIES: CURRENT AND NON-CURRENT PORTION

The current and non-current portion of financial liabilities at March 31, 2018 and March 31, 2017 were made up as follow:

<i>(in thousands of Euro)</i>	March 31, 2018	March 31, 2017	Note
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	3,805	-	f
Loan G	-	-	g
Loan H	-	-	h
Loan I	-	-	i
Loan J	-	5,508	j
Financial leasing	1,626	3,074	k
Total non current portion of medium/long term financial liabilities	37,637	17,291	
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	-	509	h
Loan I	-	10,880	i
Loan J	-	-	j
Financial leasing	910	1,055	k
Total current portion of medium/long term financial liabilities	3,372	13,930	
Total medium/long term financial liabilities	41,009	31,221	

The following is a breakdown of key information relating to loans granted by banks and other lenders at Damiani S.p.A. at March 31, 2018:

- a) The loan of 25,000 Euro thousand was granted by majority shareholder Leading Jewels S.A. (relating to Damiani family) in July 2016 in several tranches in 2017, following the framework agreement signed in April 2017, and extended until May 2018 for a further year. Leading Jewels S.A. makes available an amount up to Euro 30 million, to obtain a more efficient treasury management.
On this loan accrues interest at a fixed annual rate of 3.6% with the exception of a portion of Euro 5,000 thousand, for which the reimbursement is subject to the condition (see letter f). The interest rate on this portion, expiring on 31 May 2023, is equal to 4.3% per year.
- b) The loan was granted in July 2016 by the majority shareholder Leading Jewels S.A. to Damiani S.p.A. for an amount of Euro 4,000 thousand. The interest rate is equivalent to Euribor 6 months plus spread 3.90%. The repayment plan is expected to be paid half-yearly starting from January 2019, to end on December 31, 2021.
- c) The subsidized loan was signed in February 2013 between Damiani S.p.A. and Simest S.p.A. to support the development in the Greater China. The loan for a total amount of Euro 3,012 thousand was granted in five tranches and provides a seven-year repayment plan, of which the first two of pre - amortization, in deferred six-monthly installments and at an annual effective rate of 0.5% (the first repayment installment was paid in August 2015).
- d) The loan was completed on December 31, 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 (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 Damiani Group.

- e) The loan was signed in October 2015 with a bank for Euro 2,000 thousand and three years duration. On this loan accrues annual interest determined from Euribor 6 months + 1.53% spread. The refund will be in 10 constant quarterly instalments, until December 2018.
- f) The loan was granted by a bank to Damiani S.p.A. in December 2017 for Euro 5,000 thousand, with a repayment plan in 60 monthly installments as from January 2018, expiring in December 2022. The annual remuneration rate is based on Euribor 3 months + spread of 2.25%.
- g) The loan was signed in April 2016 between Damiani S.p.A and a bank for Euro 1,000 thousand. The loan was fully repaid in April 2017.
- h) The loan was signed in February 2016 between Damiani S.p.A. and an Italian bank for Euro 1,000 thousand. The loan will be repaid in 24 months in quarterly instalments and last instalment was paid in March 2018.
- i) The loan has been signed by Damiani S.p.A. with a pool of banks in November 2013 for an amount of Euro 13,600 thousand, which aims to support the continued operation of the Damiani Group, mainly by financing the investments to develop the retail channel. The repayments started in May 2016 and on May 31, 2017 the Company effected the early repayment of the loan, with the payment of the capital and the accrued interests.
- j) The private non-convertible bond was signed by the executive directors Guido, Giorgio and Silvia Grassi Damiani, who represent the majority shareholders of Damiani S.p.A. for an amount of Euro 5,000 thousand, starting 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. On December 22, 2017 the Board of Directors of Damiani S.p.A. approved the amendment of the maturity of the bond loan, and the deadline was anticipated to December 31, 2017. The full repayment of principal and interest occurred in January 2018.

Moreover, the table (see letter K) highlights debt for leasing towards related parties. They are referred to three contracts for the sale of properties, which are treated as sale and lease back arrangements under IAS 17. These real estate units are Damiani and Rocca 1794 store locations.

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

Net financial position (*) <i>(in thousands of Euro)</i>	March 31, 2018	March 31, 2017
Current portion of loans and financing	2,162	12,875
Current portion of loans and financing with related parties	1,210	1,055
Short term borrowings	23,435	30,425
Current financial indebtedness	26,807	44,356
Non current portion of loans and financing	7,310	4,709
Non current portion of loans and financing with related parties	30,326	12,582
Non Current financial indebtedness	37,637	17,291
Total gross financial indebtedness	64,444	61,647
Bank and post accounts	(2,456)	(2,696)
Cash on hand	(139)	(101)
Net financial position (*)	61,849	58,851

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

The net financial position of Damiani S.p.A. at March 31, 2018 was negative for Euro 61,849 thousand, worsening by Euro 2,998 thousand compared with March 31, 2017.

17. EMPLOYEES' TERMINATION INDEMNITIES

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

<i>(in thousands of Euro)</i>	March 31, 2018	March 31, 2017
Employees' termination indemnities at the beginning of the period	3,484	3,660
Financial expenses	32	14
Paid benefits	(231)	(134)
Actuarial Loss (Profit)	35	(56)
Employees' termination indemnities at the end of the period	3,320	3,484

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 steps:

- 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	March 31, 2018	March 31, 2017
Annual rate for the Net present value	1.03%	0.95%
Annual inflation rate	1.50%	1.50%

Demographic hypotheses

Mortality	RG48 (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 as labor costs or financial income/charge.

18. PROVISIONS FOR RISKS AND CHARGES

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

<i>(in thousands of Euro)</i>	March 31, 2018	March 31, 2017 (restated)*
Sales returns reserve	3,270	3,877
Provision for legal disputes	407	488
Total provisions for risks and charges	3,677	4,365

(*) Financial data for the year ended March 31, 2017 have been restated in order to make them comparable with the financial statements at March 31, 2018.

The provision is recognized to cover legal disputes. The value of the provisions is changed from Euro 4,365 thousand in the financial year ended March 31, 2017 to Euro 3,677 thousand in the financial year ended March 31, 2018. The decrease was mainly due to the recalculation of net effects (on trade receivables and payables and on inventories) related to the probable return of goods sold to wholesale customers. At the end of the financial year, the Company assesses the risk by analyzing the trend of returns recorded during the year and its historical evolution. On March 31, 2018 the previously recognized provision has been made redundant and has therefore been realigned to the value of probable future use.

With regard to the legal disputes provision in the financial year 2017/2018, the following changes were made: i)

uses for Euro 111 thousand for litigation; ii) provisions of Euro 30 thousand to cover current legal proceedings for which at March 31, 2018 there were already likely obligations incurred by the Company.

19. TRADE PAYABLES

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

<i>(in thousands of Euro)</i>	March 31, 2018	March 31, 2017 (restated)*
Trade payables due in less than 12 months	41,364	45,203
Trade payables towards subsidiaries within 12 months	27,027	22,303
Bill payable, other credit securities and advances	785	984
Total trade payables	69,176	68,490

(*) Financial data for the year ended March 31, 2017 have been restated in order to make them comparable with the financial statements at March 31, 2018.

At March 31, 2018 the trade payables increased by Euro 686 thousand if compared with March 31, 2017. The increase is exclusively due to relations with subsidiaries, while trade payables to third parties are decreasing. The increase in trade payables towards subsidiaries is referred to: i) higher support services to the commercial activities of the Company outsourced to Damiani International S.A.; ii) increase of the manufacturing activity entrusted to Laboratorio Damiani s.r.l.; iii) increase in the debt towards Damiani Korea Co Ltd due to returns from the company and recharging of commercial services.

Details of trade payables towards subsidiaries were as follows:

<i>(in thousand of Euro)</i>	March 31, 2018	March 31, 2017
Damiani Japan K.K.	1,019	925
Damiani Usa Corp.	2,576	2,508
Casa Damiani Espana S.L.	721	721
Damiani Hong Kong Ltd	842	915
Laboratorio Damiani S.r.l.	9,068	8,081
Damiani France S.A.	182	197
Damiani Singapore LTD	2	-
Rocca International S.A.	778	676
Damiani Macau Ltd	406	431
Damiani Mexico S.A. de C.V.	69	4
Damiani Korea Co. Ltd	1,003	91
Damiani International S.A.	10,362	7,754
Total	27,027	22,303

20. SHORT TERM BORROWINGS

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

<i>(in thousands of Euro)</i>	March 31, 2018	March 31, 2017
Current debts towards banks	22,664	29,984
Accrued expenses related to interest on loans	771	441
Total short term borrowings	23,435	30,425

The reduction of Euro 6,990 thousand is the direct result of treasury actions carried out in the fiscal year 2017/2018, aimed to transfer debt quotas on medium / long term sources to minimize the risk of liquidity and to

make the management of the needs of the entire Group. In this way the use of short-term forms of financing has been reduced. It should be noted, however, that short-term lines are still used only partially (about 42% of the total available).

21. TAX PAYABLES

At March 31, 2018 the item amounted to Euro 678 thousand compared with Euro 463 thousand at March 31, 2017. The increase is due to the greater amount of the provision for current taxes (IRES and IRAP).

22. OTHER CURRENT LIABILITIES

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

<i>(in thousands of Euro)</i>	March 31, 2018	March 31, 2017
Payables to social security institutions	1,057	969
Payables to employees	2,232	2,133
Other liabilities towards subsidiaries	490	456
Other liabilities	1,301	1,011
Total other current liabilities	5,080	4,569

Payables to employees include liabilities for vacation and permissions not enjoyed as well as the amount accrued and not yet paid by 13th and 14th monthly.

The amount of liabilities towards subsidiaries is, in both periods, towards Laboratorio Damiani s.r.l.

23. REVENUES

In the financial year 2017/2018 total revenues amounted to Euro 144,353 thousand and recorded an increase of Euro 2,796 thousand (+2%) compared with the previous financial year.

The following table shows breakdown by sales channels.

Revenues by Sales Channel <i>(in thousands of Euro)</i>	Financial Year 2017/2018	Financial Year 2016/2017
Third parties Wholesale	68,553	76,268
<i>Percentage on total revenues</i>	47.5%	53.9%
Third parties Retail	52,282	47,190
<i>Percentage on total revenues</i>	36.2%	33.3%
Total wholesale and retail revenues	120,835	123,458
<i>Percentage on total revenues</i>	83.7%	87.2%
Intercompany revenues	23,336	17,943
<i>Percentage on total revenues</i>	16.2%	12.7%
Other revenues	181	156
<i>Percentage on total revenues</i>	0.1%	0.1%
Total Revenues	144,353	141,557

The trend for each channel has been described in the report on operations.

Other revenues amounted to Euro 181 thousand, are in line with those of the previous year.

24. COST OF RAW MATERIALS AND CONSUMABLES

In the financial year 2017/2018 the cost of raw materials and consumables (including purchases of finished goods) amounted to Euro 88,950 thousand, an increase of Euro 2,304 thousand compared with the financial year ended March 31, 2017 (Euro 86,646 thousand).

The change was a direct result of the increase in revenues from sales recorded during the year, and of their mix.

25. COST OF SERVICES

The following table shows the cost of services in the financial year ended March 31, 2018 and in the financial year ended March 31, 2017:

<i>(in thousands of Euro)</i>	Financial Year 2017/2018	Financial Year 2016/2017
Operating expenses	14,792	14,486
Advertising expenses	5,713	6,968
Other commercial expenses	3,317	3,451
Production costs	3,372	3,332
Consultancy	1,101	1,167
Travel/transport expenses	2,073	2,006
Directors' fees	564	394
Use of third parties assets	6,003	5,591
Total cost of services	36,935	37,395

Service costs decreased by Euro 460 thousand compared with the previous year. The Company recorded a decrease in advertising expenditure but an increase of costs for the use of third-party asset (higher rental costs for commercial spaces used for directly operated stores).

26. PERSONNEL COSTS

The following table shows the cost of services in the financial year ended March 31, 2018 and in the financial year ended March 31, 2017:

<i>(in thousands of Euro)</i>	Financial Year 2017/2018	Financial Year 2016/2017
Wages and salaries	9,953	9,897
Social security costs	2,949	2,838
Termination indemnity	678	663
Other personnel costs	40	254
Total personnel cost	13,620	13,652

The personnel costs do not show significant changes. The breakdown of personnel costs is also provided for macro-area of employment of human resources:

<i>(in thousands of Euro)</i>	Financial Year 2017/2018	Financial Year 2016/2017
Commercial	6,270	5,890
Productive	3,116	3,025
General and Administrative	4,234	4,737
Total personnel cost	13,620	13,652

In the financial year 2017/2018 the average staff employed was 309 units (+1% compared with the previous year), with the breakdown by category shown in the following table:

Labour category	Financial Year 2017/2018	Financial Year 2016/2017
Executives and managers	23	22
Clerks	264	260
Workers	22	22
Total	309	304

27. OTHER NET OPERATING (CHARGES) INCOMES

The following table shows the cost of services in the financial year ended March 31, 2018 and in the financial year ended March 31, 2017:

<i>(in thousands of Euro)</i>	Financial Year 2017/2018	Financial Year 2016/2017
Other operating (charges) incomes	2,094	3,095
Allowance for doubtful accounts	(548)	(423)
Risk provision	(30)	(80)
Total other net operating (charges) incomes	1,516	2,592

The balance was positive in both periods compared, but with a decrease of Euro 1,076 thousand compared with the financial year 2016/2017, when a non - recurring income for a key money received on the early release of commercial sites in Italy was recorded for Euro 1,540 thousand.

Moreover, in both financial year the Company has partially released the fund for returns from sales in excess, given the dynamics of returns from customers recorded during the year and their future projection (positive net effect of Euro 607 thousand in the financial year 2017/2018 and Euro 124 thousand in the financial year 2016/2017).

The other operating incomes involve advertising contribution for expenses incurred abroad and charge back to third parties of commercial expenses. The provision of the period is due to a legal dispute.

28. AMORTIZATION, DEPRECIATION AND WRITE DOWNS

The amortization, depreciation and write-downs of tangible and intangible assets in the financial year ended March 31, 2018 were Euro 2,699 thousand, an increase by Euro 244 thousand compared with the previous financial year (amortization for Euro 2,455 thousand). The change is attributable to the increase in tangible assets following the restructuring of some directly operated stores.

29. FINANCIAL (EXPENSES) AND INCOMES

The following table shows the financial expenses and incomes in the financial year ended March 31, 2018 and in the prior financial year ended March 31, 2017:

<i>(in thousands of Euro)</i>	Financial Year 2017/2018	Financial Year 2016/2017
Exchange differences	(3,236)	1,641
Write down in subsidiary	(3,592)	(2,593)
(Financial charges)	(2,424)	(2,555)
Financial incomes	801	1,048
Total financial (expenses) and incomes	(8,451)	(2,459)

In the financial year 2017/2018 the balance was negative for Euro 8,451 thousand, compared with a negative balance for Euro 2,459 thousand in the previous financial year. The change was attributable to the following factors: i) negative foreign exchange effect in the financial year 2017/2018, compared with a positive balance of the previous financial year, with a negative impact of Euro 2,583 thousand; ii) higher impairment of the investments for overall Euro 999 thousand, as shown by the impairment test carried out during the two periods; impairment of the investments in the financial year 2017/2018 involve Damiani Shanghai Trading Co. Ltd, while in the financial year 2016/2017 were involved Damiani Shanghai Trading Co. Ltd for Euro 1,391 thousand and Rocca International S.A for Euro 1,202 thousand (for further information see previous note 7. Investments).

30. INCOME TAXES

The following table shows the details of the item in the financial year ended March 31, 2018 and in the financial year ended March 31, 2017:

<i>(in thousands of Euro)</i>	Financial Year 2017/2018	Financial Year 2016/2017
Current taxes	254	239
Deferred tax (assets)/liabilities	1,126	2,174
Total income taxes	1,380	2,413

The current taxes include income tax IRES and IRAP (regional tax) for the period.

The reconciliation between fiscal charges in the financial statements and theoretical fiscal charges calculated on the basis of the IRES (income tax) tax rate applicable to Damiani S.p.A. in the financial year ended March 31, 2018 and in the previous financial year was as follows:

<i>(in thousands of Euro)</i>	Financial Year 2017/2018	Financial Year 2016/2017
Result before taxes	(4,786)	1,541
IRES (Corporate) tax rate for the period	24.0%	27.5%
Theoretical tax burden	1,149	(424)
IRAP (Regional tax on productive activities) effect	(169)	(174)
Effect new rate alignment on temporary differences	(678)	-
Other non deductible costs	(1,682)	(1,815)
Total differences	(2,529)	(1,989)
Total taxes for income statements	(1,380)	(2,413)
Effective tax rate	n.m.	n.m.

The taxes referring to previous years are attributable to the agreement reached with the Financial Administration for the closure through partial adhesion / conciliation of a dispute concerning transfer pricing. This amount will be payable in quarterly installments starting from June 2018 (for more details see note 32. Commitments and contingent liabilities below).

31. TRANSACTIONS WITH RELATED PARTIES

This note describes the relationships between Damiani S.p.A., subsidiaries and related parties during the financial year ended March 31, 2018 and the prior financial year ended March 31, 2017 highlighting their impact on economic and financial values of the Company.

Such relationships are mainly of real estate nature (rents, sale and lease back transactions, rental of business units) and of commercial nature (sale of jewelry products, cooperation agreements), with the different subsidiaries of the Group which distribute the products in their areas of competence. To these transactions has to be added the debt to the majority shareholders.

The following table shows the details of these relationships in the financial year ended March 31, 2018.

(In Euro)	Financial Year 2017/2018						Balance at March 31, 2018					
	Revenues	Other operating incomes (charges)	Financial incomes	Costs of raw materials	Costs of services	Financial adjustments and expenses	Financial receivables	Trade receivables	Other current assets	Financial debt (including leasing)	Trade payables	Other current liabilities
Damiani International B.V.	290,305	-	154,510	-	-	-	5,094,144	2,246,450	-	-	-	-
Damiani Japan K.K.	5,863,634	-	-	-	(12,593)	-	-	18,092,211	-	(1,018,753)	-	-
Damiani Usa Corp.	805,484	-	-	-	-	-	-	3,424,917	-	(2,576,441)	-	-
Casa Damiani Espana S.L.	-	-	-	-	-	-	-	-	-	(721,480)	-	-
Damiani Hong Kong Ltd	2,455,860	-	11,283	(35,883)	-	-	1,513,499	8,251,165	6,530	(841,522)	-	-
Laboratorio Damiani S.r.l.	6,120,787	161,654	97,890	(14,237,461)	(1,566,135)	-	3,030,001	811,663	293,364	(9,068,023)	(490,254)	-
Damiani France S.A.	-	-	-	-	-	-	-	-	-	(181,911)	-	-
Rocca International S.A.	728,433	600	24,111	(103,408)	-	-	731,388	1,922,054	-	(777,617)	-	-
Damiani Macau Ltd	45,445	-	24,211	-	-	-	723,522	1,680,815	-	(405,649)	-	-
Damiani Mexico S.A. de C.V.	307,239	-	-	-	-	-	-	1,857,496	-	(69,068)	-	-
Damiani Shanghai Trading Co. Ltd	409,192	-	100,315	-	-	(3,592,146)	3,012,729	2,823,004	-	-	-	-
Damiani Korea Co. Ltd	2,930,386	-	6,109	-	(212,214)	-	120,000	5,099,521	-	(1,002,864)	-	-
Damiani international S.A.	-	138,240	179,220	(505)	(9,541,654)	-	5,150,000	1,570,616	-	(10,362,129)	-	-
Damiani Russia LLC	1,422,634	-	18,122	-	-	-	453,061	3,292,454	34,662	-	-	-
Damiani Paris S.a.s.	780,830	-	-	-	-	-	-	2,099,861	-	-	-	-
Damiani Jewels LLC	820,228	11,354	-	-	-	-	-	796,926	-	-	-	-
Damiani Singapore LTD	354,933	-	-	(1,977)	-	-	-	347,415	-	(1,987)	-	-
Imm.re Miralto S.r.l.	-	-	-	-	(688,675)	(8,490)	-	-	398,587	(87,559)	(375,827)	-
Montenapoleone 10 S.r.l.	-	-	-	-	(246,472)	(171,000)	-	-	-	(104,832)	(332,674)	-
Duomo 25 S.r.l.	-	-	-	-	-	(194,550)	-	-	-	(2,344,243)	(286,286)	-
Il Bricco	-	-	-	-	(101,083)	-	-	-	16,883	-	(8,335)	-
Venini S.p.A.	-	11,156	-	(53,870)	-	-	-	17,001	-	(60,479)	-	-
Dofa S.r.l.	-	-	-	-	(141,960)	-	-	-	-	-	-	-
Majority Shareholders	-	-	-	-	-	(210,714)	-	-	-	-	-	-
Leading Jewels S.A.	-	-	-	-	-	(601,644)	-	-	-	(29,601,644)	-	-
Total with related parties	23,335,390	323,004	615,771	(14,433,104)	(12,510,786)	(4,778,544)	19,828,344	54,333,569	750,027	(32,138,278)	(28,091,046)	(490,254)
Total from financial statements	144,171,583	1,515,703	800,823	(88,949,868)	(36,934,501)	(9,251,851)	19,997,776	92,494,766	4,869,804	(64,443,533)	(69,176,132)	(5,080,177)
%age weight	16%	21%	77%	16%	34%	52%	99%	59%	15%	50%	41%	10%

- Revenues (shown net of any returns of merchandise) to subsidiaries include jewelry sales of the Group's brands and raw materials (to which correspond to trade receivables).
- The other operating incomes towards the subsidiary Laboratorio Damiani S.r.l. include the re-charge of seconded staff. The income from Damiani International S.A. refers to a contribution received in respect of cost incurred for advertising and promotion abroad, to develop the awareness of the Group's brands. The other lower amounts towards related parties refer to services punctually re-charged.
- The financial incomes towards the subsidiaries Damiani International B.V., Laboratorio Damiani S.r.l., Rocca International S.A., Damiani Hong Kong Ltd, Damiani Macau Ltd, Damiani Shanghai Trading Co. Ltd, Damiani Korea Co. Ltd, Damiani International S.A. and Damiani Russia LLC are related to the interest rates paid on the financings to those companies.
- Costs from subsidiaries Damiani Hong Kong Ltd, Laboratorio Damiani S.r.l., Rocca International S.A. and Venini S.p.A. are related to the purchases of goods and services (repairs, production costs) to which correspond the trade payables. The costs for services towards Damiani International S.A. include the royalties and the commissions accrued on foreign sales done during the financial year 2017/2018 and for services outsourced made by the Swiss subsidiary.
- The costs for services to Immobiliare Miralto s.r.l., Montenapoleone 10 S.r.l., Il Bricco and Dofa S.r.l. refer to rental fees for office and boutique premises. Moreover, there are financial charges to Immobiliare Miralto s.r.l., Montenapoleone 10 s.r.l. and Duomo 25 s.r.l. for a total of Euro 374 thousand corresponding to the interest portion for the repayment of debt for three sale and lease back transactions. These transactions refer to buildings in Milan and Padua, where directly managed stores are located. The outstanding debt at March 31, 2018 amounted to Euro 2,537 thousand.
- The financial items also include the write-down of the investments in Damiani Shanghai Trading Co. Ltd of Euro 3,592 thousand, resulting from the impairment test carried out at the end of the financial year.
- The financial debt towards the majority shareholder Leading Jewels SA was granted by the Company on July 2016 (for Euro 4,000 thousand) and, in several tranches during the 2017, for a further Euro 25,000 thousand. The interest accrued and not yet paid for Euro 601 thousand is included under financial charges.
- Financial charges to majority shareholders (Damiani brothers) refers to the interest accrued during the year on the convertible bond until the early repayment in January 2018.

The following table shows the details of relationships between Damiani S.p.A., the subsidiaries and related parties in the financial year ended March 31, 2017.

(In Euro)	Financial Year 2016/2017						Balance at March 31, 2017					
	Revenues	Other operating incomes (charges)	Financial incomes	Costs of raw materials	Costs of services	Financial adjustments and expenses	Financial receivables	Trade receivables	Other current assets	Financial debt (including leasing)	Trade payables	Other current liabilities
Damiani International B.V.	521,364	-	123,765	-	-	-	4,459,767	1,840,494	-	-	-	-
Damiani Japan K.K.	4,885,158	-	-	-	-	-	-	19,759,944	-	-	(925,172)	-
Damiani Usa Corp.	(845,251)	-	-	-	-	-	-	3,289,972	-	-	(2,508,262)	-
Casa Damiani Espana S.L.	-	-	-	-	-	-	-	-	-	-	(721,480)	-
Damiani Hong Kong Ltd	3,498,530	(18,866)	13,734	(392,973)	-	-	842,856	10,533,412	-	-	(914,957)	-
Laboratorio Damiani S.r.l.	4,033,257	179,094	356,961	(8,080,125)	(1,593,550)	-	3,030,001	2,091,352	285,299	-	(8,080,800)	(456,439)
Damiani France S.A.	57,809	-	-	-	-	(40,280)	-	-	-	-	(196,911)	-
Rocca International S.A.	299,351	-	24,400	(419,678)	-	(1,202,000)	731,388	1,753,835	-	-	(675,936)	-
Damiani Macau Ltd	396,596	-	31,917	-	-	-	723,522	1,958,219	-	-	(430,974)	-
Damiani Mexico S.A. de C.V.	514,348	-	-	-	-	-	-	1,841,010	-	-	(3,969)	-
Damiani Shanghai Trading Co. Ltd	253,023	-	164,114	-	-	(1,391,148)	5,903,051	2,625,441	-	-	-	-
Damiani Korea Co. Ltd	1,786,642	-	6,386	-	-	-	120,000	3,551,091	-	-	(90,954)	-
Damiani international S.A.	-	250,534	144,987	-	(9,014,458)	-	5,150,000	1,251,933	-	-	(7,753,170)	-
Damiani Russia LLC	1,223,018	-	22,844	-	-	-	453,061	2,081,737	16,540	-	-	-
Damiani Paris S.a.s.	1,319,030	-	-	-	-	-	-	1,319,030	324	-	-	-
Damiani Jewels LLC	-	28,101	-	-	-	-	-	30,941	-	-	-	-
Imm.re Miralto S.r.l.	-	-	-	-	(560,174)	(10,850)	-	-	458,208	(127,311)	(238,554)	-
Montenapoleone 10 S.r.l.	-	1,010	-	-	(484,103)	(238,000)	-	-	-	(711,215)	(1,678,363)	-
Duomo 25 S.r.l.	-	1,010	-	-	-	(249,260)	-	-	-	(3,291,278)	(443,993)	-
Il Bricco	-	-	-	-	(100,000)	-	-	-	16,667	-	(58,347)	-
Venini S.p.A.	-	(13,386)	-	(109,340)	-	-	-	3,391	-	-	(70,209)	-
Dofa S.r.l.	-	1,003	-	-	(140,000)	-	-	-	-	-	(162,356)	-
Majority Shareholders	-	-	-	-	-	(206,737)	-	-	-	(5,507,717)	-	-
Leading Jewels S.A.	-	-	-	-	-	(103,665)	-	-	-	(4,103,665)	-	-
Total with related parties	17,942,875	428,499	889,108	(9,002,116)	(11,892,285)	(3,441,940)	21,413,645	53,931,802	777,038	(13,741,186)	(24,954,407)	(456,439)
Total from financial statements	141,400,856	2,591,582	2,688,845	(86,645,555)	(37,395,405)	(5,147,844)	21,577,430	91,788,712	5,027,208	(61,647,305)	(68,490,443)	(4,569,117)
%age weight	13%	17%	33%	10%	32%	67%	99%	59%	15%	22%	36%	10%

- Revenues (shown net of any returns of merchandise) to subsidiaries include jewelry sales of the Group's brands and raw materials (to which correspond to trade receivables).
- The other operating incomes towards the subsidiary Laboratorio Damiani S.r.l. include the re-charge of seconded staff. The income from Damiani International S.A. refers to a contribution received in respect of cost incurred for advertising and promotion abroad, to develop the awareness of the Group's brands. The other lower amounts towards related parties refer to services punctually re-charged.
- The financial incomes towards the subsidiaries Damiani International B.V., Laboratorio Damiani S.r.l., Rocca International S.A., Damiani Hong Kong Ltd, Damiani Macau Ltd, Damiani Shanghai Trading Co. Ltd, Damiani Korea Co. Ltd and Damiani Russia LLC are related to the interest rates paid on the financings to those companies.
- Costs from subsidiaries Damiani Hong Kong Ltd, Laboratorio Damiani S.r.l., Rocca International S.A. and Venini S.p.A. are related to the purchases of goods and services (repairs, production costs) to which correspond the trade payables. The costs for services from Damiani International S.A. include the royalties and the commissions accrued on foreign sales done during the financial year 2016/2017 and for services outsourced made by the Swiss subsidiary.
- The costs for services to Immobiliare Miralto s.r.l., Montenapoleone 10 S.r.l., Il Bricco and Dofa S.r.l. refer to rental fees for office and boutique premises. Moreover, there are financial charges to Immobiliare Miralto s.r.l., Montenapoleone 10 s.r.l. and Duomo 25 s.r.l. for a total of Euro 498 thousand corresponding to the interest portion for the repayment of debt for three sale and lease back transactions. These transactions refer to buildings in Milan and Padua, where directly managed stores are located. The outstanding debt at March 31, 2017 amounted to Euro 4,129 thousand.
- The financial items also include the write-down of the investments in Rocca International S.A. of Euro 1,202 thousand and in Damiani Shanghai Trading Co. Ltd of Euro 1,391 thousand, resulting from the impairment test carried out at the end of the financial year.
- The financial debt of Euro 5,508 to the majority shareholders is referred to the bond reserved by the Company at the end of September 2013 (effective from 1 October 2013 to 30 September 2019) and signed by the executive Directors and significant shareholders Guido, Giorgio and Silvia Grassi Damiani. This loan was repaid early in January 2018.
- The financial debt to the majority shareholder Leading Jewels SA was contracted by the Company in July 2016. On this loan accrues interest determined from Euribor 6 months + 3.90% spread, with a repayment in six-month instalments, after thirty months from the disbursement, until the 31st December 2021. Interest accrued and not yet paid is included under financial charges.

In both periods there are also loans contracts between Damiani S.p.A. and a number of subsidiaries, negotiated at markets conditions and described in the previous notes.

32. 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.

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

In the financial year 2017/2018 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 and in Consob communication DEM 6064293 as of July 28, 2006.

34. CAPITAL MANAGEMENT

The primary objective of Damiani S.p.A., parent company of Damiani Group, is to guarantee the best possible balance between assets and liabilities (solvency ratio), both at the Company level and at the level of the entire

Group. On this basis, the Company acts, although in a context of complex financial market and limited availability of credit, to identify the sources necessary to support the growth plans of the Group in the medium term. These sources must be found to the best market conditions, both in terms of cost and time, with the overall objective of maintaining the capital structure to an appropriate level of solidity.

Damiani S.p.A. manages its capital structure and changes it according to the economic conditions and the targets of its strategic plans.

35. FINANCIAL RISK MANAGEMENT

At March 31, 2018 Damiani S.p.A. had a negative net financial position of about Euro 61,8 million, in worsening of Euro 3 million compared with March 31, 2017.

In the following paragraphs are described the main financial risks to which the Company is exposed and that are part of the wider management at Group level (described in the consolidated report on operations and in the notes of the consolidated financial statements) constantly monitored in order to identify appropriate actions to mitigate them, in descending order of importance.

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 Company deals with a customer base consisting mainly of jewelry shops and distributors and therefore collaterals are not generally required. The Company 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 Company shall conduct timely assessment of risks in the closing of the financial year.

With regard to trade and financial receivables towards the subsidiaries, the Company monitors the results of those subsidiaries and believes that these receivables are recoverable according to their business plans.

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

<i>(in thousands of Euro)</i>	March 31, 2018	March 31, 2017 (restated)*
Deposits	2,456	2,696
Trade receivables	92,495	91,789
Financial receivables towards subsidiaries	19,828	21,414
Other non current assets	170	163
Other current assets	5,269	5,649
Total maximum exposure to the credit risk	120,218	121,711

(*) Financial data for the year ended March 31, 2017 have been restated in order to make them comparable with the financial statements at March 31, 2018.

Liquidity risk

As part of the overall financing needs, for the ongoing management and to support its development, the Company as financial holding uses various forms of financing both in the medium/long term and short term (lines of credit and factoring), with the goal of containing 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 composition of the sources of funds is different compared with the financial year ended March 31, 2017, with an increasing incidence of medium / long-term financing: 58% of total gross debt compared with 28% at March 31, 2017. Furthermore, 49% of gross debt is attributable to loans received from the majority shareholder Leading Jewels S.A. and related parties attributable to it. Also in this case the incidence of these sources is increasing compared with the end of the previous year (it was 22% of total indebtedness). Consequently, the liquidity risk is significantly lower than the previous year.

Furthermore, the Company has short-term bank credit lines that at March 31, 2018 are partially used: Euro 23.4 million on a total of Euro 56.3 million.

Damiani S.p.A provided guarantees to landing banks of some Group Companies. The amount of the guarantees has a limited value, about Euro 1.6 million, to secure credit lines granted to Laboratorio Damiani S.p.A., 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. The Company can carry out different types of interventions: i) fusion of the finished product with recovery of valuable raw materials (no fusion was made during the financial year 2017/2018; ii) the destocking operations on channels other than ordinary. The use of one rather than another type of intervention varies over time in the light of developments in the prices of raw materials and related production requirements, and in terms of convenience as brand equity.

The table below shows the detail of the liquidity risk:

<i>(in thousands of Euro)</i>	Analysis of the due date at March 31, 2018			
	within 1 year	1 to 5 years	over 5 years	Total
Trade payables	69,176	-	-	69,176
Long term financial debts to banks and other lenders	2,162	7,311	-	9,473
Long term financial debts towards related parties	901	28,700	-	29,601
Long term financial debt to leasing	910	1,626	-	2,536
Short term borrowings	22,834	-	-	22,834
Other current liabilities	5,758	-	-	5,758
Total exposure	101,741	37,637	-	139,378

<i>(in thousands of Euro)</i>	Analysis of the due date at March 31, 2017 (restated)*			
	within 1 year	1 to 5 years	over 5 years	Total
Trade payables	68,490	-	-	68,490
Long term financial debts to banks	12,876	4,709	-	17,585
Long term financial debts towards related parties	104	9,508	-	9,612
Long term financial debt to leasing	1,055	3,074	-	4,129
Short term borrowings	30,322	-	-	30,322
Other current liabilities	5,031	-	-	5,031
Total exposure	117,878	17,291	-	135,169

(*) Financial data for the year ended March 31, 2017 have been restated in order to make them comparable with the financial statements at March 31, 2018.

Interest rate risk

Closely related to the liquidity risk there is the risk associated with the trend over time of the rates of remuneration of financing sources. The Company is active to minimize its burden diversifying the financing sources in consideration of the rates applied and their variability over time.

The actions implemented during the financial year 2017/2018 were aimed to reduce the average debt rate due to a context of low and stable market rates.

Overall, the average annual debt rate was around 2.9% (in the previous year it was about 3%). The risk has remained stable into the recent two financial years and decreasing in the medium term.

Price fluctuations' risk and raw materials' availability

Among its raw materials Damiani S.p.A. 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 price of gold fallen, with an average value of 35.3 Euro/gram from April 2017 to March 2018, -4.2% compared with the average over the previous twelve months. In subsequent months (April-May 2018) the price of gold remained in line with the price with the average over the previous twelve months. Greater stability determines better reliability in the manufacturing cost forecast and purchase cost of raw material, even when hedging arrangements of the risk of price fluctuations are applied. In fact, prices are related to seasonality trends of the reference market.

The risks related to price of raw materials and to the strong and sudden fluctuations are amplified by changes in the exchange rate, because some materials have official prices in currencies other than Euro and the same

purchases are settled in US Dollar (diamonds) and Yen (pearls), while the Group's functional currency is the Euro. Damiani S.p.A. 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 active contracts relating to purchases of gold were 9 for a total quantity of 27 kilograms and an agreed equivalent 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; c) periodically (usually annual) changes the retail prices of the finished product in relation to the production costs trend.

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

Exchange rate risk

The Company makes some purchases of raw materials and finished products in US Dollar and Japanese Yen, which exposes it to the consequent exchange rate risk. If this risk is considered significant, (during exchange rate stressed period) specific currency forward contracts are signed, for the purpose of hedging the exchange rate risk. At March 31, 2018 there were outstanding currency forward contracts entered into by Damiani S.p.A. for a total of Euro 4,816 thousand. At March 31, 2017 contracts were instead equal to a total 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 Company.

(in thousands of Euro)	Total		Book value				Fair value	
	March 31, 2018	March 31, 2017 (restated)*	current		non current		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	2,595	2,797	2,595	2,797	-	-	2,595	2,797
Trade receivables	92,495	91,789	92,495	91,789	-	-	92,495	91,789
Other financial assets	5,438	5,812	5,269	5,649	169	163	5,438	5,812
Financial receivables to subsidiaries	19,828	21,414	19,828	21,414	-	-	19,828	21,414
Total financial assets	120,356	121,812	120,187	121,649	169	163	120,356	121,812
Trade liabilities	69,176	68,490	69,176	68,490	-	-	69,176	68,490
Financial debts	64,444	61,647	26,807	44,356	37,637	17,291	64,444	61,647
Other liabilities	5,758	5,032	5,758	5,032	-	-	5,758	5,032
Total financial liabilities	139,378	135,169	101,741	117,878	37,637	17,291	139,378	135,169

(*) Financial data for the year ended March 31, 2017 have been restated in order to make them comparable with 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 financial year 2017/2018 there were no transfer from level 3 to level 2.

36. SIGNIFICANT EVENTS AFTER THE END OF THE FINANCIAL YEAR

On May 15, 2018 the Board of Directors of Damiani S.p.A., has renewed until 10 May 2019 the framework agreement with the majority shareholder Leading Jewels S.A. that makes a credit line available to the Company up to Euro 25 million (of which Euro 20 million already granted). A further portion of the financing, equal to Euro 5 million, was converted into long term, expiring on January 31, 2023. The shareholder financing is aimed to allow to the Company a more efficient and flexible management of its treasury and consequently reduce the liquidity risk.

37. 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.

<i>(in thousands of Euro)</i>			
Type of service	Service provider	Services	Fees
Audit	BDO ITALIA S.P.A.	Professional fees for Financial Statement	101
Audit	BDO ITALIA S.P.A.	Professional fees for Consolidated Non Financial Statement	18
		Other activities*	12
Total			131

(*) Agreed upon procedures requested by Damiani S.p.A. and Gap Analysis for Consolidated Non Financial Statement

For the Board of Directors
CEO
Giorgio Grassi Damiani

Annex 1

Key data of subsidiaries

Damiani International S.A.	
Registered office	Manno, Switzerland
Key figures (in thousands of Euro)	FY closed at March 31, 2018
Share capital (in thousands of CHF)	1,000
Revenues from sales and services	14
Operating result	2,057
Net result	1,436
Total assets	30,668
Shareholders' equity	4,384
Total liabilities	26,284
<i>Financial report according to local GAAP</i>	

Laboratorio Damiani S.r.l.	
Registered office	Valenza (AL), Italy
Key figures (in thousands of Euro)	FY closed at March 31, 2018
Share capital	850
Revenues from sales and services	15,695
Operating result	1,283
Net result	818
Total assets	13,638
Shareholders' equity	4,880
Total liabilities	8,758
<i>Financial report according to local GAAP</i>	

Damiani International B.V.	
Registered office	Amsterdam, Netherlands
Key figures (in thousands of Euro)	FY closed at March 31, 2018
Share capital	194
Revenues from sales and services	480
Operating result	(1,258)
Net result	11,274
Total assets	20,139
Shareholders' equity	9,053
Total liabilities	11,086
<i>Financial report according to local GAAP</i>	

Damiani Japan K.K.	
Registered office	Tokio, Japan
Key figures (in thousands of Jpy)	FY closed at March 31, 2018
Share capital	495,000
Revenues from sales and services	2,171,456
Operating result	(235,095)
Net result	(241,931)
Total assets	2,582,124
Shareholders' equity	(258,157)
Total liabilities	2,840,281
Average exchange rate 2017/2018	Euro/Jpy 129.7823
Exchange rate at March 31, 2018	Euro/Jpy 131.15
<i>Financial report according to local GAAP</i>	

Damiani USA, Corp.	
Registered office	New York, USA
Key figures (in thousands of Usd)	FY closed at March 31, 2018
Share capital	900
Revenues from sales and services	2,707
Operating result	(204)
Net result	(204)
Total assets	5,565
Shareholders' equity	(407)
Total liabilities	5,972
Average exchange rate 2017/2018	Euro/Usd 1.1711
Exchange rate at March 31, 2018	Euro/Usd 1.2321
<i>Financial report according to local GAAP</i>	

Casa Damiani Espana S.L.	
Registered office	Valencia, Spain
Key figures (in thousands of Euro)	FY closed at March 31, 2018
Share capital	721
Revenues from sales and services	-
Operating result	(2)
Net result	(2)
Total assets	828
Shareholders' equity	828
Total liabilities	-
<i>Financial report according to local GAAP</i>	

Damiani Hong Kong Ltd.	
Registered office	Hong Kong, Hong Kong
Key figures (in thousands of Hkd)	FY closed at March 31, 2018
Share capital	72,500
Revenues from sales and services	64,596
Operating result	(3,271)
Net result	(3,386)
Total assets	81,781
Shareholders' equity	(24,330)
Total liabilities	106,111
Average exchange rate 2017/2018	Euro/Hkd 9.1468
Exchange rate at March 31, 2018	Euro/Hkd 9.6696
<i>Financial report according to local GAAP</i>	

Damiani France S.A.	
Registered office	Paris, France
Key figures (in thousands of Euro)	FY closed at March 31, 2018
Share capital	39
Revenues from sales and services	-
Operating result	(26)
Net result	5
Total assets	1,026
Shareholders' equity	1,020
Total liabilities	6
<i>Financial report according to local GAAP</i>	

Damiani Macau Ltd.	
Registered office	Macau
Key figures (in thousands of Pataca)	FY closed at March 31, 2018
Share capital	22,500
Revenues from sales and services	2,431
Operating result	(2,057)
Net result	(2,517)
Total assets	20,801
Shareholders' equity	(9,468)
Total liabilities	30,269
Average exchange rate 2017/2018	Euro/Pataca 9.4212
Exchange rate at March 31, 2018	Euro/Pataca 9.9597
<i>Financial report according to local GAAP</i>	

Damiani Mexico S.A. de C.V.	
Registered office	Mexico - Distrito Federal, Mexico
Key figures (in thousands of Mxn)	FY closed at March 31, 2018
Share capital	3,000
Revenues from sales and services	14,998
Operating result	479
Net result	(806)
Total assets	33,525
Shareholders' equity	(7,067)
Total liabilities	40,592
Average exchange rate 2017/2018	Euro/Mxn 21.68
Exchange rate at March 31, 2018	Euro/Mxn 22.5249
<i>Financial report according to local GAAP</i>	

Damiani Shanghai Trading Co. Ltd	
Registered office	Shanghai, China
Key figures (in thousands of Cny)	FY closed at March 31, 2018
Share capital	72,000
Revenues from sales and services	13,388
Operating result	(10,667)
Net result	(10,871)
Total assets	38,395
Shareholders' equity	(16,715)
Total liabilities	55,110
Average exchange rate 2017/2018	Euro/Cny 7.7509
Exchange rate at March 31, 2018	Euro/Cny 7.7468
<i>Financial report according to local GAAP</i>	

Damiani Korea Co. Ltd	
Registered office	Seoul, South Korea
Key figures (in thousands of Krw)	FY closed at March 31, 2018
Share capital	1,900,000
Revenues from sales and services	8,413,016
Operating result	(301,119)
Net result	(354,064)
Total assets	7,441,235
Shareholders' equity	(141,595)
Total liabilities	7,582,830
Average exchange rate 2017/2018	Euro/Krw 1,299.62
Exchange rate at March 31, 2018	Euro/Krw 1,310.89
<i>Financial report according to local GAAP</i>	

Damiani India PVT. Ltd.	
Registered office	New Delhi, India
Key figures (in thousands of Inr)	FY closed at March 31, 2018
Share capital	70,000
Revenues from sales and services	-
Operating result	-
Net result	-
Total assets	-
Shareholders' equity	-
Total liabilities	-
Average exchange rate 2017/2018	Euro/Inr 75.5028
Exchange rate at March 31, 2018	Euro/Inr 80.2960
<i>Financial report according to local GAAP</i>	

Rocca International S.A.	
Registered office	Lugano, Switzerland
Key figures (in thousands of Chf)	FY closed at March 31, 2018
Share capital	600
Revenues from sales and services	2,371
Operating result	(283)
Net result	(312)
Total assets	4,368
Shareholders' equity	845
Total liabilities	3,523
Average exchange rate 2017/2018	Euro/Chf 1.1358
Exchange rate at March 31, 2018	Euro/Chf 1.1779
<i>Financial report according to local GAAP</i>	

Damiani Russia LLC	
Registered office	Moscow (Russia)
Key figures (in thousands of Rub)	FY closed at March 31, 2018
Share capital	20,010
Revenues from sales and services	170,061
Operating result	(22,595)
Net result	(39,520)
Total assets	241,097
Shareholders' equity	(12,290)
Total liabilities	253,387
Average exchange rate 2017/2018	Euro/Rub 67.7008
Exchange rate at March 31, 2018	Euro/Rub 70.8897
<i>Financial report according to local GAAP</i>	

Damiani Paris S.a.s.	
Registered office	Paris, France
Key figures (in thousands of Euro)	FY closed at March 31, 2018
Share capital	6,500
Revenues from sales and services	1,509
Operating result	(905)
Net result	(905)
Total assets	6,428
Shareholders' equity	3,765
Total liabilities	2,663
<i>Financial report according to local GAAP</i>	

Damiani Jewels LLC	
Registered office	Dubai, United Arab Emirates
Key figures (in thousands of Aed)	FY closed at March 31, 2018
Share capital	300
Revenues from sales and services	12,712
Operating result	(1,587)
Net result	(1,806)
Total assets	9,653
Shareholders' equity	(2,288)
Total liabilities	11,941
Average exchange rate 2017/2018	Euro/Aed 4.3002
Exchange rate at March 31, 2018	Euro/Aed 4.5249
<i>Financial report according to local GAAP</i>	

Damiani Singapore PTE. LTD	
Registered office	Singapore, Singapore
Key figures (in thousands of Aed)	FY closed at March 31, 2018
Share capital	300
Revenues from sales and services	1,226
Operating result	(663)
Net result	(679)
Total assets	1,384
Shareholders' equity	(379)
Total liabilities	1,763
Average exchange rate 2017/2018	Euro/Sgd 1.5941
Exchange rate at March 31, 2018	Euro/Sgd 1.6158
<i>Financial report according to local GAAP</i>	

For the Board of Directors
CEO
Giorgio Grassi Damiani

Attestation regarding the Financial Statements of Damiani S.p.A., pursuant to article 154 bis of the Legislative Decree 58/98

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 financial statements of Damiani S.p.A. for the fiscal year 2017/2018 (from 1st April 2017 to 31st March 2018).

2. Furthermore it is certified that the financial statements:

- 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
- Agree with the contents of the accounting books and entries
- Provide a true and fair representation of the economic and financial position of the Issuer
- The report on operations contains a reliable analysis of the results of operations, and the situation of the Company, 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.
Sede legale in Valenza (AL), Piazza Damiano Grassi Damiani n. 1
Capitale Sociale Euro 36.344.000 i.v.
P.I e C.F. 01457570065

**REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING OF DAMIANI S.P.A. PURSUANT TO
ARTICLE 153 OF ITALIAN LEGISLATIVE DECREE 58/1998 AND OF ARTICLE 2429 OF THE ITALIAN CIVIL CODE**

FINANCIAL STATEMENT MARCH 31ST 2018

Dear Shareholders,

during the financial period ended 31st March 2018 , the Board of Statutory Auditors of Damiani S.p.A. (the "Company" or "Damiani") carried out the supervision activities required by law in accordance with the principles of conduct of the Board of Statutory Auditors recommended by the Italian Accounting Profession Council, by attending the meetings of the company's Bodies, carrying out periodic audits and meeting the managers of the Independent Auditors BDO ITALIA S.p.A. (the "Independent Auditors" or "BDO"), the members of the Control, Risk, Remuneration and Operations with related parties Committee ("CCR"), the members of the Supervisory Body set up pursuant to Italian Legislative Decree 231/2001, the key representatives of the different business functions, the Internal Auditor and the Manager responsible for preparing the Company's financial statements for exchanges of information on activities and programs.

Pursuant to Article 153 of Italian Legislative Decree 58/1998 ("T.U.F.") and of Article 2429, paragraph 3 of the Italian Civil Code, taking also into account the instructions given by CONSOB with communication no. DEM/1025564 of 6 April 2001, and subsequent amendments and supplements, we report the following:

- we have supervised and checked compliance with the law and the Company's by-laws;
- the Directors provided us, with the required periodicity, information on the activities undertaken by them, and on the most significant economic, financial and capital transactions carried out by the Company and its subsidiaries, ensuring us that the same were in accordance with the Law and the Company's by-laws and were not manifestly imprudent or risky, in potential conflict of interest, in breach of the resolutions passed by the Shareholders' Meeting or susceptible of compromising the integrity of the Company's assets and equity;
- we received from the Board of Directors, within the timeframe set by the law, the half-yearly financial report;
- we verified the correct application of the criteria and procedures adopted by the Board of Directors to ascertain the independence of its members on the basis of the methods provided by law and by the Self-Regulatory Code of Conduct;
- we obtained information and supervised, to the extent of our authority, compliance with the principles of correct administration and the adequacy of the organisational structure and of the instructions given by the Company to the subsidiaries pursuant to Article 114, paragraph 2, of T.U.F., by means of direct

observations, collecting information from department heads and meetings with the Independent Auditors, with the manager responsible for preparing the Company's financial statements and with the Internal Auditor in order to exchange relevant data and information;

- we obtained information and supervised, to the extent of our authority, also pursuant to Article 19 of Italian Legislative Decree 39/2010, the adequacy and effectiveness of the internal control system and risk management, as well as the activity carried out by the relevant manager responsible for preparing the Company's financial statements and the adequacy of the company's administrative-accounting system, the reliability of the latter in correctly representing operating performance, by obtaining information from the persons in charge of their respective functions, examining company documents and the work carried out by the Independent Auditors, the attendance at the meetings of the CCR and meetings with the Manager responsible for preparing the Company's financial statements, the responsible of the internal audit and the Executive Director in charge of supervising the functionality of the internal control system;
- we have not found nor received information from the Board of Directors, the Independent Auditors or the CCR regarding the existence of atypical and / or unusual transactions carried out with third parties, Group companies or related parties;
- the Company does not control any companies with strategic relevance;
- we ensured that the information flows provided by the subsidiaries outside the European Union are adequate to conduct the auditing of annual and interim accounts as provided for in Article 15 of the Market Regulation adopted with CONSOB Resolution no. 20249 of 28 December 2017;
- the Directors illustrated, in the accompanying report on operations both on the financial statements of Damiani and on the consolidated financial statements of the Damiani Group as well as in the relevant explanatory notes, the most important ordinary operations in terms of economic, financial and patrimonial impact carried out during the financial period with related parties or companies of the group. We refer to those documents, to the extent of our authority, and in particular for that which concerns the description of the characteristics of the operations and relevant economic and financial effects. In this regard, we also supervised the compliance of the Procedure for Related Party Transactions, adopted by the Board of Directors, with the principles indicated in the CONSOB Regulation containing provisions on related party transactions adopted with resolution no. 17221 of 12 March 2010, as subsequently amended ("OPC Regulation"), and also about its application.

In particular, we have verified the correct application of the above mentioned Procedure and OPC Regulation with reference in particular to the most important transaction with related parties completed in the Financial year 2017/2018 with the shareholder Leading Jewels S.A. and relating to the provision of sums to the Company, described in detail in the Informative Document published by the Company on 27th April 2017 and available to legal office, on the authorized storage mechanic eMarket STORAGE at www.emarketstorage.com and on the Company's website at www.damiani.com. The agreement with the Leading Jewels S.A. was renewed in May 2018 and also in this occasion, we have verified the compliance of the above with the mentioned Procedure and OPC Regulation (the Informative Document, together with the positive opinion issued by

the CCR, has been regularly made available to the legal office, to the storage mechanic eMarket STORAGE and on the Company's website);

- The information related to transactions with related parties or intragroup companies, included in the paragraphs of the explanatory notes to the consolidated financial statements and financial statement of Damiani S.p.A. and in their respective management reports, are adequate, considering the Company's size and structure;
- the Directors, also on the basis of the information given by CONSOB with communication n. 3907 of 19 January 2015, have adequately described in the explanatory notes to the financial statements the main assumptions used in the performance of the impairment test for some assets of the financial statements together with the sensitivity analysis performed;
- during the financial period, the Company did not carried out transactions on Treasury shares;
- no complaints were received under Article 2408 of the Italian Civil Code nor statements from third parties;
- we supervised the compliance with the Legislative Decree 254/2016, examining the Consolidated Non-financial Statement (hereinafter also "DNF"), also ascertaining compliance with the provisions that govern its preparation pursuant to the aforementioned Decree;
- based on the information received from the Independent Auditors as well as deducible from the annual report, it is noted that, in addition to the fee for the audit on the annual and consolidated financial statements closed on 31th March 2018 and professional fees for the audit on the DFN, during the financial period, Damiani S.p.A. appointed BDO for total fees of € 12 thousand in relation to procedures for the control of the sales turnover at the airport in Rome and to the gap analysis activities in relation to D.Lgs. 254/2016. In accordance with Article 19 of D.Lgs. 39/2010, during the financial period we have verified and monitored the independence of Independent Auditors according to applicable legislation and we approved - also considering the information received from the Independent Auditors - the BDO's performance of non-audit services in accordance with article 5 of the Reg. UE 573/2014;
- we have received notice confirming the independence of the Independent Auditors responsible for the statutory audit according to EU Reg. 537/2014. We did not find situation that have compromised this independence or the occurrence of incompatibility;
- we received from the Independent Auditors the additional report pursuant to art. 11 of EU Reg. 537/2014, dated 3th July 2018 from the examination of which no aspects that should be highlighted in this report have emerged, and which will be transmitted promptly to the Board of Directors as required by current legislation;
- we have monitored the effectiveness of the auditing process, reviewing the audit plan with the Independent Auditors and discussing the work performed;
- the Independent Auditors issued, today, pursuant to art. 14 of Legislative Decree 39/2010 and of art. 10 of EU Regulation 537/2014, the Reports on the statutory and consolidated financial statements as of 31st March 2018. The text of the Audit Report has been revised in form and in content following the amendments made by Legislative Decree 135/2016 to the provisions contained in Legislative Decree 39/2010.

With regards to opinions and attestations in the audit reports, the Independent Auditors have:

- issued an opinion which shows that the financial and consolidated financial statements of Damiani provide a truthful and correct representation of the equity and financial situation of the Company and of the Group as of 31st March 2018, and of the economic results and cash flows for the year ended on that date in accordance with the International Financial Reporting Standards adopted by the European Union, as well as the provisions issued in implementation of art. 9 of Legislative Decree 38/2005;
- issued a consistency opinion which shows that the management reports accompanying the financial statements and the consolidated financial statements as of 31st March 2018 and some specific information contained in the "Report on corporate governance and ownership structure" as indicated in the art. 123 - bis, paragraph 4 of the T.U.F. whose responsibility is the responsibility of the Company's Directors, are drawn up in compliance with the law;
- declared, as regards any significant errors in the Management Report, based on the knowledge and understanding of the company and the related context acquired during the audit, that they have nothing to report;
- On 2th July 2018 the Independent Auditors also issued the Report on DNF pursuant to Italian Legislative Decree no. 254/2016, in accordance with art. 3, paragraph 10 of Legislative Decree 254/2016 and with art. 5 of Consob Regulation No. 20267 of 18 January 2018. The Independent Auditors' Report certifies that there are no remarks on the Damiani Group's Non-financial Statement, referring to the financial period ended 31st March 2018, and that it has been prepared in all significant aspects in accordance with the requirements of articles 3 and 4 of the aforementioned Decree and of the "Global Reporting Initiative Sustainability Reporting Standards" defined in 2016 by GRI - Global Reporting Initiative ("GRI Standards") with reference to the selection of GRI Standards indicated in the paragraph "Methodological Notice" of the DNF;
- no significant aspects or issues worthy of mention arose during the meeting held with the Independent Auditors pursuant to article 150, paragraph 3, of T.U.F.;
- during the financial period, we issued the opinions required by the Board of Statutory Auditors pursuant to the law;
- we took note of the preparation of the Report on Remuneration ex Articles 123-ter of T.U.F. and 84-quarter of the Issuers' Regulation and we have no special observations to make;
- we verified that the independence requirements of the Statutory Auditors remain valid, as already ascertained in the first meeting after the appointment, on the basis of the methods provided by law; we have also complied with the limit on the number of tasks required by the Article of Associations and Art. 144-terdicias of the Regulation, fulfilling, if required, during the year the relevant Consob disclosure obligations;
- On 12th June, 2018 the Board of Statutory Auditors approved the policy on diversity about Board of Statutory Auditors, the content of which is described in the Report on corporate governance and ownership structure, in compliance with the provision to paragraph 2, letter d-bis), article 123-ter of TUF;

- during the financial period, we have attended the Shareholders' meeting for the approval of the balance sheet, and 6 meetings of the Board of Directors. During the same period, the Board of Statutory Auditors met 14 times, including 6 in joint session with the CCR;
- we have tested and evaluated the information and periodic press releases issued by the Company to the public, as well as the obligations to notify Consob;
- we supervised the concrete methods of implementing corporate governance regulations of the Self-Regulatory Code of Conduct for the Corporate Governance of listed companies, whose adoption has been approved by the Board of Directors since the meeting of 27th June 2007 and finally with the Framework Resolution of 23th July 2015. We checked the compliance with the regulations and the recommendations of the Corporate Governance Code. The results were included in the Report on Corporate Governance and Ownership Structure by Damiani S.p.A. attached to the financial statement and is available in the forms provided;
- we verified, through direct audits and information received from the Independent Auditors and the Manager responsible for preparing the Company's financial statements, the compliance with the law concerning the preparation and layout of the consolidated financial statements of the Damiani Group, of the financial statements of Damiani S.p.A. and of the report on operations. Moreover, nothing reported to the supervisory authorities or worth mentioning in this report was revealed by our supervisory activity;
- following the contacts with the Independent Auditor of the subsidiary company Laboratorio Damiani S.r.l., there are no significant aspects worthy to be mentioned;
- the Company adopted an Organizational Model in compliance with the Italian Legislative Decree n. 231/2001 (the "Organizational Model 231"), of which the Code of Ethics is an integral part; the aim is to prevent the offenses listed in the Decree and consequently the extension of the administrative liability to the Company. On 16th June 2017, the Company approved the New Organizational Model 231 updated with new crimes. During the year the Board of statutory auditors met the Supervisory Board for the reciprocal exchange of information on the activity carried out and we read the annual report in which no reprehensible facts or violations of the Model adopted by the Company, or acts or conduct that violate the provisions contained in Legislative Decree 231/2001;
- the Directors pointed out, in a specific paragraph on the Report on operations, the risk factors or uncertainties that might significantly affect Damiani Group's activity. In particular, some information illustrating the aims and policies of the Group are: "Market and strategic risks", "Operational risks", "Financial risks" (including the risk of prices and availability of raw materials, foreign exchange, liquidity, interest rate, credit and related to tax disputes).

Considering what has been referred to above, within the matters falling within our purview, we have not found any reasons hindering the approval of the Financial Statements for the year closed at 31 March 2018 and we propose to the Shareholders' Meeting to approve the financial statement of Damiani S.p.A. and the report on operations as presented by the Board of Directors and we agree to their proposal relating the cover of the loss of the year.

Milano, 3 July 2018

The Board of Statutory Auditors

Gianluca Bolelli - Chairman

Simone Cavalli - Statutory Auditor

Laura Braga - Statutory Auditor

This report has been translated into the English language solely for the convenience of international readers.



DAMIANI S.p.A.

Independent auditor's report pursuant to
article 14 of Legislative Decree No. 39,
dated January 27 2010 and article 10 of EU
Regulation No. 537/2014

Financial statements at March 31, 2018

Independent auditor's Report

pursuant to article 14 of Legislative Decree No. 39, dated January 27, 2010 and article 10 of EU Regulation No. 537/2014

To the shareholders of
Damiani S.p.A.

Report on the financial statements

Opinion

We have audited the financial statements of Damiani SPA (the Company), 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 equity, the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the financial statements give a true and fair view of the financial position of the Company as 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 NO. 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 Financial Statements* section of our report. We are independent of 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 sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

Key audit matter**Audit response**

Investments evaluation

Damiani Group sells its goods also through its foreign subsidiaries that directly manage retail stores and/or relationships with wholesale customers.

Investments in subsidiaries, as at March 31 2018, are equal to euro 14,3 million.

Management makes at least annually the assessment of impairment indicators for each investment, in consistency with its management policy of legal entities and, whether if they occur, carries out the *impairment test*.

The process and methodology adopted to evaluate and determine the recoverable value of each investment are based on assumptions that are sometimes complex, that for their nature require discretionary valuation of the directors, in particular with reference to the identification of impairment indicators, to the projected profitability of each subsidiary for the period covered by the Group *business plan*, and related impact on sales volumes and margins, expected to increase in the considered time frame, to the definition of the cash flows underlying the estimate of terminal value, to the definition of discount rate applied to the projected cash flows and long term growth rates.

The outcome of the *impairment test* determined the need to proceed with the write-down of an investment in a subsidiary for total euro 3,6 million.

Due to the requested judgment and the complexity of the assumptions used to estimate the recoverable value of each subsidiary, we considered this issue a key audit matter.

Disclosures regarding the evaluation of investments in subsidiaries are included in note "7 - Investments" and "29 financial incomes and expenses", as well as in paragraph "Use of estimates" and "impairment of assets (*impairment test*)" of the explanatory notes of financial statements.

Our main audit procedures performed included the following:

- We analyzed the variations incurred during the period of the item, and examined the more significant elements;
- Assessed the correct classification and related accounting treatment based on applicable accounting standards;
- We obtained and analyzed the financial statements for the periods closed at March 31, 2018 for all subsidiaries, that are mostly subject to full audits or limited reviews, due to their respective materiality;
- Compared the book value of the investments with the percentage of owned equity and tested for necessary provision for losses on investments.

With the support of BDO experts, we:

- Tested the reasonableness of the main underlying assumptions the projections of Directors;
- Analysed the *impairment tests* performed by the Company, to assess the compliance with the applicable accounting standards;
- Examined the key assumption underlying the impairment models, in particular the ones regarding the cash flows projections, growth rates and discount rates and the evaluation of *terminal value*;
- We tested for clerical accuracy the calculation models adopted.

We also:

- analyzed the deviations between the estimates prepared for the previous year and the final figures, verifying its reliability and consistency with the company's economic and financial performance;
- we tested for adequacy the disclosures provided in the explanatory notes.

Key audit matter**Audit response**

Inventories evaluation

As at March 31, 2018 the consolidated financial statements include inventories for a total of Euro 71,3 million, net of a provision of Euro 9,4 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", as well as in the paragraph "use of estimates" and "inventories" of the explanatory notes to the 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 3,3 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 "27 - 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 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 Financial Statements

Management is responsible for the preparation and fair presentation of the 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 No. 38/05 and, within the terms prescribed by law, for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identified and assessed the risks of material misstatement of the 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 Company'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We 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 financial statements of the current period and are therefore the key audit matters. We described those matters in the 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) No.537/2014, and that we remained independent of the company in conducting the audit.

We confirm that the opinion on the financial statements included in this audit report is consistent with the content of the additional report prepared in accordance with article 11 of the EU Regulation No.537/2014, submitted to those charged with governance.

Report on other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, letter e), of Legislative Decree No. 39/10 and of article 123-bis of Legislative Decree No. 58/98.

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 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 No. 58/98, with the financial statements of DAMIANI S.p.A. 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 financial statements of DAMIANI S.p.A. 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 No. 39/10 based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Milan, July 3, 2018

Signed by
BDO Italia S.p.A.

Fabrizio Brugora
Partner